



# NatWest Group Pension Fund – Climate disclosures for year ending 31 December 2023

Produced by: The Trustee of the NatWest Group Pension Fund

Date: June 2024

# Introduction

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

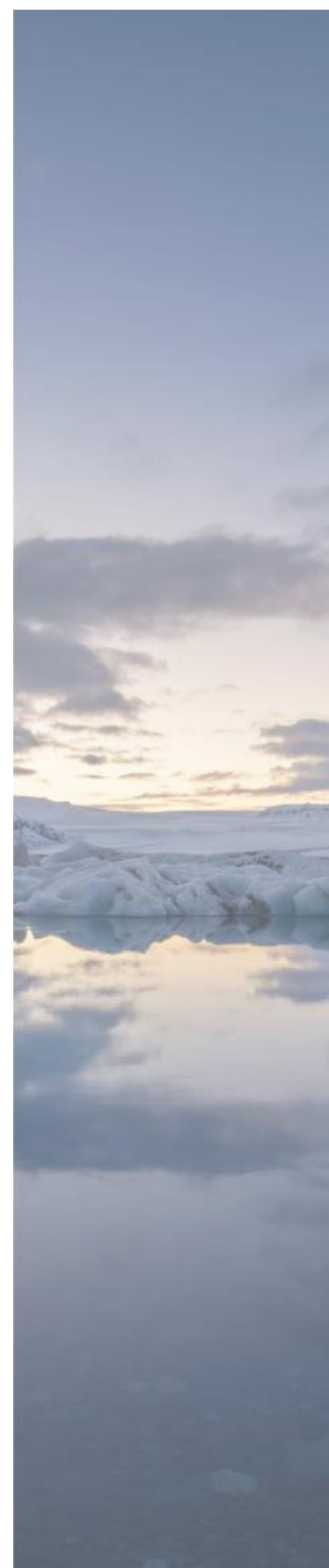
UK regulations require trustees of pension schemes with more than £1bn in assets to meet certain climate governance requirements and publish an annual report on their scheme's climate-related risks.

Better climate reporting should lead to better-informed decision-making on climate-related risks. Greater transparency around climate-related risks should increase accountability and provide decision-useful information to investors and beneficiaries.

This is the third annual climate disclosure report for the Fund and has been prepared by the Trustee for the Fund year ending 31 December 2023. The four elements covered in this report are:

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

This report has been prepared in accordance with The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the "Regulations").



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# Executive summary

This report sets out the actions that the Trustee has taken to understand the potential impact climate change could have on the Fund.

The Trustee has worked closely with its climate adviser to identify the climate-related risks and opportunities faced by the Fund, and to understand ways it can manage and mitigate those risks.



## Governance

The Fund is a defined benefit (DB) scheme with a limited number of defined contribution (DC) members. The Fund allows members to make additional voluntary contributions which are invested in the name of the Trustee in a similar way to DC arrangements.

- The Fund is divided into four sections: Main Section, AA Section, NWM Section and RBSI Section. Total Fund assets as at 31 December 2023 were c.£34,040M which is invested in a range of asset classes including hedging assets, private and public credit, public (residual) and private equity, property, and insurance assets.
- DC assets and additional voluntary contributions are relevant to a small number of members. Given their limited value relative to the Fund as a whole, they are assumed as part of the Fund for any strategic decision making, but are not reported on separately.

The Trustee has disclosed the Fund's governance and oversight of climate-related risks and opportunities. Further detail is summarised in the Governance section of the report.



## Strategy

Through its own analysis and discussions with the Fund's investment managers, the Trustee has identified that climate related risks and opportunities have the potential to impact all the different asset classes in which the Fund invests. Over time the potential impact of both physical and transition climate risks may increase. During the reporting period, the Trustee has not been allocating capital to new assets in the Main, NWM or RBSI Sections, however, it continues to assess climate investment opportunities and may allocate further capital to existing assets to take advantage of these opportunities in future. The Trustee completed a buy-in transaction for all the liabilities of the AA Section, so it has exchanged the climate risk associated with its previous asset portfolio for the climate risk of its insurance counterparty. This is a key strategic objective for the Fund, but in securing liabilities in this way, the Trustee is no longer able to make strategic asset allocation decisions other than in relation to any residual assets it continues to hold. The Trustee is able to monitor the impact of climate risks on its insurance counterparty, but is not able to take any mitigating action in relation to those risks.

The Trustee also identified that the Fund has a reasonable degree of resilience to climate related risks, this was a key outcome of the quantitative climate scenario analysis carried out in the first year of reporting under five climate scenarios. The resilience was primarily driven by the high level of diversification of assets, and liability hedging. The Fund's portfolio has changed during the reporting period as the Trustee continues to de-risk. It is expected that this de-risking activity has further reduced the Fund's exposure to climate risks.





## Risk Management

The Trustee has integrated the consideration of climate related risks into its investment, funding and risk processes and documentation. This includes a well-developed policy on stewardship, including the impact of climate change, as outlined in its Responsible Ownership Policy (“ROP”), which can be found [here](#).

The ROP describes the Trustee’s approach to voting and engagement, the results of which are reported in the Fund’s Implementation Statement, which is produced annually.

The Trustee has outlined how it integrates climate related risks within the Fund’s overall strategy on pages 26 and 33.

The Trustee and the investment team supporting the Trustee undertake periodic training on responsible investment to understand how ESG factors, including climate change, may impact the Fund’s assets and liabilities.



## Metrics and Targets

The Trustee, with the help of its climate consultant, gathered relevant carbon metrics data from its investment managers. The Trustee has, as far as it is able, collated the data for total greenhouse gas emissions, carbon footprint, data quality and the portion of the assets with net zero targets which are verified by the Science Based Targets Initiative (“SBTi”). The Trustee has also chosen to report on an implied temperature rise measure, which was an additional metric selected in the second year of reporting. More detail is provided on page 42.

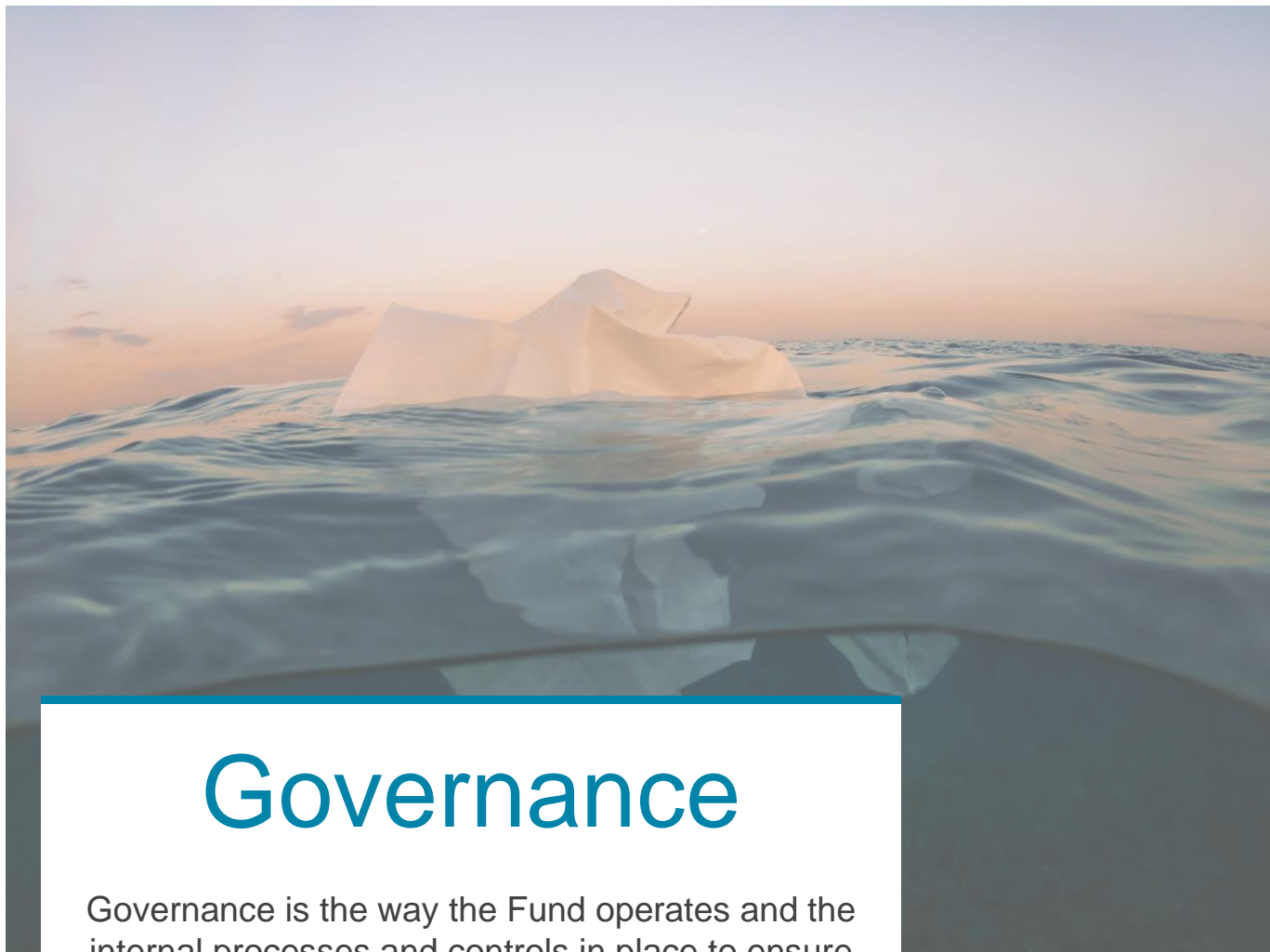
The Trustee is keen to understand the carbon emissions in the Fund’s portfolio, and notes that the data availability has improved from the previous year’s report. In accordance with the Trustee’s expectations, the overall greenhouse gas emissions increased. The increase is an expected outcome as the availability of data expands, and as a greater number of managers were able to provide scope 3 emission data which contributed to the overall reported emission’s “increase”. More detail as to how emissions are defined is provided on page 35.

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

*Joanna Matthews*

for and on behalf of Capital Cranfield Pension Trustees Limited, as chair of NatWest Pension Trustee Limited, trustee of NatWest Group Pension Fund





# Governance

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



# Fund governance

The Trustee is responsible for overseeing all strategic matters related to the Fund. This includes the governance and management frameworks relating to environmental, social and governance (“ESG”) considerations and climate-related risks and opportunities.

The Trustee’s climate-related beliefs and its approach to managing climate change risk are set out in the Fund’s Statement of Investment Principles (“SIP”), which is reviewed annually.

## The Trustee’s climate beliefs and approach

The Trustee believes that ESG performance, including management of the impact of climate change, is fundamental to a company’s enduring success and therefore to its long-term financial returns. It has articulated its approach to asset ownership in its ROP, which is available on the Trustee’s website [here](#).

The Trustee takes account of, and instructs its Investment Managers to take account of, financially material considerations in the Fund’s investment programme, including climate-related risks.

The Trustee believes that climate-related factors may create investment opportunities. Where possible, and where appropriately aligned with its strategic objectives, the Trustee will seek to capture such opportunities through investment in appropriate assets.

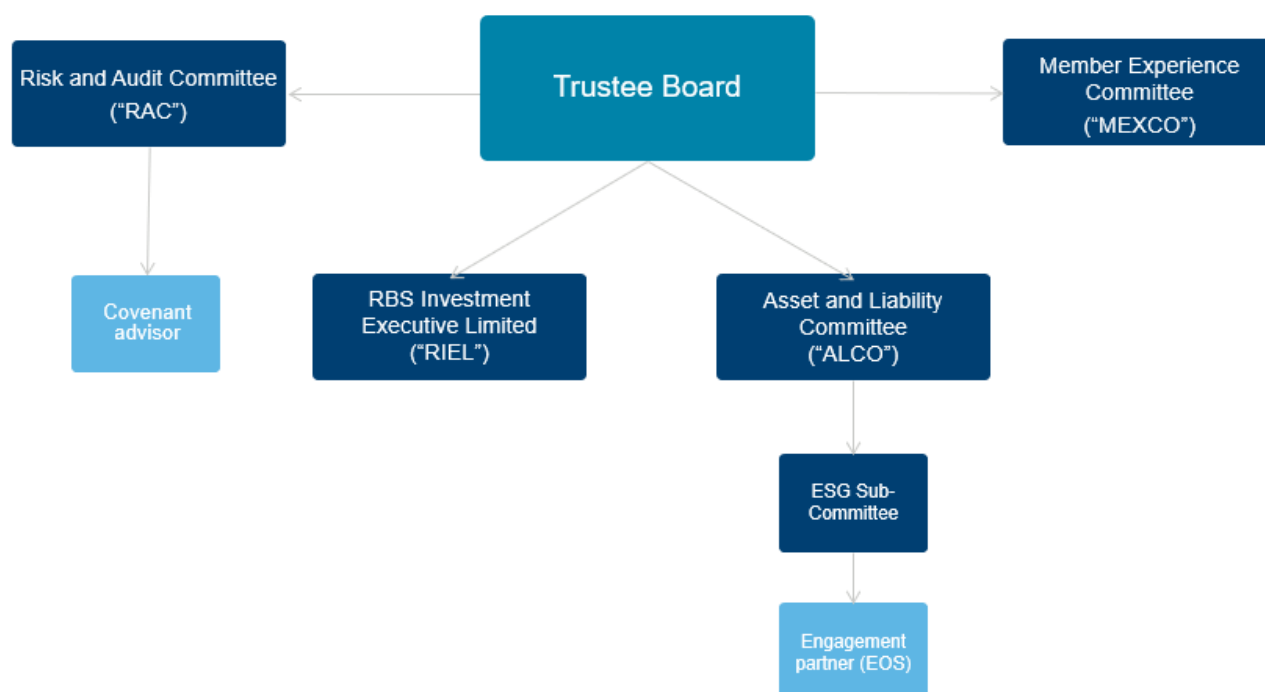
The Trustee believes that the relevant time horizons over which climate change will be relevant for the Fund’s sections are as follows:

	Main	AA	NWM	RBSI
<b>Short term</b>	2025	2025	2025	2025
<b>Medium term</b>	2035	2035	2035	2035
<b>Long term</b>	2050	2050	2050	2050



The Trustee directors receive regular training on climate-related issues to ensure that they have the appropriate knowledge and understanding to support good decision-making. During the reporting period training on climate related risks took place in May 2023 for everyone on the Trustee Board and the Trustee’s investment team.

