# Climate-related financial disclosures – April 2023

# Trustee's Report for the Scheme Year ended 5 April 2023 in respect of the Occupation Pension Schemes (Climate Change Governance and Reporting) Regulations 2021

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## Appendices

# 1. Chair's foreword and introduction

The Trustee of LifeSight presents its annual report under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the "Regulations") for the Scheme Year ended 5 April 2023. The Founder of the Scheme is Towers Watson Limited.

LifeSight is subject to the requirement to produce disclosures in line with the recommendations of the Task Force on Climate Related Disclosures (TCFD), as transposed into UK law in 2021. LifeSight has been voluntarily publishing such disclosures prior to this becoming a legal requirement. This is, therefore, LifeSight's fifth TCFD statement.

The aim of the TCFD framework and corresponding legislation is to improve and increase reporting of climate-related financial risks and opportunities so that these can be better understood and managed at an organisational and system level.

In particular, the TCFD framework requires disclosures in four broad categories:

1. Governance around climate-related risks and opportunities.
2. Strategy: the actual and potential impact of climate-related risks and opportunities on the strategy and financial plans of the scheme.
3. Risk management: how the scheme identifies, assesses and manages climate-related risks.
4. Metrics and targets: the metrics and targets used to assess and manage climate-related risks and opportunities.

This report sets out LifeSight's approach to assessing, monitoring, and mitigating climate-related risks and opportunities, across each of these four areas, in the context of the Trustee's broader regulatory and fiduciary responsibilities.


**Simon Ellis**

**Chair of the LifeSight Trustee Board**

# 2. Summary

The LifeSight Trustee has taken a comprehensive and proactive approach to addressing climate-related risks and opportunities in the management of the Scheme's investments.

In 2021 during a triennial strategy review, climate change scenario analysis highlighted the systemic and far-reaching nature of climate change and the impact it could have on members. This further supported the Trustee's belief in giving this topic special attention as both a risk and opportunity.

As a result, climate change is a priority for the Trustee with climate considerations being fully integrated into investment strategies for all members regardless of where they are in their journey to and through retirement. The scenario analysis considered short, medium, and long-term timeframes and risks, providing valuable insights to inform investment decisions and strategies.

To effectively navigate these climate-related risks and opportunities, the Trustee has established a Net Zero Target, as well as a corresponding Carbon Journey Plan (CJP) and range of climate metrics as part of a balanced 'Climate Dashboard', all of which is used as important inputs to the ongoing management of key underlying investments.

The Net Zero target aims to achieve net zero greenhouse gas emissions across LifeSight's Default/Lifecycle strategies by 2050, with at least a 50% reduction by 2030. Details of the Net Zero target and Carbon Journey Plan can be found in the full report.

A significant portion of the Scheme's assets are invested in the LifeSight Equity and DGF funds, given they are used significantly across the various Default and other strategies. These funds account for around 85% of the total assets within LifeSight. The monitoring of the Net Zero ambition therefore focuses on these funds – this progress of these funds can be found in the appendix.

The Trustee regularly monitors progress towards the Net Zero Target against its Carbon Journey Plan, and also monitors a broader 'Climate Dashboard.' This dashboard employs a scorecard approach, assessing various metrics such as total carbon emissions, emissions intensity, portfolio alignment, climate solutions allocation, and Climate Transition Value at Risk (CTVAR). Further details are provided in the remainder of this report.

The statistics shown in the Appendices of this report are at the overall fund level. Individual members (invested in LifeSight Equity and DGF) can view the carbon emissions associated with their assets, and how these compare to the wider market, using the member dashboard on their personalised online accounts. Additional sustainability resources are also available on that page.

The Trustee's approach to risk management includes continuous monitoring and assessment of climate-related risks. In particular, with the support of its Investment Consultant, the Trustee carries out a deep dive annual sustainable investing review. The Trustee also integrates climate considerations into the overall risk management process and regularly reviews its overarching risk register, which outlines controls to mitigate risks and capitalise on opportunities.

While acknowledging data gaps in assessing climate risks, WTW, as founder, Investment Consultant and Fiduciary Manager, is actively collaborating with investment managers to enhance data quality over time.

In conclusion, LifeSight's Trustee has taken decisive steps to address climate-related risks and opportunities, making it an integral part of their investment strategy. By adopting a comprehensive and well-integrated approach, they are well-positioned to manage climate risks and contribute to a sustainable future for their members' retirement savings.

# 3. Detailed report

## 3.a Governance

This section describes the steps the Trustee has taken to establish and maintain:

- A robust set of climate-related beliefs and policies within its overarching fiduciary responsibilities.
- Its overarching approach, with clear governance and management structures, and distinct roles and responsibilities, to put its beliefs and policies into practice.
- Oversight of the climate-related risks and opportunities detailed in this document, including processes to satisfy itself that other persons who undertake scheme governance activities and advise/assist the Trustee with scheme governance activities take adequate steps to identify, assess and manage (where relevant) any climate-related risks and opportunities relevant to the activities they are undertaking.

### a) Overarching beliefs and policies

The Trustee has identified climate change, alongside other Environmental, Social, and Governance (ESG) factors, as an important risk and opportunity which requires oversight and management over the long-term.

The Trustee has agreed investment beliefs, principles, and policies around responsible and sustainable investing, including explicitly with regard to climate change as a key ESG factor.

- These are reviewed on an annual basis to ensure they remains fit for purpose. They were updated over the Scheme Year to include in particular a new Stewardship Policy setting out the Trustee's ESG priorities and expectations of its key delegates in this regard, which represents an objective basis for ongoing oversight.
- These are set out in detail in LifeSight's Statement of Investment Principles (SIP), alongside the roles and responsibilities for setting, implementing, and monitoring adherence to the Trustee's policies. LifeSight's SIP is publicly available – a link is included below for ease of reference:

https://epa.towerswatson.com/doc/LIF/pdf/sip.pdf

In particular, the Trustee believes that an orderly transition to net zero greenhouse gas emissions is an urgent global challenge, which is far-reaching and systemic, posing a significant threat not just to the environment but to socio-economic stability. Consequently, the Trustee recognises that these challenges present material financial risks and opportunities, which necessitate specific risk management, opportunity identification and collective action on behalf of its members.

The Trustee's investment beliefs and principles regarding sustainable investing in general and climate change in particular have led to the development of an explicit Net Zero goal for all of LifeSight's Default Lifecycles, supported by a robust '3D Carbon Journey Plan' – that is, a specific target carbon trajectory (and guardrails) towards net zero, across the three dimensions of carbon exposure, member term to retirement, and time.

### b) Overarching approach and corresponding roles and responsibilities

The Trustee's primary (but not sole) focus is on continuing over time to develop the investment strategies underlying the Default Lifecycles (which hold the bulk of member assets), regarding which there are both top-down and bottom-up aspects.

**Top-down** the key focus is on ensuring the appropriateness of the long-term investment strategy for each Lifecycle, in terms of the overall balance between risk and return over time in the context of the purpose of each Lifecycle and corresponding member preferences.

One of the most critical elements of this is the strategic allocation to the broad asset classes (i.e., equities, Diversified Growth Funds (DGFs), bonds and cash) over term to retirement. This is reviewed in-depth at least triennially, or more frequently if required, with the support of the Investment Consultant,

and informed by a range of risk and return analyses based on appropriate long-term financial assumptions that recognise climate change as one of a number of important factors that will impact risk and return over time, as well as the inherent uncertainties in any set of assumptions.

**Bottom-up** the focus is on developing the 'Building-Block' Funds underlying the Defaults/ Lifecycles, in particular the LifeSight Equity Fund and DGF, whose management is delegated to WTW. In this regard, therefore, it is:

1. The ongoing role of the Trustee to monitor, challenge and approve the approach taken by WTW as Fiduciary Manager. This is achieved with the support of the Investment Consultant based on analysis of detailed sustainable investment scorecards, including a climate dashboard, as well as directly through regular review meetings with the Fiduciary Management team.
2. The role of WTW as Fiduciary Manager to reflect the Trustee's sustainability beliefs (including but not limited to consideration of climate-related risks and opportunities) in the ongoing selection and monitoring of underlying managers and overall portfolio construction for the LifeSight Equity Fund and DGF (in a reasonable manner at its discretion given cost and other practical constraints), and to provide detailed reporting to the Trustee.
3. The role of the underlying investment manager(s) selected by WTW to manage climate and other financial risks in a manner consistent with their mandates.

In addition to Default/Lifecycle design, the Trustee seeks to offer a range of 'Free-Choice' investment options to cater for different member preferences, including options that put even more emphasis on climate change and other ESG factors.

### c) Management's role in assessing and managing climate-related risks and opportunities

The Trustee has appointed WTW as Investment Consultant to advise and assist the Trustee on all investment matters, including developing its climate-related investment policies in the context of LifeSight's overall objectives and investment strategy, as well as monitoring its Fiduciary Manager and other delegates.

The Trustee has appointed WTW as the Fiduciary Manager to manage the LifeSight Equity Fund and DGF, the key 'Building-Blocks' underlying the Default Lifecycle strategies holding the bulk of member assets.

- As Fiduciary Manager WTW is responsible for the ongoing management and portfolio construction of the above-mentioned funds, which includes ongoing research and innovation of new investment opportunities, ongoing selection and monitoring of managers and funds, ongoing asset allocation, implementation of any changes, and reporting to the Trustee.
- As part of its ongoing portfolio management, WTW monitors and interrogates the investment risk management processes and portfolios of underlying managers on a regular basis. WTW also run their proprietary analytics on the aggregate portfolios to assess a range of sustainability, ESG and climate related exposures, and manage them accordingly.

It is clear that WTW – as Scheme Strategist, Investment Consultant and Fiduciary Manager – plays an important role in assisting the Trustee in setting and implementing its investment policies in relation to climate change and sustainable investing more broadly. WTW's approach to climate change is a focus point of the Trustee's ongoing monitoring:

- The Trustee has set Investment Consultant objectives against which they are assessed annually (which includes reference to assisting the Trustee in assessing, managing, and measuring climate risks and opportunities) and monitors the Fiduciary Manager's performance (including the integration of climate change and other ESG factors) on an ongoing basis in the context of its mandate.
- The Trustee also uses third party advisers periodically in order to obtain a fully independent view on LifeSight's overarching investment approach including with regard to sustainable investing and

climate in particular.

### d) The Trustee's oversight of its key advisers and delegates in relation to climate-related risks and opportunities

The Trustee retains ultimate responsibility for setting the Scheme's investment policies, strategy, and governance arrangements. As part of this fiduciary duty, the Trustee uses a range of investment advisers, managers and other delegates (as above) to develop and implement LifeSight's investment approach to climate change within a broader risk management framework.

