



DHL Group Retirement Plan (DHL GRP)

Defined Benefit Sections

CLIMATE REPORT

**YEAR ENDING
31 MARCH 2024**

SEPTEMBER 2024



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“Over the last year, we’ve continued our work to better understand how climate-related risks and opportunities might affect the Plan’s assets and liabilities and what the potential impact might be to the expected risk-adjusted return to the Plan’s investment strategy. In this report we formally announce our ambition for the Plan’s assets to be Net Zero by 2050, an important step in our quest to protect members’ pensions.”

Peter Flanagan, P F Trustee Ltd, Chair of the DTL Board

INTRODUCTION



DHL Trustees Limited (DTL) ('DTL Board' or 'the Trustee') is Trustee of the DHL Group Retirement Plan (the Plan). The DTL Board believes climate change creates a material financial risk and should be considered as part of its investment decision making. The Trustee has produced this Climate Report to comply with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. The sub-headings in this report address the specific disclosure requirements in the regulations which are based on the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

The Trustee believes that reporting annually in line with the TCFD recommendations will lead to better risk assessment and strategic planning, identification of potential investment opportunities and ultimately better outcomes for the Plan's members.

The Trustee has a legal duty to consider matters which are financially material to its investment decision making. The Trustee believes that the impact of and potential responses to, climate change creates a material financial risk. The Trustee believes that companies should adjust their business strategies to align with the 2015 Paris Agreement and hence reduce the risk to the companies and the Plan from unmitigated climate change.

This, our third annual climate report, outlines how the Trustee's beliefs on climate risk and opportunities impact the investment and funding strategy, inform the approach to risk management and influence the choice of metrics and targets. The Trustee has also reported on those metrics – one year on from last year's report – and on our progress towards our targets. We've also now announced our ambition for the Plan's assets to be Net Zero by 2050. We separately provide updates on our approach to climate change in member newsletters from time to time.

The Plan has six Defined Benefit (DB) Sections, whose assets are commingled in the DHL Pensions Investment Fund (Fund) and a Defined Contribution (DC) Section. For context, these were valued at £3.1bn and £2.6bn respectively as at 31 March 2024, with the DB Sections having a 98% funding level in aggregate (measured on a Technical Provisions basis). It is recognised that given the different membership profiles, underlying investments and long-term strategic objectives, there will be differences in how climate-related risks impact the DB and DC Sections of the Plan. This report solely covers the DB Sections of the Plan, over the Plan year from 1 April 2023 to 31 March 2024 and the DC Section is reported separately. With regards to the DB Sections of the Plan, given they have similar characteristics in relation to assets, liabilities and investment policy, the reporting is focused on climate risks at an aggregate Fund level, however, we note section-specific observations where relevant. For convenience, where we refer to TCFD reporting, we are referring to reporting in line with the applicable Regulations and accompanying Statutory Guidance.

On behalf of the DHL Group Retirement Plan

Peter Flanagan, P F Trustee Ltd, Chair of the DTL Board

SUMMARY OF THE REPORT

Below are some of the key highlights from this year's Climate Report for the DB Sections.

Governance

- The overall governance structure remains the same, except that the Trustee appointed LCP as its new DB Investment Adviser effective from February 2024. A key part of the selection criteria for a new DB Investment Adviser was its climate expertise, with all shortlisted investment advisers having to give a presentation on adopting a Net Zero target to the selection panel.
- There was at least one meeting with each of the Fund's investment managers this year as part of the Trustee's ongoing monitoring and assessment of them. Part of this included considering the managers' approach to climate change.
- After the year end, the Trustee reviewed a range of climate-related information in preparation for this report, including climate scenario analysis, climate metrics and information on the investment managers' discussions with companies about climate change.

Strategy

- The Trustee undertakes climate scenario analysis to understand how the Plan's assets and liabilities might be impacted by climate change. It has considered five different scenarios for how climate change might unfold, all of which result in worse investment performance.
 - Most of the DB Sections are still expected to achieve their current funding target by 2030 under each of the five scenarios.
 - For the Tibbett and Britten Section, the time taken to reach the current funding target is delayed by a few years in three of the five scenarios due to its relatively lower funding position.
- The Trustee has reviewed updated information on the potential impact of climate change on the employer and is satisfied that climate change is not expected to pose a significant threat to its ability to provide financial support to the Plan over the medium-term.