The Trustee is ultimately responsible for oversight of all strategic matters related to the Fund. This includes approval of the governance and management framework relating to ESG considerations and climate-related risks and opportunities. Certain functions within the Trustee’s climate governance framework have been delegated to committees of the Trustee Board. The relevant committees are the Asset and Liability Committee (“ALCO”), the Environmental, Social and Governance (“ESGC”) Sub-Committee of ALCO, the Risk and Audit Committee (“RAC”) and the Member Experience Committee (“MEXCO”). These delegations are summarised below.



## Role of the Trustee Committees

The committees of the Trustee Board have the following key roles:

- **Asset and Liability Committee:** Responsible for the Fund’s investment strategy, including climate and other ESG risks and opportunities. ALCO is responsible for ensuring that investment and actuarial advice adequately incorporates climate-related risk factors where they are relevant and material which it does with assistance from its strategic investment adviser RBS Investment Executive Limited (“RIEL”). ALCO will monitor and review climate-related investment opportunities.
- **Member Experience Committee:** Responsible for ensuring the Trustee delivers a high-quality service to all members and their representatives. It monitors the administration of the Fund and communication to members, including correspondence on climate-related matters.



- **Risk and Audit Committee:** Responsible for risk oversight, covenant monitoring, audit and assurance. RAC ensures that covenant advice adequately incorporates climate-related risk factors where they are relevant and material. The RAC will monitor and review progress against the Fund's climate change risk management objectives.
- **ESG Sub-Committee:** The ESGC is responsible for supporting ALCO by developing and overseeing the approach to responsible ownership and climate risk management and reporting (described further below). Reviews the Trustee's ROP at least annually to adapt to changes in the Fund, changes to regulation, industry guidance and best practice.

## Role of the ESG Sub-Committee

The overriding responsibility of the ESGC is to support ALCO and the Trustee Board on all responsible ownership matters, including overseeing engagement, climate change risk and compliance with mandatory climate disclosure requirements. The ESGC reports to the ALCO, which reports to the Board.

The ESGC meets and reports to the Trustee on at least a quarterly basis and ad-hoc as required to address ESG (including climate-related) risk and opportunities for the Fund. With the support of the Trustee's advisers, and the engagement partner, the ESGC is responsible for the following key activities:

- Ensuring climate risks and opportunities are considered in the management of the Fund.
- Regularly reviewing the ROP and proposing any changes to the Board; approving annual engagement activity which is carried out by the Fund's engagement partner.
- Identifying any risks that could impact the Trustee's adherence to the ROP and on identification, recommending any remedial actions; ensuring such risks and actions are notified to the RAC.
- Ensuring that stewardship activities are being undertaken appropriately on the Fund's behalf.
- Strategic decisions in relation to the Trustee's disclosures on climate, ESG and responsible ownership matters.
- Working with investment managers to disclose relevant climate-related data as required by the TCFD recommendations.

## How the Trustee works with its advisers and relevant stakeholders

RIEL maintains a regular dialogue with the Trustee's advisers and investment managers to ensure it identifies any important climate-related issues and developments in a timely manner. The Trustee expects its advisers and investment managers to have an appropriate level of knowledge on climate-related matters.

**RBS Investment Executive Limited** is responsible for:

- Advising the Trustee on its long-term objectives and strategy and supporting the implementation of that strategy with delegated responsibility in relation to investment management.
- Reviewing all significant asset purchases, including determining whether they are more at risk of climate change or represent a climate opportunity.

### Trustee's update

Over the year, the Trustee undertook a workshop covering training on the importance of climate related risks and additional metric requirements under TCFD, which are used to assess the aforementioned risks.

The workshop also covered the feedback received from the Pension Regulator ("TPR") on the first TCFD report produced by the Trustee.

The purpose of both these training sessions was to better equip the Trustee ahead of the preparation of its future TCFD reports.

The Trustee continues to spend time on climate related activities and aligning its TCFD disclosures with the latest available TPR's feedback and observations at the time of writing.

### Trustee's update

The Trustee sets clear expectations to its investment advisers around the need to bring important and relevant climate-related issues and developments to the Trustee's attention in a timely manner.

Over the year, the Trustee has reviewed the TCFD report prepared by its climate consultant and obtained the legal review of the report. The underlying information has been aggregated and queried by the Trustee's climate consultant with the appropriate managers.

- Responsible for oversight of fund manager activities and reporting including climate reporting.
- Responsible for agreeing the exclusions list at asset level, subject to policy decisions taken by the ESGC.
- Reporting to the Board annually on the implementation of the ROP.

**Aon Investments Limited (“Aon”)** – provide reporting support to the Trustee in respect of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the Regulations. The Trustee regularly assesses its consultants on their ability to carry out climate-related risk and opportunities assessment for the Fund’s assets, through competency-based questions and consultants’ prior experience.

**Engagement partner and voting adviser** – EOS at Federated Hermes (“EOS”) provides engagement services for the Fund’s listed investments which now only comprise investment grade corporate bonds. It monitors the performance of companies against the UN Global Compact Principles, engages on relevant government policy initiatives and promotes collaboration between asset owners on behalf of the Trustee. EOS reports to the Trustee and RIEL on engagement activity. In turn, the Trustee monitors the engagement programme through review of EOS reporting which summarises key milestones achieved with underlying managers on a quarterly basis.

**Scheme Actuary** – the Trustee works with the Scheme Actuary to ensure that appropriate consideration is given to the impact of climate change on the valuation of the liabilities and on the key funding assumptions such as demographics and investment returns for the Main, AA, NWM and RBSI sections. Aon, as the Scheme Actuary, considers the extent to which climate change will impact on the actuarial assumptions as part of the triennial actuarial valuation process. The Scheme Actuary also considers the possible impact on the wider funding strategy, which is influenced by the results of climate change scenario analysis.

**Covenant adviser** – the Trustee’s covenant adviser, Penfida Limited, provides advice on (i) the ability of the sponsoring employers to continue to meet their obligations to the Fund taking account of all material risk factors, including climate risk; and (ii) the covenant strength of insurers party to buy-in arrangements with the Trustee.

## Trustee’s update

During the reporting year, the Trustee, with support of the Trustee’s Committees and its advisers, have updated the Fund’s SIP to ensure it is compliant with the latest legislative requirements, along with publishing its Implementation Statement and third year climate disclosures.

The Trustee carried out an extensive due diligence exercise in relation to potential buy-in counterparties. Through this process the Trustee has determined the extent to which those organisations are taking account of climate related risks and opportunities in their businesses including the risk of climate change to covenant strength.



# Strategy

It is crucial to think strategically about the climate-related risks and opportunities that will impact the Fund so that the Trustee is able to take appropriate actions to mitigate the effects of climate change.

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



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

The Trustee carries out a qualitative risk assessment of the asset classes the Fund is invested in. From this it identifies which climate-related risks could have a material impact on the Fund and also identifies suitable climate-related opportunities.

The Fund is invested in a diverse range of assets. The Trustee's assessment has been carried out with the intention of understanding, as far as it is able, the risks within its portfolio and the possible opportunities available to it. The assessment has been carried out with the help of the Trustee's advisers who have surveyed its investment managers and requested that they rate the climate-related risks and opportunities they believe their client's assets are exposed to. At the time of writing the following Private Equity managers: Aberdeen Investment Management (ASI), Hermes, and JPM, have not been able to provide a quantitative assessment of the climate-related risks for the Fund's climate disclosures. Given these mandates involve private equity and the asset class is generally less transparent, the Trustee must exercise forbearance while continuing to encourage a more open approach in future.

## Fund's investments

The Fund's DB investment portfolio is diversified across a range of different asset classes including hedging assets, private and public credit, public (residual) and private equity, property and insurance assets. There are also DC assets held in the Fund. However, these DC arrangements are for a very small number of members and a low level of assets, and are not subject to separate analysis.

### DB Sections asset allocations

Asset class	Main Section	AA Section	NWM Section	RBSI Section
<i>Allocation (%) as at 31 Dec 23</i>				
Hedging assets	49.0%	0.0%	41.7%	54.2%
Credit	29.8%	27.9%	36.2%	39.7%
Equity <sup>1</sup>	6.4%	5.9%	0.0%	0.0%
Property	4.3%	0.0%	4.1%	3.0%
Insurance	1.6%	20.1%	0.0%	0.0%

Asset allocations as at 31 Dec 2023. Please note that the sum may not add to 100% as this is excluding cash.

<sup>1</sup>Includes private and alternative equity securities.

### Trustee's update

In 2022, the Trustee asked its investment managers to assess their exposure to climate-related risks for the funds the Fund is invested in. This year, the Trustee asked its managers to review their risk assessments and update them if necessary.

The Trustee's qualitative risk assessment is based on the updated information from the Fund's investment managers.

## How the risk assessment works



### Risk categories

In the analysis, the climate-related risks have been categorised into physical and transition risks.

**Transition risks** are associated with the transition towards a low-carbon economy.

**Physical risks** are associated with the physical impacts of climate change on companies' operations.



### Ratings

The analysis uses a RAG rating system where:

**Red** denotes a high level of financial exposure to a risk.

**Amber** denotes a medium level of financial exposure to a risk.

**Green** denotes a low level of financial exposure to a risk.



### Time horizons

The Trustee assessed the climate-related risks and opportunities over multiple time horizons considering the liabilities of the Fund and its obligations to pay benefits. The Trustee decided the most appropriate time horizons for the Fund are:

- short term: up to year 2025
- medium term: up to year 2035
- long term: up to year 2050

More details about transition and physical risks can be found in the [Appendix](#).





## Climate-related risk assessment

### Key conclusions

Diversification across asset classes, sectors and regions is important to manage climate-related physical and transition risks for the Fund.

Hedging assets, which are a significant part of the Fund's assets, are deemed a low-risk area in terms of exposure to climate-related risks, indicated by the green and amber ratings over all time horizons.

Property is a high-risk area, particularly in relation to physical climate risks. The static nature of property investments presents a risk to the Fund, particularly if they are in regions that are vulnerable to climate change. The Trustee has chosen to diversify its investments globally which will help mitigate these risks. All of the Fund's property managers have provided assurance to the Trustee that they are accounting for these physical risks by not investing in properties in high-risk regions.

The Trustee is also cognisant of the effects climate related risks may have on the strength of its sponsor covenant. The Trustee's covenant adviser, Penfida, monitors covenant strength on an ongoing basis, reporting to the Trustee quarterly, and are increasingly considering climate-related risks in their assessment and advice. Based on the Sponsor's strong position, the Trustee deems the covenant risk of the Fund in relation to climate change to be low. This is explained later in this section of the report.

Overall, the Trustee has taken proactive steps over the year to mitigate climate related risks across different asset classes, including:

- close monitoring of stewardship activities for credit securities carried out by EOS on behalf of the Trustee with its investment managers (to ensure they are appropriately engaging with investee companies on the management of climate risks);
- utilising actively managed strategies, such as alternative equity investments into forestry and renewable energy, where appropriate (allowing greater scope to select investments whilst accounting for climate-related risks and opportunities); and
- integrating climate considerations into all fund reviews and manager selections, including the appointment of managers with specific sustainability and climate objectives.

### Trustee update

Over 2023, the Main Section reduced its allocations to Private Equity, Alternative Equity and Property, including divesting from the below managers:

- M&G
- Lothbury; and
- PIMCO

Similarly, the NWM and RBSI Sections also divested from Lothbury and reduced their allocations to Property and Credit.

In addition, following the wider decision made as part of the investment strategy review in 2022, the AA Section has recently undergone a buy-in, reducing its allocation significantly against all asset classes (other than bulk buy-in policy insurance).

