TCFD Report 2022

This report sets out the approach of the Trustee of NatWest Group Pension Fund with regards to assessing, monitoring and mitigating climate-related risks in the context of the Trustee's broader regulatory and fiduciary responsibilities to their members.

Joanna Matthews
Joanna Matthews (Jul 1, 2022 10:51 GMT+1)

Signed by Joanna Matthews, Chair of Natwest Group Pension Fund on 1 July 2022

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The Trustee supports the recommendations set out by the Taskforce on Climate-Related Financial Disclosures (TCFD) on the basis that they will allow the Trustee to more closely assess, monitor and mitigate climate-related risks on behalf of its members. This is the Trustee's first disclosure under the framework and this statement is therefore expected to evolve over time. Accuracy of underlying data is key to the Trustee's ability to monitor climate risk, react to opportunities and to prepare meaningful disclosures. The Trustee depends on its investment managers and the management of companies that the Trustee invests in to publish and gather this data. At the date of publication of this statement, data for the portfolio is incomplete, but it is anticipated that it will improve with time and climate disclosures will become more accurate.

This statement has been prepared in accordance with the regulations set out under "The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021" and provides a status update on how the Fund is currently aligning with each of the four elements set out in the draft regulations (and in line with the recommendations of the TCFD). The four elements covered in the statement are detailed below.

The following pages summarise the Trustee's current position with regards to the TCFD recommendations in the Department for Work and Pensions' (DWP's) regulatory context.

1

Governance

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

→ **Read more**

2

Strategy

The actual and potential impacts of climate-related risks and opportunities on the Fund's strategy and financial planning.

→ **Read more**

3

Risk Management

The processes used to identify, assess and manage climate-related risks.

→ **Read more**

4

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

→ **Read more**

Appendix

In this section

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Governance

Role of the Trustee Board

NatWest Group Pension Fund is governed by NatWest Pension Trustee Limited (Trustee) through the Trustee Board. The Trustee Board is ultimately collectively responsible for oversight of all strategic matters related to the Fund. This includes approval of the governance and management framework relating to environmental, social and governance (ESG) considerations and climate-related risks and opportunities.

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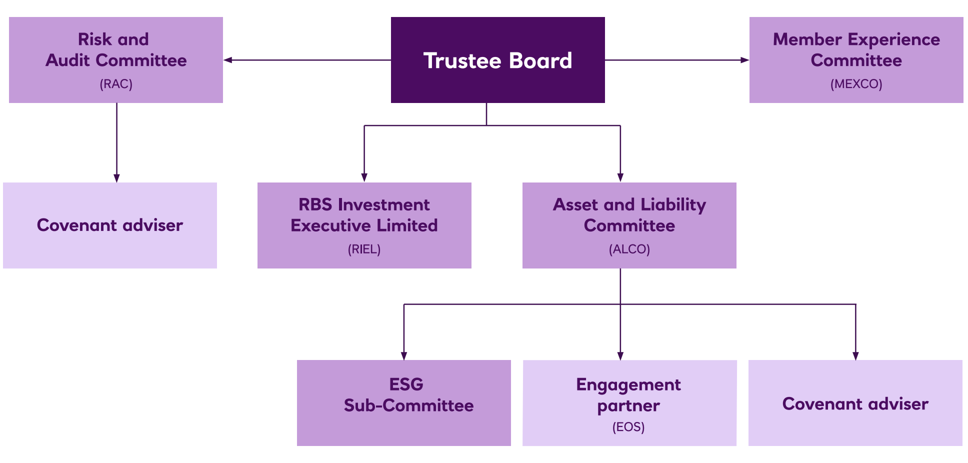
The Trustee has delegated certain functions within its climate governance framework to committees of the Trustee Board. The relevant committees are the Asset and Liability Committee (ALCO), the ESG Sub-Committee of ALCO (ESGC), the Risk and Audit Committee (RAC) and the Member Experience Committee (MEXCO). The Trustee's delegation of certain aspects of the oversight and management of climate change issues in the Fund is summarised below.

Trustee Board map of delegations associated with governance of climate-related risks and opportunities



More details about the role of each committee are provided below.

The Trustee has carried out research and consulted with its advisers and sponsors to develop an understanding of climate change and its implications for the Fund. It has articulated its climate-related beliefs and agreed an overarching approach to managing climate change risk. Details are set out in the Statement of Investment Principles (SIP) for the Main, AA, NatWest Markets (NWM) and Royal Bank of Scotland International Limited (RBSI) Sections, which are reviewed and (re)approved at least every three years (or sooner in the event of a significant change in investment policy) by the Trustee Board.

In summary, 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. The Trustee has articulated its approach to asset ownership in its Responsible Ownership Policy (ROP), which is available on the Trustee's website here.
- 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.
- Believes that climate-related factors may create investment opportunities. Where possible, and where appropriately aligned with the Trustee's strategic objectives, the Trustee will seek to capture such opportunities through its investment portfolio.
- 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
Short term	2025	2025	2025	2025
Medium term	2035	2035	2035	2035
Long term	2050	2050	2050	2050

Climate-related risks and opportunities are assessed over the above time horizons.

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

Roles of Trustee Committees

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

Asset and Liability Committee

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Responsible for the Fund's investment strategy, including climate and other ESG risks and opportunities. Reviews the Trustee's ROP at least annually to adapt to changes in the Fund, changes to regulation, industry guidance and best practice. 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 RBS Investment Executive Limited (RIEL). ALCO will monitor and review progress against the Fund's climate change risk management objectives and will report on these tasks at least annually.

Member Experience Committee

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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.

Oakleaf Recycling Plant, Staines on Thames, UK.

Image by Greencoat Capital.

Risk and Audit Committee

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Responsible for risk oversight, covenant monitoring, audit and assurance. The 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

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A Sub-Committee of ALCO formed in December 2021 and assuming the role previously carried out by the RIEL 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).

Role of the ESG Sub-Committee

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

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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 committees, 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 ALCO; approving annual engagement activity which will be 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 Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations.

The ESGC is currently working closely with the Fund's advisers RIEL and Aon to ensure the appropriate identification of climate-related risk and opportunities for the Fund, as well as identifying appropriate climate-related metrics and targets.

The ESGC will monitor and review progress against the Fund's climate risk management framework on at least an annual basis.

Role of other advisers and relevant stakeholders

RBS Investment Executive Limited

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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 and sales, including reviewing whether they constitute a climate risk or opportunity.
- 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 ALCO annually on the implementation of the ROP.

Aon Solutions UK Limited

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Provide reporting support to the Trustee in respect of climate-related risks and opportunities and ensuring compliance with the recommendations set out by the TCFD. It is in the Trustee's objectives to assess its investment 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

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EOS at Federated Hermes (EOS) provides engagement and voting services for the Fund's listed equity and investment grade credit. 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 the behalf of the Trustee. EOS reports to the Trustee and RIEL on engagement and voting activity. In turn, the Trustee monitors the engagement programme through updates to EOS' progress map which summarises key milestones achieved with underlying managers on a quarterly basis.

Fund actuary

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The Trustee works with the scheme actuary to assess the impact of climate change on the Fund's liabilities and any risks to the funding assumptions for the Main, AA, NWM and RBSI Sections. The Trustee will work with the scheme actuary to incorporate climate-related risks within funding level assumptions in due course.

Covenant adviser

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The covenant adviser, Penfida Limited, provides advice on 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.

Strategy

Climate-related scenario analysis

To better understand and quantify climate-related risks, the Trustee employed Aon to conduct scenario analysis using five different climate change scenarios: no transition, disorderly, abrupt, orderly, and smooth transitions.

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These scenarios were chosen in order to provide a reasonable range of plausible climate change pathways over the time horizons that the Trustee is concerned about.

The "base case" scenario is based on Aon's current long-term return views of what is currently priced into the market and implies a temperature rise of approximately 1.8°C. This and the other scenarios considered are outlined in the table below.

Three of the scenarios considered are expected to deliver warming of 2°C or less. The most favourable scenario considered is the "smooth transition" scenario, which leads to a temperature rise of less than 2°C.

The scenario analysis considers the potential impact of climate change on both the Fund's assets and liabilities and, therefore, its funding position.

Potential impact of climate change

Click on the different transition scenarios to understand the impact of climate change.

Smooth transition	**Base case**	Abrupt transition	Orderly transition	Disorderly transition	No transition
< 1.5°C	**~1.8°C**	<2°C	<2°C	<3°C	>4°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. Current pricing suggests that the market does not expect a bad climate change outcome – that is, the effects are not as damaging as first thought, and some progress is made to limit GHG emissions and global warming.

Source: Aon

Note: Degree warming is relative to pre-industrial levels by 2100.

The climate scenario analysis was carried out on the Fund's asset allocation at 30 September 2021, assuming a static portfolio with no subsequent allocation changes. Since the Fund is maturing, this is considered to be a conservative approach.

Summary of the analysis

Based on the climate scenario analysis, the following conclusions were drawn:

- The Main Section's investment portfolio and funding level exhibits 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.
- NatWest Markets (NWM) and Royal Bank of Scotland International Limited (RBSI) Sections also demonstrate reasonable resilience under the climate change scenarios.
- Overall, climate risks are the lowest for the AA Section due to the absence of quoted/private equity.

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.

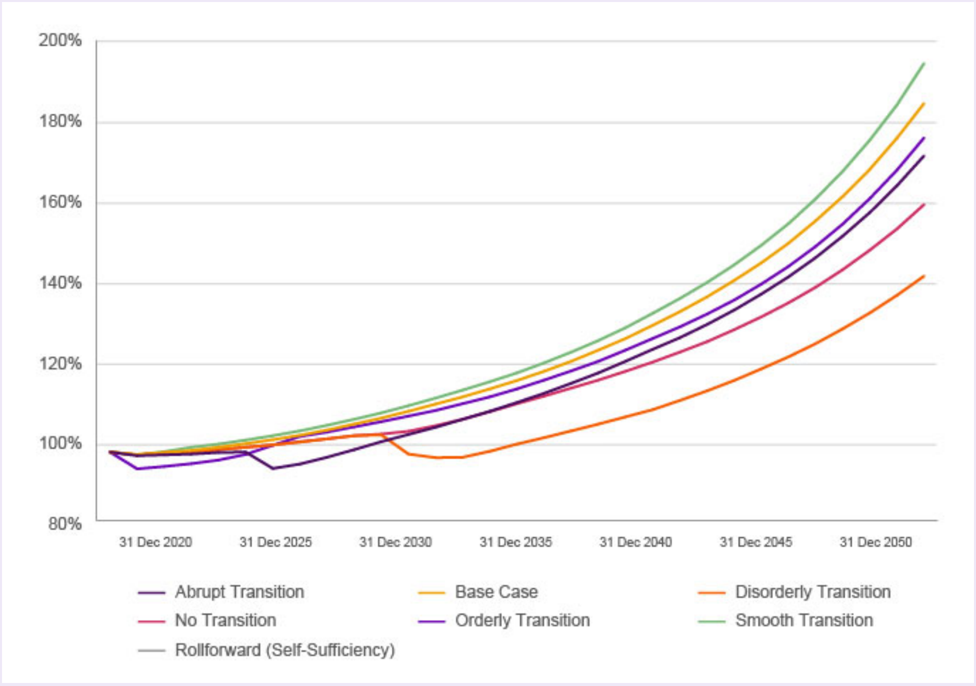
The Trustee will review the appropriateness of the climate scenario analysis on an annual basis with the next review expected to take place in November 2022. The Trustee expects to update the climate scenario analysis at least triennially – this may be undertaken sooner if there are material developments affecting the Fund (or each Section), which would include any changes to the strategic asset allocation.

