caaps

Civil Aviation Authority Pension Scheme

Annual report and accounts for the year ended

31 December 2024

Registration number 100846518

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TRUSTEE DIRECTORS, EXECUTIVES AND ADVISERS

Independent Chair


Joanna Matthews

Employer Nominated Trustee Directors


Gary Franklin


Tim Bullock


Reiner Krammer


Mike Nicholson


Anna Bowles


Philip Clarke

Member Nominated Trustee Directors


Ross MacDonald (Resigned 30 September 2024)


Robert Jones (Resigned 31 March 2024)


Serena Lim


Philip James


Lea Ann Higson


Geoff Parker


Kate Staples (Appointed 1 April 2024)


Richard Kenchington (Appointed 1 October 2024)

Trustee Company	CAAPS Trustee Limited
Chief Investment Officer	William Medlicott, Capital Cranfield Trustees Limited
Chief Operating Officer & Scheme Secretary	Philip Kenley
Sponsoring Section Employers	The Civil Aviation Authority (CAA) NATS Ltd (NATS)

ADVISERS

Scheme Actuary	Mike Webb (Partner, Aon Solutions UK Limited)
Actuarial Consultants	Aon Solutions UK Limited
Independent Auditor	Crowe U.K. LLP
Internal Auditor	Ernst Young LLP
Tax Adviser	KPMG LLP
Medical Advisers	The Medical Functions of the Civil Aviation Authority and NATS Ltd and Medigold Health Consulting Limited
Principal Legal Advisers	Reed Smith LLP Osborne Clarke LLP Morton Fraser MacRoberts LLP
Investment Consultant	Aon Investments Limited
Fiduciary Manager for Return Seeking Assets	BlackRock Investment Management (UK) Limited
LDI Manager	Legal and General Investment Management (Holdings) Limited
Custodians	The Northern Trust Company (Securities) Osborne Clarke LLP (Property) Morton Fraser MacRoberts LLP (Property)
Bankers	The Royal Bank of Scotland plc Barclays Bank plc
Property Valuer	Knight Frank LLP
Performance Reporting Service	The Northern Trust Company
Employer Covenant Assessor	Penfida Limited
Principal Communications Consultant	Gallagher Communication Limited
Insurance Policy Providers	Legal and General Assurance Society Limited Pension Insurance Corporation plc Rothesay Life plc

CHAIR'S INTRODUCTION

I am pleased to present the Trustee Board's Annual Report and Accounts for 2024. Over the course of the year the Trustee has engaged with its advisers to undertake a variety of projects to address Scheme and industry developments, as well as cyclical compliance matters. Highlights of these included completion of the triennial 2023 NATS Section Valuation and 2024 NATS Section Annual Actuarial Report, commencement of the triennial 2024 CAA Section Valuation, continued work and progression with the equalisation of Guaranteed Minimum Pensions (GMP) benefits for members and further preparation ahead of connection to Pensions Dashboards in 2025. A full market review process saw the reappointment of Crowe as the statutory auditor to the Scheme. The Trustee continues to produce an annual Stewardship Report which contains further details on the projects and is available to members on www.caaps.co.uk.

The Trustee Board monitors and assesses the covenants of both the Civil Aviation Authority and NATS with the support of its appointed covenant adviser Penfida. Penfida has reviewed the financial statements of the Employers and has confirmed that at the date of signing the Annual Report and Accounts that it considers it is reasonable from a covenant perspective for the Trustee to complete the Scheme's Report and Accounts on a going concern basis and further details on the Trustee's assessment of going concern are detailed within the Trustee's Report, on page 13.

The full triennial actuarial valuation of the NATS Section as at 31 December 2023 was progressed throughout the year and was completed in January 2025. The results of the valuation exercise showed that the Section's funding ratio had decreased from 97.0% to 96.0%, which equates to a deficit of £142.7m compared to a deficit of £171.9m as at 31 December 2020. Whilst the position of liabilities relative to the Sections assets fell across the period, the overall value of the deficit decreased, reflective of material increases in gilt yields across the three-year period. Further details of the NATS full actuarial valuation can be found on pages 11 and 12. Subsequent to the year-end the NATS Section Annual Actuarial Report as at 31 December 2024 was finalised, which reported an improvement in the funding position of the Section and no deficit on a technical provisions basis at that date. Preparation in respect of the full triennial actuarial valuation of the CAA Section as at 31 December 2024 commenced during the year, and with the support of its advisers the Trustee continues to progress with this process.

Following the 2018 High Court ruling that UK occupational pension schemes needed to equalise benefits for men and women for the effect of GMPs, and subsequent 2020 ruling that pension schemes will need to revisit historic individual transfer payments made, the Trustee continues to work to implement the required changes. The primary emphasis has been to take the necessary steps required in anticipation of equalising those pensions already in payment affected by the first ruling. Advice and resourcing support continues to be taken from both the Scheme's actuarial and legal advisers to assist in the implementation of GMP equalisation, a complex matter which impacts the whole of the defined benefit pensions sector.

Following a government announcement that the Pensions Dashboards project would be undergoing a "reset", a new common connection deadline of 31 October 2026 has been set and at the date of this report CAAPS' connection date is 31 August 2025. The Trustee continues to progress with its preparations and has appointed its current administration platform provider Heywood, as its third-party integrated service provider. CAAPS will continue to monitor developments across the industry in respect of Pensions Dashboards.

With Crowe having been the Scheme's appointed external auditor for an extended period, a full market review for the provision of the statutory audit service provided to the Scheme was undertaken for good governance purposes. Following the receipt of proposals from four firms including incumbents Crowe interviews were conducted with all applicants, the outcome of which saw the Trustee reappoint Crowe as the external auditor of the Scheme.

CAAPS has seen two changes to the Trustee Board in the year, with both Bob Jones and Ross MacDonald leaving their roles having both served three successive three-year terms. I would like to thank them for their efforts and contributions to the Scheme over the years and offer a warm welcome to incoming Trustee Directors Kate Staples and Rich Kenchington. Trustee Director Tim Bullock succeeds Ross as Chair of the Audit & Finance Committee. I would also like to welcome Gillian Donaldson to the CAAPS Management Team as the new Member Services Manager.

To conclude I would like to thank the CAAPS Team, the external advisers and my Co-Trustee Directors on the Board for their continued hard work and ongoing support during the year.

Joanna Matthews, Independent Chair

THE TRUSTEE'S DUTIES AND APPOINTMENT

The Trustee is responsible for the affairs of the Scheme and the Trustee Board meets at least quarterly. With the exception of the Chair and two other Trustee Directors, all the other Trustee Directors are either contributing members or beneficiaries of the Scheme. All Trustee Directors serve for an initial term of three years after which they are eligible for re-nomination for further terms of office by the CAA, NATS or through an appraisal and a selection process.

Under legislation contained in the Pensions Act 2004, it is the Trustee's responsibility to construct the process for the nomination and selection of Member-Nominated Directors (MNDs) and the Trustee has chosen to establish a Nomination and Selection Committee to assist in this process.

The Nomination and Selection Committee comprises of the Chair, the Scheme Secretary, at least one MND and a representative from two member representative bodies; it considers nominations for MNDs and makes the appropriate selection for recommendation to the CAA Board. When a vacancy arises for a particular Section, the Committee's composition includes at least one MND from that Section and, when available, a member of a body that represents that Section's employees. To ensure the highest standards of governance the Committee uses an independent assessor where there are more nominees than vacancies. During the year the Committee met twice to conduct selection processes for MNDs for the CAA and NATS Sections.

March 2024 – CAA Section

Joanna Matthews (Trustee Chair and Chair of MND Selection Panel)
Geoff Parker (Trustee Director - serving CAA Section MND)
Serena Lim (Trustee Director - serving CAA Section MND)
Colin Chisholm (RSA)
Philip Kenley (Chief Operating Officer/Scheme Secretary)
Jacqui Findlay (Independent Assessor)

September 2024 – NATS Section

Joanna Matthews (Trustee Chair and Chair of MND Selection Panel)
Philip James (Trustee Director - serving NATS Section MND)
Lea Ann Higson (Trustee Director – serving NATS Section MND)
Colin Chisholm (RSA)
George Cairns (NATS Unions)
Philip Kenley (Chief Operating Officer/Scheme Secretary)
Jacqui Findlay (Independent Assessor)

SCHEME GOVERNANCE

The Trustee has overall responsibility for managing the Scheme and it does so using clearly defined operating procedures. The Trustee produces an annual business plan, setting out objectives for the year. Not only do the objectives focus on the major strategic issues facing the Scheme but also on key tasks to be completed each year. The business plan is linked to the risk register, which is a high-level summary of the key risks to be addressed by the Trustee. The Trustee also carries out an annual evaluation of its management of the Scheme and the operation of the Board.

Further information on Scheme governance can be found in the annual Stewardship Report available on the CAAPS website www.caaps.co.uk.

ADMINISTRATION

The Trustee is responsible for the secretarial, investment, financial and administrative functions of the Scheme. The day-to-day administration is delegated to the CAAPS Management Team. The secretarial, investment and financial functions are based in London and the administration function in Edinburgh. The Trustee also takes advice and procures services from external sources. The principal providers of these services are listed on page 4. All the costs of these functions, and of external services, are met by the Scheme and divided proportionately between the Sections (as explained in accounting policy 4.4, on page 34).

FINANCIAL POSITION

	CAA Section £m	NATS Section £m
Net assets at 1 January 2024	1,542.0	3,429.5
Contributions received	9.2	133.3
Net benefits and expenses paid	(103.7)	(155.4)
Net return on investments	(70.9)	(206.2)
Net assets at 31 December 2024	1,376.6	3,201.2

The Independent Auditor's Report can be found on pages 26, the Fund Account and Statement of Net Assets of the Scheme on pages 31 and 32, with specific Notes per Section starting on pages 37 and 47. The Financial Statements have been prepared and audited in compliance with Section 41 (1) and (6) of the Pensions Act 1995.

MEMBERSHIP

Membership of the CAA Section was open on a voluntary basis to all eligible employees of the CAA until 1 December 2012 but was closed to new members from that date, with existing active members continuing to accrue future service. Until 31 March 2009, the NATS Section was also open on a voluntary basis to all eligible employees of NATS but was closed to new members from that date, with existing active members continuing to accrue future service.

Section	CAA Section	NATS Section	Total
Actives	259	1,408	1,667
Deferred	826	901	1,727
Pensioners	4,338	3,192	7,530
Total	**5,423**	**5,501**	**10,924**

The movement in membership is shown below:

	CAA Section			NATS Section		
	Active	**Deferred**	**Pensioners**	**Active**	**Deferred**	**Pensioners**
Members as at 31 December 2023	273	885	4,458	1,480	958	3,091
Opted Out*	-	-	-	(28)	-	28
	273	885	4,458	1,452	958	3,119
Normal retirements	(1)	(43)	44	(2)	(22)	24
Ill-health retirements	-	-	-	(2)	-	2
Early retirements	(1)	(15)	16	(15)	(51)	66
Flexible retirements	(8)	-	8	(6)	1	5
Leavers with deferred benefits	(4)	4	-	(18)	18	-
Leavers taking refunds and transfers out	-	(2)	-	-	(2)	-
Deaths in service / deferment / retirement	-	(3)	(252)	(1)	(1)	(52)
Spouses / dependants / children - new	-	-	67	-	-	32
Spouses / dependants / children - exits	-	-	(3)	-	-	(4)
Members as at 31 December 2024	259	826	4,338	1,408	901	3,192

*Member opted out of Scheme and elected immediate pension.

There are 4,006 CAA Section members (2023: 4,190 CAA Section members) who are covered by annuity policies held in the name of the Scheme.

Active members include members who continue to contribute but are also in receipt of a pension in payment (29 for CAA and 22 for NATS). Deferred members include members who are in receipt of a pension in payment (3 for CAA and 2 for NATS).

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

CAA Section Valuation

The most recent full valuation of the Scheme was carried out as at 31 December 2021. This showed that on that date and in comparison, to 31 December 2018 the valuations were:

	2021 valuation £m	2018 valuation £m
Market value of assets (excluding money purchase AVCs)	2,426.0	2,260.0
Technical provisions	(2,443.9)	(2,290.4)
Past service deficit	(17.9)	(30.4)
Funding ratio	99.3%	98.7%

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

Significant Actuarial Assumptions

- Discount rate: The discount rate used to value the liabilities is determined with reference to the UK government nominal spot yield curve at the valuation date, with an adjustment to allow for the expected performance of the Section's investment strategy relative to gilt yields in the periods both before and after retirement.

- Inflation (RPI): The price inflation (as measured by the Retail Prices Index) assumption is determined using the market-implied spot price inflation curve at the valuation date. This is determined as the difference between the UK government nominal and real spot yield curves at the valuation date.

- Inflation (CPI): The price inflation (as measured by the Consumer Prices Index) assumption is set equal to the inflation (RPI) assumption less an adjustment. (For the purposes of the valuation as at 31 December 2021, the adjustment was 0.9% p.a. up to 2030 and 0.1% thereafter).

- Pensions increases: The rates of increases to pensions in payment and deferred pensions in deferment are derived from the relevant price inflation assumption allowing (where appropriate) for the minimum and maximum annual increases.

- Pay increases: Pensionable salaries are assumed to increase at the rate of inflation (CPI), with a short-term adjustment where appropriate to reflect known increases.

- Mortality Post-retirement: For males, 105% of standard tables SAPS S3 Pensioners Light Male Amounts (S3PMA_L) making allowance for future improvements in line with the CMI 2020 Core Projections with a smoothing parameter Sk of 7.0, parameter A of 0.5 and a long-term annual rate of improvement in mortality rates of 1.75% p.a. For females, 103% of standard tables SAPS S3 Pensioners Light Female Amounts (S3PFA_L) making allowance for future improvements in line with the CMI 2020 Core Projections with a smoothing parameter Sk of 7.0, parameter A of 0.5 and a long-term annual rate of improvement in mortality rates of 1.75% p.a.

- Mortality Pre-retirement: 70% of standard tables AMN00/AFN00.

The Schedule of Contributions reflecting the agreed contribution rates was certified on 27 September 2022. A copy of the Actuary's certification of this schedule is shown on page 24. The next full actuarial valuation will be carried out with an effective date of 31 December 2024.

NATS Section Valuation
The most recent full valuation of the Scheme was carried out as at 31 December 2023. The 31 December 2023 full valuation showed that on that date and in comparison, to 31 December 2020 the valuations were:

	2023 valuation £m	2020 valuation £m
Market value of assets (excluding money purchase AVCs)	3,423.8	5,496.2
Technical provisions	(3,566.5)	(5,668.1)
Past service deficit	(142.7)	(171.9)
Funding ratio	96.0%	97.0%

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

Significant Actuarial Assumptions

- Discount rate: The discount rate used to value the liabilities is determined with reference to the UK government nominal yield curve: +1.6% p.a. for the period to 31 December 2032, then reducing linearly to gilts +0.5% p.a. over the period to 31 December 2038, and remaining at +0.5% thereafter.

- Inflation (RPI): The price inflation assumption is determined using the market-implied spot price inflation curve at the valuation date. This is determined as the difference between the UK government nominal and real spot yield curves at the valuation date.

- Inflation (CPI): The price inflation assumption is set equal to the RPI inflation assumption less an adjustment. For the purposes of the valuation as at 31 December 2023, the adjustment was 0.9% p.a. pre 2030 and 0.1% p.a. thereafter.

- Pensions increases: The rates of increases to pensions in payment and deferred pensions in deferment are derived from the relevant price inflation assumption allowing for the minimum and (where appropriate) maximum annual increases.

- Pay increases: Pensionable salaries are assumed to increase at the rate of inflation (CPI) plus a salary increase adjustment. (For the purposes of the valuation as at 31 December 2023, the adjustment was 0.84% in year 1, 1.76% in year 2 and 0.0% p.a. thereafter).

- Mortality Post-retirement: For males, 100% of standard tables SAPS S4 All Pensioners Light Male Amounts (S4PMA_L) making allowance for future improvements in line with the CMI 2023 Projections (Sk = 7.0, A = 0.5%) and a long-term annual rate of improvement in mortality rates of 1.50% p.a. For females, 98% of standard tables SAPS S4 All Pensioners Light Female Amounts (S4PFA_L) making allowance for future improvements in line with the CMI 2023 Projections (Sk = 7.0, A = 0.5%) and a long-term annual rate of improvement in mortality rates of 1.50% p.a.

- Mortality Pre-retirement: 70% of standard tables AMN00/AFN00.

The Schedule of Contributions reflecting the agreed contribution rates was certified on 31 January 2025. A copy of the Actuary's certification of the latest schedule is shown on page 25. The next full actuarial valuation will be carried out with an effective date of no later than 31 December 2026.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)
Members may pay AVCs to increase their retirement income. There are two types of AVC:

- a direct purchase of 'added years' of pensionable service from the Scheme. For the CAA Section, the ability to start the purchase of 'added years' was ceased from 1 July 2013; and

- an investment in an account, which will be used at retirement to buy extra benefits. This is known as the 'Money Purchase' approach. The following money purchase AVCs from Fidelity are available through the Scheme:

  Cash Fund, Index Linked Gilt Fund, Global Equity Index Fund, UK Gilt Index Fund, Ethical Fund, UK Equity Index Fund, Long Term Fund, World (ex-UK) Equity Index Fund, Property Fund, Corporate Bond Fund and Passive Lifestyle.

At 31 December 2024, 8% (2023:8%) of active members were making AVCs.

Members interested in finding out more detailed information about AVCs can find it on the CAAPS website www.caaps.co.uk. Alternatively, they can request a copy of the explanatory booklet, 'AVC Guide', from the Pensions Administration Department in Edinburgh.

TRANSFER VALUES
The Scheme Actuary provides all the details needed to calculate the transfer values paid to and from the Scheme. The transfer values are consistent with the requirements of Chapter IV of Part IV of the Pension Schemes Act 1993. No cash equivalents paid during the year were less than the full value of the members' preserved benefits and no account was made for any discretionary benefits.

For the NATS Section, transfers-in ceased from 31 May 2010. For the CAA Section, transfers-in ceased from 1 July 2013.

PENSION ADJUSTMENTS
Each year the Trustee adjusts the levels of Pensioner and Deferred members' benefits in line with inflation. The Trustee continues to base this adjustment on the changes in the Retail Prices Index (RPI) in relation to service accrued up to 31 October 2013 and the Consumer Prices Index (CPI) for service accrued from 1 November 2013. These adjustments are applied after making an appropriate allowance for any 'Guaranteed Minimum Pension'.

For 1 April 2024, for Pensioner and Deferred members, other than 'S' Category, the RPI and CPI increases were 4.9% and 4.0% respectively, both based on the change in the indices in the year to January 2024.

For 1 April 2024, for 'S' Category Pensioner and Deferred members, the adjustment is made in accordance with the Pensions (Increase) Act and was 6.7%, i.e. based on the change in the CPI index in the year to September 2023.

The Rules and Regulations of the Scheme set out the detailed method for calculating pension increases. This year's adjustments were made in accordance with these rules. There were no discretionary increases.

GUARANTEED MINIMUM PENSION (GMP) EQUALISATION

On 26 October 2018 the High Court ruled that UK occupational pension schemes need to equalise benefits for men and women for the effect of GMPs. Furthermore, on 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made to check if any additional value is due as a result of GMP equalisation. The ruling applies to members with service between 17 May 1990 and 6 April 1997 (or a transfer-in relating to that period). Members with service within this period may need to have their benefits increased. This may impact ongoing pension payments as well as other crystallisation events such as transfers, trivial commutation and serious ill-health cases. There is a choice between different methods of how to equalise, each with different benefits and disadvantages. There are a number of steps schemes will need to go through before they can equalise. The Scheme has a project plan in place and Aon has produced an indication of the additional actuarial liabilities for both Sections, which can be seen at Note 4.3.

Going Concern

The Trustee has considered such matters as the Employers' ability to support the Scheme, the contributions that are due to be paid to the Scheme, and the Employers' and Scheme's forecast cashflows over the next 12 to 15 months. Having assessed all relevant circumstances, received the required information from both Employers and advice from the Scheme's covenant adviser, the Trustee has determined that both Sections of the Scheme will continue as going concerns for at least the next 12 months from the date of issue of this report. Therefore, the Trustee believes it remains appropriate to prepare the financial statements on a going concern basis, with no material uncertainties on going concern.

INFORMATION FOR MEMBERS

The CAAPS website, www.caaps.co.uk, contains general and specific information which can be viewed using secure password access.

If there are any changes to the Scheme, members who have provided their e-mail addresses will receive Pension Notices electronically. The following documents are available to members on the CAAPS website, www.caaps.co.uk:

- Trust Deed and Rules
- Internal Disputes Resolution Procedure
- Pension Guides
- Pension Notices
- Statement of Investment Principles
- Statement of Funding Principles
- Schedule of Contributions
- Actuarial Reports
- Annual Report and Accounts
- Stewardship Report
- Responsible Investment Policy
- Implementation Statement
- TCFD Statement
- Diversity and Inclusion Policy

THE TRUSTEE'S REPORT

The Trustee issues a Pensions Update twice a year summarising the events of the Scheme year, including a summary of the accounts and a review of events in the previous year.

CONTACT FOR QUESTIONS

If members have an enquiry they should, in the first instance, contact:

Pensions Administration Department
4-5 Lochside Way
Edinburgh EH12 9DT
Email: pensions@caa.co.uk
Freephone helpline: 0800 0680 234

REGULATION AND DISPUTES

The Pensions Regulator has powers to regulate occupational pension schemes and protect members' interests where it considers that members' benefits are at risk.

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Financial Statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited Financial Statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition, at the end of that year, of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice);

- contain the information specified in The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the Financial Statements have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes (SORP) (2018); and

- are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee has supervised the preparation of the Financial Statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there are prepared, maintained and from time to time revised Schedules of Contributions showing the rates of contributions payable to the Scheme by or on behalf of the Employers and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the Employers in accordance with the Schedules of Contributions. Where breaches of the schedules occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the Scheme members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme, including the maintenance of an appropriate system of internal control, and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Trustee's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF INVESTMENT PRINCIPLES

The Pensions Act 1995 requires the Trustee to prepare a Statement of Investment Principles. The Trustee reviews it, each year, in conjunction with its investment adviser. The most recent update was completed in November 2024.

All investments have been made in accordance with the Statement. Having considered advice from its professional advisers, the Trustee's policy is to invest in a range of assets in order to gain a good return with a prudent and appropriate level of diversification. Investments therefore include investment in global equities and bonds; illiquid assets including property; and cash. The allocations between these investment classes are detailed in this report. Each Section's assets are valued on the basis set out in Note 4.6 to the Financial Statements. The Trustee considers marketability of investments as important.

Corporate Governance

The Trustee recognises that good stewardship can enhance shareholder value over the long term. Decisions relative to the governance of the companies in which the Sections invest have been delegated to the Sections' fiduciary manager, BlackRock. The Trustee expects BlackRock to use its influence as a major institutional investor to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change. The Trustee requires that voting rights are exercised and any dialogues with management are effected in the best financial interests of the beneficiaries of the assets that they manage.

BlackRock is required to report twice annually to CAAPS on its voting policy and its implementation. This includes indicating the overall level of voting activity, and details of the extent to which they have not voted in line with the stated policy. Twice annually, The Trustee Board, also ask BlackRock to explain its corporate governance policy and practices, including reviewing its voting activities and any interventions. Further details can be found in the Scheme's Implementation Statement on pages 62 to 72.

Responsible Investment

In setting the Sections' investment strategies, the Trustee's primary concern is to act in the best financial interests of the Sections and their beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

Investment managers are expected to take account of any factors, including relevant Environment, Social and Governance (ESG) factors, affecting their valuation of the investments, on the Sections' behalf.

The Trustee recognises that integrating ESG factors into the investment process is beneficial to the achievement of its long-term financial objectives and, with its investment adviser, carries out regular reviews of its investments, which also includes using third-party ESG data. This review supports the Trustee in assessing the ongoing appropriateness of its managers' ESG integration and stewardship processes.

Climate change is a key element of ESG Factors. As set out in their TCFD Statement and Responsible Investment Policy, the Trustee recognises that climate change may materially impact on returns within the timeframe of concern to the Sections. The Trustee will take action to mitigate this risk where practicable and appropriate for the Sections.

In accordance with the Trustee's recognition of climate change risk, the Trustee took the decision in Q3 2020 to transition the Section's passive market capitalization-weighted developed global equity portfolio to a passive portfolio indexed against a low-carbon benchmark, thus reducing the Section's exposure to underlying assets exhibiting high carbon intensity (relative to a market capitalization-weighted benchmark). The Trustee annually reviews its approach to managing climate risk.

Climate change is a Board responsibility although day to day management of the risk is delegated to the Sections' Investment and Funding Committees (IFCs) and the CAAPS Investment Executive (CIE). The Trustee has undertaken scenario analysis over different timeframes to better understand the potential impact of climate change. These scenarios will be reviewed every three years, unless circumstances demand they are reviewed earlier.. Allied to this, the Trustee considers the degree to which climate change is integrated into the investment approach of its managers. As set out in the TCFD Statement and Responsible Investment Policy, the Trustee has established four metrics (Carbon footprint, Carbon intensity, Data quality and Binary Target Measurement) so as to monitor its progress towards achieving alignment with the Paris Agreement on Climate Change.

In setting and implementing the Sections' investment strategies, the Trustee does not explicitly consider the views of Sections' members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters.

Copies of the Responsible Investment Policy, TCFD Statement, Stewardship Report and Member Survey results are available on the CAAPS website, www.caaps.co.uk or from the Scheme Secretary.

Investment Choice

The types of investment held and the balance between them is adjusted as necessary to meet the objectives of the Trustee.

The assets of the Sections are invested in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interests of members and beneficiaries.

Assets held to cover the Sections' liabilities are invested in a manner appropriate to the nature and duration of the expected future liabilities payable by the Sections, but also recognising the return requirement in order to meet the funding objective.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Trustee recognises that the key source of financial risk (in relation to meeting their objectives) arises from the level of target return needed to achieve the objective and the level of liability hedging that is affordable. To this extent, the Trustee has agreed the target return and liability hedge ratio with its advisers and, as appropriate, will agree how this target return and liability hedge ratio should evolve over time as actual experience differs from the expected experience.

The Trustee has delegated responsibility for managing the underlying investments in the Growth Portfolio to BlackRock, within the guidelines and constraints set out in the Investment Management Agreement (IMA). This allows the asset allocation and manager allocation to be adjusted quickly where needed, to best meet the investment objectives of the Sections and in a manner that is expected to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The assets are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings. To avoid accumulations of risk in the portfolio as a whole, diversification is both within and across the major asset classes.

Arrangements with Asset Managers

The Trustee recognises that the arrangements with all their managers, including the arrangements with the corresponding underlying managers invested in by BlackRock, are important to ensure that interests are aligned. In particular, the Trustee seeks to ensure that the managers are incentivised to operate in a manner that generates the best long-term results for the Sections and their beneficiaries.

The Trustee receives at least quarterly reports from the managers and verbal updates on various items including the investment strategies, performance, liquidity profile and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategies in relation to the Sections' objectives, and assesses the managers over the long-term.

The Trustee also receives stewardship reports on the monitoring and engagement activities carried out by the applicable managers, which supports the Trustee in determining the extent to which the Sections' engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in the Statement of Investment Principles (SIP), with the Sections' managers and requests that they review and confirm whether their approach is in alignment with the Trustee's policies.

The Trustee delegates the ongoing monitoring of underlying asset managers to BlackRock. BlackRock monitors the Sections' investments to consider the extent to which the investment strategies and decisions, in particular long-term related decisions of the underlying asset managers, are aligned with the investment objectives of the Sections.

Before the appointment of a new manager of the Liability Driven Investment (LDI) or Growth Portfolio, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where necessary, the Trustee will seek to amend that documentation or express its expectations (such as through side letters, in writing, or verbally at Trustee meetings) so that there is more alignment.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the managers and regular monitoring of the managers' performance and investment strategies is sufficient to incentivise the managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long-term financial performance.

Where a manager is considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically engage with the manager (or through BlackRock as its fiduciary manager if appropriate) to understand the circumstances and materiality of the decisions made.

There is typically no set duration for arrangements with the managers, although their continued appointment will be reviewed periodically.

The suitability of this policy is reviewed annually.

Cost Monitoring

The Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Sections' assets. The Trustee recognises that, in addition to annual management charges, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments. The Trustee receives annual cost transparency reports from its managers.

These reports present information in line with prevailing regulatory requirements. They clearly set out on an itemised basis:

- The total amount of investment costs incurred by the Sections;
- The fees paid to the managers, including the manager of the LDI Portfolio;
- The fees paid to the investment managers appointed by the fiduciary manager;
- The amount of portfolio turnover costs (transaction costs) incurred by the investment managers appointed by the fiduciary manager.

The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within the funds of the investment managers appointed by the fiduciary manager:

- Any charges incurred through the use of pooled funds (custody, administration and audit fees)
- The impact of costs on the investment return achieved by the Sections.

The Trustee acknowledges that portfolio turnover costs are a necessary cost to generate investment returns and that the level of these costs varies across asset classes and manager. The fiduciary manager monitors the level of portfolio turnover (defined broadly as the amount of purchases plus sales) of all the investment managers appointed on behalf of the Trustee.

Evaluation of performance and remuneration

The Trustee assesses the (net of all costs) performance of its managers on a rolling three-year basis against the Sections' specific liability benchmark and investment objective. The remuneration paid to the managers and fees incurred by third parties appointed by the fiduciary manager are provided annually to the Trustee. This cost information is set out alongside the performance of the managers to provide context. The Trustee monitors these costs and performance trends over time.

The Trustee has appointed an independent consultant, Ernst & Young (EY), to undertake a review of the performance of the fiduciary manager in 2022, repeating the exercise annually to date.

Investment Management Fees

External investment manager fees are generally determined as a percentage of assets managed. The Trustee believes that this is the most appropriate method of remunerating investment managers.