The Trustee ensures that such parties are closely monitored and held accountable for the work they do on behalf of LifeSight via a robust ongoing governance process to assess their climate-related capabilities and activities. In particular, over the Scheme Year, the following governance and oversight activities were carried out:

- The Trustee – which comprises independent, professional, highly experienced and diverse individuals – continued to receive training on the potential financial impact of climate change and broader sustainability issues, to ensure that it remains well-placed to judge, interrogate and where appropriate challenge both the advice from its Investment Consultant and information from its delegates. Given the pace of progress around sustainable investing, trustee training on climate and ESG has increased over recent years and is expected to remain a priority going forwards.
- The development of enhanced quarterly performance monitoring for LifeSight's key building block funds attributing relative performance to different financial factors, including the aggregate impact of ESG factor tilts. This is typically discussed directly with the Fiduciary Manager twice yearly, with qualitative explanations sought for any periods of out or underperformance, albeit with a long-term forward-looking focus.
- The Trustee, with the support of its Investment Consultant, carried out a deep dive annual sustainable investing review, with a particular focus on climate change, including the following:
  - Capital allocation: Quantitative and qualitative assessment of progress against LifeSight's Carbon Journey Plans, including consideration of a range of forward-looking climate metrics in addition to backward-looking emissions metrics as part of a balanced climate dashboard. This included a presentation from and Q&A with the Fiduciary Manager.
  - Stewardship: The Trustee's focus on voting and broader engagement is underpinned by an understanding that responsible active ownership is critical to achieving LifeSight's Net Zero ambition (it would be futile and potentially counterproductive for LifeSight to achieve Net Zero for its investments without this also being achieved at a broader global system level). This part of the review included:
    - An assessment of the corporate level voting and engagement and broader system level stewardship resources, capabilities, priorities and impact of LGIM as LifeSight's principal underlying voting and investment manager – informed by LGIM's own reporting, WTW's proprietary voting analytics, case studies of significant votes, a presentation from and Q&A with LGIM, and WTW's research assessment.
    - An assessment of the corporate level engagement and broader system level stewardship resources, capabilities, priorities and impact of EOS as LifeSight's specialist engagement overlay provider – informed by EOS's own reporting, case studies of significant engagements, a presentation from and Q&A with EOS, and WTW's assessment.
    - A review of WTW's manager-level and broader system level stewardship resources, capabilities, priorities and impact as LifeSight's Fiduciary Manager – informed by WTW's own reporting and a presentation from and Q&A with WTW's Head of Stewardship. WTW holds membership of important industry bodies such as the Net-Zero Asset Managers Initiative as well as being a signatory to the UK Stewardship Code, and fully embeds sustainable investing considerations in its investment processes.

- Hot topic: Deforestation, which is important to tackle for multiple reasons including climate. The Trustee specifically considered the Race to Zero Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation and, with WTW's support, engaged with both LGIM and EOS on this matter, who both signed up to this Commitment. Please see LifeSight's position statement on deforestation here.

## 3.b Strategy

Establishing, managing and monitoring effective Default and Lifecycle strategies, including appropriate consideration of climate-related risks and opportunities, is central to the Trustee's role.

This section describes the steps the Trustee has taken to:

- Frame LifeSight's overarching strategic approach to navigating climate-related risks and opportunities.
- Identify and assess the impact of the climate related risks and opportunities which they consider will have an effect over the short-, medium- and long-term on the scheme's investment strategy.
- Undertake scenario analysis to assess the potential impact on LifeSight's assets and the resilience of LifeSight's investment strategy in such scenarios.
- Determine and assess the ongoing appropriateness of LifeSight's investment strategies.

### a) Short-, medium-and long-term time horizons for LifeSight

In terms of time-horizons:

- The primary focus of the Trustee is on the long-term (20+ years) given the nature of the Scheme and the time horizon of the majority of its members.
- However, the Trustee is also conscious of the importance of managing shorter (0-10 years) and medium-term (10-20 years) horizons, particularly for members in the mid-late phase of a lifecycle or post-retirement, given the potential for short-term negative performance to adversely affect individuals' pension planning and ongoing engagement and trust.

### b) Framing the overarching strategy

Climate change was a key focus of LifeSight's last triennial strategy review undertaken in September 2021, which set the backdrop for LifeSight's integration and relative prioritisation of climate change related considerations since then. The review included:

- Detailed consideration in the light of climate change of appropriate long-term investment risk and return assumptions used to underpin the stochastic investment strategy analysis, which in turn were used to inform LifeSight's Default and other investment strategies.
- Detailed climate change related scenario analysis of a range of different potential physical and transition risk pathways and the corresponding impact on sample members over different time horizons, the key conclusions from which were: firstly and unsurprisingly, climate change represents a material financial risk (and opportunity) for members with different time-horizons; secondly, the magnitude of this risk is broadly similar to other key financial risks (such as equity risk) to which members are exposed, and is therefore on one hand merely one of multiple financial risk factors to be considered within LifeSight's investment approach; thirdly, however, the systemic and far-reaching nature of climate change is fundamentally different to other financial risks, and it therefore requires special consideration.
- The development of a detailed Carbon Journey Plan (CJP) to achieve LifeSight's Net Zero ambition, as well as a practical implementation oversight and monitoring framework to track and assess annual progress. The CJP was developed at strategic Default/Lifecycle level, i.e., allowing for the three dimensions of carbon emissions, term to retirement, and time, in order to determine the target carbon trajectory for current and future members at different phases of the lifecycles. However, in all cases the achievement of the overarching Net Zero ambition is principally contingent on the achievement of specific Net Zero targets for the underlying building block funds, in particular LifeSight Equity and DGF. For practical ongoing implementation oversight and monitoring purposes in between strategic reviews, it was therefore agreed to set and focus on individual CJPs for LifeSight Equity and DGF,

which are common and critical to all of LifeSight's Default and other investment strategies.

- Consideration of a range of forward-looking climate metrics in addition to backward-looking emissions metrics as part of a balanced climate dashboard to monitor and manage against over time. As part of this, consideration was given to data quality and coverage. Prevailing data limitations were noted along with the expectation that these would improve over time in line with the implementation and standardisation of climate reporting regulations and best practices. Meanwhile, the LifeSight conclusion was that this should not be an excuse for inaction and that, without placing undue precision on specific interim metrics, data quality and coverage were sufficient to commence the directional journey towards Net Zero.

### c) Climate-related risks and opportunities over different time horizons

The Trustee has identified both transition (including policy, legal, technology, market, and reputation) and physical (both acute and chronic[1]) risks, in line with the TCFD framework. Managing these risks presents an urgent global socioeconomic challenge, and from a financial perspective there will be winners and losers, which presents opportunities as well as risks.

Consequently, from a top-down perspective, the Trustee has identified a number of climate-related investment risks and opportunities over multiple time-horizons that could impact the Scheme's investment strategy including for example:

1. The creditworthiness of the issuers of fixed income assets.
2. The rental values of real estate assets.
3. The dividend paying capability, and therefore the share prices, of investee companies.
4. The potential impact on the overall socio-economic system and, consequently, the financial outcomes for members.

Individual members in a DC scheme bear their own investment and longevity risks, hence climate change has the potential to impact different members very differently. For example:

- Younger members are likely to be more exposed to the long-run physical risks due to their longer investment time horizon.
- Older members close to retirement are more likely to be exposed to transition risks in a similar manner to mature DB schemes.

There is also a timing element – whilst the impact of climate change is likely to occur over many years, markets have the ability to price in anticipated events and costs quickly and the timing of this is difficult to foresee. The sudden 'pricing-in' of climate-related risks and costs is likely to have:

- Less impact on younger members (who have little in the way of built-up funds to lose) or those very near retirement (to the extent they have de-risked)
- Greater potential impact on members around 10 years from retirement (who have accumulated substantial funds but not yet substantially de-risked.

Therefore, it is necessary to examine climate change risks from two perspectives:

1. As an instantaneous shock to asset prices;
2. As a slow materialising drag on asset returns through time.

[1] Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones, hurricanes, or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

## d) Scenario analysis

Climate change scenario analysis is a useful tool to help understand the potential risks of climate change. As part of the last triennial investment strategy review (September 2021), the Trustee considered four different climate scenarios with a view to quantifying the economic costs of climate change including both physical and transition risks from a macro perspective:

1. A 'global coordinated action' scenario, which is consistent with a 2°C scenario.
2. A 'business as usual' scenario, where current policies and levels of investment continue, thereby resulting in a higher than 2°C increase.
3. An 'inevitable policy response' scenario, in which initial delays in meaningful action results in a rapid policy shift in the mid/late 2020s, resulting with a circa 2°C increase.
4. A 'climate emergency' scenario, whereby more extensive policy and technology shifts result in a lower than 2°C (c.1.5°C) increase.

In each scenario, the Trustee considered the potential impact on LifeSight Equity and DGF, but also on members at different stages within their Default Lifecycles, both in terms of short-term instantaneous shocks (i.e. if the entire impact of each climate scenario was to occur over a short-term period) and long-term aggregate impacts (i.e. where the costs and risks of climate change materialise slowly through time).

Please see the Appendix for a summary of the scenarios used (including rationale, assumptions and limitations), as well as a high-level summary of the results of the analysis in terms of impact on members.

As expected, the scenario analysis confirmed that:

- Climate change is a significant risk to members, which is appropriately reflected in the investment risk assumptions underpinning LifeSight's investment strategies.
- Climate change is one of many significant investment risks to which members are exposed – but it is qualitatively different to many other investment risks in that it is far-reaching, systemic, long-term, undiversifiable and unhedgeable – and therefore it is worthy of special attention.

The Trustee acknowledges the inherent uncertainty in the assumptions underlying such analysis and expects the analytic tools will continue to be developed over time, but the analysis does provide insight into the resilience of LifeSight's investment strategies to climate risks. At present the analysis is used as an additional lens to monitor the investment strategy against, rather than inform the investment strategy directly, given the inherent uncertainty in the assumptions. The analysis also supports the philosophy of diversification, the benefits of which apply to climate risk in a similar way to other risks and uncertainties, as well as supporting the importance of effective stewardship, public policy engagement and advocacy.

The Trustee's intention is to repeat similar scenario analysis at least every three years or sooner should there be a material change in either intrinsic or extrinsic circumstances or forward-looking assumptions that would call into question the results of the original analysis. With these criteria in mind, the analysis was not repeated during the Scheme Year.

## e) Implications for top-down and bottom-up strategic approach

The context and processes described above have impacted LifeSight's investment strategy and decisions in numerous ways. For example:

**Net zero**

The Trustee has set a target to reach net zero greenhouse gas emissions across LifeSight's Default/ Lifecycle strategies by 2050 at the latest, with at least 50% reduction by 2030.

The steps LifeSight has taken to date (as detailed below) are consistent with a multi-year journey to net zero.

**Key Building Block Funds**

Over 85% of total assets under management are invested in the LifeSight Equity Fund and DGF, both of which are key Building-Blocks underlying the Default/Lifecycle strategies. With respect to these key funds, the Trustee expects its Fiduciary Manager to:

1. Assess climate-related risks and opportunities on an integrated basis (whilst balancing a range of portfolio objectives e.g. in relation to return, risk, liquidity, cost, etc), whereby climate-related risks are understood and deemed to be appropriately compensated within a broad risk management framework, including assessing the impact of climate scenarios, portfolio resilience, climate/ environmental solutions, and strategies that are for example well-positioned to take advantage of a low- carbon transition.
2. Monitor and manage the ESG integration (capital allocation and stewardship) capabilities of the underlying investment providers.