Main Section | AA Section | NWM Section | RBSI 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 and high levels of hedging against changes in interest rates and inflation.

The worst-case scenario for the Fund 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 Fund 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 c. 4% 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.

Funding level projections under each climate change scenario



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

Business, strategy, and financial planning

The Trustee recognises the importance of climate change and the risk it poses to the Fund. The Trustee takes climate-related risks into account in determining its investment strategy. The Trustee has committed to engaging with all companies it invests in to encourage them to achieve net zero emissions in line with the Paris Agreement and has set out its intended actions to achieve this goal. The commitment can be found here.

The Trustee also recognises that climate change may have an impact on employer covenant. The Trustee monitors the covenant on a regular basis, with the support of its covenant adviser, and maintains a regular dialogue with the employer.

Climate-related risks and opportunities

The Trustee considers climate-related risks and opportunities over the short, medium and long-term time horizons identified earlier in the Governance section. The Trustee has determined which risks and opportunities might have a material impact on the Fund through qualitative assessment of climate-related risks and opportunities, and asset-class-level scenario testing of longer-term 'strategic' risks and opportunities. Climate risk considerations are incorporated throughout the investment process, from strategic asset allocation to manager selection and portfolio monitoring.

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Climate change may impact the financial performance of companies and therefore also the risk-return profile of the securities they issue. The Trustee acknowledges that each of the Fund's investments may be exposed to climate-related risks to varying extents, and has identified two specific types of risk which could impact the Fund's investment and funding strategy:

Physical risks

Are the risks associated with the physical impacts of climate change on companies' operations. Physical risks may be:

- **Acute**: severe and extreme events and location-specific (e.g., droughts, heatwaves, storms, wildfires, etc); or
- **Chronic**: represents the background incremental changes in, for example: temperature, precipitation, and sea-level rise over several decades.

The Fund is most directly exposed to these risks through its real estate, forestry, and infrastructure holdings, but they are also expected to indirectly impact other asset classes too.

Greenhouse, Cambridgeshire. Uses ground source heat pumps and reduces reliance food miles.

Image by Greencoat Capital.

Transition risks

Are those associated with the transition towards a low-carbon economy. For example, shifts in regulation, introduction of new (or withdrawal of obsolete) technology, broad effects on the market, and individual entity reputation. These are expected to emerge more rapidly than physical risks and have a larger impact over the short to medium-term. These risks are likely to impact all asset classes.

In addition, the Trustee is alert to both the reputational risk associated with climate risk and potential for it to have an impact on the employer covenant.

Climate risk assessment

The Trustee has undertaken a qualitative assessment of possible climate change related effects on its portfolio via a fund manager questionnaire to identify financially material climate-related risks and opportunities associated with each mandate, over the appropriate short (5 years), medium (10 years) and long-term (30 years) horizons. The following scale was used to assess the asset classes:

Red	denotes a high level of financial exposure to the risk under consideration.
Amber	denotes a medium level of financial exposure to the risk under consideration.
Green	denotes a low level of financial exposure to the risk under consideration.

The summary of the assessment for each asset class is captured below. In every asset class, the Trustee works closely with the managers to understand their risk exposure and the mitigations being undertaken.

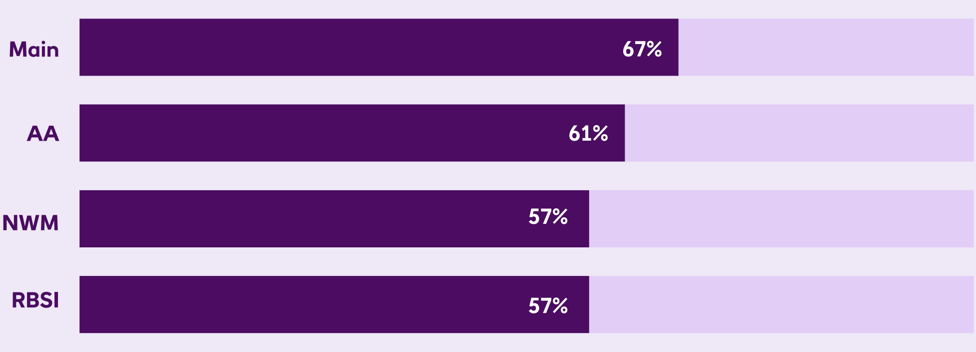
Hedging Assets | Credit | Equity | Property | Insurance

The Fund's hedging assets are invested in UK Government bonds, cash instruments and swaps to manage risk versus the Fund's liabilities. Most governments in developed markets – including the UK – have set carbon reduction targets. 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).

	Physical risks		**Transition risks**			
Time horizon	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	Green	Green	Amber	Green	Amber	Green
Medium	Green	Green	Amber	Green	Amber	Green
Long	Amber	Amber	Amber	Green	Amber	Green

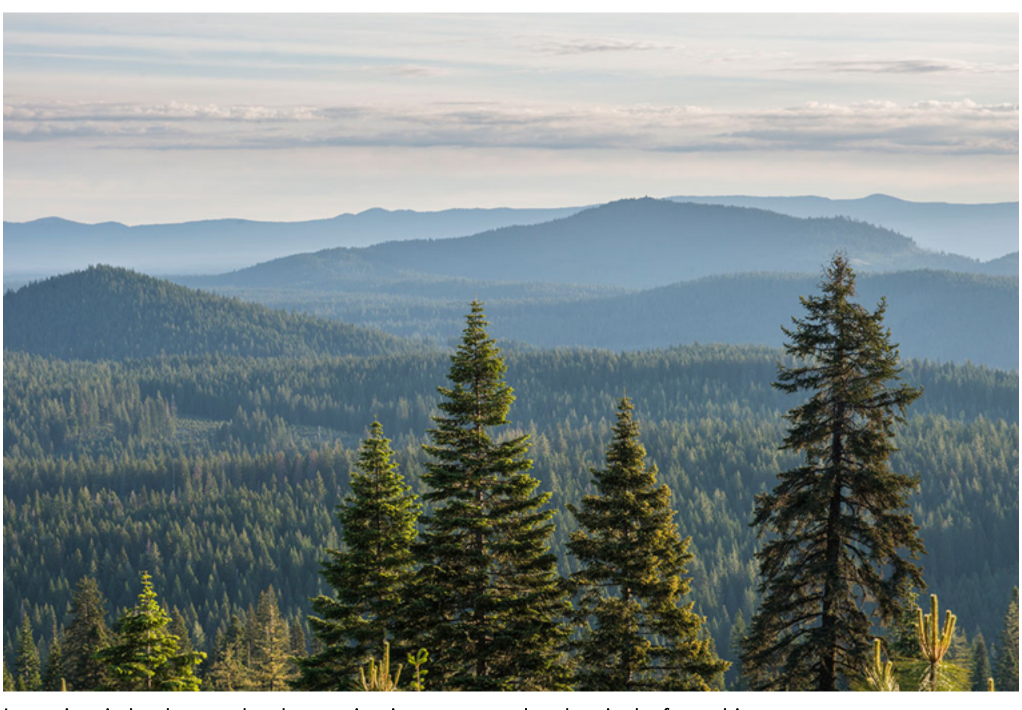
Note: This table is based on Aon's assessment of the climate risk of UK Government bonds.

Hedging asset allocation as at 31 December 2021



Climate opportunities assessment

The Fund is closed to new members and therefore the assets and liabilities will decline slowly over the next 30 years. The Trustee employs a low-risk investment strategy with high levels of hedging assets which limit 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.



Lowering timber harvest levels to maintain more stored carbon in the forest biomass.

Image from New Forests Asset Management.

Risk Management

Processes for identifying and assessing climate-related risks

The Trustee's approach to identifying and assessing climate-related risks and opportunities is comprised of two assessments broadly summarised below.

Manager assessment

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The assessment included engagement with all investment managers employed by the Fund to gather and evaluate climate-related metrics and assess the managers' climate risk management based on:

- Awareness of climate risk as it relates to the portfolio and steps being taken to proactively manage the risk.
- Alignment with Taskforce on Climate-Related Financial Disclosures (TCFD), Paris Agreement and Science Based Targets initiative (SBTi).
- Participation in relevant industry initiatives.
- Consideration of opportunities related to climate themes.
- Engagement and escalation practices with the underlying companies or direct management of the assets.

Further analysis based on the Fund is summarised in the Metrics & Targets section and the Trustee will utilise these findings to monitor managers' progress in the future years.

Climate scenario testing and carbon analysis

↑ **Read more**

The assessment also included climate change scenario analysis and the assessment of the overall Fund's carbon footprint.

Climate scenario analysis is designed to help the Trustee assess the potential impact of climate-related risks on the Fund, the summary of which was provided in the Strategy section. The Fund is generally well protected against climate-related risks, however, of the various scenarios considered, the Trustee views the 'Disorderly Transition' scenario most concerning, given the potential of this scenario to negatively impact all Sections to varying degrees.

Carbon footprint and additional carbon price delta analysis is included in the Metric & Targets section.

The Trustee intends to carry out climate scenario work in future years to monitor the Fund's climate-related risks.

Both assessments give the Trustee an indication of the climate-related risks to which the Fund is exposed. Where appropriate, the Trustee distinguishes between transition and physical risks and all risks and opportunities are assessed with reference to the time horizons that the Trustee has identified as relevant to each Section.

Processes for managing climate-related risks

There are three principal ways to manage climate-related risks in the Fund's investments.

Strategy

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Having carried out a climate scenario analysis and carefully considered its output the Trustee recognises that, due to its relatively low allocation to growth assets and the diversification within those growth assets, the Fund is well protected against climate risk even in the most extreme scenarios modelled. The Trustee recognises that climate change risks will continue to evolve and will therefore repeat climate scenario analysis no less than every three years.