Risk Management

- The Trustee recently updated the entries for Environmental, Social and Governance (ESG) risks in its risk register. The Trustee has assessed that ESG risks such as climate change have become more likely, resulting in higher overall risk scores.
- Overall, the Trustee has assessed the risk to the Plan from ESG risks, including climate change, as moderate after taking into account the various steps that are being taken to manage the risk.

Metrics and Target

- The Trustee has collected information on the Fund's total carbon emissions, carbon footprint, weighted average carbon intensity and emissions data quality as at 31 March 2024. The amount of data available has improved since data was previously collected as at 31 December 2022.
- The Trustee has begun to collect data on the proportion of assets with Science-Based Targets in place. A Science-Based Target is a target to reduce greenhouse gas emissions that is considered to be in line with what the latest climate science deems necessary.
- The Trustee previously set a target for the Fund's managers to engage with all the top 10 carbon emitters, for each mandate, on climate-related issues over a two-year period. However, it proved difficult to measure whether the target was being met. Engagement continues to be important to the Trustee, so it will review information on climate-related engagements qualitatively in future.
- The Trustee has set a new target, which is to increase the proportion of corporate bond holdings with a Science-Based Target to 60% by 2030.
- The Trustee has also set an ambition for the Plan's assets to be Net Zero by 2050.

SECTION 1: GOVERNANCE

OVERSIGHT AND INVESTMENT BELIEFS

The Trustee of the Plan 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 Plan.

The Trustee's approach to climate change and ESG issues more broadly is informed by its investment beliefs for DB assets. The investment beliefs reflect the Trustee's core, long-term views and drive all decisions in relation to investment strategy. The investment beliefs are reviewed annually and are summarised below:

- ✓ The Trustee believes that ESG issues, including climate change risks, can be financially material to security prices and should therefore be considered as part of the Fund's investment process.
- ✓ The Trustee believes that good active managers have considered how to best account for ESG factors in their investment process and that investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation.
- ✓ The Trustee believes that the impact of and potential policy responses to, climate change creates a material financial risk.
- ✓ In particular, the Trustee believes that companies should adjust their business strategies to align with the 2015 Paris Agreement and those that fail to do so can face significant downside and stranded asset, risks.
- ✓ The Trustee believes that active stewardship can improve investment returns and should therefore be considered when appointing active managers.
- ✓ The Trustee believes that investments in businesses and corporate entities that are involved in the production of controversial weapons¹ are not appropriate under any circumstances.

With regards to climate risks and opportunities, the Trustee accepts that there is a wide range of uncertainty in both the future climate scenarios and the timing and choice of policy responses. A carbon tax, as just one example, could have financial implications for the profitability and competitive position of companies that are impacted. The Trustee believes that climate change risks should be considered in the selection of individual investments by investment managers. Companies that do not adjust their business strategies to align with the 2015 Paris Agreement can face significant downside and stranded asset risks. Investment managers should consider how companies are adjusting their business strategies to align with the 2015 Paris Agreement and ensure that any exposure to stranded asset risk is considered in the selection of individual investments.

The Trustee uses climate risk scenario testing to help understand the Plan's exposure to climate risks. However, the Trustee acknowledges the limitations of climate scenario modelling and therefore does not rely solely on scenario testing for its climate risk management and instead supplements quantitative analysis with qualitative information. The Trustee notes there are many reasons why outcomes may differ from those modelled, but in particular the models do not capture the most adverse possible scenarios and they have not considered the implications of various potential tipping points, which could cause escalating and irreversible global warming.

¹ This is defined as weapons which are contrary to international treaties or conventions. These investments are prohibited within the Plan's segregated mandates. The Trustee understands that given the nature of the Plan's segregated mandates, this exclusion is unlikely to have a material impact on the financial outcomes of the investment portfolios.

