

CLIMATE-RELATED DISCLOSURE REPORT

Citi (UK) Pension Plan (the Plan)

A report for members by the Trustee of the Plan

INTRODUCTION

Overview

This Climate Report has been prepared by the Trustee of the Plan to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Climate Regulations).

The Climate Regulations introduced requirements relating to the Trustee's governance and disclosure of climate-related risks and opportunities and are based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The TCFD was set up in 2015 by the Financial Stability Board (an international body promoting financial stability) to improve climate-related financial disclosures.

This Climate Report explains how the Trustee has established and maintained oversight and processes to satisfy itself that the Plan's relevant climate-related risks and opportunities are identified, assessed and managed appropriately during the Plan Year¹.

A short summary of the Climate Report is included below to help members to understand the key findings. A more detailed report then follows, split into four sections:

Section 1: Governance – The Trustee's governance around climate-related risks and opportunities

Section 2: Strategy and scenario analysis - The actual and potential impacts of climate-related risks and opportunities on the Trustee's investment strategy

Section 3: Risk Management - The processes used by the Trustee to identify, assess and manage climate-related risks in relation to the Plan

Section 4: Metrics and Targets - The metrics and targets used to assess and manage relevant climate-related risks and opportunities

These sections address the specific disclosure requirements in the Climate Regulations and have regard to the Statutory Guidance. This Climate Report has also been prepared with regard to TPR's guidance on the governance and reporting of climate-related risks and opportunities.

¹ The Climate Regulations only applied to the Plan with effect on and from 1 October 2022 so apply to the period 1 October 2022-5 April 2023, however the Climate Regulations permit certain actions to have been carried out earlier in the Scheme Year prior to 1 October 2022.

Application of the Climate Regulations and Statutory Guidance to the Plan

The Plan is a defined contribution scheme. As at 5 April 2022 (the end of the last Plan year), the Plan had £1,596m in assets. The Plan's assets are invested in a range of lifestyle strategies and self-select funds held on a platform via a unit linked insurance policy.

The requirements relating to strategy and scenario analysis and metrics relate to each "popular arrangement" offered by a scheme. A popular arrangement is considered to be one in which £100m or more of the scheme's DC assets are invested, or which accounts for 10% or more of the DC assets used to provide money purchase benefits (excluding assets which are solely attributable to additional voluntary contributions). For these purposes the main default arrangement in the Plan – the Drawdown Lifestyle strategy – is considered its only popular arrangement for these purposes.

This is the first Climate Report published by the Trustee of Plan. We hope you find it informative and would welcome any feedback.

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This Climate Report is being published alongside the Plan's annual report and accounts for the Plan Year and is available online here:

<https://epa.towerswatson.com/static/CIT/docs/citi-uk-pension-plan-tcfd-report---.pdf>

SUMMARY

The Trustee believes that climate change may represent a material financial risk to the Plan's investments.

Governance

The Trustee has established appropriate internal controls and processes to ensure adequate oversight of climate-related risks and opportunities. These include:

- Establishing a climate working group at the beginning of the Plan Year to serve as a focus group in relation to the detail of the Climate Regulations and Statutory Guidance and the wider consideration of climate-related risks and opportunities in relation to the Plan.
- Receiving in-depth training at the beginning of the Plan Year from the Plan's legal advisers and investment advisers on the Climate Regulations and Statutory Guidance.
- Ensuring the Plan's investment advisers can demonstrate adequate climate-related expertise and consider climate-related risks and opportunities as part of their advice to the Trustee through ensuring environmental, social and governance (ESG) is incorporated into their objectives on which they are annually assessed.
- Ensuring investment managers have appropriate skills and processes to take account of climate change risks and opportunities through the Plan's investment advisers incorporating their assessment of the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement in their advice on the selection and ongoing review of the investment managers.
- Ensuring the Plan's investment managers are fully aware of the Trustee's stewardship priorities, one of which is climate change.

Metrics and targets

The Trustee has selected the following 4 climate change metrics, which it calculated during the Plan Year:

Metric	Selected
Absolute emissions	Total Greenhouse Gas (GHG) emissions of Plan assets.
Emissions intensity	Carbon footprint, (this shows the total GHG emissions per unit of currency invested by the Plan).
Portfolio alignment	% of portfolio with Science-Based Targets (SBT) (this shows the proportion of companies within the portfolio for which the company's voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway).
Additional metric	Data coverage (calculating the % of the portfolio for which data is available). The Trustee believes this metric provides a useful "confidence indicator" in the accuracy of data available and is a useful tool in its efforts to manage climate risk by providing a basis for investors to encourage improvements in the quality of climate-related reporting that is available.

The Trustee has decided to set targets for the data coverage metric and portfolio alignment metric based on SBT. As this is the first year the Trustee has been required to calculate climate metrics the base year for these targets is the metrics data set out in this Climate Report. An update on performance against these targets will be provided next year and for each subsequent year of reporting.

Conclusions from the assessment of climate-related risks and opportunities, metrics calculations and scenario analysis

The Trustee has considered the type of climate-related risks the Plan could be exposed to (i.e. "physical" and "transition" risks over short-, medium- and long-term time horizons) and what climate change opportunities may look like. Physical risks relate to the physical impacts of climate change and transition risks are the risks of transitioning to a lower-carbon economy, which may entail extensive policy, legal, technology and market changes. Climate-related

opportunities are actions that the Trustee could take to better position the Plan's investment strategy to take advantage of the potential upside related to the climate transition, such as the emergence of new investment opportunities and ways to mitigate some of the climate-related risks (e.g. investment in low carbon transition funds).

The Trustee has identified and assessed the key risks and opportunities through a number of tools including risk registers, climate-related risks and opportunities dashboards and analysis of the climate metrics and scenario analysis undertaken during the Plan Year.

The Trustee wishes to note that poor data coverage reduces the Trustee's ability to assess climate-related risk and is an area the Trustee will continue to seek improvements in data coverage from its investment managers.

The Trustee has considered the resilience of the Plan's investment strategy taking into account three different climate related scenarios.

Climate-related risks are driven mainly by the equity allocation used in the Plan's 'popular arrangement' – the Drawdown Lifestyle strategy. This is a significant risk, as the blended funds used in the Default Drawdown Lifestyle (the Growth Fund and Pre-Retirement Fund) use a high proportion of equity-based assets.

Given the age profile of the Plan (median age of 41, with a range of members between 19 and 82), the Trustee believes climate change transition risks to be significant to the Plan, particularly for older members, but younger members may be exposed to the impact of physical risks on financial markets, which would be most severe if Net Zero is not reached by 2050.

Older members (e.g. those around 5 years from retirement) will be most exposed to climate transition risks, in particular if Net Zero is achieved by 2050 but financial markets are slower to react, and then react abruptly, such that they could see the value of their DC pot fall significantly and potentially impact their retirement plans. Members more than 5 years away from retirement will also be exposed to volatility related to heightened transition risks over the medium-term.

Deferred members of the Plan are more at risk from the impact of climate change on financial markets than active members. This is relevant to the Plan as c.49% of members in the Plan are deferred.

Management of climate change risks

The Trustee decided in March 2023 to replace the regional passive equity funds used in the Drawdown Lifestyle strategy with climate-tilted alternatives as these funds benefit from a clear decarbonisation pathway that decreases exposure to stocks exposed to climate transition risk and increases exposure to those with green revenues. This change will be further communicated to members and implemented over 2023.

Stewardship is also used as a risk management tool. The Trustee has delegated to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes. The Trustee has selected climate change as one of its stewardship priorities. The Trustee has agreed that it will engage with investment managers to ensure they are exercising stewardship in support of alignment with Paris Agreement goals and discuss its targets with them.

Signed: **REDACTED**

Chair of the Trustee

Date: 05/10/2023

SECTION 1: GOVERNANCE

This section describes the internal processes and controls that are in place to ensure adequate oversight of climate-related risks and opportunities. This includes the Trustee's approach to knowledge and understanding and the roles and responsibilities of the parties involved.

