# Royal Insurance Group Pension Scheme ("the Scheme")

## Annual Climate Disclosures Report

September 2023

# Contents

# Chair’s Foreword

*Climate change is one of the most pressing issues of our time with it appearing increasingly likely that there will be significant implications if humanity does not address this challenge. The physical effects of climate change, and the policy and technological measures which will be required to mitigate climate-related damage, are likely to have financial consequences for investors. We, on behalf of our members, recognise and seek to address the financial risks posed by climate change, while also recognising our responsibilities towards the world into which our members live and will retire into.*

*In light of this, RIGPS Pension Fund Limited (“the Trustee”) as the trustee of the Royal Insurance Group Pension Scheme (the “Scheme”) believes that climate change risk must be factored into decision-making about how the Scheme’s assets are invested. The Trustee is therefore supportive of the decision by the Department of Work and Pensions (“DWP”) to require schemes with over £1bn of assets under management to report on how they are managing climate-related risks and opportunities consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”). The Trustee is pleased to publish this report for the Scheme’s year ended 31 March 2023; the first such report produced for the Scheme. This report has been prepared to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 using the DWP’s statutory guidance.*

*Towards the end of the year under review, the Trustee purchased a number of bulk annuity policies (“buy-in policies”) which necessitated the disposal of the majority of assets previously held. This fundamental shift in how the Scheme invests means that the extent to which the Trustee is able to directly change and influence the Scheme’s investment policy has reduced. More detail on the buy-in transaction and the implications of this for what is included in this report are outlined in the Introduction on the following page.*

*The Trustee hopes you find this report useful and encourages members to contact us if you have any comments or questions.*

David Smith

**David Smith – Chair of Trustees**

# Introduction

Over recent years the Trustee's focus and principal way of trying to bring about meaningful change has been through engagement with investment managers to ensure that climate change considerations are fully integrated into security selection and their engagement with underlying issuers.

The Scheme's circumstances materially changed In late February 2023, towards the end of the year under review, on the purchase of several bulk annuity policies ("buy-in policies") from Pension Insurance Corporation ("PIC") which, together with a pre-existing longevity swap, are designed to fund all members' defined benefit payments as they fall due.

To purchase the buy-in policies, the majority of Scheme assets were either sold or transferred to PIC as part payment of the buy-in premium. Consequently, only a limited number of pre-existing investments were held in the Scheme at the year end. All of these have now been disposed of, leaving the insurance policies (buy-ins and longevity swap) and residual cash amounts as the only Scheme assets at the point of publishing this report.

The Trustee continues to believe that the actions taken with regard to climate change risk, can have a significant financial impact. It is recognised, however, that this risk is now embedded through the Scheme's buy-in policies, and therefore it is PIC's approach to climate change, and the actions they take, which is of most importance going forward.

For this reason, PIC's approach to ESG and climate change was considered in their selection as the Scheme's buy-in provider.

The long-term nature of the bulk annuity insurance contracts with PIC means that the ability that previously existed to directly control the Trustee's investments to satisfy the Trustee's ESG agenda is diminished. However, as a party to a number of large insurance contracts with PIC, the Trustee will seek to exercise influence on PIC. To inform this, PIC's approach to climate change will form part of the Trustee's monitoring and ongoing assessment of PIC, to the extent this is practical.

This report follows the TCFD framework of reporting, and so is split into the following four sections:

- Governance – which discloses the Trustee's governance structure around climate-related risks and opportunities.
- Strategy – which considered the actual and potential impacts of climate-related risks and opportunities on the Scheme where the information is material.
- Risk management – which discloses how the Trustee identifies, assesses and manages climate-related risk~~;~~ and,
- Metrics and targets – which discloses how the Trustee has sought to measure and monitor progress against climate-related metrics and targets.

In light of the fundamental change in investment arrangements over the last 12 months, some of the analysis and reporting which may otherwise have been included is not relevant. This is commented on in each of the sections as appropriate.

# Section 1

# Governance

## Oversight of climate-related risks and opportunities

The Trustee has responsibility for, and oversight of, the impact of climate risks, and opportunities arising from the transition to a low carbon economy, as they relate to the Scheme. In keeping with this, this report has been approved by the Trustee.