SECTION 1: GOVERNANCE

ROLES AND RESPONSIBILITIES

The Trustee is ultimately responsible for compliance with the governance requirements which underpin the TCFD recommendations and for reporting how this has been done. The Trustee has, however, delegated as follows:

- **The Investment Implementation Committee ('IIC')** is responsible for (in relation to the DB assets) undertaking the governance and reporting requirements relating to climate-related risks and making recommendations to the Trustee.
- **The Funding & Investment Strategy Committee ('FISC')** is responsible for making recommendations to the Trustee in the setting of the funding and investment objectives for the Plan's DB Sections and assessing and managing the Plan's integrated risk management framework. As part of the climate reporting, the Trustee has undertaken scenario analysis for the Plan, to enable the Trustee to understand the impact of climate risks on the journey plan for the DB Sections. Further details of the scenario analysis are covered in Section 3.
- **The Audit & Risk Management Committee ('ARMC')** is responsible for maintaining the Plan's risk management framework and risk register and carrying out a risk assessment and review for the Plan and reporting the results to the Trustee. The risk register includes ESG and climate change risks. Further details can be found in Section 4 – Risk Management.
- **TCFD Working Group**, consisting of representatives of Law Debenture, supported by the in-house teams and professional advisers, is responsible for considering the requirement for additional expertise/support in assessing climate-related risks and opportunities and oversees the production of this report.
- **In-house Teams** do not have a decision-making role but are responsible for supporting the Trustee and the various committees in ensuring that there is effective governance, risk management and internal controls in operation. In particular, the in-house teams are responsible for the maintenance of various policy documents including the Climate Risk Policy. Even though the in-house teams do not make decisions (or advise the Trustee) and therefore do not need climate expertise, those members of the teams that support the IIC attend any climate-related training sessions.
- **DB Investment Adviser** is responsible for advising on investment strategy, taking into account climate-related risks and opportunities. The DB Investment Adviser also supports the IIC with monitoring in relation to ESG and stewardship.
- **Investment Managers** are responsible for implementing the Trustee's ESG and climate policies and are given discretion to evaluate ESG issues (including climate change) in the selection, retention and realisation of investments. Current managers and potential new managers, are assessed for their integration of climate risks into their wider stewardship activities and for their ability to understand their portfolio's ability to withstand climate-related risks. For example, the DB Investment Adviser carries out an annual review of the stewardship and engagement activities (including an assessment rating) of the investment managers, which is then reviewed by the IIC. Investment managers are also responsible for providing the Trustee with the relevant data required to meet the regulatory requirements.
- **Actuarial Adviser** is responsible for considering the impact of climate-related risks on the Plan's DB liabilities. Further details are provided in Section 3 – Scenario Analysis.
- **Covenant Adviser** is responsible for monitoring the covenant of Deutsche Post AG (DPAG). The covenant adviser has conducted an assessment on the effects of climate risk on the covenant, of which more details can be found in Section 2 – Strategy and in Appendix 1.
- **Legal Adviser** is responsible for ensuring the Trustee is compliant with the regulations.
- **Communications Adviser** is responsible for ensuring that communications to members, including those related to investment and climate-related matters, are clear and easy to understand.

SECTION 1: GOVERNANCE

ROLES AND RESPONSIBILITIES

At each Trustee Board meeting, the Trustee has sight of all of the minutes from the various committees as well as an executive summary and presentation on key aspects of each meeting. This allows the Trustee Board to review and challenge the recommendations put forward by the committees on a regular basis, thereby ensuring that the committees are taking adequate steps to identify and assess climate-related risks.