1. The Trustee's role

Investment beliefs on climate change

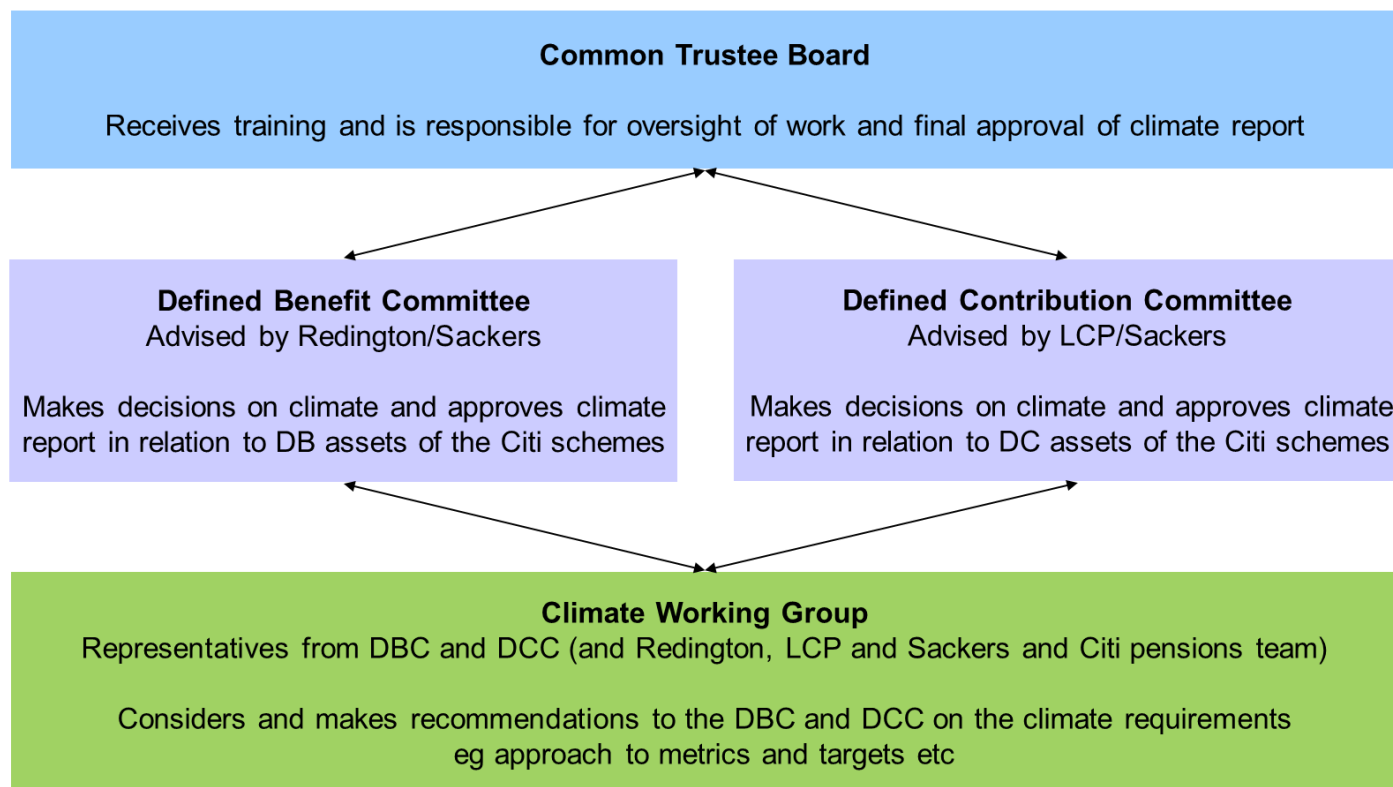
As stated in its Statement of Investment Principles, the Trustee believes that:

"Environmental, social and corporate governance (ESG) factors are sources of risk to the Plan's investments, some of which could be financially material, over both the short and longer term. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. The Trustee seeks investment options that address these risks and to appoint investment managers who will manage these risks appropriately on their behalf where permissible within applicable guidelines and restrictions...."

... The Trustee does not take into account any non-financial matters (ie matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments. However, the Trustee recognises that some members may wish to invest specifically in ethical or Shariah compliant funds and offers members appropriate funds to achieve this."

Climate governance structure

The diagram below sets out the internal governance structure for climate-related work that was agreed by the Trustee at the beginning of 2022 and has operated throughout the Plan Year. This governance structure applies to all of Citi's occupational pension arrangements governed by the Trustee, some of which provide DB benefits. However for the purposes of the Plan, the Defined Benefit Committee (DBC) and the DB advisers (noted below) are of no relevance.



Role of the Climate Working Group (CWG)

Given this was the first Plan Year in which the Climate Regulations applied, at the beginning of 2022, the Trustee decided it would be beneficial to form the CWG, comprising members of the DBC and DCC, to serve as a focus group in relation to the detail of the Climate Regulations and Statutory Guidance and the wider consideration of climate-related risks and opportunities in relation to the Plan.

It was agreed that the CWG should meet four times during the course of the Plan Year. At each of those meetings, the CWG received input and guidance from the Plan's DB and DC investment advisers and legal advisers (and, where required, actuarial advisers) on the Climate Regulations and Statutory Guidance, the consideration of climate-related risks and opportunities and the actions/decisions required from the Trustee in relation to these.

Topics and documentation considered at those meetings relevant to the Plan included:

- ✓ Updates to the Plan's risk registers
- ✓ The choice of metrics and targets and scenarios
- ✓ Analysis of the metrics calculations and the impact on climate-related risks and opportunities
- ✓ The output and conclusions of the scenario analysis
- ✓ A climate-related risks and opportunities dashboard
- ✓ Recommendations for how to manage climate-related risks
- ✓ A review of the responsible investment ratings for the Plan's investment managers

The CWG fully interrogated the information and advice provided by the Plan's advisers.

Under its terms of reference the CWG does not have decision-making powers but makes recommendations to the Defined Contribution Committee (DCC).

Role of the Defined Contribution Committee

The DCC is responsible, for making any decisions required around climate-related risks and opportunities in relation to the Plan and approving the Climate Report.

The DCC received an update (with recommendations where relevant) from the CWG at each quarterly meeting during the Plan Year (comprising a summary note of the latest CWG meeting, a recommendations sheet with relevant accompanying material and a high level quarterly status report) and made decisions (where required) at those quarterly meetings. Decisions included the choice of metrics, targets and scenarios and what, if any, action or further consideration should be given to mitigate the Plan's exposure to climate-related risks.

The DCC sought input from and interrogated and challenged the advice from its investment advisers and legal advisers at the relevant meetings before making these decisions.

Role of the Combined Trustee Board (CTB)

The CTB is responsible for oversight of the climate work and has ultimate responsibility for compliance with the Climate Regulations and Statutory Guidance. It has responsibility for final approval of the Climate Report. It received training on the new requirements at the beginning of 2022 (see below) and received regular updates from the DCC through the Plan Year.

Trustee training and knowledge

Given the importance and complexity of the topic, it was decided that in-depth training was to be provided to the full Trustee Board by the Plan's legal advisers and investment advisers on the Climate Regulations and Statutory Guidance, focusing in particular on metrics and targets and scenario analysis. This took place on 20 January 2022. The CWG also

received more in depth training on each of the aspects of the new requirements at its meetings during the Plan Year. As this is a fast moving area, the Trustee recognises that ongoing training is essential and the Trustee will continue to assess skills gaps and undertake training accordingly.

2. Other parties' and advisors' roles

The Trustee operates a governance model whereby it relies on advice for specific activities from professional advisors and it also relies on an in-house executive team for support. This includes in relation to the consideration of climate-related risks and opportunities. It also delegates responsibility for day-to-day decisions on investment management (including in relation to ESG and climate change) to its investment managers.

In-house pensions team

The secretary to the Plan (and other relevant individuals working within the Citi in-house pensions team where appropriate) attend all CWG, DBC and DCC and CTB meetings.

The secretary's role is to act as a point of continuity on climate change between the CWG, DBC and DCC and CTB, to aid the discussions around climate-related risks and opportunities (as appropriate), ensure adequate time and resources are being spent on relevant climate-related activities and that decisions were being taken by the relevant sub-committees at the correct points in time during the Plan Year. The Plan secretary does not make any decisions related to climate-related risks and opportunities.