The Trustee's approach to climate change and environmental, social and corporate governance ("ESG") more generally is informed by the Trustee's ESG beliefs. These beliefs and associated policies, which were last reviewed by the Trustee in the first half of 2022, are documented in the Scheme's Statement of Investment Principles which is publicly available via the Scheme's website.

The Trustee considers a number of risks and opportunities when setting the Scheme's investment strategy. In particular, the Trustee believes that ESG issues, including climate change risk, can have a significant financial impact on short, medium- and long-term investment returns. Therefore, the associated risks and opportunities arising from the transition to a low carbon economy and from the physical risks which may result from climate change are a primary consideration when determining how the Scheme's assets should be invested.

The Investment Sub Committee ("ISC"), a sub-group of the Trustee Board, has authority to take some decisions (described further on page 8) in relation to ESG and climate change but matters of greater significance are considered by the Trustee Board. When considering recommendations, the ISC and Trustee Board challenge these where appropriate to ensure that robust thinking supports the recommendations being put forward.

# Section 1

# Governance

Oversight of climate-related risks and opportunities

As outlined in the Introduction, at time of publishing this report, all pre-existing Scheme assets had either been disposed of or transferred to PIC meaning that the focus of ongoing Trustee monitoring will be PIC's management of climate risk.

Although arrangements are now significantly different, as required, this report, and this section in particular outlines how the assets held over the majority of the year under review were managed, and polices in place, rather than focussing on post year-end arrangements.

Whilst employed by the Scheme, investment managers, have been required to evaluate ESG issues (including climate change) in the selection, retention, and realisation of investments. As such, assessment of how effectively investment managers have been identifying ESG risks and opportunities, and integrating these into their investment processes, and into their security selection, has formed a key part of the Trustee's ongoing monitoring of manager performance. This assessment has been undertaken through the regular challenge of managers on their approach to integration, including their engagement activities, and by taking advice from the Scheme's investment advisers. ESG integration has also been a key focus when selecting new managers.

# Section 1

# Governance

## Trustee training in relation to climate-related risks and opportunities

To help inform and improve decision-making, ESG and climate change have formed a key part of the Trustee's training agenda.

Training has principally focussed on ensuring the Trustee is adequately equipped to consider key policy decisions relating to ESG and climate change, as well as understanding the Scheme's regulatory obligations, including TCFD. The following topics are specific examples of training provided over the last 12 months:

**01** Scenario analysis – specifically focussing on commonly used scenarios, assumptions underlying these and appropriate time horizons to adopt.

**02** Metrics – the different metrics which can be used for assessing carbon intensity, how these are calculated and the advantages and limitations of these.

**03** Aligning portfolios with net zero – considering different ways in which a buy & maintain corporate bond portfolio can be aligned with a net zero target.

The Trustee is a member of the Institutional Investor Group on Climate Change ("IIGCC") which helps the Trustee stay informed of the latest thinking and industry best practice in relation to the management of climate-related risks. Members of the Trustee Services Team ("TST"), the in-house team which supports the Trustee, regularly attend sessions hosted by the IIGCC. These sessions enhance, through networking with peers and experts, the knowledge of the TST, and by extension, the Trustee's understanding of issues related to the incorporation of climate change.

Further training sessions for the Trustee will be scheduled as needed as thinking develops in relation to climate risks and opportunities. There may be less need for this given the recent changes described earlier in the report..

# Section 1

# Governance

## Roles & responsibilities in assessing and managing climate-related risks and opportunities

Overall responsibility for the assessment and management of climate-related risks and opportunities arising from the transition to a low carbon economy lies with the Trustee.

**Delegation of the implementation of investment decisions, including those relating to climate change, was given to the ISC over the year under review with certain duties delegated to them as follows:**

- To investigate the Trustee's responsibilities in relation to new and emerging regulations specifically referencing ESG factors (including but not limited to climate change).
- To formulate the Trustee's response to new and emerging regulatory requirements specifically referencing ESG factors (including but not limited to climate change).
- To consider alignment of the Trustee's approach to managing ESG risks and opportunities with that of the Company
- To respond to any queries (for example from members, regulators and/or lobbying groups) in relation to the ESG approach taken by the Trustee.

Climate related matters were over the year under review discussed at most Trustee and ISC meetings.