**Capital allocation**

Both LifeSight Equity and DGF allocate capital to funds in which the underlying stock selection is tilted towards positive climate related activities and/or have evolved to formally incorporate ESG considerations within their portfolio construction approach:

- **Within LifeSight Equity**
  - c.30% allocation to Robeco Global Sustainable Multi-Factor Equities Fund. This fund is constructed with a balanced combination of factors (value, momentum, low volatility and quality) and an ambitious level of sustainability integration via application of a UN Sustainable Development Goals (SDG) impact and risk assessment framework in determining stock weights. This strategy is aligned with a global low carbon economy by ensuring that the portfolio's carbon intensity is at least 20% improved vs the market and stocks that are not aligned to SDG 7 'Affordable and clean energy' and SDG 13 'Climate action' are excluded. The strategy also excludes stocks that are not aligned to the broader SDGs or Robeco's Exclusion Policy. Overall, this is expected to result in a portfolio with lower carbon and environmental impact footprints than the market, improved (although not explicitly targeted) ESG metrics and a portfolio that is aligned to the UN SDG objectives.
  - c.20% allocation to MSCI Adaptive Capped ESG Universal Fund. This fund systemically increases its allocation to companies with good and improving ESG characteristics and decreases its allocation to those with poor characteristics and those getting worse over time.
  - c.10% allocation to the Climate Transition Index (CTI) Fund. This fund applies an innovative methodology developed within WTW to quantify forward-looking climate transition risk on a company-by-company basis, enabling the construction of a global equity portfolio with overall lower transition risk and lower portfolio emissions.
    - The remaining c.40% is invested in an index-tracking market-capitalisation fund with targeted exclusions (for example investments involved in the production of controversial weapons, thermal coal (production and power generation) companies and companies deemed to be incompatible with the United Nations Global Compact framework.
  - Overall, LifeSight Equity applies a limited number of targeted exclusions to companies involved in the production of controversial weapons, companies who are persistent UNGC violators, and companies with material proportions of their revenues attributable to thermal coal.
- **Within LifeSight DGF**
  - c.33% allocation to the LifeSight Equity fund, which includes the funds listed above.
  - c.12% allocation to Heitman Global Prime Property Securities Fund, which incorporates an explicit ESG (including Climate Risk) screen and eliminates ESG laggards from the portfolio.
  - c.14% allocation to Infrastructure Equity MFG Fund, which formally integrates ESG into its formal quarterly portfolio review, focusing on how ESG impacts the reliability and sustainability of

cashflows at the companies that form its investable universe.

- c.3% allocation to BNYM Fallen Angels High Yield Bond Fund, which applies an ESG screen specifically to protect the fund from investing in companies whose recovery may be impaired due to ESG concerns (e.g., companies subject to environmental red flags; tar sands and thermal coal companies; and companies with a very low environmental score due to climate or carbon risks).

**Stewardship – security level and system level**

Stewardship activities include both security level and system level engagement, leveraging several market leaders in this space:

- **WTW:** The Trustee leverages the broader resources, scale, and system-level influence of WTW as Founder and Fiduciary Manager for LifeSight, not least via its extensive manager research and engagement platform, fiduciary management business, cross-specialism climate and resilience team, and general leadership in important collaborative initiatives.
- **LGIM & underlying asset managers:** The Trustee has appointed LGIM as the underlying investment manager for the vast majority of LifeSight's assets via LGIM's platform. Their scale and resources are leveraged for the purposes of ongoing stewardship (at both company and system level), including climate-related engagement:
  - LGIM reports regularly to the Trustee on their stewardship activities, which have notably included the Climate Impact Pledge in recent years.
  - The Trustee has a positive assessment of LGIM's stewardship capabilities and credentials.
- **EOS at Federated Hermes (EOS):** Within the LifeSight Equity Fund and DGF the Fiduciary Manager has partnered with EOS, a market leading engagement overlay provider, to undertake additional stewardship activities to those carried out by LGIM:
  - Public policy and market best practice engagement is done with legislators, regulators, industry bodies and other standard setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change.
  - Corporate engagement activities directly with investee companies.
  - WTW attends and currently Chairs the EOS client advisory council, which means that WTW has input into shaping EOS's prioritisation of engagement activities.
  - Thus, LifeSight accesses one of the largest stewardship teams globally, including over 45 engagement professionals across LGIM and EOS, to engage with investee companies and policy makers on a variety of ESG issues including climate policy. Please see the Appendix document for examples of engagement carried out over the year.
- **Thinking Ahead Institute:** LifeSight is a member of the Thinking Ahead Institute, a global not-for-profit innovation and research member group of asset owners and asset managers (with responsibility for over $16trn of capital) whose purpose is to mobilise capital for a sustainable future.

**Free-Choice fund range**

LifeSight offers a range of self-select investment options to cater for different member preferences, including in particular a Climate Focused Fund that, as the name suggests, puts specific emphasis on climate-related risks and opportunities.

## 3.c Risk management

Climate change is a key risk and opportunity and therefore receives particular attention as part of the Trustee's ongoing risk management processes.

This section describes:

- The impact of LifeSight's risk assessment on the Trustee's prioritisation and management of risks.
- The steps the Trustee has taken to establish and maintain processes to identify and assess climate-related risks which are relevant to the scheme and, establish and maintain processes to manage those risks accordingly.
- The steps the Trustee has taken to ensure that management of climate related risks is integrated into the overall risk management of the scheme.

### a) Prioritisation and management of risks

The previous Strategy section of the report outlined how LifeSight's assessment of climate change risk set the backdrop for LifeSight's integration and relative prioritisation of climate change related considerations. In particular:

- The climate change scenario analysis shown in the previous section, provides the Trustee with a holistic overview of the potential impacts of climate change on the outcomes for members with different profiles. This is an important risk management tool for a top-down risk assessment.
- Climate change is considered to be a material financial risk for LifeSight members at different stages of their journey to and through retirement; and, while 'only' one of multiple material financial risks, it requires special attention given its systemic, undiversifiable and far-reaching nature.
- Consequently, the Trustee has set a Net Zero target and developed a corresponding Carbon Journey Plan, supplemented with a balanced scorecard approach including multiple climate metrics against which to assess progress over time.
- Additionally, an assessment of climate-related risks is fully integrated into the Fiduciary Manager's portfolio construction and risk management processes, which is overseen by the Trustee.
- More generally, climate change is included within the Trustee's risk register which is monitored quarterly and reviewed in-depth annually. This clearly details the size and likelihood of the risk, the controls in place and the actions the Trustee takes to manage, mitigate, and exploit both the risk and opportunity. Although the Trustee retains ultimate ownership, the risk register clearly sets out the parties that assist the Trustee in its responsibilities.

### b) The organisation's process for identifying and assessing climate-related risks

Top-down, the Trustee monitors and interrogates the activities of its advisers and delegates with respect to climate related risks and opportunities based on:

- Regular reporting regarding the stewardship activities of LGIM (the main its key underlying investment manager) and EOS (the additional specialist overlay provider for LifeSight Equity and DGF).
- Regular reporting regarding the portfolio management activities of its Fiduciary Manager (WTW), including in particular more detailed information and updates on this specific topic. This includes a sustainable investment scorecard and climate dashboard in respect of the key Default Lifecycle Building Block Funds, LifeSight Equity and DGF.

The Trustee, in conjunction with WTW, uses the regular reporting they receive to identify and assess climate-related risks. The reporting and analytics are evolving to provide transparency of progress relative to the Carbon Journey Plan, increasing information and insight into portfolio resilience, the

impact of negative climate scenarios, physical and transition risks, and the effectiveness of stewardship activities and ESG integration more generally.

Bottom-up, climate risks and opportunities are fully integrated as a factor within the Fiduciary Manager's approach to portfolio construction alongside liquidity, cost, return and other risk considerations. The Fiduciary Manager identifies and assesses climate risk and opportunities through several mechanisms, including but not limited to ongoing monitoring and assessment of the following key indicators:

- ESG ratings on the managers used in the portfolios. The Fiduciary Manager's manager research team rates the managers on their integration of ESG risks including climate change.
- Carbon intensity of underlying assets and the alignment to a Net Zero transition.
- Climate transition risk of underlying assets using a proprietary 'CTVAR' methodology.
- Climate-related physical risk of underlying assets.
- Exposure to climate solutions/opportunities.

The Fiduciary Manager's portfolio construction process assesses these considerations in the context of the overall portfolio objectives.

### c) The organisation's process for managing climate-related risks

The Trustee and its delegates manage climate-related risks on an integrated basis across the overall risk management of the scheme, on an ongoing basis via:

- The structural design principles underlying all the Default/Lifecycle strategies; in particular, all of these strategies become increasingly diversified as time horizon reduces.
- The ongoing activities of the Fiduciary Manager. In particular, the investment allocations described above within the LifeSight Equity fund and DGF are expected, all else being equal, to tilt away from companies that contribute negatively to climate change in favour of those who are more advanced in this regard.
- The ongoing corporate and system level stewardship and engagement activities carried out by WTW, LGIM and EOS as described above.

### d) How processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

At the overall LifeSight level, ESG risks including climate-related risks, are identified as a specific risk in the LifeSight Trustee Risk Register. The Risk Register is LifeSight's integrated risk management tool and details the expected impact and controls to mitigate the risk.

From an investment perspective as described above:

1. Top-down, the key focus is on ensuring the appropriateness of the long-term investment strategy for each Default/Lifecycle, in terms of the overall balance between risk and return over time in the context of the purpose of each Lifecycle and corresponding member preferences, one of the most critical elements of which is the allocation across the four 'Building-Block' funds over time.
2. Bottom-up, the focus is on developing the 'Building-Block' Funds underlying all the Default/Lifecycle strategies, in particular the LifeSight Equity Fund and DGF, which hold the bulk of member assets. The design and ongoing management of these Funds includes consideration of climate risks and broader sustainability considerations within a suite of portfolio construction and risk management lenses and leverages the ongoing stewardship of LGIM and EOS. Monitoring of the Trustee's delegates includes climate-related risks as an explicit consideration.

## 3.d Metrics and targets

This section describes the steps the Trustee has taken to:

- Set metrics used to assess and manage climate-related risks and opportunities for the scheme.
- Set targets used to manage climate-related risks and opportunities and detail the performance against those targets.

### a) The metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

**Top down,** as described above, the Trustee has used a combination of stochastic and deterministic scenario analysis to assess the impact of climate-related risks and ensure the overall appropriateness of LifeSight's investment strategies.

LifeSight's Net Zero target and corresponding Carbon Journey Plan was developed at strategic Default/Lifecycle level, i.e., allowing for the three dimensions of carbon emissions, term to retirement, and time, in order to determine the target carbon trajectory for current and future members at different phases of the lifecycles.

In all cases, however, the achievement of the overarching Net Zero ambition is principally contingent on the achievement of specific Net Zero targets for the underlying building block funds, in particular LifeSight Equity and DGF. For practical ongoing implementation oversight and monitoring purposes in between strategic reviews, it was therefore agreed to set and focus on individual CJPs for LifeSight Equity and DGF, which are common and critical to all of LifeSight's Default and other investment strategies.

Clearly, members at different stages of their retirement journey and in different strategies will have different carbon exposures and trajectories – members are able to see their personalised exposures via an online carbon dashboard when they log in to their accounts.