Investment advisers

LCP are appointed as the Plan's investment consultant including to advise on climate-related risks and opportunities in respect of the Plan. This advice was provided through the CWG and the DCC during the Plan Year specifically in relation to (i) the selection, calculation and analysis for the purposes of climate-related risks and opportunities of metrics and targets (ii) scenario analysis and recommendations from this and (iii) the assessment of investment managers approaches to ESG and climate change.

Investment managers

The Trustee has delegated responsibility for the selection, retention and realisation of investments within all investment funds to the underlying investment managers (within certain guidelines and restrictions).

The Trustee expects its investment managers to take account of financially material considerations (including climate change and other ESG considerations) where permissible within the applicable guidelines and restrictions.

3. Trustee oversight

In house team

The Trustee ensured that the Plan secretary and other relevant members of the in-house team attended the training session on the Climate Regulations and Statutory Guidance on 20 January 2022 to ensure they

had the same understanding of the new climate change requirements as the Trustee board.

Advisers

It is the Trustee's policy to ensure their investment advisers can demonstrate adequate climate-related expertise and consider climate-related risks and opportunities as part of their advice to the Trustee.

The DCC, as part of its annual strategic investment consultant objectives has set the Plan's investment adviser (LCP) an objective to "help the DCC implement an investment strategy that integrates its policy on ESG (including climate change) and stewardship".

LCP are members of a number of bodies such as the Institutional Investors Group on Climate Change, Investment Consultants Sustainability Working Group, Net Zero Investment Consultant Initiative and Pensions for Purpose.

LCP's competence and expertise on climate-change is demonstrated through the fact they are signatories to the UK Stewardship Code, the provision of training to the Trustee on this topic and on an ongoing basis through the provision of timely, relevant, and accurate advice on the subject at quarterly CWG and DCC meetings.

Investment managers

The Trustee seeks to appoint managers that have appropriate skills and processes to take account of ESG (including climate change) risks and opportunities.

As part of their advice on the selection and ongoing review of the investment managers, the Plan's investment advisers incorporate into their assessment the nature and effectiveness of managers' approaches to financially material considerations (including climate change and other ESG considerations), voting and engagement.

The Trustee (via the DCC) reviews LCP's RI scores for the Plan's existing investment managers and funds on a quarterly basis as part of the performance monitoring report. These scores cover the investment manager's approach to ESG factors, voting and engagement. Commentary is provided for any funds with lower RI scores so that the Trustee can monitor any steps being taken by the investment manager to improve these scores over time. In addition, an explanation is provided for any fund RI scores that change over the quarter. The fund scores and assessments are based on LCP's ongoing manager research programme, and it is these that directly affect LCP's investment manager and fund recommendations.

As part of all investment strategy changes, LCP also reviews the RI credentials of any fund recommendations that are made to the Trustee. Fund RI credentials also feed into the ongoing monitoring of the suitability of funds used by the Plan.

At its Q4 2022 meeting, the CWG considered LCP's latest analysis of the approaches to responsible investment of the investment managers used in the Drawdown Lifestyle strategy, including a summary of each manager's and each fund's RI rating. This analysis included an assessment of the respective investment managers' approaches to climate change issues.

Section 2: Strategy and scenario analysis

This section describes the climate-related risks and opportunities the Trustee has identified over the short, medium and long-term.

There are two types of climate risk – **physical risk** and **transition risk**.

- **Physical risks** relate to the physical impacts of climate change (e.g. a rise in sea levels could result in flooding and mass migration).
- **Transition risks** are the risks of transitioning to a lower-carbon economy which may entail extensive policy, legal, technology and market changes (e.g. changes in industry regulation, consumer preferences and technology will take place and impact on current and future investments).

Climate-related opportunities are actions that the Trustee could take to better position the Plan's investment strategy to take advantage of the potential upside related to the climate transition, such as the emergence of new investment opportunities (e.g. new sectors, technologies, etc.). This may ultimately have a positive impact for members' investments.

1. Identification and assessment of climate-related risks and opportunities relevant to the Plan

Trustees are required to decide the short, medium and long term time horizons that are relevant to their scheme. It is up to trustees how they determine their time horizons for the purpose of identifying and assessing climate-related risks and opportunities. Time horizons should be scheme-specific.

The Statutory Guidance recommends that trustees should take account of the following considerations when setting time horizons:

In a DC scheme or a DC section of a scheme, the likely time horizon over which current members' monies will be invested to and through retirement. This may be the longest time horizon they will need to consider.

The Trustee of the Plan has taken these considerations into account in the course of its discussions on the appropriate time horizons for the Plan. In setting the time horizons, the Trustee has taken account of the membership profile of the Plan and the timing of widely held future climate milestones. The Trustee has also had regard to TPR's guidance when considering which time horizons are appropriate for the Plan.

These time horizons informed the Trustee's climate-related considerations and decisions during the Plan Year.

What time periods has the Trustee defined as short term, medium term and long term time horizons relevant to the Plan?

The Trustee has defined the time horizons set out in the table below for the Plan.

Term	Time period	Rationale
Short	5 years	Major improvements in climate data quality are expected over this period
Medium	10 years	Key period over which policy action will determine if Paris Agreement goals are met
Long	30 years	To reflect the open nature of the Plan and its relatively young demographic and the fact that many economies are targeting Net Zero by 2050

The Trustee will review the designated time periods periodically and following any material change to the Plan's membership.

What climate-related risks and opportunities relevant to the Plan has the Trustee identified?

The Trustee has identified and assessed the risks and opportunities to the Plan over the short, medium, and long term time horizons identified by the Trustee. At a high-level, the risks and opportunities identified are set out in the table below.

These risks and opportunities are considered further in the rest of this Climate Report.

Time Period	Key risks	Key opportunities
Short term	Older members will be most exposed to transition risks, in particular under a Paris disorderly pathway, whereby a material market repricing event could see the value of their DC pot fall significantly and potentially impact their retirement plans.	Over the short term, the various regulatory requirements highlight the huge opportunity for innovation to drive down carbon use across many industries through the creation and use of new technology.
Medium term	Transition risks may still be heightened over the medium-term creating volatility. Market returns may be lower if disorderly transition harms economic performance.	Over the medium term, new low carbon industries may emerge which the Trustee could take advantage of. This may require longer term funding to scale up to meet the low carbon transition goals.
Long term	Physical risks are most severe in the Failed Transition pathway, impacting younger members (e.g. those 20 years or more from retirement).	Over the long-term, most companies should be net zero or even carbon negative if Paris goals are to be met. Opportunities will lie with those companies that position themselves before others to benefit from this transition.

How are these risks and opportunities expected to impact the Plan's investment strategy?

The potential impact of climate-related risks and opportunities on the Plan's investment strategy was explored by the CWG and the DCC in-depth through their consideration of climate scenario analysis (see section 2 below) and climate-related metrics (see section 4 below).

Climate scenario analysis of the potential effects on member outcomes showed that different groups within the Plan's membership are likely to be exposed to the impact of different types of climate risk on financial markets (e.g. transition risk, physical risk). Analysis of climate-related metrics during the Plan Year demonstrated that the Plan's equity allocation (taken in its entirety) is the most exposed of any asset class in the 'popular arrangement' to climate-related risks.

As a result, the primary opportunity for the Plan is to replace the existing passive regional equity funds in the 'popular arrangement' – the Drawdown Lifestyle - with low carbon equivalents. Embracing this opportunity would also help to mitigate the climate-related risks to members of the current arrangement.

The DCC also receives regular updates on its investment adviser's view of the ESG credentials of its investment managers, including any material changes to those credentials that could have an impact on the performance of the default arrangements and self-select arrangements available to members of the Plan. This enables the DCC to assess the impact of ESG risks and opportunities on the Plan's investment arrangements, including those related to climate, on an ongoing basis.

2. Climate scenario analysis

This section describes the resilience of the Plan's investment strategy taking into account different climate-related scenarios (including one scenario where there is an increase in the global average temperature between 1.5 degrees Celsius to 2 degrees Celsius above pre-industrial levels in line with the Paris Agreement goals) and the potential impacts on the Plan that these scenarios have identified.