The Trustee Services Team ("TST") supports the Trustee as a full-time management team by undertaking day-to-day activities, including, but not limited to, engaging with and monitoring managers on behalf of the Trustee and the collation of data as outlined in Sections 2, 3 and 4.

# Section 1

# Governance

## Roles & responsibilities in assessing and managing climate-related risks and opportunities

The Trustee uses a number of advisers to assist with the assessment of climate-related risks and opportunities. In particular:

**Redington** are the Scheme's appointed investment advisor and provide the majority of ESG related advice. This, for example, has included helping the Trustee set their ESG beliefs and policies. As part of their role, Redington have also assessed managers' ESG and climate-related credentials, advising the Trustee accordingly. Such information has been used when reviewing managers and considering new appointments. The quality of this advice, and the ability of the adviser to provide it, is one of the objectives against which the adviser is assessed each year.

**Sackers and DLA Piper** are both appointed as legal advisers to the Scheme. Their primary role with regard to climate change is to assist the Trustee in meeting its legal obligations.

**Andrew Long, employed by WTW,** is appointed as the Scheme Actuary, with WTW providing funding advice and support on governance matters to the Trustee. In this role, WTW help, to the extent relevant, the Trustee in considering the impact of climate-related risks and the impact this has on Scheme funding.

**Penfida** is the Scheme's appointed covenant adviser. As such, Penfida provide the Trustee with a view as to the potential impact of climate-related risks and opportunities on the Company and therefore on their ability to support the Scheme. A formal review of the strength of the Company covenant is provided on a triennial basis, with updates provided annually. Following the buy-in transaction, Penfida also provide the Trustee with a view as to the potential impact of climate-related risks and opportunities on PIC and therefore on their ability to fulfil their obligations under the buy-in policies .

All appointed advisers are subject to periodic, usually at least triennial, performance reviews. These reviews have considered, amongst other things, each firm's ability to assist with and advise on climate risk and related matters. In addition, the Trustee provides a formal three-yearly review of the TST in relation to their role supporting on day-to-day activities for the Trustee, including the work undertaken in preparation for the drafting of this report. The Trustee has also, over the period under review, regularly questioned and challenged the TST on information presented at ISC meetings in relation to day-to-day activities undertaken.

Considerable time and resources have been dedicated to the governance of climate-related risks and opportunities by the Trustee, its advisers and the TST. This is seen as justified in light of the potential financial impact climate-related risks could have on the Scheme.

The climate-related governance framework in place at PIC was considered as part of the due diligence ahead of the buy-in transaction referenced earlier in this report. More detail on this due diligence is outlined in the following section.

# Section 2

# Strategy

## Climate-related risks and opportunities the Scheme is exposed to over the short, medium and long-term

### Climate related risks and opportunities over the short, medium and long term

The Trustee considers climate risk as financially material. In particular, the Trustee believes that the impact of, and potential policy response to, climate change creates significant financial risks to short, medium, and long-term investment returns and so should be a key consideration when making decisions about how the Scheme's assets should be invested. The Trustee has seen short term as a 10-year time horizon, medium term as 11-20 years, and long term as 21-30 years from now although this may be reassessed going forward in light of the recent buy-in transaction.

Climate risk, in the view of the Trustee, can be broken down to cover both **transition** and **physical risks**. The Trustee recognises transition risks as risks relating to the realignment of our economic system towards low-carbon, climate-resilient or carbon-positive solutions. Physical risks are recognised as relating to the impacts of climate change, such as rising temperatures, changing rainfall, flooding risk and extreme weather. Transition risks are viewed by the Trustee as likely to have a greater impact in the short term and could therefore be of greater risk to the Scheme in achieving its objectives. Physical risks are viewed as likely to have a greater impact over longer term horizons.

With regard to stock selection, the Trustee believes companies that do not adjust their business strategies to align with the 2015 Paris Agreement's[2] net-zero greenhouse gas emission goals are likely to face significant downside, and stranded asset risks. The Trustee has expected investment managers to factor this into their decision-making and have been assessed on this accordingly.

# Section 2

# Strategy

## Climate-related risks and opportunities the Scheme is exposed to over the short, medium and long-term

The Trustee believes there may be opportunities to come from the transition to a low-carbon world and that investments with strong alignment to societal purpose (for example reduction in carbon emissions) can improve the overall risk/return characteristics of portfolios.