The Fund benefits from a strategic allocation to forestry, and an investment in onshore wind farms. These reduce or offset the carbon emitted by the Fund's other assets, therefore reducing the Plan's overall sensitivity to carbon pricing which is recognised to be an influence (although not the only influence) of the financial impacts of climate change which could affect the Fund.

Lowering timber harvest levels to maintain more stored carbon in the forest biomass.

Image from New Forests Asset Management.

The Trustee also relies on the covenant adviser to provide advice on the ability of the sponsoring employer to continue to meet their obligations to the Fund taking account of all material risk factors, including climate risk.

Manager oversight

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Before the appointment of a new investment manager and during the due diligence of investment opportunities, consideration is given to how the investment managers incorporate environmental, social and governance (ESG) factors, including climate change, in their investment processes. The implementation of manager ESG policies is monitored by RBS Investment Executive Limited (RIEL) on a quarterly and annual basis as described below.

As part of their recent climate risk review, data was gathered on the carbon footprint of the majority of the Fund's investment managers (covering c. 90% of the assets) along with qualitative information on how the managers are approaching climate risk in their portfolios. This information will form a baseline for monitoring in future years. The Trustee typically engages directly with managers annually to review their practices, including their approach to responsible investment, climate change and wider ESG considerations.

Stewardship

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The Trustee also recognises that, through its stewardship activities, it can positively influence the companies in which it is invested in relation to climate risk. The Trustee has delegated its voting and engagement responsibilities in relation to public equity and public credit investments to its appointed engagement partner, EOS at Federated Hermes (EOS). Climate change is a particular area of focus for EOS in its engagements with underlying companies, and the Trustee regularly receives and reviews comprehensive reporting from EOS on the progress of the stewardship activity that it carries out on the Trustee's behalf.

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.

1 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 ESG Sub-Committee (ESGC) of the Asset and Liability Committee (ALCO) 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.

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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 the Executive have arranged to receive regular training on climate-related issues, at least annually, 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, the Risk and Audit Committee (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 also in relation to the employer covenant.

2 Investment approach to integrating climate-related risks

The climate scenario analysis undertaken for the Trustee considered the funding position based on the effect of climate risk on the Fund assets and liabilities. The Trustee has determined that no change is currently required to investment strategy based on the results of its scenario analysis. This is one of the methods by which the evaluation and consideration of climate risk is integrated into its 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.

Metrics and Targets

Metrics disclosure

The Trustee uses a number of metrics to assess climate-related risks and opportunities and expects the quality of data to improve over time. In 2022, the Trustee collated the following information to complete a climate analysis on its invested portfolios:

1) Total GHG emissions (Tonnes CO_2).

A) Absolute emissions metric: Total GHG emissions

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GHGs are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most widely used GHG accounting standard.

Scope 1 | Scope 2 | Scope 3

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.

The Trustee delegated the gathering and calculation of this data at asset class level to Aon. The approach to obtain absolute emissions and carbon footprint metrics is summarised in the appendix.

B) Total GHG emissions

↑ Read more

The table and graph below summarise the latest available total absolute GHG emissions for the four Sections at asset class level, and a total carbon footprint per Section (and for the Fund as a whole). To ensure consistency of data across all asset classes the Trustee reported Scope 1 and 2 carbon emissions only, due to lack of Scope 3 data availability for all manager mandates*.

*The Trustee is not required to obtain Scope 3 data in the first scheme year that they are subject to TCFD requirements, according to the DWP Guidance.

Asset Class	Main Section (Tonnes CO_2)	AA Section (Tonnes CO_2)	NWM Section (Tonnes CO_2)	RBSI Section (Tonnes CO_2)	Total
Quoted equity[1]	228,467	-	1,060	338	
Private equity[2]	47,855	-	-	-	
Alternative equity	791,005	29,037	-	-	
Offset carbon (forests)	-725,000	-30,000	-	-	
Avoided carbon (wind farm)	-244,000	-	-	-	
Total credit	937,402	54,718	8,734	2,808	
Property	37,959	65	20	5	
Hedging assets	86,643	1,592	292	124	
Cash	6,622	-	-	-	
Total[3]	**1,166,952**	**55,412**	**10,106**	**3,275**	**1,235,746**
Assets @ 30.9.21 (£m)	50,462	1,114	270	82	
Total / £m invested	**23.1**	**49.7**	**37.5**	**39.8**	**23.8**

Source: MSCI, Managers, Aon

[1] Carbon footprint for quoted equity is based on MSCI figures. Carbon footprint for non-quoted assets was obtained from the Managers or estimated by Aon (using sector-based analysis) when appropriate and data not available from managers. Where the data was denominated in foreign currency (predominantly USD) Aon converted it to GBP using the 31 December 2021 FX rate.

[2] Carbon footprint for private equity is based on a sector analysis of each individual manager and applying relevant sector-level MSCI equity data.

[3] Other assets (insurance, liquidity, currency hedge, options etc) have been assumed to have a carbon footprint of zero. These securities are mostly cash or cash-like, or backed by cash, and hence do not have underlying carbon emissions.

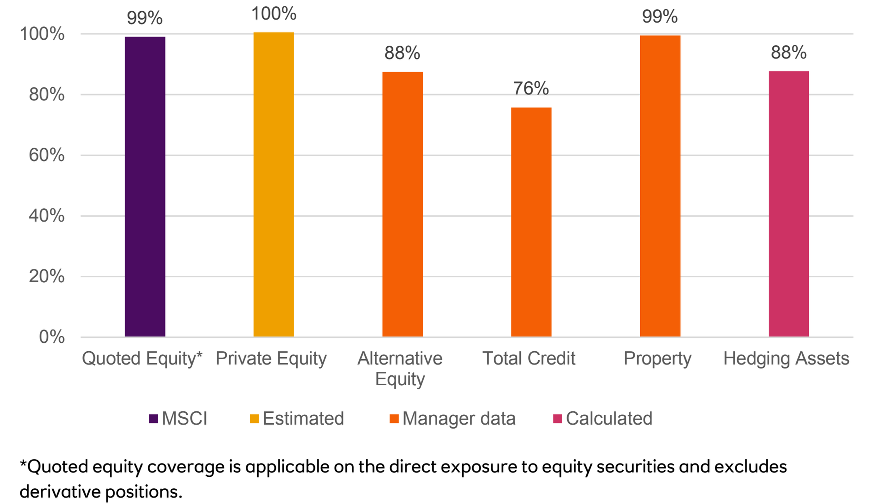
The discrepancies between the carbon footprint (Tonnes CO_2e / £m invested) can be explained as follows:

- The Main Section has significant offsetting and carbon-avoiding assets (forests and windfarms) which reduce the carbon footprint of that Section by c. 45%.
- The AA Section has a significantly higher proportion invested in credit than the Main Section (and proportionately less offset) which drives the higher carbon footprint.
- The carbon footprint for both the NatWest Markets (NWM) and Royal Bank of Scotland International Limited (RBSI) Sections are broadly comparable, with the slight difference due to their slightly differing asset allocation.

Overall, carbon data coverage for the Fund's applicable assets is c. 90%. Data coverage at asset class level is captured in the graph below. Further information on carbon data sources can be found in the appendix.

Total absolute carbon emissions (tonnes CO_2)

Carbon data coverage on asset class level



*Quoted equity coverage is applicable on the direct exposure to equity securities and excludes derivative positions.

2) Carbon Footprint (Tonnes CO_2/£m invested) and additional carbon price delta analysis.

A) Carbon footprint per asset class

↑ Read more

The table and graphs below summarise latest available carbon footprint (tonnes CO_2/£m invested) for the four Sections and each asset class. As previously stated, the Trustee has reported on Scope 1 and 2 carbon intensity only.

Asset Class	Main Section (Tonnes CO_2/£m invested)	AA Section (Tonnes CO_2/£m invested)	NWM Section (Tonnes CO_2/£m invested)	RBSI Section (Tonnes CO_2/£m invested)
Quoted equity[1]	149.1	-	87.1	87.1
Private equity[2]	55.1	-	-	-
Alternative equity	384.9	714.1	-	-
Offset and avoided carbon[3]	-2,848.2	-2,087.0	-	-
Total credit	141.8	194.3	72.3	73.5
Property	16.8	2.3	2.5	2.5
Hedging assets	3.4	3.4	3.4	3.4
Cash	1.6	-	-	-

Source: MSCI, Managers, Aon.

[1] Carbon footprint for quoted equity is based on MSCI figures. Carbon footprint for non-quoted assets was obtained from the Managers or estimated by Aon (using sector-based analysis) when not available from managers. Where the data was denominated in foreign currency (predominantly USD) Aon converted it to GBP using the 31 December 2021 FX rate.

[2] Carbon intensity for private equity is based on a sector analysis of each individual manager and applying relevant sector-level MSCI equity data.

[3] Offset and avoided carbon includes wind farm and forest assets. Please note that wind farm assets are present in the Main Section portfolio only.

Quoted Equity

The carbon footprint intensity measure is markedly different between the Main Section and the NWM and RBSI Sections. The latter two Sections invest in a passive global equity fund while the Main Section has equity holdings with a spread of active equity mandates.

Private Equity

Private Equity carbon metrics have been estimated by Aon using a sector analysis for each individual fund, the weight in respective sectors of each fund have been multiplied by a proxy, the respective sector carbon metrics of the MSCI World Index.

The relatively lower carbon intensity of the private equity portfolio as compared to quoted equity is driven by lower allocation to carbon intensive industries such as energy, materials and utilities and higher allocation to sectors such as information technology, financials and consumer discretionary.

B) Carbon price delta analysis

↑ Read more

The Fund benefits from holding both forestry and windfarm assets. The forestry assets sequester carbon, and the Fund has increased the amount sequestered by reducing the frequency of harvesting for one of the forests. The windfarm assets produce electricity with no operational carbon emissions and therefore it is possible to take credit for the avoided carbon from those assets. In total, the sequestered and avoided carbon amounts to almost 1MT CO_2e each year. This has the effect of reducing the total carbon emitted by around 40%, and reducing the Fund's total carbon footprint by 45%, from 43.4 tonnes CO_2e / £m invested to 24.0 tonnes CO_2e / £m invested.

Windfarm, Mynydd Bwllfa Wind Farm, UK. An investment in the renewable energy sector.

Image by Vantage Infrastructure.

3) Portfolio assets adopting SBT

SBTs provide 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 SBTi and are scientifically confirmed requirements that will set the path for transitioning to a low (preferably zero) carbon economy.

SBTi are a voluntary commitment for corporates. They require the development of an emissions reduction target in line with the SBTi's criteria, presenting the target to the SBTi, and receiving official validation. SBTi do not currently provide criteria for every type of company. There are also many companies who have set transition pathways and plans to net zero emissions but have not had them approved by the SBTi.