For some underlying managers, a performance related fee may be in place, which the Trustee believes to be appropriate given the nature of their specific investment objectives as long as these are subject to the relevant performance thresholds and protection mechanisms to ensure that the Trustee remunerates the manager on the basis of true outperformance.

INVESTMENT STRATEGY

The investment strategies are set out in the Scheme's Statements of Investment Principles (SIPs).

The Trustee's primary objective is to ensure that it can meet its benefit payment obligations to the beneficiaries as they fall due. In addition, the Trustee has the objective of maximising the long-term investment return subject to running an acceptable amount of risk. The Trustee recognises that the Employers have a legitimate interest in these objectives and consults each Employer accordingly. The Trustee believes that proper diversification of investments is of the utmost importance. Likewise, the Trustee endeavours to invest the Scheme's funds in assets which are suitable for achieving the above objectives.

The Trustee regards the choice of asset allocation policy as the decision which has most influence on the likelihood that it will achieve its investment objectives. The Trustee makes decisions on asset allocation as outlined in the Statement of Asset Arrangements on the advice of its investment consultants, in consultation with the Employers, and in conjunction with recommendations from each Section's Investment and Funding Committee (IFC). Specific allocation within the Growth Portfolio is advised by the fiduciary manager, BlackRock.

The IFCs recommend the strategic asset allocation policy after considering projections of the Sections' assets and liabilities which are calculated by the Scheme Actuary and an asset-liability study undertaken by the Scheme's investment consultant. The latter examines different combinations of assets to determine which combination should most efficiently achieve the Trustee Board's objectives whilst taking the Employers' considerations into account.

In order to avoid undue concentration of risk, a diversified portfolio of assets is held. The diversification is both within and across the major asset classes. The extent of this diversification reflects both the Scheme's circumstances and the Trustee's investment return expectations.

The current strategy for the CAA Section is to hold:

- Approximately 42% of the non-insured investments in liability matching assets including UK government debt, interest rate swaps, inflation return swaps and gilt repos;
- Approximately 58% of the non-insured investments in return seeking assets including global equities, liquid debt and hedge funds;
- The majority of the assets in Bulk Purchase Annuity contracts with Rothesay Life, PIC and LGAS.

The current strategy for the NATS Section is to hold:

- 35% of the investments in liability matching assets including UK government debt, interest rate swaps, inflation rate swaps, total return swaps and gilt repos;
- 65% of the investments in return seeking assets including global equities, liquid debt, investment property, hedge funds and private equity.

Integrated Risk Management

To maximise the probability of achieving the primary objective, the Trustee adopts an Integrated Risk Management (IRM) approach. This approach seeks not just to minimise each risk individually but to minimise the overall level of risk in the Sections with a view to maximising the likelihood of achieving the Primary Objective. This holistic approach is necessary because the risks are not independent of each other and reducing one risk may increase or in some other way change another risk. In-depth IRM considerations, including sensitivity and scenario testing of the interaction of risks within the Sections, informs every formal Valuation. Subsequent to each Valuation, the Sections are managed in a way that is consistent with the holistic view of overall risk formulated as part of the Valuation. Risks are then continually monitored to ascertain whether that view remains valid or whether remedial action is required. A new formal Valuation may be called if there is a significant change in the level of risk.

LDI Portfolio- Liquidity

The Scheme continues to invest funds in UK government debt (gilts) through the adoption of LDI strategies for both Sections. Following volatility seen in the gilts market in 2022, guidance on LDI has been issued to the pensions industry as a whole by the Central Bank of Ireland, Bank of England and the Pensions Regulator (TPR). This guidance has been considered by the Trustee and specific actions have been implemented. The targeted eligible collateral levels in each portfolio are now at least in accordance with the minimum requirements published by the relevant governing central bank and TPR. LDI policies adopted in 2023 for both Sections which formally document these targeted eligible collateral levels, have continued to be maintained across 2024. The policies also define roles and responsibilities for the ongoing management and monitoring of the LDI strategies. Minimum liquidity parameters for the Growth portfolios are included in BlackRock's IMAs. The LDI strategies and associated liquidity risks attached to them continue to be monitored by the Trustee, IFCs and CIE on an ongoing basis with the assistance of its appointed Investment Consultant.

During the year The Trustee approved the CAA Section to transition its LDI Allocation from the existing pooled structure to a fully segregated mandate.

CAA SECTION

The Section continues to maintain its absolute return target of cash+3.5% p.a. which the Growth portfolio is measured against. During the year the targeted allocation of funds of the total uninsured investment portfolio to the Growth portfolio was increased from 55% to 58%. The Section transitioned its LDI assets from a pooled fund to a segregated account which requires a lower level of optimal collateral which facilitated the increase in the allocation to growth assets. The targeted hedge level was maintained at 81% of liabilities on the long-term funding target basis, to broadly align with the Scheme's technical provision funding level. These changes have been implemented in the anticipation that they will increase investment returns over a long-term time horizon, whilst protecting existing funding levels through the continued adoption of LDI strategies.

Overall, the CAA Section Growth portfolio outperformed its absolute return benchmark of cash+3.5% during the year.

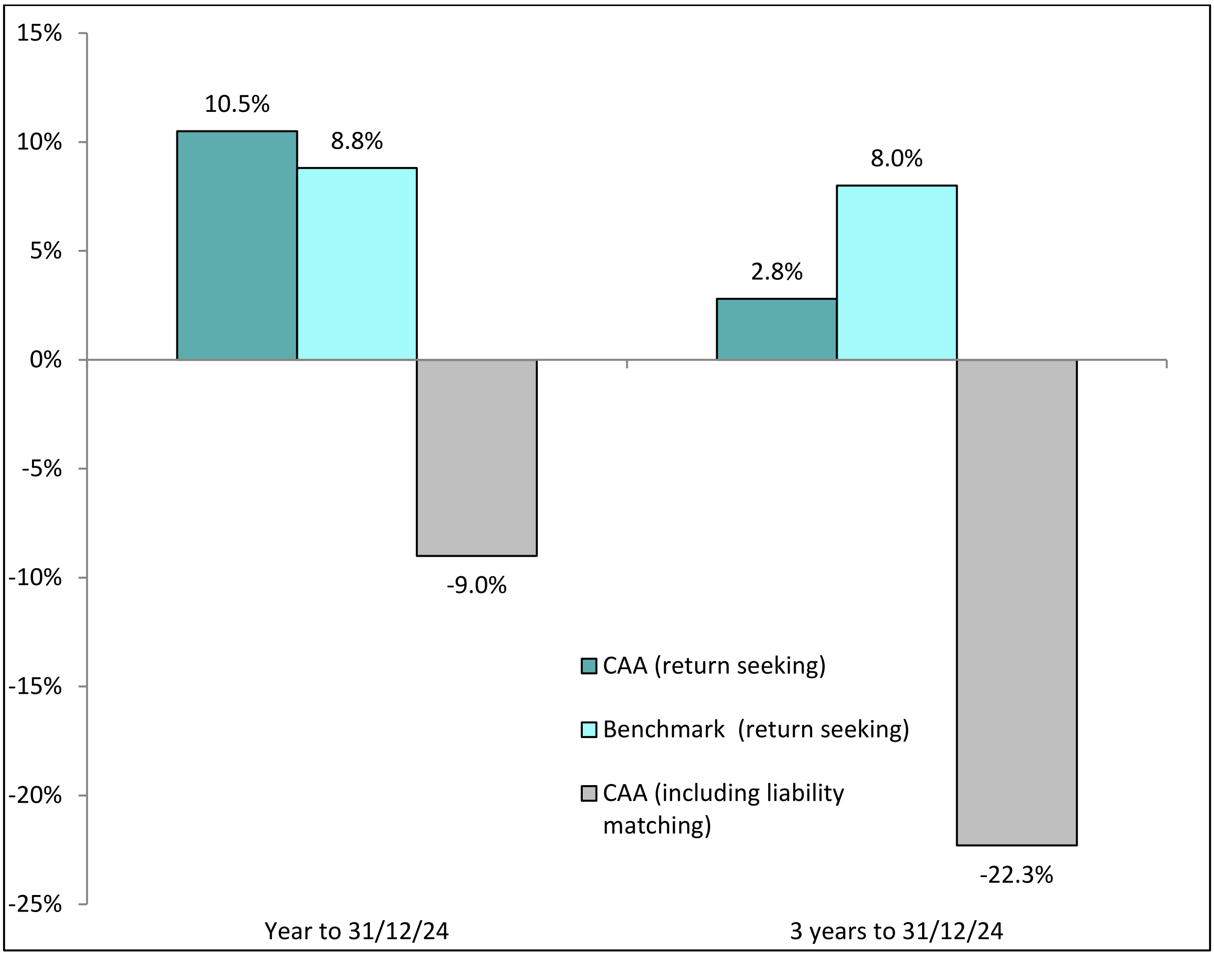
NATS SECTION

The Section maintained an absolute return target for the Growth portfolio of cash+4.5% p.a. during 2024. The targeted allocation of funds to the Growth portfolio was 65%. The target level of hedging of the LDI has continued to be monitored during the year and is considered to remain appropriate to best achieve the Section's long-term investment and funding objectives.

Overall, the NATS Section Growth portfolio underperformed its absolute return benchmark of cash+4.5% during the year.

CAA SECTION

The CAA Section performance is analysed between growth assets and total fund return to distinguish between the performance of the growth assets and the return on the liability matching assets. The CAA Section's Growth portfolio produced a positive return of 10.5% which reflects an outperformance of 1.7% relative to the Section's benchmark return of 8.8%. The Section's total return for the year including its liability matching (LDI) portfolio totalled -9.0%. The Section's total return for the three-year period including its liability matching (LDI) portfolio totalled -22.3%. This is reflective primarily of the decrease in value of the assets of the liability matching portfolio across the period for the Section and has been mirrored by a decrease in value of the future liabilities to pay pensions and other benefits to members. The underperformance of the Growth portfolio relative to benchmark over the longer term continues to be closely monitored by the Trustee.

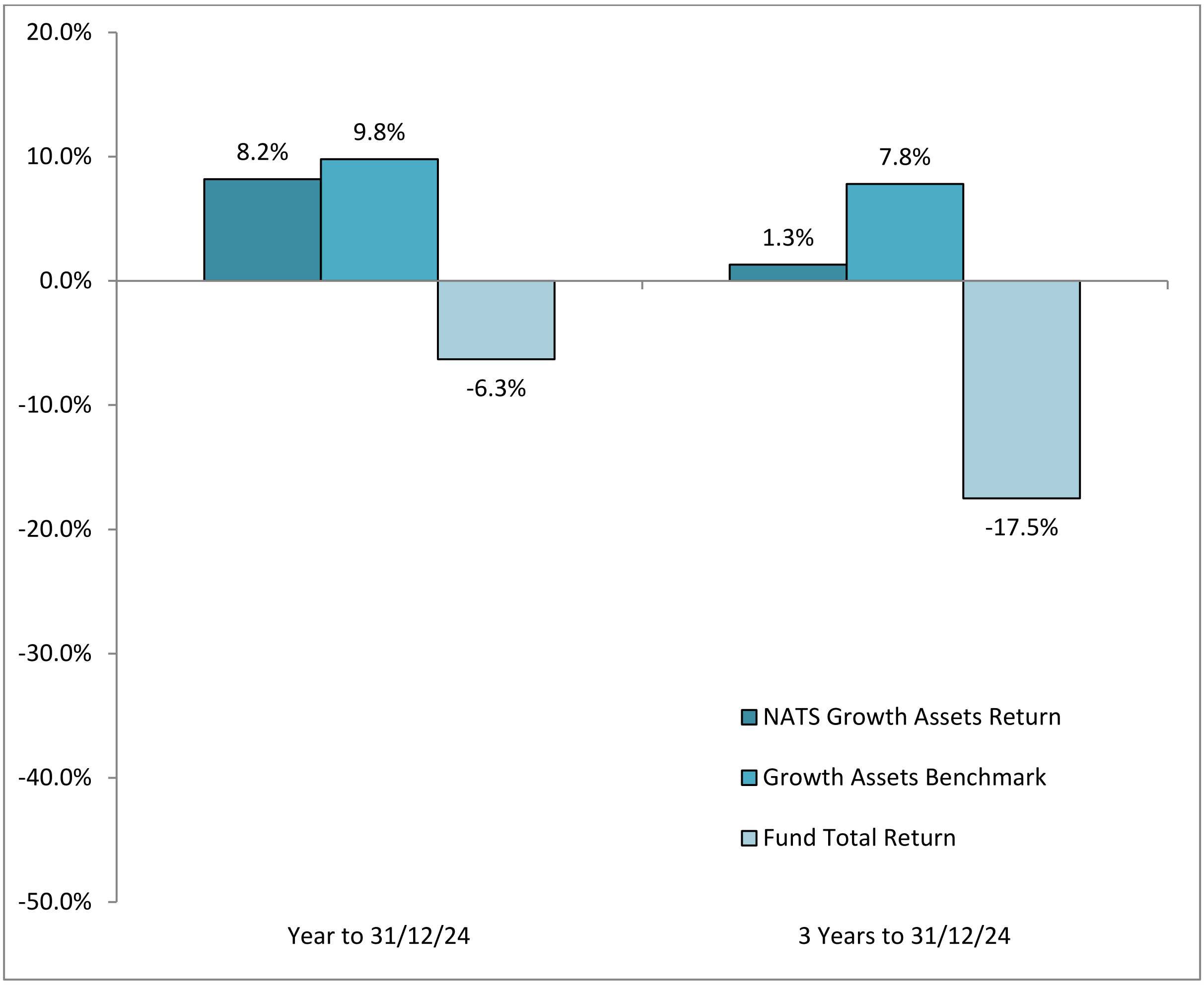


CAA Section

The investment assets above exclude members' Additional Voluntary Contributions and the bulk annuity contracts.

NATS SECTION

The NATS Section performance is analysed between growth assets and total fund return to distinguish between the performance of the growth assets and the return on the liability matching assets. The NATS Section's Growth portfolio produced a positive return of 8.2% which reflects an underperformance of 1.6% relative to the Section's benchmark return of 9.8%. The Section's total return for the year including its liability matching (LDI) portfolio totalled -6.3%. The Section's total return for the three-year period including its liability matching (LDI) portfolio totalled -17.5%. This is reflective primarily of the decrease in value of the assets of the liability matching portfolio across the period for the Section and has been mirrored by a decrease in value of the future liabilities to pay pensions and other benefits to members. The continued underperformance of the Growth portfolio relative to benchmark remains closely monitored by the Trustee.



NATS Section

The investment assets above exclude members' Additional Voluntary Contributions.

The Trustee and Investment Reports were approved by the Trustee on 26 March 2025.

Joanna Matthews, Independent Chair

ACTUARY'S CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS - CAA SECTION

Name of Scheme: CAA Section of the Civil Aviation Authority Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2021 to be met by the end of the period specified in the recovery plan dated 27 September 2022.

   I also certify that any rates of contributions forming part of this schedule which the Scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 27 September 2022.

   The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature		**Date**	27 September 2022
Name	Mike Webb	**Qualification**	Fellow of the Institute and Faculty of Actuaries
Address	Parkside House Ashley Road Epsom Surrey KT18 5BS	**Name of Employer**	Aon Solutions UK Limited

ACTUARY'S CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS - NATS SECTION

Name of Scheme: NATS Section of the Civil Aviation Authority Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2023 to be met for the period specified in the recovery plan dated 31 January 2025.

   I also certify that any rates of contributions forming part of this schedule which the Scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 31 January 2025.

   The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature		**Date**	31 January 2025
Name	Mike Webb	**Qualification**	Fellow of the Institute and Faculty of Actuaries
Address	3rd Floor Epsom Gateway 2 Ashley Avenue Epsom KT18 5AL	**Name of Employer**	Aon Solutions UK Limited

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS, UNDER REGULATION 4 OF THE OCCUPATIONAL PENSION SCHEMES (REQUIREMENT TO OBTAIN AUDITED ACCOUNTS AND A STATEMENT FROM THE AUDITOR) REGULATIONS 1996, TO THE TRUSTEE OF THE SCHEME

We have examined the summary of contributions payable to the Civil Aviation Authority Pension Scheme ("the Scheme"), for the Scheme year ended 31 December 2024 which is set out on page 27.

In our opinion contributions for the Scheme year ended 31 December 2024 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least:

- in accordance with the Schedule of Contributions certified by the Scheme Actuary on 15 September 2021 for the NATS Section; and
- in accordance with the Schedule of Contribution certified by the Scheme Actuary on 27 September 2022 for the CAA Section.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there are prepared, maintained and from time to time revised Schedules of Contributions that set out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employers and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedules of Contributions.

Auditor's responsibilities for the statement about contributions

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Scheme's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this statement, or for the opinions we have formed.

Crowe U.K. LLP
Statutory Auditor
London

Date: 26 March 2025

Summary of Contributions

During the year ended 31 December 2024 the contributions payable to the Scheme by the Employers under the Schedules of Contributions were as follows:

	CAA Section £'000	NATS Section £'000	2024 Total £'000	2023 Total £'000
Employers' normal contributions	4,526	96,110	100,636	97,955
Employers' normal deficit repair	-	27,845	27,845	27,200
Employers' additional contributions	3,500	-	3,500	6,000
Employers' salary sacrifice	943	8,167	9,110	8,947
Employers' augmentation contributions	-	30	30	-
Members' normal contributions	40	37	77	84
Total contributions payable under the Schedules of Contributions	9,009	132,189	141,198	140,186
In addition, further contributions were payable:				
Employer - member directed contributions salary sacrifice	169	-	169	152
Members' additional voluntary contributions	34	1,013	1,047	758
Other – family benefit reinstatement	4	63	67	34
Total contributions included in the Financial Statements (Notes 5 & 21)	9,216	133,265	142,481	141,130

The normal contributions payable to the Scheme during the year have been paid in accordance with the Schedules of Contributions. Both Sections operate salary sacrifice schemes which result in the members and Employers benefiting from reduced National Insurance costs. Augmentation contributions by the Employers cover reimbursement to the Scheme for the cost of enhancements to members' pension benefits associated with early retirement.

Approved by the Trustee and signed on its behalf by:

Joanna Matthews, Independent Chair

26 March 2025

Timothy Bullock, Director

26 March 2025

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE SCHEME

Opinion

We have audited the financial statements of the Civil Aviation Authority Pension Scheme ("the Scheme") for the year ended 31 December 2024 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2024, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

However, as we cannot predict all future events or conditions, and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The Trustee is responsible for the other information contained within the annual report. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out on page 15, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

We set out below the key areas which, in our opinion, the financial statements are susceptible to material misstatement by way of irregularities including fraud and the extent to which our procedures are capable of detecting these.

- Management override of controls. Our audit procedures to respond to these risks included enquiries of management about their own identification and assessment of the risks of irregularities, sample testing on the posting of journals and reviewing accounting estimates for bias.
- Misappropriation of investment assets owned by the Scheme. This is addressed by obtaining direct confirmation from the custodian and investment fund managers of investments held at the Statement of Net Assets date.
- Diversion of amounts receivable relating to the bulk annuity policies. This is addressed by testing the reconciliation of amounts received from the bulk annuity providers to the pensions paid to the pensioners.
- Diversion of assets through large investment transactions. Reviewing the AAF 01/20 / ISAE 3402 Assurance Reports on Internal Controls for fund managers and the global custodian and testing investment transactions to the investment manager and custodian reports where relevant.
- We have identified relevant laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, as the Pensions Acts 1995 and 2004 (and regulations made thereunder), FRS 102, and the Pensions Statement of Recommended Practice (SORP). We considered the extent to which a material misstatement of the financial statements might arise as a result of non-compliance.
- Reviewing meeting minutes and any correspondence with the Pensions Regulator.

- Discussing whether there are any significant or unusual transactions and known or suspected instances of fraud or non-compliance with applicable laws and regulations.

- Non-receipt of contributions due to the Scheme from the Employers. This is addressed by testing contributions due are paid to the Scheme in accordance with the Schedules of Contributions agreed between the Employers and the Trustee.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP

Statutory Auditor

London

Date: 26 March 2025

FUND ACCOUNT AND STATEMENT OF NET ASSETS OF THE SCHEME

The finances and assets of the Civil Aviation Authority Pension Scheme are kept completely separate from those of the Employers.

The Fund Account and Statement of Net Assets for the Scheme for the year ended 31 December 2024 are set out below showing the split between the CAA and NATS Sections.

The Fund Account and Statement of Net Assets for each Section are shown in full within the specific Notes to the Financial Statements starting on page 37 for the CAA Section, and on page 47 for the NATS Section.

FUND ACCOUNT FOR THE YEAR ENDED 31 December 2024

	Note	CAA Section £m	NATS Section £m	2024 Total £m	2023 Total £m
Contributions and Benefits					
Employer Contributions	5, 21	9.1	132.2	141.3	140.2
Employee Contributions	5, 21	0.1	1.1	1.2	0.9
Total Contributions and Other Income		9.2	133.3	142.5	141.1
Benefits paid or payable	6, 22	100.5	149.1	249.6	240.5
Leavers	7, 23	1.1	3.6	4.7	5.2
Administrative expenses	8, 24	2.1	2.7	4.8	4.2
Total Benefits		103.7	155.4	259.1	249.9
Net withdrawals from dealings with members		(94.5)	(22.1)	(116.6)	(108.8)
Returns on investments					
Investment income	15, 31	90.9	(61.4)	29.5	68.0
Changes in market value of investments	16, 32	(160.9)	(140.3)	(301.2)	16.4
Investment management expenses	9, 25	(0.9)	(4.5)	(5.4)	(6.6)
Net returns on investments		(70.9)	(206.2)	(277.1)	77.8
Net decrease in funds during the year		(165.4)	(228.3)	(393.7)	(31.0)
Net assets of the Scheme at 1 January		1,542.0	3,429.5	4,971.5	5,002.5
Net assets of the Scheme at 31 December		**1,376.6**	**3,201.2**	**4,577.8**	**4,971.5**

FUND ACCOUNT AND STATEMENT OF NET ASSETS OF THE SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 DECEMBER 2024

	Note	CAA Section £m	NATS Section £m	2024 Total £m	2023 Total £m
Investment Assets					
Bonds	32	-	2,647.2	2,647.2	3,201.4
Equities	32	-	0.1	0.1	25.7
Property	32	-	55.7	55.7	82.9
Pooled investment vehicles	16, 32	332.7	1,870.2	2,202.9	1,844.4
Derivatives	17, 33	0.9	68.1	69.0	102.8
Insurance policies	18	1,009.4	-	1,009.4	1,135.7
AVC investments	10, 26	1.5	5.7	7.2	7.3
Cash	16, 32	12.8	124.8	137.6	123.6
Other investment balances	16, 32	-	47.8	47.8	18.3
		1,357.3	4,819.6	6,176.9	6,542.1
Investment liabilities					
Derivatives	17, 33	(1.6)	(54.1)	(55.7)	(88.5)
Other investment balances	32	-	(1,615.6)	(1,615.6)	(1,552.5)
Total net investments		1,355.7	3,149.9	4,505.6	4,901.1
Current assets	11, 27	21.3	52.4	73.7	84.2
Current liabilities	12, 28	(0.4)	(1.1)	(1.5)	(13.8)
		20.9	51.3	72.2	70.4
Net assets of the Scheme at 31 December		**1,376.6**	**3,201.2**	**4,577.8**	**4,971.5**

The Financial Statements summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Trustee's Report section "Report on Actuarial Liabilities" on pages 10 to 12, and "Actuary's Certification of the Schedule of Contributions" on pages 24 and 25, and these Financial Statements should be read in conjunction with them.

Approved by the Trustee:

Joanna Matthews, Independent Chair

26 March 2025

Timothy Bullock, Director

26 March 2025

NOTES TO THE FINANCIAL STATEMENTS OF THE SCHEME

1. BASIS OF PREPARATION

These Financial Statements have been prepared as at 31 December 2024 in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by The Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP) (2018).

The Trustee is not aware of any material uncertainty in relation to the Scheme's ability to continue as a going concern, and as such these financial statements have been prepared on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English Law. The address for enquiries to the Scheme is included in the Trustee's Report under the heading Contact for Questions.

3. TAX STATUS

Before 5 April 2006 the Scheme was described as an exempt approved Scheme under the Income and Corporation Taxes Act 1988. It is now a Registered Scheme under the Finance Act 2004. Contributions to the Scheme and most income and gains from the Scheme's investments are exempt from tax.

4. ACCOUNTING POLICIES

4.1. Consolidation

The Financial Statements include the net assets of Caviapen Trustees Limited, a trust corporation set up and wholly owned by the Trustee to hold as custodian certain Scheme properties. No financial transactions pass through the Caviapen Trustees Limited financial statements.

4.2. Contributions receivable

Normal contributions from the Employers and from members have been made at the rates set out in the Schedules of Contributions in force for the Scheme year. Normal contributions relating to salaries earned in the Scheme year have been recognised in these accounts. During the year, salary sacrifice arrangements operated for each Section and these contributions are accounted for on the same basis as normal Employer contributions related to salaries and shown as Employer contributions.

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, when received.

Members' additional voluntary contributions (AVCs) and family benefit reinstatement contributions are recognised in the accounts as soon as they are notified to the Scheme.

4.3. Benefits paid or payable

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Scheme as appropriate.

Where tax liabilities are settled on behalf of members, for example where the lifetime allowance or annual allowance is exceeded, the tax due is accounted for on the same basis as the benefit.

Transfer values represent the capital sums payable to other pension arrangements for members who have left the Scheme, and they are accounted for on a cash basis.

GMP Equalisation

As explained on page 13 of the Trustee's report, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension scheme. The judgment concluded that the scheme should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. Furthermore, on 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made to check if any additional value is due as a result of GMP equalisation. The issues determined by the judgments arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and has been considering this at past meetings and decisions will continue to be made at future meetings as to the next steps. Under the rulings, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. The Trustee has obtained an estimate of the benefits and related interest which relate to equalisation of Scheme benefits for the period 17 May 1990 to 6 April 1997 of £3m (£2m for the CAA Section and £1m for the NATS Section) for the first Court judgment. The Actuary has estimated that approximately 10% would relate to the past underpayment of benefits. This estimate is based on the Trustee's view of the agreed equalisation methodology to be adopted and a top-down assessment of the likely impact on members. Neither this amount nor an amount in respect of the second Court judgment has been recognised in the accounts as they are immaterial and given the uncertainty surrounding the final amounts.

4.4. Other expenditure

Administrative and investment management expenditure is accounted for on an accruals basis. Directly attributable CAA or NATS Section expenditure is allocated to the appropriate Section. Shared expenditure is apportioned between the CAA and NATS Sections in proportion to the level of work undertaken or equally apportioned as appropriate.

4.5. Investment income

Income from fixed interest and index-linked securities, deposit interest, mortgage-backed securities and securities lending is accounted for on an accruals basis.

Rental income is accounted for as earned under the terms of the lease.

Dividends are taken into account on the date when the stocks are quoted ex-dividend. Income from pooled investment vehicles that are accumulation funds are re-invested within the funds.

Income arising from annuity policies is included in investment income.

4.6. Valuation of investments

All investments are valued at their market value at the reporting date, determined as follows:

4.6.1. Quoted securities and pooled investment vehicles in specified funds are stated at market value based on the bid market prices or fair value, as determined by the investment managers, ruling at the Scheme year end.

4.6.2. Interests in private equity funds and hedge funds are included at estimated market value as provided to the Trustee by the investment managers. The market valuation is based on the current fair value and is in accordance with appropriate guidance such as US Generally Accepted Accounting Principles.

4.6.3. Shop, office and industrial properties are valued at open market value at the Scheme year end by Knight Frank, Chartered Surveyors, using the Royal Institution of Chartered Surveyors Valuation Standards. No depreciation is provided on freehold buildings or long leasehold properties. All charges incurred during the purchase of property are expensed in the period incurred.

4.6.4. Annuity policies are valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent solvency assumptions as at the reporting date.

4.7. Derivatives

4.7.1. Derivative contracts are valued at fair value. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices.

Derivative contracts' changes in fair value are included in change in market value where the economic purpose of the contracts relates to assets. Where the economic purpose relates to income the change in fair value is included in investment income.

4.7.2. Futures contracts' fair value is determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.

4.7.3. Exchange traded options' fair value is determined using the exchange price for closing out the option at the reporting date. If a quoted market price is not available on a recognised exchange the over the counter contract options' fair value is determined by the investment manager/bank using generally accepted pricing models such as Black-Scholes, where inputs are based on market data at the year end date.

4.7.4. The fair value of the interest rate swaps, inflation swaps, credit default swaps and total return swaps is calculated using pricing models based on the discounted future expected cashflows or the market price of comparable instruments at the year end date, if they are publicly traded, as provided by the custodian or investment managers. Interest is accrued monthly on a basis consistent with the terms of the contract. The amounts included in change in market value are the realised gains and losses on closed contracts and the unrealised gains and losses on open contracts. Net receipts or payments on swap contracts are either reported in investment income (where the economic purpose relates to income) or change in market value (where the economic purpose relates to assets).

4.7.5. The fair value of the forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

4.7.6. Repurchase agreements are accrued on the basis that the Scheme continues to recognise and value the securities that are delivered out and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount. Cash delivered under reverse repurchase agreements is recognised as an investment receivable in the financial statements. The securities received in exchange are disclosed in the financial statements, but are not included in the Scheme assets. Where bonds are short sold, the fair value is taken as the market value at the accounting date plus any interest accrued to date.

4.8. Foreign Currencies

Transactions in foreign currencies during the period are converted at the rate of exchange ruling at the dates of the transactions. Overseas investments and bank and short-term deposits in foreign currencies are translated at the rates of exchange ruling at the Scheme year end.

4.9. Fair Value Determination

The investments have been analysed according to the basis on which the fair value has been determined. The best evidence of fair value is a quoted price of an active security on a recognised exchange and thus falling into Level 1. The greatest amount of judgment is involved where a fair value is based on the valuation techniques and such investments fall into Level 3. The basis of the fair value hierarchy is described in more detail below:

Level 1 inputs are: The quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 1 includes exchange traded instruments in an active market, for example: quoted equities, exchange traded derivatives and exchange traded funds.