**Bottom-up,** the Fiduciary Manager reports a range of metrics to the Trustee regarding climate-related risks and opportunities within a 'climate dashboard' and broader 'sustainable investment scorecard' for each of LifeSight Equity and DGF. The key metrics the Trustee focuses on are:

1. **Absolute emissions metric -** Total carbon emissions, which gives the total greenhouse gas emissions attributable to the Scheme's assets.
2. **Emissions intensity metric -** Carbon intensity, or Carbon Footprint, which gives the total greenhouse gas emissions attributable to the Scheme's assets per some form of unit (such as per £ invested or £ of company revenue).
3. **Additional metrics:**
    - Percentage of portfolio that is Paris Aligned / Aligning / Not Aligned.
    - Capital allocated to climate solutions.
    - The 'Value at Risk' corresponding to a Climate Transition (CTVAR).
    - Proportion of assets that are Materially Exposed / Partially Exposed / Not Materially Exposed to physical risk associated with climate change.
    - Investment manager ratings and assessment as provided by WTW, which include a detailed analysis of ESG integration, engagement and voting capabilities and activities.

(Forthcoming legislation will also likely require the Trustee to set an additional metric to measure the compatibility of the Scheme's investment portfolio with the aspiration to limit global temperature rises to 1.5 degrees Celsius. LifeSight will be working on this in due course, and it is not covered in this report.)

Please see the Appendix for details of key climate statistics for LifeSight Equity and DGF as at 31 December 2022, including progress relative to their respective Carbon Journey Plans.

### b) The data and methodology behind the metrics and actions being taken to address data gaps

There are three types of emissions data:

- Scope 1 emissions: all direct emissions from the activities of an entity or the activities under its control, including: on-campus stationary combustion of fossil fuels; mobile combustion of fossil fuels by institutionally owned vehicles and fugitive emissions. Fugitive emissions result from intentional or unintentional releases of greenhouse gases, including the leakage of hydrofluorocarbons from refrigeration and air conditioning equipment as well as the release of methane from institution-owned farm animals.
- Scope 2 emissions: indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.
- Scope 3 emissions: all indirect emissions from the activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control. These can include commuting; waste disposal; embodied emissions from extraction, production, and transportation of purchased goods; outsourced activities; contractor-owned vehicles; and line loss from electricity transmission and distribution/

Scope 3 emissions are significantly more difficult to calculate than scope 1 or scope 2 emissions for any given entity. It is also the case that, for some assets, even scope 1 and scope 2 emissions are difficult to calculate.

The Trustee uses best endeavours to make as full a disclosure as it can, subject to overriding constraints of reasonable time and cost for doing so. LifeSight is working actively with its investment managers to improve the quality of the data supplied for these purposes over time.

The estimated emission figures shown in the Appendix are calculated using MSCI ESG Research's proprietary carbon estimation model, covering scope 1, 2, and 3 emissions from both reported and modelled data where companies do not report on their carbon emissions.

**Our Investment Consultant's view on approaching scope 3 emissions**

Scope 3 emissions data is critical to help build a better picture as we decarbonise our portfolios and economies. However, we believe that current reported scope 3 emissions data is largely inadequate for purposes including making accurate climate-informed investment decisions. Further, given data issues, we believe that scope 3 emissions of investment portfolios at this stage are necessarily limited in coverage, subject to large estimation errors, and not fit for meaningful comparison between investors or over time. We therefore believe that any scope 3 emissions disclosed should be disaggregated from scope 1 and 2 emissions at a minimum. We will keep this position under review, especially given the trend for improvement in this area, but for the time being report estimates of scope 3 emissions on this basis (refer to appendix)

It is important to note that whilst there are signs of progress, some of the issues with scope 3 emissions disclosures may persist, including by design. For example, the GHGP's data guidance offers optionality and flexibility for individual companies to report on their emissions, and as such it limits comparisons between companies over time. The GHGP's Scope 3 Accounting and Reporting Standard states that it is intended to enable comparisons of a company's GHG emissions over time and not designed to support comparisons between companies based on their scope 3 emissions.

Data providers, like MSCI, have tried to solve for this problem by providing scope 3 datasets using proprietary models and internally vetted methodologies. However, current solutions rely significantly on top-down sector emissions data with limited use of bottom-up data (which is company-specific). Models that rely on sector information limit users' ability to distinguish companies from peers. While there is sizable support from the investment industry and others for better disclosures, we need to be realistic around the current issues of reliability of scope 3 data available.

At this stage, other metrics may offer better alternatives to assessing climate-related exposures, risks and opportunities. In particular, climate-related risks can be assessed via approaches such as the Climate Transition Value at Risk (CTVaR) methodology. This kind of measure offers a bottom-up granular

approach to measuring the effect that changes to the global economy (driven by climate change mitigation) will have on a company's valuation. It focuses on the effect of climate on individual companies by integrating a forward-looking assessment of climate transition risk into the traditional risk/return framework. More specifically, CTVaR captures scope 3-related issues including, for example, consumer demand, which relates to scope 3's use of sold products category.

Importantly, assessing risks and opportunities are not purely about emissions. A holistic picture that uses various metrics can be achieved through our Climate Dashboard approach. We believe that this balanced scorecard approach can helpfully inform investment decision-making and support the construction of robust and resilient portfolios.

Whilst scope 3 emissions disclosure is improving, we believe that the investment industry can play a proactive role in accelerating and supporting this trend. We work closely with and engage data providers to promote better disclosures. Similarly, we engage extensively with the asset management community, including on pushing for better corporate disclosure, and for the adoption of generally accepted standards and methodologies. We also undertake direct and indirect policy engagement, advocating for the adoption of common standards and methodologies, including those of the International Sustainability Standards Board. We believe the recently released IFRS S1 and S2, including provisions around scope 3 emissions, are a highly significant forward step.

### c) The targets used by the organisation to manage climate-related risks and opportunities and performance against targets

The Trustee has set a net zero greenhouse gas emissions target for its **emissions intensity metric**. The target covers LifeSight's Default/Lifecycle strategies in general and the LifeSight Equity fund and DGF in particular.

This target is supported by a detailed Carbon Journey Plan, i.e. a specific target carbon trajectory towards net zero with guardrails along the journey. The guardrails will facilitate a 'comply and explain' approach as the Trustee recognises that the journey towards net zero will not be linear and there will be times where LifeSight is ahead of or behind the required trajectory. The steps taken to date (as detailed above) are consistent with a multi-year journey to net zero.

In addition, the Trustee regularly receives from its Fiduciary Manager and interrogates a 'sustainable investment scorecard' and 'climate dashboard' in respect of the two key Building-Block funds, the LifeSight Equity Fund and DGF, covering progress relative to the Carbon Journey Plan as well as a range of other metrics as detailed in section 4a above.

**Simon Ellis, Chair of Trustee, LifeSight**

# LifeSight TCFD Appendices

# A. Climate scenario analysis: assumptions, limitations and summary results

# Climate scenario analysis: Introduction

- We use stochastic modelling with underlying risk assumptions as a base for strategic analysis to help to determine for each strategy an appropriate balance of risk vs return throughout members' journeys. Scenario analysis can be used to test the validity of such analysis from a climate perspective: as long as climate change risk doesn't outweigh the overall investment risk (which reflects the conflation and correlation of climate change and many other risks) then the core strategic approach remains appropriate.
- As individual members in a DC scheme bear their own investment and longevity risks, climate change has the potential to impact different members very differently. For example, younger members are likely to be more exposed to the long-run physical risks due to their long investment time horizon, whilst members close to retirement are more likely to be exposed to transition risks in a similar manner to mature DB schemes.
- There is also a timing element, with the timing of climate change risk crystallisation difficult to foresee – the costs and risks of climate change are likely to materialise slowly through time over many years, but markets have the ability to price in anticipated events and costs quickly, and there is no way of telling when that might happen.
- The sudden pricing in of climate-related risks and costs is likely to have less impact on young members (who have little in the way of built up funds to lose) or those very near retirement (to the extent they have de-risked), with most potential impact on members around 10 years from retirement (who have accumulated substantial funds but not yet started de-risking).
- Therefore, it is necessary to examine climate change risks from two perspectives: both as an instantaneous shock to asset prices and as a slow materialising drag on asset returns through time. Climate change scenario analysis is a useful tool to help understand the potential risks of climate change.
- On the following pages we have provided detail about the calibration of our scenarios and our thinking behind their use. We have looked at the potential impact (in terms of both instantaneous shock and gradual long-term cumulative impact) of our four climate change scenarios on a range of sample members within our Default / Lifecycle strategies.

# Climate scenario analysis: Overview of scenarios

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- We have considered four separate scenarios which are in part defined through their success, or otherwise, in meeting the Paris Agreement target of a 1.5 degree Celsius temperature rise. The scenarios span a range of plausible outcomes for physical and transition risk and the trade-off between the two. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also in the size of the transition risks. Climate Emergency, where decisive action is taken, and Inevitable Policy Response, where transition is more disorderly due to delays in meaningful action, represent bigger transition risks than Global Co-ordinated Action.
- The scenarios are derived on the basis of all other things being equal, which is unlikely to be the case in practice. For example, the climate transition could lead to higher levels of investment, employment and productivity-enhancing innovation. These second order effects and feedback loops are hard to estimate with certainty and represent the reason why the climate scenarios cannot be a substitute for using the base investment model for risk management purposes.

| | Lowest Common Denominator | Inevitable Policy Response | Global Coordinated Action | Climate Emergency |
|---|---|---|---|---|
| **Description** | A "business as usual" outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns. | Delays in taking meaningful policy action result in a rapid policy shift in the mid/late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy. | Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions. | A more ambitious version of the Global coordinated action scenario with more aggressive policy and more extensive technology shifts, in particular the deployment of Negative Emissions Technologies at scale. |
| **Temperate rise** | **~3.5ºC** | **~2.0ºC** | **~2.0ºC** | **~1.5ºC** |
| **Renewable energy by 2050** | **30-40%** | **80-85%** | **65-70%** | **80-85%** |
| **Physical risk level** | **High** | **Low - Medium** | **Low - Medium** | **Low** |
| **Transition risk level** | **Low** | **High** | **Low - Medium** | **Medium** |

# Climate scenario analysis: Summary of results and conclusions

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**Instantaneous shocks**

- We analysed the impact on the pot size of a range of sample members in our Default/Lifecycle strategies if the entire impact of each climate scenario was to occur over a short-term period. The results show that climate change risk is significant, with older members losing more than a year's worth of salary in the worst scenario (Inevitable Policy Response). They also demonstrate the timing risk, with younger members not being too impacted by a climate change shock if it happens immediately.
- In order to contextualise the results against the risk assumptions already built into our core strategic modelling, we compared the instantaneous impact of each climate scenario on both LifeSight Equity and DGF (the key building block funds underpinning LifeSight's strategies) versus an annual 1 in 20 shock from our base model. The results show that the 'instantaneous' pricing in of the climate change impacts under any of the four climate scenarios (a highly unlikely eventuality, more extreme than 1 in 20) is roughly equivalent to a 1 in 20 annual shock in our base model, which we consider proportionate.