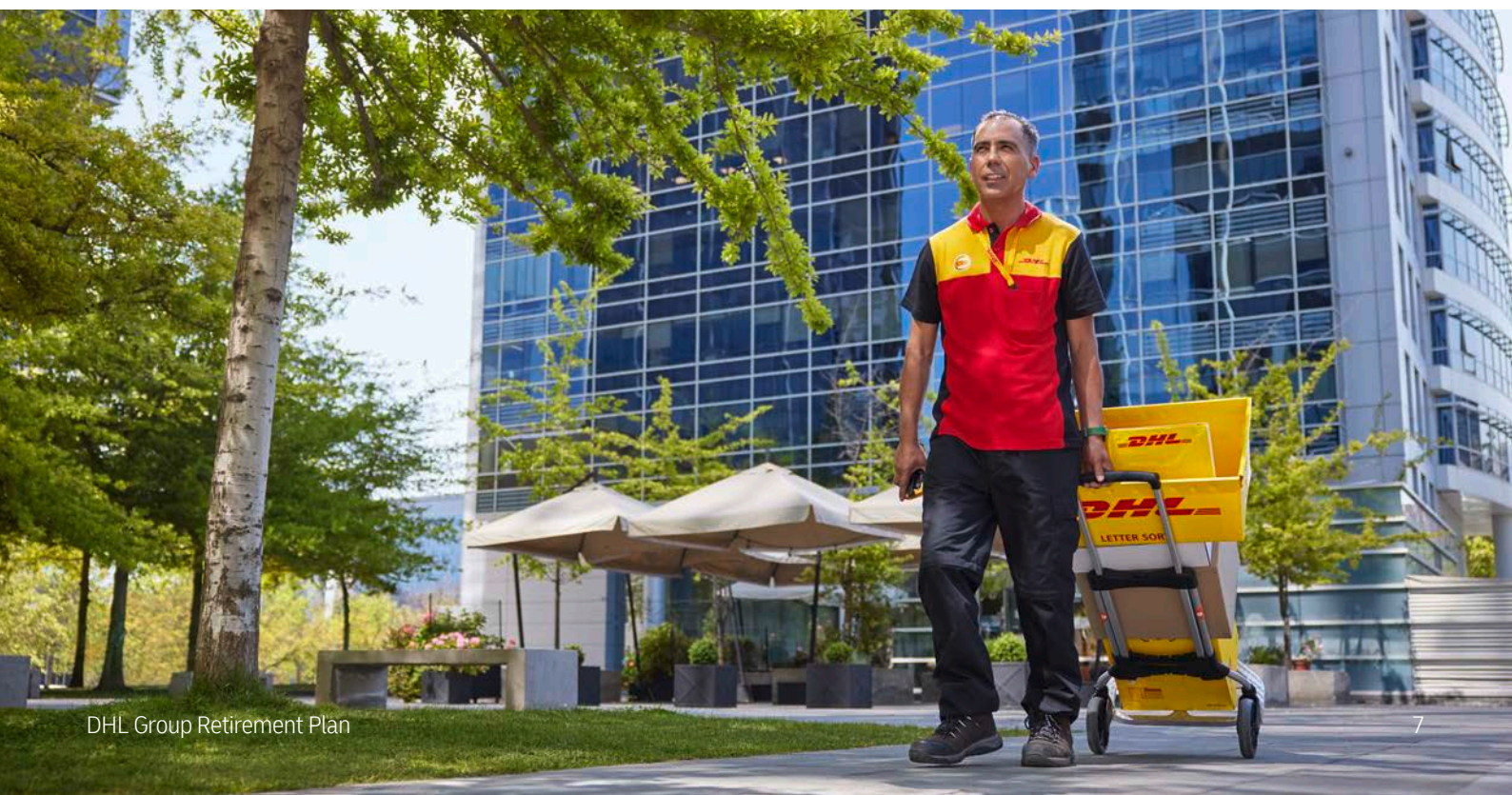
In complying with its governance and reporting requirements, the Trustee is supported by its professional advisers and the in-house teams. In particular, the Trustee has previously obtained details of its investment and actuarial advisers' climate competencies based on the guide published by the Investment Consultants Sustainability Working Group (ICSWG). It intends to review its advisers' competency again, later in 2024.

As part of the annual assessment of its DB Investment Adviser's performance against strategic objectives, the Trustee considers how the DB Investment Adviser has supported the Climate Risk Policy. In relation to the DB Sections, the last assessment was carried out in November 2023 and concluded that Momentum had fulfilled this objective satisfactorily. A new DB Investment Adviser to the DB Section, LCP, was selected over the year with an appointment to take effect from February 2024. An assessment of their climate expertise was an integral part of that selection process, with all shortlisted investment advisers having to give a presentation on adopting a Net Zero target to the selection panel. The Trustee has set objectives for LCP which encompass its climate-related advice.

The Trustee appointed WTW to carry out scenario analysis at least every three years, the results of which are detailed later in the report.

The IIC and IIC sub committee met ten and four times over the year respectively. These meetings included a total of 13 sessions where fund managers attended to discuss the Plan's mandates. For every one of these sessions, the manager was asked to update the trustee on their ESG activities, focussing on the Trustee's stewardship priorities, of which one is climate change. At these meetings, the committee members asked about engagement with companies not aligned or aligning to Net Zero, the risks associated with heavy emitters and other engagement initiatives that the managers had undertaken on the Trustee's behalf.

After the year end, the Trustee reviewed climate-related information for its public reporting. Specifically: the FISC reviewed climate scenario analysis in June 2024; the IIC reviewed engagement assessments and examples (some of them climate-related) for the Fund's managers in June 2024; and the TCFD working group reviewed climate-related metrics data in July 2024.