Having considered how climate-related risks and opportunities may impact on the Scheme, the Trustee has previously decided to target net zero[3] carbon emissions on its investment portfolio by 2050. The intention had been to set shorter-term targets consistent with achieving this longer-term goal, and work was ongoing in this regard before the buy-in policies were entered into; this has now become irrelevant following the buy-in transaction.

PIC's commitments with regard to net zero were, along with its engagement activity, a factor in their selection, with the Trustee wanting to partner with a firm which at least shared its 2050 net zero objective.

PIC's four corporate and portfolio targets which are aligned with a maximum temperature rise of 1.5°C above pre-industrial levels as outlined in the Paris Agreement, are as follows:

- Carbon neutral (Scope 1 and 2 emissions) as a business by 2025
- Net Zero through all emissions by 2050
- Decreasing their investment portfolio's average carbon intensity by 50% by 2030 from a 2019 baseline
- Decreasing the average carbon intensity of investments in publicly listed corporate credit by 25% by 2025 from a 2019 baseline.

More detail on PIC's commitments are set out in PIC's 2022 TCFD report.

# Section 2

# Strategy

## Resilience of the Scheme's funding and investment strategy to climate-related scenarios

The Trustee planned to undertake scenario analysis to assess the potential impact on the Scheme's funding level of different climate scenarios ahead of publishing this report. However, with the Scheme having entered into polices designed to fund all members' defined benefit payments as they fall due, investment and longevity risks have effectively been very significantly or fully mitigated. The Trustee therefore views there to be no benefit in undertaking any scenario analysis.

How PIC manage climate change risk will have an impact on their ability to fulfil their obligations, which is why the ongoing monitoring of PIC, and the actions they are taking with regard to climate change, is seen as an important part of the overall monitoring of PIC's creditworthiness which the Trustee will undertake with advice from Penfida. It is worth noting in this regard that the risks and opportunities would not have an impact on the cashflows received by the Scheme from PIC unless the impact on PIC's covenant is so serious that PIC is unable to pay those cashflows.

With the PIC transaction only happening shortly before the year end work is ongoing to agree exactly how PIC's climate change activity will be monitored going forward, but will be focussed on the following areas:

- Firm wide – to include what commitments have been made at a firm level (e.g. to net zero) and progress against these
- Portfolio – considering how PIC factor climate change into their decision-making
- Climate risk – to include tracking the exposure to climate-related risks in the portfolio and actions being taken to mitigate these
- Stewardship – considering PIC's engagement approach and how this is evolving over time

These areas will be reviewed through a combination of reviewing publicly available reporting (e.g. PIC's TCFD reporting) and through discussions with management as part of the Trustee's wider review of PIC.

# Section 2

# Strategy

## Approach to stewardship

To date, the principal way the Trustee viewed that it can bring about meaningful change was through engagement with investment managers to ensure that climate change considerations were being fully integrated into their engagement with company management.

In future, the Trustee will need to rely on the engagement being undertaken by PIC to bring about change. With this being the case, reviewing PIC's approach to stewardship formed a part of the due diligence undertaken by the Trustee prior to entering into the recent buy-in policies.

The Trustee is supportive of work PIC are doing to increase engagement across their portfolio by communicating their expectations to external managers and focusing on specific ESG issues, including climate related risks. This is an area the Trustee will continue to monitor, and will look to influence the pace and focus of PIC's engagement if this is deemed appropriate. Further details of progress made by PIC on engagement and what plans they have over coming periods are included in their 2022 TCFD report.

In this regard, it is noted that PIC are a signatory to the UK Stewardship Code, following a successful 2023 application covering their 2022 stewardship activities.

In relation to the equity allocations held over the period under review, the Trustee delegated voting to its appointed investment managers and expects the managers to vote consistently with the Trustee's fiduciary responsibility. Voting activity for the year to 31 March 2022 is recorded publicly within the Scheme's Implementation Statement which is produced annually and published within the Trustee's Report and Accounts.

Recognising that engagement is often more effective when asset owners work together, the Scheme is a member of the IIGCC. This is consistent with the Trustee's view that the investment community has the ability to drive significant and real progress towards a net zero and resilient future to the benefit of all investors generally.