The two graphs below capture the proportion of holdings that are signed up to the SBTi, or have net zero targets (either signed up to the Paris Agreement or with net zero emissions by 2050 or earlier) across the applicable asset classes[1] for each measure. Hedging assets have not been included in the main analysis of current levels of portfolio alignment to SBT nor net zero emissions on the basis of guidance from the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework (NZIF) where it is recommended hedging assets are not included in transition pathways.

Assets such as wind farms and forests are naturally aligned with net zero but have not yet developed SBTs. RIEL is also encouraging the Trustee's asset managers to adopt appropriate net zero targets. A summary of the current position among the Trustee's asset managers is included in the appendix.

[1] Applicable assets refer to the entire portfolio excluding investments in hedging assets, insurance, derivatives and cash portfolios. SBT are not applicable due to the nature of these asset classes.

Manager Assessment

↑ Read more

Manager climate risk assessment, which included assessments of:

- Managers' alignment with Taskforce on Climate-Related Financial Disclosures (TCFD), Paris Agreement and Science Based Targets initiative (SBTi);
- Ability to support climate scenario analysis;
- Participation in industry initiatives; and
- Engagement and escalation practices with the underlying companies.

Based on the manager climate risk assessment, the Trustee chose the proportion of assets aligned with SBTi as its measure of climate-related risks to formally track and target. The Trustee chose this metric as it is the underlying companies that emit carbon, not the securities. To overcome the climate crisis, companies need to meet the Paris Aligned targets. By measuring the percentage of assets aligned to SBTi, we measure real world change rather than asset allocation changes that will not help solve the climate crisis. Setting targets based on this will focus the Trustee's engagement of the Fund's investments to encourage alignment to Paris based targets. As a final measure the Trustee will divest of investments that are not aligned to net zero.

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

Net zero | SBTi | TCFD | Initiative

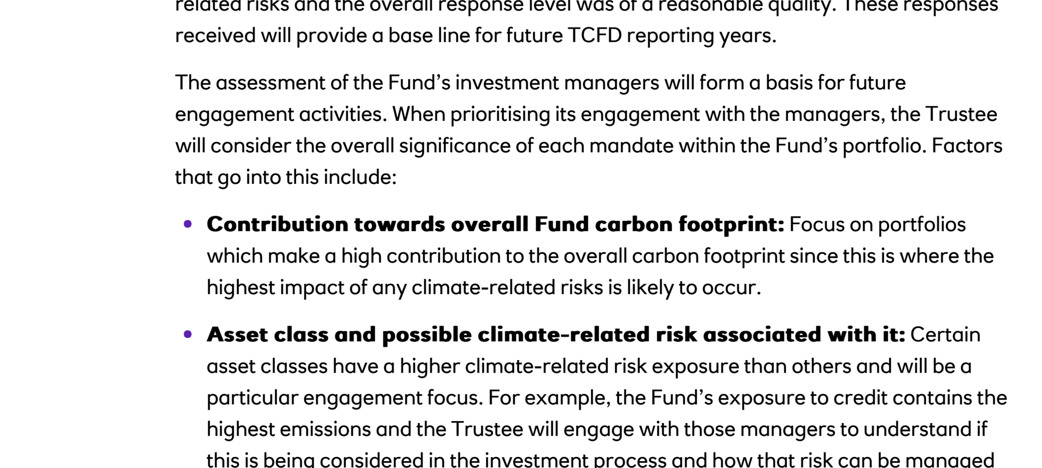
Fourteen managers have either signed up or are working towards the SBTi's.

Fourteen managers across quoted equity, alternative equity and credit reported the proportion of holdings aligned with the SBTi. For example, 55.6% of holdings in the SGA equity portfolio have either committed to or are aligned with Science Based Targets (SBTs). SGA are systematically engaging with all companies on their

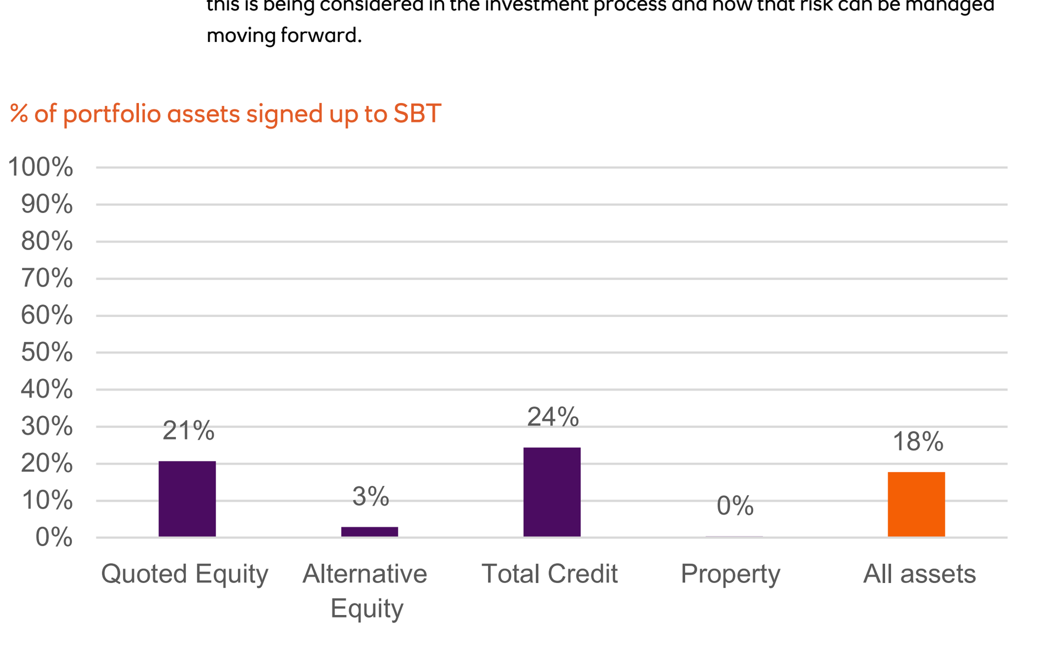
Summary Conclusion

↑ Read more

% of portfolio assets signed up to SBT



% of assets signed up to net zero by 2050 (in manager and portfolio levels)



Targets to manage climate-related risks

↑ Read more

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Potential impact of climate change

Click on the different transition scenarios to understand the impact of climate change.

Smooth transition	**Base case**	Abrupt transition	Orderly transition	Disorderly transition	No transition
< 1.5°C	**~1.8°C**	<2°C	<2°C	<3°C	>4°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. Current pricing suggests that the market does not expect a bad climate change outcome – that is, the effects are not as damaging as first thought, and some progress is made to limit GHG emissions and global warming.

Source: Aon

Note: Degree warming is relative to pre-industrial levels by 2100.

The climate scenario analysis was carried out on the Fund's asset allocation at 30 September 2021, assuming a static portfolio with no subsequent allocation changes. Since the Fund is maturing, this is considered to be a conservative approach.

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Potential impact of climate change

Click on the different transition scenarios to understand the impact of climate change.

Smooth transition	Base case	Abrupt transition	Orderly transition	Disorderly transition	No transition
< 1.5°C	~1.8°C	<2°C	<2°C	<3°C	>4°C

Private sector innovation and a green technology revolution, combined with government coordination, help drive progress towards tackling climate change.

Source: Aon

Note: Degree warming is relative to pre-industrial levels by 2100.

The climate scenario analysis was carried out on the Fund's asset allocation at 30 September 2021, assuming a static portfolio with no subsequent allocation changes. Since the Fund is maturing, this is considered to be a conservative approach.

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Smooth transition	Base case	**Abrupt transition**	Orderly transition	Disorderly transition	No transition
< 1.5°C	~1.8°C	**<2°C**	<2°C	<3°C	>4°C

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 GHG. Delayed action on reducing emissions mean that the costs of tackling the problem are higher.

Source: Aon

Note: Degree warming is relative to pre-industrial levels by 2100.

The climate scenario analysis was carried out on the Fund's asset allocation at 30 September 2021, assuming a static portfolio with no subsequent allocation changes. Since the Fund is maturing, this is considered to be a conservative approach.

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Smooth transition	Base case	Abrupt transition	**Orderly transition**	Disorderly transition	No transition
< 1.5°C	~1.8°C	<2°C	**<2°C**	<3°C	>4°C

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 GHG tax and carbon cap is introduced.

Source: Aon

Note: Degree warming is relative to pre-industrial levels by 2100.

The climate scenario analysis was carried out on the Fund's asset allocation at 30 September 2021, assuming a static portfolio with no subsequent allocation changes. Since the Fund is maturing, this is considered to be a conservative approach.

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Potential impact of climate change

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Smooth transition	Base case	Abrupt transition	Orderly transition	**Disorderly transition**	No transition
< 1.5°C	~1.8°C	<2°C	<2°C	**<3°C**	>4°C

The world economy continues 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.

Source: Aon

Note: Degree warming is relative to pre-industrial levels by 2100.

The climate scenario analysis was carried out on the Fund's asset allocation at 30 September 2021, assuming a static portfolio with no subsequent allocation changes. Since the Fund is maturing, this is considered to be a conservative approach.

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Smooth transition	Base case	Abrupt transition	Orderly transition	Disorderly transition	**No transition**
< 1.5°C	~1.8°C	<2°C	<2°C	<3°C	**>4°C**

The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach. While some climate change policies are implemented, global efforts are insufficient to halt significant global warming. Impacts from physical risks gradually become more severe over time and some become irreversible by 2100 as tipping points are crossed.