Level 2 inputs are: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Level 2 includes over the counter instruments, such as bonds and derivatives, where indicative quotes are available to market participants or where evaluated price feeds from pricing vendors are available. These quotes are not Level 1 because their indicative nature makes them less robust as estimates of the exit price than binding quotes on a recognised exchange. It also includes the prices of recent transactions to the extent the prices are observable by parties other than those involved in the transaction.

Level 3 inputs are: Unobservable inputs for the asset or liability. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

For the purpose of the accounts and in accordance with the SORP the assets have been analysed into Levels 1, 2 and 3 and the analysis is shown in Notes 20 and 34.

FUND ACCOUNT FOR THE YEAR ENDED 31 December 2024

	Note	2024 £'000	2023 £'000
Contributions and Benefits			
Employer Contributions	5	9,138	11,830
Employee Contributions	5	78	60
Total Contributions and Other Income		9,216	11,890
Benefits paid or payable	6	100,479	103,922
Leavers	7	1,133	2,635
Administrative expenses	8	2,142	1,991
Total Benefits		103,754	108,548
Net withdrawals from dealings with members		(94,538)	(96,658)
Returns on investments			
Investment income	15	90,914	91,155
Changes in market value of investments	16	(34,578)	5,766
Change in market value of insurance policies	16	(126,300)	(63,900)
Investment management expenses	9	(878)	(860)
Net returns on investments		(70,842)	32,161
Net decrease in funds during the year		(165,380)	(64,497)
Net assets of the Section at 1 January		1,541,955	1,606,452
Net assets of the Section at 31 December		**1,376,575**	**1,541,955**

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 December 2024

	Note	2024 £'000	2023 £'000
Investment assets	16		
Insurance policies	18	1,009,400	1,135,700
Pooled investment vehicles		332,647	372,424
Derivatives	17	892	2,835
Other		12,828	5,225
Members' AVCs	10	1,455	1,596
Total		1,357,222	1,517,780
Investment liabilities	16		
Derivatives	17	(1,575)	(968)
Other		(3)	(1)
		(1,578)	(969)
Total net investment assets		**1,355,644**	**1,516,811**
Net current assets			
Current assets	11	21,321	25,765
Current liabilities	12	(390)	(621)
		20,931	25,144
Net assets of the Section at 31 December		**1,376,575**	**1,541,955**

5. CONTRIBUTIONS RECEIVABLE

	2024 £'000	2023 £'000
Contributions by the Employer		
Normal	4,526	4,684
Additional	3,500	6,000
Salary Sacrifice	943	994
Salary Sacrifice – member directed	169	152
	9,138	11,830
Contributions by the Members		
Normal	40	47
Additional voluntary contributions	34	9
Other – Family benefit reinstatement	4	4
	78	60
	9,216	11,890

The Employer's contributions are based on the advice received from the Scheme Actuary. The Scheme Actuary calculates what rate will be sufficient to provide for the benefits defined in the Scheme Rules. Salary sacrifice contributions relate to "Pension Sense", where members sacrifice an element of their salary, equal to their normal rate of contributions as pension contribution, which results in these contributions becoming an Employer contribution. Members may also sacrifice additional salary, over and above that required by the Schedule of Contributions. These contributions are known as "Salary Sacrifice – member directed" and replace members' additional voluntary contributions for those members in the salary sacrifice scheme.

The Employer has agreed to pay additional contributions of £6m per year from 1 June 2023 under the National Performance Plan. These are payable, as part of the National Performance Plan, under the Schedule of Contributions until 31 December 2030. All of the additional contributions are payable in equal monthly instalments over the period to 31 December 2030. Additional contributions amounting to £2.5m in respect of the period from 1 January 2024 to 31 May 2024 were paid early on 29 March 2023 and were recognised in the previous year's financial statements. The additional contributions in respect of the National Performance Plan include £2.08m per annum in respect of deficit contributions.

Some members have also made AVCs to the Scheme to secure additional benefits, whilst others have contributed to re-instate family benefits payable on their death.

6. BENEFITS PAID or PAYABLE

	2024 £'000	2023 £'000
Pensions	96,074	93,092
Pensions commuted to a lump sum	3,983	9,742
Lump sum death benefits	239	960
Taxation where lifetime or annual allowance exceeded	183	128
	100,479	103,922

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability. From 6 April 2023, the lifetime allowance was abolished, and any lump sum amounts exceeding the notional lifetime allowance threshold are reflected gross including tax within pensions commuted to a lump sum.

7. LEAVERS

	2024 £'000	2023 £'000
Individual transfers out to other schemes	1,133	2,635
	1,133	2,635

8. ADMINISTRATIVE EXPENSES

	2024 £'000	2023 £'000
Administration and processing	1,138	1,078
Professional fees	958	857
Pension Protection Fund	46	56
	2,142	1,991

9. INVESTMENT MANAGEMENT EXPENSES

	2024 £'000	2023 £'000
Administration, management and custody	306	337
Performance measurement services	64	68
Advisory fees	508	455
	878	860

10. ADDITIONAL VOLUNTARY CONTRIBUTIONS INVESTMENTS

	2024 £'000	2023 £'000
Utmost Life and Pensions	46	41
Prudential Assurance Company Limited	91	118
Fidelity International	1,318	1,437
	1,455	1,596

Where members pay AVCs, other than buying added years, the Trustee invests the money separately from the main Fund, in the form of individual designated accounts and insurance policies. These are used to secure additional benefits on a money purchase basis. Members participating in this arrangement each receive an annual statement from the providers, made up to 31 December, confirming the amounts held in their account and the movements in the year.

See Note 16 for movements in the AVC assets during the year.

11. CURRENT ASSETS

	2024 £'000	2023 £'000
Employer contributions – normal funding	368	387
Employer contributions – additional contributions	500	-
Employer contributions – salary sacrifice	82	83
Member – normal contributions	4	4
Prepaid pensions and lump sums	5,965	5,985
Intersection balance – amounts owed by NATS Section to CAA Section	20	175
Scheme Pays recovery	43	191
Sundry debtors/prepayment	860	551
Working cash balance	13,479	18,389
	21,321	25,765

Contributions receivable at the end of the year were subsequently paid in accordance with the Schedule of Contributions.

The intersection balance as at 31 December 2024 was settled by the end of March 2025.

12. CURRENT LIABILITIES

	2024 £'000	2023 £'000
Investment managers' and other professional fees owing	(310)	(341)
Benefits payable	-	(12)
Tax payable	(73)	(245)
Sundry creditors	(7)	(23)
	(390)	(621)

13. RELATED PARTY TRANSACTIONS

The Civil Aviation Authority and NATS Ltd, sponsoring Employers of the CAA and NATS Sections respectively, provide administration and processing services. The costs borne by the CAA Section of the Scheme for the year ended 31 December 2024 amounted to £0.5m (2023: £0.5m) and are included in Note 8.

The Trustee Directors are reimbursed their travel expenses and Trustee Directors who are not employed by the CAA or NATS are remunerated for their services. Any fees and expenses paid to the Trustee Directors are included in Administration and Processing in Note 8.

14. COMMITMENTS AND CONTINGENT LIABILITIES

At the year end there were commitments for calls on securities totalling £nil (2023: £nil). Other than as noted, and the future obligation to pay pensions and benefits, there were no other commitments or contingent liabilities at the year end (2023: £nil).

15. INVESTMENT INCOME

	2024 £'000	2023 £'000
Income from insurance policies	90,053	89,884
Dividends from equities	(4)	142
Income from Pooled investment vehicles	10	43
Interest on cash deposits and cash equivalents	855	1,086
	90,914	91,155

16. MOVEMENT IN INVESTMENTS

	Market Value at start of year £'000	Purchases £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value at end of year £'000
Insurance policies	1,135,700	-	-	(126,300)	1,009,400
Pooled vehicles	372,424	39,685	(41,052)	(38,410)	332,647
Derivatives	1,867	4,010	(10,027)	3,467	(683)
AVC investments (see Note 10)	1,596	155	(454)	158	1,455
	1,511,587	43,850	(51,533)	(161,085)	1,342,819
Other investment Balances:					
Cash	5,164			207	12,780
Other	60				45
Total CAA Section only investments	1,516,811			(160,878)	1,355,644

Purchases and sales were in relation to changes made to the Growth Portfolio by BlackRock as part of their fiduciary manager role of the Growth Portfolio.

Cash balances at the year end comprised of a negative cash margin of £454k (2023: positive cash margin £388k), in addition to cash and cash equivalents of £13,234k (2023: £4,776k)

The other investment balance of £45k as at 31 December 2024 represented accrued income. The corresponding balance as at 31 December 2023 comprised of accrued income of £60k.

17. DERIVATIVE ASSETS / (LIABILITIES)

	2024 Assets £'000	2024 Liab. £'000	2024 Total £'000	2023 Assets £'000	2023 Liab. £'000	2023 Total £'000
Futures	452	(347)	105	243	(711)	(468)
Forward foreign currency contracts	222	(1,149)	(927)	2,592	(257)	2,335
Options	218	(79)	139	-	-	-
	892	(1,575)	(683)	2,835	(968)	1,867

Futures, options and forward foreign currency contracts at 31 December 2024 were held in the CAA Section for the purposes of efficient portfolio management and for hedging currency exposure.

Futures (Exchange Traded)	Expiry	Economic Exposure £'000	2024 Assets £'000	Liab. £'000
Overseas Equity Futures	0 – 3 months	10,762	117	(344)
Overseas Fixed Income Futures	0 – 3 months	(22,446)	335	(3)
2024		(11,684)	452	(347)
2023		(2,154)	243	(711)

The economic exposure is the gross exposure to the relevant market. In practice, contracts are settled at fair value and cash passed between the Scheme and the broker depending on whether the contract has increased or decreased in value.

Forward foreign currency contracts (Over the Counter)	Cur. Bought	Cur. Sold	Notional £'000	2024 Asset £'000	Liab. £'000
0 – 3 Months expiry	GBP	Various*	48,026	222	(961)
0 – 3 Months expiry	Various*	GBP	7,794	-	(188)
2024			55,820	222	(1,149)
2023			92,238	2,592	(257)

There are multiple contracts in various currencies and the above disclosure notes the duration of the contracts.

*The currency contracts relate primarily to: Euros; US Dollars and Japanese Yen.

Options Underlying Investment	Expiry	2024 Assets £'000	Liab. £'000
Overseas equities Put options	3 months	218	(79)
2024		218	(79)
2023		-	-

Options are used by the growth portfolio fiduciary manager BlackRock as part of efficient portfolio management.

18. INSURANCE POLICIES

During 2015, the Trustee, with the support of the CAA, agreed to insure the majority of the CAA Section's pensions in payment at that time with Rothesay Life. This insurance policy is included as an asset of the Scheme based on a valuation of the related obligations. The Scheme Actuary valued this policy, on a solvency basis, at £1,587.4m as at 31 December 2015.

In January 2017, the Trustee, again with the support of the CAA, agreed to insure a further tranche of the CAA Section's pensions in payment at that time with Pension Insurance Corporation (PIC). The Scheme Actuary valued this policy, on a solvency basis, at £83.0m as at 31 December 2017.

In July 2018, the Trustee, again with the support of the CAA, agreed to insure a further tranche of the CAA Section's pensions in payment at that time with PIC. The transaction involved £61.6m of assets being transferred to PIC in return for which PIC will make future payments to the Scheme in respect of the insured pensions. The Scheme Actuary valued this policy, on a solvency basis, at £61.0m as at 31 December 2018.

In February 2021, the Trustee, again with the support of the CAA, agreed to insure a further tranche of the CAA Section's pensions in payment at that time with Legal & General Assurance Society (LGAS). The transaction involved £110.4m of assets being transferred to LGAS in return for which LGAS will make future payments to the Scheme in respect of the insured pensions. The Scheme Actuary valued this policy, on a solvency basis, at £118.2m as at 31 December 2021.

For the 31 December 2024 financial statements all four of these insurance policies have been included as assets of the Scheme, based on valuations of the related obligations. The Scheme Actuary has valued these policies, on a solvency basis, as at 31 December 2024 as follows:

- £851.4m (2023: £955.1m) in respect of the Rothesay Life contract;
- £51.0m (2023: £57.9m)in respect of the first PIC contract;
- £38.5m (2023: £44.1m) in respect of the second PIC contract; and
- £68.5m (2023: £78.6m) in respect of the Legal & General contract.

The overall decrease in the values of the contracts (compared to the values as at 31 December 2023) is due to:

a significant increase in real yields assumed to price annuity contracts.

the effect of payments made to the Scheme under the contracts during 2024.

A summary of the key assumptions used to calculate the value of the policy at 31 December 2024 follows:

Financial assumptions

Term (years)	Discount rate (% p.a.)	Pension increases (RPI with a minimum of 0% p.a.) (% p.a.)	Pension increases (CPI with a minimum of 0% p.a. and a maximum of 3% p.a.) (% p.a.)
1	5.01	3.54	1.67
5	4.73	3.92	2.26
10	4.94	3.78	2.34
15	5.18	3.74	2.41
20	5.29	3.72	2.45
25	5.20	3.67	2.46
30	5.23	3.64	2.47

Demographic assumptions

Post-retirement mortality

- Males: 100% of standard tables SAPS S4 Pensioners Light Male Amounts (S4PMA_L) making allowance for future improvements in line with the CMI_2023 (Sk = 7.0, A= 0.5%) Projections and a long-term annual rate of improvement in mortality rates of 1.50% p.a.
- Females: 98% of standard tables SAPS S4 Pensioners Light Female Amounts (S4PFA_L) making allowance for future improvements in line with the CMI_2023 (Sk = 7.0, A= 0.5%) Projections and a long-term annual rate of improvement in mortality rates of 1.50% p.a.
- Age difference of dependants

  Male members are assumed to be, on average, four years older than their spouses or civil partners. Female members are assumed to be, on average, two years younger than their spouses or civil partners.
- Family Details

  100% of those members with Family Benefits are assumed to have a dependant at retirement, with an adjustment to the valuation date to allow for the probability that the dependant may have predeceased the member.

19. LEGAL & GENERAL LIABILITY DRIVEN INVESTMENT - POOLED INVESTMENT VEHICLE

	2024 £'000	2023 £'000
Gilts	39,552	37,662
Index-linked gilts	113,109	175,183
Net position of gilts and index-linked gilts sold under repurchase agreements (i)	(13,763)	(23,645)
Interest rate and inflation swaps (ii)	(2,953)	(8,594)
Options	56	-
Cash and liquidity funds	4,264	13,489
	140,265	194,095

The L&G LDI fund is a bespoke pooled arrangement where the Scheme is the only participant in the fund. The objective of the LDI is to provide a hedge against the impact of future changes in interest and inflation rates on the actuarial liabilities using gilts, index-linked gilts, total return swaps and repurchase agreements where necessary. The table above gives a breakdown of the securities within the pooled LDI investment vehicle.

Following the year end the Section's LDI fund transitioned from the bespoke pooled arrangement to a portfolio of fully segregated investments.

(i) Repurchase Agreements

A repurchase agreement ('repo') is an agreement under which one party receives cash in exchange for securities, later repurchasing the securities within a specified time at a specified price, plus interest. A reverse repurchase agreement ('reverse repo') is an agreement under which one party disburses cash to receive securities, later reselling the securities at a specified time at a specified price, plus interest.

As at 31 December 2024 £156.1m (2023: £86.0m) of bonds reported in the Scheme assets are held by counterparties in respect of amounts payable under repurchase contracts of £169.8m (2023: £109.7m.) These bonds are recognised in the Scheme's financial statements. In addition, in 2024 collateral of £15.8m was pledged by the Scheme (2023: £23.8m pledged by the Scheme) in the form of cash and bonds in respect of the repurchase agreements.

(ii) Swaps

Nature	Notional Amount £'000	Expiration Date	Market Value of Assets £'000	Market Value of Liabilities £'000
Inflation rate swaps (centrally cleared)	22,213	Jul 2026 – Dec 2072	1,030	(250)
Interest rate swaps (centrally cleared)	147,985	Feb 2025 - Mar 2073	5,446	(9,179)
Total 2024	**170,198**		**6,476**	**(9,429)**
Total 2023	204,502		2,593	(11,187)

(iii) Options

Nature	Expiry	Market Value of Assets £'000	Market Value of Liabilities £'000
Interest rate swaptions - Put	Sep 2025 - Oct 2027	451	(128)
Interest rate swaptions – Call	Oct 2026 – Oct 2027	-	(267)
Total 2024		**451**	**(395)**
Total 2023		-	-

20. CAA SECTION ASSET ALLOCATION AT 31 December 2024

Manager	Asset value by fair value level-2024 1 £m	2 £m	3 £m	Total £m	Asset value by fair value level-2023 1 £m	2 £m	3 £m	Total £m
LIABILITY MATCHING ASSETS								
Insurance policies	-	-	1,009.4	1,009.4	-	-	1,135.7	1,135.7
UK Index Linked and Fixed Interest Gilts								
Legal & General IM Ltd (PIV)[1,3]	-	140.3	-	140.3	-	194.1	-	194.1
TOTAL LIABILITY MATCHING ASSETS	**-**	**140.3**	**1,009.4**	**1,149.7**	**-**	**194.1**	**1,135.7**	**1,329.8**
RETURN SEEKING ASSETS								
BONDS								
BlackRock Overseas Bond Index PIV [1,3,4]	-	35.3	-	35.3	-	28.0	-	28.0
BlackRock - Multi Asset Credit PIV [1,3,4]	-	17.7	-	17.7	-	14.6	-	14.6
PGIM - Global Corporate Bond PIV [1,3,4]	-	13.6	-	13.6	-	18.8	-	18.8
Lazards Convertible Bond PIV [1,3,4]	-	8.2	-	8.2	-	7.3	-	7.3
BlackRock USD TIPS ETF [1,3,4]	2.5	-	-	2.5	2.0	-	-	2.0
Fixed Income Futures[1,3,4]	0.3	-	-	0.3	(0.7)	-	-	(0.7)
Total Bonds	**2.8**	**74.8**	**-**	**77.6**	**1.3**	**68.7**	**-**	**70.0**
EQUITIES								
Schroders ISF Emerging Markets (PIV) [2,4]	-	5.7	-	5.7	-	12.7	-	12.7
GQG (PIV) [2,4]	-	1.9	-	1.9	-	-	-	-
Total Emerging	**-**	**7.6**	**-**	**7.6**	**-**	**12.7**	**-**	**12.7**
American Century Global Small Cap (PIV) [2,4]	-	2.5	-	2.5	-	6.7	-	6.7
BlackRock World ESG Equity (PIV) [2,4]	-	44.3	-	44.3	-	28.5	-	28.5
Wellington Small Cap (PIV) [2,4]	-	4.4	-	4.4	-	-	-	-
BlackRock Equity Factors (PIV)[2,4]	-	12.4	-	12.4	-	11.0	-	11.0
BlackRock USA Value Factors ETF[2,4]	2.1	-	-	2.1	3.2	-	-	3.2
Minimum Volatility ETF [2,4]	-	-	-	-	5.4	-	-	5.4
Equity Futures[1,2,4]	(0.2)	-	-	(0.2)	0.2	-	-	0.2
Equity Options[1,2,4]	0.1	-	-	0.1	-	-	-	-
Total Global	**2.0**	**63.6**	**-**	**65.6**	**8.8**	**46.2**	**-**	**55.0**
Total Equities	**2.0**	**71.2**	**-**	**73.2**	**8.8**	**58.9**	**-**	**67.7**
ALTERNATIVE ASSETS								
BlackRock - Appreciation Strategy ICAV (PIV) [1,2,3,4]	-	40.1	-	40.1	-	36.2	-	36.2
BlackRock Global Infrastructure ETF (PIV) [1,2,3,4]	-	-	-	-	1.8	-	-	1.8
BlackRock Property Equity Tracker (PIV) [1,2,3,4]	-	1.6	-	1.6	-	2.0	-	2.0
Total Alternative Assets	**-**	**41.7**	**-**	**41.7**	**1.8**	**38.2**	**-**	**40.0**
TOTAL RETURN SEEKING ASSETS	**4.8**	**187.7**	**-**	**192.5**	**11.9**	**165.8**	**-**	**177.7**
TOTAL INVESTMENT ASSETS	**4.8**	**328.0**	**1,009.4**	**1,342.2**	**11.9**	**359.9**	**1,135.7**	**1,507.5**
Money Purchase AVCs[1,2,3]	-	1.5	-	1.5	-	1.6	-	1.6
Other	-	12.0	-	12.0	-	7.7	-	7.7
Total	**4.8**	**341.5**	**1,009.4**	**1,355.7**	**11.9**	**369.2**	**1,135.7**	**1,516.8**

PIV means Pooled Investment Vehicle
Derivatives include futures options and forward currency exchange contracts
Risks identified with regard to PIVs are indirect
Other includes investment creditors, debtors and cash
The categorization of assets as 1, 2 and 3 is defined in Note 4.9
1 The investments that are subject to credit risk as defined in Note 39
2 The investments that are subject to other price risk as defined in Note 39
3 The investments that are subject to interest rate risk as defined in Note 39
4 The investments that are subject to currency risk as defined in Note 39

FUND ACCOUNT FOR THE YEAR ENDED 31 December 2024

	Note	2024 £'000	2023 £'000
Contributions and Benefits			
Employer Contributions	21	132,152	128,424
Employee Contributions	21	1,113	816
Total Contributions		133,265	129,240
Benefits paid or payable	22	149,059	136,629
Leavers	23	3,594	2,600
Administrative expenses	24	2,714	2,145
Total Benefits		155,367	141,374
Net withdrawals from dealings with members		(22,102)	(12,134)
Returns on investments			
Investment income	31	(61,376)	(23,140)
Changes in market value of investments	32	(140,316)	74,493
Investment management expenses	25	(4,514)	(5,806)
Net returns on investments		(206,206)	45,547
Net (decrease)/increase in funds during the year		(228,308)	33,413
Net assets of the Section at 1 January		3,429,519	3,396,106
Net assets of the Section at 31 December		**3,201,211**	**3,429,519**

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AS AT 31 December 2024

	Note	2024 £'000	2023 £'000
Investment assets	32		
Bonds		2,647,205	3,201,392
Equities		98	25,691
Pooled investment vehicles		1,870,234	1,472,021
Property		55,725	82,900
Derivatives	33	68,098	99,980
Other		172,474	136,639
Members' AVCs	26	5,740	5,653
Total		4,819,574	5,024,276
Investment liabilities	32		
Derivatives	33	(54,107)	(87,461)
Other		(1,615,592)	(1,552,520)
		(1,669,699)	(1,639,981)
Total net investment assets		**3,149,875**	**3,384,295**
Net current assets			
Current assets	27	52,434	58,466
Current liabilities	28	(1,098)	(13,242)
		51,336	45,224
Net assets of the Section at 31 December		**3,201,211**	**3,429,519**

21. CONTRIBUTIONS RECEIVABLE

	2024 £'000	2023 £'000
Contributions by the Employer		
Normal	96,110	93,271
Deficit repair	27,845	27,200
Salary Sacrifice	8,167	7,953
Augmentation	30	-
	132,152	128,424
Contributions by the Members		
Normal	37	37
Additional voluntary contributions	1,013	749
Other – family benefit reinstatement	63	30
	1,113	816
	133,265	129,240

The Employer's contributions are based on the advice received from the Scheme Actuary. The Scheme Actuary calculates what rate will be sufficient to provide for the benefits defined in the Scheme Rules. As agreed by the Trustee and NATS, deficit repair contributions commenced in January 2011. The current Schedule of Contributions following the completion of the latest actuarial valuation and agreed on 15 September 2021 increased employer contribution rates to 66.2% in the current year and allows for deficit contributions of £2,320,387 per month increasing by 2.37% on 1 January 2025 and each subsequent 1 January.

Salary sacrifice contributions relate to "SMART Pensions". Under this scheme, members sacrifice an element of their salary, equal to their normal rate of contributions as pension contribution, which results in these contributions becoming an Employer contribution.

Augmentation contributions by the Employer cover reimbursement to the Scheme for the cost of enhancements to members' pension benefits associated with early retirement.

Some members have also made AVCs to the Scheme to secure additional benefits, whilst others have contributed to reinstate family benefits payable on their death.

22. BENEFITS PAYABLE

	2024 £'000	2023 £'000
Pensions	121,316	109,885
Pensions commuted to a lump sum	27,345	23,590
Lump sum death benefits	622	772
Taxation where lifetime or annual allowance exceeded	(224)	2,382
	149,059	136,629

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability. From 6 April 2023, the lifetime allowance was abolished, and any lump sum amounts exceeding the notional lifetime allowance threshold are reflected gross including tax within pensions commuted to a lump sum.

23. LEAVERS

	2024 £'000	2023 £'000
Individual transfers out to other schemes	3,594	2,600

24. ADMINISTRATIVE EXPENSES

	2024 £'000	2023 £'000
Administration and processing	1,211	1,082
Professional fees	1,414	952
Pension Protection Fund	89	111
	2,714	2,145

25. INVESTMENT MANAGEMENT EXPENSES

	2024 £'000	2023 £'000
Administration, management and custody	4,016	5,138
Performance measurement services	116	118
Advisory fees	382	550
	4,514	5,806

26. ADDITIONAL VOLUNTARY CONTRIBUTIONS INVESTMENTS

	2024 £'000	2023 £'000
Utmost Life and Pensions	5	4
Prudential Assurance Company Limited	219	279
Fidelity International	5,516	5,370
	5,740	5,653

Where members pay AVCs, other than buying added years, the Trustee invests the money separately from the main Fund in the form of individual designated accounts and insurance policies. These are used to secure additional benefits on a money purchase basis. Members participating in this arrangement each receive an annual statement from the providers, made up to 31 December, confirming the amounts held in their account and the movements in the year.

See Note 32 for the movement in AVCs during the year.

27. CURRENT ASSETS

	2024 £'000	2023 £'000
Employer contributions – normal funding	7,862	7,657
Employer contributions – deficit repair	2,321	2,267
Employer contributions – salary sacrifice	668	651
Member – normal contributions	3	3
Member – additional voluntary contributions	35	32
Prepaid pensions and lump sums	8,064	7,899
Scheme Pays recovery	14,208	11,086
Sundry debtors	655	690
Working cash balance	18,618	28,181
	52,434	58,466

Contributions receivable at the end of the year were subsequently paid in accordance with the Schedule of Contributions.

28. CURRENT LIABILITIES

	2024 £'000	2023 £'000
Investment managers' and other professional fees owing	(961)	(2,298)
Benefits payable	-	(424)
Intersection balance – amounts owed by NATS Section to CAA Section	(20)	(175)
Tax payable	(113)	(10,340)
Sundry creditors	(4)	(5)
	(1,098)	(13,242)

The intersection balance at 31 December 2024 was settled by the end of March 2025.

29. RELATED PARTY TRANSACTIONS

The Civil Aviation Authority and NATS Ltd, sponsoring employers of the CAA and NATS Sections respectively, provide administration and processing services. The costs borne by the NATS Section of the Scheme for the year ended 31 December 2024 amounted to £0.6m (2023: £0.5m) and are included in Note 24.

The Trustee Directors are reimbursed their travel expenses and Trustee Directors who are not employed by the CAA or NATS are remunerated for their services. Any fees and expenses paid to the Trustee Directors are included in Administration and Processing in Note 24.

30. COMMITMENTS AND CONTINGENT LIABILITIES

At the year end there were commitments for calls on securities totalling £99.0m (2023: £149.6m). Other than as noted, and the future obligation to pay pensions and benefits, there were no other commitments or contingent liabilities at the year end (2023: £nil). Outstanding commitments to cover collateralised positions for swap derivatives are shown under Note 33.

31. INVESTMENT INCOME

	2024 £'000	2023 £'000
Net income from bond securities	(29,180)	(1,102)
Dividends from equities	371	1,756
Income from pooled investment vehicles	448	735
Net rents from properties	4,208	8,677
Interest on cash deposits and cash equivalents	4,632	15,366
Income from derivatives	(41,872)	(48,597)
Income from securities lending	17	25
	(61,376)	(23,140)

The net income from bond securities includes both the interest income received on bonds and interest paid on repurchase agreements.

32. MOVEMENT IN INVESTMENTS

	Market Value at start of year £'000	Purchases £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value at end of year £'000
Bonds	3,201,392	1,168,664	(1,405,639)	(317,212)	2,647,205
Equities	25,691	19,127	(48,017)	3,297	98
Pooled vehicles	1,472,021	831,989	(553,226)	119,450	1,870,234
Property	82,900	-	(31,384)	4,209	55,725
Derivatives	12,519	71,096	(129,182)	59,558	13,991
AVC investments (see Note 26)	5,653	583	(1,250)	754	5,740
	4,800,176	2,091,459	(2,168,698)	(129,944)	4,592,993
Other investment balances:					
Cash	118,427			(10,372)	124,846
Amounts payable under repurchase agreements	(1,450,044)				(1,520,696)
Other	(84,264)				(47,268)
Total NATS Section only investments	3,384,295			(140,316)	3,149,875

During the year £13m was disinvested from the Growth Portfolio and £7m from the LDI to fund working cash requirements. Other movements were in relation to changes made to the Growth Portfolio by BlackRock as part of their fiduciary manager role of the Growth Portfolio.

Cash balances at the year end comprised of a negative cash margin of -£4,153k (2023: negative cash margin of £4,290k), reverse repurchase agreements of £373,873k (2023: £601,678k) in addition to cash and cash equivalents of £502,872k (2023: £715,815k)

Other investment balances as at 31 December 2024 comprised of net amounts due to brokers of (£19,256k) (2023: (£66,479k due to brokers)), accrued income owed to the Scheme of £21,684k (2023: £16,761k owed to the Scheme) along with other net investment amounts owing of (£49,696k) (2023: (£34,546k owing).