As a result of the changes in the investment strategy, the Fund is deemed to be less exposed to climate-related risks.

The following pages summarise the transition and physical risks for each asset class the Fund is invested in.

## Climate-related risk assessment – in detail

The Trustee asked its investment managers for details as to how they were incorporating climate risks and opportunities into the funds and asset classes in which the Fund invests over the short, medium and long-term.

The Trustee received detailed responses from 21 of its investment managers and insurers, which is an improvement from the previous TCFD reporting year, where 16 managers provided detailed responses. However, this year the 3 managers that the Trustee divested from are not included. As a result, the analysis has been updated for all five asset classes. In particular, there has been a change in the climate-related risks analysis provided in the previous year for seven of the Fund's investment managers. The results are summarised below.

### Hedging assets – 49% of portfolio

	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	G	G	G	G	G	G
Medium	G	G	G	G	G	G
Long	A	G	A	A	A	G

The Fund's hedging assets are invested in UK Government bonds, cash instruments and swaps to manage risk versus the Fund's liabilities. These assets provide a good level of protection against interest and inflation rate changes that might arise from climate related risks (for example, inflation caused by higher asset costs that could arise from climate related transition risks).

The above risk assessment has been updated from the previous year to reflect the hedging manager's climate-related views. The Manager does not see material financial impacts in the short-term or medium-term. These risks are relatively geographically concentrated and not expected to have material financial impact on UK sovereign bonds, although there is some risk over the longer-term. Policy changes such as carbon pricing will cause demand patterns to shift over the medium and long terms and may be accompanied by changing market sentiment independent of policy change. It is likely that many fossil fuel exporting countries see relatively larger losses in GDP, depending on the ambition of global policy and resulting demand patterns. As a result, they may see their credit ratings fall and yields increase, with some impact on investors' global sovereign bond portfolios.

In light of the analysis above the Trustee is comfortable with the current hedging strategy and is of the opinion that hedging instruments (UK gilts in particular) are less affected by climate-related risks compared to other return seeking asset classes.

## Credit – 30% of portfolio

	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	G	G	G	G	G	G
Medium	A	A	A	A	A	G
Long	A	A	A	A	A	A

Credit is the Fund’s second-largest allocation and includes a broad spectrum of investments, such as investment grade securities, distressed credit, real estate debt and infrastructure debt investments.

Credit markets have a high exposure to transition risk. Issuers that are slower to participate in the transition to a low carbon economy are likely to face reputational damage. Also, the potential for unexpected and aggressive emissions regulation may create higher costs (e.g. carbon taxes) for companies. Unanticipated regulation could leave some sectors with significant stranded assets. These and other transition risks could lead to increased risk of downgrade or default.

In the near term, transition risks are far less evident for emerging markets assets and entities, where solid legislation and regulation around greenhouse gas emissions (“GHG”) are generally not yet present. Substitution and transition to cleaner energy requires alternatives and these are still in the early stages of development. However, the risks are anticipated to be more pronounced in the future, as efforts to reduce climate change are embraced globally and not just in the developed world.

The Trustee mitigates transition risk by not owning investment grade oil and gas debt with a maturity greater than 2025 and not lending to entities where more than 50% of revenue is derived from extraction of thermal coal.

There have been minor changes in credit managers’ climate risk assessment since last year, for example, for the medium term, reputation now has a green rating (previously all six factors had an amber rating for the medium term). Over the long term all six risk factors identified are now all amber ratings (this compares to last year where chronic, regulatory and market risks received a red rating).

Overall, the Trustee recognises that physical events due to climate change are becoming more frequent and more impactful and the Trustee is ultimately comfortable with the analysis and the Fund’s allocation to credit strategies.

## Private/ Alternative Equity – 6% of portfolio

	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	G	G	G	G	G	G
Medium	A	A	A	G	A	G
Long	A	A	A	G	A	G

The assessment has been undertaken in relation to private and ‘alternative’ equity, which taken together, are the Fund’s third largest asset class exposure. The Fund has divested from its quoted equity holdings reducing the Fund’s exposure to market and reputation risks associated with climate change.

Of relevance to both climate risk and opportunity is the Fund’s allocation to global forestry within alternative equity. Alongside the return and diversification benefits of this asset class, it also provides two valuable climate-related features. Firstly, by employing sustainable harvest practices, the forests provide a carbon sink which offsets emissions elsewhere in the portfolio, and secondly the value of the other (harvested) forests is expected to benefit from both increasing carbon prices and demand for timber as a lower-carbon substitute for other materials. Nonetheless, the Trustee also recognises that forestry is becoming more exposed to wildfires. The Trustee believes that the forest management to mitigate climate-related risks may call for adaptation of silvicultural practices, as well as technological interventions, to enable improved prediction and identification of extreme weather events. Another opportunity the Fund benefits from is in relation to renewable energy via wind farms, waste to energy and anaerobic digestion. The Trustee values these investments due to their positive environmental benefits and contribution to reducing the UK’s reliance on fossil-fuel energy generation.

Following the equity managers’ reassessment of climate related risks, short term regulatory risk, and long-term technology risk have now been rated green, in comparison to an amber rating last year. Physical risks for the medium term have now been rated amber in comparison to a green rating last year. The long-term acute rating has also changed from green to amber this year. This indicates the prevalence of climate-related risks, specifically chronic and acute, for the alternative equity.

### Property – 4% of portfolio

	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	G	G	A	G	G	A
Medium	G	G	A	A	G	G
Long	G	G	A	G	G	G

Property exposure is diversified across the UK, the US and Europe and is likely to be impacted by a combination of physical and transition risks. Physical risks arising from climate change could lead to property damage and material financial impacts, particularly in geographically vulnerable areas.

The principal physical climatic risk experienced in the UK is fluvial flooding. Through its holdings in the US, the property portfolio is also exposed to other physical risks such as hurricanes and wildfires.

Transition risks, such as tenants preferring ‘green’ buildings and therefore making some buildings effectively ‘un-rentable’, are significant climate-related issues. Other examples include energy efficiency regulations, increases in energy costs, carbon taxes, and valuation considerations that could lead to increased costs.

The Trustee prohibits new investments in properties that have a high flood risk. The Trustee encourages managers to design new properties with the objective of producing zero emissions once they are operational, such as its investment in the construction of retirement villages in the UK. Managers of existing commercial properties are required to continually improve the operational efficiency of the buildings owned by the Fund and put a plan in place to attain higher energy efficiency ratings in order to mitigate the risk of stranded assets.

Short term risks have remained the same since the previous year's report. Medium term acute and reputation risks have been classified as green (compared to amber last year). Over the long term, most risks apart from regulatory have been identified as green (which was previously amber). Property managers are exhibiting a greater level of climate change consideration in their construction and management of properties, which has been positively reflected in their exposure to climate related risks over longer time horizons. Overall, the Trustee is comfortable with the analysis and the Fund's allocation to its property investments.

### Insurance – 2% of portfolio

	Physical risks		Transition risks			
	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	G	G	G	G	G	G
Medium	G	G	G	G	G	G
Long	G	G	G	G	G	G

The Fund invests in insurance-related funds covering a wide range of insurance risks.

Due to the nature of most insurance contracts the Fund invests in, there are limited notable climate-related risks. However, the strategy has indirect immaterial exposure to physical risks through its holdings of catastrophe insurance linked securities. Given the size of the allocation, the Trustee does not believe these asset pose a material climate risk to the Fund.

Acute risks have remained the same since last year's report. However, there has been a significant improvement in medium to long-term chronic and transition risks, which has been identified as green (previously amber or red excluding long-term reputation risk which is unchanged). This is primarily driven by two additional managers providing climate-related risk analysis, which has reduced the overall climate related risks across the short-, medium, and long-term. The managers believe they have no exposure to climate-related risks given the low amount of financial risk exposure associated with life ILS, along with the industry adopting sophisticated technology and analytical approaches that enables informed risk management.



## Climate-related opportunities

The Fund has been closed to new members since 2006 and therefore the assets and liabilities will decline significantly over the next 30 years. The Trustee employs a low-risk investment strategy with high levels of hedging and has approved a strategy targeting buy-in for its Main and AA Sections which limits the Trustee's ability to make new investments. The Trustee believes that the best way to access climate opportunities is through improving the operations of its existing assets and making selected capital expenditure in existing assets where this will provide a financial return over the Fund's expected investment period.

The Trustee does recognise that there is a vast array of climate-related opportunities available, which are summarised below. The Trustee has already taken advantage of some of these opportunities as part of its investment strategy.



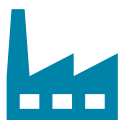
### Cleaner energy

Green power generation,  
clean technology innovation,  
sustainable biofuels



### Environmental resources

Water,  
agriculture,  
waste management



### Energy and materials efficiency

Advanced materials,  
building efficiency,  
power grid efficiency



### Environmental services

Environmental protection,  
business services



# How resilient is the Fund to climate change?

The Trustee carried out climate change scenario analysis in the first year of reporting to better understand the impact climate change could have on the Fund's assets and liabilities.

The analysis looked at five climate change scenarios. The Trustee chose these scenarios because it believes that they provide a reasonable range of possible climate change outcomes. The climate scenarios are compared to a "base case" scenario.

Each climate scenario considers what may happen to the Fund when transitioning to a low carbon economy under different temperature-related environmental conditions. These scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty.

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

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

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

## Trustee update

Under the Regulations, climate scenario analysis must be carried out at least every 3 years, or sooner if there have been significant changes which could impact the Fund.

The Trustee reviewed the scenario analysis completed in 2021 and is comfortable that given significant de-risking since then, it is appropriate for a new scenario analysis to be carried out in 2024 in line with the three year review requirement.

Details of the climate scenarios the Trustee chose to analyse are set out in the table below.

Scenario	Reach net zero by	Degree warming vs pre-industrial levels by 2100	Introduction of environmental regulation	Scenario description
Base Case	2050	+2°C – 2.5°C	-	Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net zero by 2050.
No Transition	Not Applicable	>4°C	No Action	No further action is taken to reduce greenhouse gas ("GHG") emissions leading to significant global warming.
Disorderly Transition	After 2050	+3 – 4°C	Late and Aggressive	The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach. Eventually, market participants begin to fully grasp the implications of climate change and there is a growing realisation that current levels of action are inadequate. Market values price in high levels of economic damage and the irreversible loss.
Abrupt Transition	2050	+<2°C	Aggressive	The effects from increasingly extreme weather events in the next five years lead to widespread public concern over climate change. This leads to governments introducing policies to drive a rapid reduction in greenhouse gas. Delayed action on reducing emissions means that the costs of tackling the problem are higher.
Orderly Transition	2050	+<2°C	Coordinated	Increased public awareness of climate change risks galvanises opinion and leads to governments undertaking widespread action globally to aggressively mitigate and adapt to climate change. A high global greenhouse gas tax and carbon cap is introduced.
Smooth Transition	2045	<1.5°C	High Coordination	Private sector innovation and a green technology revolution, combined with government coordination, help drive progress towards tackling climate change.

Source: Aon.

## Impact on the funding level

### Key conclusions

**Overall, the Trustee is comfortable with the level of resilience exhibited by the investment portfolio and is not making any changes to the funding strategy as a result of this analysis.**

- The Main Section's investment portfolio and funding level exhibit good resilience under the climate change scenarios due to high diversification of assets, low proportion of equities and high levels of hedging against changes in interest rates and inflation.
- NWM and RBSI sections also demonstrate reasonable resilience under the climate change scenarios.
- Climate risks were the lowest for the AA Section due to the absence of quoted/private equity. However, climate risks for AA Section are now predominately a function of the buy-in counterparty's business model and approach to managing those risks.

After reviewing the climate scenario analysis, the Trustee is comfortable that the Sections display sufficient resilience to the potential impacts of climate change as envisaged by Aon's proprietary models, and at this stage are not proposing any material changes to investment strategy as a result.

Whilst the scenario analysis indicates that, even under adverse climate scenarios, the funding level of the various sections is relatively resilient, the Trustee will use the analysis when considering sponsor covenant and the impact of possible future funding shocks.

The Trustee has reviewed the appropriateness of the climate scenario analysis in January 2024 and believes it is still suitable (recognising that the AA Section analysis is now less meaningful following the buy-in transaction). The Trustee expects to update the climate scenario analysis at least triennially – this may be undertaken sooner if there are material developments affecting the Fund (or each Section), which would include any changes to the strategic asset allocation.

The table below describes the impact of each scenario on the overall Fund over the short, medium and long-term time horizons. Further information on the Main, AA, NWM and RBSI sections climate scenario results please refer to the Appendix.

#### No Transition Scenario

Temperature rise  
>4°C

Reach net-zero  
Not Applicable

Environmental  
regulation

#### Summary of the Scenario

##### In the short term:

No action is taken to combat climate change.

##### In the medium term:

No action is taken to combat climate change.

##### In the long term:

#### Summary of the impact to the Fund

##### In the short term:

There is no initial risk to the fund, as the base funding level is expected to follow the base case.

##### In the medium term:

There continues to be minimal risk or impact to the funds expected funding position.