Source: Aon

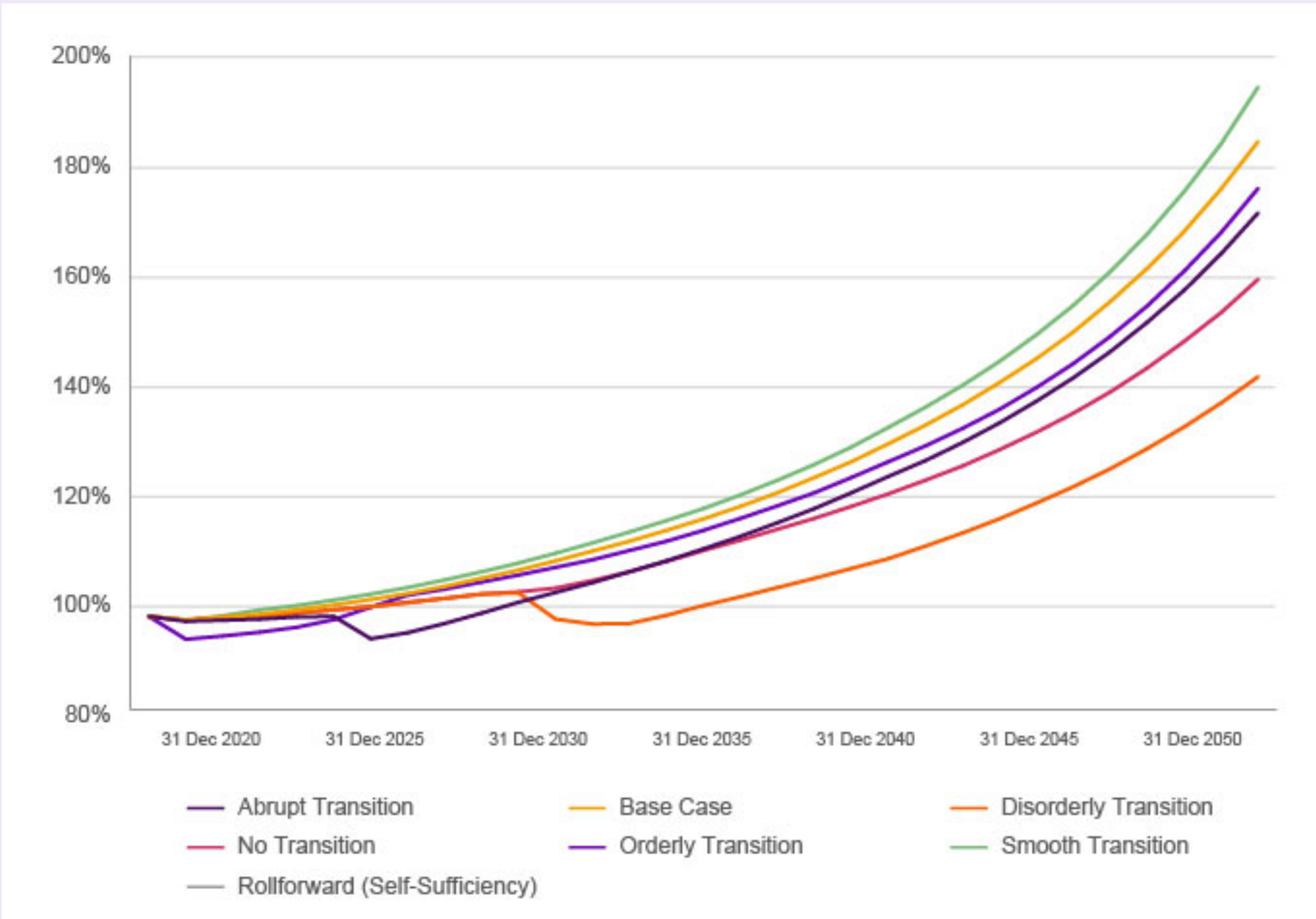
Note: Degree warming is relative to pre-industrial levels by 2100.

The climate scenario analysis was carried out on the Fund's asset allocation at 30 September 2021, assuming a static portfolio with no subsequent allocation changes. Since the Fund is maturing, this is considered to be a conservative approach.

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 and high levels of hedging against changes in interest rates and inflation.

The worst-case scenario for the Fund 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 Fund 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 c. 4% 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.

Funding level projections under each climate change scenario



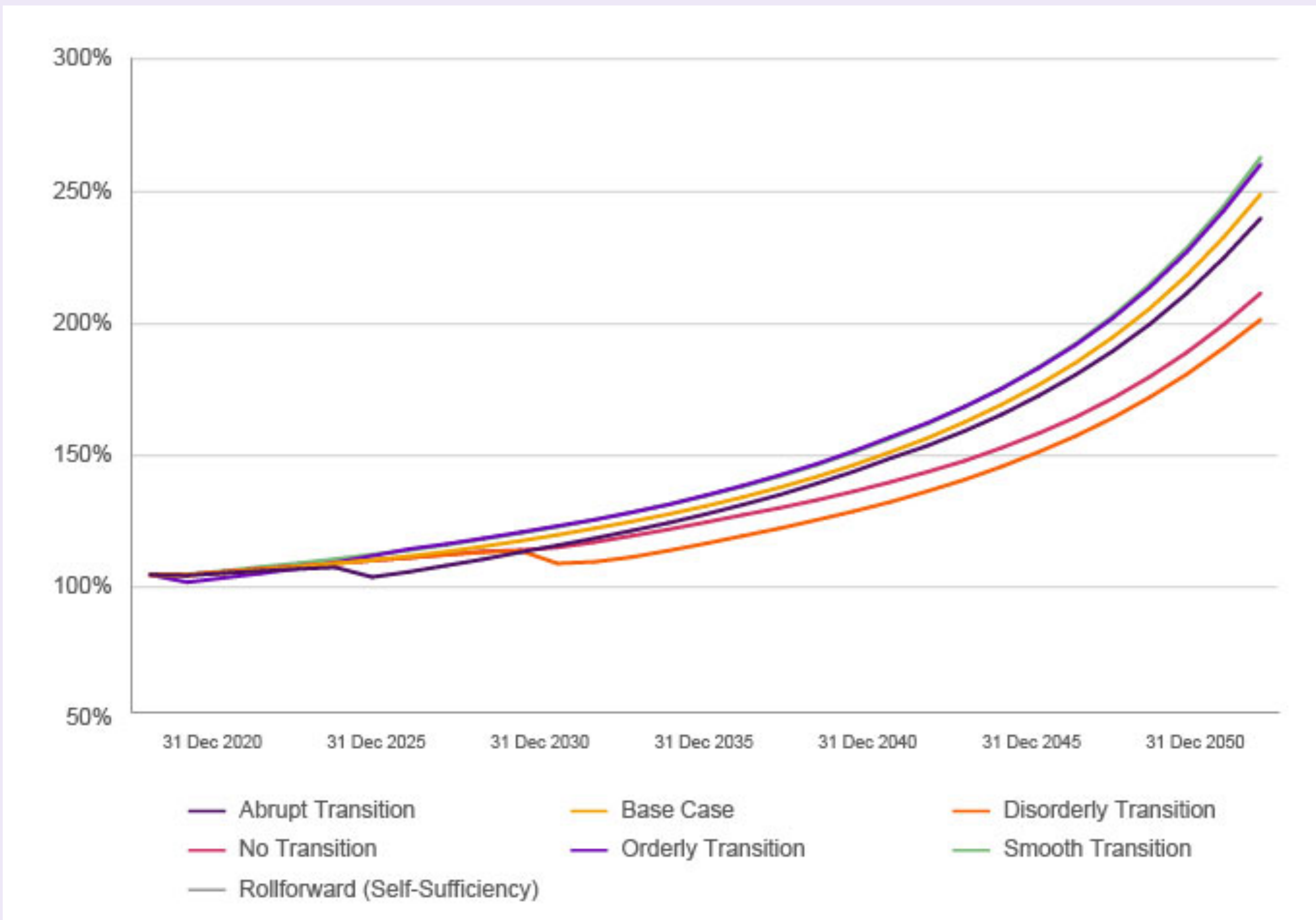
Source: Aon. Scenario projections as at 30 September 2021.

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 change scenario



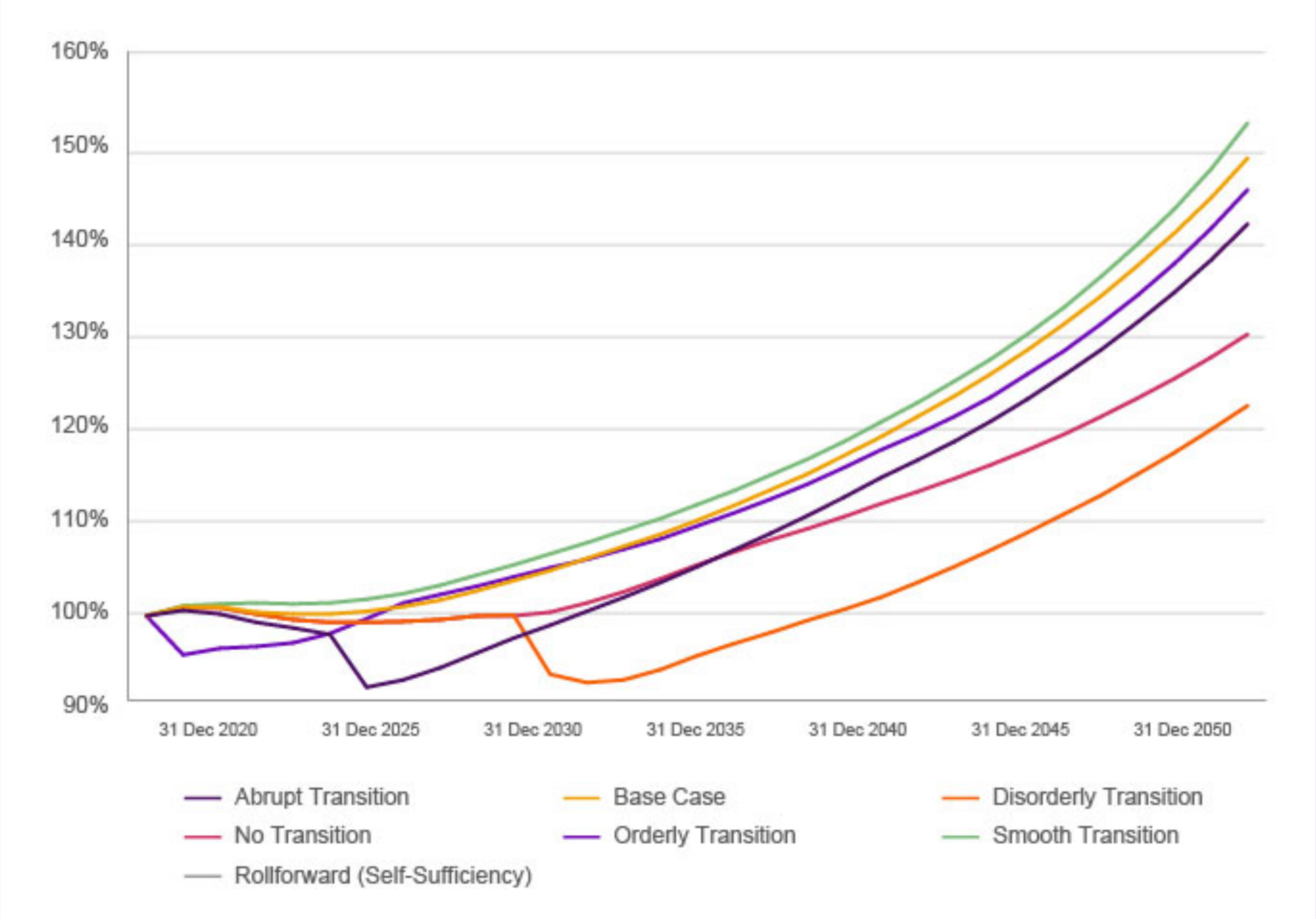
Source: Aon. Scenario projections as at 30 September 2021.