SECTION 1: GOVERNANCE

KNOWLEDGE AND UNDERSTANDING

The Trustee has continued to build on its knowledge and understanding of climate risk through its work on the annual climate reports.

The Trustee continues to work closely with DHL Group to share knowledge on how each is addressing climate-related risks and complying with and reporting on the TCFD recommendations. As an example, in March 2023 as part of the Trustee’s Strategy Day, the Head of ESG Controlling and Reporting at DHL Group provided an update on its progress towards its climate-related goals.

The Trustee views climate risk as a significant risk and therefore a significant amount of time has been dedicated to increasing the Trustee’s knowledge and understanding in relation to climate-related risks and opportunities over recent years. This Plan year, the Trustee’s formal training has focussed more on broader sustainability topics. The Chair of the IIC, Natalie Winterfrost, has additionally attended various climate focussed events to maintain her knowledge and understanding. These have included, but are not limited to, Net Zero Investor conferences and the PLSA ESG conference (at which she was a speaker).

The Trustee will continue to ensure it receives appropriate ongoing training in relation to climate change, including as best practice develops and different risks and opportunities emerge. All training is formally recorded by the Plan Secretary in the Trustee’s training log, with each Trustee Director also maintaining their own training log.

DTL Board



Committees



SECTION 2: STRATEGY

IMPACT ON FUNDING AND INVESTMENT STRATEGY

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

The Trustee has considered climate risks and opportunities over the short, medium and long term. In this context, the Trustee has considered 'short' term to reflect a one-year period and has considered what the potential impact would be from a climate shock assuming this took place over any given one-year period; 'medium' term has been considered as the time horizon to 2030, which for the DB assets is a significant milestone in the journey plan and 'long' term has been viewed as the time period to 2050. For the DB assets, the Trustee's emphasis is on the short and medium term in line with the journey plan and the duration of the DB Sections' liabilities.

Types of risks and opportunities

The Trustee has identified the following key climate-related risks to its investment strategy and funding strategy for the DB Sections of the Plan:

Physical Risks

This relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk to coastal systems and low-lying areas from rising sea levels and increased frequency and severity of extreme weather events). These physical risks could cause direct damage to assets and indirect destabilising impacts arising from supply chain disruption. This may also lead to wider economic and social disruption, including mass displacement, environmentally-driven migration and social strife.

Stranded Asset Risks

The risk of holding assets at some time prior to the end of their economic life that are no longer able to earn an economic return as a result of changes associated with the transition to a low carbon economy.

Transition Risks

This relates to the risks (and opportunities) from the realignment of the global economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations or market forces).

The Trustee expects its DB Investment Adviser to bring any suitable climate-related opportunities to its attention.

The Plan currently has exposure to climate-related opportunities through several of the Fund's mandates. For example, it holds renewable infrastructure assets through an Infrastructure Equity mandate with Aviva, such as those that generate energy from waste and wind. The Plan also invests in Infrastructure Debt through the mandate with Ares Management, which may lend to, for example, infrastructure companies with projects aimed at converting natural gas liquids to fuels with lower greenhouse gas emissions than traditional gasoline.

Impact on Covenant

For the DB Sections, the Trustee has obtained advice and guidance from its covenant adviser in assessing the impact of climate-related risks on the value of DPAG's covenant. The covenant adviser has undertaken a high-level analysis based on publicly disclosed information to assess the resilience of the covenant to the climate change related risks identified by DPAG. It also considered the effect of these covenant risks when combined with the most severe of the funding position shocks described in the next section. Further details of this analysis can be found in Appendix 1.

In summary, the Trustee has concluded that these risks are not expected to pose a significant threat to the strength of the covenant. The Trustee is satisfied that, as far as the impact on covenant is concerned, climate-related risks are unlikely to have a significant impact on the funding and investment strategy over the medium-term.

SECTION 2: STRATEGY

IMPACT ON FUNDING AND INVESTMENT STRATEGY

Impact on funding and investment strategy

The Trustee undertook its first scenario analysis in November 2021 to consider the impact on the funding and investment strategy over the time periods mentioned on the previous page, taking into account the key climate-related risks. Since the year end, it has undertaken its second scenario analysis as at 31 March 2024. This time, an additional scenario has been included in the analysis; the other scenarios have been re-named and the assumptions have been fully reviewed and updated as required. The results of this analysis are covered in Section 3.