The Trustee will carry out scenario analysis at least every three years and following any material changes to the Plan's popular arrangements. The Trustee's approach to scenario analysis remains under review, as best practice continues to develop in this area.

Climate Scenarios Considered

The Trustee carried out climate scenario analysis for the Plan in November 2022 with the support of its investment adviser, LCP. The analysis looked at three possible scenarios, which are set out in the table below.

Transition	Description	Why the Trustee chose it
Failed Transition	Global Net Zero not reached; only existing climate policies are implemented.	To explore what could happen to the Plan's finances if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.
Orderly Net Zero by 2050	Global Net Zero CO2 emissions is achieved by 2050; rapid and effective climate action (including using carbon capture and storage), with smooth market reaction.	To see how the Plan's finances could play out if the Paris Agreement goals are achieved, meaning that the economy makes a material shift towards low carbon by 2030.
Disorderly Net Zero by 2050	Same policy, climate and emissions outcomes as the Orderly Net Zero by 2050, but financial markets are slower to react, and then react abruptly.	To look at the risks and opportunities for the Plan if the Paris Agreement goals are met, but financial markets are volatile as they adjust to a low carbon economy.

Modelling Approach and Limitations

The scenario analysis is based on a model developed by OrtecFinance and Cambridge Econometrics. The outputs were then applied to the Plan's assets by LCP.

- ❖ The three climate scenarios are projected year by year, over a 40-year period. The results are intended to help the Trustee to consider how resilient the popular arrangement is to climate-related risks.
- ❖ The three climate scenarios chosen are intended to be plausible, not “worst case”. They are only three scenarios out of countless others that could
- ❖ be considered by the Trustee.
- ❖ Other scenarios could give better or worse outcomes for Plan members.

The climate scenarios used by the Trustee are subject to limitations. As the model uses a “top-down” approach, investment market impacts were modelled as the average projected impacts for each asset class. This contrasts with a “bottom up” approach that would model the impact on each individual investment held by the popular arrangement. As such, the modelling does not require extensive scheme-specific data and so the Trustee was able to consider the potential impacts of the three climate scenarios for all the Plan's assets in the popular arrangement.

However, in practice, the Plan's investments may not experience climate impacts in line with the market average. Like most modelling of this type, the model does not allow for all potential climate-related impacts and, therefore, is quite likely to underestimate some climate-related risks. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

Although the Trustee acknowledges that many alternative plausible scenarios exist, it found these to be a helpful set of scenarios to explore how climate change might affect the Plan in future. To provide further insight, the Trustee also compared the outputs under each scenario to a “climate uninformed base case”, which makes no allowance for either changing physical or transition risks in future.

These scenarios show that equity markets could be significantly impacted by climate change with lesser but still noticeable impacts in bond markets. All three scenarios envisage, on average, lower investment returns and these result in lower retirement outcomes for members. The key features of each of the climate scenarios considered are summarised in Appendix 4.

Member Demographics Considered

The scenario analysis looked at the retirement outcomes (in terms of the size of retirement pots) for individual members of different ages who are invested in the Drawdown Lifestyle strategy, the Plan's only 'popular arrangement'. Scenarios were not considered for other lifestyle arrangements (i.e. the Annuity Lifestyle and Cash Lifestyle) or for the Plan's self-select funds.

For the Drawdown Lifestyle strategy, the Trustee chose to carry out scenario analysis for a representative sample of the Plan's membership invested in these arrangements. This meant that the analysis assessed the potential outcomes under different scenarios for members aged 25, 35, 45, and 55 at the time of the analysis for the Drawdown Lifestyle. A target retirement age of 60 was assumed, in line with the default target retirement age for the Plan.

It also meant that scenarios were considered for active and deferred members of the Drawdown Lifestyle. A large proportion of members in the Plan are deferred (c. 49%) and, as a result, scenario analysis in respect of deferred members is an important consideration for the Plan.

Scenario Analysis Results

The analysis highlighted that Plan members will be subject to climate-related risks to varying degrees. In addition to the impact over time on members' pots, the Trustee notes that market shocks for members near retirement can be particularly detrimental to their retirement planning and outcomes.

For Plan members invested in the Drawdown Lifestyle, the key results of the analysis are as follows:

- In the **short term**, older members who may retire within the next 5 years, active and deferred members could see the most significant decrease in their benefits under a Paris Disorderly Transition, particularly as their savings remain invested in return-seeking assets to some degree all the way to retirement, although the proportion decreases over time which helps to mitigate this risk
- In the **medium term**, members with 10 or more years until they retire, active and deferred members are likely to see a significant impact on their retirement funds, initially from a Paris Disorderly Transition or, later on, under a Failed Transition scenario as the impacts of physical climate change affect their benefits during their period to retirement
- In the **long term**, younger members (active and deferred) could see the biggest detrimental impact to their benefits under a Failed Transition scenario as increasingly severe physical impacts emerge over time.

The tables below show the results of the climate scenario analysis for active and deferred members invested in the Drawdown Lifestyle Strategy in full.

Active members (Drawdown Lifestyle Strategy):

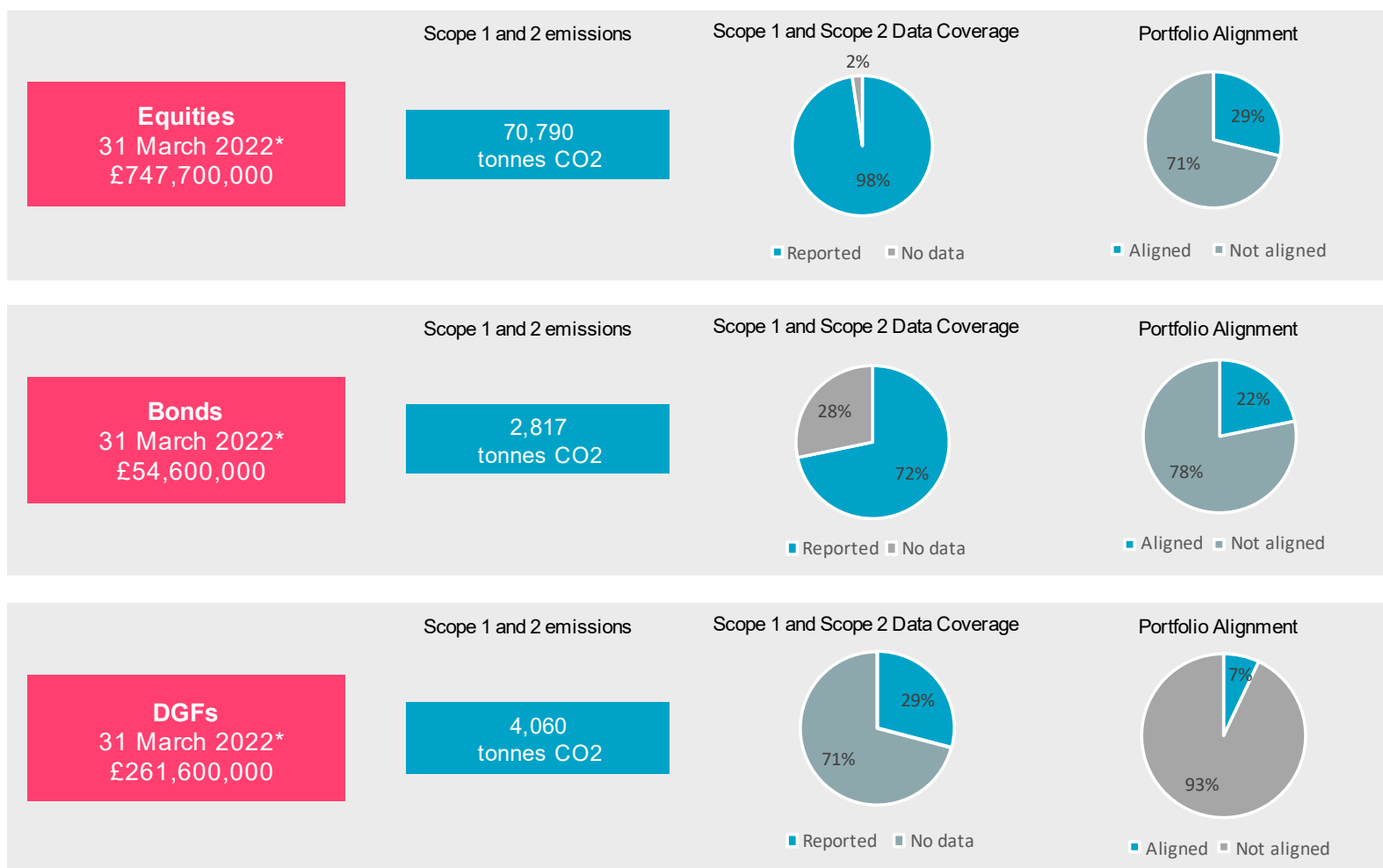
	Member aged 25	Member aged 35	Member aged 45	Member aged 55
Starting pot	£5,400	£30,100	£96,700	£120,600
<i>Change relative to climate-uninformed outcome in brackets</i>				
Climate-uninformed outcome	£624,500	£642,600	£504,900	£215,400
Orderly Net Zero by 2050 outcome	£587,500 (-6%)	£616,400 (-4%)	£488,500 (-3%)	£211,700 (-2%)
Disorderly Net Zero by 2050 outcome	£578,200 (-7%)	£599,800 (-7%)	£465,000 (-8%)	£205,100 (-5%)
Failed Transition outcome	£480,100 (-23%)	£508,300 (-21%)	£469,400 (-7%)	£213,600 (-1%)