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 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 to 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 change scenario



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

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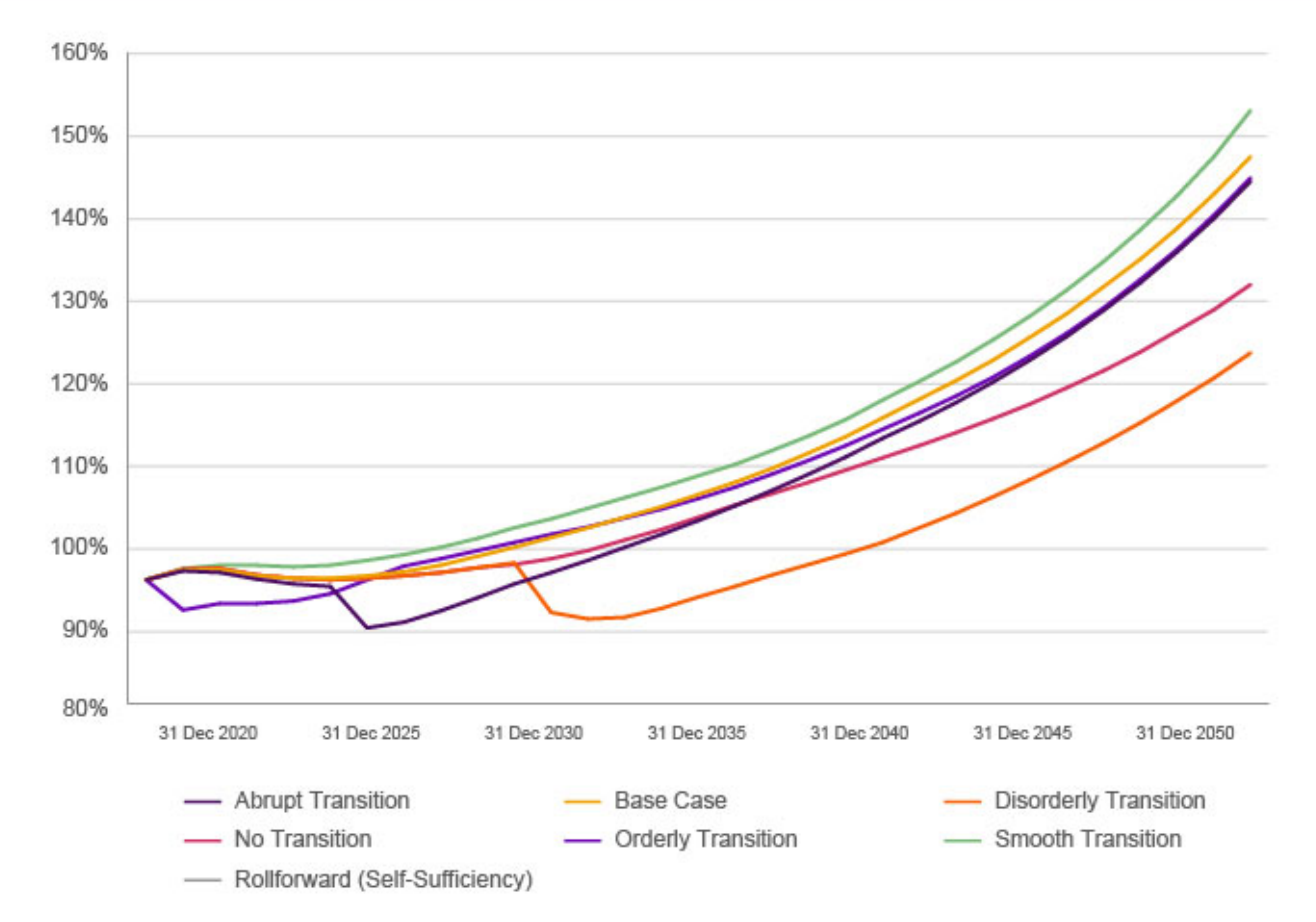
Main Section | AA Section | NWM Section | RBSI Section

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 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 change scenario



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

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Climate risk assessment

The Trustee has undertaken a qualitative assessment of possible climate change related effects on its portfolio via a fund manager questionnaire to identify financially material climate-related risks and opportunities associated with each mandate, over the appropriate short (5 years), medium (10 years) and long-term (30 years) horizons. The following scale was used to assess the asset classes:

Red	denotes a high level of financial exposure to the risk under consideration.
Amber	denotes a medium level of financial exposure to the risk under consideration.
Green	denotes a low level of financial exposure to the risk under consideration.

The summary of the assessment for each asset class is captured below. In every asset class, the Trustee works closely with the managers to understand their risk exposure and the mitigations being undertaken.

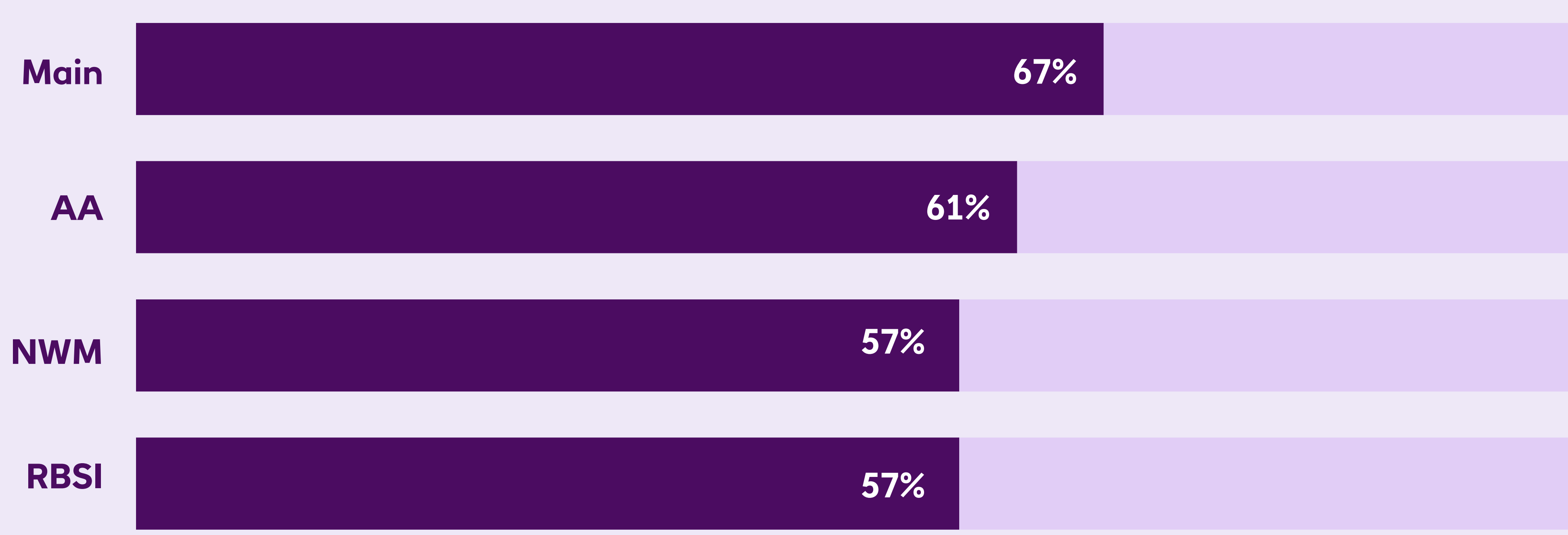
Hedging Assets | Credit | Equity | Property | Insurance

The Fund's hedging assets are invested in UK Government bonds, cash instruments and swaps to manage risk versus the Fund's liabilities. Most governments in developed markets – including the UK – have set carbon reduction targets. 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).

	Physical risks		**Transition risks**			
Time horizon	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	Green	Green	Amber	Green	Amber	Green
Medium	Green	Green	Amber	Green	Amber	Green
Long	Amber	Amber	Amber	Green	Amber	Green

Note: This table is based on Aon's assessment of the climate risk of UK Government bonds.

Hedging asset allocation as at 31 December 2021



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The summary of the assessment for each asset class is captured below. In every asset class, the Trustee works closely with the managers to understand their risk exposure and the mitigations being undertaken.

Hedging Assets | Credit | Equity | Property | Insurance

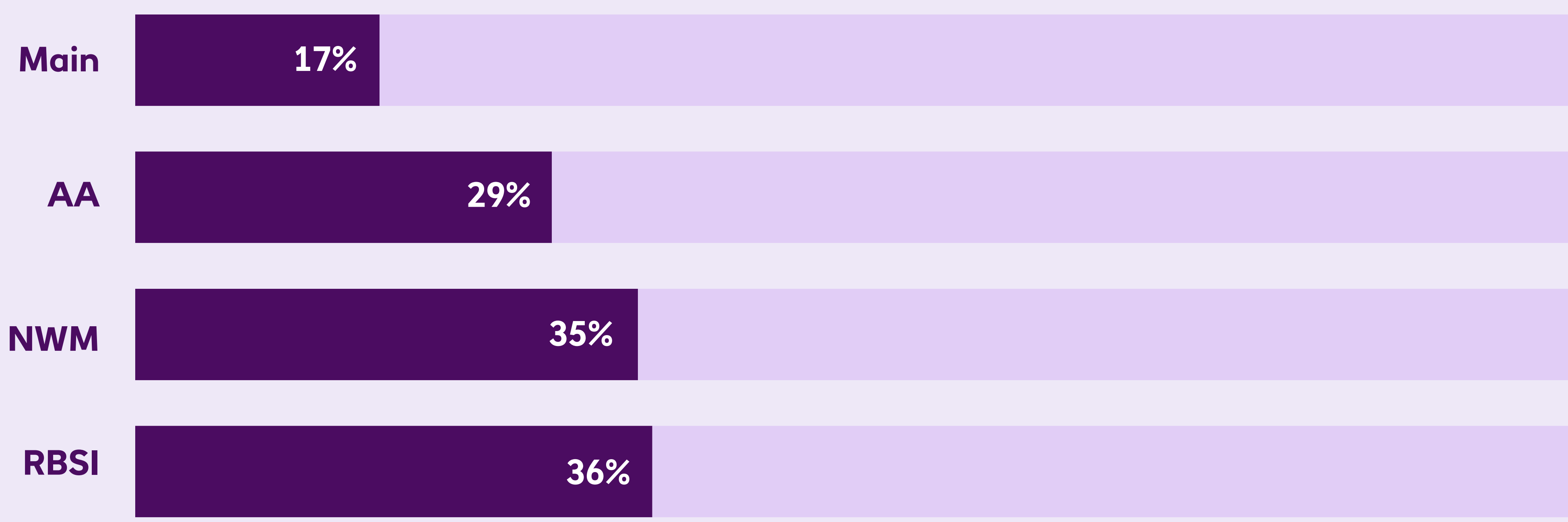
Credit is the Fund's second largest allocation and includes a broad spectrum of investments, such as investment grade securities, distressed credit, real estate debt and infrastructure debt investments.