As at 31 December 2024 £1,093m (2023: £784m) of bonds reported in the Scheme assets are held by counterparties in respect of amounts payable under repurchase contracts of £1,209m (2023: £885m) for the NATS Section. These bonds are recognised in the Scheme's financial statements. Included in amounts payable under repurchase contracts is £344m (2023: £568m that relate to bond liabilities due back to counterparties that are in relation to the short selling of bonds that have a corresponding reverse repurchase agreement. In addition, net collateral of £137.2m is pledged by the Scheme (2023: £112.4m pledged by the Scheme) for the NATS Section in the form of cash and bonds in respect of the liability under the repurchase agreements.

33. DERIVATIVE ASSETS / (LIABILITIES)

	2024 Assets £'000	2024 Liab. £'000	2024 Total £'000	2023 Assets £'000	2023 Liab. £'000	2023 Total £'000
Futures	4,784	(2,942)	1,842	4,200	(9,213)	(5,013)
Options	2,208	(814)	1,394	165	(42)	123
Swaps	55,440	(29,076)	26,364	62,562	(75,152)	(12,590)
Forward foreign currency contracts	5,666	(21,275)	(15,609)	33,053	(3,054)	29,999
	68,098	(54,107)	13,991	99,980	(87,461)	12,519

Options, futures and forward foreign currency contracts at 31 December 2024 were held in the NATS Section for the purposes of efficient portfolio management and for hedging currency positions. Swaps were in the main held as part of the LDI mandate in order to hedge exposure to changes in interest rates and inflation.

Futures (Exchange Traded)	Expiry	Economic exposure £'000	2024 Assets £'000	2024 Liab. £'000
Overseas equity futures	0 – 3 months	83,391	1,123	(2,578)
Overseas fixed income futures	0 – 3 months	(182,088)	3,661	(358)
Overseas cash futures	0 – 3 months	(12,440)	-	(6)
2024		(111,137)	4,784	(2,942)
2023		(17,174)	4,200	(9,213)

The economic exposure is the gross exposure to the relevant market. In practice contracts are settled at fair value and cash passed between the Scheme and the broker depending on whether the contract has increased or decreased in value.

Options Underlying Investment	Expiry	2024 Assets £'000	 Liab. £'000
Overseas equities Put option	3 months	2,162	(783)
Overseas cash options	3 months	46	(31)
2024		2,208	(814)
2023		165	(42)

Options are used by the growth portfolio fiduciary manager BlackRock as part of efficient portfolio management.

SWAP CONTRACTS

Legal & General use swaps to attain hedging for interest and/or inflation rates in accordance with the Liability Driven Investment strategy trigger rates and as part of the Credit Default Swaps overlay mandate. With the exception of the Credit Default Swaps which are 'OTC' all swap holdings at the year-end were centrally cleared.

Type of contract	Notional Value £'000	2024 Assets £'000	Liab. £'000
Interest rate swaps	1,658,751	30,852	(28,934)
Credit default swaps	(153,048)	833	(12)
Inflation swaps	144,422	23,664	(130)
Equity index swaps	3,154	91	-
2024	1,653,279	55,440	(29,076)
2023	1,585,846	62,562	(75,152)

Expiration	Notional Value £'000	2024 Assets £'000	Liab. £'000
Up to 1 year	1,244,554	911	(8,560)
1 to 5 years	293,455	16,622	(2,338)
5 to 10 years	9,466	13,322	(17,311)
10 to 15 years	21,884	3,296	(737)
Over 15 years	83,920	21,289	(130)
2024	1,653,279	55,440	(29,076)
2023	1,585,846	62,562	(75,152)

Collateral of £nil was held (2023: £nil) held by the Scheme in respect of centrally cleared swaps managed by Legal & General.

Forward foreign currency contracts			**2024**		
(Over the Counter)	**Cur. Bought**	**Cur. Sold**	**Notional £'000**	**Assets £'000**	**Liab. £'000**
0 – 3 months	GBP	Various*	939,401	2,490	(19,140)
0 – 3 months	Various*	GBP	149,342	2,932	(2,135)
0 – 3 months	USD	Euro	16,515	244	-
2024			1,105,258	5,666	(21,275)
2023			1,234,508	33,053	(3,054)

The forward foreign currency contracts are held to hedge against foreign currency exposure. As there are multiple contracts in various currencies, the above disclosure only notes the duration of the contracts. It is impractical to list in detail all of the currencies bought and sold.

*The various currency contracts primarily relate to: Euros; Japanese Yen and US Dollars.

34. NATS SECTION ASSET ALLOCATION AT 31 December 2024

Manager	Asset value by fair value level-2024 1 £m	2 £m	3 £m	Total £m	Asset value by fair value level-2023 1 £m	2 £m	3 £m	Total £m
LIABILITY MATCHING ASSETS								
FIXED INTEREST (including repurchase agreements)								
Legal & General IM Ltd (UK ILGs)[1,3]	-	946.3	-	946.3	-	1,326.8	-	1,326.8
Total Fixed Interest	**-**	**946.3**	**-**	**946.3**	**-**	**1,326.8**	**-**	**1,326.8**
TOTAL LIABILITY MATCHING ASSETS	**-**	**946.3**	**-**	**946.3**	**-**	**1,326.8**	**-**	**1,326.8**
RETURN SEEKING ASSETS								
BONDS								
BlackRock - Overseas Bond Index PIV [1,3,4]	-	247.1	-	247.1	-	337.5	-	337.5
BlackRock Multi-Asset Credit [1,3,4,6]	-	187.1	-	187.1	-	434.8	-	434.8
PGIM - Global Corporate Bond PIV [1,3,4]	-	118.9	-	118.9	-	141.2	-	141.2
Lazards Convertible Bond PIV [1,3,4]	-	79.4	-	79.4	-	69.8	-	69.8
BlackRock - USD TIPS ETF [1,3,4]	21.2	-	-	21.2	21.8	-	-	21.8
Fixed Income Futures	3.2	-	-	3.2	(6.2)	-	-	(6.2)
Total Bonds	**24.4**	**632.5**	**-**	**656.9**	**15.6**	**983.3**	**-**	**998.9**
EQUITIES								
Schroders ISF Emerging Markets PIV [2,4]	-	60.0	-	60.0	-	106.5	-	106.5
GQG Partners PIV [2,4]	-	19.6	-	19.6	-	-	-	-
Total Emerging	**-**	**79.6**	**-**	**79.6**	**-**	**106.5**	**-**	**106.5**
American Century Global Small Cap PIV [2,4]	-	27.6	-	27.6	-	36.2	-	36.2
BlackRock - World ESG Equity PIV [2,4]	-	505.6	-	505.6	-	38.6	-	38.6
Wellington Small CAP	-	47.5	-	47.5	-	-	-	-
BlackRock Equity Factors [2,4,5]	-	127.6	-	127.6	-	57.7	-	57.7
BlackRock Segregated Equity Themes [2,4,]	1.3	-	-	1.3	27.6	-	-	27.6
BlackRock Minimum Volatility ETF[2,4]	-	-	-	-	61.5	-	-	61.5
BlackRock USA Value Factors ETF[2,4]	17.7	-	-	17.7	31.1	-	-	31.1
Legal & General IM Ltd - Fundamental PIV[2,4]	-	0.3	-	0.3	-	0.6	-	0.6
Legal & General IM Ltd - Defensive PIV [2,4]	-	0.3	-	0.3	-	0.9	-	0.9
Equity Options	1.4	-	-	1.4				
Equity Futures	(1.5)	-	-	(1.5)	1.2	-	-	1.2
Total Global	**18.9**	**708.9**	**-**	**727.8**	**121.4**	**134.0**	**-**	**255.4**
Total Equities	**18.9**	**788.5**	**-**	**807.4**	**121.4**	**240.5**	**-**	**361.9**

Manager	Asset value by fair value level-2024 1 £m	2 £m	3 £m	Total £m	Asset value by fair value level-2023 1 £m	2 £m	3 £m	Total £m
ALTERNATIVE ASSETS								
CBRE Investors [2,4]	-	-	56.5	56.5	-	-	83.6	83.6
BlackRock Property Equity Tracker PIV[2,4]	-	14.3	-	14.3	-	21.0	-	21.0
BlackRock Global Infrastructure ETF[2,4]	-	-	-	-	21.7	-	-	21.7
Total Property & Infrastructure	**-**	**14.3**	**56.5**	**70.8**	**21.7**	**21.0**	**83.6**	**126.3**
Blackstone AAM PIV[1,2,3,4]	-	-	143.3	143.3	-	-	126.5	126.5
JP Morgan AAM PIV[1,2,3,4]	-	-	3.0	3.0	-	-	3.6	3.6
BlackRock Diversified Opps PIV[1,2,3,4]	-	-	112.1	112.1	-	-	99.8	99.8
Total Hedge Funds	**-**	**-**	**258.4**	**258.4**	**-**	**-**	**229.9**	**229.9**
VenCap International Plc PIV[2,4]	-	-	116.8	116.8	-	-	117.9	117.9
Morgan Stanley AIP PIV[2,4]	-	-	0.6	0.6	-	-	0.8	0.8
Paul Capital Partners PIV[2,4]	-	-	0.7	0.7	-	-	1.9	1.9
Axiom Asia PCF PIV[2,4]	-	-	5.1	5.1	-	-	6.4	6.4
Global Renewable Power III PIV[2,4]	-	-	96.8	96.8	-	-	86.7	86.7
Franklin Templeton Global Infrastructure Fund PIV[2,4]	-	-	42.7	42.7	-	-	46.6	46.6
Thematic Private Markets Fund PIV[1,2,3,4]	-	-	40.6	40.6	-	-	5.4	5.4
Total Private Equity	**-**	**-**	**303.3**	**303.3**	**-**	**-**	**265.7**	**265.7**
Total Alternative Assets	**-**	**14.3**	**618.2**	**632.5**	**21.7**	**21.0**	**579.2**	**621.9**
TOTAL RETURN SEEKING ASSETS	**43.3**	**1,435.3**	**618.2**	**2,096.8**	**158.7**	**1,244.8**	**579.2**	**1,982.7**
TOTAL INVESTMENT ASSETS	**43.3**	**2,381.6**	**618.2**	**3,043.1**	**158.7**	**2,571.6**	**579.2**	**3,309.5**
Money Purchase AVCs[1,2,3]	-	5.7	-	5.7	-	5.7	-	5.7
Other	-	101.1	-	101.1	-	69.1	-	69.1
Total	**43.3**	**2,488.4**	**618.2**	**3,149.9**	**158.7**	**2,646.4**	**579.2**	**3,384.3**

PIV means Pooled Investment Vehicle
Derivatives includes futures and forward currency contracts
Risks identified with regard to PIVs are indirect
Other includes investment creditors, debtors and cash
The categorization of assets as 1, 2 and 3 is defined in Note 4.9
1 The investments that are subject to credit risk as defined in Note 39
2 The investments that are subject to other price risk as defined in Note 39
3 The investments that are subject to interest rate risk as defined in Note 39
4 The investments that are subject to currency risk as defined in Note 39
5 The BlackRock Equity Factors strategy was transitioned from a segregated portfolio to a pooled fund in 2023.
6 £21.7m of strategy access via pooled funds. Remainder of strategy accessed through direct holdings.

35. INVESTMENT DISCLOSURES

POOLED INVESTMENT VEHICLES

Certain pooled investment vehicles, whose underlying assets are invested into equities, bonds or property, have been included in the relevant asset class to which they relate, as these investments generate returns based on the underlying assets type (as disclosed in Notes 20 and 34).

EMPLOYER RELATED INVESTMENTS

There were no Employer related investments during the year or at the year end (2023: £nil).

36. TRANSACTION COSTS

Transaction costs incurred in the year amounted to £0.6m (2023: £0.6m). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. These have not been separately reported by the pooled investment manager and therefore no disclosure of the amounts included in the pooled investment vehicles is available. Transaction costs are analysed by main asset class and type of cost in the table below:

	Fees	Commission	Taxes	Total 2024
	£'000	£'000	£'000	£'000
Equities	9	25	-	34
Fixed Income	-	6	-	6
Property	585	-	-	585
2024	**594**	**31**	**-**	**625**

	Fees	Commission	Taxes	Total 2023
	£'000	£'000	£'000	£'000
Equities	7	54	-	61
Fixed Income	-	1	-	1
Property	517	-	-	517
2023	**524**	**55**	**-**	**579**

37. SECURITIES LENDING

CAAPS commenced participation in BlackRock's securities lending programme in May 2021. At the year end the value of the bonds on loan was £5m (2023: £8m), in exchange for which the custodian, on behalf of the Scheme, held collateral worth £6m (2023: £9m). The income earned this year was £14,304 (2023: £24,956).

38. PROPERTY

	2024 £'000	2023 £'000
Freehold Property	55,725	57,800
Long Leasehold Property	-	25,100
	55,725	82,900

The properties are valued annually at fair value by Knight Frank LLP, a member firm of the Royal Institute of Chartered Surveyors, in accordance with the Royal Institution of Chartered Surveyors' Valuation - Professional Standards January 2014 Global and UK edition.

The Scheme holds a number of interests in UK commercial properties. There are no restrictions on the ability to realise the properties, the remittance of income or disposal proceeds. The properties are however illiquid as they would take several months to find a suitable buyer to purchase them at fair value. Tenants who occupy the properties are responsible for repairs and maintenance and dilapidations at the end of their lease. The valuation was undertaken on this basis. There is currently a disposal programme in place to realise the direct property assets over the next few years.

The investment properties are held through a subsidiary undertaking, Caviapen Trustees Limited, which has been consolidated in accordance with the Scheme's accounting policies. This undertaking has no material assets and liabilities other than the properties.

39. RISK DISCLOSURES

The investment objective and investment strategy for the NATS Section and the CAA Section are explained in the Trustee's Report under the heading Investment Strategy. The Note below covers investment risks including market and credit investment risks and explains the Trustee's approach to these risks and where those risks are mitigated. Market risk includes currency risk, interest rate risk and other price risk.

The Trustee determines the investment strategy for the NATS Section and CAA Section after taking advice from the investment adviser. The Scheme has exposure to these inherent risks because of the investments it makes in following the investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives are set out in the Statement of Investment Principles for the Scheme and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers. The Trustee receives regular reports from its investment managers confirming that the agreed guidelines have been adhered to.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Investments subject to credit risk are bonds, derivatives in bonds, swaps (including credit default swaps), forward foreign exchange contracts, pooled funds invested in bonds, and cash. Credit risk affects assets identified in Notes 20 and 34 for the CAA Section and NATS Section respectively.

Credit risk is managed by investment in a diversified suite of bond managers; daily margining of bond derivatives; and investment in cash funds with high credit quality. Credit risk is managed by the Scheme's investment managers through diligently assessing the counterparties the Scheme transacts with.

The Scheme invests in directly held gilts managed by Legal & General for the NATS Section and via a pooled fund for the CAA Section. The NATS Section invests directly in multi-asset credit and investment grade credit assets through pooled funds, while the CAA Section invests in the same fixed income assets all through pooled funds. The value of these funds for the CAA Section and the NATS Section are set out in Notes 20 and 34 respectively. The active management of the investment mandates mitigates the risk of credit defaults. Pooled funds, AVC investments and insurance policies are unrated due to the nature of the investments.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles, cash funds and the hedge funds, although the proportion subject to credit risk within the hedge funds will depend on the investments held at the time.

Over the counter (OTC) derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. Credit risk also arises on OTC forward foreign currency contracts. There are no collateral arrangements for these contracts, but all counterparties are required to be investment grade. This is the position at the year end and at the comparative year end.

The Scheme makes use of repurchase (repos) arrangements. This gives rise to credit risk through counterparty exposure. The credit risk for repos is reduced by collateral arrangements as set out in Note 19 and in Note 32.

The Scheme has been participating in the BlackRock securities lending programme from May 2021. This gives rise to credit risk through counterparty exposure. The credit risk was reduced by collateral arrangements as set out in Note 37.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager with the assistance of the investment consultant.

Pooled investment arrangements used by the NATS Section comprise unit linked insurance contracts of £1m (2023: £1m), shares in limited partnerships and hedge funds of £562m (2023: £495m), units in open ended investment funds of £1,269m (2023: £840m) and units in exchange traded funds of £39m (2023 £136m). Pooled investment arrangements used by the CAA Section comprise shares in a liability driven qualifying investment fund of £140m (2023: £194m), units in open ended investment funds of £188m (2023: £166m) and units in exchange traded funds of £5m (2023 £12m).

The CAA Section invests in Bulk Annuity Contracts with Rothesay Life, PIC and LGAS and the Trustee receives six-monthly reports from Aon to assist in the monitoring of the financial position of the insurers. The Trustee carried out extensive due diligence assessments of Rothesay, PIC and LGAS noting that the contracts are fully eligible for the Financial Services Compensation Scheme and that Rothesay Life, PIC and LGAS are regulated by the Prudential Regulation Authority. The Trustee continues to monitor the solvency and capital adequacy of the insurers, receiving updates from the investment consultant Aon during the year.

OTHER PRICE RISK

Other price risk is the risk that the investment values or cash flows fluctuate due to general changes in prices. Investments subject to other price risk include equities, derivatives in equities, property, private equity and pooled funds investing in equities or property. Hedge funds are also subject to other pricing risk however the extent will vary depending on the nature of the underlying investments.

Other price risk arises principally in relation to the Scheme's return seeking portfolio which affects assets identified in Notes 20 and 34 for the CAA Section and NATS Section respectively. It is managed through the diversification of assets to mitigate the volatility of price movements.

NATS Section

The Trustee has set a target asset allocation of 65% (2023: 65%) of investments being held in return seeking assets for the NATS Section. As shown in Note 34, as at 31 December 2024 £2,096.8m (69%) (2023: £1,982.7m (60%)) of the portfolio was held in return seeking assets, based on the fair value of the investments. This variance from the target asset allocation is within an acceptable range and will vary depending on normal market movements. A rebalancing policy is in place which allows for allocation drifts of +/-10% (2023: +/-10%) which is monitored on a monthly basis.

The equities and alternative investments part of the portfolio is subject to other price risk (the remaining part of the return seeking portfolio is held in bonds). As at 31 December 2024, the exposure to equities and alternative assets as part of the return seeking portfolio was £1,439.9m (69%) (2023: £983.8m (50%)).

CAA Section

The CAA Section holds the majority of its investments in Bulk Purchase Annuities with Rothesay Life, PIC and LGAS. As shown in Note 20, the exposure to the bulk annuity contracts at 31 December 2024 was £1,009.4m (75%) (2023: £1,135.7m (75%)), based on the fair value of the investments.

As at 31 December 2024, the exposure to equities and alternative assets as part of the return seeking portfolio was £114.9m (60%) (2023: £107.7m (60%)).

Hedge funds are also subject to some other pricing risk; however the extent will vary depending on the nature of the underlying investments.

INTEREST RATE AND INFLATION RATE RISK

Interest rate risk is the risk that the investment values or cash flows fluctuate due to changes in interest rates. Investments subject to interest rate risk include bonds, derivatives in bonds, swaps, pooled funds investing in bonds, and cash. Interest rate risk arises principally in relation to the Scheme's liability matching portfolio which affects assets identified in Notes 20 and 34. It is managed by the implementation of hedging through a liability driven investment mandate which includes bonds, swaps and gilt repos which, in part, offset the interest rate and inflation exposure in the liabilities. Under this strategy, if interest rates fall, the value of liability driven investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability driven investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. Inflation risk is hedged to manage inflation risk associated with pension increases.

NATS Section

The Trustee has set a target asset allocation of 35% (2023: 35%) of investments being held in the liability matching assets of the NATS Section, although the actual asset allocation will fluctuate due to market movements. As shown in Note 34, as at 31 December 2024 £946.3m (31%) (2023: £1,326.8m (40%)) of the portfolio was held in the liability matching assets, based on the fair value of the investments.

The Trustee has agreed to a hedging level ratio of 75% of interest rate and inflation exposure compared to the Long-Term Funding Target liabilities. As at 31 December 2024 the hedge ratio was 74% (2023: 75%) for interest rate exposure and 75% (2023: 75%) for inflation exposure.

The NATS Section also holds high yield bonds, hedge funds and cash in the return seeking portfolio, which are subject to interest rate risk. The risk within hedge funds will vary depending upon their portfolio at the time. These managers will consider the risk and expected reward when determining which investments to invest in.

CAA Section

As at 31 December 2024 the Trustee had set a targeted strategy of holding 58% (2023: 55%) of the non-insured assets in return seeking assets.

As shown in Note 20, as at 31 December 2024 £192.5m (14%) (2023: £177.7m (12%)) was held in return seeking assets compared to total Scheme investment assets including insured assets. As shown in Note 20, as at 31 December 2024 £1,149.7m (86%) (2023: £1,329.8m (88%)) of the portfolio was held in the liability matching assets, based on the fair value of the investments including insured assets.

The Trustee and the CAA has agreed a target hedge ratio of 81% (2023: 81%) of interest and inflation rates. As at 31 December 2024 the hedge ratio was 84% (2023: 82%) for interest rate exposure and 81% (2023: 81%) for inflation exposure.

The CAA Section also holds investment grade and high yield bonds, hedge funds and cash in the return seeking portfolio, shown in Note 20, which are subject to interest rate risk. The risk within hedge funds will vary depending upon their portfolio at the time. The investment managers will consider the risk and expected reward when determining which investments to invest in.

CURRENCY RISK

Currency risk is the risk that the investment values or cash flows of any instrument or pooled fund fluctuate due to changes in foreign currencies; investments subject to currency risk include investment denominated in foreign currencies and pooled funds investments denominated in foreign currencies. Currency risk principally arises in relation to the Scheme's overseas equities which affects assets identified in Notes 20 and 34. It is managed by reducing the translation risk of overseas investment by hedging back into sterling.

CONCENTRATION OF INVESTMENTS

The investments below represent more than 5% of the Net Assets of the CAA Section of the Scheme at the current and/or prior year end.

	2024		2023	
	£m	%	£m	%
Bulk Annuity Contract – Rothesay Life	851.4	61.8	955.1	61.9
Bulk Annuity Contract – LGAS	68.5	5.0	78.6	5.1
LGIM Pooled Bond Fund	140.3	10.2	194.1	12.6

The investments below represent more than 5% of the Net Assets of the NATS Section of the Scheme at the current and/or prior year end.

	2024		2023	
	£m	%	£m	%
Legal & General IM Ltd (UK ILGs)	946.3	29.6	1,326.8	38.7
BlackRock Multi-Asset Credit	187.1	5.8	434.8	12.7
BlackRock Aquila Overseas Bond Index	247.1	7.7	337.5	9.8
BlackRock World ESG Equity	505.6	15.8	38.6	1.1

40. POST YEAR END EVENTS

There have been no material post year events identified up to the date of approval of these financial statements that are required to be disclosed.

This implementation statement provides details of how and the extent to which, in the opinion of the Trustee, the Statement of Investment Principles (SIP) - where relevant for each Section - has been followed in relation to voting by the Scheme's investment managers and the Trustee's engagement in this area during the financial year.

For 2024, two SIPs were in place for each Section over the course of the year to 31 December 2024. The SIPs were updated in November 2024. Amendments were made primarily to the CAA Section SIP with the NATS Section remaining materially unchanged in the year. Updates to the CAA Section SIP were to enable the transition of the LDI strategy from a pooled arrangement to segregated assets and facilitate the use of Swaptions for Section hedging purposes. The CAA Section's Statement of Asset Arrangements was also updated in November 2024 to increase the target allocation of growth assets from 55% to 58%. It is highlighted that the Sections may amend their SIPs independently to reflect changes to their investment strategies.

SIP policies on voting and responsible investing – Both Sections
The Trustee believes that good stewardship will enhance shareholder value over the long-term.

Decisions relative to the governance of the companies in which the Section invests have been delegated to the Section's asset managers. The Trustee expects the Section's asset managers to use their influence as major institutional investors to carry out the Trustee's rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change. The Trustee requires that voting rights are exercised and any dialogues with management are effected in the best financial interests of the beneficiaries, with a focus on driving long-term value creation and risk mitigation. The Trustee has specifically reviewed the stewardship priorities of the Implementation Manager which they have elected to adopt. The Trustee continues to monitor and review both the adopted stewardship priorities and the Implementation Manager and the Trustee receives formal stewardship reporting from the implementation manager twice annually.

Within the growth portfolio, the Trustee delegates the ongoing monitoring of underlying asset managers to the fiduciary manager, BlackRock. BlackRock monitors the underlying asset managers' Stewardship activity and takes this into account in the selection and retention of underlying asset managers.

Where practicable, the engagement information received will, amongst other information, also provide detail on how company engagements are prioritised, examples of engagement with companies the Section invests in, examples of escalation steps taken where engagement has been unsuccessful, and examples of company engagement with respect to climate change risk mitigation.

Where practicable, the transparency for voting will include voting actions and rationale with relevance to the Section, in particular where: votes were cast against management; votes against management generally were significant; votes were abstained; and voting differed from the stated voting policy of the manager. Where securities lending is carried out, the Trustee expects the fiduciary manager, BlackRock to assess the benefits of voting against the cost of recalling securities.

Where significant concerns are identified from such engagement information received or otherwise, the Trustee will engage with BlackRock who in turn is able to engage with any underlying asset managers or other stakeholders for more information and seek to encourage steps to improve their stewardship policies and/or implementation level of stewardship policies. Where any significant concerns are not addressed in a satisfactory manner with the underlying asset managers, BlackRock and the Trustee may choose to replace the manager so as to bring about the best long-term outcome for the Scheme.

In setting the Section's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Section and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk.

Investment managers are expected to take account of any financial factors, including relevant ESG factors, affecting their valuation of the investments, on the Section's behalf.

The Trustee recognises that integrating ESG factors into the investment process is beneficial to the achievement of its long-term financial objectives and that climate change could materially impact on returns within the timeframe of concern to the Section. During the year the Trustee has reviewed the extent to which ESG Factors are integrated into the investment process of all its liquid asset managers. The findings of this review have been discussed with the fiduciary manager BlackRock and are being reflected in the way in which the portfolio is being evolved.

In setting and implementing the Section's investment strategy the Trustee does not explicitly take into account the views of the Section's members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors").

Assessment of whether the above policies were met during the year

The Trustee confirms that it has acted in accordance with its policies on voting and responsible investing.

During the year, the Trustee has challenged the investment managers' views on Responsible Investing and, in particular, whether they take into consideration ESG factors when exercising their voting rights. The Trustee has reviewed the investment managers' voting activities throughout the year and are satisfied that the Scheme's investment managers have carried out their investments in line with SIP Policies. The Trustee has:

- Held meetings with BlackRock to understand their views on ESG and to ensure that ESG factors are taken into consideration when investing and voting.
- For both Sections continued to invest in BlackRock's passive developed global equity fund which is indexed against a low-carbon benchmark, thus reducing both Sections' exposure to underlying assets exhibiting high carbon intensity (relative to a market capitalisation weighted benchmark).
- Continues to invest in ESG screened hedge funds for the NATS Section.
- With the support of the Scheme's investment consultant, Aon, continued to report on the Scheme's total greenhouse gas emissions, carbon footprint and data quality through its TCFD disclosures. Having received advice from Aon, adopted Binary Target Measurement as its Portfolio Alignment Metric. BlackRock have also been prominent in urging companies to provide TCFD data and clarity of transition plans. These are essential components for us to position the portfolio and evolve TCFD reporting on climate change.
- Through delegated authority to the Investment and Funding Committee and CAAPS Investment Executive, reviewed the expenses of the portfolio and the alignment of the investment managers with the Trustee's objectives.
- Reviewed BlackRock's Engagement Report which detailed:

    - Their 2023 Sustainability Report which included details of:
        - Their global reach and local presence enabling more frequent and better-informed meaningful dialogue with companies.
        - Their focus on corporate governance and its importance in long-term financial value creation.
        - How they have actively challenged companies on climate and environmental matters, including over 1,400 engagements with companies on climate and natural capital matters.

- Reviewed the Stewardship priorities of BlackRock and endorsed those priorities as suitable priorities for the Scheme,

    - Details of their stewardship priorities and the total number of engagements (01/07/23 through 30/06/24) are:

1) Strategy Purpose and Financial Resilience – 2,683;
2) Board Quality and Effectiveness – 2,120;
3) Incentives Aligned with financial Value Creation – 1,342;
4) Climate and Natural Capital – 1,254;
5) Company Impacts on People – 1,398.

- Company engagement on investments specific to the Scheme, covering topics including but not limited to:

  - Board independence, governance, and remuneration
  - Board composition, director overcommitment and quality and effectiveness
  - Capital management and shareholder rights
  - Climate-risk and natural capital
  - Human capital management and company impact on people

- Number of companies where BlackRock did not support director elections for governance concerns:

  - Board independence – 2,284;
  - Board composition – 911;
  - Overcommitment – 664;
  - Executive compensation – 655.

Review of Investment Managers' Voting Behaviour

We have also obtained data from BlackRock to understand voting behaviour for both their own funds and appointed asset managers included within the growth portfolio under their remit. These are detailed below, including details of the most significant votes. Factors that determine most significant votes include but are not limited to the size of the allocation to the holding, the significance of the vote itself and the theme and or topic of the vote.

<u>BlackRock Growth Portfolio (appointed August 2020)</u>

The Scheme's BlackRock equities funds are predominantly passive (i.e. index) strategies. In respect of passive strategies, there is a wide universe of underlying companies which may number in the hundreds if not thousands. Where strategies are actively managed, investments are typically more concentrated. As such, ownership is more concentrated for actively managed strategies and therefore there will be fewer resolutions on which to vote. In addition, actively managed strategies have the option to sell holdings in companies at its discretion. For these reasons, in the context of passive strategies, it is important that voting and engagement rights are exercised and that this is monitored. Examples of significant votes in respect of the BlackRock holdings are included below.

The Scheme's illiquid assets include hedge funds, infrastructure, property, private equity and multi-asset alternatives. The Trustee acknowledges that approaches to stewardship, voting and engagement for these assets are likely to be limited and more unique than for public equities. As such, the Scheme's illiquid assets are excluded from this statement.

BlackRock sees its investment stewardship program, including proxy voting, as part of its fiduciary duty and as a way to enhance the value of clients' assets, using its voice as a shareholder on their behalf to ensure that companies are well led and well managed.