##### In the long term:

No Action

No action is taken to combat climate change.

The funding level broadly continues to slow down. The performance of the fund begins to lag the other scenarios.

## Disorderly Scenario

Temperature rise  
+3 – 4°C  
Reach net-zero  
After 2050  
Environmental  
regulation  
Late and  
Aggressive

### Summary of the Scenario

#### In the short term:

Insufficient consideration given to long-term policies and there is no action taken to combat climate change

#### In the medium term:

Late but coordinated action is taken to tackle climate change. The late timing means it is less effective and more costly to implement. Adverse impacts from climate change leads to a drag on risk assets

#### In the long term:

After the costly implementation to tackle climate change and the resulting drag on risky assets, the transition to clean technologies and green regulation begins to boost economic growth when considering the very long term. However, the late and disorderly climate transition means that physical climate risks remain prominent over the very long term.

### Summary of the impact to the Fund

#### In the short term:

There is no initial risk to the Fund, as performance of the assets, and the Fund's funding level, is expected to follow a similar path to the base case.

#### In the medium term:

The Fund's funding level deteriorates as a result of late and aggressive action to tackle climate change. For the Main and AA Sections, owing to the strong starting funding position, the downward shock is not sufficient to reduce funding to below 100% after several years of growing surplus. However, the NWM and RBSI Sections, are invested in a higher proportion of non-LDI/cash assets in comparison and see a greater drop in the funding level.

#### In the long term:

Whilst the funding level begins to slowly recover by the end of the 30-year modelling period, the Fund remains worse off relative to the base case. Resulting in this being the worst outcome for the Fund within the timeframes considered.

## Orderly Scenario

Temperature rise  
+<2°C  
Reach net-zero  
2050  
Environmental  
regulation  
Coordinated

### Summary of the Scenario

#### In the short term:

Immediate coordinated global action is taken to tackle climate change. Risky assets perform poorly.

#### In the medium term:

The rapid transition to clean technologies and green regulation begins to boost economic growth.

#### In the long term:

The rapid transition to clean technologies and green regulation begins to boost economic growth. This represents the fastest transition to a green economy, combined with limited physical impacts from climate change despite the large initial transition cost.

### Summary of the impact to the Fund

#### In the short term:

The Fund suffers a deterioration in its funding level and moves into a deficit. This is due to poor equity performance in early years having a pronounced negative impact on asset returns. The impact of this is muted for the AA section due to the smaller allocation to non-credit growth assets.

#### In the medium term:

The funding position begins to recover following the initial fall in funding, as risky assets perform well, benefitting from the economic growth.

#### In the long term:

The subsequent recoveries are borne out much earlier than under the disorderly scenario, which allows for the funding to recover much closer to base case, excluding the AA Section which overtakes the base case, by the end of the modelling period.

## Abrupt Scenario

Temperature rise  
+<2°C  
Reach net-zero  
2050  
Environmental  
regulation  
Aggressive

### Summary of the Scenario

#### In the short term:

Despite growing public awareness, material action is not undertaken to combat climate change.

#### In the medium term:

Increasing effects of extreme weather lead to a rapid introduction of policies to tackle climate change. The delayed action leads to higher costs to tackle climate change and risky assets perform poorly as a result. The higher costs are the result for the economy being forced to transition away from fossil fuels.

### Summary of the impact to the Fund

#### In the short term:

There is no initial risk to the Fund, as performance of the assets, and the Fund's funding level, is expected to follow a similar path to the base case.

#### In the medium term:

The Fund experiences a material drop in its funding level as a result of the higher cost to implement steps to tackle climate change which leads to risky assets performing poorly.

However, funding does begin to improve within the medium-term as the economy begins to recover, which boosts growth.



	<p><b>In the long term:</b> Following rapid action in the medium term, the longer-term benefits from tackling climate change lead to higher growth.</p>	<p><b>In the long term:</b> The Fund's assets gain from the economic growth and the funding level is expected to continue to grow, following the same path as the Orderly Scenario.</p>
<p><b>Smooth transition</b></p> <p>Temperature rise &lt;1.5°C</p> <p>Reach net-zero 2045</p> <p>Environmental regulation</p> <p>High coordination</p>	<p><b>Summary of the Scenario</b></p> <p><b>In the short term:</b> Collective and coordinated action in the short term, despite initial costs of funding the structural costs to transition the economy, leads to innovation and green technology development which boosts growth.</p> <p><b>In the medium term:</b> The rapid technological advancement combined with government actions drives a smooth transition to a low carbon economy and enjoys growth.</p> <p><b>In the long term:</b> The rapid technological advancement combined with government actions drives a smooth transition to a low carbon economy. Risk assets perform well.</p>	<p><b>Summary of the impact to the Fund</b></p> <p><b>In the short term:</b> There is no initial risk to the Fund, as the funding level is expected to follow the base case.</p> <p><b>In the medium term:</b> The Fund's assets gain from the economic growth and the funding level is expected to continue to grow.</p> <p><b>In the long term:</b> The Fund's assets gain from the economic growth and the funding level is expected to continue to grow further. This is expected to be the best outcome for the Fund.</p>

Source: Aon. Effective date of the impact assessment is 30 September 2021.

## Developments

Main, NWM and RBSI Sections reduced their allocations to quoted equities over 2022. Rising interest rates resulted in improved funding levels for all sections of the Fund. Accordingly, funding risk has improved significantly, reducing Trustee exposure to climate risks and to its sponsor. As a consequence, the Trustee has approved a change in strategy for the Main Section to target a buy-in at some point in the future. The AA Section completed a buy-in transaction for all its liabilities in 2023. A buy-in involves the Trustee passing the assets over to an insurer. In return the Trustee receives an insurance policy which delivers cashflows matching the benefit payments the Fund makes to members. This ultimately means that the Trustee would have substantially fewer assets over which it has direct control. Nonetheless, the Trustee has reviewed the appropriateness of the climate scenario analysis from last reporting period and believes that with its new strategic imperative and plans to de-risk the Fund, carrying out further scenario analysis at this stage would not inform its strategic decision making going forwards. It's scenario analysis is due to be updated in 2024 in any event.

## Covenant Assessment

The Fund's covenant adviser, Penfida, has provided an impact assessment of the Fund's employer covenant and its resilience against climate related risks.

Overall, NatWest generally scores well amongst the various rating agencies from an ESG perspective and is considered a Leader and Low Risk. In terms of climate change risks, the Bank has a comprehensive risk management framework. From a covenant perspective, given the time periods under which the impact of climate change will be felt and the Fund's limited reliance on the Bank covenant, Penfida do not believe that climate change represents a material risk to that covenant.

NatWest Group continues to pursue its ambition to become net zero by 2050 as set in 2020. As detailed within the Bank's [2023 TCFD report](#), detailed scenario testing is employed to assess the financial impacts of climate-related risks on both ICAAP(1) and ECL(2) models. These models test the Bank's resilience to losses and capital impacts that may arise from physical and transitional risks over the short and medium term.

## Data and modelling limitations

Please note that the Fund has a limited amount of DC members and for this reason, DC assets have not been subject to specific climate scenario analysis on materiality grounds.

Please refer to the [Appendix](#) for further details in relation to the assumptions used for the scenario analysis and its limitations.



# Risk management

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

Reporting on its risk management processes provides context for how it thinks about and addresses the most significant risks to its efforts to achieve appropriate outcomes for members.



# Trustee's process for identifying and assessing climate-related risks

The Trustee has established a process to identify, assess and manage the climate-related risks that are relevant to the Fund. This is part of the Fund's wider risk management framework and is how the Trustee monitors the most significant risks to the Fund in its efforts to achieve appropriate outcomes for members.

## Trustee update

This process of identifying and assessing climate-related risks has been reviewed in the process of producing this report and the Trustee believes it is still suitable.



### Qualitative assessment

A qualitative assessment of climate-related risks and opportunities which is prepared by us.



### Quantitative analysis

Climate scenario analysis, which is provided by Aon and reviewed by us.

Together these give the Trustee a clear picture of the climate-related risks that the Fund is exposed to. Where appropriate, the Trustee distinguishes between transition and physical risks. All risks and opportunities are assessed with reference to the time horizons that are relevant to the Fund.

When prioritising the management of risks, the Trustee assesses the materiality of climate-related risks relative to the impact and likelihood of other risks to the Fund. This helps it to focus on the risks that pose the most significant impact.

# Trustee's process for managing climate-related risks

The Trustee recognises the long-term risks posed by climate change and has taken steps to integrate climate-related risk management into the Fund's risk management framework.

The Trustee has a climate risk management framework to manage climate-related risk and opportunities. The climate risk management framework set out in the tables below clearly describes who is involved, what actions taken and frequency. The Trustee delegates a number of key tasks to different committees but retains overall responsibility.

## Governance

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Climate change governance framework ( <i>this document</i> )	Trustee	Aon	Annual
Publish climate report and implementation statement	Trustee	Aon	Annual
Add / review climate risks and activity on key Fund documentation	ESGC	RIEL, Aon	Ongoing
Trustee climate-related training	Trustee	Aon	Annual
Ensure that actuarial and covenant advice adequately incorporate climate-related risk factors where they are relevant and material	Trustee	Scheme Actuary, Covenant adviser	Triennial

### Trustee update

The Trustee monitors the above activities as part of its climate-related risks and opportunities management. As part of this, the Trustee has monitored progress of the Trustee committees and its respective implementation of the climate change governance framework through the year, receiving regular updates from the Trustee committees and querying information as and when required.

Details of the training the Trustee has received is set out in the Governance Section within the report.

## Strategy

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Identify climate-related risks and opportunities (over agreed time periods) for investment & funding strategy	ESGC	Aon	Annual
Climate scenario analysis - annual review for the continuing suitability of the results	ESGC	Aon	Annual
Climate scenario analysis - undertake modelling	ESGC	Aon	Triennial

### Trustee update

The ESGC has dedicated time through the year to analyse climate-related risks and opportunities for the Fund's various asset classes in which it is invested.

The conclusions of all these elements have been included in the Strategy section of this report.

## Risk management

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Identify, assess and manage key climate-related risks	ESGC	Aon, Fund managers	Ongoing
Include consideration of climate-related risks in the Fund's other risk processes and documents, such as the risk register and the SIP, and regularly review these	Trustee	Advisers	Ongoing

### Trustee update

As a result of the Regulations, the Trustee has incorporated climate-related risks into its risk register and will incorporate any required changes to further documentation upon review.

The Trustee reviews its processes of identifying and assessing climate-related risks as part of the annual climate reporting exercise in order to evaluate their continued suitability. This is integrated into the ongoing activities of the Fund, including the appointment of any new investment managers or subscription to new funds, and monitoring of existing investments.

The Trustee requests that investment managers provide their responsible investment policies; details of how ESG is integrated within their decision-making process, including climate change; and details of outstanding ESG issues within portfolios. This is driven by the Fund's Implementation Statement process, whereby the Trustee collects data from its managers in relation to their voting and engagement policies. It also asks for details of how these have been implemented in practice, including key themes for engagement, including



## Metrics and Targets

Activity	Delegated responsibility	Adviser / supplier support	Frequency of review
Agree/review approach for metrics	ESGC	Aon	Annual
Agree/review target	ESGC	Aon	Annual
Obtain data for agreed metrics	ESGC	Aon, Fund managers	Annual

### Trustee update

The Trustee, supported by its climate consultant, Aon, collects metrics data on an annual basis, to understand the current state of the portfolio regarding its emissions, data quality and portfolio alignment. This data is evaluated to produce a climate-related target. The Trustee has set a target to improve the proportion of the portfolio with SBTi aligned targets and to reduce carbon emissions of the Fund.

## Assessing the Fund's investment managers

As part of the assessment of the managers' policies and processes to assess climate-related risks, the Trustee has posed "top" questions as outlined in guidance from the Pensions Climate Risk Industry Group<sup>1</sup> to its investment managers. The questions were designed to assist the Trustee with its assessment of each managers' capabilities and approach to climate management and focused on areas such as TCFD reporting, managers' ability to conduct climate scenario analysis, engagement and escalation policies, managers' ability to provide carbon-related data and align their strategies to a particular temperature level.

The table below summarises the responses from the most material investment managers.

### Net Zero

14



Fourteen out of twenty-one managers (excluding insurance assets) have committed to net zero emissions by 2050 or aligned their portfolios with Paris Alignment or Net Zero Asset Managers Initiative.

### SBTi

7



Seven managers have provided data relating their underlying portfolios' SBTi targets.

### TCFD

11



Eleven managers completed their climate risk disclosures in line with TCFD guidance and made their reports publicly available.

### Initiative

71%



Over 70% of managers are signatories to various investor-led industry initiatives related to addressing climate change.

*Note: The Fund had divested from investments managed by Foresight, Brockton, M&G, PIMCO and Lothbury, hence the number of total managers has decreased since last year's reporting period.*

<sup>1</sup> Aligning your pension scheme with the Taskforce on Climate-Related Financial Disclosures recommendations - GOV.UK ([www.gov.uk](http://www.gov.uk))

## Summary of the analysis

### Investment Managers

Twenty-one managers were asked to answer questions regarding their processes for identifying, assessing, and managing climate-related risks.