Deferred members (Drawdown Lifestyle Strategy):

	Member aged 25	Member aged 35	Member aged 45	Member aged 55
Starting pot	£2,600	£24,500	£48,800	£67,600
<i>Change relative to climate-uninformed outcome in brackets</i>				
Climate-uninformed outcome	£8,900	£59,800	£79,200	£73,300
Orderly Net Zero by 2050 outcome	£7,700 (-13%)	£54,000 (-10%)	£74,100 (-6%)	£71,600 (-2%)
Disorderly Net Zero by 2050 outcome	£6,900 (-22%)	£48,600 (-19%)	£66,800 (-16%)	£69,200 (-6%)
Failed Transition outcome	£5,300 (-40%)	£40,800 (-32%)	£71,300 (-10%)	£72,700 (-1%)

Metrics - CUPP

Breakdown of data coverage. The charts on this page summarise the data for the funds in the Default Drawdown Lifestyle.



*Data is presented as at the nearest quarter end (31 March 2022) to the end of the Plan Year (5 April 2022).

Section 3: Risk Management

This section describes the Trustee's process for identifying, assessing and managing climate-related risks.

1. Processes and tools for identifying and assessing climate-related risks

Risk register

The CWG considered the type of climate-related risks the Plan could be exposed to i.e. physical and transition risks and what climate change opportunities may look like at its meetings during the Plan Year.

The Trustee (through the CWG and then the DCC) with input from their investment and legal advisers then reviewed the risk register for the DCC in order to identify and assess any specific climate-related risks. These were then incorporated into the risk register. This process resulted in the addition of the following climate specific risks into the DCC risk register:

- The investment strategy fails to take into account relevant material financial factors (including ESG and climate change risks)
- The Drawdown Lifestyle strategy, other lifestyle strategies and self-select funds do not take account of relevant material financial factors (including ESG and climate change risks)
- Inadequate expertise, understanding, and capability and/or stewardship practices, of managers, including in relation to ESG and climate change risk

The Trustee (through the CWG and then the DCC) with input from their investment and legal advisers then considered the appropriate risk ratings for these risks (likelihood and impact) and any mitigating actions to help manage these risks, which were also recorded/updated in the DCC risk register.

The DCC risk register is considered at the DCC meetings on a quarterly basis and any new risks identified or changes to the assessment of a risk are subsequently captured in the risk registers. Any new or changing climate-related risks will also be considered by the CWG (or DCC) on an annual basis.

Climate-related risks and opportunities dashboard

The Plan's investment advisers have prepared a "Climate-related risks and opportunities dashboard" in respect of the Plan. This is a high-level snapshot of the risks and opportunities being monitored by the Plan. It sets out the risks and opportunities relevant to the Plan, as well as the controls in place (i.e. a qualitative assessment) and summary tables that will enable the Trustee to monitor the Plan's position in terms of TCFD metrics / targets (i.e.. a

quantitative assessment). In combination, the qualitative and quantitative information in the dashboard should enable the Trustee to get a sense of the overall risks and opportunities present / under consideration in the Plan. This dashboard will be reviewed and updated on an annual basis.

Climate metrics and scenario analysis

The Trustee (through the CWG and DCC, and with input from its advisers), has also considered the output from climate-related metrics calculations (see section 4 of this report) and climate scenario analysis (see section 2) to identify the types of climate change risks (physical or transition) most likely to affect different groups of members (younger/older, active/deferred, etc.), the significance of these risks for these different groups of members, and potential actions the Trustee could take to mitigate against these risks.

2. Management of climate-related risks

Investment strategy changes

During the Plan Year, the Trustee focused on what action it could take in relation to the investment strategy of the popular arrangement in the Plan – the Drawdown Lifestyle - to mitigate climate change risks.

During the Plan Year, following the advice of the Plan's investment adviser, the CWG recommended to the DCC that, as a first step, it should consider the possibility of replacing the regional passive equity funds used in the Drawdown Lifestyle with climate-tilted alternatives. As part of its triennial DC investment strategy review, the DCC then considered this further. The funds considered by the Trustee benefit from a clear decarbonisation pathway that decreases exposure to stocks exposed to climate transition risk and increases exposure to those with green revenues. The DCC agreed in March 2023 to make this change in relation to the Drawdown Lifestyle and this will be further communicated to members and implemented over 2023.

Stewardship

Stewardship is also used as a risk management tool.

The Trustee has delegated to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes.

The Trustee has agreed that it will engage with investment managers to ensure they are exercising stewardship in support of alignment with Paris Agreement goals, discuss the SBT with them (see section 4 below), and ask them what they are doing through stewardship efforts to increase the proportion of companies within their portfolios with SBT.

Following the publication of the DWP's guidance on stewardship in June 2022, the DCC selected four stewardship priorities it believes to represent key market-wide risks and areas where it believes that good stewardship and engagement can improve long-term financial outcomes for the Plan's members.

Climate change was one of the priorities identified and the Trustee has made its investment managers aware that it endorses the expectations that its investment adviser has set for investment managers in relation to net zero emissions in asset management. As part of its communication to its investment managers, the Trustee also indicated that it prefers managers who are signatories to the Principles for Responsible Investment, UK Stewardship Code, and Net Zero Asset Manager Initiative.

In relation to the Plan's investment managers, LCP carried out a review of the manager and fund climate credentials based on responses to the LCP 2022 Responsible Investment Survey and LCP's ongoing investment research and monitoring process. This was discussed at the Q4 CWG meeting in 2022. LCP did not identify any significant concerns with the Plan's investment managers' climate approaches at that time.

Section 4 – Metrics and Targets

This section explains the metrics and targets the Trustee has set to help measure, manage and disclose climate-change impact. It also highlights some of the current challenges associated with collecting carbon and climate-related data.

1. Metrics

The Trustee is required to select one absolute emissions metric, one emissions intensity metric, one portfolio alignment metric, and one additional climate change metric in relation to the Plan's assets and to use the calculations of those metrics in order to assess the climate-related risks and opportunities which are relevant to the Plan.

The metrics data provides a snapshot of the selected climate metrics at portfolio level and offers a means of helping the Trustee to monitor exposures to climate-related risks and opportunities. However, the metrics are not intended to be a comprehensive guide to climate risk in the relevant portfolios, nor do they provide a definitive understanding of a portfolio's climate characteristics.

The metrics that pension schemes are able to report on are constrained by the data investment managers can provide. This is because the requirement to report climate-related metrics remains relatively new. As investment managers adapt to the new requirements, more consistent data is likely to become available. Appendix 2 sets out further information on the current issues with climate data.