CAAPS have authorised BlackRock to vote on their behalf. BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team ("BIS"), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world. The BIS voting decisions reflect its reasonable and independent judgment of what is in the best long-term financial interests of clients. This is informed by analysis of company disclosures, third-party research, comparisons against a company's industry peers, as well as engagement with companies and BlackRock's active portfolio managers.

BIS engages with management teams and/or board members on material business issues including environmental, social, and governance matters and through voting proxies in the best long-term economic interests of its clients.

BIS votes to formally communicate its support for or concerns about how companies are addressing governance and material business risks and opportunities that may impact their ability to deliver long-term financial returns. In BIS' voting determinations, BIS takes into consideration the context in which companies are operating their businesses. BIS' voting is thoughtful, methodical, and always anchored in BlackRock's fiduciary duty to clients as an asset manager.

When BIS determines that it is in clients' financial interests to signal concern to companies through voting, BIS does so in two forms: 1) it might not support the election of directors or other management proposals; or 2) it might not support management's voting recommendation on a shareholder proposal. Voting to elect directors to the board is a near-universal right of shareholders globally and an important signal of support for, or concern about, the performance of the board in overseeing and advising management.

Whilst BlackRock subscribes to research from the proxy advisory firms Institutional Shareholder Services (ISS), Egan-Jones and Glass Lewis, it is just one among many inputs into its vote analysis process, and it does not blindly follow their recommendations on how to vote. BlackRock does not follow any single proxy research firm's voting recommendations. It subscribes to two research providers and uses several other inputs in its voting and engagement analysis, including a company's own disclosures, public information and ESG research.

BlackRock uses Institutional Shareholder Services' (ISS) electronic platform to execute vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BIS works with proxy research firms who apply BlackRock's proxy voting guidelines to filter out routine or non-contentious proposals and refer to BIS any meetings where additional research and possibly engagement might be required to inform BIS' voting decision.

In the 12 months prior to 30 June 2024, BIS voted at more than 18,000 shareholder meetings on more than 169,200 management and shareholder proposals globally.

As in past proxy years, most of the proposals that BIS voted on addressed routine matters, with most of these focused on director elections, board-related items, and executive compensation; less than 1% of votes were on shareholder proposals. BIS did not support management's voting recommendation on 10% of such proposals. The reasons for BIS not supporting these management recommendations were governance-related and have been consistent over the years: director independence, board composition, executive compensation that is not aligned with shareholder interests, and director overcommitment. While BIS consider sound corporate governance practices to be globally relevant, BIS' voting decisions take into account the local-market norms that may shape company actions. BIS' support for director elections is broadly consistent with last year, reflecting BIS' assessment that boards and management teams generally acted in alignment with shareholders' interests. BIS support also reflects the enhancements in board governance practices they have observed over recent years across the three regions.

BIS supported 90% of the more than 76,000 director elections BIS voted on. Year-over-year, BIS' reasons for not supporting director elections – and management proposals generally – are consistently governance-related: board composition and effectiveness, including director independence and overcommitment, and executive compensation. Engaging with, and voting on, the election of directors to encourage sound corporate governance at companies is one of BIS' most important responsibilities as a fiduciary to clients.

As explained in the BlackRock Investment Stewardship Global Principles, in BIS' experience, the performance of the board of directors is critical to the economic success of a company, and therefore to the economic interests of its clients as long-term shareholders. A high calibre, effective board is intrinsic to a company's ability to create long-term financial value.

Regarding shareholder proposals, in the 12 months prior to 30 June 2024, BIS voted against 768 (~89%) out of a total of 867 shareholder proposals BIS voted on globally (~11% supported). Considering only those proposals on climate and natural capital (environmental) and company impacts on people (social), BIS supported 20 out of 493 BIS voted on globally (~4% supported).

Consistent with last year, BIS found the majority of proposals addressing these topics were overreaching, lacked economic merit, or sought outcomes that were unlikely to promote long-term shareholder value. A significant percentage were focused on business risks that companies already had processes in place to address, making them redundant. In addition, BIS saw a greater number of proposals seeking to roll back company efforts to address material sustainability-related risks.

For some funds, there may be more votes against management than others. In the case of the iShares Global Infrastructure ETF, the type of companies in which this invests and regions where this invests do make it somewhat more likely to have votes against management or abstentions. Several of the votes against management are in regions such as Brazil, Mexico, the Philippines and China where corporate governance practices and environmental standards are less advanced than in developed markets. Given this is a passive fund, the investment manager is not actively choosing to buy this stock and so it may be less surprising that votes may be against management.

The BIS 2023-24 Global Voting Spotlight provides context on BIS' global voting record on management and shareholder proposals covering the period from 1 July 2023 through 30 June 2024.

Shell plc (Shell) (UK energy company) - Key topics: Corporate strategy, climate-related risks and opportunities

Shell plc is an energy company headquartered in the United Kingdom. BIS has had extensive, multiyear engagements with Shell where they have discussed, among other topics, board composition, corporate strategy, and the board's oversight of, and management's approach to, climate-related risks and opportunities.

At the May 2024 AGM, BIS supported management's proposal to approve Shell's energy transition update and its Energy Transition Strategy 2024. Shell first submitted its Energy Transition Strategy for a vote at the May 2021 AGM, when it received 89% support from shareholders, including BIS. In the two subsequent years, the company proposed an advisory shareholder vote on the progress made to date against its Energy Transition Strategy. The proposals received 79.9% and 80% shareholder support in 2022 and 2023, respectively, including from BIS. In BIS' view, Shell has provided and continues to provide a clear assessment of its plans to manage material climate-related risk and opportunities, while also demonstrating progress against its stated Energy Transition Strategy.

Shell's 2023 Capital Markets Day highlighted its strategy to deliver "more value with less emissions," focusing on markets where it has a competitive edge, like decarbonising transportation. By the end of 2023, Shell had achieved over 60% of its goal to reduce scope 1 and 2 emissions by 50% by 2030. The company is also progressing towards eliminating routine flaring and achieving near-zero methane emissions by 2030. Due to changes in energy markets and its power business strategy, Shell adjusted its climate targets, including retiring its 2035 net carbon intensity (NCI) target and modifying its 2030 NCI reduction target to 15-20%. These adjustments are seen as reasonable and transparent efforts to manage climate-related risks and opportunities.

Shell (UK energy company) - Key topics: Corporate strategy, climate-related risks and opportunities

Shell plc (Shell) is an energy company headquartered in the United Kingdom, with operations in more than 70 countries around the world.

The agenda of Shell's May 2024 AGM included a shareholder proposal requesting that the company "align its medium-term emissions reduction targets covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement: to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C." The proponent has filed similar shareholder proposals at Shell's previous AGMs, which received 30.5%, 20.3% and 20.2% support from shareholders in 2021, 2022 and 2023, respectively. As a minority investor on behalf of our clients, BlackRock relies on the boards and management teams of companies to set and implement the strategies they deem most appropriate with the objective of delivering durable long-term financial returns. Shell has developed climate-related emissions reduction targets that are being implemented through its Energy Transition Strategy. Its targets are set using a 1.5°C pathway that it developed based on 1.5°C scenarios developed for the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6). BIS understand that Paris Agreement-aligned targets are set on a best-efforts basis given that there is currently a lack of global consensus about how energy suppliers should decarbonize to meet the Paris Agreement's 1.5°C target.

Given that the speed and shape of a low-carbon transition are unclear, comprehensive company disclosures that include scenario analysis and provide context on a transition plan and targets help investors' understanding of company-specific risks and opportunities. In BIS' view, and as discussed above, Shell's reporting, including of scope 3 emissions reduction targets, and approach to climate-related risks and opportunities continue to be aligned with our clients' long-term financial interests. In contrast, the proponent's request to Shell to more rapidly reduce its scope 3 emissions (from use of its products), which are largely outside the company's control, would potentially have a material negative financial impact on its investors.

In addition, despite the use of less prescriptive language than that used in prior proposals, BIS considered the proponent's request unduly constraining on management's decision-making in its request to align targets to a specific GHG emissions reduction pathway. The request of the proposal undermines Shell's stated strategy to deliver more value with less emissions by asking the company to adopt a different target, which could negatively impact its ability to deliver long-term, financial returns for shareholders such as BlackRock's clients.
For the reasons explained above, BIS determined that it would not be in the best financial interests of BlackRock's clients to support the shareholder proposal.

Tesla (US automotive company)- Key topics: Board quality and effectiveness, executive compensation, human capital management

Tesla, Inc. is an automotive and energy company headquartered in the United States. BIS has engaged with Tesla over the past several years, discussing topics such as corporate governance, human capital management, and disclosures of climate-related risks and opportunities.
At the 2024 AGM, BIS did not support the shareholder proposal to adopt and disclose a non-interference policy upholding the rights to freedom of association and collective bargaining in its operations, as reflected in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work ("Fundamental Principles"). Tesla's workforce is largely non-unionized. In 2022, a similar shareholder proposal requesting Tesla adopt a policy on respecting rights to freedom of association and collective bargaining received approximately 32% support, including from BIS. At that time, Tesla's Global Human Rights Policy did not explicitly mention the right to freedom of association or collective bargaining in the context of its operations, a practice that was lagging

compared to other automotive peers. Since then, Tesla has updated its policy to respect these rights in conformance with local law. Based on BIS's assessment, Tesla's current Global Human Rights Policy already addresses the components of the shareholder proposal, including a commitment to uphold higher standards where national law and international human rights standards differ. Therefore, BIS determined that support for this shareholder proposal was not warranted. BIS will continue to monitor developments, such as the ongoing labor dispute in Sweden, to evaluate how Tesla's Global Human Rights Policy is being implemented and its impact on investor returns in this context.

<u>BlackRock ACS World ESG Equity Tracker Fund – Both Sections (appointed August 2020)</u>

For the year ended 31 December 2024 there were 6,681 votable proposals. BlackRock voted on 92% of these proposals of which 2% were against and there were no abstain votes.

<u>BlackRock Factor Equities – Both Sections (appointed August 2020)</u>

For the year ended 31 December 2024 there were 2,680 votable proposals. BlackRock voted on 95% of these proposals of which, 1% were against and there were no abstain votes.

<u>BlackRock Thematic Equities – NATS Section (appointed August 2020)</u>

For the year ended 31 December 2024 there were 3,121 votable proposals. BlackRock voted on 98% of these proposals of which, 3% were against and 1% were abstain votes.

<u>BlackRock iShares Global Infrastructure ETF – Both Sections (sold in February 2024)</u>

For the year ended 31 December 2024 there were 3,901 votable proposals. BlackRock voted on 98% of these proposals of which, 8% were against and 4% were abstain votes.

<u>BlackRock iShares Environment & Low Carbon Tilt Real Estate Index Fund– Both Sections (appointed December 2022)</u>

For the year ended 31 December 2024 there were 4,022 votable proposals. BlackRock voted on 88% of these proposals of which, 4% were against and there were no abstain votes.

<u>BlackRock iShares Edge MSCI USA Value Factor ETF (Index) – Both Sections (appointed February 2023)</u>

For the year ended 31 December 2024 there were 2,068 votable proposals. BlackRock voted on 99% of these proposals of which, 3% were against and there were no abstain votes.

<u>BlackRock iShares Edge MSCI World Minimum Volatility (Index) – Both Sections (sold in February 2024)</u>

For the year ended 31 December 2024 there were 3,251 votable proposals. BlackRock voted on 100% of these proposals of which, 1% were against and there were no abstain votes.

<u>Schroders ISF Emerging Markets – Both Sections (appointed August 2020)</u>

The overriding principle governing Schroders' approach to voting is to act in the best interests of its clients. Schroders' voting policy and guidelines are outlined in its publicly available Environmental, Social and Governance Policy. Schroders evaluates voting issues arising and, where it has the authority to do so, votes on them in line with its fiduciary responsibilities in what it deems to be the interests of its clients. In applying the policy, Schroders considers a range of factors, including the circumstances of each company, performance, governance, strategy and personnel.

It is Schroders' policy to vote all shares at all meetings globally, except where there are onerous restrictions – for example, share blocking. Schroders utilises the services of ISS and the Investment Association's Institutional Voting Information Services ('IVIS') in conjunction with its own research and policies when formulating voting decisions. With regards to abstaining from votes, Schroders' preference is to support or oppose management and only use an abstention sparingly. Schroders may abstain where mitigating circumstances apply, for example where a company has taken some steps to address shareholder issues.

For certain holdings of less than 0.5% of share capital in the USA, Australia, New Zealand, Japan, and Hong Kong, Schroders has implemented a custom policy that reflects the views of its ESG policy and is administered by Schroders' proxy voting provider, ISS. Schroders votes on both shareholder and management resolutions.

For the year ended 31 December 2024 there were 2,022 votable proposals for which the fund manager voted on 100% of these. The fund manager voted against management on 9% of votes. The fund manager voted to abstain on 1% of occasions.

Schroders have highlighted engagement with the following company on ESG matters during the year:

Mahindra & Mahindra is an Indian automobile manufacturing company headquartered in Mumbai.

In July 2024, there was a vote on the election of Ranjan Pant and Haigreve Khaitan as board members, as well as the re-appointment and approval of remuneration for Anish Shah (Managing Director and CEO) and Rajesh Jejurikar (Whole-time Director).

Schroders vote was against management due to concerns about independence, as less than 50% of the non-executive directors could be considered independent, and concerns of "over boarding" due to one or more of the nominees sitting on multiple external boards, potentially impacting their effectiveness in their role.

China Petroleum & Chemical Corp is a Chinese oil and gas enterprise based in Beijing. It is one of the world's largest oil refining conglomerate and has the second highest revenue in the world.

In June 2024, there was a vote to elect Chairman Ma Yongsheng. Schroders voted against management as they had concerns over multiple topics. Notably, they believed there was insufficient independence on the nomination committee, a lack of gender diversity on the board, and concerns over independent oversight. Less than half of the committee can be considered independent.

American Century Global– Both Sections (appointed August 2020)

American Century's (ACI) Guiding ESG Principle are outlined in its ESG Policy and are as follows:

ACI's primary mission is to deliver superior, long-term, risk-adjusted returns for clients. ACI focuses on material ESG issues, which are financially material. ACI seeks to integrate the analysis of potential risks and opportunities associated with ESG issues into its fundamental research process. ACI's goal is to mitigate downside risks and capture upside potential without compromising its fiduciary duty to act in the best interest of clients.

ACI states that "*in addition to conducting business with the highest ethical standards and complying with all applicable laws and regulations, our ESG approach is regularly reviewed against industry investment stewardship and governance standards and other ESG methodologies to ensure alignment with our processes.*"

American Century subscribes to the proxy voting services of Institutional Shareholder Services ("ISS"), including their proxy voting platform, voting advisory services, and vote disclosure services. While American Century reviews and considers ISS's research, analysis, and recommendations, it votes proxy using the ISS voting platform in accordance with the ACI's proxy voting policies, which can differ from those of ISS.

Brookfield Infrastructure Corporation is a Canadian alternative asset management company that focuses on investments in real estate, renewable power, infrastructure, credit and private equity, headquartered in Toronto, Canada.

In December 2024, there was a vote to approve a reorganisation/restructuring plan that maintains the benefits of the business structure, while addressing proposed amendments to the Income Tax Act (Canada) that are expected to result in extra costs for the company if action isn't taken. American Century voted for the proposal. The rationale behind this decision was to support maximising shareholder value. The plan was passed successfully, and there are no known implications at this time but American Century will continue to monitor the impact of the plan. This vote was assessed by American Century as most significant due to its nature as a material corporate transaction.

For the year ended 31 December 2024 there were 1,524 votable proposals for which the fund manager voted on 100% of these. The fund manager voted against management on 11% of votes. The fund manager voted to abstain on 1% of occasions.

Wellington Global Perspectives– Both Sections (appointed April 2024)

Wellington votes according to its Global Proxy Voting Guidelines and employs a third-party vendor, Glass Lewis, to perform administrative tasks related to proxy voting. Wellington does not automatically vote proxies either with management or in accordance with the recommendations of third-party proxy providers, ISS and Glass Lewis. Wellington has its own ESG Research Team, which provides voting recommendations. Based on these resources and in conjunction with Wellington's Global Proxy Voting Guidelines, individual portfolio managers have authority to make final decisions on voting. There is no "house vote". Wellington's proxy voting system allows different votes to be submitted for the same security. Various portfolio managers holding the same securities may arrive at different voting conclusions for their clients' proxies.

Ryder System, Inc. is an American transportation and logistics company. It is a third-party logistics provider and provides supply chain, transportation and fleet management solutions to companies. At the May 2024 AGM there was a shareholder proposal for additional climate transition reporting. The additional reporting would include disclosure on the impact of the company's climate change strategy on relevant stakeholders, including employees, workers in the supply chain and the communities in which they operate. The Board recommended shareholders to vote AGAINST this item. This was because they believed they already provide shareholders with sufficient information on their progress of their environmental initiatives and impacts of the business on various stakeholders.

Wellington voted FOR the proposal. This was because they believe that the additional reporting would help mitigate risks, and would demonstrate accountability for the company to perform against their targets. Therefore, enhanced disclosure was in the best interests of shareholders.

H&R Block Inc. is a tax preparation company headquartered in Kansas City, Missouri, United States. It provides tax return preparation services and related financial products to individuals and small businesses in the United States, Canada, and Australia.

On November 6th, 2024, a significant vote took place regarding the election of Victoria J. Reich to the board of directors. The vote was cast against the proposal due to concerns about "over boarding", as the nominee sits on multiple external boards, which could impact her effectiveness in the role. This vote was assessed by Wellington as significant due to the vote against management, the fund's holdings, and the type of resolution. There are potential implications for enhancing company engagement in the future.

For the year ended 31 December 2024 there were 1,511 votable proposals for which the fund manager voted on 99% of these. The fund manager voted against management on 5% of votes. The fund manager voted to abstain on 0% of occasions.

GQG Partners – Both Sections (appointed April 2024)

GQG's approach to stewardship is grounded to the responsibility they feel to clients. In general, GQG looks at voting proposals on a case-by-case basis when deciding how to vote. They prioritise certain ballots for review and assess the issues at hand, keeping in mind their guiding principle of long-term value creation. GQG uses Institutional Shareholder Services (ISS) as a proxy advisor to assist in the coordination and voting of proxies. The investment team consult ISS's Benchmark Voting Guidelines but ultimately GQG makes an independent decision. GQG review the ISS' Benchmark Proxy Voting Guidelines on an annual basis for alignment with GQG's approach to the integration of ESG information into the investment and ownership processes. In 2023, GQG voted at 243 shareholder meetings and on more than 3,182 proposals.

GQG has chosen to vote in accordance with the UN PRI's responsible investment principles in being active owners that incorporate ESG issues into their ownership activities.

Key policy highlights are:

- Board: Board competence, performance – including on ESG topics, and independence
- Compensation: Alignment of pay and performance, presence of problematic compensation practices, shareholder value transfer
- Social & Environmental: Vote case-by-case on proposals advocating ESG disclosure or universal norms/codes of conduct and that generally back best business practices on environmental and social activities, taking into consideration whether implementation is likely to enhance or protect shareholder value

GQG has enhanced their approach to engagement by incorporating new data sources into their research and engagement workflow. GQG onboarded a new service provider RepRisk, to help in their stewardship efforts. They also have internal systems to build proprietary software applications to better manage, track and analyse their investment team's work, including stewardship activities. GQG reports engagement at the firm level rather than strategy level.

Over Q4 2024, GQG engaged with an international mining company on the subject of compliance with international law, as well as its management of broader regulatory and operational risks. The engagement covered its approach to community relations and its board oversight of Corporate Social Responsibility issues. The company operates in regions with high political risk, though based on GQG's third-party ESG data, it has fewer controversies associated with its assets compared to peers. In GQG's view, this outcome in part comes down to the strength of its community outreach programs, which management sees as a core function. The company detailed efforts to improve safety by instilling a reporting culture, which leaders have identified as an area of improvement. While the company faces ongoing regulatory and reputational challenges in their view, it focuses on building successful relationships with local stakeholders representing a competitive advantage that supports its aggressive growth strategy.
Broadcom Inc. is a global technology leader that designs, develops, and supplies a range of semiconductor, enterprise software, and security solutions.

On 22nd April 2024, Broadcom Inc. proposed an advisory vote to ratify the compensation of its named executive officers. The compensation committee had shown sufficient responsiveness to the previous year's failed say-on-pay vote. However, concerns about the magnitude and structure of the compensation package persisted, highlighting a misalignment between pay and performance. The CEO and other named executive officers were awarded front-loaded equity awards covering five years of incentive pay. These awards were entirely performance-conditioned and linked to ambitious stock price hurdles, but their magnitude was considered outsized, locking in high pay opportunities over an extended period. Additionally, other pay design concerns were identified, including a complex regular performance long-term incentive (LTI) design. Due to these issues, a vote against the proposal was deemed warranted.

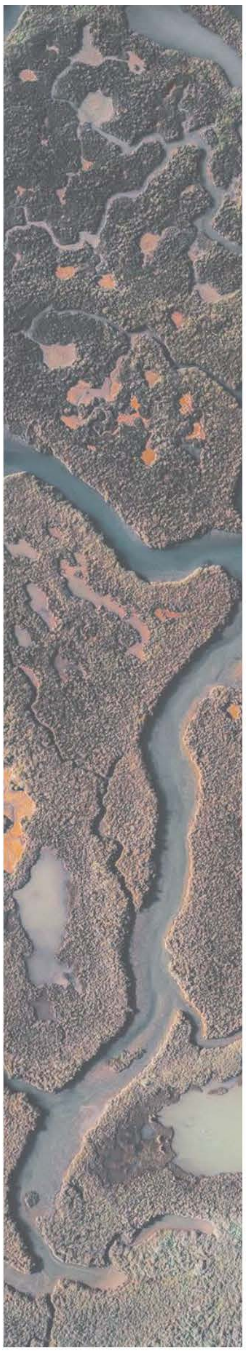
For the year ended 31 December 2024 there were 1,053 votable proposals for which the fund manager voted on 100% of these. The fund manager voted against management on 2% of votes. The fund manager voted to abstain on 4% of occasions.

Climate disclosures for year ended 31 December 2024

Produced by: The Trustee of the Civil Aviation Authority Pension Scheme

Date: January 2025

Introduction



Climate change is affecting the planet, causing extreme weather events, impacting crop production and threatening Earth's ecosystems. Understanding the impact of climate change and the Civil Aviation Authority Pension Scheme (the "Scheme")'s vulnerability to climate-related risks will help us to mitigate the risks and take advantage of any opportunities.

UK regulations require trustees of pension schemes with more than £1bn in assets to meet certain climate governance requirements and publish an annual report on their scheme's climate-related risks.

Better climate reporting should lead to better-informed decision-making on climate-related risks. And on top of that, greater transparency around climate-related risks should increase accountability and provide decision-useful information to investors and beneficiaries.

This report is the annual climate disclosures for the Scheme for the year ended 31 December 2024. This report has been prepared by the Trustee of the Civil Aviation Authority Pension Scheme (the "Trustee") in accordance with the regulations set out under The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the "Regulations") and is aligned to the Taskforce for Climate-related Financial Disclosures ("TCFD") framework.

The four elements covered in the report are:

Governance	The Scheme's governance around climate-related risks and opportunities.
Strategy	The potential impacts of climate-related risks and opportunities on the Scheme's strategy and financial planning.
Risk Management	The processes used to identify, assess and manage climate-related risks.
Metrics and Targets	The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Table of contents

Executive summary

This report sets out the actions that we, the Trustee, have taken to understand the potential impact climate change could have on the Scheme.

We have worked closely with our investment adviser to identify the climate-related risks and opportunities faced by the Scheme, and to understand ways we can manage and mitigate those risks.

Overview of the Scheme

The Scheme has two Sections, the National Air Traffic Services Section ("NATS Section") and the Civil Aviation Authority Section ("CAA Section"). Within this report we consider the impact of climate-related risks on the investment strategy and potential impact on the funding of the Scheme. We analyse each Section individually because they have different long-term targets, durations and investment strategies. So, it is important to consider them separately because there may be different implications for each Section.

The NATS Section's investment portfolio is diversified across a range of asset classes:

NATS Section

	LDI	Multi-Asset Credit	Global Equity	Overseas Government Bonds	Hedge Funds	Investment Grade Credit	Alternatives[1]
Asset Allocation	34%	5%	24%	12%	7%	6%	11%

Data as at 30 September 2024. Source: Fiduciary manager, Manager. Note: figures may not sum to 100% due rounding. Excludes cash and convertible bonds.
1. Alternatives includes property, private equity and infrastructure.

The CAA Section has insured most of its pensioner liabilities with insurers so about three quarters of the CAA Section's assets are invested with the Scheme's bulk annuity providers. Where possible we have included information on the bulk annuities in our analysis but due to the nature of annuity transactions our ability to influence our providers is limited. The remainder of the CAA Section's assets are invested in a range of asset classes:

CAA Section

	LDI	Multi-Asset Credit	Global Equity	Overseas Government Bonds	Hedge Funds	Investment Grade Credit	Insured Assets
Asset Allocation	11%	1%	5%	3%	3%	1%	74%

Data as at 30 September 2024. Source: Fiduciary manager, Manager. Note: figures may not sum to 100% due to rounding. Excludes cash and convertible bonds.

Governance

We, the Trustee, are collectively responsible for the oversight of all strategy matters related to the Scheme. This includes the governance and management frameworks relating to Environmental, Social and Governance ("ESG") considerations and climate-related risks and opportunities which have been put in place.

We have delegated ongoing oversight of our climate risk management approach to the Investment and Funding Committee ("IFC"). Regular responsibility for the implementation of our climate risk management approach is delegated to the CAAPS Investment Executive ("CIE") which is supported by the Scheme's external advisers.

During the year we have received training from our investment adviser and fiduciary manager on climate-related issues.

Strategy

Our qualitative analysis of climate related risks and opportunities showed that the asset classes in which the Scheme invests are potentially impacted to some degree by climate-related risks. We also identified investment opportunities for the different asset classes.

Previously, we carried out climate scenario analysis to explore the potential impact on the Sections' investment and funding strategies. In some of the climate scenarios the Sections are exposed to the potential risks of climate change. This year we reviewed the climate scenario analysis and we are comfortable that the analysis remains appropriate for this year's report.

It is important to note that the available data is far from perfect, the scenarios are illustrative, and the projected results are subject to considerable uncertainty. We recognise that data and projections are evolving rapidly. One key action for us is to continue to monitor how these scenarios develop. We will consult our investment adviser and take action as part of the Scheme's investment strategy reviews when needed to mitigate downside risk.

During the year, we discussed ways to mitigate these risks with our investment adviser. We commissioned our investment adviser to review the equity portfolios of both Sections to identify areas where there are opportunities for further development that would support our climate goals. Building on this analysis, we asked our fiduciary manager to provide more information on a climate focused equity fund. We also asked our fiduciary manager to explain the engagement it is doing under its stewardship policy which targets decarbonisation. In the future, we will consider if any other emerging market or small cap equity funds offer better ESG credentials that the current managers without compromising the Sections' risk-adjusted returns.

Risk Management

We established a process to identify, assess and manage the climate-related risks and opportunities the Scheme is exposed to. This is integrated into the Scheme's wider risk management framework. This is how we monitor the most significant risks to the Scheme in our efforts to ensure that the benefits promised to members are provided. Our climate risk management framework is set out on pages 27-28.

We choose asset managers who either have climate aware factors or have integrated climate factors into their strategies, and where possible we encourage integration at the mandate level, not necessarily at the company level. We carried out a risk and impact assessment of the climate risks associated with the assets that the Sections hold. The assessment showed the risks identified are broadly in line with last year with exception of the multi asset credit and investment grade which was previously broadly rated medium and is now broadly rated low for both Sections. This is due to the Fiduciary Manager's more optimistic assessment of these asset classes' exposures to climate-related risks which can be found in the Strategy Section of this report.

The high-risk areas for the NATS Section are global equity, property and infrastructure, and the covenant. The medium risk areas are LDI, private equity and the liabilities. For the CAA Section the high-risk area is global equity and the medium risk areas are LDI, liabilities and the covenant.

The NATS covenant risk is considered medium to high and the risk of an adverse climate event on the liabilities of the Section is rated medium. Whereas due to the smaller magnitude of the funding deficit in the CAA Section and the anticipated shorter duration of the Section the covenant risk is considered medium and the risk of an adverse climate event on the liabilities of the Section is rated a low to medium risk. Please see the overall conclusion of our risk and impact assessment on page 30 of this report.

We have taken the following actions to help mitigate the climate-related risks:

Global equities – we invest in managers and strategies that focus on reducing carbon intensity and incorporate ESG into their decision-making process. This year we have conducted an exercise to identify other equity opportunities that will further mitigate climate-related risks over the long-term and are working with our investment adviser and fiduciary manager on some potential areas for development which further support our climate goals.

Property – We mitigate climate risks by investing in ESG aware strategies. For example, the Global Renewable Power Strategy and the Social Infrastructure Strategy – both of which are aligned to prudent management of climate risk and capturing of climate-related opportunities. Further, we have decided to exit direct investments in property and are in the process of disinvestment.

Infrastructure – We selected infrastructure managers that seek to derive benefits from new technologies and energy transition, bring a higher level of understanding of potential policy hurdles the strategy may face, and incorporate climate-related risks as part of their standard risk management.

Metrics and Targets

Metrics

We gathered and disclosed the carbon metrics from the Scheme's investment managers and annuity providers, supported by our investment adviser.

For the NATS Section, the largest contributors to GHG emissions are LDI and the overseas government bonds for scopes 1 and 2 emissions, and liquid markets for scope 3 emissions. Generally, carbon footprints for liquid and illiquid market assets have decreased indicating these assets are less carbon intensive than we previously thought.

For the CAA Section, the largest contributors to GHG emissions are LDI and the bulk annuities for scopes 1 and 2 emissions. The liquid market assets are the largest contributor of scope 3 emissions.

Targets

We set targets to improve the data coverage of carbon data across our investments by 2027. Data coverage remained similar for most asset classes over the year.