### SBTi

Seven managers across alternative equity and credit reported the proportion of holdings aligned with the Science Based Targets initiative (“SBTi”).

New Forest, a manager within the alternative equity asset class is currently working towards the SBTi’s.

### TCFD

Eleven managers have published their TCFD reports on a public platform. Many of the remaining managers are either working towards publishing their TCFD reports in 2023 and / or publicly support the TCFD recommendations. This is an improvement from last year.

### Industry initiative

Over 70% of managers are signatories to various inventor-led industry initiatives related to addressing climate change, such as Paris Aligned Investment Initiative, Global Real Estate Sustainability Benchmark (GRESB), Institutional Investors Group on Climate Change (IIGCC), Net Zero Asset Managers Initiative (NZAMI) etc.

## Integration into overall risk management

The Trustee considers and manages climate-related risks within its wider investment strategy to ensure that the overall investment objective and its principal duty to Fund members (to pay pensions as they fall due) remains achievable. The Trustee ensures that climate-related risks are embedded into the Fund’s overall risk management in two main ways.

### Governance approach to integrating climate-related risks

As outlined in the Governance section, the Trustee Board and its various committees have clearly defined areas of responsibility for ESG and climate risk. In particular, the ESGC is responsible for developing and overseeing the approach to responsible ownership and climate management and reporting. These arrangements ensure that climate risk is considered alongside the Trustee’s other risk considerations so that they can be identified, assessed and managed in a proportionate way, coherently with the Fund’s other risks.

Where significant concerns arise, these will be addressed by the ESGC, or other committees as relevant, on a case-by-case basis and appropriate actions are agreed.

The Trustee Directors and RIEL has arranged to receive regular training on climate-related issues to ensure that they have the appropriate degree of knowledge and understanding of these issues to support good decision-making. The Trustee also expects its advisers to bring important and relevant climate-related issues and developments to its attention in a timely manner.

The expectation is that the Trustee's ESGC will use the analysis conducted in 2022 as a basis for monitoring investment manager progress towards the Trustee's stated climate objectives. The ESGC will escalate any material climate-related developments to ALCO, RAC or the Trustee Board, as appropriate, as and when they arise.

The Trustee also maintains a regular dialogue with the employer, which includes issues related to climate risk, both in relation to the Fund itself and in relation to the employer covenant.

### **Investment approach to integrating climate-related risks**

The climate scenario analysis undertaken by the Trustee considered the funding position as impacted by climate risk on the Fund's assets and liabilities. The Trustee has determined that no change is currently required to investment strategy based on the results of its scenario analysis. The Trustee is also of the view that its scenario analysis alone would not be sufficient evidence to support a change to its strategic objective. The scenario analysis is just one point of reference for the evaluation and consideration of climate risk as is part of the integrated framework for investment strategy decisions.

Climate risk considerations are integrated into asset-level decision making – as appropriate to each asset class – through the Trustee's stewardship and application of each investment manager's policy on climate change which is evaluated by the Trustee. The Trustee focuses on engagement with issuers of relevant assets to encourage higher SBTi verified net zero targets for the appropriate asset classes. Further detail can be found in the Metrics and Targets pillar.



## Metrics & Targets

Metrics help to inform the Trustee's understanding and monitoring of the Fund's climate-related risks. Quantitative measures of the Fund's climate-related risks, in the form of both greenhouse gas emissions and non-emissions based metrics, help the Trustee to identify, manage and track the Fund's exposure to financial risks and opportunities associated with climate change.



# The Fund's climate-related metrics

The Trustee uses some quantitative measures to help it understand and monitor the Fund's exposure to climate-related risks. Measuring the greenhouse gas emissions related to the Fund's assets is a key way for the Trustee to assess its exposure to climate change.

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

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



## Scope 1

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



## Scope 2

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



## Scope 3

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

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

For more explanation about GHG emissions, please see the [Appendix](#).





## The Fund's climate-related metrics

In the Fund's first year of climate reporting, the Trustee determined which metrics it would report on each year. These are described below. This year the Trustee reviewed the metrics and maintains the view that they continue to be the most suitable metrics for the Trustee to report against.



### Total Greenhouse Gas emissions

The total greenhouse gas (GHG) emissions associated with the portfolio. It is an absolute measure of carbon output from the Fund's investments and is measured in tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e).

The Trustee was able to obtain scopes 1&2 and scope 3 emissions from its investment managers separately.



### Carbon footprint

Carbon footprint is an intensity measure of emissions that takes the total GHG emissions and weights it to take account of the size of the investment made. It is measured in tonnes of carbon dioxide equivalent per million pounds invested (tCO<sub>2</sub>e/£m).

The Trustee was able to obtain scopes 1&2 and scope 3 emissions from its investment managers separately.

### Data quality



A measure of the proportion of the portfolio that the Trustee has high quality data for (i.e., data which is based on verified, reported, or reasonably estimated emissions).

This has been selected on the basis that it provides a consistent and comparable measure of the level of confidence in the data.

The Trustee did not make estimations as it relied on more data being provided directly by the managers. Estimates of data were used by some investment managers, details of those estimations are not shared as part of this report.



### Portion of portfolio SBTi aligned

A metric which shows how much of the Fund's assets are aligned with a climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels.

It is measured as the percentage of underlying portfolio investments with a declared net-zero or Paris-aligned target, or are already net-zero or Paris-aligned.



### Implied temperature risk

An estimate of the potential global temperature rise over the rest of the century based on the pledges, commitments and business strategy changes of the underlying companies and issuers. It is expressed as a temperature rise in degrees Celsius associated with the GHG emissions from a portfolio.

This metric gives the alignment of the Fund's assets with the climate change goal of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels.

## Methodology for Data Collection

The Trustee, supported by its adviser, Aon, collected the carbon emissions data using the industry standard Carbon Emissions Template (CET)<sup>2</sup>. The CET was developed by a joint industry initiative between the Pension and Life Savings Association (PLSA), Association of British Insurers (ABI) and Investment Association Working Group. The CET provides a standardised set of data to help pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, and associated DWP Statutory Guidance, and to help insurers and investment managers fulfil their obligations under the FCA's new ESG Sourcebook as set out in PS21/24.

When collecting the data, the Trustee also noted the following:

Asset Class	Approach
Private Equity	Carbon metrics data has been provided by the managers for some mandates. Where total pooled fund emissions were provided, Aon inferred carbon footprint by dividing total emissions by the total pooled fund's AUM. The calculated carbon footprint was then applied to the Trustee's share of invested capital in the pooled fund to infer the Fund's total GHG emissions. Please note that this is an updated approach to calculating emissions for the private equity asset class, as opposed to using MSCI sector data in the previous reporting years.
Alternative Equity	Carbon metrics data has been provided by the managers. Where total pooled fund emissions were provided, Aon inferred carbon footprint by dividing total emissions by the total pooled fund's AUM. The calculated carbon footprint was then applied to the Trustee's share of invested capital in the pooled fund to infer the Fund's total GHG emissions.
Offsetting assets	This data was provided directly by the managers. Carbon offsetting associated with forestry includes tree growth over the year and long-term storage in harvested wood products. Wind farm carbon avoidance includes carbon savings resulting from the energy generated by wind turbines.
Credit	Carbon metrics data has been provided by the managers for the majority of the mandates. Where total pooled fund emissions were provided, Aon inferred carbon footprint by dividing total emissions by the total pooled fund's AUM. The calculated carbon footprint was then applied to the Trustee's share of invested capital in the pooled fund to infer the Fund's total GHG emissions.
Property	Carbon metrics data has been provided by the managers for some mandates. Where total pooled fund emissions were provided, Aon inferred carbon footprint by dividing total emissions by the total pooled fund's AUM. The calculated carbon footprint was then applied to the Trustee's share of invested capital in the pooled fund to infer the Fund's total GHG emissions.
Insurance	This asset class was excluded due to lack of carbon data. The type of insurance assets held by the Trustee are not typically associated with GHG emissions.
Hedging assets	The hedging manager provided carbon footprint for each mandate, which Aon then applied to the Trustee's portfolio value to infer the Fund's total GHG emissions. Due to the nature of the securities within the hedging mandates ( i.e. sovereign bonds) the carbon data methodology may not be directly comparable with the rest of the asset classes. The manager defines 'Sovereigns' as, agency, government, municipals, strips and Treasury bills and is calculated by using: the CO2e/GDP.
Buy-in policy	The buy-in policy provider shared the carbon footprint figures for its total managed portfolio of assets, which may not be relevant for all of the AA Section assets. Aon have used the carbon footprint provided and applied it to the Trustee's policy value to infer the Fund's total GHG emissions. This was done for illustration purposes only, to illustrate estimated emissions associated with the buy-in policy.
Cash	The manager provided carbon footprint for each mandate, which Aon then applied to the Trustee's portfolio value to infer the Fund's total GHG emissions.

<sup>2</sup> Data Delivery Frameworks | The Investment Association (theia.org)

## The Fund's climate-related metrics

The table below summarises reported carbon metrics over 2022 and 2023. To ensure consistency of data across all asset classes the Trustee reported Scope 1 and 2 carbon emissions and Scope 3 emissions separately.

### Key observations

The 2023 total emissions and carbon footprint figures displayed in the below table does not include hedging assets. As such, this year's carbon data is not directly comparable to the carbon data from last year where hedging assets were included as part of the total figures. The rationale behind separating out hedging assets from the other investments is because the methodology used for each are significantly different so aggregating the metrics would not make sense.

The Trustee acknowledges that the total reported Scope 3 GHG emissions have increased over the year considerably, which is primarily attributed to the expanding availability of data and some variation in the methodologies used for evaluating emissions for some investments. However, there has been a significant decrease in Scope 1 & 2 emissions, this can be directly attributed to a decrease in the asset allocation to LDI, alternative equity and private equity along with a reduction in the carbon footprint of assets generally.

The Scope 1 & 2 carbon footprint has reduced as a result of a change in the Fund's investment strategy. Over the reporting year the Fund divested from several credit funds, and within the AA Section fully divested from LDI following a buy-in. As a result, the overall carbon footprint has decreased from the previous year. The credit allocation had the highest data coverage associated with the underlying holdings, which has also reduced as part of the de-risking exercise.

Reported scope 3 carbon footprint increased substantially, although the Trustee notes that this is as expected given the significant increase in the availability of data along with improvements in accuracy of the data.

Over the year, there was an improvement in the number of managers who have reported SBTi alignment data this year, resulting in an increase in the percentage of aligned assets in comparison to last year.

The metrics below capture DB assets only. For illustrative purposes only we have grouped total emissions across all asset classes, however, due to different calculation methodologies the data should not be analyses on the asset class level, which is shown overleaf.

No separate reporting is provided for any DC assets given the limited value of these assets in the context of the Fund as a whole.

Year	Fund's AUM (£)	Total Emissions (tCO <sub>2</sub> e)		Offset/ avoided emissions (tCO <sub>2</sub> e)		Carbon Footprint (tCO <sub>2</sub> e/Em)		Data coverage (%)		SBTi Alignment <sup>1</sup> (%)	ITR <sup>2</sup> (°C)
		(Scope 1 & 2)	(Scope 3)	(Scope 1 & 2)	(Scope 3)	(Scope 1 & 2)	(Scope 3)	(Scope 1 & 2)	(Scope 3)		
2023	34.0bn	2,933,483	5,139,508	(1,421,698)	(79,289)	44.4*	148.7*	78%	54%	24%	1.5 – 5.3
2022	35.7bn	3,797,737	3,682,040	(1,185,892)	(82,921)	73.2*	100.9*	83%		20%	1.9 – 37

Source: Investment managers / Aon/ MSCI. Data is as at YE 2023 and YE 2022 respectively.

<sup>1</sup>SBTi alignment is based on assets excluding hedging assets, insurance, property and currency hedging assets. These assets were excluded on the basis of materiality and lack of SBTi appropriateness due to the nature of the asset classes.

<sup>2</sup>ITR is presented as a range based on the manager responses. Please note that DWP guidance recommends not to aggregate ITR information unless consistent methodology has been used across the investment funds. [Governance and reporting of climate change risk: guidance for trustees of occupational schemes \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/100000/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes.pdf)

\* These figures account for the offset and avoided emissions associated with the Fund's investments in wind farms, forests and renewable energy and are for illustrative purposes only.

## Detailed breakdown – Total greenhouse gas emissions

The table below shows a more detailed breakdown of the emission data from each asset class across the four Sections of the Fund's portfolio (where available). Please note assets that provide offset and avoided emissions as well as hedging assets have been separated due to differences in methodologies.