**Long-term impacts**

- We also analysed the long-term impact of the scenarios for a range of sample members in our Default/Lifecycle strategies on their projected pot sizes assuming that climate change impacts materialise as gradual cumulative drags on asset returns achieved. The conclusions of the shock analysis are flipped in that climate change is now more impactful on the younger members, as one would expect. The older members do not see much impact at all as they are retired by the time the physical costs of climate change begin to materialise (albeit they may still have post-retirement exposure at that point). The most impactful scenario is now Lowest Common Denominator, with the long-run physical consequences of that scenario dragging returns down the most over the working life of younger members. That said, these outcomes are in line with the range of outcomes that members may expect just from taking the necessary investment risk.
- Over the long term, climate change may also impact members through their life expectancy. The Lowest Common Denominator and Inevitable Policy Response scenarios are expected to have the most negative impact on life expectancies due to a combination of the manifestation of physical impacts (such as more extreme weather) as well as potential side-effects of the costs of dealing with a bumpy transition to a new world.

**Key conclusions**

- Both sets of scenario analysis confirm that climate change is a significant risk to members. On one hand, it is just one of many significant investment risks, which we believe is appropriately reflected in our investment model and strategic analysis. On the other hand, the nature of climate change is different to many other investment risks – it is far-reaching, systemic, long-term, undiversifiable and unhedgeable – therefore it is worthy of special attention.

# B. 3D Carbon Journey Plan for LifeSight's Popular Defaults

# Climate metrics for members in different Default / Strategies

- LifeSight has an overall climate target to reach net zero by 2050 at the latest, with at least 50% reduction by 2030, in respect of all Defaults/Lifecycles.
- For implementation and monitoring purposes, focusing on the Building Block funds is the key, as this then directly translates to all Defaults/Lifecycles as well as other pre/post retirement strategies.
- In particular, LifeSight Equity and DGF are the key Building Block funds for two reasons: firstly, as they contain the assets with the most carbon exposure to be managed; and secondly, the vast majority of LifeSight's assets are invested in these funds.
- In the following appendices we set out detailed climate metrics for both LifeSight Equity and DGF.
- It is impractical to show here the consolidated impact for different members in different strategies at different terms to retirement – there are simply too many permutations.
- However, each member is able to determine their personal position with regard to the metrics shown for LifeSight and DGF by taking a simple weighted average of their holdings in these funds.
- Furthermore, LifeSight provides a simple personalised online Carbon Footprint tool, enabling members to see an estimate of the carbon footprint of their personal LifeSight savings compared to a global passive benchmark, with the difference expressed in simple everyday metrics.

# LifeSight's Net Zero Journey

## Progress vs the target

### Introduction:

As part of WTW's and the Trustee's net zero goal, we aim to manage the portfolio in a way that reduces exposure to climate related risks and accesses climate opportunities. The monitoring framework we use is designed to help us identify the key actions we can take to achieve this. As part of this we measure progress against a carbon journey plan and endeavour to reduce emissions in line with a below 2 degree decarbonisation pathway. However, our framework looks beyond just carbon emissions, so as not to put excessive emphasis on a single piece of backwards looking data, and considers statistics such as Climate Transition Value at Risk (CTVaR), Alignment and Climate Solutions. Using a broad range of factors is particularly important given data coverage and quality relating to carbon emissions is still improving. Below we outline a summary of the results from our analysis we have completed to date for the two key building block funds.

### Equity Fund

It is pleasing to see that the tilts we have made have led to lower climate transition risk exposure than the benchmark and that company alignment appears to be improving, as set out on slide 11. Looking forward, the key areas of focus are around further improving the alignment of the underlying companies we own, particularly those that exhibit the highest climate transition risk or have high carbon emissions. We can achieve this either through allocating more assets to aligning companies or using effective stewardship resources to influence the companies we own to develop their own Net Zero strategies. We are in the later stages of developing a stewardship dashboard that will help us identify the key engagement targets. Following the energy crisis in 2022, which increased transition risk in the market, we have increased our allocation to the Climate Transition Index Fund, to reduce risk.

### Diversified Growth Fund

Overall, the Fund has improved on multiple metrics over the year, as set out on slide 15, but there are still areas where we are looking to make more progress. From our perspective, the key area of climate risk lies within the infrastructure portfolio. Although we do not currently have cause for concern, we continue to monitor the manager's progress in managing against this long term risk. Another key focus is around improving the alignment of the underlying companies we own. We can achieve this either through allocating more assets to the aligning companies or using effective stewardship resources to influence the companies we own to develop their own Net Zero strategies. The recent innovation regarding LTAF structures opens up the exciting possibility of replacing some of the real assets exposure with high quality private market climate solutions. We are assessing how best we can utilise these to meet our Net Zero goals.



8

# C. Key climate metrics for LifeSight Equity

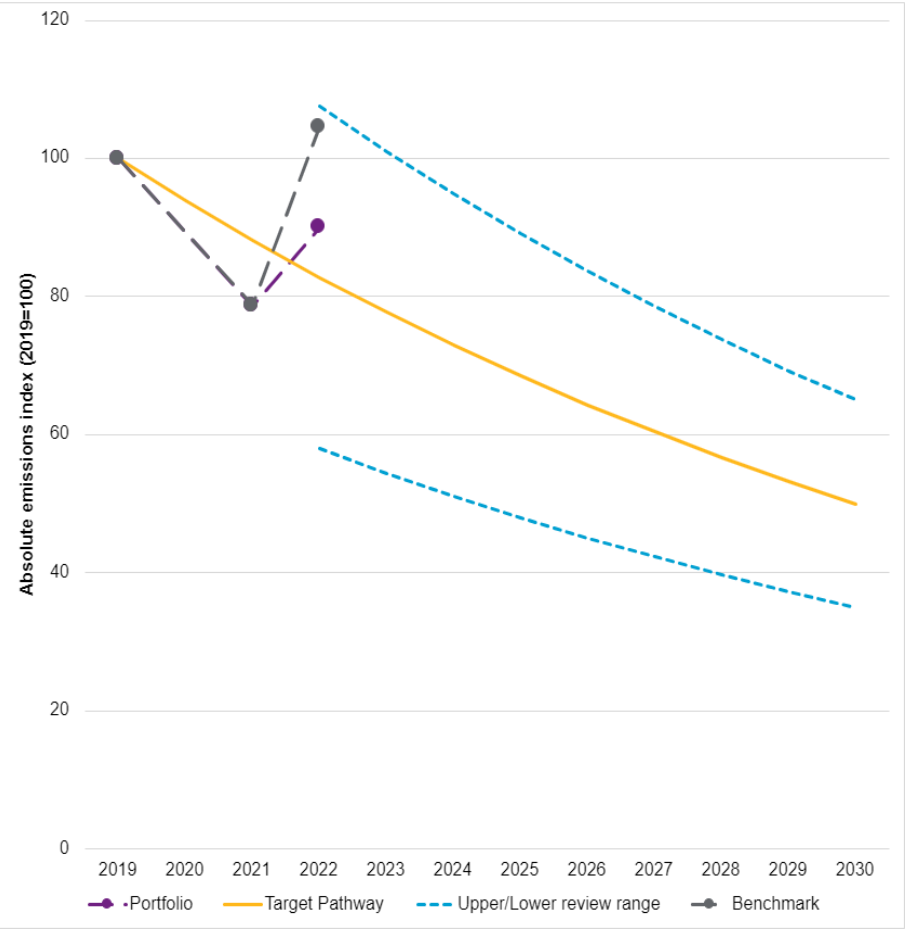
# Carbon Journey Plan

## LifeSight Equity Fund

Willis Towers Watson

As at 31 Dec 22

### Indicative Carbon Journey Plan




- The Carbon Journey Plan (CJP) sets out a pathway of emissions from 2019 to 2030 that is consistent with the Fund's long-term net zero goals. It sets out an annual carbon budget for the portfolio consistent with a net-zero transition.
- The chart shows a best estimate of the Fund's Carbon Emissions trajectory relative to 2019 using scope 1 and 2 data. It includes a "market value adjustment" to offset some of the change in the values of the underlying companies due to positive performance experienced since 2019.
- Using this adjustment, since 2021, we estimate that portfolio carbon emissions intensity has increased (by c14%), while over the same period the benchmark carbon emissions intensity has increased by c32%. We estimate that the main source of the increase is driven by increased exposure to the energy sector following the crisis in Ukraine and an increase in emissions of the underlying companies within the fund. This increase was less pronounced for LifeSight Equity than that of the benchmark due to its ESG tilts and so it has a lower weighting to the energy sector overall.
- Carbon emissions data is still in its infancy in terms of availability and quality and while we have coverage of scope 1 and 2 in equities provided by our third-party data provider, scope 3 data is not yet widely reported. However, our third-party data provider MSCI uses top down industry level estimates to estimate the Scope 3 emissions of the companies we own. As at 31 December 2022, these were 2.4m tCO2 for LifeSight Equity (vs 3.2m tCO2 for MSCI ACWI). Whilst it is encouraging that our emissions trajectory is directionally consistent with our plan, given the backward-looking and lagged nature of carbon emissions and that the data is still in its infancy, we stress the importance of using multiple climate metrics to assess progress vs a Net Zero goal as outlined overleaf. Whilst it is important that we limit climate risk through our portfolio actions, our progress is implicitly linked to the wider market as we would not be immune to the systemic impact on market returns should the broader market fail to decarbonise and limit widespread climate change. This emphasises the importance of Stewardship as a key driver of achieving our Net Zero target over time.

* Emissions Intensity index is the total portfolio emissions per $ invested rebased to 100 at the end of 2019, adjusted for changes in market value since 2019.
Market comparator chosen is 100% MSCI ACWI as this represents a broadly similar equity markets exposure and constitutes a transparent comparator for the portfolio.