This year we have set a target for the proportion of data which has been reported rather than estimated. This represents a stricter and more ambitious target compared to the data coverage target. We have also set a target for binary target measurement. See the *Metrics & Targets* section of this report for more details.

In the coming years we plan to build on the equity portfolio analysis carried out this year. This includes:

- We will consider the merits of a climate focused equity fund and whether to include it in the Scheme's investment portfolios. Additionally, in the future, we will consider if any other emerging market or small cap equity funds offer better ESG credentials that the current managers without compromising the Sections' risk-adjusted returns.
- We will seek to better understand our fiduciary manager's stewardship policy which considers decarbonisation.
- We will continue to seek opportunities for investment afforded by the climate transition.

More broadly, we will continue to:

- Monitor the development of climate scenarios and understanding the economic consequences of them better.

- Seek to understand more clearly the transition and physical risks associated with particular asset classes, especially those deemed to be most at risk.
- Work with our fiduciary manager to improve the quality of the carbon data we receive.

We hope you enjoy reading this report and understanding more about how we are managing climate-related risks and opportunities within the Scheme.

on behalf of the Trustee of the Civil Aviation Authority Pension Scheme

Governance

Governance is the way the Scheme operates and the internal processes and controls in place to ensure appropriate oversight. Those undertaking governance activities are responsible for managing climate-related risks and opportunities. This includes us, as the Trustee, and others making Scheme-wide decisions, such as those relating to the investment strategy or how it is implemented, funding, or the ability of the sponsoring employers to support the Scheme and its liabilities.

Our Scheme's governance

As the Trustee of the Scheme, we are collectively responsible for overseeing all strategic matters related to the Scheme. This includes the governance and management frameworks relating to ESG considerations and climate-related risks and opportunities. Given its importance, we have not identified one individual to specifically be responsible for the Trustee's response to climate risks and opportunities. Rather, the Trustee Board has collective responsibility for setting the Scheme's climate change risk framework.

We have discussed and agreed our climate-related beliefs and overarching approach to managing climate change risk. Details are set out in the Statement of Investment Principles ("SIP") and Responsible Investment ("RI") Policy, which we review and (re)approve annually.

Climate Mission Statement

We believe that the risks associated with climate change can have a materially detrimental impact on the Scheme's investment returns within the timeframe that we are concerned about and, as such, we seek to integrate assessments of climate change risk into our investment decisions.

Furthermore, we believe that climate-related factors are likely to create investment opportunities. Where possible, and appropriately aligned with our strategic objectives and fiduciary duty, we will proactively seek to capture such opportunities through our investment portfolio.

We receive regular training – climate change training annually and training on other ESG issues as and when needed – on climate-related issues to ensure that we have the appropriate degree of knowledge and understanding on these issues to support good decision making. We also review our fiduciary manager's approach to and activities on stewardship twice a year. We expect our advisers to bring important and relevant climate-related issues and developments to our attention in a timely manner.

Climate-related risks and opportunities are integrated into our risk management framework so we can maintain oversight of the climate-related risks and opportunities that are relevant to the Scheme. We have a climate risk management framework to monitor and review the Scheme's climate risk exposures. Please see the *Risk Management* section for more details.

We delegate oversight of the Scheme's climate risk management framework to the Investment and Funding Committee ("IFC") which is a subcommittee of the Trustee Board. Implementation and day-to-day oversight have been delegated to the CAAPS Investment Executive ("CIE"). These sub-committees keep us updated on material climate-related developments on a regular basis (at least annually).

Trustee update

During the year, we received training from the fiduciary manager regarding climate-related risks and opportunities across the asset classes the Schemes invest in, as well as the fiduciary manager's approach to integrating climate-related factors into their capital market assumptions and investment process.

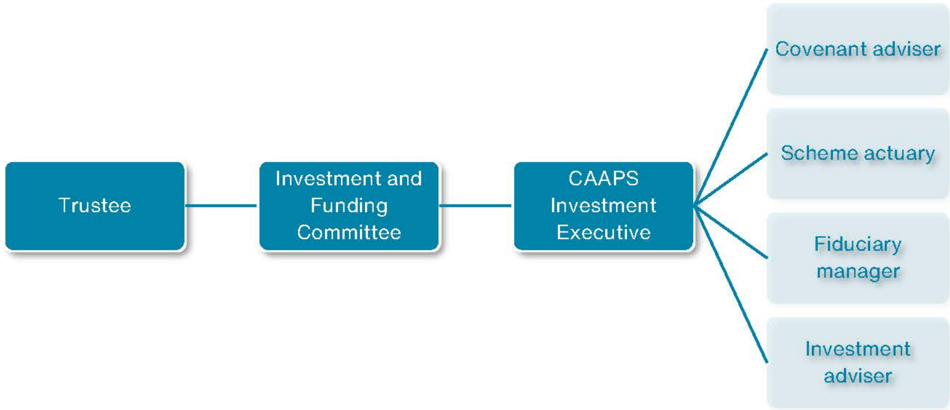
We also received training from our investment adviser regarding portfolio alignment metrics and the key differences between Implied Temperature Rise and Binary Target Measurement.

Trustee update

During the year, we also completed a survey to review our broad investment beliefs including our Responsible Investment beliefs. This survey looked at our views on ESG issues including climate change.

Following this, we updated the Scheme's Responsible Investment Policy to reflect our latest beliefs, including climate beliefs.

Figure 1: Governance structure



Role of the IFC

Ongoing oversight of our climate risk management approach has been delegated to the IFC.

The IFC, supported by the CIE, seeks to ensure that any investment decisions appropriately consider climate related risks and opportunities within the context of the Scheme's wider risk and return requirements, and are consistent with the climate change policy as set out in the RI policy and SIP.

The IFC established a process to identify, assess and manage the climate-related risks that are relevant to the Scheme. This is part of the Scheme's wider risk management framework and is how we monitor the most significant risks to the Scheme in our efforts to achieve appropriate outcomes for members.

The IFC monitors and reviews the Scheme's climate risk management annually through the Scheme's TCFD report. We, the Trustee, delegate some tasks to improve efficiency but retain responsibility for the climate risk management framework.

The IFC keeps the Trustee Board informed on any material climate-related developments through regular (typically once a year) updates.

Role of the CIE

Regular responsibility for the implementation of our climate risk management approach has been delegated to the CIE.

The CIE monitors and reviews the Scheme's climate change risk management on an annual basis (or more frequently where required) and the CIE keeps the IFC apprised of any material climate-related developments through regular updates. As part of its review of individual mandates, the CIE monitors the integration of climate considerations into a

Trustee update

During the year, our investment adviser carried out analysis of the Scheme's equity portfolio to identify areas where there are opportunities for further development that would support our climate goals.

Building on this analysis, we asked our fiduciary manager to provide more information on a climate focused equity fund which we will consider. We also asked our fiduciary manager to give details of the extra engagement it is doing under its stewardship policy which targets decarbonisation. In the future, we will consider if any other emerging market or small cap equity funds offer better ESG credentials that the current managers, without compromising the Sections' risk-adjusted returns.

manager's investment process through reviewing a manager's ESG reporting and through support from our investment adviser.

Key activities delegated to the CIE include:

- Proactively seeking investment opportunities which enhance the ESG and climate change focus of the NATS and CAA Sections' asset portfolios;
- Ensuring investment proposals explicitly consider the impact of climate risks and opportunities;
- Engaging with the fiduciary manager (and underlying managers if required) to understand how climate risks are considered in their investment approach;
- Working with the fiduciary manager (and underlying managers if required) to disclose relevant climate related metrics as set out in the TCFD recommendations; and
- Ensuring stewardship activities are being undertaken appropriately on the Scheme's behalf.

How we work with our advisers

We expect our advisers and investment managers to bring important climate-related issues and developments to our attention in a timely manner. We expect our advisers and investment managers to have the appropriate knowledge on climate-related matters.

We annually review the quality of our advisers' provision of advice and support on climate-related issues. For our investment adviser this is part of the annual review of investment consultant objectives.

Investment adviser – Our investment adviser, Aon, provides strategic and practical support to us and the CIE in respect of the management of climate-related risks and opportunities, and ensuring compliance with the recommendations set out by the TCFD. This includes provision of regular training and updates on climate-related issues and climate scenario modelling to enable us to assess the Scheme's exposure to climate-related risks.

We will monitor the quality of climate-related support and advice from our investment adviser as part of an annual review against the investment consultant's objectives.

Scheme Actuary – The Scheme Actuary, Michael Webb, helps us assess the potential impact of climate change risk on the Scheme's funding assumptions. This includes:

- Consideration of whether any explicit adjustment to assumptions is required. For example, future trends in causes of death are uncertain and will be driven by multiple factors including medical advances, the economic environment and climate change. The Scheme Actuary takes a view on the degree to which the uncertainty around areas such as extreme temperatures, food shortages, water scarcity and air pollution levels are implicitly included in current UK mortality trend

Trustee update

During the year, we reviewed the fiduciary manager's stewardship reporting twice including its climate-related objectives.

analyses. This then feeds into the recommended assumption for the rates of long-term changes in mortality.

- Whether there is a need to revisit the strength of assumptions considering any impact climate change is expected to have on the strength of sponsor covenant (as assessed by Penfida) or the Scheme's investment strategy.

Covenant adviser – Our covenant adviser, Penfida, helps us understand the potential impacts of climate change risk on the sponsor covenant of the Principal Employers of each Section.

As part of covenant advice sought, we will seek to understand how climate-related factors could affect the sponsoring employers' strategies over time.

Fiduciary manager – The Scheme's fiduciary manager, BlackRock, helps us to understand how BlackRock, and the underlying managers, consider climate change risk in their investment approaches. BlackRock also helps us to work with the underlying managers to disclose relevant climate-related metrics as set out in the TCFD's recommendations. During the year, we reviewed the fiduciary manager's stewardship policy twice placing particular focus on its climate-related objectives.

LDI manager – The Scheme's LDI manager, LGIM, helps us understand how it considers climate change risk in its investment approach and to disclose relevant climate-related metrics as set out in the TCFD's recommendations.

Annuity providers –The CAA Section's annuity providers, Rothesay Life, PIC and Legal & General, help us understand how they consider climate change risk in their investment approach and to disclose relevant climate-related metrics as set out in the TCFD's recommendations.

Time horizons

As part of our ongoing oversight of the Scheme, relevant time horizons have been identified for each Section as follows:

	NATS Section	**CAA Section**
Short-term	1 to 3 years representing a triennial actuarial valuation cycle for the Scheme	1 to 3 years representing a triennial actuarial valuation cycle for the Scheme
Medium-term	4 to 10 years	4 to 10 years
Long-term	11 to 30 years	11 to 30 years

The time horizons are the same for both Sections of the Scheme. This reflects our belief that although we plan to secure the CAA Section's liabilities with an insurer in the near future, the selection of an appropriate insurer should reflect our belief that the insurer's policies on climate change and the development of their investment strategies should be consistent with our own. The time horizons reflect the long-term nature of the liabilities and the risks associated with climate change.

Climate-related risks and opportunities are assessed over the above time horizons, and where appropriate we seek to consider transition and physical risks separately.

We recognise that progress on an orderly transition to a low carbon economy has been faltering. 2024 is on track to be the hottest year on record as warming temporarily hits 1.5°C[1], and CO_2 emissions from fossil fuels are at their highest ever level.[2] It looks increasingly challenging for global governments and corporations to attain halving of emissions by 2030 and net zero emissions by 2050. The risks of disorderly progress – or very limited progress – are elevated.

We also note the change in ESG sentiment following the recent election of Donald Trump and the US withdrawing from the Paris Agreement. We recognise the repercussions that the current political environment could have on climate-related issues and the Scheme's investments which we are continuing to monitor closely, supported by our fiduciary manager and advisers. However, we remain committed to our climate beliefs which are unchanged and we will continue to integrate financially material climate change risks and opportunities into our investment decisions for the Scheme, as part of our ongoing fiduciary duty and in the best interests of our members.

[1] World Meteorological Organisation (2024) 2024 is on track to be hottest year on record as warming temporarily hits 1.5°C https://wmo.int/news/media-centre/2024-track-be-hottest-year-record-warming-temporarily-hits-15degc
[2] Global Carbon Budget (2024) Fossil fuel CO2 emissions increase again in 2024 https://globalcarbonbudget.org/fossil-fuel-co2-emissions-increase-again-in-2024/

Strategy

It is crucial to think strategically about the climate-related risks and opportunities that will impact the Scheme if we are to stand a chance of mitigating the effects of climate change.

Assessing the climate-related risks and opportunities the Scheme is exposed to is key to understanding the impact climate change could have on the Scheme in the future.

What climate-related risks are most likely to impact the Scheme?

Each year we carry out a qualitative risk assessment of the asset classes the NATS Section and CAA Section are invested in. Assessing the climate-related risks and opportunities the Scheme is exposed to is key to understanding the impact climate change could have on the Scheme in the future.

Investment return is key to meeting the Scheme's future pension obligations. As such we believe it is important to remain invested in certain asset classes, despite the risks arising in those markets (including risks deriving from climate change). Our approach therefore is to try and understand the risks we face and take sensible steps to mitigate those risks as far as possible.

Despite recent anti ESG sentiment arising from the global political landscape, we are committed to our climate beliefs and we remain supportive of the transition to a low carbon economy and we will seek to capture relevant investment opportunities for the Scheme arising from the climate transition.

How the risk assessment works

To help us with our assessment, we requested that BlackRock, the Scheme's fiduciary manager, and LGIM, the Scheme's LDI manager, provide their own assessments of the climate-related risks and opportunities associated with the assets they manage on behalf of the Scheme over the short-, medium- and long-term, together with their reasoning and rationale for each risk. BlackRock considered the nuances of the Scheme's investments and what actions have been taken to mitigate risks as part of their assessment.

For the CAA Section, we also requested the Section's annuity providers provide their assessments of the climate-related risks and opportunities associated with the assets they manage. At the time of writing, one out of the three annuity providers was able to provide this information. We continue to work with our investment adviser to gain a fuller understanding of how all relevant parties identify and manage climate-related risks on our behalf.

Our covenant adviser carried out an assessment of the potential impact of climate-related risks on the Sponsor covenant, further information is provided on page 25.

Risk categories

Climate-related risks have been categorised into:
Transition risks are associated with the transition towards a low-carbon economy.
Physical risks are associated with the physical impacts of climate change on companies' operations.
Please see the *Appendix* for more information.

Ratings

The analysis uses a RAG rating system where:
Red denotes a higher level of impact on expected investment returns.
Amber denotes a medium level of impact on expected investment returns.
Green denotes a lower level of impact on expected investment returns.
Source: Fiduciary manager

Time horizons

We assessed the climate risks and opportunities over the short, medium and longtime horizons appropriate for the Scheme:
Short-term: 1-3 years.
Medium-term: 4-10 years
Long-term: 11-30 years

Our investments

The Scheme's asset allocation as at 30 September 2024 is as follows:

NATS Section

	LDI	Multi-Asset Credit	Global Equity	Overseas Government Bonds	Hedge Funds	Investment Grade Credit	Alternatives[1]
Asset Allocation	34%	5%	24%	12%	7%	6%	11%

Source: Fiduciary manager, Manager. Note: figures may not sum to 100% due rounding. Excludes cash and convertible bonds.
1. Alternatives includes property, private equity and infrastructure

The NATS Section of the Scheme was 90% funded on its Long-term funding target ("LTFT") as at 30 September 2024 with a 75% interest rate and inflation hedging strategy.

CAA Section

	LDI	Multi-Asset Credit	Global Equity	Overseas Government Bonds	Hedge Funds	Investment Grade Credit	Insured Assets
Asset Allocation	11%	1%	5%	3%	3%	1%	74%

Source: Fiduciary manager, Manager. Note: figures may not sum to 100% due to rounding. Excludes cash and convertible bonds.

The uninsured element of the CAA Section of the Scheme was 83% funded on its LTFT as at 30 September 2024 with a 81% interest rate and inflation hedging strategy. The insured assets are annuity contracts held with Rothesay Life, PIC and Legal & General in respect of most of the pensioner liabilities of the Section.

Climate-related risks assessment

Key conclusions

For most asset classes (except property and annuities) the short- and medium-term transition risks are rated low. The fiduciary manager rated the fundamental and repricing risks for property as medium in the short- and medium-term due to the expected cost of upgrading assets to meet regulations and tenant expectations. The annuity provider rated policy and legal risks as medium due to the likely introduction of government policies to encourage industries to decarbonise.

Physical risks are identified as low or medium for most asset classes except property, infrastructure, and annuities. The acute long-term risks have been identified as medium or high for most asset classes due to the expectation of increased frequency and severity of acute climate-related events on the Scheme's assets.

The fiduciary manager updated its risk assessment methodology since last year, resulting in some changes to the risk ratings and the categories of transition risks.

Diversification across asset classes, sectors and regions is important to manage climate-related physical and transition risks to the Scheme. We continue to mitigate climate risk by investing in ESG aware alternative strategies. For example, the Global Renewable Power Strategy and the Social Infrastructure Strategy – both of which are aligned to prudent management of climate risk, and capturing of climate-related opportunities.

We also include an ESG tilt across the liquid investments, involving adjustment of the strategies' allocations to align with specific ESG considerations. For example, reducing exposure to companies with high climate-related risks, including equity funds which don't invest in certain securities and/or industries to improve the carbon and ESG profile of the strategy.

The tables below summarise the Scheme's providers' responses on the physical and transition risks for each asset class the Scheme is invested in.

Equities

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Medium	Medium

Transition Risks

	Macro	Fundamental	Repricing
Short	Low	Low	Low
Medium	Low	Low	Low
Long	Low	Low	Low

Physical risk is expected to increase over time as global temperatures rise. Companies with operations located in high-risk regions will likely be most impacted by acute and chronic hazards. These are likely to include wildfires, rising sea-levels, increased inland flooding, hurricanes and a rise in the number of extreme temperature days.

Transition risks and opportunities vary significantly by industry and sector. The fiduciary manager expects capital to flow into low-carbon intensity assets over time, leading to a re-pricing of "sustainable" assets. Overall, it believes the transition risk will be low for equities over the short- to long-term.

Source: Fiduciary manager.

Private Equity

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Medium	Medium

Transition Risks

	Macro	Fundamental	Repricing
Short	Low	Low	Low
Medium	Low	Low	Low
Long	Low	Low	Low

Physical risk is expected to increase over time as global temperatures rise. Companies with operations located in high-risk regions will likely be most impacted by acute and chronic hazards. These are likely to include wildfires, rising sea-levels, increased inland flooding, hurricanes and a rise in the number of extreme temperature days.

Transition risks and opportunities vary significantly by industry and sector. The fiduciary manager expects capital to flow into low-carbon intensity assets over time, leading to a re-pricing of "sustainable" assets. Overall, it believes the transition risk will be low for equities over the short- to long-term.

Source: Fiduciary manager. Note: Only applicable to the NATS Section of the Scheme

Property

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Medium	Low
Long	High	Medium

Transition Risks

	Macro	Fundamental	Repricing
Short	Low	Medium	Medium
Medium	Low	Medium	Medium
Long	Low	Low	Low

The principal physical risk experienced in the UK is fluvial flooding (an 'acute' risk). However, the fiduciary manager deems the risk to be low in the short term for the portfolio. Over the long-term, the fiduciary manager sees rising temperature and rising sea levels potentially affecting portfolio assets - categorising it as a high risk.

Transition risks in the short- and medium- term are believed to be low to medium due to the investment required to upgrading existing assets to meet rising regulatory standards, operating requirements and tenant expectations. In the long-term the industry is expected to adapt.

Source: Fiduciary manager. Note: Only applicable to the NATS Section of the Scheme. Note that the Scheme is in the process of disinvesting from the property assets.

Infrastructure

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Medium	Low
Long	High	Medium

Similarly to property, physical risk is expected to increase over time as global temperatures rise. The fiduciary manager deems the risk to be low in the in the short term for the portfolio. Over the long-term, the fiduciary manager sees rising temperature and rising sea levels potentially affecting portfolio assets - categorising it as a high risk.

Transition Risks

	Macro	Fundamental	Repricing
Short	Low	Low	Low
Medium	Low	Low	Low
Long	Low	Low	Low

The fiduciary manager believes that transition risks in the short and medium term can be considered to be low. This is because of the investment opportunities expected within the asset class which offset the exposure to risk, associated with the scale of the investment required to drive the climate transition and address the ongoing impact of physical climate risk.

Electrification, for example, will require continued investment in low-carbon generation capacity, transmission and distribution grids. Over the long-term the outlook is less certain, as markets adapt to the transition pathways adopted in different regions.

Source: Fiduciary manager. Note: Only applicable to the NATS Section of the Scheme

Investment Grade Credit and Mult-asset Credit

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Medium	Low

Physical risk is expected to increase over time as global temperatures rise. Companies with operations located in high-risk regions will likely be most impacted by acute and chronic hazards. These are likely to include wildfires, rising sea-levels, increased inland flooding, hurricanes and a rise in the number of extreme temperature days.

Transition Risks

	Macro	Fundamental	Repricing
Short	Low	Low	Low
Medium	Low	Low	Low
Long	Low	Low	Low

The fiduciary manager believes that the impact of transition-related policies on energy prices, emissions and carbon-pricing, technological innovation, production costs and consumer behaviour can be considered low. Again, this relates to the expected investment opportunities associated with the scale of the investment required to finance the climate transition, which offset the exposure to risk.

Sector and regional exposures are assumed to be similar to global equities, but the impact on credit is limited by the contractual nature of cashflows to be received. Although some convertible bonds may have exposure to climate-related opportunities via the fundamental channel, this is limited at an asset class level.

Source: Fiduciary manager

Hedge Funds

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Low	Low

Physical risks are expected to remain low in the short- to long-term.

Transition Risks

	Macro	Fundamental	Repricing
Short	Low	Low	Low
Medium	Low	Low	Low
Long	Low	Low	Low

Hedge funds are dynamic, absolute return strategies with relatively short investment horizons. Some strategies may be well-placed to benefit from climate-related risks and opportunities, but depending on the type of strategy adopted climate may not be a material driver of investment decision-making. Concentrated positions and/or financial leverage may also change a fund's exposure to physical and transition risk over the short-, medium- and long- term.

Source: Fiduciary manager

Overseas government bonds

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Medium	Low

Physical risk is expected to increase over time as global temperatures rise. Countries in high-risk regions will be most impacted by acute and chronic hazards. In aggregate, increased physical risk is expected to reduce GDP growth. Some – particularly emerging markets countries – may be more severely impacted by extreme weather events.

Transition Risks

	Macro	Fundamental	Repricing
Short	Low	Low	Low
Medium	Low	Low	Low
Long	Low	Low	Low

Given the contractual nature of the asset class, the expected impact of the transition on government bond valuations is expected – in aggregate – to be modest although in most countries both inflation and interest rates will be higher than would otherwise be the case.

Source: Fiduciary manager

LDI

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	Medium	Low

Risks are geographically concentrated and not expected to have material financial impact at the UK sovereign bond level (in which the Scheme's LDI portfolio invests) in the short-term. As extreme weather events become more frequent, severe, and unpredictable, they are likely to have a growing impact. Extreme weather events cause business interruptions and due to globally interconnected supply chains may have ripple effects even in unaffected regions.

Transition Risks

	Policy	Technology	Market	Reputation
Short	Low	Low	Low	Low
Medium	Low	Low	Low	Low
Long	Medium	Medium	Medium	Low

Reputational risk to sovereign lenders is expected to be low in the short-term. The medium-term is a crucial period for the climate transition, as time is running out for limiting global warming to well-below 2°C. Carbon prices are expected to continue rising over the long-term. There is some risk from a market perspective that demand and supply for key raw materials will be mismatched going forward.

Source: LDI manager

Annuities

Physical Risks

	Acute	Chronic
Short	Low	Low
Medium	Low	Low
Long	High	Medium

Transition Risks

	Policy	Technology	Market	Reputation
Short	Low	Low	Low	Low
Medium	Medium	Low	Medium	Low
Long	Medium	Medium	High	Low

In the long term, acute physical risk events will become more frequent and more severe. The impact will vary by asset class. Companies could see a higher cost of doing business as a result of increased frequency and severity of acute physical risk events. This is most likely to materialise through higher cost of insurance.

Policy risk is rated medium over the medium- and long-term due to government policy likely attempting to encourage industries in carbon intensive sectors to decarbonise. Market risk is rated high over the long-term, as financial flows adjust significantly towards a low-carbon economy. This could lead to market disruption, particularly in a disorderly transition scenario.

Source: Annuity Provider. Note: Only applicable to the CAA Section of the Scheme. Only relates to PIC.

Climate-related opportunities

We identified some climate-related opportunities which may be suitable for the asset classes we invest in. These opportunities are valid over the short-, medium- and long-term time horizons:

Equity	**Resource Efficiency** – gives exposure to companies that are providing solutions to the challenge of rising demand for food, energy, water, and materials by investing in areas such as recycling, waste management, and innovative farming. **Grid Infrastructure** – a robust grid infrastructure is crucial to transport the generated power to where it is needed. Without a well-developed grid, the power generated from renewable sources could be wasted. Demand for renewable energy is expected to increase as we transition to a low carbon economy, as well as increasing demand from data centres. **Green Technology –** gives exposure to companies that are providing innovating solutions to develop eco-friendly technology that helps reduce greenhouse gas emissions and promotes the use of renewable energy. **Biodiversity –** nature conservation, protecting and restoring ecosystems, and solutions to prevent biodiversity loss
Infrastructure	The global renewable power strategy seeks to invest in global climate infrastructure, primarily renewable power, seeking financial returns with a purpose. Climate infrastructure represents a big part of global infrastructure deal flow, and is fuelled by improving economics of renewable power, as well as social and political commitment to tackling climate change. Beyond the low-carbon technologies already in use today, there are also many potential innovative solutions that could present opportunities. These include carbon capture and storage, direct air capture, low- or zero-carbon hydrogen and ammonia production and nature-based solutions.
Overseas Government Bonds	Variation in climate-related valuation impact is expected to be large, especially in the most exposed sectors. Those governments that are formulating effective transition plans today and committing the required capital to ensure economic prosperity alongside decarbonisation, going forward, are among the most likely to benefit.

Source: Fiduciary manager, Aon.

How resilient is the Scheme to climate change?

In 2023, we carried out climate change scenario analysis. This helped us to better understand the impact that climate change could have on the Scheme's assets and liabilities (and therefore funding strategy) in future. We reviewed this analysis and are comfortable that it remains appropriate for this year's report.

The analysis looks at 4 climate change scenarios plus the base case scenario. We chose these scenarios because we believe that they provide a reasonable range of possible climate change outcomes. The climate scenarios are compared to a base case scenario, which is based on what is priced into the market at the effective date of the modelling.

The scenarios were developed by Aon and are based on detailed assumptions. Each climate scenario considers what may happen to the Scheme when transitioning to a low carbon economy under different temperature-related environmental conditions. They are only illustrative and subject to considerable uncertainty. As such, a probability is deliberately not assigned by Aon to each scenario – rather, the exercise is exploratory in nature, to help us understand a plausible range of future outcomes.

The climate scenarios intend to illustrate the climate-related risks the Scheme is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the investment portfolio.

Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

Investment risk is captured in the deviance from the base case scenario, but this is not the only risk that the Scheme faces. Other risks include covenant risk, longevity risk, timing of member options, and operational risks.

It is important to note that the available data is far from perfect, the scenarios are illustrative, and the projected results are subject to considerable uncertainty. We recognise that data and projections are evolving rapidly and we continue to monitor how approaches to climate scenarios analysis evolve across the broader industry, supported by our advisers. Notwithstanding these limitations, we will continue to consult our investment adviser and take action as part of the Scheme's investment strategy reviews when needed to mitigate downside risk.

Trustee update

Under the Regulations, climate scenario analysis must be carried out at least every 3 years, with an annual review in each intervening year to confirm the most recent analysis is still appropriate.

We reviewed the scenario analysis completed as at 31 March 2023 and we are comfortable that the analysis remains appropriate for this year's report.

There have been no significant changes to the investment strategy, the liability profile/membership of the Scheme, the modelling techniques, significant shift in policy implementation to tackle climate change or asset data availability.

The ‘base case’ scenario

The base case scenario is based on Aon’s Capital Market Assumptions, which are based on the long-term consensus views of what is priced into the market (at the effective date of the modelling). And therefore, the scenario indirectly captures the climate risk that is embedded in the prevailing market conditions, including the future trajectory of macroeconomic variables such as interest rates and inflation. This forms the foundation of the ‘base case’ scenario. At the effective date of the modelling (and as we have disclosed previously), the market is pricing in a benign outcome where net zero is achieved in 2050 in a relatively undisruptive manner.

We recognise that the expectations of market behaviour currently ‘priced in’ by market participants, and the actual outcomes experienced may be different. This could result in impacts on the Scheme’s portfolios which are significantly better or worse than the base case.

Why we consider a range of scenarios

Recognising that the base case is relatively benign, we believe that it is important to explore a range of other plausible outcomes. This includes where policy action is more coordinated than at present (i.e. the transition to net zero occurs more quickly and smoothly), and scenarios where policy action is fragmented and disorderly – resulting in shocks to fiscal policy (translating to changes in inflation and interest rates, thus affecting the size and quantum of the Scheme’s liabilities to the extent that these are unhedged) and to asset markets (translating to disruption to asset pricing and consequential impacts on the Scheme’s investment portfolio).

Assessing the Scheme’s resilience to climate risks

We use the scenario analysis models to explore the level of resilience the Scheme has to potential future climate-related impacts on the assets and liabilities.

In some scenarios, the Scheme’s funding level worsens due to:

- Liabilities growing in size due to falling interest rates and rising inflation;
- Asset values falling due to negative investment performance and ‘shocks’ to asset markets;
- Erosion of assets due to needing to meet pension payments from the Scheme’s assets.

It is important to explore what may happen in order to consider mitigants like increasing interest rate and inflation hedging.

We would emphasise that these are scenarios that may transpire, but they are not predictions of what will happen. There are significant limitations in the modelling – for example no account is taken of changes in funding strategy, of future changes in the investment strategy or of future innovations that may allow economies to adapt better to the changes that occur.