Asset Class	Main Section		AA Section		NWM Section		RBSI Section		Total	
	(tCO <sub>2</sub> e)		(tCO <sub>2</sub> e)		(tCO <sub>2</sub> e)		(tCO <sub>2</sub> e)		(tCO <sub>2</sub> e)	
	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3	Scope 1 & 2	Scope 3
Private equity	11,647	4,743	-	-	-	-	-	-	11,647	4,743
Alternative equity	276,452	2,001,166	466	40,647	-	-	-	-	276,521	2,041,813
Credit	1,315,986	2,794,327	15,279	565	1,245	18,584	486	7,297	1,332,996	2,820,773
Property	24,618	4,407	-	-	-	-	-	-	24,618	4,407
Cash	3,164	260,932	35	4,663	30	2,058	2	119	3,230	267,772
<b>Total (excluding offset and avoided emissions)</b>	<b>1,631,868</b>	<b>5,065,575</b>	<b>15,383</b>	<b>45,875</b>	<b>1,275</b>	<b>20,641</b>	<b>487</b>	<b>7,417</b>	<b>1,649,013</b>	<b>5,139,508</b>
Offsetting assets (forests)	(1,135,591)	(77,113)	(52,149)	(2,176)	-	-	-	-	(1,187,740)	(79,289)
Avoided assets (wind farm)	(198,697)	-	-	-	-	-	-	-	(198,697)	-
Avoided asset (renewable energy)	(33,891)	-	(1,370)	-	-	-	-	-	(35,261)	-
<b>Total (including offset and avoided emissions)</b>	<b>263,689</b>	<b>4,988,462</b>	<b>(38,136)</b>	<b>43,699</b>	<b>1,275</b>	<b>20,641</b>	<b>487</b>	<b>7,417</b>	<b>227,315</b>	<b>5,060,218</b>
Hedging assets	1,275,811	-	-	-	5,534	-	3,125	-	1,284,470	-

Source: Investment managers / Aon. Data as at 31/12/2023 where possible.

### Year-on-year change

Overall, there has been an improvement in reporting of Scope 3 emissions specifically for private equity and credit who did not report on this last year.

- Main Section has seen a decrease driven by a reduction in Scope 1 & 2 emissions for hedging assets, which make up the largest proportion of the assets, magnifying its contribution to lower emissions for the Fund as a whole. This year, the two private equity managers were able to provide the Scope 3 emissions for the associated portfolios, following with a reduction in overall Scope 1 & 2 emissions from last year.
- AA Section has seen a fall in its scope 1 & 2 emissions due to significant changes in its asset allocation. During the reporting year, the

AA Section entered into a policy with a buy-in policy provider through divesting fully from the LDI and partially from credit. This has been separated out from the total emissions. The AA Section has also benefited from a relatively higher carbon offsetting associated with the investments in forests and renewable energy.

- Similarly, the NWM Section has seen a drop in the emissions due to lower emissions within credit and hedging assets. There has been an increase in Scope 3 emissions with the addition of credit reporting on emissions this year.
- RBSI Section has seen a decrease in the total emissions due to lower emissions associated with credit, which have also reported on Scope 3 emissions this year.
- The hedging assets contains mainly UK government bonds. Carbon metrics for UK government bonds are based on the total GHG emissions for the whole of the UK, which are extremely high. By contrast, carbon emissions for private equity, for example, are based on the emissions associated with the underlying companies invested in, which are smaller. Hence, the carbon metrics for hedging assets are higher than other assets. In addition, Scope 3 GHG emissions are currently not applicable to hedging assets because no industry-wide agreed methodology is applicable to calculate Scope 3 GHG emissions for sovereigns.

## Detailed breakdown – Carbon footprint per asset class

The table below summarise latest available carbon footprint (tonnes CO<sub>2</sub>e/£m invested) for the four sections and each asset class. As previously stated, the Trustee has reported Scope 1 & 2 carbon footprint and Scope 3 carbon footprint separately. Please note assets that provide offset and avoided emissions as well as hedging assets have been separated due to differences in methodologies.

	Main Section		AA Section		NWM Section		RBSI Section	
Assets as at 31/12/2023 (£m)	33,682		142		160		55	
Asset class	Scope 1&2 (tCO <sub>2</sub> e/£m)	Scope 3 (tCO <sub>2</sub> e/£m)	Scope 1&2 (tCO <sub>2</sub> e/£m)	Scope 3 (tCO <sub>2</sub> e/£m)	Scope 1&2 (tCO <sub>2</sub> e/£m)	Scope 3 (tCO <sub>2</sub> e/£m)	Scope 1&2 (tCO <sub>2</sub> e/£m)	Scope 3 (tCO <sub>2</sub> e/£m)
Private equity	18.4	12.0	-	-	-	-	-	-
Alternative equity	213.0	1,715.2	8.3	4,868.7	-	-	-	-
Offsetting assets (forests)	(4,539.4)	(308.3)	(6,246.5)	(260.7)	-	-	-	-
Avoided assets (wind farm)	(1,466.5)	-	-	-	-	-	-	-
Avoided asset (renewable energy)	(34.6)	-	(34.6)	-	-	-	-	-
Credit	158.9	471.7	417.0	39.0	59.5	941.7	59.9	953.4
Property	39.1	7.4	-	-	-	-	-	-
Cash	1.2	130.6	1.0	134.9	1.4	134.9	1.0	100.9
<b>Carbon footprint (tCO<sub>2</sub>e/£m invested)</b>	<b>17.8</b>	<b>482.8</b>	<b>(298.45)</b>	<b>664.5</b>	<b>29.9</b>	<b>590.0</b>	<b>12.3</b>	<b>839.3</b>
Hedging assets	84.4	-	-	-	82.2	-	74.5	-

Source: Investment managers / Aon. Data as at 31/12/2023 where possible.

Note 1: Residual quoted equity portfolio and insured assets were excluded from the analysis on the basis of materiality.

## Detailed breakdown – SBTi alignment

A Science Based Target (SBT) provides a clearly defined pathway for companies to reduce GHG emissions, helping prevent the worst impacts of climate change and future-proofing business growth. GHG reduction targets are considered 'science-based' if they are in line with the latest climate science data necessary to meet the goals of the Paris Agreement – limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

The long-term nature of SBTs provides a clear direction of travel and can offer insight into important market trends that will be shaped by the low carbon transition. The targets are created by the Science Based Targets initiative ("SBTi") and are scientifically confirmed requirements that will set the path for transitioning to a low (preferably zero) carbon economy.

The table below summarises the latest available SBTi alignment data for the Fund across the applicable asset classes<sup>1</sup>.

	2022 (%)	2023 (%)	YoY % change
Alternative equity	0%	20%	+20%
Credit	24%	32%	+8%
Cash	4%	7%	+3%

Source: Investment managers / Aon. Data as at 31/12/2023

<sup>1</sup>Applicable assets exclude insurance, property, private equity, and hedging assets.

## Data observations

There has been improvement in the proportion of the portfolio with SBTi aligned targets across all the applicable asset classes. This is primarily driven by an increase in the number of investment managers that have been able to provide SBTi alignment data, particularly for the alternative equity portfolio where previously no managers were able to share this data.



## Detailed breakdown – ITR<sup>1</sup>

Implied temperature rise (ITR) is used to show the potential increase in global temperature due to the GHG emissions produced by companies. It is expressed as a range of temperatures, with higher levels of GHG emissions leading to a higher predicted temperature rise.

In the first year of reporting, the Trustee chose to report on ITR, which provides a more sophisticated measure of the Fund's impact on climate change and can also be used to better align its investments with reaching its net zero goals.

Table below shows the available ITR data for the Fund across the applicable asset classes.

Asset class	ITR (°C)
Alternative equity	1.50 – 5.25
Credit	1.70– 3.90
Property	-
Hedging assets	1.90 – 2.60
Cash	2.50

Source: Managers, as at 31 December 2023.

<sup>1</sup>Applicable assets exclude insurance, and private equity.

ITR data was not provided by the private equity managers, this due to the nature of the asset class where there is currently not a robust methodology in place to collect this data. Similarly, the Fund's property managers were also unable to provide any ITR data due to the nature of the asset class and given many of the property assets have now been sold or are in the process of being sold. Insurance has been excluded due to the nature of the asset class.

## AA Section Buy-in Policy – Carbon metrics data

The AA section of the Fund completed a buy-in over the reporting year. We have included the buy-in associated carbon data in the table below. Please note this has not been grouped with the rest of the Fund's assets since the insurer provided data related to its total managed portfolio of assets.

Assets as at 31/12/2023	Data Coverage (%)		Total GHG Emissions (tCO <sub>2</sub> e)		Carbon Footprint (tCO <sub>2</sub> e/£m)		SBTi (%)	ITR (°C)
	Scope 1&2	Scope 3	Scope 1&2	Scope 3	Scope 1&2	Scope 3		
£m								
651.3	82%	-	45,930	-	86	-	15%	-

Source: Buy-in Provider / Aon. Data as at 31/12/2022.

<sup>1</sup> Please note DWP guidance states that the trustee should not aggregate the ITR, unless the same methodology has been used across the scheme's investments.<sup>2</sup> We have relied on the individual manager data, hence the consistency of methodology cannot be guaranteed. Statutory guidance: [Governance and reporting of climate change risk: guidance for trustees of occupational schemes](https://www.gov.uk/government/guidance/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes) - GOV.UK ([www.gov.uk](https://www.gov.uk))

## Data observations and limitations

Not all the Fund's managers were able to provide all the requested data, therefore the reported emissions metrics do not include all the Fund's GHG emissions. Accordingly, the metrics show the Fund's GHG emissions to be lower than they are.

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

The Trustee's responsible investment adviser, Aon, requested data from all the Fund's investment managers:

- 18 managers provided Scope 1 & 2 emissions data.
- 6 managers did not provide any information. This is because a number of investments have been redeemed or sold during the reporting period.

The Trustee notes that a number of its managers had made commitments to net zero emissions by 2050, but had not yet begun tracking portfolio emissions, or alignment with SBTi, for example, none of the private equity and property managers have been able to provide this metric, additionally, some of the alternative managers (Greencoat, New Forests), and credit managers (Man, Axa, ASI) were also unable to disclose figures for their respective mandates, though managers have stated they would be able to demonstrate (timely) carbon metric estimated data moving forward.

Other managers such as Navis and Pathway have not yet set a top-down target (at assets under management or strategy level) for net zero emissions by 2050 and the Trustee will engage with each investment manager to better understand their rationale. The Trustee also plans to engage with its managers that were unable to supply emissions data for this analysis.

The Trustee notes that there is not yet an industry-wide standard on calculating some of these metrics and that different managers may use different methods and assumptions when providing data to the Trustee, and this may also impact year-on-year comparison where different methodologies may be used.

These issues are common across the industry at the current time and highlight the importance of TCFD-aligned reporting to improve transparency. The Trustee expects that in the future better information will be available from managers as the industry aligns to expectations and best practice standards.

### How we collected the data

The Trustee's adviser, Aon, collected the carbon emissions data from the investment managers on the Trustee's behalf using the industry standard Carbon Emissions Template ("CET")<sup>1</sup>. The CET was developed by a joint industry initiative of the Pension and Life Savings Association, the Association of British Insurers and Investment Association Working Group. The CET provides a standardised set of data to help pension schemes meet their obligations under the Climate Change Governance and Reporting Regulations, and associated DWP Statutory Guidance.

# Looking to the future the Fund's climate-related target

Climate-related targets help the Trustee track its efforts to manage the Fund's climate-change risk exposure.

The Trustee decided to not only set the trajectory for the Fund's assets in line with its net zero commitment, but also measure the proportion of portfolio companies, by allocation weight, that have aligned to SBTi using its 2021 assessment as a baseline year.

The Trustee has set a target using a linear progression each year to reach 100% target by 2050 (as per the SBTi's guidance for Financial Institutions), on all assets excluding hedging assets, property, insurance, and annuities.

This is the Trustee's principal target.



**By 2030**

**57%**

of Fund's AUM to be aligned with net zero SBTi targets

**By 2050**

**100%**

of Fund's AUM to be aligned with net zero SBTi targets

## Trustee update

Each year the Trustee reviews the suitability of the target it has set. Based on the data collected and the metrics calculated this year, the Trustee believes the target continues to be suitable, however, the Trustee will scrutinise the target further in the next reporting period.

## The Fund's progress towards the target

The table below shows the SBTi aligned metrics for this year and last year.

	2023	2022
Portion of the Fund's AUM aligned with SBTi	24%	20%

Since last year, the proportion of the Fund's AUM aligned with SBTi has increased by 24%. This is mainly due to an improvement in data availability and an increase in the asset allocation towards credit for which the managers were able to provide SBTi metrics. The improvement is in line with the target set of achieving 57% by 2030 and 100% by 2050.

## Additional target set

The Trustee has also chosen to set an additional target, with respect to achieving net zero carbon emissions. The Trustee shares the market view that to achieve net zero by 2050, interim targets for 2030 should be set and they should reflect that the latter emissions reductions will be harder and require more time:



**By 2030 achieve total emission reduction by**

**57%**

Using 2021 scope 1&2 carbon data as a base year

**By 2050 achieve a net zero emission target**

**100%**

Using 2021 scope 1&2 carbon data as a base year

## The Fund's progress towards the target

The table below shows the total GHG emissions for this year and last year (including assets with carbon offsets and avoided emissions and hedging assets).