# Climate Dashboard

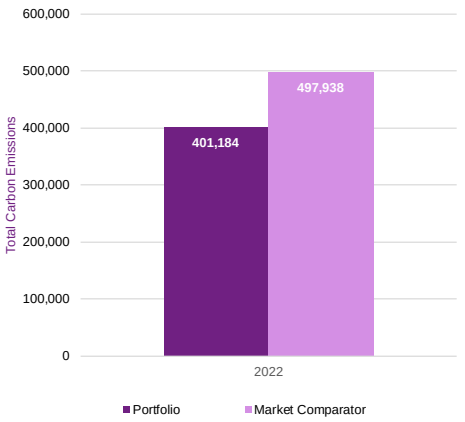
LifeSight Equity Fund

Willis Towers Watson

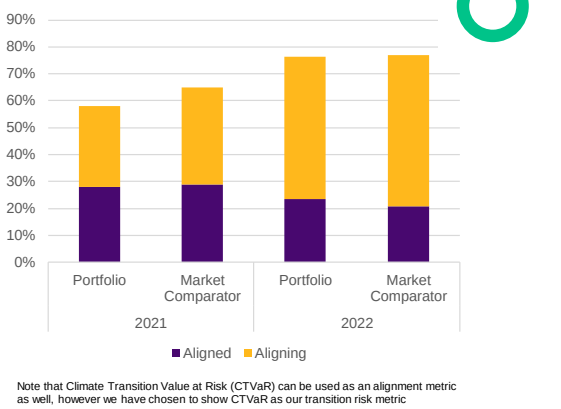
As at 31 Dec 22

## Impact of portfolio on climate change

### Carbon footprint

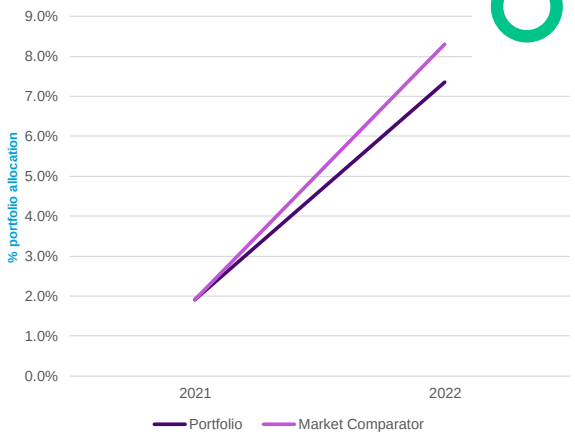



### Alignment




Note that Climate Transition Value at Risk (CTVaR) can be used as an alignment metric as well, however we have chosen to show CTVaR as our transition risk metric

### Climate Solutions




## Impact of climate change on portfolio

### Transition risks - CTVaR

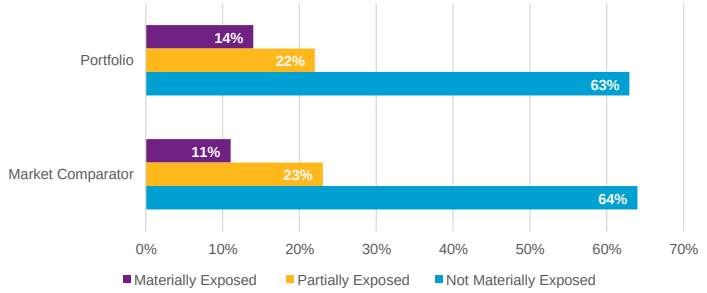
**2022 - Portfolio**

**-2.7%**

**Comparator**

**-4.2%**

### Physical risks




Market comparator chosen is 100% MSCI ACWI as this represents a broadly similar equity markets exposure and constitutes a transparent comparator for the portfolio.



**Portfolio Coverage Key**

- Proxied data
- Actual holding
- No data

# Explanatory Notes

## LifeSight Equity Fund

Willis Towers Watson

As at 31 Dec 22

**PORTFOLIO SPECIFIC COMMENTARY**

LifeSight Equity Fund ("the Fund") invests across a range of regional equity markets and funds with ESG tilting.

1. The portfolio has lower carbon emission exposure than the benchmark due to the underlying ESG tilts within the fund. On an intensity basis, the portfolio's scope 1+2 carbon emissions intensity was 57 tCO2/£m invested, while the benchmark's amounted to 71 tCO2/£m . Scope 3 is estimated at 342 tCO2/£m invested, while the benchmark's amounted to 460 tCO2/£m.

2. We estimate that 23% of the portfolio is invested in companies whose strategies are aligned to a Paris-consistent net zero pathway, 53% are in the process of aligning, while the remaining 23% are yet to demonstrate sufficient climate ambition consistent with a 'well below 2 degrees' world. Pleasingly, we have seen more companies set credible decarbonisation targets as well as publishing their carbon footprint statistics over the last year. This rise in target setting by companies is due to a variety of factors, including a rise in both voluntary and mandatory corporate climate disclosure standards. There is still a long way to go particularly with the world's largest emitters and our engagement with these companies will form a key part of this progress as well as increasing investment in climate solutions to help enable companies to meet their targets.

3. We continue to look for suitable climate solution opportunities on ongoing basis for the portfolio. We measure exposure to climate solutions in line with the EU taxonomy framework. The percentage exposure has increased due a larger number of companies being classified as EU taxonomy aligned assets.

4. The portfolio has a smaller exposure to climate transition risks compared to the market comparator largely due to the Fund's investment in the Climate Transition index which specifically focuses on minimizing climate transition risk by investing in assets which are better positioned for the transition to a Net Zero world. Since the end of 2021, Climate Transition Risks have increased in the market comparator largely as a result of Energy company outperformance within the index following the Russian invasion of Ukraine. Following this, the allocation to the CTI strategy has been increased since the end of the year, to help further reduce climate transition risks.

5. We estimate that a material proportion of our portfolio is severely exposed to physical climate risks (14%), which emphasises the importance of investing and undertaking stewardship in a way that supports a transition to a 'well below 2 degrees' world.

**Key conclusions:**

From our perspective, the key areas of focus are around improving the alignment of the underlying companies we own, particularly those that exhibit the highest climate transition risk or have high carbon emissions. We can achieve this either through allocating more assets to aligning companies or using effective stewardship resources to influence the companies we own to develop their own Net Zero strategies. Whilst it is important that we limit climate risk through our portfolio actions, our progress is implicitly linked to the wider market as we would not be immune to the systemic impact on market returns should the broader market fail to decarbonise and limit widespread climate change. This emphases the importance of effective stewardship policies.

Market comparator chosen is 100% MSCI ACWI as this represents a broadly similar equity markets exposure and constitutes a transparent comparator for the portfolio.

# D. Key climate metrics for LifeSight DGF

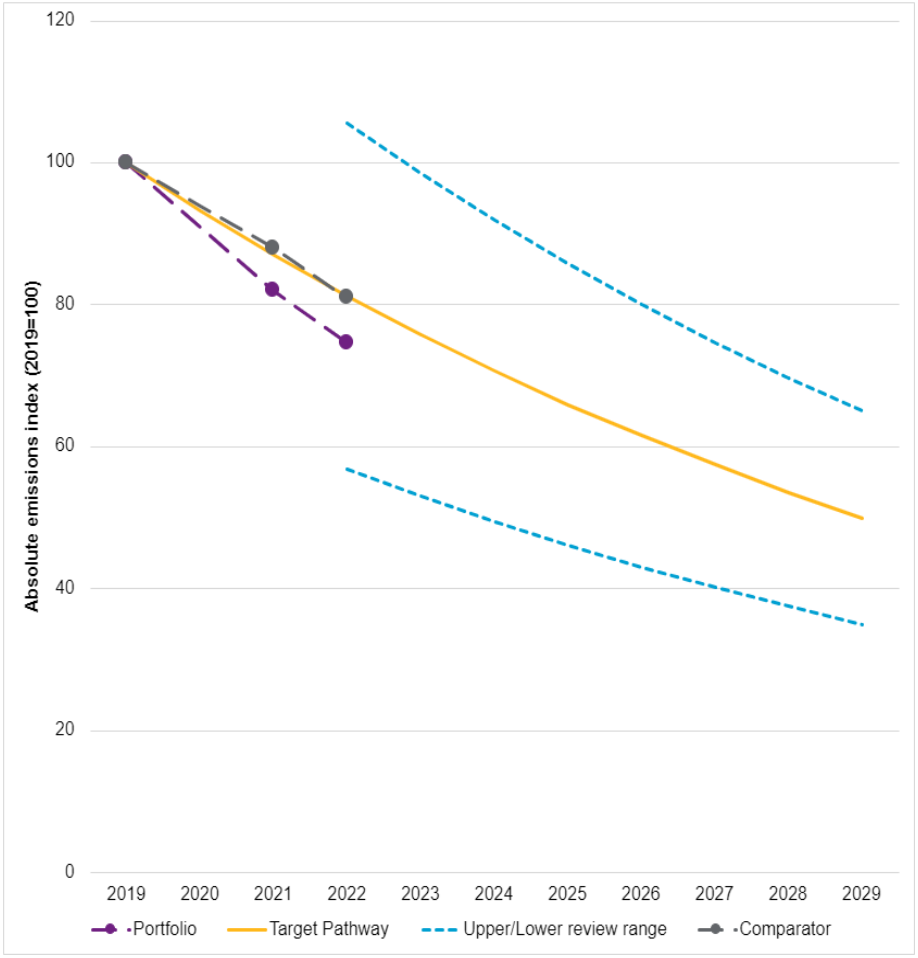
# Carbon Journey Plan

LifeSight DGF

Willis Towers Watson

As at 31 Dec 22

## Indicative Carbon Journey Plan




- The Carbon Journey Plan (CJP) sets out a pathway of emissions from 2019 to 2030 that is consistent with the Fund's long-term net zero goals. It sets out an annual carbon budget for the portfolio that is consistent with a net-zero transition.
- The chart shows a best estimate of the Fund's Carbon Emissions trajectory relative to 2019 using scope 1 and 2 data. It includes a fund level "market value adjustment" to offset some of the change in the values of the underlying companies due to positive performance experienced since 2019 which will have diluted the emissions numbers.
- Using this adjustment, since 2021, we estimate that LifeSight DGF carbon emissions intensity has reduced (by c9%) driven by reduced reported emissions intensity numbers of the underlying companies we own, while over the same period the benchmark carbon emissions intensity has reduced by c7%.
- Carbon emissions data is still in its infancy in terms of availability and quality and while we have great coverage of scope 1 and 2 in equities provided by our third-party data provider, scope 3 data is not yet widely reported. However, our third-party data provider MSCI uses top-down industry level estimates to estimate the Scope 3 emissions of the assets we own. As at 31 December 2022, these were 1.1m tCO2 for LifeSight DGF (vs 1.5m tCO2 for the market comparator) excluding the contribution from sovereign debt. Whilst it is encouraging that our emissions trajectory is directionally consistent with our plan, given the backward-looking and lagged nature of carbon emissions and that the data is still in its infancy, we stress the importance of using multiple climate metrics to assess progress vs a Net Zero goal as outlined overleaf. Whilst it is important that we limit climate risk through our portfolio actions, our progress is implicitly linked to the wider market as we would not be immune to the systemic impact on market returns should the broader market fail to decarbonise and limit widespread climate change. This emphasises the importance of Stewardship as a key driver of achieving our Net Zero target over time.

* Emissions Intensity index is the total portfolio emissions per $ invested rebased to 100 at the end of 2019, adjusted for changes in market value since 2019.

Market comparator chosen is a passive equivalent of Fund's asset mix as a best estimate like for like comparator for the portfolio. The same market value adjustment has been applied to this hypothetical comparator for consistency.