Actions the Trustee has taken to mitigate climate risks

The active equity managers for both Sections incorporate ESG in their investment process. This means that they consider ESG-related risks and opportunities in the selection of securities.

We also include an ESG tilt across the passive equity investments, involving adjustment of the strategies’ allocations to align with specific ESG considerations.

We invest in ESG aware alternative strategies. For example, the Global Renewable Power Strategy and the Social Infrastructure Strategy – both of which are aligned to prudent management of climate risk, and capturing of climate-related opportunities.

During the year, our investment adviser carried out analysis of the Scheme’s equity portfolio to identify areas for further development that would support our climate goals.

The Trustee believes that climate change and efforts to curb it are expected to have major economic outcomes. These are therefore factored into the formulation of long-term expected returns and macroeconomic variables (such as the future trajectory of interest rates and inflation under each scenario).

Impact on the funding level

The Scheme invests its assets in a manner which aims to insulate its funding level to a significant degree against changes in the expected value of future liabilities due to interest rates and inflation expectations, whilst growing the remainder of the assets in excess of the liabilities.

In adverse scenarios, for example where high inflation is coupled with low equity market returns, the impact of high cash outflows out of the Scheme (particularly in the case of the NATS Section) will reduce the assets of the Scheme beyond which a subsequent recovery may not repair the losses.

No allowance has been made in the scenario analysis for the potential impact of climate change on mortality. Given the membership profile, we would not anticipate significantly higher mortality rates to have a material impact on the results of the analysis.

The scenarios

We chose the following scenarios having taken advice from Aon, our investment adviser. Aon believes the scenarios provide a reasonable range of plausible climate change outcomes.

	Base Case	No transition	Disorderly transition
	Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050.	No further action is taken to reduce GHG emissions leading to significant global warming.	Limited, uncoordinated action is taken and insufficient consideration is given to sustainable long-term policies to manage global warming effectively. The world economy remains oriented towards improving near-term economic prospects. Eventually, market participants begin to grasp the implications of climate change and there is a growing realisation that current levels of action are inadequate. Market values price in high levels of economic damage and the irreversible loss.
Temperature rise by 2100	+1.5ºC – 2.4ºC	+4ºC	< 3ºC
Reach net-zero by	2050	After 2050	After 2050
Introduction of environmental regulation	Fragmented coordination	None	Late and aggressive, uncoordinated

	Abrupt transition	Orderly transition
	Action on climate change is delayed for five years. The effects from increasingly extreme weather events in the next five years lead to widespread public concern. This leads to governments introducing policies to drive a rapid reduction in greenhouse gas. Delayed action on reducing emissions means that the costs of tackling the problem are higher.	Increased public awareness of climate change risks galvanises opinion and leads to governments undertaking widespread action globally to aggressively mitigate and adapt to climate change. A high global greenhouse gas tax and carbon cap is introduced.
Temperature rise by 2100	1.5ºC - 2ºC	1.3ºC - 2ºC
Reach net-zero by	2050	2050
Introduction of environmental regulation	Aggressive, coordinated	Coordinated

Source: Aon

Key consideration

In light of the limited progress made towards the net-zero transition and coordination of policy action in recent years, we believe that it is becoming more likely that disorderly transition effects will take place, and that the likelihood of coordinated policy action and an orderly transition is lower.

Impact Assessment – NATS Section

The climate change scenario analysis assumes an interest rate and inflation hedging level of 90% of assets. We believe this is a suitable long-term representation of the future hedging strategy.

Impact on funding level (hedging 90% of assets)

	Base case	No transition	Abrupt transition	Disorderly transition	Orderly transition
Funding level in 10 years	90%	82% *(-8%)*	79% *(-11%)*	73% *(-17%)*	88% *(-2%)*
Funding level in 20 years	85%	69% *(-16%)*	75% *(-10%)*	59% *(-26%)*	82% *(-3%)*

Source: Aon. Effective date of the impact assessment is 31 March 2023.
Please note: The results of the scenario modelling are illustrative and rely on many assumptions. These are subject to considerable uncertainty.

Under all scenarios modelled, the funding level is expected to deteriorate over the long-term. The Disorderly Transition and No Transition scenarios exhibit the worst outcomes over the long-term time horizon. This is due to:

- Negative shocks to investment markets decreasing the value of the Section's assets.
- Lower than expected investment returns, leading to additional stress on cashflow as pension payments continue to be met from a reducing portfolio of assets.
- Increasing liabilities relative to the assets, which further results in a funding deficit and place strain on the sponsor covenant.

Impact Assessment – CAA Section

The scenario analysis assumes an interest rate and inflation hedging level of 100% of assets. We believe this is a suitable long-term representation of the future hedging strategy.

Impact on funding level (hedging 100% of assets)

	Base case	No transition	Abrupt transition	Disorderly transition	Orderly transition
Funding level in 10 years	89%	88% *(-1%)*	85% *(-4%)*	84% *(-5%)*	87% *(-2%)*
Funding level in 20 years	93%	89% *(-4%)*	92% *(-1%)*	77% *(-16%)*	89% *(-4%)*

Source: Aon. Effective date of the impact assessment is 31 March 2023.
Please note: The results of the scenario modelling are illustrative and rely on many assumptions. These are subject to considerable uncertainty.

The worst outcome for the Section is the Disorderly transition scenario, under which late, aggressive policy action translates to widespread asset market shocks which causes the Section's funding level to fall. Recovery after the initial shock is muted, with the Section left materially worse off relative to the base case by the end of the modelling period. It should be noted, however, we intend to secure the Section's liabilities with an insurer before then and we are aware that this scenario may impact our ability to achieve this in the next 10 years.

Key conclusions

In some of the scenarios, the asset portfolios of both Sections exhibit some resilience. However, other scenarios had less favourable outcomes for the Scheme. For both Sections, the worst impact is under the Disorderly transition.

Equities in particular are exposed to climate risks. To mitigate these risks, we asked our investment adviser to carry out analysis of the Scheme's equity portfolio to identify areas for further development that would support our climate goals.

Building on this analysis, we asked our fiduciary manager to provide more information on a climate focused equity fund. We also asked our fiduciary manager to explain the engagement it is doing under its stewardship policy which targets decarbonisation. And in the future, we plan to consider if any other emerging market or small cap equity funds offer better ESG credentials that the current managers without compromising the Sections' risk-adjusted returns.

A detailed table of the impact of each scenario over the short-, medium- and long-term time horizons is available in the *Appendix*.

Modelling limitations

Scenario modelling relies on many assumptions. They are only illustrative and subject to considerable uncertainty. Please see the *Appendix* for more information on the assumptions underpinning the scenarios.

The climate scenarios modelling illustrates the potential impact climate change could have on the asset portfolios. It does not consider the impact climate change could have on other risks, such as timing of member options, operational risks, and covenant risk and longevity risk.

The scenario analysis takes into account the expected changes to the hedging strategies of each Section as their funding levels improve. We believe that this is an appropriate representation of the future hedging strategies.

The scenario modelling reflects market conditions and market views at the effective date of the modelling. The model may produce different results for the same strategy under different market conditions.

Demographic impact of climate risks

To date we have not quantified the potential impact of climate change on life expectancy and hence the extent to which the Scheme's demographic assumptions may need to change in future. As interest rate and inflation risks are reduced via hedging, other risks such as longevity risk become more significant. However, the CAA Section's annuity policies mitigate the impact of any changes to demographic assumptions may have on that Section relative to a scheme with no longevity protection.

We will consider incorporating the potential demographic impacts into the scenario analysis in future years.

Covenant Assessment

We asked our covenant adviser to carry out an assessment of the potential impact of climate-related risks on the Sponsor covenant of the Principal Employers of each Section. Overall, the climate-related covenant risk to the Scheme was considered low to medium, based on the following analysis.

The Principal Employer of the NATS Section, National Air Traffic Services ("NATS"), included new climate change scenario analysis within its 2023/24 annual report[3] which provides further detail on the climate-related risks and opportunities which NATS faces and their financial impacts. This has been taken into consideration and reflected in the analysis. Overall, the risk rating of the sponsor covenant remains unchanged since last year.

In the short-term, the regulatory framework and pricing mechanism and the structure of contracts offer significant protection to the Principal Employers and hence the covenant. We also believe that the management of airspace will remain a key requirement across all timescales but recognise that, in the medium- and long-term, the effects of climate change may result in increasing disruption to air travel and pressure on the scale of the aviation industry and the regulatory framework and pricing mechanisms as well as impacting NATS's operations, which will need to be managed. We will continue to monitor these developments and note that innovation in the management of airspace will be a key contributor to meeting carbon reduction targets.

We believe that in all timescales the use of airspace and the need for regulation, managers and users of airspace will continue. As such we expect the Principal Employer of the CAA Section, the Civil Aviation Authority ("CAA"), will continue to have a regulatory role in all timescales. The nature and funding of this role may evolve but such evolution will be a matter of public policy and should be visible.

We also note that the CAA has established the Net Zero Propulsion Programme, within which it coordinates and develops strategy relating to sustainable aviation, which is integral to the UK Government's target to attain net zero by 2050. As such, we note the strong role the CAA has to play in this evolution as a safety regulator for the aviation industry.

The CAA's focal points are on the design and certification of aircraft (such as those using hydrogen or electric propulsion); usage of low carbon fuels; ground infrastructure permitting the safe storage and usage of these fuels and technologies; and airspace modernisation.

Source: Penfida.

Trustee Update

Following the publication of new climate change scenario analysis from the Principal Employer of the NATS Section, our covenant adviser, Penfida, refreshed the covenant analysis on the Scheme and this has been reflected in this section of the report.

Key Takeaway

The climate-related covenant risk to the Scheme was rated **low to medium**.

[3] NATS Holding Limited – Annual Report and Accounts 2024 https://www.nats.aero/wp-content/uploads/2024/06/AR-24.pdf

Risk management

We must have processes to identify, assess and manage the climate-related risks that are relevant to the Scheme and these must be integrated into the overall risk management of the Scheme.

Reporting on our risk management processes provides context for how we think about and address the most significant risks to our efforts to achieve appropriate outcomes for members.

Our climate risk management framework

We have established a process to identify, assess and manage the climate-related risks that are relevant to the Scheme. This is part of the Scheme's wider risk management and is how we monitor the most significant risks to the Scheme in our efforts to achieve appropriate outcomes for members.

The climate risk management framework is set out in the tables below. The risk management framework gives clear understanding on the different entities involved and the frequency with which activities are conducted. We have delegated a number of key tasks to different committees but retain the final approval responsibility.

Governance

Activity	Delegated responsibility	Adviser support	Frequency
Climate change governance framework *(this document)*	Trustee Board	Investment adviser	Annual
Publish a TCFD report	Trustee Board	Investment adviser	Annual
Add / review climate risks and activity on key Scheme documentation (e.g., risk register)	IFC	Investment adviser	Ongoing
Review climate change beliefs	Trustee Board	Advisers	Triennial
Receive training on climate-related issues	Trustee Board	Advisers	Ongoing
Engage with the investment managers to understand how climate risks are considered in their investment approach, and stewardship activities are being undertaken appropriately	CIE	Investment adviser Fiduciary manager	Ongoing

Trustee update

We monitored the above activities as part of our climate-related risks and opportunities management.

During the year we received training from our investment adviser on the different types of portfolio alignment metrics and from the fiduciary manager on climate opportunities. We also met with our advisers to discuss the climate-related opportunities available within the Scheme's equity investments.

During the year, we completed a survey to review our Responsible Investment beliefs. Following this, we updated the Scheme's Responsible Investment Policy to reflect our latest climate beliefs.

Strategy

Activity	Delegated responsibility	Adviser support	Frequency
Undertake quantitative scenario analysis to understand the impact of climate related risks	IFC/CIE	Investment adviser	Triennially with annual review
Identify the climate-related risks and opportunities for investment and funding strategy, and assess their likelihood and impact	IFC/CIE	Investment adviser Fiduciary manager	Annual

Trustee update

The IFC and CIE, supported by the investment adviser and fiduciary manager, have identified the climate-related risks and opportunities in the Scheme's portfolio. Please see the *Strategy* section for more information.

In 2023, we undertook climate change scenario analysis to understand the potential impact on the Scheme's funding level. We reviewed the appropriateness of this climate change scenario analysis, and we are comfortable that the analysis remains relevant for the current reporting year.

During the year, our investment adviser carried out analysis of the Scheme's equity portfolio to identify areas where there are opportunities for further development that would support our climate goals. We are working on the next steps to take with our investment adviser and fiduciary manager.

Risk management

Activity	Delegated responsibility	Adviser support	Frequency
Include consideration of climate-related risks in the Scheme's other risk processes and documents, such as the risk register and the SIP, and regularly review these	Trustee	Advisors	Ongoing

Trustee update

Climate risks management is integrated into the ongoing risk management activities of the Scheme via this climate risk management framework.

We carried out a qualitative assessment of climate risks and a quantitative climate scenario analysis, which combined help us to focus on the risks that pose the most significant impact.

Metrics and Targets

Activity	Delegated responsibility	Adviser support	Frequency
Review data for agreed metrics	IFC/CIE	Advisers	Annual
Review continued appropriateness of metrics and targets	IFC/CIE	Investment adviser	Annual

Trustee update

Supported by our investment adviser, we collected the carbon metrics data for this report. This data helps us to understand the emissions associated with the Scheme's portfolio. We have noted that there were some gaps in the data. We also reviewed the ongoing suitability of our target. This is further addressed in the *Metrics and Targets* section.

Assessing our annuity providers

When transferring assets and liabilities to an annuity provider, we strongly believe that it is important to consider the provider's role and capability to act as a long-term steward of assets (and the Section's membership), taking into account climate-related risks. Our investment adviser, Aon, undertakes an annual assessment of the Responsible Investment approach and capabilities of each the Section's annuity providers: PIC, Legal & General ("L&G") and Rothesay Life. The results of Aon's latest assessments are summarised below:

PIC	L&G	Rothesay Life
PIC has taken some meaningful steps in the integration of Responsible Investment. PIC has carried out scenario testing and set RI policies across some of its assets. Assets are managed by a range of managers, PIC only chooses to partner with managers who demonstrate strong credentials in terms of sustainability and can demonstrate this. PIC has a set net zero target and has set interim milestones. PIC is a signatory to the UN Principles of Responsible Investment and the UK Stewardship Code.	L&G is ahead of its peers in a number of aspects of Responsible Investment. L&G was an early adopter of climate scenario analysis and has set clear carbon reduction targets. It has comprehensive ESG policies and a good understanding of ESG risks across all asset classes. L&G is a signatory to the UN Principles of Responsible Investment. Its asset manager (LGIM) also understands and takes account of ESG risks in its management of the assets. LGIM is a signatory to the UK Stewardship Code.	Rothesay Life integrates Responsible Investment considerations into the management of its annuity assets. It has carried out climate scenario testing and has aligned itself with the Paris carbon reduction objectives. Rothesay Life has RI-related policies across all asset classes. Rothesay Life is a signatory to the UN Principles of Responsible Investment and the UK Stewardship Code.

Source: Annuity providers, Aon.

Risk and impact assessment

We have undertaken a qualitative assessment of the transition and physical risks associated with the asset classes each Section invests in, along with the impact on the liabilities and covenant. We considered the short- (1 – 3 years), medium- (4 – 10 years) and long- (11 – 30 years) term time horizons appropriate for the Scheme in the assessment. We considered the prioritisation of the risks, those that represent the most significant potential for loss and those that are the most likely to occur.

We have adopted a 'risk and impact' approach (similar to a traditional likelihood and impact assessment) to gauge the severity and materiality of risks. We have integrated the processes for identifying, assessing and managing climate-related risks into our risk register, and the risk register is reviewed on a regular basis.

Please see overleaf for the assessment

Impact and section risk

The **impact** of climate-related risks on each asset class is expressed as a proportion of the Section's liabilities and in the case of the covenant the Section's deficit on the Long-term funding target basis.

The **section risk** is a qualitative judgement which considers the risk assessment provided by each of the providers as well as the impact, the size of the allocation to the asset class, our investment adviser's views on the climate risks associated with each asset class and the results of the climate change scenario analysis.

NATS Section

	Global Equity	Multi-Asset Credit	Overseas Government Bonds	LDI	Investment Grade Credit	Hedge Funds	Private Equity	Property and Infrastructure	Liabilities	Covenant
Impact*	24	5	2	31	5	7	4	5	100	10
Section Risk	High	Low	Low	Medium	Low	Low	Medium	Medium to High	Medium	Medium to High

CAA Section

	Global Equity	Multi-Asset Credit	Overseas Government Bonds	LDI	Investment Grade Credit	Hedge Funds	Liabilities	Covenant
Impact*	19	4	3	38	5	9	100	17
Section Risk	High	Low	Low	Medium	Low	Low	Low to Medium	Medium

*% of liabilities on Long-Term Funding Target as at 30 September 2024, based on the current Strategic Asset Allocation. Some assets not considered, e.g. cash, convertible bonds, annuities.

Key conclusions

The high-risk areas for the NATS Section are global equity, property and infrastructure, and the covenant. The medium risk areas are LDI, private equity and the liabilities.

For the CAA Section the high-risk area is global equity and the medium risk areas are LDI, liabilities and the covenant.

Multi-asset credit and investment grade credit's risks have reduced over the year from medium to low for both Sections. This is due to the Fiduciary Manager's more optimistic assessment of these asset classes' exposures to climate-related risks which can be found in the Strategy Section of this report.

We acknowledge the high risks associated with global equity and have taken action to mitigate these by selecting equity strategies that focus on reducing carbon intensity and incorporate ESG into their decision-making process. This year we have conducted an exercise to identify other equity opportunities that will further mitigate climate-related risks over the long-term.

The NATS Section's property and infrastructure assets have been rated medium to high risk due to the expectation that the severity and frequency of physical risks will increase over time as global temperatures rise. We mitigate climate risks by investing in ESG aware strategies. For example, the Global Renewable Power Strategy and the Social Infrastructure Strategy – both of which are aligned to prudent management of climate risk and capturing of climate-related opportunities. Further, we have decided to exit direct investments in property and are in the process of disinvestment.

Little can be done to mitigate the climate risk inherent in government bonds (and therefore in LDI). We plan to consider climate-related risks in the Scheme's next liability hedging review, albeit it is not expected to be material.

With respect to the investment grade credit mandates, climate change risks are integrated into the underlying managers' investment processes, through a combination of top-down analysis on the broader portfolio and bottom-up research and monitoring of individual issuers.

The NATS Section's funding position on the Long-term funding target combined with the longer-term covenant risks means the risk is medium to high. Whereas the smaller magnitude of the funding deficit in the CAA Section and the anticipated shorter duration of the Section means the covenant risk is considered medium as this Section's reliance on covenant is shorter.

Given the longer expected timeframes of the NATS Section, the risk of an adverse climate event on the liabilities of the Section is rated medium. The shorter expected timeframes of the CAA Section of the Scheme, the risk of an adverse climate event on the liabilities of the Section is rated a low to medium risk.

Metrics & Targets

Metrics help to inform our understanding and monitoring of the Scheme's climate-related risks. Quantitative measures of the Scheme's climate-related risks, in the form of both greenhouse gas emissions and non-emissions-based metrics, help us to identify, manage and track the Scheme's exposure to the financial risks and opportunities climate change will bring.

Our climate-related metrics

We use some quantitative measures to help us understand and monitor the Scheme's exposure to climate-related risks. Measuring the greenhouse gas emissions related to our assets is a key way for us to assess our exposure to climate change.

Greenhouse gases are produced by burning fossil fuels, meat and dairy farming, and some industrial processes. When greenhouse gases are released into the atmosphere, they trap heat in the atmosphere causing global warming, contributing to climate change.

Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

Scope 1

All direct emissions from the activities of an organisation which are under their control; these typically include emissions from their own buildings, facilities and vehicles

Scope 2

These are the indirect emissions from the generation of electricity purchased and used by an organisation

Scope 3

All other indirect emissions linked to the wider supply chain and activities of the organisation from outside its own operations – from the goods it purchases to the disposal of the products it sells

Scope 3 emissions are often the largest proportion of an organisation's emissions, but they are also the hardest to measure. The complexity and global nature of an organisation's value chain make it hard to collect accurate data.

For more information about GHG emissions, please see the *Appendix*.

The metrics we use

Total Greenhouse Gas emissions	The total greenhouse gas (GHG) emissions associated with the portfolio. It is an absolute measure of carbon output from the Scheme's investments and is measured in tonnes of carbon dioxide equivalent (tCO2e).
Carbon footprint	Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested (tCO2e/£m).
Data Coverage	A measure of the proportion of the portfolio that there is high quality data for (i.e. data which is based on verified, reported, or reasonably estimated emissions, versus that which is unavailable). This has been selected on the basis that it provides a consistent and comparable measure of the level of confidence in the data.
Binary target measurement	A metric which shows how much of the Scheme's assets are aligned with a climate change goal of limiting the increase in the global average temperature to 1.5˚C above pre-industrial levels. It is measured as the percentage of portfolio investments with a declared net-zero or Paris-aligned target which has been validated by the Science Based Targets initiative, or are already net-zero or Paris-aligned.

Changes since last year

This year we reviewed the metrics, and we decided to report on Binary Target Measurement ("BTM") rather than Implied Temperature Rise ("ITR"). This is because in previous years, ITR was only available for a very small proportion of the Scheme's assets. Furthermore, BTM represents the proportion of companies which have emissions targets which have been verified and validated by the Science Based Target initiative ("SBTi"). This validation from an external third-party enhances the metric's credibility in comparison to ITR.

Data coverage

One of the greatest challenges when it comes to measuring emissions is the quality of the carbon data. Carbon data is scored to indicate the level of confidence we can have in it. Reported emissions data is the most accurate and reliable, followed by various methods of inferred and estimated emissions.

We expect that in the future better information will be available from managers and this improvement will be reflected in the coming years' reporting.

The below tables show how much of the emissions data is reported and how much is estimated for each Section. These tables are to be read in conjunction with the Scheme's carbon metrics on the following pages.

It is important to consider the quality of data when interpreting the Scheme's carbon metrics. Because data coverage is low within some asset classes, the carbon metrics are unlikely to include all the Scheme's emissions. So we should be cautious about any conclusions we draw.

NATS Section

	Scopes 1 & 2			Scope 3		
Asset Class	**Reported data**	**Estimated data**	**Total data coverage[2]**	**Reported data**	**Estimated data**	**Total data coverage[2]**
Global Equity	78%	11%	**89%**	0%	84%	**84%**
Multi-Asset Credit	29%	11%	**40%**	0%	40%	**40%**
Investment Grade Credit	70%	11%	**80%**	0%	79%	**79%**
Alternatives (inc Hedge Funds)[1]	24%	32%	**56%**	0%	53%	**53%**
Overseas Government Bonds	0%	100%	**100%**	n/a	n/a	n/a
LDI	0%	100%	**100%**	n/a	n/a	n/a

CAA Section

	Scopes 1 & 2			Scope 3		
Asset Class	**Reported data**	**Estimated data**	**Total data coverage[2]**	**Reported data**	**Estimated data**	**Total data coverage[2]**
Global Equity	75%	11%	**86%**	0%	82%	**82%**
Multi-Asset Credit	34%	10%	**43%**	0%	44%	**44%**
Investment Grade Credit	70%	11%	**80%**	0%	79%	**79%**
Hedge Funds	39%	61%	**100%**	0%	100%	**100%**
Overseas Government Bonds	0%	100%	**100%**	n/a	n/a	n/a
LDI	0%	100%	**100%**	n/a	n/a	n/a
Bulk Annuities	46%	28%	**75%**	15%	8%	**23%**

Footnotes for both tables. Source: Fiduciary manager, underlying managers, LDI manager, bulk annuity providers, MSCI. Sums may not add due to rounding. Excludes cash and convertible bonds.
1. Alternatives includes hedge funds, property, and infrastructure.
2. Total data coverage = Estimated data + reported data

Data as at 30 September 2024. except the bulk annuities and select alternative assets. L&G and PIC have provided metrics as at 31 December 2023. Data provided for alternatives is latest available data, 31 December 2023 for select alternative assets. Sums may not add due to rounding.
Bulk Annuities for scope 1 and 2 include L&G and PIC only and scope 3 only covers PIC as currently the other two bulk annuity providers are unable to provide scope 3 data.

The Scheme's climate-related metrics

In the tables below are the climate-related metrics for the Scheme's assets. The metrics are shown separately for the Liability Driven Investments ("LDI") and government bonds from the other investments because the methodology used for each are different so aggregating the metrics would not be suitable. A detailed breakdown for each asset class is available in the *Appendix*.

We acknowledge that higher quality data will become available from managers in the future and this improvement may result in an increase in the Scheme's total GHG emissions in future years.

There are no industry standard methodologies for calculating metrics for certain asset classes, and different managers may use different methods and assumptions when providing data. This may effect comparison between asset classes and year-on-year comparison if the methodologies change.

NATS Section

	Year	Asset Allocation	Data Coverage		Total GHG emissions (tCO_2e)		Carbon footprint (tCO_2e/£m)	
Asset class		(£m)	S1&2	S3	S1&2	S3	S1&2	S3
Liquid Markets	2024	1,192	81%	77%	58,330	348,400	60.6	379.2
	2023	*962*	*65%*	*61%*	*46,490*	*277,700*	*74.6*	*472.8*
Illiquid Markets	2024	598	56%	53%	6,250	39,110	18.6	123.7
	2023	*600*	*52%*	*21%*	*18,630*	*11,500*	*59.6*	*90.8*
Overseas Government bonds	2024	311	100%	n/a	98,375	n/a	315.9	n/a
	2023	*352*	*100%*	*n/a*	*102,727*	*n/a*	*291.6*	*n/a*
LDI	2024	1,154	100%	n/a	82,807 Physical 90,227 Synthetic	n/a	74.2	n/a
	2023	*1,071*	*100%*	*n/a*	*93,104 Physical* *46,156 Synthetic*	*n/a*	*71.9*	*n/a*

*See page 38 for footnotes to the table.

Commentary

Over the year, total emissions have increased from last year, this is primarily due to an improvement in data coverage and an increase in the asset value of certain asset classes.

The largest contributors to GHG emissions are LDI and the overseas government bonds for scopes 1 and 2 emissions, and liquid markets for scope 3 emissions.

Generally, carbon footprints for liquid and illiquid market assets have decreased indicating these assets are less carbon intensive than we previously thought. This is mainly due to better data coverage and changes to the underlying investments.

The total emissions and carbon footprints are quite variable from one year to the next. As data coverage improves, a more stable outlook for the carbon footprint of the assets and total emissions should emerge.

Liquid markets

Data coverage improved significantly since last year for all scopes which means the metrics reflect more of the assets than last year. As a result of higher data coverage and an increase in the size of assets, the total emissions increased. Even though the carbon footprints reduced materially since last year.

Illiquid markets

The carbon footprint and emissions decreased for scopes 1 and 2 over the year. This is mainly due to changes in the underlying managers within the portfolio. The scope 3 carbon footprint and emissions have increased because of a significant improvement in the data coverage.

Overseas government bonds

The scope 1 and 2 carbon footprint increased modestly since last year. The total emissions decreased due to a decrease in the size of assets invested in overseas government bonds.

LDI

LDI emissions are shown for physical assets and synthetic assets. Physical assets are those which the Scheme owns outright. Synthetic assets are those which the Scheme indirectly gains exposure to using financial instruments like derivatives. Total emissions increased this year due to a slight increase in the carbon footprint as well as an increase in the asset value.

CAA Section

Asset class	Year	Asset Allocation (£m)	Data coverage S1&2	Data coverage S3	Total GHG emissions (tCO_2e) S1&2	Total GHG emissions (tCO_2e) S3	Carbon footprint (tCO_2e/£m) S1&2	Carbon footprint (tCO_2e/£m) S3
Liquid Markets	2024	116	79%	76%	5,180	31,820	56.5	363.2
	2023	*110*	*83%*	*79%*	*5,140*	*38,650*	*56.0*	*441.0*
Illiquid Markets (hedge fund only)	2024	39	100%	100%	2,560	6,780	66.5	176.2
	2023	*35*	*100%*	*0%*	*1,330*	*n/a*	*38.0*	*n/a*
Overseas Government bonds	2024	39	100%	n/a	12,236	n/a	315.9	n/a
	2023	*30*	*100%*	*n/a*	*8,740*	*n/a*	*291.7*	*n/a*
LDI	2024	170	100%	n/a	12,665 Physical 12,367 Synthetic	n/a	74.5	n/a
	2023	*157*	*100%*	*n/a*	*13,660 Physical 5,105 Synthetic*	*n/a*	*71.9*	*n/a*
Bulk Annuities	2024	1,103	85%	2%	71,743	10,019	76.5	450.0
	2023	*1,159*	*64%*	*3%*	*63,923*	*13,503*	*86.4*	*429.5*

*See page 38 for footnotes to the table.

Commentary

The total emissions associated with the CAA Section are smaller than for the NATS Section because the size of the assets is smaller.

The largest contributors to GHG emissions are LDI and the bulk annuities for scopes 1 and 2 emissions. The liquid market assets are the largest contributor of scope 3 emissions.

Liquid markets

The scope 1 and 2 emissions and carbon footprint are similar to last year. Scope 3 carbon emissions have decreased. This is mainly due to a significant fall in the scope 3 carbon footprint following changes in the underlying managers and allocation of weights of these managers within the portfolio.

Illiquid markets

The scopes 1 and 2 carbon footprint and carbon emissions have increased significantly. For the CAA Section, illiquid markets consist only of a hedge fund of funds strategy. Given the high degree of dynamism within the underlying fund's investments, it is expected for there to be a large degree of change from one year to the next in the emissions and carbon footprint.

This year the manager was able to provide scope 3 carbon data for the first time.

Overseas government bonds

The scopes 1 and 2 carbon footprint increased modestly since last year. The emissions have increased too due to the increase in carbon footprint and a small increase in the size of assets invested.

LDI

Total emissions have increased this year due to a slight increase in the carbon footprint as well as an increase in the asset value.

Annuities

For the bulk annuities, carbon data from this year is not directly comparable to the data from last year due to changes methodologies.