↓ **Read more**

	Physical risks		**Transition risks**			
Time horizon	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	Green	Green	Green	Green	Green	Green
Medium	Green	Green	Amber	Green	Amber	Green
Long	Amber	Amber	Amber	Amber	Amber	Amber

Note: based on the manager data.

Credit allocation as at 31 December 2021



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The summary of the assessment for each asset class is captured below. In every asset class, the Trustee works closely with the managers to understand their risk exposure and the mitigations being undertaken.

Hedging Assets | Credit | Equity | Property | Insurance

While the Fund's quoted equities are exposed to market and reputation risks associated with the change in the consumer preference and overall market sentiment, following engagement with its managers, the Trustee believes the asset class displays a forward-looking approach to identifying climate-related opportunities.

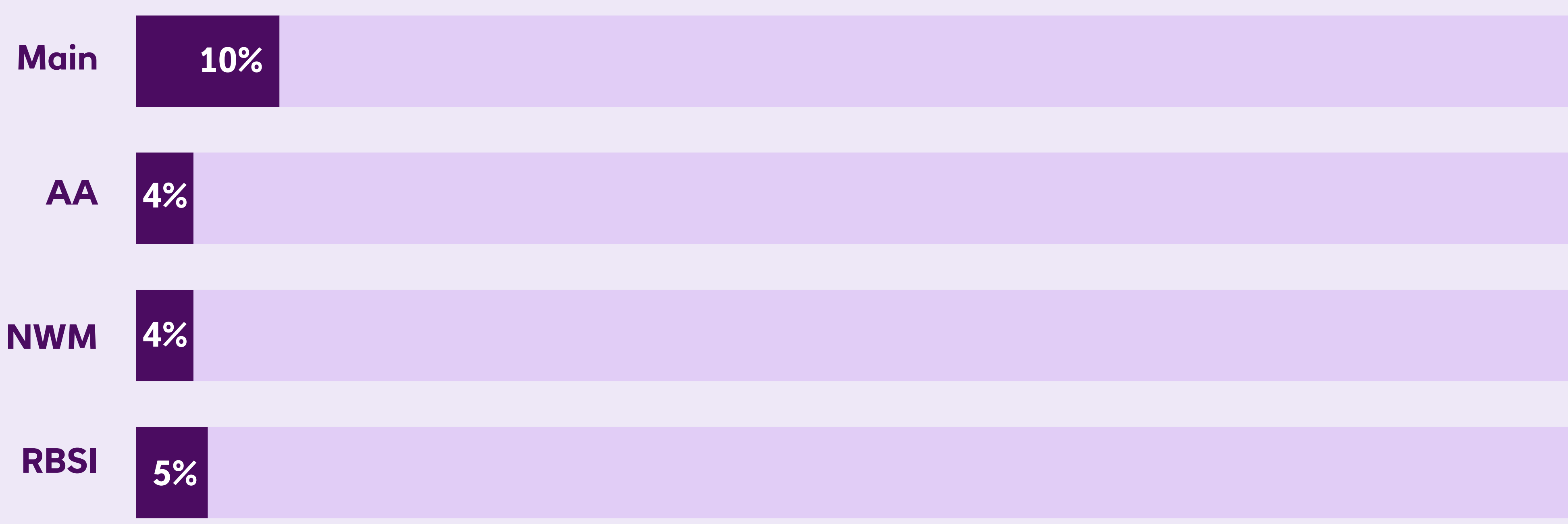
↓ **Read more**

	Physical risks		**Transition risks**			
Time horizon	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	Green	Green	Green	Green	Green	Green
Medium	Green	Green	Amber	Green	Green	Green
Long	Green	Green	Amber	Green	Amber	Amber

Note: based on the manager data.

The assessment has been undertaken in relation to public, private and 'alternative' equity, which taken together, are the Fund's third largest asset class exposure.

Equity allocation as at 31 December 2021



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The summary of the assessment for each asset class is captured below. In every asset class, the Trustee works closely with the managers to understand their risk exposure and the mitigations being undertaken.

Hedging Assets | Credit | Equity | **Property** | Insurance

Property assets are 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.

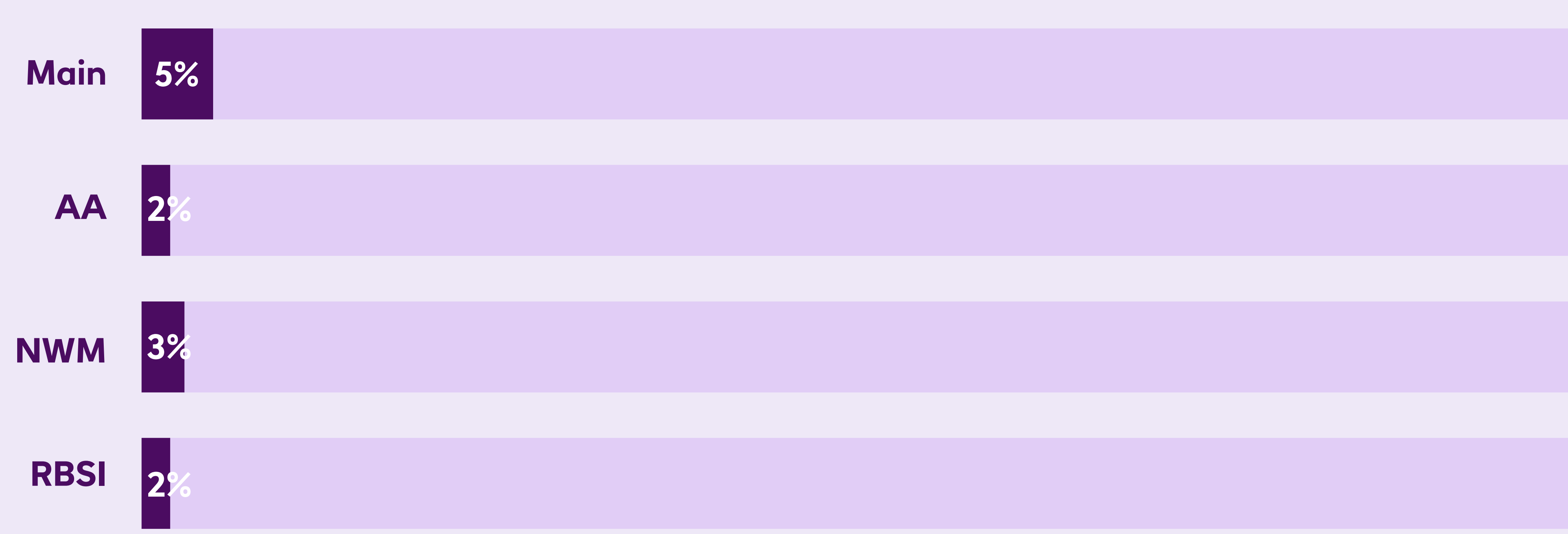
↓ **Read more**

	Physical risks		**Transition risks**			
Time horizon	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	Green	Green	Green	Green	Amber	Amber
Medium	Amber	Amber	Amber	Green	Green	Green
Long	Red	Red	Amber	Green	Amber	Amber

Note: based on the manager data.

Property is invested across the UK, the US and Europe.

Property allocation as at 31 December 2021



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The summary of the assessment for each asset class is captured below. In every asset class, the Trustee works closely with the managers to understand their risk exposure and the mitigations being undertaken.

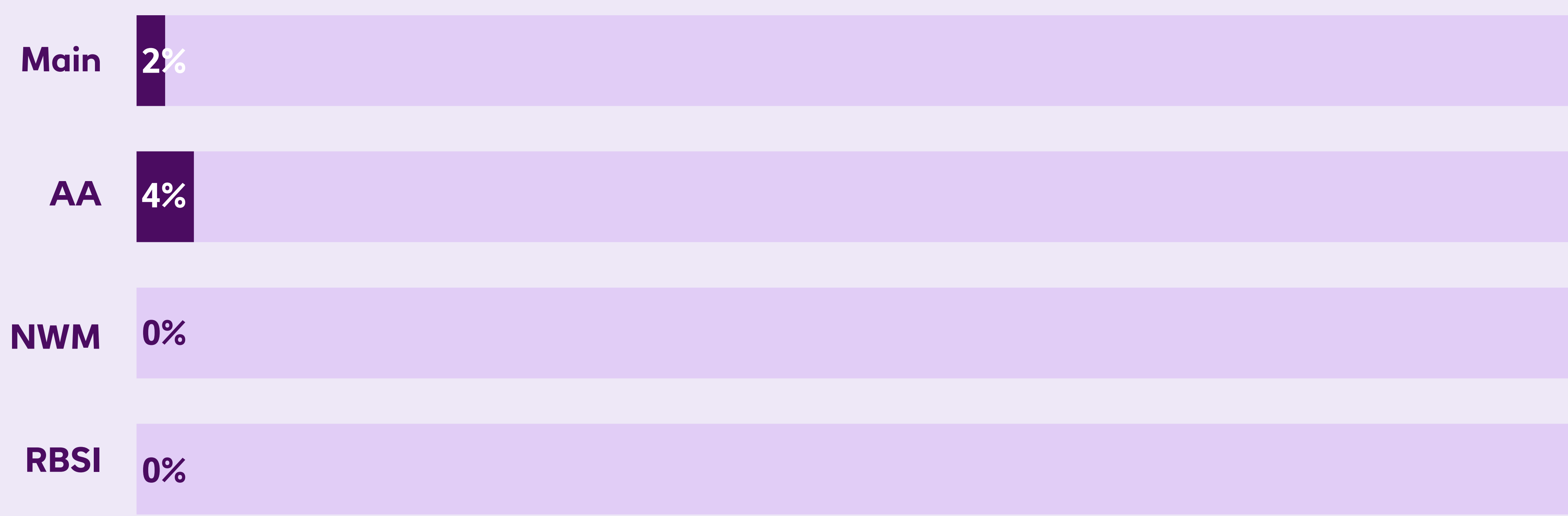
Hedging Assets | Credit | Equity | Property | **Insurance**

Due to the nature of most insurance contracts the Fund invests in, there are no notable climate-related risks. However, the strategy has indirect immaterial exposure to physical risks through its holdings of catastrophe insurance-linked securities.

	Physical risks		**Transition risks**			
Time horizon	Acute	Chronic	Regulatory	Technology	Market	Reputation
Short	Green	Green	Green	Green	Green	Green
Medium	Green	Green	Green	Green	Green	Green
Long	Green	Green	Green	Green	Green	Green

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

Insurance allocation as at 31 December 2021



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1 Total GHG emissions (Tonnes CO_2).