# Climate Dashboard

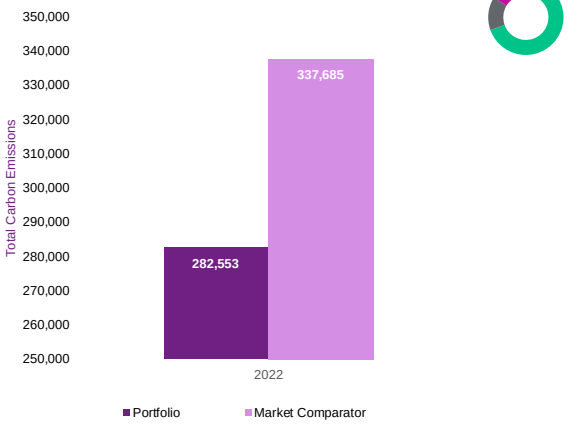
LifeSight DGF

Willis Towers Watson

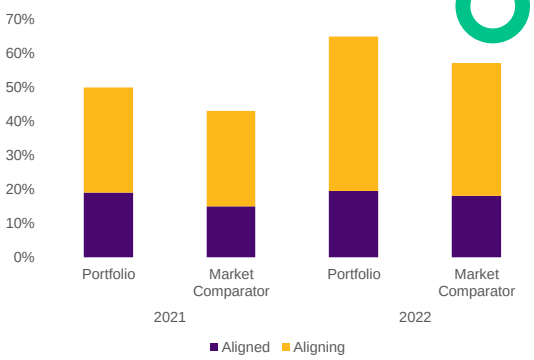
As at 31 Dec 22

## Impact of portfolio on climate change

### Carbon footprint

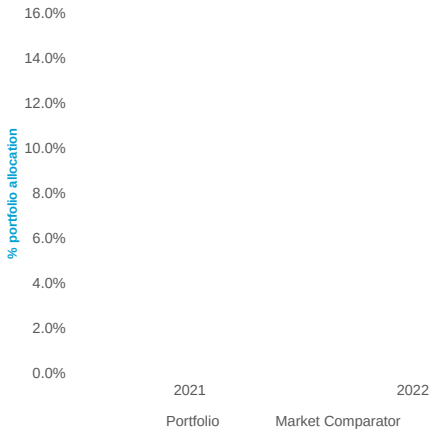



### Alignment




Note that Climate Transition Value at Risk (CTVaR) can be used as an alignment metric as well, however we have chosen to show CTVaR as our transition risk metric

### Climate Solutions




## Impact of climate change on portfolio

### Transition risks - CTVaR

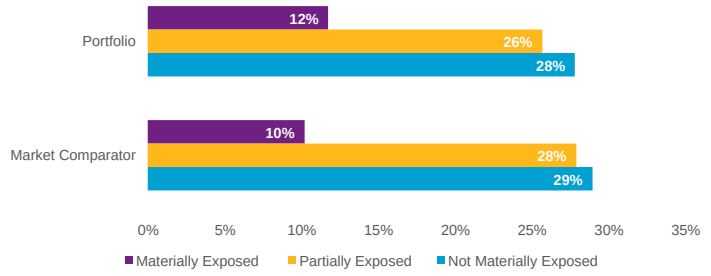
**2022 - Portfolio**

**-2.8%**

**Comparator**

**-3.1%**

### Physical risks




**Portfolio Coverage Key**

- Proxied data
- Actual holding
- No data

# Explanatory Notes

## LifeSight DGF

Willis Towers Watson

As at 31 Dec 22

**PORTFOLIO SPECIFIC COMMENTARY**

LifeSight Diversified Growth Fund ("DGF") invests across a range of different asset classes, including infrastructure and high yield debt, so has broader exposure to the real world economy and hard to abate areas than just equities. Having exposure to these areas means that the DGF has the ability to have greater impact on the real world should it be able to align its portfolio to Net Zero.

1. The portfolio has lower carbon emissions as compared to the benchmark due to the underlying managers positioning vs the wider universe. On an intensity basis, the portfolio's scope 1+2 carbon emissions intensity was 82 tCO2/£m invested, while the benchmark's amounted to 98 tCO2/£m. The Scope 3 is estimated at 333 tCO2/£m invested, while the benchmark's amounted to 436 tCO2/£m. These numbers exclude the 10% allocation to EM sovereign credit, which are reported separately below:
    - We estimate the portfolio's sovereign credit contributes an additional 326,400 tCO2 to total scope 1+2 carbon emissions. The sovereign credit portfolio has a carbon intensity of 853 tCO2/£m on scope 1+2 carbon emissions. We are unable to source the Scope 3 carbon intensity data for EM sovereign credit.
2. We estimate that 19% of the portfolio is invested in companies whose strategies are aligned to a Paris-consistent net zero pathway, 45% are in the process of aligning, while the remaining c30% are yet to demonstrate sufficient climate ambition consistent with a 'well below 2 degrees' world. Pleasingly, we have seen more companies set credible decarbonisation targets as well as publishing their carbon footprint statistics over the last year. This rise in target setting by companies is due to a variety of factors, including a rise in both voluntary and mandatory corporate climate disclosure standards. There is still a long way to go particularly with the world's largest emitters and our engagement with these companies will form a key part of this progress as well as increasing investment in climate solutions to help enable companies to meet their targets.
3. We continue to look for suitable climate solution opportunities on ongoing basis for the portfolio. We measure exposure to climate solutions in line with the EU taxonomy framework. The percentage exposure has increased due a larger number of companies being classified as EU taxonomy aligned assets.
4. The portfolio has a smaller exposure to climate transition risks than the market comparator due to the positioning of the infrastructure and fallen angel credit assets compared to the passive comparators. The infrastructure sector has relatively higher transition risk than other sectors, however, it continues to remain a key area of climate opportunity and is crucial to supporting the needs of a Net Zero transition. We continue to assess Magellan's ESG capabilities and engage with them as part of our manager research process.
5. We estimate that a material proportion of our portfolio is severely exposed to physical climate risks (12%), which emphasises the importance of investing and undertaking stewardship in a way that supports a transition to a 'well below 2 degrees' world.

**Key conclusions:**

Overall, the Fund has improved on multiple metrics over the year, as set out on slide 15, but there are still areas where we are looking to make more progress. From our perspective, the key area of climate risk lies within the infrastructure portfolio. Although we do not currently have cause for concern, we continue to monitor the manager's progress in managing against this long term risk. Another key focus is around improving the alignment of the underlying companies we own. We can achieve this either through allocating more assets to the aligning companies or using effective stewardship resources to influence the companies we own to develop their own Net Zero strategies. The recent innovation regarding LTAF structures opens up the exciting possibility of replacing some of the real assets exposure with high quality private market climate solutions. We are assessing how best we can utilise these to meet our Net Zero goals. Within sovereign debt, whilst their emissions are reported separately from the overall calculation, we are looking at ways to embed climate risk mitigation into this portfolio in a fee efficient way.

Coverage commentary: Emission numbers are produced using MSCI ESG data which represent a blend of estimates and actual data. Scope 3 emissions data were unavailable for sovereign credit exposures. Sovereign credit emissions are currently excluded from the charts presented in this report and reported separately. Market comparator chosen is a passive equivalent of Fund's asset mix as a best estimate like for like comparator for the portfolio.

# LifeSight Equity / Diversified Growth Fund – additional explanatory notes

**Methodology**

1. Financed Emissions: We define financed emissions using the Partnership for Carbon Accounting Financials (PCAF) methodology. PCAF enables asset managers to attribute the proportion of an entity's GHG emissions to an investment or security. The total portfolio financed emissions are the weighted average of the financed emissions of the investments or securities in the portfolio, expressed as the total CO2e emissions of the portfolio in tCO2e. Source of data: MSCI ESG
2. Carbon footprint: We define the carbon footprint of an investment to be the financed emissions of each investment or security in the portfolio divided by the £ amount invested (tCO2e scope 1 + 2 emissions / £m invested attributed by EVIC). This normalises the emissions at the portfolio level by position size. The total portfolio carbon footprint is the weighted average of the carbon footprint of each investment in the portfolio, expressed as tCO2e/$m. Emissions attributed to investments in sovereign bonds are reported separately and calculated using PCAF's adjustment per GDP approach. Source of data: MSCI ESG
3. Climate solutions: Our climate solutions definition is based on the EU Taxonomy. Percentage of the portfolio that may be considered EU Taxonomy eligible based on the criteria set out in the taxonomy. A security is considered a climate solution if it meets the following criteria: >20% of revenue generated from activities aligned with a climate change adaption or climate change mitigation environmental objective, does no significant harm through involvement in environmentally damaging controversies or activities that could negatively impact society and meets minimum safeguards as defined by the UN Global Principles on Business and Human Rights (UNGP) and OECD Guidelines. Source of data: MSCI ESG
4. Alignment: Our approach to measuring alignment is based on guidance set out by the IIGCC's Net Zero Investment Framework (NZIF) which provides a framework for assessing a portfolio's level of alignment with the goals set out in the Paris Agreement. This includes an assessment of companies vs 6 criteria: Ambition, Targets, Emissions Performance, Disclosure, Decarbonisation Strategy and Capital Allocation. Where data is available, we use the Climate Action 100 benchmark, Transition Pathways Initiative and Science Based Targets Initiative as highly granular data sources to score companies. These do not cover all companies in the universe given their voluntary nature and focus on the higher emitters. As such, we then complete any gaps in data using MSCI ESG's alignment scores.
5. Climate Transition Value-at-Risk: Our approach to assessing the transition risk of portfolios uses WTW's proprietary Climate Transition Value at Risk (CTVaR) methodology which quantifies climate transition risk by integrating forward-looking company assessments with traditional risk and return models. CTVaR analyses the impact on projected company cashflows of moving from a 'business as usual' scenario – reflecting current policies – to a world where emissions pathways are fully aligned to the goals of the Paris Agreement. This is based on a granular understanding of the plausible/likely changes to policy, regulation, technologies, and consumer preferences that would occur in a transition to a low carbon world. This is translated into a % impact relative to current asset prices by taking the net present value (NPV) of the change in future company cashflows.
6. Physical risk: Our approach to measuring the impact of physical risk for listed companies assesses both the costs of direct physical damage and business interruption on a company's market value due to chronic and acute physical hazards. We have chosen to align our physical risk scenario with those recommended by the Network for Greening the Financial System (NGFS which have become a standard for regulatory reporting and climate stress testing activities like the ones initialized by the European Central Bank or the Bank of England. Using research conducted by the Thinking Ahead Institute, the most appropriate scenario to use for our physical risk metric expects that if humanity continues along the 'business-as-usual' path that it is currently on, it is likely to experience a temperature rise between 2.7°C-3.6°C. We believe this aligns most closely with the 3°C Current Policies (Hot house world) NGFS scenario. For each security/bond, we assess the 95th percentile downside potential of a company's equity/bonds assuming trends continue along the 3°C REMIND Current Policies scenario for extreme weather events.

# LifeSight Equity / Diversified Growth Fund – additional explanatory notes

**Data limitations/Expected developments**

1. Scope 3 data – Our Net Zero target does not cover scope 3, driven by the lack of data availability. We expect data coverage to improve over time as more companies are able to measure and report it.
2. Data quality – The results shown in this report are based on holdings data. Pie charts on the Climate dashboard indicate the % of data omitted from the calculation of the particular metric. Below, we breakdown the Scope 1 + 2 GHG emissions data quality for the asset classes we invest in provided by our data provider, MSCI ESG.

| Scope 1 + 2 GHG emissions data quality | % securities whereby carbon data is reported by company (but not verified) | % securities whereby carbon data is estimated | % securities whereby carbon data is not reported or estimated |
|---|---|---|---|
| Equity | 86.0% | 13.2% | 0.9% |
| Corporate bonds | 39.5% | 17.7% | 42.7% |
| EMD | 2.5% | 94.2% | 3.4% |
| Property | 91.1% | 8.2% | 0.7% |
| Infrastructure | 83.4% | 13.6% | 3.0% |
| LifeSight DGF Weighted Total | 63.0% | 22.2% | 14.8% |

3. Market value adjustment for carbon journey plan – This adjustment produces emissions numbers that are a truer reflection of the movements in carbon emissions over time. However, a fund level MVA may not fully offset for all of the performance dilution impact at the stock level. The adjustment has been lagged by one year to match the date of the available enterprise values of the underlying companies. As we are unable to source unhedged performance of LifeSight Equity, the adjustment for both the fund and the benchmark were done using 50% GBP hedged returns.
4. Improved reporting standards – we are expecting that the global accounting standards ISSB to require that climate disclosures (IFRS S2) be effective for annual reporting periods beginning on or after 1 January 2024. We expect this to significantly improve the quality of the data being published given the auditing requirements that should cover these disclosures.