Binary Target Measurement

The BTM shows how much of the Scheme's assets are aligned with a climate change goal of limiting the increase in the global average temperature to 1.5˚C above pre-industrial levels.

It is measured as the percentage of portfolio investments with a declared net zero or Paris-aligned target which has been validated by the SBTi, or are already net-zero or Paris-aligned.

Currently, there is no standard approach for calculating BTM for government bonds. Hence there is no BTM for the LDI assets or Overseas Government Bonds.

NATS Section

Asset class	Asset Allocation (£m)	BTM
Global Equity	892	37%
Multi-asset Credit	180	10%
Overseas Government Bonds	311	n/a
Investment Grade Credit	121	23%
Alternatives	598	1%
LDI	1,154	n/a

CAA Section

Asset Class	Asset Allocation (£M)	BTM
Global Equity	84	36%
Multi-asset Credit	18	11%
Overseas Government Bonds	39	n/a
Investment Grade Credit	14	23%
Hedge Funds	39	6%
LDI	170	n/a
Annuity Providers	1,103	43%

*See page 38 for footnotes to the table.

Notes on the data

- BlackRock (the fiduciary manager) provided scope 1, 2 and 3 GHG emissions data.
- LGIM (the LDI manager) provided the information on physical and synthetic exposures.
- PIC (one of the Annuity providers) provided scopes 1, 2 and 3 GHG emissions.
- L&G, and Rothesay (two of the Annuity providers) provided scopes 1 and 2 data only.

In general, we relied on information provided by the Scheme's fiduciary manager, underlying investment managers and annuity providers (who in turn may rely on their own third party data providers such as the MSCI) about their greenhouse gas emissions. Our investment adviser, Aon, aggregated this information to calculate the metrics for each Section's asset portfolio.

Aon did not make any estimates for missing data.

Because not all the Scheme's managers were able to provide all the requested data, the reported emissions metrics do not include all the Scheme's GHG emissions. And so, the metrics show the Scheme's GHG emissions to be lower than they really are.

We expect that in the future better information will be available from managers and this improvement will be reflected in the coming years' reporting. Carbon data can improve through an increase in quality, timeliness of reporting and greater coverage of assets for which carbon data becomes available. We will ask our fiduciary manager to engage with the underlying managers that were unable to supply emissions data to communicate our expectations for better data in future reporting.

Scope 3 GHG emissions relate to indirect emissions linked to the wider supply chain and activities of an organisation from outside its own operations for example, from the goods it purchases to the disposal of the products it sells. The nature of scope 3 GHG emissions makes them more complex to collect and report on, often resulting in higher levels of estimation compared to scopes 1 and 2 GHG emissions. Scope 3 GHG emissions are currently not applicable to government bonds and LDI assets because no industry-wide agreed methodology is applicable to calculate scope 3 GHG emissions for sovereign assets.

***Footnotes to the metrics tables on pages 35, 36 and 37.**

Data sources: Fiduciary manager, underlying investment managers, LDI manager, annuity providers, MSCI and Aon. Figures may not sum due to rounding. Where carbon data was supplied in US Dollars, Aon converted into GBP using a suitable exchange rate.

2024 data is as at 30 September 2024 except the bulk annuities and select alternative assets. The bulk annuities carbon data is lagged by a year due to reporting timelines, hence data is as at 31 December 2023. Data provided for alternatives is the latest available data, 31 December 2023 for select alternative assets.

2023 data is as at 29 September 2023 except the bulk annuities and alternative assets. The bulk annuities carbon data is lagged by a year due to reporting timelines, hence data is as at 31 December 2022. Data provided for alternatives is the latest data available, 31 December 2022.

Cash and convertible bonds have been excluded on the grounds of materiality.

Liquid markets

Liquid markets data includes global equity, multi-asset credit and investment grade credit.

The 2023 figures for the Liquid Markets of both Sections, have been restated after receiving revised data for the multi-asset credit assets.

Illiquid markets

For the NATS Section, the illiquid markets include hedge funds, private equity, property, and infrastructure. For the CAA Section the illiquid markets include hedge funds only.

Overseas government bonds

Carbon footprint is expressed as tCO_2e/£ GDP nominal.

LDI

Emissions associated with LDI includes both physical emissions (emissions associated with physical assets that are held within the portfolio) and synthetic emissions (emissions associated with the notional exposure to sovereign bonds gained through derivatives).

Scope 3 emissions data is not available for LDI or overseas government bonds because there is currently no agreed methodology for calculating these emissions.

Bulk annuities

The 2023 GHG emissions for bulk annuities excluded L&G as it could not provide all the data needed.

Looking to the future
Our climate-related target

Climate-related targets help us track our efforts to manage the Scheme's climate-change risk exposure.

In our first year of reporting, we set a target to improve the quality of climate-related data across the Scheme's portfolios. Without meaningful data from the investment managers, it is very hard for us to measure our climate-risk exposure. So, it is important to set a target to improve the quality of GHG emissions data from the managers.

Our focus on data quality

To improve data quality over the coming years, our initial focus is on data coverage of scope 1 and 2 GHG emissions (i.e. the proportion of the Scheme's assets for which scopes 1 and 2 emissions data is available including both reported and estimated data). We will prioritise asset classes which have the least data coverage (i.e. multi-asset credit, hedge funds and alternatives).

We recognise that positive outcomes for some of the asset classes may be outside of our control, such as the insured assets. As a result, the target set excludes insured assets, focusing on the asset classes where we expect to be able to have the greatest influence. The Scheme's performance against the target is measured and reported on every year. Over time, this will show the Scheme's progress against the target.

Our progress towards the data coverage target

Data coverage has broadly stayed the same for most asset classes except for the CAA Section's alternatives (which is solely hedge funds) which has seen a significant improvement.

Trustee update

Each year we review the suitability of the target we have set. Based on the data collected and the metrics calculated this year, we believe the data coverage target continues to be suitable.

We want our targets to remain challenging, so we have decided to include an assessment of the proportion of data which has been reported rather than estimated.

	NATS Section				CAA Section			
		Actual Data Coverage (Scopes 1 & 2)				Actual Data Coverage (Scopes 1 & 2)		
Asset Class	**2027 Target**	**2022**	**2023**	**2024**	**2027 Target**	**2022**	**2023**	**2024**
Global Equity	95%	89%	90%	89%	95%	72%	92%	86%
Multi-asset Credit	70%	43%	35%	40%	70%	49%	43%	43%
Overseas Government Bonds	100%	100%	100%	100%	100%	100%	100%	100%
Investment Grade Credit	90%	76%	82%	80%	90%	83%	82%	80%
Alternatives (inc Hedge Funds)	65%	14%	53%	56%	70%	0%	100%	100%
LDI	100%	100%	100%	100%	100%	100%	100%	100%

Source: Fiduciary manager, underlying managers, Aon, MSCI.

Evolving our targets

We want the targets to remain challenging, so we have set targets for the proportion of data which is *reported* rather than estimated. This is more ambitious than the data coverage targets, which includes reported and estimated data.

Asset Class	NATS Section Scopes 1& 2 2030 Target % reported data	Reported data 2024	CAA Section Scopes 1& 2 2030 Target % of reported data	Reported data 2024
Global Equity	85%	78%	85%	75%
Multi-asset Credit	50%	29%	50%	34%
Investment Grade Credit	75%	70%	75%	70%
Alternatives (inc Hedge Funds)	30%	24%	50%	39%

Source: Fiduciary manager, underlying managers, MSCI. Data as at 30 September 2024 except alternative assets where data is latest available, 31 December 2023 for select alternative assets. The targets cover scopes 1 and 2 emissions only. The targets are not applicable to overseas government bonds or LDI as all emissions are estimated for these asset classes.

What improvement is expected to look like

We expect to see a gradual improvement in data coverage and the proportion of reported data for equities and bonds over the next few years. For other asset classes such as alternatives and hedge funds, development in the next few years is expected to be more gradual, with progress expected in due course as best practice continues to be developed in these areas.

Each year, we will review the progress made and reevaluate the target for each asset class.

What is the Trustee doing to reach the target?

We will act accordingly to meet the data coverage, the proportion of reported data and BTM targets, being mindful of any unintended consequences. We will factor in the investment strategy and the Scheme's objectives when carrying out actions to make progress towards the targets. To reach our targets, we plan to:

- To improve consistency, encourage managers to use industry-standard templates when reporting on carbon metrics.
- Continue engagements with the Scheme's managers.

Appendices

Please see the appendices for additional information about our climate disclosures report.

01 - Glossary

Governance refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders.[4] Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated.[5]

Strategy refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.[6]

Risk management refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.[7]

Climate-related risk refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.[8]

Climate-related opportunity refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.[9]

Value chain refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).[10]

Net zero means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.[11]

[4] A. Cadbury, Report of the Committee on the Financial Aspects of Corporate Governance, London, 1992.

[5] OECD, G20/OECD Principles of Corporate Governance, OECD Publishing, Paris, 2015.

[6] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[7] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[8] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[9] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[10] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017

[11] Energy Saving Trust, What is net zero and how can we get there? - Energy Saving Trust, October 2021

02 - Climate risk categories

Climate-related risks are categorised into physical and transition risks. Below are examples of transition and physical risks.

Physical risks

Physical risks refer to the physical impacts of climate change on a firm's operations. They directly impact a firm's ability to perform its function due to climate disruption. They fall into two subcategories: acute and chronic. Acute risks are extreme climate events, and chronic risks are trends that appear over time.

Acute	Chronic
Examples	**Examples**
Extreme heat	Water stress
Extreme rainfall	Sea level rises
Floods	Land degradation
Droughts	Variability in temperature

Transition risks

Transition risks are those related to the ability of an organisation to adapt to the changes required to reduce greenhouse gas emissions and transition to renewable energy. Within transition risks, there are four key areas: policy and legal, technological innovation, market changes, and reputational risk.

Policy and legal	Technology
Examples	**Examples**
Increased pricing of GHG emissions	Cost to transition to lower emissions technology
Enhanced emissions-reporting obligations	Unsuccessful investments in new technologies
Regulation of existing products and services	
Potential financial impacts	**Potential financial impacts**
Increased operating costs (e.g. higher compliance costs, increased insurance premiums)	Write-offs and early retirement of existing assets
Write-offs, asset impairment and early retirement of existing assets due to policy changes	Capital investments in technology development
	Costs to adopt new practices and processes

Market	Reputational
Examples	**Examples**
Changing customer behaviour	Stigmatisation of sector
Uncertainty in market signals	Increased stakeholder concern or negative stakeholder feedback
Increased cost of raw materials	
Potential financial impacts	**Potential financial impacts**
Reduced demand for goods and services due to shift in consumer preferences.	Reduced revenue from decreased demand for goods and services.
Abrupt and unexpected increases in energy costs.	Reduced revenue from decreased production capacity
Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations).	

For its risk assessment the fiduciary manager categorised the transition risks into three categories: Fundamentals, Macro and Repricing.

Fiduciary manager Categorisation of Risk Areas

Macro

Examples
Economic growth/stagnation
Inflationary environments

Potential financial impacts
Assets influenced by broader macro-economy

Repricing

Examples
Changing market sentiment
Changing risk premia over time

Potential financial impacts
Expectation of future returns

Fundamentals

Examples
Regulatory burden to transition to lower emissions technology
Changing consumer behaviours
Changing raw material costs
Cost to transition to lower emissions technology

Potential financial impacts
Asset stranding i.e. an investment may lose its value ahead of its anticipated useful life because of the impact of climate change and/or the transition to a low carbon economy
Impact of compliance with regulations
Impact on corporate profits
Direct impact on the performance of assets

03 - Climate scenarios impacts in detail

The table below describes the impact of each scenario on the NATS and CAA Sections of Scheme over the short-, medium- and long-term time horizons.

No Transition Scenario		
Summary of the Scenario	Summary of the impact to the NATS Section	Summary of the impact to the CAA Section
In the short-term: There is no action taken to combat climate change.	**In the short-term:** There is no initial risk to the Section, as the funding level is expected to follow the base case.	**In the short-term:** There is no initial risk to the Section, as the funding level is expected to follow the base case.
In the medium-term: There is no action taken to combat climate change. Impacts from physical risks gradually become more severe over time leading to a drag on economic growth and risk asset returns.	**In the medium-term:** The Section's funding level deteriorates as a result of poor investment returns on risk assets and the deficit continues to increase. The Section's sponsor may be required to make up any funding shortfall.	**In the medium-term:** The Section's funding level remains stable but starts to lag the base case.
In the long-term: Climate change headwinds grow and act as a drag on economic growth and risk asset returns. Impacts from physical risks become more severe and irreversible by 2100.	**In the long-term:** The funding position continues to lag the base case, and more optimistic scenarios, driven by performance of growth assets and the impact of economic growth. Overall, the Section is expected to remain in a deficit.	**In the long-term:** The funding position continues to lag the base case, and more optimistic scenarios, driven by performance of growth assets and the impact of economic growth. Overall, the Section is expected to remain in a deficit.

Disorderly Scenario		
Summary of the Scenario	Summary of the impact to the NATS Section	Summary of the impact to the CAA Section
In the short-term: Insufficient consideration given to long-term policies and there is no action taken to combat climate change.	**In the short-term:** There is no initial risk to the Section, as the performance of the assets, and the liabilities and therefore the Section's funding level, is expected to follow a similar path to the base case.	**In the short-term:** There is no initial risk to the Section, as the performance of the assets, and the liabilities and therefore the Section's funding level, is expected to follow a similar path to the base case.
In the medium-term: Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. Adverse impacts from climate change leads to a drag on risk assets.	**In the medium-term:** The Section's funding level deteriorates as a result of late and aggressive action to tackle climate change. The funding level is expected to remain in a deficit.	**In the medium-term:** The Section's funding level deteriorates as a result of late and aggressive action to tackle climate change. The funding level is expected to remain in a deficit.
In the long-term: After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long-term. However, the late and disorderly climate transition means that physical climate	**In the long-term:** Longer-term risks are illustrated by the disorderly transition scenario, where a large shock to asset returns takes place in later years. This is following very limited action to reduce GHG emissions in earlier years, resulting in a much larger impact once action is belatedly taken. This	**In the long-term:** A large shock to asset returns takes place in later years. This is following very limited action to reduce GHG emissions in earlier years, resulting in a much larger impact once action is belatedly taken. This results in very poor asset returns over the longer

risks remain prominent over the very long-term.	results in very poor asset returns over the longer term, particularly when comparing against the other scenarios.	term, particularly when comparing against the other scenarios.

Orderly Scenario

Summary of the Scenario	Summary of the impact to the NATS Section	Summary of the impact to the CAA Section
In the short-term: Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly.	**In the short-term:** The largest short-term risk faced by the NATS Section of the Scheme is reflected by the orderly transition scenario. This is due to high inflation, poor equity performance in early years having a pronounced negative impact on asset returns; however, this is followed by a material recovery in later years.	**In the short-term:** The largest short-term risk faced by the CAA Section of the Scheme is reflected by the orderly transition scenario. This is due to high inflation, poor equity performance in early years having a pronounced negative impact on asset returns; however, this is followed by a material recovery in later years.
In the medium-term: The rapid transition to clean technologies and green regulation begins to boost economic growth.	**In the medium-term:** The funding position begins to recover as risky assets perform well, benefitting from the economic growth.	**In the medium-term**: The funding position begins to recover as risky assets perform well, benefitting from the economic growth.
In the long-term: The rapid transition to clean technologies and green regulation begins to boost economic growth. This represents the fastest transition to a green economy, combined with limited physical impacts from climate change despite the large initial transition cost.	**In the long-term:** The Section's assets gain from economic growth however due to the increasing value of the liabilities and the large initial transition cost, the funding level is expected to follow a steady downward path.	**In the long-term:** The funding position remains stable over the long-term and the funding level is expected to continue to grow.

Abrupt Scenario

Summary of the Scenario	Summary of the impact to the NATS Section	Summary of the impact to the CAA Section
In the short-term: There is no action taken to combat climate change.	**In the short-term:** The Section experiences a more sustained fall in funding level compared to the Base Case.	**In the short-term:** The Section experiences a more sustained fall in funding level compared to the base case.
In the medium-term: There is no action taken to combat climate change. Impacts from physical risks gradually become more severe over time leading to a drag on economic growth and risk asset returns.	**In the medium-term:** The Section experiences a material drop in its funding level as a result of the higher cost to implement steps to tackle climate change which leads to risky assets performing poorly. However, funding does begin to recover within the medium-term as the economy begins to recover, which boosts growth. The Section remains in a deficit.	**In the medium-term:** The Section experiences a material drop in its funding level as a result of the higher cost to implement steps to tackle climate change which leads to risky assets performing poorly. However, funding does begin to recover within the medium-term as the economy begins to recover, which boosts growth. The Section remains in a deficit.
In the long-term: Climate change headwinds grow and act as a drag on economic growth and risk asset returns. Impacts from physical risks become more severe and irreversible by 2100.	**In the long-term:** The funding position begins to recover, before a further deterioration occurs with the drag on economic growth and the intensifying physical risks. As such, we see the value of the liabilities increasing, which begins to put the funding level on a downward path.	**In the long-term:** The funding position remains stable over the long-term and continues to follow a similar path the base case. The Section starts reaching full funding towards the end of the modelling period.

Effective data of the impact assessment is 31 March 2023

04 - Modelling assumptions

The climate scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty. They consider the exposure of the Scheme to climate-related risks and the approximate impact on asset/liability values over the long-term.

Aon's model uses a deterministic projection of assets and long-term liabilities, using standard actuarial techniques to discount and project expected cashflows.

It models the full yield curve as this allows for an accurate treatment of the liabilities and realistic modelling of the future distribution of interest rates and inflation. It also allows us to truly assess the sensitivities of the assets and liabilities to changes in interest and inflation rates.

The parameters in the model vary deterministically with the different scenarios.

Note no allowance is made for expenses, with modelled asset/liability cashflows left unaffected by these factors.

The liability update and projections are considered appropriate for the analysis. However, they are approximate and a full actuarial valuation carried out at the same date may produce a materially different result. The liability update and projections are not formal actuarial advice and do not contain all the information you need to make a decision on the contributions payable or investment strategy.

The model intends to illustrate the climate-related risks the Scheme is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the portfolio allocation.

Other relevant issues such as governance, costs and implementation (including manager selection and due diligence) must be considered when making changes to the investment strategy.

Investment risk is only captured in the deviance from the Base Case, but this is not the only risk that the Scheme faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

The model has been set up to capture recent market conditions and views; the model may propose different solutions for the same strategy under different market conditions.

Data used

NATS Section

The model projects using the following inputs as at 31 March 2023:

- Market value of assets: £3,544M
- Present value of long term funding target liabilities: £4,212M
- Deficit contributions modelled in line with the current schedule of contributions.

CAA Section

The model projects using the following inputs as at 31 March 2023:

- Market value of assets: £429.2M
- Present value of long term funding target liabilities: £528.1M
- Deficit contributions modelled in line with the current schedule of contributions.

05 - Detailed Metrics – NATS

The table below shows a detailed breakdown of the carbon metrics for the NATS Section.

Manager	Asset class	Year	Asset Alloc-ation	Data coverage		Total GHG emissions (tCO_2e)		Carbon footprint (tCO_2e/£m)	
			(£m)	S1&2	S3	S1&2	S3	S1&2	S3
BlackRock	Global Equity	2024	892	89%	84%	43,900	275,290	55.3	366.1
		2023	*415*	*90%*	*81%*	*21,490*	*131,940*	*57.2*	*393.1*
	Multi-Asset Credit	2024	180	40%	40%	8,830	33,130	123.8	463.2
		2023	*415*	*34%*	*35%*	*16,240*	*73,300*	*115.0*	*510.5*
	Overseas Government Bonds	2024	311	100%	n/a	98,375	n/a	315.9	n/a
		2023	*352*	*100%*	*n/a*	*102,727*	*n/a*	*291.6*	*n/a*
	Investment Grade Credit	2024	121	80%	79%	5,600	39,980	57.6	418.2
		2023	*131*	*82%*	*82%*	*8,760*	*72,460*	*81.1*	*671.4*
	Alternatives (inc Hedge Funds)	2024	598	56%	53%	6,250	39,110	18.6	123.7
		2023	*600*	*52%*	*21%*	*18,630*	*11,500*	*59.6*	*90.8*
LGIM	LDI	2024	1,154	100%	n/a	82,807 Physical 90,227 Synthetic	n/a	74.2	n/a
		2023	*1,071*	*100%*	*n/a*	*93,104 Physical 46,156 Synthetic*	*n/a*	*71.9*	*n/a*

*See page 50 for footnotes to the table.

06 - Detailed Metrics – CAA

The table below shows a detailed breakdown of the carbon metrics for the CAA Section.

Manager	Asset class	Year	Asset Alloc-ation	Data coverage		Total GHG emissions (tCO_2e)		Carbon footprint (tCO_2e/£m)	
			(£m)	S1&2	S3	S1&2	S3	S1&2	S3
BlackRock	Global Equity	2024	84	86%	82%	4,060	25,000	55.7	362.3
		2023	*77*	*92%*	*87%*	*3,400*	*26,410*	*48.5*	*397.8*
	Multi-Asset Credit	2024	18	43%	44%	480	2,230	62.7	290.7
		2023	*15*	*42%*	*40%*	*510*	*2,090*	*77.7*	*341.8*
	Overseas Government Bonds	2024	39	100%	n/a	12,236	n/a	315.9	n/a
		2023	*30*	*100%*	*n/a*	*8,740*	*n/a*	*291.7*	*n/a*
	Investment Grade Credit	2024	14	80%	79%	640	4,590	57.6	418.2
		2023	*18*	*82%*	*82%*	*1,230*	*10,150*	*81.1*	*671.4*
	Hedge Funds	2024	39	100%	100%	2,560	6,780	66.5	176.4
		2023	*35*	*100%*	*0%*	*1,330*	*n/a*	*38.0*	*n/a*
LGIM	LDI	2024	170	100%	n/a	12,665 Physical 12,367 Synthetic	n/a	74.5	n/a
		2023	*157*	*100%*	*n/a*	*13,660 Physical 5,105 Synthetic*	*n/a*	*71.9*	*n/a*
Annuity Providers	Rothesay	2024	932	87%	0%	61,604	n/a	76.0	n/a
		2023	*982*	*69%*	*0%*	*58,012*	*N/A*	*85.5*	*N/A*
	L&G	2024	74	100%	0%	4,229	n/a	57.0	n/a
		2023	*77*	*n/a*	*n/a*	*n/a*	*n/a*	*71.0*	*n/a*
	PIC	2024	97	55%	23%	5,910	10,019	111.0	450.0
		2023	*100*	*61%*	*31%*	*5,911*	*13,503*	*96.3*	*429.5*

*See page 50 for footnotes to the table.

***Footnotes to the metrics tables on pages 48 and 49.**

Data sources: Fiduciary manager, underlying investment managers, LDI manager, annuity providers, MSCI and Aon. Figures may not sum due to rounding. Where carbon data was supplied in US Dollars, Aon converted into GBP using a suitable exchange rate.

2024 data is as at 30 September 2024 except the bulk annuities and select alternative assets. The bulk annuities carbon data is lagged by a year due to reporting timelines, hence data is as at 31 December 2023. Data provided for alternatives is the latest available data, 31 December 2023 for select alternative assets.

2023 data is as at 29 September 2023 except the bulk annuities and alternative assets. The bulk annuities carbon data is lagged by a year due to reporting timelines, hence data is as at 31 December 2022. Data provided for alternatives is the latest data available, 31 December 2022.

Cash and convertible bonds have been excluded on the grounds of materiality.

Liquid markets

Liquid markets data includes global equity, multi-asset credit and investment grade credit .

The 2023 figures for the Liquid Markets of both Sections, have been restated after receiving revised data for the multi-asset credit assets.

Illiquid markets

For the NATS Section, the illiquid markets include hedge funds, private equity, property, and infrastructure. For the CAA Section the illiquid markets include hedge funds only.

Overseas government bonds

Carbon footprint is expressed as tCO_2e/£ GDP nominal.

LDI

Emissions associated with LDI includes both physical emissions (emissions associated with physical assets that are held within the portfolio) and synthetic emissions (emissions associated with the notional exposure to sovereign bonds gained through derivatives).

Scope 3 emissions data is not available for LDI or overseas government bonds because there is currently no agreed methodology for calculating these emissions.

Bulk annuities

The 2023 GHG emissions for bulk annuities excluded L&G as it could not provide all the data needed.

07 - Additional information on the metrics

Supported by our investment adviser, Aon, we collected the carbon emissions data from our fiduciary manager, LDI manager and annuity providers. The table below shows for each asset class the broad approach used for each metric.

Asset Class	Approach
LDI	Carbon metrics data was provided by the LDI manager. **Carbon footprint** Carbon footprint has been calculated as the production-based emissions of the issuing country over the Total Stock. Total Stock is a measure of total value of gross fixed capital formation in a country's economy that is comparable to Enterprise Value including Cash ("EVIC") but is relatively stable. **Total GHG emissions** Total GHG emissions for LDI was estimated for physical and synthetic exposures as follows: *£m of physical exposure* x *carbon footprint* x *data coverage* *£m of synthetic exposure* x *carbon footprint* x *data coverage* Where data coverage is assumed to be 100% estimated.
Overseas Government bonds	Carbon metrics data was provided by the fiduciary manager. **Carbon footprint ~ GHG Intensity** (tons CO2e/$M GDP nominal) This figure represents GHG intensity of an economy (in tons per USD million GDP nominal). MSCI data has been used. **Total GHG emissions** Aon calculated the emissions associated with the Scheme's overseas government bonds as follows: *carbon footprint* x *£m Scheme assets invested in government bonds* x *data coverage*
Other investable assets	Carbon metrics data was provided by the fiduciary manager. **Carbon footprint** Carbon footprint is an emissions intensity measure using EVIC sourced from MSCI and scope 1, 2 and 3 emissions. BlackRock market value and net asset value figures are integrated to normalise to the portfolio level. **Total GHG emissions** Total GHG emissions are calculated using MSCI sourced EVIC and scope 1 & 2 and scope 3 emissions. This is an absolute emissions figure that is normalised using market value from BlackRock on the portfolio level. Where necessary Aon aggregated the carbon metrics for each asset class. The methodology used for aggregating did not make any assumptions about the carbon emissions for assets for which data was unavailable.

The aggregation methodology is set out below:

$$\textit{carbon footprint for the asset class} = \frac{\sum Gi}{\sum(Ai \times Ci)}$$

Where i is each fund in the asset class

G_i = Total GHG for fund i (tCO_2e)

A_i = Assets invested in fund i (£m)

C_i = Data Coverage of fund i (%)

Insured assets

Carbon metrics data was provided as at 31 December 2023 from all three insurers.

L&G

L&G provided a carbon intensity figure covering scopes 1 and 2 – a unit of value to normalise the emissions by the underlying size of the entity it is investing in, measured in £m for EVIC-based intensities.

Aon calculated the emissions associated with the Scheme's bulk annuity as follows:

carbon footprint x *£m of related obligations valued by the Scheme Actuary* x *data coverage*

PIC

PIC provided carbon footprint figures for scopes 1 and 2, and scope 3 for the relevant assets which back the annuity books.

Aon calculated the emissions associated with the Scheme's bulk annuity as follows:

carbon footprint x *£m of related obligations valued by the Scheme Actuary* x *data coverage*

Rothesay

Rothesay provided carbon footprint figures for the relevant assets which back the annuity books. The market value data used in the carbon footprint pertains to its 2023 year-end balance sheet.

Aon calculated the emissions associated with the Scheme's bulk annuity as follows:

carbon footprint x *£m of related obligations valued by the Scheme Actuary* x *data coverage*

Binary target measurement

Aon requested the binary target measurement from the fiduciary manager and aggregated the results based on the portion of assets invested in each fund.

Aon does not make any estimates for missing data. The Scheme's binary target measurement only represents the portion of the portfolio for which we have data.

Currently, there is no standard approach for calculating binary target measurement for government bonds. Hence there is no binary target measurement for the LDI assets (or other government bonds in the portfolio).

Additional notes on data

The material provided herein is grounded in part from publicly available information and information from third-party sources (e.g. the investment managers) with whom the Trustee has contractual relationship and the Trustee believes to be reliable, but which has not been independently verified by the Trustee, and Trustee does not represent that the information is accurate or complete.

08 - GHG emissions in more detail

Greenhouse gases in the atmosphere keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other activities, such as raising cattle and planting rice emit methane, nitrous oxide and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol[12] identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. So, emissions are expressed as a carbon dioxide equivalent (CO_2e). This enables the different gases to be compared on a like-for-like bases, relative to one unit of carbon dioxide.

Six main greenhouse gases identified by the Kyoto Protocol

CO_2
Carbon dioxide

CH_4
Methane

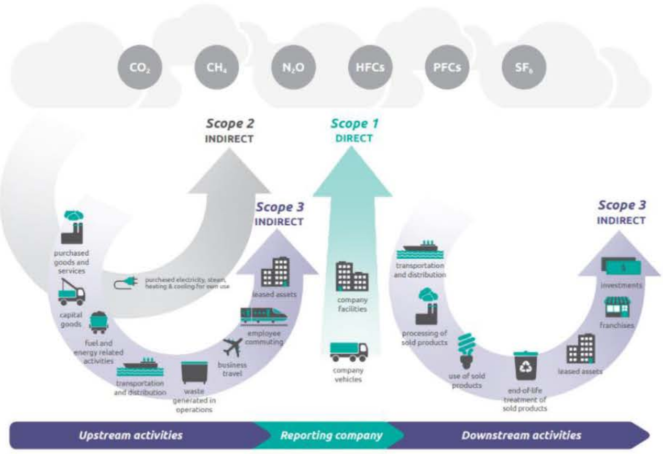
N_2O
Nitrous oxide

HFCs
Hydrofluorocarbons

PFCs
Perfluorocarbons

SF_6
Sulphur hexafluoride

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, Corporate value chain (scope 3) Accounting and Reporting Standard, 2011

[12] https://unfccc.int/kyoto_protocol