A Absolute emissions metric: Total GHG emissions

↑ **Read more**

GHGs are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most widely used GHG accounting standard.

Scope 1	Scope 2	Scope 3

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.

The Trustee delegated the gathering and calculation of this data at asset class level to Aon. The approach to obtain absolute emissions and carbon footprint metrics is summarised in the appendix.

→ Back to TCFD Statement overview

1 Total GHG emissions (Tonnes CO_2).

A Absolute emissions metric: Total GHG emissions

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GHGs are categorised into three types or ‘scopes’ by the Greenhouse Gas Protocol, the world’s most widely used GHG accounting standard.

Scope 1 | Scope 2 | Scope 3

These are the indirect emissions; for example from the generation of electricity and energy purchased and used by an organisation.

The Trustee delegated the gathering and calculation of this data at asset class level to Aon. The approach to obtain absolute emissions and carbon footprint metrics is summarised in the appendix.

→ Back to TCFD Statement overview

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A Absolute emissions metric: Total GHG emissions

↑ **Read more**

GHGs are categorised into three types or 'scopes' by the Greenhouse Gas Protocol, the world's most widely used GHG accounting standard.

Scope 1 | Scope 2 | **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 often global nature of an organisation's value chain can make it difficult to collect accurate data.

The Trustee delegated the gathering and calculation of this data at asset class level to Aon. The approach to obtain absolute emissions and carbon footprint metrics is summarised in the appendix.

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Manager Assessment

↑ Read more

Manager climate risk assessment, which included assessments of:

- Managers' alignment with Taskforce on Climate-Related Financial Disclosures (TCFD), Paris Agreement and Science Based Targets initiative (SBTi);
- Ability to support climate scenario analysis;
- Participation in industry initiatives; and
- Engagement and escalation practices with the underlying companies.

Based on the manager climate risk assessment, the Trustee chose the proportion of assets aligned with SBTi as its measure of climate-related risks to formally track and target. The Trustee chose this metric as it is the underlying companies that emit carbon, not the securities. To overcome the climate crisis, companies need to meet the Paris Aligned targets. By measuring the percentage of assets aligned to SBTi, we measure real world change rather than asset allocation changes that will not help solve the climate crisis. Setting targets based on this will focus the Trustee's engagement of the Fund's investments to encourage alignment to Paris based targets. As a final measure the Trustee will divest of investments that are not aligned to net zero.

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

Net zero | SBTi | TCFD | Initiative

Fourteen managers have either signed up or are working towards the SBTi's.

Fourteen managers across quoted equity, alternative equity and credit reported the proportion of holdings aligned with the SBTi. For example, 55.6% of holdings in the SGA equity portfolio have either committed to or are aligned with Science Based Targets (SBTs). SGA are systematically engaging with all companies on their Qualified Company List in this regard.

Two managers (Vantage and New Forest) within the alternative equity asset class are currently working towards the SBTs.

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Manager Assessment

↑ Read more

Manager climate risk assessment, which included assessments of:

- Managers' alignment with Taskforce on Climate-Related Financial Disclosures (TCFD), Paris Agreement and Science Based Targets initiative (SBTi);
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The Trustee's investment adviser, Aon, requested data from all the Fund's managers.

Net zero | SBTi | TCFD | Initiative

Twenty two out of thirty-one managers (excluding insurance assets) have committed to net zero emissions by 2050 or aligned their portfolios with Paris Alignment or Net Zero.

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

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Manager Assessment

↑ Read more

Manager climate risk assessment, which included assessments of:

- Managers' alignment with Taskforce on Climate-Related Financial Disclosures (TCFD), Paris Agreement and Science Based Targets initiative (SBTi);
- Ability to support climate scenario analysis;
- Participation in industry initiatives; and
- Engagement and escalation practices with the underlying companies.

Based on the manager climate risk assessment, the Trustee chose the proportion of assets aligned with SBTi as its measure of climate-related risks to formally track and target. The Trustee chose this metric as it is the underlying companies that emit carbon, not the securities. To overcome the climate crisis, companies need to meet the Paris Aligned targets. By measuring the percentage of assets aligned to SBTi, we measure real world change rather than asset allocation changes that will not help solve the climate crisis. Setting targets based on this will focus the Trustee's engagement of the Fund's investments to encourage alignment to Paris based targets. As a final measure the Trustee will divest of investments that are not aligned to net zero.

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

Net zero | SBTi | **TCFD** | Initiative

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

Twelve managers have published their TCFD reports on a public platform. Many of the remaining managers are either working towards publishing their TCFD reports in 2022 and / or publicly support the TCFD recommendations.

→ Back to TCFD Statement overview

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Net zero | SBTi | TCFD | **Initiative**

Over 75% of managers are signatories to various investor-led industry initiatives related to addressing climate change.

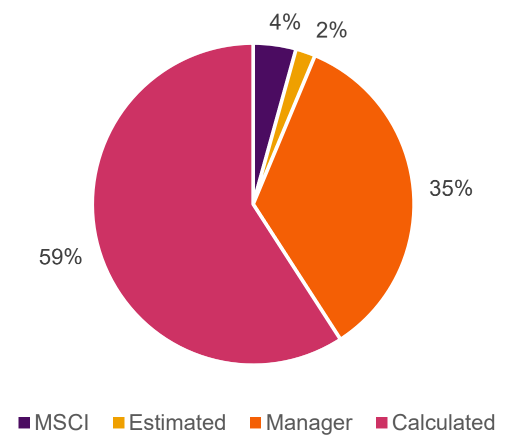
Over 75% of managers are signatories to various inventor-led industry initiatives related to addressing climate change, such as Paris Aligned Investment Initiative, Global ESG Benchmark for Real Assets (GRESB), Institutional Investors Group on Climate Change (IIGCC), Net Zero Asset Managers Initiative (NZAMI) etc.

Appendix 1

Absolute emissions and carbon footprint approach summary

Asset class	Approach	Coverage[1]
Quoted equity	Absolute emissions and carbon footprint metrics were based on the MSCI data which was applied to underlying securities for each of the quoted equity manager portfolios.	Based on MSCI data, coverage ranges between 96-100%.
Private equity	This has been estimated by Aon by applying MSCI equity sector carbon data to the managers sector breakdown as at 31 December 2021.	Based on estimates, coverage is assumed to be 100%.
Alternative equity	Carbon metrics data has been provided by the managers for the majority of the mandates. Regulated utilities mandate carbon footprint was calculated using MSCI data.	Coverage assumed to be 100% for majority of manager mandates. Coverage for regulated utility mandate was 97%.
Credit	Carbon metrics data has been provided by the managers.	Coverage ranges between 83-90%.
Property	Carbon metrics data has been provided by the managers or estimated by Aon when manager data was not available.	Coverage assumed to be 100%.
Hedging assets	Carbon footprint for gilt assets has been estimated based on the 2019 UK public sector emissions and 2021 total government debt. 2019 public emissions were used to avoid data skew in light of the Covid-19 pandemic. 2021 public emissions are not yet available at the time of writing. Emissions associated with public services were used. Excluding private sector emissions allows for avoidance of double counting emissions with the rest of the private holdings in the portfolio. This approach is consistent with **Partnership for Carbon Accounting Financials (PCAF)** 'Government Approach' to calculating greenhouse gas emissions for government securities.	Coverage ranges between 88-100%. Carbon emissions were applied to government securities only, excluding cash and cash equivalent securities.
Insurance, currency hedge, options & cash portfolios	Insurance providers are not asset owners, as such their investment portfolio do not have an associated carbon footprint. Carbon footprint for cash, currency hedge and options securities assumed to be zero. Most are cash dominated and hence do not have explicit carbon emissions associated with them.	n/a

Source of data (as a % of applicable assets)



Note: The large proportion 'calculated' is driven mainly by the significant allocation to hedging assets. Calculation approach is described to the left of the chart.

[1]The overall coverage for the Main Section's applicable investment portfolio is c.90%.

NatWest
Group Pension Fund

Appendix 2

Manager net zero commitment summary

Asset class & Manager	Net zero commitment (on manager level) (year)
Quoted Equity	
Pzena	No commitment
Coronation	No commitment
SGA	2050
Lazard	2050
Private Equity	
Hermes	2050
JPM	2050
Pathway	No commitment
ASI	2050
Alternative Equity	
MFS	2050
Tufton	2050
Vantage	2050
Greencoat	2050
New Forest	2050

Asset class & Manager	Net zero commitment (on manager level) (year)
Total Credit	
M&G	2050
PIMCO	2050
ASI	2050
PGIM	2050
LGIM	2050
Bain Capital	2050
Bybrook	No commitment
Gramercy	No commitment
Axa	2050
Man Group	2050
Vantage	2050
Leadenhall	No commitment

Asset class & Manager	Net zero commitment (on manager level) (year)
Property	
Lothbury	No commitment
ASI	2050
Inspired Villages	2050
LGIM	2050
Principal	2050
Man Group	2050
LaSalle	2050
Hedging Assets	
LGIM	2050

Source: Managers

Appendix 3

Qualitative manager assessment summary

Asset class & Manager	Asset value (£m)	Net zero commitment (on manager level) (year)
Quoted Equity		
Pzena	734	No commitment
Coronation	199	No commitment
SGA	500	2050
Lazard	100	2050
Private Equity		
Hermes	309	2050
JPM	197	2050
Pathway	56	No commitment
ASI	287	2050
Alternative Equity		
MFS	374	2050
Tufton	340	2050
Vantage	773	2050
Greencoat	255	2050
New Forest	355	2050

Asset class & Manager	Asset value (£m)	Net zero commitment (on manager level) (year)
Total Credit		
M&G	1,153	2050
PIMCO	907	2050
ASI	1,008	2050
PGIM	1,139	2050
LGIM Active credit 1 Active credit 2 Special situations (seg) Special situations (pooled) AA credit RBSI credit Secured income	 533 567 326 37 208 118 32	2050
Bain Capital	635	2050
Bybrook	366	No commitment
Gramercy	490	No commitment
Axa	199	2050
Man Group	196	2050
Vantage	1,012	2050
Leadenhall	314	No commitment

Asset class & Manager	Asset value (£m)	Net zero commitment (on manager level) (year)
Property		
Lothbury Fund 1 Fund 2	829	No commitment
ASI	575	2050
Inspired Villages	135	2050
LGIM	22	2050
Principal	125	2050
Man Group	445	2050
La Salle	180	2050
Hedging Assets		
LGIM	29,485	2050
Cash		
LGIM (Cash 1)	-186	Not applicable
LGIM (Cash 2)	4,487	Not applicable

Note: asset values are stated across four sections as at 30/09/2021. Please note the table above includes a summary of manager mandates above £20m only.