# MSCI & Greenhouse Gas Emissions

### Why MSCI

WTW's sustainability team conducted an in-depth review of over 10 sustainability data providers to assess potential partners that could provide the data to support our growing sustainability initiative. Through our analysis we concluded that MSCI was best suited to provide the level of coverage for all key ESG and climate metrics required for this report. MSCI is a market leader in terms of quality of research and size of team, with approximately 400 full time employees as of July 2020, we believe that they offer the necessary support and breadth of resources needed as WTW continues to expand sustainability efforts in various areas of concentration. MSCI has recently released several new data sets including climate and impact series which we believe can contribute to the next stages of our development in terms of tools, analysis, lens work on sustainable investing, including potential future enhancements to our sustainability scorecard. Climate analysis continues to be a top priority for MSCI's ESG data team in the coming years, corroborated through their recent acquisition of Carbon Delta, which WTW views as an exciting development as we also look to prioritize the growing importance and impact of climate change though our various lines of business.

### Additional disclosure

Although WTW's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy, and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy and sell or when to buy and sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

### Greenhouse gas emissions: a primer

Greenhouse gas emissions are classified as per the Greenhouse Gas Protocol and are grouped in three categories known as Scope 1, Scope 2 and Scope 3.

- **Scope 1** GHG emissions are those directly occurring "from sources that are owned or controlled by the institution, including: on-campus stationary combustion of fossil fuels; mobile combustion of fossil fuels by institution owned/controlled vehicles; and "fugitive" emissions. Fugitive emissions result from intentional or unintentional releases of GHGs, including the leakage of hydrofluorocarbons (HFCs) from refrigeration and air conditioning equipment as well as the release of CH4 from institution-owned farm animals."
- **Scope 2** emissions are "indirect emissions generated in the production of electricity consumed by the institution."
- **Scope 3** emissions are all the other indirect emissions that are "a consequence of the activities of the institution but occur from sources not owned or controlled by the institution" such as commuting; waste disposal; embodied emissions from extraction, production, and transportation of purchased goods; outsourced activities; contractor-owned vehicles; and line loss from electricity transmission and distribution".

The greenhouse gases included in the GHG emissions are the 6 gases mandated by the Kyoto Protocol , given here below with global warming potential coefficient (GWP):

- Carbon dioxide (CO2) GWP: 1
- Methane (CH4) GWP: 21
- Nitrous oxide (N2O) GWP: 310
- Hydrofluorocarbons (HFCs) GWP: GWP: 150 – 11,700
- Perfluorocarbons (PFCs) GWP: 6500 – 9,200
- Sulphur hexafluoride (SF6) GWP: 23,900

# E. Case Study: EOS at Federated Hermes

# Case Study: EOS at Federated Hermes

Willis Towers Watson

- LifeSight employs EOS at Federated Hermes, a stewardship service provider, to support our efforts in company-level engagement on a wide range of topics, as well as public policy engagement and advocacy. As at 31 December 2022 EOS represented $1.34trn of assets under advice.
- The Fiduciary Manager has been working closely with EOS for many years, and a senior member of the WTW Investment Team chairs EOS' Client Advisory Board, helping to shape its engagement approach and priorities.
- EOS's overarching stewardship activities over 2022 included:
  - Engagements with 1,138 companies on a total of 4,250 issues and objectives.
  - 33 responses to consultations or proactive equivalents and 75 discussions with relevant regulators and stakeholders.
  - Voting recommendations on 134,188 resolutions, including 24,461 votes against management.
  - Active participation in a range of global stewardship initiatives.
- In particular we would highlight the following activity with regard to climate change impact:
  - Climate Action 100+ (CA100+) is an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It targets 167 companies globally. EOS is among over 615 investors, totalling $65tn under management, who have signed up to CA100+. EOS led or co-led the engagement on over 25 focus companies and is collaborating with other investors on over 30 companies as part of this initiative.
  - EOS has undertaken climate engagements with major oil and gas companies through CA100+. As part of this strong momentum, CA100+ issued its net-zero benchmark for the world's largest carbon emitters in March 2021. EOS helped to design the benchmark, which set clear engagement priorities.

# F. Case Studies: voting and engagement

# Case Study 1
# Thematic engagement by EOS: climate and net zero

- EOS play an important role in the collaborative engagement initiative Climate Action 100+ (CA100+), recognising that investor engagement on climate change is important to help companies manage risk through a period of economic transformation.
- Within that, EOS acted as the lead or co-lead engager on 24 companies in 2022. Some highlights include:
  - Continuing to push for progress where companies lagged best practice, as well as welcoming the setting of new targets by others e.g. food company Danone setting Science-Based Targets initiative-validated emissions targets — something EOS have engaged on since 2019 through CA100+.
  - A focus on 'say-on-climate' votes, particularly at European oil and gas companies. This required some intensive engagement to inform the analysis distributed to CA100+ signatories and EOS's vote guidance to clients. Examples of this extend from BP to Centrica to TotalEnergie, as well as mining companies Anglo American and Rio Tinto
  - Intensified scrutiny and engagement with German automobile companies BMW, Mercedes-Benz and Volkswagen on aligning their public policy lobbying with their ambitions for achieving net-zero emissions
- EOS appreciate that good progress has been made over the past five years of climate engagement, but many of the world's biggest emitters are still far from achieving full alignment with the goal of the Paris Agreement
- Please refer to pages 16-19 of the EOS Annual Review for a more extensive review of its climate engagements with CA100+ in 2022

# Case Study 2
# EOS – Delta Electronics

Willis Towers Watson

## Concerns

- Delta Electronics, Inc., is one of the main global power and thermal management solution providers, and is expanding rapidly in the electric vehicle charging and power solution market
- EOS has engaged since 2020. Their engagement objectives have included:
  - Net-zero emissions strategy
  - Supply chain human rights
  - Board gender diversity

## Actions

- EOS asked the company to conduct due diligence on indirect labour and the recruitment of direct employees. EOS also raised concerns about gender diversity on the all-male board
- EOS continues to engage with the company on supply chain human rights issues, such as sourcing of cobalt and the risks of connections to forced labour in the supply chain, as well as further improving its disclosure on the use of internal carbon payment funds, TCFD and supply chain emissions reduction.

**Delta Electronics Inc**
Taiwanese electronics manufacturing company

## Outcome

Following engagement with EOS, by November 2022 the company had set:

- A 2050 net-zero commitment;
- Board gender diversity target of 25%;
- “zero placement” of foreign migrant workers to prevent modern slavery.

Notes and source: EOS. For illustrative purposes only. Full case study Delta Electronics case study | Federated Hermes Limited (hermes-investment.com)

# Case Study 3
# EOS – LyondellBasell

Willis Towers Watson

## Concerns

- EOS has engaged with the multinational chemical major, LyondellBasell Industries NV (LyondellBasell), on climate change since 2017

## Actions

- After LyondellBasell published its sustainability disclosures and CDP reports in 2017, EOS engaged with the company to set more ambitious climate targets
- In a meeting with senior executives, the company acknowledged EOS's request for forward-looking targets, including science-based targets, and said it was investing in energy efficiency projects.
- EOS proposed a discussion on climate change resulting in a shareholder-board discussion on the company's climate change strategy, during which the company indicated its willingness to make further commitments.

## Outcome

- Following EOS's engagement, by May 2022 LyondellBasell had set:
  - Net-zero 2050 goal, with strategy and 30% reduction target 2030, with commitment to identify scope 3 emissions.
  - New strategy to help reduce plastics waste.

**LyondellBasell**
Multinational chemical major

Notes and source: EOS. For illustrative purposes only. Full case study LyondellBasell case study | Federated Hermes Limited (hermes-investment.com)

# Case Study 4
# EOS – ExxonMobil

Willis Towers Watson

## Concerns

- Climate change is a material issue for ExxonMobil, which is the largest emitter in the US and the fifth largest emitter globally
- EOS's engagement objectives include:
  - Climate strategy and development of climate transition plan
  - Appointing a non-US national director

## Actions

- EOS has had longstanding dialogue through significant leadership changes at the board level
- In 2021, the company faced a proxy contest from Engine No. 1. Following subsequent engagement with both Engine No. 1 and ExxonMobil, EOS recommended supporting the proxy contest

**ExxonMobil**
One of the world's largest integrated energy companies.

## Outcome

- Following EOS's engagement ExxonMobil now has:
  - 3 new directors to guide lower carbon strategy; new methane intensity reduction target of 40-50% by 2025; with no routine flaring by 2030.

Notes and source: EOS. For illustrative purposes only. Full case study: ExxonMobil case study | Federated Hermes | Federate Hermes Limited (hermes-investment.com)

# Case Study 5
# LGIM – BP

Willis Towers Watson

## Concerns

- As an integrated oil and gas company BP faces long-term sustainability issues and particular vulnerability to climate transition risk, including from evolving policy and regulation.
- LGIM met with the company several times in 2023 on account of concerns about their announcement to amend their climate transition strategy that was approved in 2022.

## Actions

- LGIM voted against the re election of the company's Chair in 2023, on account of concerns around the governance process that led to the changes to the climate strategy without the opportunity for shareholders to vote.
- LGIM are working with the board and senior executives & company has set some industry leading targets to halve operational emissions by 2030 and to target net zero emissions by 2050 across the full value chain.

## Outcome

- BP have committed to allocate > 40% capital expenditure to transition growth business by 2025. They are expanding into clean energy: solar, electric vehicle charging & offshore wind.
- However, LGIM expect to see further progress to strengthen climate targets and the level of board oversight.

**BP**
British oil & gas company

Notes and source: LGIM Active Ownership report 2022 (lgim.com)

# Case Study 6
# LGIM – Mitsubishi UFJ Financial Group

## Concerns

- As Japan's largest bank LGIM wanted to see more action in terms of it playing its part in financing the transition to net zero.

## Actions

- LGIM had direct & collaborative engagements with MUFG, including through ACGA* and ARE*, requesting roll out of exclusion policies to take account of wider financing activities.
- Continued engagement with MUFG and across the financial sector, including collaborative engagements. Areas of focus include transition risk.

## Outcome

- MUFG joined Net Zero Banking Alliance and are working towards improved disclosure.

**MUFG**

Japanese bank and financial services company

*ACGA – Asian Corporate Governance Association; ARE – Asia Research & Engagement

Notes and source: LGIM Active Ownership report 2022 (lgim.com)