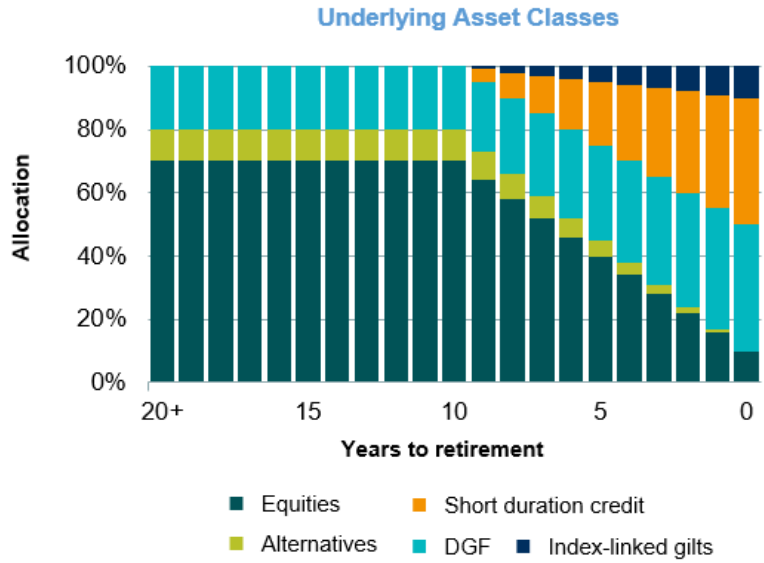
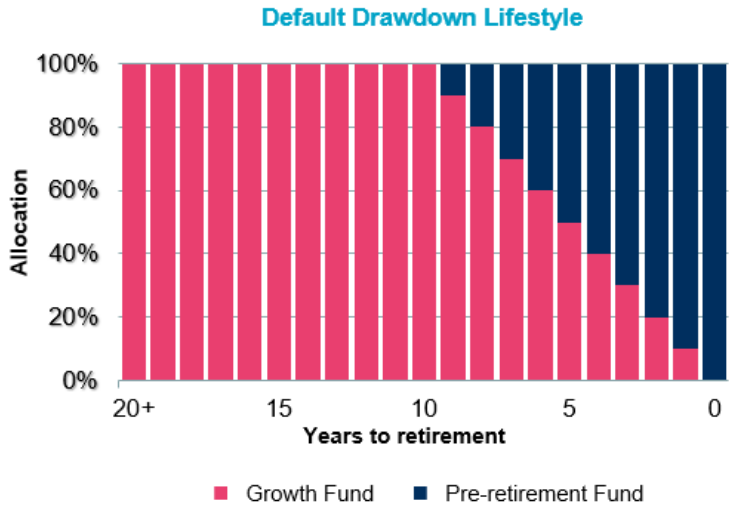
The Trustee has selected the following metrics for the Plan Year.

Metric	Selected
Absolute emissions	Total GHG emissions of Plan assets. This is the absolute emissions metric that is recommended in the Statutory Guidance. It measures the total GHG emissions attributable to a portfolio (where data is available or can be estimated). Initially, only Scope 1 and 2 emissions are required, with Scope 3 added in the second year.
Emissions intensity	Carbon footprint , this gives the total emissions per unit of currency invested by the Plan. Carbon Footprint is useful for comparing asset classes / portfolios to one another, and to a benchmark, because it is normalised.
Portfolio alignment	<p>% of portfolio with SBT, this examines whether a voluntarily disclosed company decarbonisation target is aligned with a relevant science-based pathway. SBT shows companies how much and how quickly they need to reduce their GHG emissions to prevent the worst effects of climate change.</p> <p>Targets are deemed to be ‘science-based’ if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement. This means that if a company has set a science-based target, it is in line with limiting the overall warming of the planet to well below 2°C above pre-industrial levels and is pursuing efforts to limit warming to 1.5°C.</p>
Additional climate change	<p>Data coverage, calculating the % of the portfolio for which data is available.</p> <p>The Trustee believes this metric provides a useful “confidence indicator” in the accuracy of data availability.</p> <p>Data coverage is an important factor in the Plan’s efforts to manage climate risk, because it provides a basis for investors to encourage continued improvements in the quality of climate-related reporting that is available.</p>

The Trustee has calculated these metrics during Q3 and Q4 of 2022 using an as at date of 31 March 2022 (the nearest quarter end to the previous Plan Year end date) for the underlying portfolio holdings data. A further explanation of these metrics is included at Appendix 3 of this report.

The metrics have been calculated using data made available by the Plan’s investment adviser’s climate metrics provider, MSCI ESG Research (UK) Limited.

The data has been calculated in relation to the Plan’s sole popular arrangement, the Drawdown Lifestyle, and the Trustee has collected data on this arrangement as far as it was able. The glidepath and asset allocation for the Drawdown Lifestyle are shown below.



The table below shows a breakdown of the climate metrics by asset class level for the Drawdown Lifestyle.

Fund	Fund value (£m)	Value analysed (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric	Portfolio alignment metric
			Scope 1 emissions (t CO2e)	Scope 2 emissions (t CO2e)	Scope 1 carbon footprint	Scope 2 carbon footprint	Scope 1 & 2 data coverage (%) ²	Portfolio alignment (SBTI %)
Equities	748	741	56,655	14,135	77	19	98	29
Corporate bonds	55	53	2,249	568	57	14	72	22
Diversified growth funds	262	132	3,023	1,037	37	14	29	7
Other ¹	119	0	N/A	N/A	N/A	N/A	N/A	N/A

Source: Investment managers, MSCI, LCP. Certain data ©2021 MSCI ESG Research LLC. Reported by permission. See Appendix 5 for more details, including how to interpret data where coverage is less than 100%. Holdings data as at 31 March 2022.

¹'Other' refers to the Drawdown Lifestyle's allocation to private markets assets and sovereign debt, for which the Trustee was not able to source data for this report.

²Figures in this column represent the percentage of the total portfolio for which data is available.

A more detailed analysis of the climate metrics is set out in the table below, which shows data at the underlying fund level for the Drawdown Lifestyle.

Fund	Fund value (£m)	Value analysed (£m)	Absolute emissions metric		Emissions intensity metric		Additional climate change metric	Portfolio alignment metric
			Scope 1 emissions (t CO2e)	Scope 2 emissions (t CO2e)	Scope 1 carbon footprint	Scope 2 carbon footprint	Scope 1 & 2 data coverage (%) ¹	Portfolio alignment (SBTI %)
LGIM UK Equity Index Fund	127	126	8,742	2,302	75	20	92	40
LGIM North America Equity Index Fund	177	176	6,541	1,384	37	8	100	33
LGIM Europe (ex-UK) Equity Index Fund	172	168	13,174	2,379	79	14	97	44
LGIM Asia Pacific (ex-Japan) Developed Equity Index Fund	112	111	10,185	3,470	92	31	99	8
LGIM Japan Equity Index Fund	55	55	3,232	1,275	58	23	100	29
JP Morgan Emerging Markets Fund	105	105	14,781	3,325	141	32	99	5
BlackRock Aquila Life Market Advantage Fund	234	104	1,305	653	23	12	24	5
LGIM Diversified Fund	28	28	1,718	384	88	20	70	15
BlackRock Short Duration Credit Fund	55	53	2,249	568	57	14	72	22

Source: Investment managers, insurer MSCI, LCP Certain data ©2021 MSCI ESG Research LLC. Reported by permission. See Appendix 5 for more details, including how to interpret data where coverage is less than 100%. Holdings data as at 31 March 2022.

¹Figures in this column represent the percentage of the total portfolio for which data is available.

The Trustee was not able to source data for the purpose of the metrics analysis for two funds used in the Drawdown Lifestyle strategy, namely its sovereign bond (the LGIM Over 5 Year Index-Linked Gilts Index Fund) and private markets (the Partners Group Generations Fund – Active) holdings. The Trustee will endeavour to source data for these asset classes and report on them in future reports.