	2023	2022
Total GHG emissions (Scope 1 & 2)	1,511,785	2,611,845
Total GHG emissions (Scope 3)	5,060,218	3,599,119

Since last year, good progress has been made with falling total Scope 1&2 GHG emissions. Although, Scope 3 emissions have increased this is as a result of an increase in the number of managers providing Scope 3 data and data availability increasing across the board.

The Fund's performance against the target is measured and reported on every year. Over time, this will show the Fund's progress against the target.

## Steps we are taking to reach the target

To reach its target, the Trustee plans to engage with Fund's managers and underlying investments to improve their SBTi and Net Zero targets. The Trustee anticipates doing this via an annual questionnaire to assess managers progress against the implementation of the SBTi's, while also utilising its engagement partner to encourage investee companies to adopt SBTi's across the Fund's invested portfolio.

The Trustee acknowledges that as it implements buy-ins then this involves the Trustee passing the assets over to an insurer. In return, the Trustee receives an insurance policy which delivering cashflows matching the benefit payments the Fund makes to members. This ultimately means that the Trustee will have substantially fewer assets over which it has direct control.

# Appendices

# Glossary

- Governance** refers to the system by which an organisation is directed and controlled in the interests of shareholders and other stakeholders.<sup>4</sup> Governance involves a set of relationships between an organisation's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the organisation are set, progress against performance is monitored, and results are evaluated.<sup>5</sup>
- Strategy** refers to an organisation's desired future state. An organisation's strategy establishes a foundation against which it can monitor and measure its progress in reaching that desired state. Strategy formulation generally involves establishing the purpose and scope of the organisation's activities and the nature of its businesses, taking into account the risks and opportunities it faces and the environment in which it operates.<sup>6</sup>
- Risk management** refers to a set of processes that are carried out by an organisation's board and management to support the achievement of the organisation's objectives by addressing its risks and managing the combined potential impact of those risks.<sup>7</sup>
- Climate-related risk** refers to the potential negative impacts of climate change on an organisation. Physical risks emanating from climate change can be event-driven (acute) such as increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). They can also relate to longer-term shifts (chronic) in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Climate-related risks can also be associated with the transition to a lower-carbon global economy, the most common of which relate to policy and legal actions, technology changes, market responses, and reputational considerations.<sup>8</sup>
- Climate-related opportunity** refers to the potential positive impacts related to climate change on an organisation. Efforts to mitigate and adapt to climate change can produce opportunities for organisations, such as through resource efficiency and cost savings, the adoption and utilization of low-emission energy sources, the development of new products and services, and building resilience along the supply chain. Climate-related opportunities will vary depending on the region, market, and industry in which an organisation operates.<sup>9</sup>

<sup>4</sup> A. Cadbury, [Report of the Committee on the Financial Aspects of Corporate Governance](#), London, 1992.

<sup>5</sup> OECD, [G20/OECD Principles of Corporate Governance](#), OECD Publishing, Paris, 2015.

<sup>6</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>7</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>8</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>9</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017



**Greenhouse gas emissions scope levels**<sup>10</sup> Greenhouse gases are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most used greenhouse gas accounting standard.

Scope 1 refers to all direct GHG emissions.

Scope 2 refers to indirect GHG emissions from consumption of purchased electricity, heat, or steam.

Scope 3 refers to other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Scope 3 emissions could include: the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., transmission and distribution losses), outsourced activities, and waste disposal.<sup>11</sup>

**Value chain** refers to the upstream and downstream life cycle of a product, process, or service, including material sourcing, production, consumption, and disposal/recycling. Upstream activities include operations that relate to the initial stages of producing a good or service (e.g., material sourcing, material processing, supplier activities). Downstream activities include operations that relate to processing the materials into a finished product and delivering it to the end user (e.g., transportation, distribution, and consumption).<sup>12</sup>

**Climate scenario analysis** is a process for identifying and assessing a potential range of outcomes of future events under conditions of uncertainty. In the case of climate change, for example, scenarios allow an organisation to explore and develop an understanding of how the physical and transition risks of climate change may impact its businesses, strategies, and financial performance over time.<sup>13</sup>

**Net zero** means achieving a balance between the greenhouse gases emitted into the atmosphere, and those removed from it. This balance – or net zero – will happen when the amount of greenhouse gases add to the atmosphere is no more than the amount removed.<sup>14</sup>

<sup>10</sup> World Resources Institute and World Business Council for Sustainable Development, [The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard \(Revised Edition\)](#), March 2004.

<sup>11</sup> PCC, [Climate Change 2014 Mitigation of Climate Change](#), Cambridge University Press, 2014.

<sup>12</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>13</sup> TCFD, [Recommendations of the Task Force on Climate-related Financial Disclosures](#), 2017

<sup>14</sup> Energy Saving Trust, [What is net zero and how can we get there? - Energy Saving Trust](#), October 2021

# Appendix – An explanation of climate risk categories

Climate-related risks are categorised into physical and transition risks. Below are examples of transition and physical risks.

## Transition risks

Transition risks are those related to the ability of an organisation to adapt to the changes required to reduce greenhouse gas emissions and transition to renewable energy. Within transition risks, there are four key areas: policy and legal, technological innovation, market changes, and reputational risk.

### Policy and legal

#### Examples

Increased pricing of GHG emissions  
Enhanced emissions-reporting obligations  
Regulation of existing products and services

#### Potential financial impacts

Increased operating costs (e.g. higher compliance costs, increased insurance premiums)  
Write-offs, asset impairment and early retirement of existing assets due to policy changes

### Technology

#### Examples

Cost to transition to lower emissions technology  
Unsuccessful investments in new technologies

#### Potential financial impacts

Write-offs and early retirement of existing assets  
Capital investments in technology development  
Costs to adopt new practices and processes

### Market

#### Examples

Changing customer behaviour  
Uncertainty in market signals  
Increased cost of raw materials

#### Potential financial impacts

Reduced demand for goods and services due to shift in consumer preferences.  
Abrupt and unexpected increases in energy costs.  
Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations).

### Reputational

#### Examples

Stigmatisation of sector  
Increased stakeholder concern or negative stakeholder feedback

#### Potential financial impacts

Reduced revenue from decreased demand for goods and services.  
Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions)  
Reduced revenue from negative impacts on workforce management and planning

## Physical Risks

Physical risks refer to the physical impacts of climate change on a firm's operations. They directly impact a firm's ability to perform its function due to climate disruption. They fall into two subcategories: acute and chronic. Acute risks are extreme climate events such as flooding and wildfires, and chronic risks are trends over time such as an increase in temperature or ocean acidification.

### Acute

#### Examples

- Extreme heat
- Extreme rainfall
- Floods
- Droughts
- Storms (e.g., hurricanes)

### Chronic

#### Examples

- Water stress
- Sea level rises
- Land degradation
- Variability in temperature
- Variability in precipitation



# Appendix – Climate impact assessment all Sections carried out in 2021

## Climate Impact Assessment – Main Section

The Fund's investment portfolio exhibits good resilience under the climate scenarios over the 30-year projection period. This is due to the diversification of assets, low proportion of equities<sup>1</sup> and high levels of hedging against changes in interest rates and inflation.

The worst-case scenario for the Main Section is the disorderly transition. Although initially the funding level improves (albeit at a slower rate than the base case), after 10 years the funding level deteriorates modestly. Although the Section is left materially worse off relative to the base case by the end of the modelling period, there is still expected to be a positive funding surplus. The strong starting position and diversified strategy reduces the downside impact of the disorderly scenario on the Fund.

Despite the resilience of the investment strategy, the funding level is volatile under some of the scenarios. For example, under the abrupt transition the Fund experiences a c4% fall in the funding level, which leads to a lag in the time taken to reach full funding, relative to the base case, of around seven years. Deterioration of the funding level may place a strain on the Sponsor covenant as they may have to make up a bigger shortfall through deficit contributions. It may also require the Fund to re-risk in order to stay on track to achieve the funding target, or extend the timeframe for achieving this.

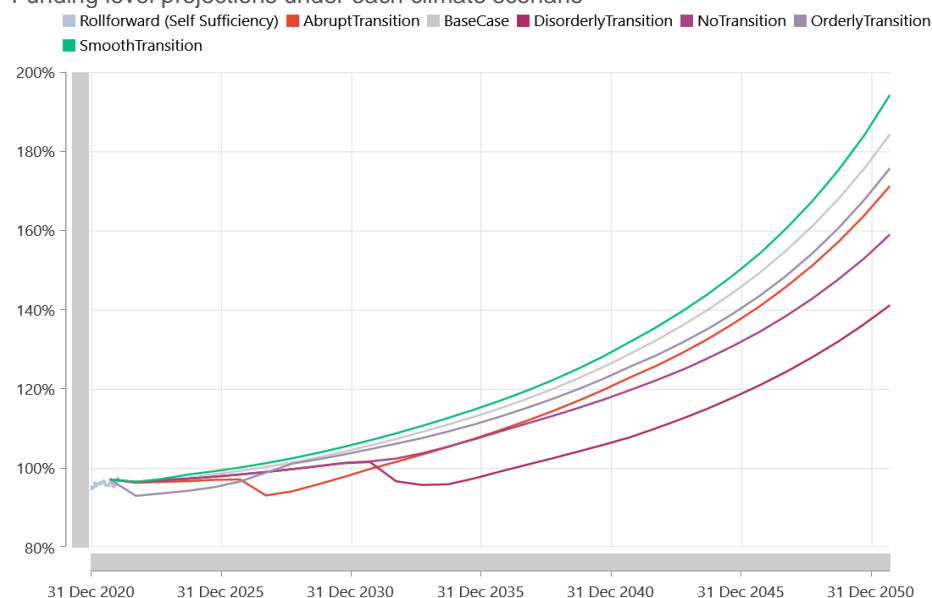
### What does the chart show?

The chart shows what might happen to the Fund's funding level under each climate scenario up to 30 years into the future. Each line represents a different scenario.

The funding level is a measure of how much surplus assets (or deficit) the Fund has above the cost of the pension liabilities.

Depending on the scenario, the funding level increases more or less. Under some scenarios the funding level experiences sudden falls.

Funding level projections under each climate scenario



Source: Aon. Scenario projections as at 30 September 2021.

<sup>1</sup>Equities were divested from over the year.

Note that the modelling assumes the current investment strategy remains unchanged over time. It does not allow for future changes the Trustee might make as the liabilities mature.

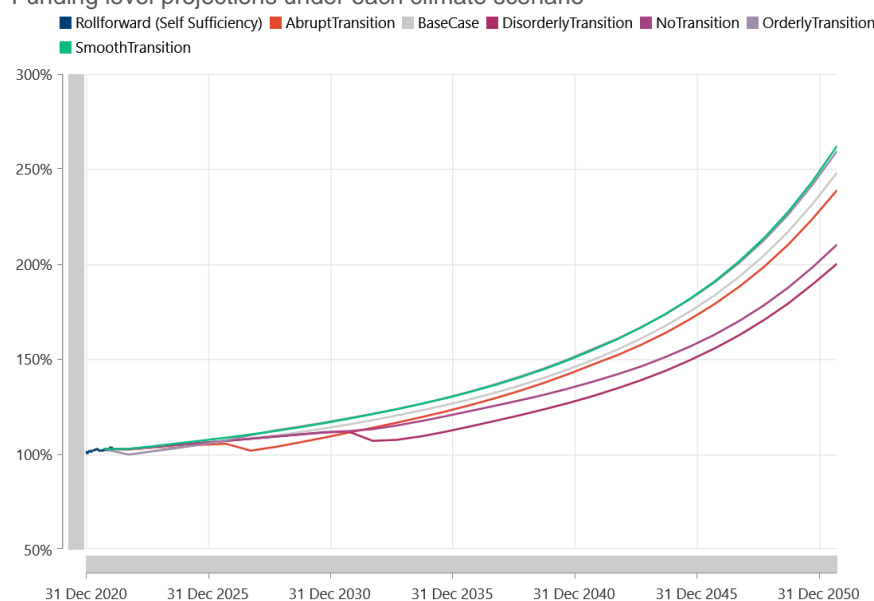
## Climate Impact Assessment – AA Section

The AA Section’s investment portfolio displays strong resilience to climate change risk over the 30-year projection period. This is due to the absence of traditional equity in the portfolio, as well as the high levels of hedging to protect against changes in interest rates and inflation.

As with Main Section, the worst-case scenario for the AA Section is the disorderly transition. However, owing to the strong starting funding position and the more defensive investment strategy, the downward shock is not sufficient to reduce funding to below 100% after several years of growing surplus. Although the Fund is again left materially worse off relative to the base case by the end of the modelling period, the strong starting position and low risk strategy mitigates the downside impact on the Fund.

One key difference relative to Main Section is the muted impact of the orderly transition scenario. This reflects the smaller allocation to non-credit growth assets (and notably the absence of traditional equity). The muted funding drop leaves the Fund in a strong position to benefit from stronger post-transition returns, with funding (under the orderly scenario) overtaking the base case from year 5 onwards. Given the full funding position on this Section, the climate scenario analysis suggests that the impact on the funding level will be muted.