# Section 2

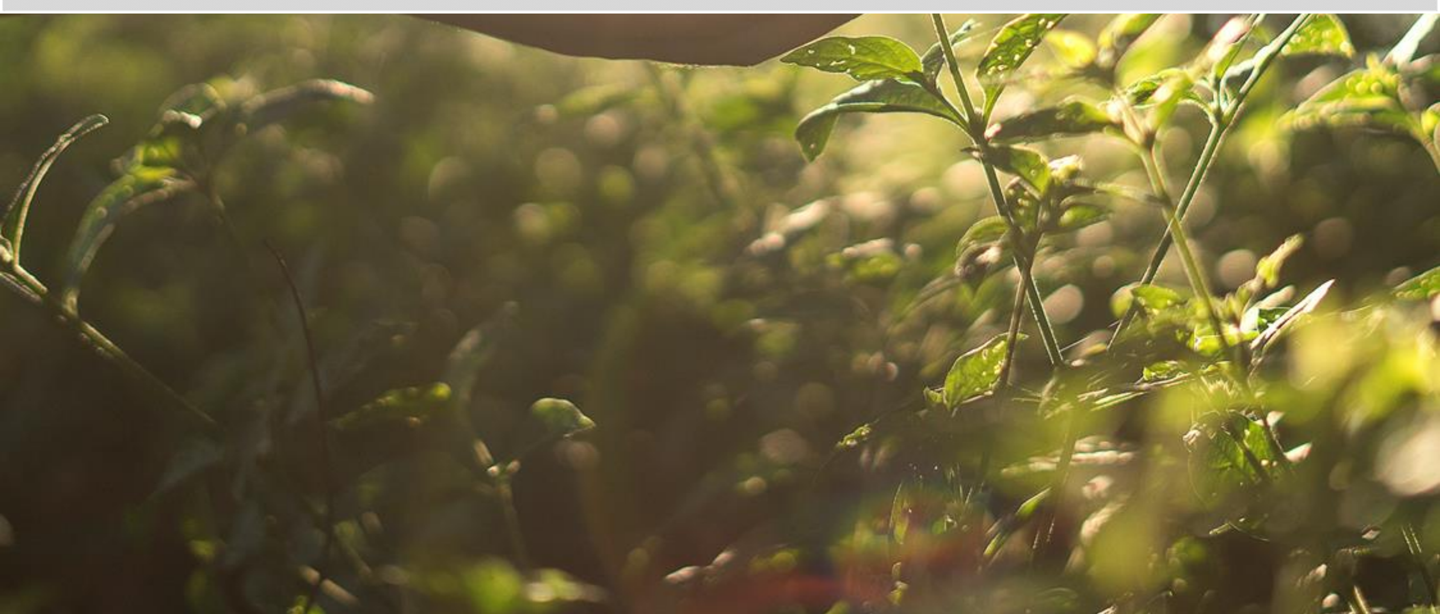
## Strategy

Considerations relating to the employer covenant

Although the Scheme is now less reliant on Company support, the Trustee continues to consider the impact of climate change on the Company covenant. This is formally considered as part of the covenant review, undertaken triennially in conjunction with the actuarial valuation, with this being supplemented annually.

The Company outlines their risk management approach, including climate-related risks, as part of the annual update given to the Trustee Board. They have also recently published their 2022 Social Impact and ESG report which amongst other things sets out their commitment to be net zero across the business by 2050.

In addition, the TST meets regularly with Company representatives to discuss the Company's progress in relation to incorporating climate-related risks, and in particular their progress in relation to targeting net zero by 2050. Any outcomes from these discussions are fed back to the ISC and Trustee Board.



Section 3

# Risk Management

## Processes for identifying and assessing climate-related risks

The Trustee maintains a risk register which identifies risks that have the potential to impact on the Scheme's ability to achieve its objectives, states the steps taken to mitigate and effectively manage each risk, and identifies further actions to take. Climate-related risk, which considers both the transition and physical impacts, is separately identified as one of the risks.

The risk register, or at least the risks categorised as principally being investment-related, of which climate change risk is one, are overseen by the ISC and reviewed by the Trustee Board annually.

Before the buy in with PIC, the Trustee (through the ISC) was developing further the processes and tools to be used to identify, assess and manage climate-related risks in the context of the Scheme's then investment strategy. However, since the buy in the focus has turned to monitoring and engaging with PIC as outlined earlier in this report.