Moreover, during the Plan Year, the Drawdown Lifestyle invested in two DGFs: the BlackRock Aquila Life Market Advantage Fund and the LGIM Diversified Growth Fund. The Trustee is only able to present climate data on assets held directly by the funds in the Drawdown Lifestyle strategy. A large proportion of BlackRock Aquila Life Market Advantage Fund's underlying holdings (e.g. credit and emerging market equity exposure) are via derivatives and, therefore, data for these assets is not covered in this report. BlackRock is looking to move away from using derivatives for its equity exposure in favour of physical holdings, so the proportion of the portfolio that can be analysed should improve over time.

As a result of the data gaps in the Drawdown Lifestyle strategy's sovereign bond, private markets, and DGF holdings, the emissions data presented in this report for the strategy is understated.

Conclusions

From the analysis of climate metrics data for the popular arrangement, the Drawdown Lifestyle strategy, the Trustee has concluded that:

- ❖ Overall carbon emissions in the arrangements are driven primarily by the Drawdown Lifestyle strategy's equity holdings. This represents an opportunity for the Plan, as replacing the strategic equity allocations in the Drawdown Lifestyle strategy with low carbon equivalents would tilt the portfolio away from the highest emitting companies could reduce emissions intensity significantly.
- ❖ Data coverage varies quite significantly from fund to fund. The GHG emissions data coverage for the non-equity funds is relatively low compared to the equity funds. The Trustee expects higher quality data to be available from its investment managers for reports in future years.
- ❖ The proportion of the portfolio invested in companies with science-based targets is low overall. This suggests that engagement with managers in this area is necessary to drive improvement.

2. Targets

The Trustee is required to set at least one non-binding target for the Plan in relation to at least one of the chosen metrics and as far as they are able to measure performance against these targets on an annual basis.

Targets are set by reference to a base year against which progress is assessed, a timeline for achieving the target, and the methodology by which performance against the target is assessed.

The Trustee has selected the following metrics to set targets against (further details of which are set out below):

1. Data coverage
2. Portfolio alignment based on SBT

Details of the targets set for the Plan are as follows:

Metric	Baseline date	As at 31 March 2022 (%)	Target level (%)	Timeframe to reach target
Data Coverage				
Equities	31 March 2022	98	100	31 March 2027
Corporate bonds	31 March 2022	72	95	31 March 2027
DGFs	31 March 2022	29	95	31 March 2027
SBT				
Equities	31 March 2022	29	80	31 March 2032
Corporate bonds	31 March 2022	22	80	31 March 2032
DGFs	31 March 2022	7	80	31 March 2032

Rationale for selection of targets

The Trustee selected these targets because:

- without complete data, the usefulness of the climate metrics in assessing climate-related risks and opportunities is limited, so achieving consistently high data coverage across all asset classes should be the first step to try to achieve in the short term.

- SBT shows the proportion of companies that have committed to reduce their GHG emissions in line with the Paris Agreement, with the goal of limiting the overall warming of the planet to well below 2°C above pre-industrial levels. Setting a SBT will help the Plan to manage climate-related risks by providing a focus for its stewardship activities, both direct and indirect (i.e. via its investment managers). The Trustee felt this was more a useful way of assessing progress towards a net zero economy.
- these were aligned with the Trustee's fiduciary duty of acting in the best financial interests of members. The Trustee felt that setting a carbon emissions target would focus too much on portfolio optimisation to meet these targets (through disinvesting and investing) and would not help it to fulfil its role as a fiduciary.
- the Trustee had considered Citi's most recent climate report, noting that Citi has set its own target to be carbon neutral by 2050. The Trustee has sought further input from Citi in respect of its own analysis of its exposure to climate change risks and upon receipt of this, the Trustee can evaluate whether it wishes to set its own carbon neutral target in the future.

Performance against targets

As this is the first year the Trustee has been required to calculate climate metrics, the base year for these targets is the year to 31 March 2022 (as this is the selected "as at" date for the metrics calculated in this Climate Report). Therefore, this constitutes the baseline performance data against the targets for this first year of reporting. An update on performance against these targets will be provided next year and for each subsequent year of reporting.

The Trustee believes achieving both its data coverage and SBT targets within the specified time horizon to be feasible but will monitor this annually and review whether there are any further actions that should be considered.

Appendix 1 – Glossary of terms

DB means defined benefit.

DBC means the defined benefit committee.

DC means defined contribution.

DCC means the defined contribution committee.

DGF means a diversified growth fund.

Citi means the collective or “generic” name of Citibank NA, Citigroup Global Markets Ltd and other Citi entities.

Climate Regulations means the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

Climate Report means this report prepared to satisfy the requirements of the Climate Regulations.

CTB means the Combined Trustee Board.

CWG means the Climate-Change Working Group established by the Trustee.

ESG means environmental, social and governance.

EVIC means Enterprise Value Including Cash.

GFANZ means the Glasgow Financial Alliance for Net Zero.

GHG means GHG emissions.

ICSWG means the Investment consultants’ sustainability working group

IIGCC means Institutional investors Group on Climate Change.

Net Zero means achieving a balance between the amount of GHG emissions produced and the amount of GHG removed from the atmosphere.

NZICI means the Net-Zero Investment Consultants Initiative

Paris Agreement means the legally binding international treaty agreed on 12 December 2015 and effective from 4 November 2016 which sets out long-term goals to guide all nations to substantially reduce global GHG emissions to limit the global temperature increase in this century to 2 degrees Celsius while pursuing efforts to limit the increase even further to 1.5 degrees.

PCRIG means Pensions Climate Risk Industry Group.

Plan means the Citi (UK) Pension Plan.

Plan Year means the year to 5 April 2023.

PRA means the Prudential Regulation Authority.

RI means responsible investment.

SBT means the science-based targets.

SBTi means the SBT initiative.

Statutory Guidance means the DWP’s statutory guidance for trustees of occupational schemes on the governance and reporting of climate change risk.

TCFD means the Task Force on Climate-related Financial Disclosures.

TPR means The Pensions Regulator.

Trustee means the CTB.

Appendix 2 – The Issues with Climate Data

Climate data sourcing for pension fund footprinting and analysis is still in its infancy. As a result, it is important to understand the following when it comes to climate data and resulting metrics:

- ❖ The availability and quality of data vary across assets classes, and even within asset classes. This means that some assets and asset classes will rely on estimated data.
- ❖ With all climate data, as both carbon data disclosure and measurement techniques improve, reported numbers are likely to change. This means that the metrics and other data published are not certain and that they may change in the future. As a result, if necessary, calculations may need to be rebased as carbon data and measurement processes change.
- ❖ Scopes 1 and 2 data are generally available for public asset classes. But disclosure of Scope 3 data is rare. Scope 3 is particularly important for some sectors, for example, in oil and gas it makes up approximately 85% of emissions. As a result, while core reporting in this report is focused on Scope 1 and 2 data this year, the Trustee plans to disclose Scope 3 where possible from next year.
- ❖ The processes for assessing carbon footprints for certain asset classes are still in development, particularly, for example, for sovereign debt. This means the results can be anomalous. In the case of sovereign debt, the footprint is apparently an order of magnitude higher than that for public equities because whole-of-economy data are used. This is because of the very substantial effect of double-counting of data reported by companies. For this reason, the Trustee has chosen not to report sovereign debt climate metrics in this Climate Report. However, this may change in future reports as the methodologies for producing climate data are expected to evolve and improve over time.