Funding level projections under each climate scenario



Source: Aon. Scenario projections as at 30 September 2021.

Note that the modelling assumes the current investment strategy remains unchanged over time. It does not allow for future changes the Trustee might make as the liabilities mature.

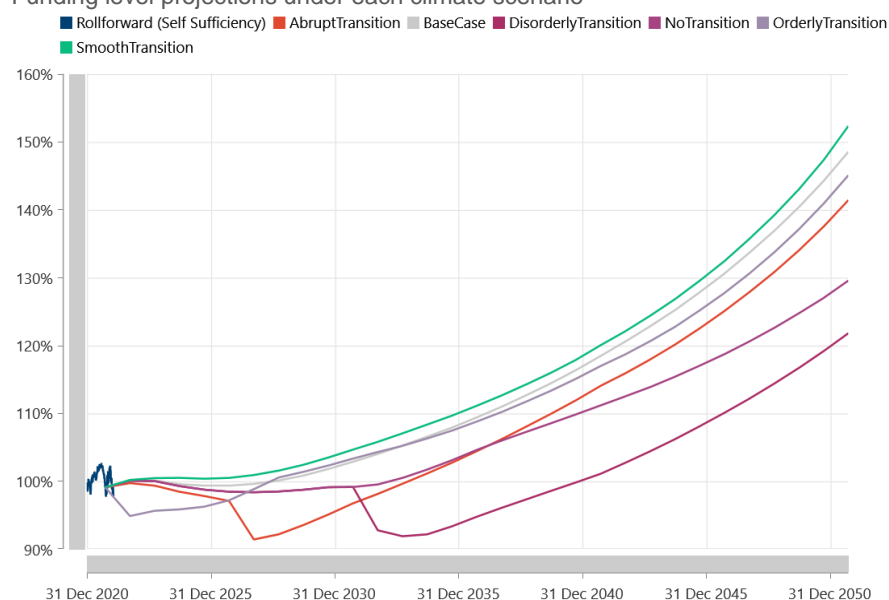
## Climate Impact Assessment – NWM Section

The Fund’s investment portfolio exhibits some resilience under the climate scenarios. As with Main section, this is due to the low proportion of equities<sup>1</sup> and high levels of hedging to protect against changes in interest rates and inflation.

As with Main and AA Sections, the worst-case scenario for the NWM Section is the disorderly transition. However, the higher proportion in growth assets results in the Fund being more exposed to climate risks than the other two sections (even though much of the growth allocation is in credit). This results in a slightly larger funding drop under the disorderly transition scenario than is seen for the other two sections, with the funding level falling significantly during the transition.

The downside climate risk is also demonstrated under the orderly/abrupt transition scenarios, but subsequent recoveries are borne out much earlier than under the disorderly transition. This allows funding to recover much closer to the base case by the end of the 30-year modelling period. Deterioration of the funding level may place a strain on the Sponsor covenant as they may have to make up a bigger shortfall through deficit contributions. It may also require the Fund to re-risk in order to stay on track to achieve the funding target, or extend the timeframe for achieving this.

Funding level projections under each climate scenario



Source: Aon. Scenario projections as at 30 September 2021.

<sup>1</sup>Equities were divested from over the year.

**Note that the modelling assumes the current investment strategy remains unchanged over time. It does not allow for future changes the Trustee might make as the liabilities mature.**

## Climate Impact Assessment – RBSI Section

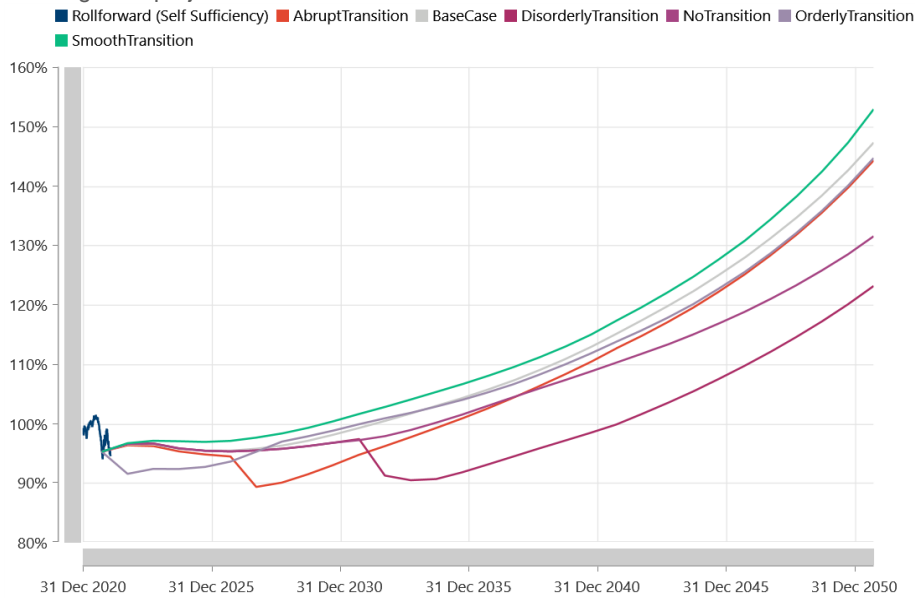
The RBSI Section's investment portfolio exhibits some resilience under the climate scenarios. As with Main and NWM sections, this is due to the low proportion of equities<sup>1</sup> and high levels of hedging to protect against changes in interest rates and inflation.

As with Main, AA and NWM sections, the worst-case scenario for the RBSI Section is the disorderly transition. The pattern seen is very similar to NWM section, with the funding level dropping significantly as the transition occurs. Again, this reflects the higher proportion of growth assets when comparing to Main or AA Sections.

The slightly higher exposure to climate risks is also seen under the abrupt transition scenario, with full funding delayed relative to the base case after the

transition shock. Deterioration of the funding level may place a strain on the Sponsor covenant as they may have to make up a bigger shortfall through deficit contributions. It may also require the Fund to re-risk in order to stay on track to achieve the funding target, or extend the timeframe for achieving this.

Funding level projections under each climate scenario



Source: Aon. Scenario projections as at 30 September 2021.

**Note that the modelling assumes the current investment strategy remains unchanged over time. It does not allow for future changes the Trustee might make as the liabilities mature.**



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## Appendix – Climate scenario modelling assumptions

The climate scenarios were developed by Aon and are based on detailed assumptions. They are only illustrative and are subject to considerable uncertainty. They consider the exposure of the Fund to climate-related risks and the approximate impact on asset/liability values over the long-term.

Aon's model uses a deterministic projection of assets and self-sufficiency liabilities, using standard actuarial techniques to discount and project expected cashflows.

It models the full yield curve as this allows for an accurate treatment of the liabilities and realistic modelling of the future distribution of interest rates and inflation. It also allows us to truly assess the sensitivities of the assets and liabilities to changes in interest and inflation rates.

The parameters in the model vary deterministically with the different scenarios.

Note no allowance is made for expenses, with modelled asset/liability cashflows left unaffected by these factors.

The liability updates and projections are considered appropriate for the analysis. However, they are approximate and a full actuarial valuation carried out at the same date may produce a materially different result. The liability update and projections are not formal actuarial advice and do not contain all the information you need to make a decision on the contributions payable or investment strategy.

The model intends to illustrate the climate-related risks the Fund is currently exposed to, highlighting areas where risk mitigation could be achieved through changing the portfolio allocation.

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

Investment risk is only captured in the deviance from the Base Case, but this is not the only risk that the Fund faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.

The model has been set up to capture recent market conditions and views; the model may propose different solutions for the same strategy under different market conditions.

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## Data used

The model projects using the following inputs as at 30 September 2021:

- Market value of assets:
  - Main section: £49,854m
  - AA section: £1,113.7m
  - NWM section: £269.6m
  - RBSI section: £82.2m
- Present value of self sufficiency liabilities (as in Aon's funding update as at 30 September 2021, excluding expenses and the retrospective adjustment of £561m in respect of the initial understatement of Main section's past service liability calculations):
  - Main section: £51,358m
  - AA section: £1,085.8m
  - NWM section: £272.1m
  - RBSI section: £86.4m
- Contributions: match Fund's Schedules of Contributions, all dated 9 December 2021
- Other data sources used:
  - 'RBS Investment Executive Ltd – review of currency policy and exposures' dated 30 November 2021
  - BNYM benchmark schematics as at 30 September 2021
  - Detailed asset holdings provided by BNYM as at 30 September 2021

# Appendix – Greenhouse gas emissions in more detail







Greenhouse gases in the atmosphere, including water vapour, carbon dioxide, methane, and nitrous oxide, keep the Earth's surface and atmosphere warm because they absorb sunlight and re-emit it as heat in all directions including back down to Earth. Adding more greenhouse gases to the atmosphere makes it even more effective at preventing heat from leaving the Earth's atmosphere.

Greenhouse gases are vital because they act like a blanket around the Earth making it the climate habitable. The problem is that human activity is making the blanket "thicker". For example, when we burn coal, oil, and natural gas we send huge amounts of carbon dioxide into the air. When we destroy forests, the carbon stored in the trees escapes to the atmosphere. Other basic activities, such as raising cattle and planting rice, emit methane, nitrous oxide, and other greenhouse gases.

The amount of greenhouse gases in the atmosphere has significantly increased since the Industrial Revolution. The Kyoto Protocol<sup>15</sup> identifies six greenhouse gases which human activity is largely responsible for emitting. Of these six gases, human-made carbon dioxide is the biggest contributor to global warming.

Each greenhouse gas has a different global warming potential and persists for a different length of time in the atmosphere. Therefore, emissions are expressed as a carbon dioxide equivalent (CO<sub>2</sub>e). This enables the different gases to be compared on a like-for-like bases, relative to one unit of carbon dioxide.

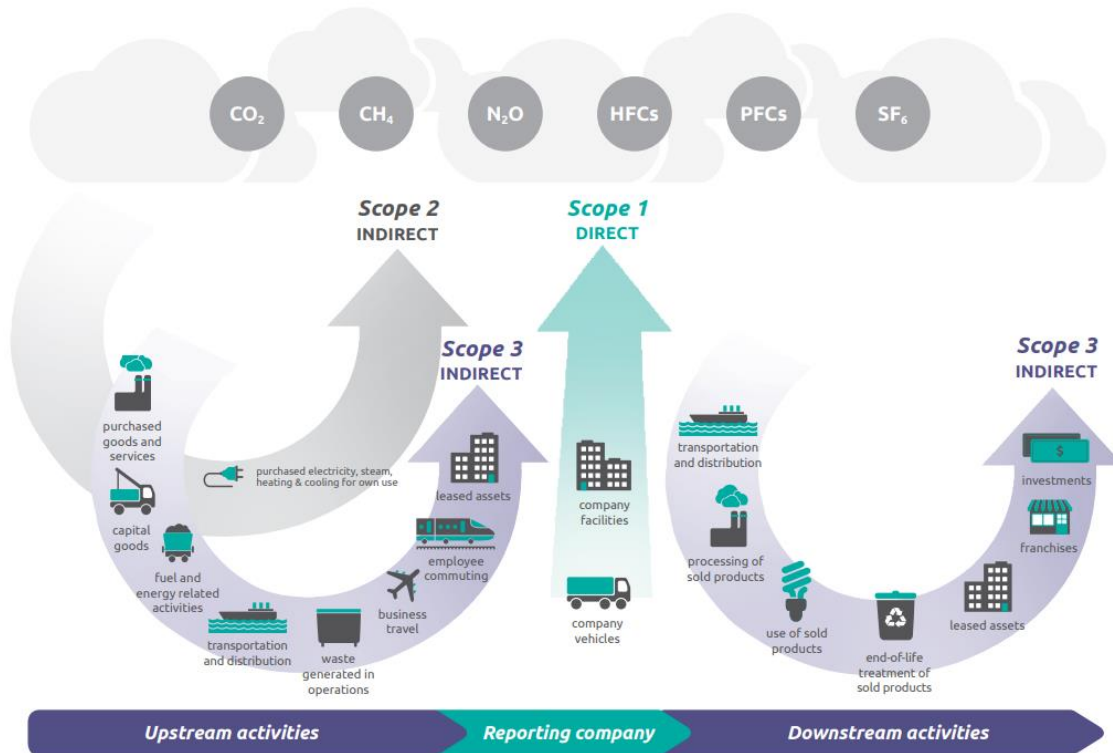
## Six main greenhouse gases identified by the Kyoto Protocol

					
Carbon dioxide	Methane	Nitrous oxide	Hydro-fluorocarbons	Per-fluorocarbons	Sulphur hexafluoride
CO <sub>2</sub>	CH <sub>4</sub>	N <sub>2</sub> O	HFCs	PFCs	SF <sub>6</sub>

<sup>15</sup> [https://unfccc.int/kyoto\\_protocol](https://unfccc.int/kyoto_protocol)

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

Overview of GHG Protocol scopes and emissions across the value chain



Source: Greenhouse Gas Protocol, [Corporate value chain \(scope 3\) Accounting and Reporting Standard](#), 2011