Section 4

# Metrics and targets

Metrics used by the Trustee to assess climate-related risks and opportunities in line with its strategy and risk management process

**Following training and debate on the relative merits of various metrics which could be measured and tracked, the Trustee selected the following four metrics with these being chosen ahead of the buy-in transaction.**

| | |
|---|---|
| **Total Emissions Metric** | **Total Emissions**<br><br>Absolute carbon emissions normalised by enterprise value – scope 1 & 2 and 3 where available |
| **Emissions Intensity Metric** | **Carbon footprint**<br><br>Assessed by taking the carbon emissions above and dividing through by the market value of the asset portfolio that have financed the emissions |
| **Portfolio Alignment Metric** | **Percentage of the portfolio that has aligned to carbon neutrality**<br><br>Categorised, on a best endeavours basis, using the four alignment criteria provided by the IIGCC as follows:<br>• Achieving net zero<br>• Aligned to net zero<br>• Aligning<br>• Not aligned/transitioning |
| **Non-Emissions Based Metric** | **Data coverage**<br><br>The percentage of each portfolio for which scope 1 and 2 emissions data is available. |

# Section 4

# Metrics and Targets

## Greenhouse emissions and the related risks

For the purposes of reporting, data was requested from investment managers as at 31 March 2023. With this date being after the buy-in transaction, the only asset, asides from the insurance policies and cash, held at this date was a holding in a pooled long lease property fund (value c.£45m representing c.2% of total Scheme assets). No holdings of equities or bonds were retained at this date with the PIC buy-in policies – commented on further on the next page - making up the majority of Scheme assets.

**Emissions metrics**

All emissions from the property fund holdings are under the control of the occupying tenants and as such are classified as scope 3. It is understood that the fund manager is seeking to quantify scope 3 emissions for the year ending 31 December 2022 but this data wasn't available at time of publishing.

**Portfolio alignment**

It has not possible to obtain the necessary data to determine the proportion of the property portfolio that has aligned to carbon neutrality in the way set out on page 15. We do note, however, that the manager is taking active steps to engage with tenants with regard to ESG initiatives and are encouraged by the fact that over 85% of tenants have a publicly stated target of reaching Net Zero by 2050 or earlier.

**Data availability**

As the property holding remaining at the year end does not have any scope 1 and 2 emissions this metric is not applicable.

# Metrics and targets

## Greenhouse emissions and the related risks (cont'd)/
## Metrics and targets used by the Trustee to assess climate-related risks

**PIC emissions**

With the majority of the Scheme assets being invested in insurance policies written by PIC, it feels appropriate to report a proportion of the emissions disclosed by PIC which could reasonably be attributed to the Scheme; this despite the fact the Trustee has no control over how these assets are invested.

Based on the size of the buy-in policies (as reported in the Scheme's year end accounts) and PIC's reported portfolio valuation as at the 31 December 2022, it is estimated that 182,000 $tCO_2$ and 325,000 $tCO_2$ of scope 1 and 2 and scope 3 emissions respectively are attributable to the buy-in policies and therefore the Scheme. We note that the emissions quoted by PIC are in respect of 61% and 27% of their portfolio for scope 1 and 2 and scope 3 respectively.

**Targets**

With there only being insurance policies and cash held at the point that this report is being published and, as described earlier, the Trustee therefore having no direct control over how the assets backing the insurance policies are invested, there seems little merit in setting targets relating to any of the metrics.

The Trustee will continue to monitor how PIC are performing against their objectives and in particular against their aim to decrease average carbon intensity of investment in publicly listed corporate credit by 25% by 2025 from a 2019 baseline.

# Footnotes

[1] The sponsoring employer for the Royal Insurance Group Pension Scheme is RSA Insurance Group Ltd, who are a wholly owned subsidiary of Intact Financial Corporation who provide a parental guarantee.  The sponsoring employer is referred to as the Company throughout this report. Any consideration of Company covenant refers to both RSA Insurance Group Ltd. and Intact Financial Corporation.

[2] The 2015 Paris Agreement is a legally binding international treaty on climate change, with a goal to limit global warming to well below 2°C, but preferably to 1.5°C compared to pre-industrial levels.

[3] ‘Net zero’ in the context of an investment portfolio means that the absolute amount of greenhouse gas emissions financed by the portfolio is less than or equal to the emissions the portfolio removes from the environment.