Appendix 3 – Climate Metrics Explained

GHG emissions

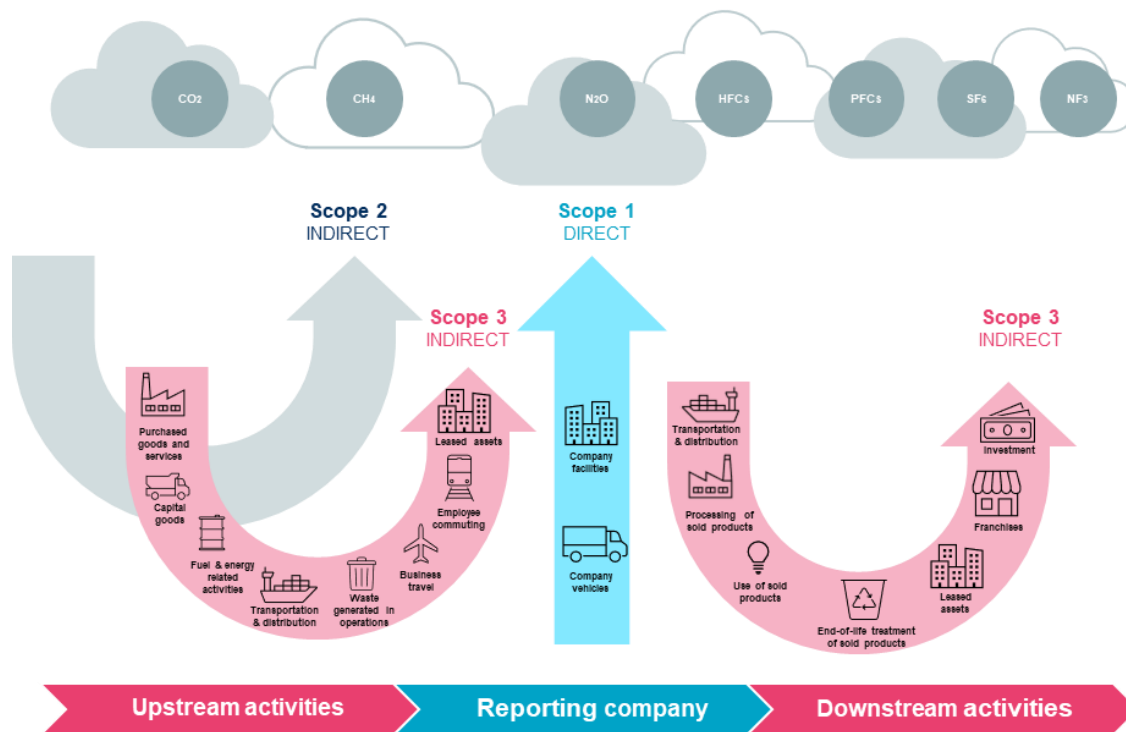
The emissions metrics relate to seven GHGs – carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃). The figures are shown as “CO₂ equivalent” (CO₂e) which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven GHGs.

The metrics related to GHG emissions are split into the following three categories: Scope 1, 2 and 3. These categories describe how directly the emissions are related to an entity’s operations, with Scope 1 emissions being most directly related to an entity’s everyday activities and Scope 3 referring to indirect emissions in an entity’s value chain. Scope 3 emissions often form the largest share of an entity’s total emissions, but are also the ones that the entity has least control over.

Scope	Definition
Scope 1	GHG emissions are all direct emissions from the activities of an entity or activities under its control.
Scope 2	GHG emissions are indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.
Scope 3	GHG emissions are all indirect emissions from activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.

tCO₂e indicates the real-world impact of the portfolio on the climate. However, the metric is not normalised, which makes it difficult to compare, and it may be volatile year on year, because it can be distorted by changes in portfolio size.

Financed emissions are calculated as the proportional share of the Scope 1 and Scope 2 GHG emissions for each relevant investment, based on the size of the investment relative to the EVIC of the respective company – the EVIC is a measure of a company’s total value.



Source: GHG Protocol

Carbon footprint

At a portfolio level, the emissions intensity measures are calculated as the average of the emissions intensity of the underlying holdings, weighted by the value of each holding. This metric is therefore useful for portfolio decomposition and attribution analysis (because you can understand where the most concentrated carbon emissions are in a portfolio). A portfolio with a high emissions intensity will have a steeper route towards decarbonisation than a less intensive one. Hence, measuring the emissions intensity is useful in order to gauge how difficult (or easy) it will be to progressively decarbonise the portfolios.

Differences in portfolio emissions intensities are driven by differences in sector and company exposure. Portfolios with higher exposures to high-carbon sectors such as utilities, non-energy materials, energy and industrials tend to exhibit higher emissions intensities.

It can be volatile year on year, due to being distorted by changes in market cap (as opposed to portfolio size).

Science Based Target

The target can be aimed at one or all of: the short term, long term or Net Zero, with each company being scored with a binary yes or no assessment on three categories. The categories are: “SBTi Approved 1.5 C”, “SBTi Approved Well Below 2 C” or “SBTi Approved 2 C”.

Whilst the Trustee is aware that the “SBTi Approved 2 C” categorisation will be gradually phased out in line with the initiative’s raised ambition to 1.5C, the Trustee will continue to report under the “SBTi Approved 2 C” categorisation to capture companies currently on a 2C path until they increase their target ambition to 1.5C in the next few years. The SBTi rating of a fund shows what percentage of the companies the fund invests in have set a decarbonisation target using science-based methodology.

Appendix 4 – Climate scenario analysis key features

The key features of each of the climate scenarios considered in relation to the Plan are summarised below:

Scenarios:	<i>Failed Transition</i>	<i>Orderly Net Zero by 2050</i>	<i>Disorderly Net Zero by 2050</i>
Low carbon policies	Continuation of current low carbon policies and technology trends	Ambitious low carbon policies, high investment in low-carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel	
Paris Agreement outcome	Paris Agreement goals not met	Global net zero achieved by 2050; Paris Agreement goals met.	
Global warming	Average global warming is about 2°C by 2050 and 4°C by 2100, compared to pre-industrial levels	Average global warming stabilises at around 1.5°C above pre-industrial levels	
Physical impacts	Severe physical impacts	Moderate physical impacts	
Impact on GDP	Global GDP is significantly lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be 50% lower than in the climate uninformed scenario.	Global GDP is lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be about 5% lower than in the climate-uninformed scenario.	In the long term, global GDP is slightly worse than in the Orderly Net Zero scenario due to the impacts of financial markets volatility.
Financial market impacts	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks	Transition and physical risks priced in smoothly over the period of 2022-2025	Abrupt repricing of assets causes financial market volatility in 2025

Appendix 5 – Further information on climate-related metrics

Listed equities and corporate bonds

Notes for data sourced from MSCI (shown on pages 29 and 30)

Emissions are attributed to investors using EVIC.

The total GHG emissions figures omit any companies for which data was not available. For example, if the portfolio was worth £200m and emissions data was available for 70% of the portfolio by value, the total GHG emissions figure shown relates to £140m of assets and the portfolio's carbon footprint equals total GHG emissions divided by 140. In other words, no assumption is made about the emissions for companies without data.

The SBT metric equals the % of portfolio by weight of companies that have a near-term carbon emissions reduction target that has been validated by the SBTi. The MSCI database does not distinguish between companies which do not have an SBTi target and companies for which MSCI does not check the SBTi status, so the coverage for this metric is equal to the % of the portfolio with an SBTi target.

Emissions data coverage and quality

Where coverage of the portfolio analysed is less than 100%, this is because the MSCI database:

- Does not cover some holdings (e.g. cash, sovereign bonds, bonds that have recently matured, shares in companies no longer listed when the analysis was undertaken)
- Does not hold emissions data for some portfolio companies because the company does not report it and MSCI does not estimate it, and/or
- Does not hold EVIC data for some portfolio companies, so emissions cannot be attributed between equity and debt investors.

The last of these reasons is usually the main explanation for the fairly low coverage of bond portfolios.

The MSCI database records whether emissions data is reported or estimated, and which estimation method has been used, but not whether companies' reported emissions have been independently verified. Our investment consultant has asked MSCI to introduce this distinction. Where emissions data is estimated, MSCI uses one of three methods.

1. For electric utilities, MSCI's estimate of Scope 1 emissions is of direct emissions due to power generation, calculated using power generation fuel-mix data.
2. For companies not involved in power generation, which have previously reported emissions data, MSCI starts with a company-specific carbon intensity model.
3. For other companies, MSCI uses an industry segment-specific carbon intensity model, which is based on the estimated carbon intensities for 1,000+ industry segments.

MSCI is a leading provider of climate-related data, so we would expect the coverage to compare favourably with other data sources. Our investment consultant is engaging with MSCI to encourage them to improve EVIC coverage for debt issuers and to distinguish between companies which do not have an SBTi target and companies for which it does not check the SBTi status.

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