Through the scenario analysis, the Trustee has considered the potential impact of the scenarios on assets, liabilities and funding levels through two ‘lenses’:

Investment return and liability ‘drags’

This models the impact of climate-related risks as drags on investment returns and on liability levels that are felt each year over time. These drags will decrease the returns and impact the liability levels, moving the expected impacts away from the base case scenario which is what WTW believes is currently priced into the market.

Asset and liability ‘shocks’

Whilst the drag scenarios assume the cost of climate change are incurred as they arise, in reality markets will react to future impacts once they are anticipated. For this reason, the scenario analysis also examined the impact of climate change using market shocks – these are the potential impact of the market reacting to and pricing in each scenario over a very short period.

The time period to 2030 is particularly significant to the Trustee as the integrated funding and investment plan aims for all the DB Sections to be fully funded on the Technical Provisions basis by 31 December 2028 and to be fully funded on a gilts + 0.5% p.a. basis by 31 December 2030.

With the exception of the Tibbett and Britten Section, the analysis shows that under each of the five scenarios considered the Plan is still expected to reach 100% funded on a gilts + 0.5% p.a. basis by 31 December 2030. Whilst climate change may have a material impact on returns in the shorter-term, the other five Sections are currently sufficiently well progressed towards this funding target that the modelled climate impacts do not impinge on the Plan’s ability to achieve the desired level of funding.

For the Tibbett and Britten Section, however, the lower current funding level results in the projections indicating a fully funded position not being reached until after 2030, with the worst scenario delaying that to 2038 (if the current level of deficit contributions were to continue). In practice, the contribution rate is being reviewed as part of the Plan’s actuarial valuation as at 31 March 2024.

The Plan has a well-diversified and relatively high returning portfolio. As such, exposure to climate risks is varied and arises from various different asset classes and sources. Climate risk is one of various risks that the Plan faces and can be considered by the Trustee as part of any future discussions on investment de-risking. The implementation of any future de-risking, both in terms of the asset classes chosen to move into and out of and in terms of the design of mandates, may help to reduce climate risk exposure.

The Trustee has used scenario analysis to consider if changes are required to the investment policy and concluded that no changes are required to the funding and investment strategy as a result of climate risk. These results were not unexpected and confirm the Trustee’s view that the principal way to bring about meaningful change will be through engagement with investment managers to ensure that climate change considerations are fully integrated into security selection and retention.

SECTION 2: STRATEGY

IMPACT ON ENGAGEMENT STRATEGY

Engagement is at the core of the Trustee's strategy

The Trustee views engagement and stewardship as being key to managing climate risks and opportunities. The IIC actively engages with each investment manager, with support from the DB Investment Adviser, to assess the effectiveness of investment managers in engaging with underlying companies on climate-related risks and opportunities. A summary of what is expected from investment managers is provided below:

- To evaluate ESG issues, including climate-related risks and opportunities, in the selection, retention and realisation of investments. The IIC believes that good active managers should consider how to best account for ESG factors in their investment process and that investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation. The evaluation of how the IIC's active managers have identified and managed material ESG risks (including climate risks) forms part of the IIC's ongoing appraisal of each manager's appointment.
- With regards to climate-related risks, the Trustee believes that companies should adjust their business strategies to align with the 2015 Paris Agreement and those that fail to do so can face significant downside and stranded asset risks. The IIC expects its investment managers to take into account how companies are adjusting their business strategies to align with the 2015 Paris Agreement and ensure that any exposure to stranded asset risk is considered in the selection of individual investments. For this reason, the Trustee has decided to adopt a new target based on its alignment metric this year. The identification and integration of climate change risks, including the ability of the investment managers to monitor and report on greenhouse gas emissions, forms part of the IIC's monitoring and ongoing assessment of its managers.
- The IIC believes that active stewardship can improve investment returns and a manager's approach to stewardship is considered when appointing and reviewing managers. The Plan is a signatory of the UK Stewardship Code (in relation to the DB assets), which reflects the importance of effective stewardship to the Trustee. In turn it expects each of its managers to be signatories to the Code. Ten of the Fund's thirteen managers are currently signatories. The IIC monitors each manager's engagement with entities with respect to climate risk and further details are provided in Section 5.

During the previous Plan year, the Trustee set stewardship priorities in relation to the following E, S and G factors:

- **E – Climate Change:** For example, investment managers engaging with companies on their climate change policies and/or voting on resolutions requiring publication of a business strategy that is aligned with the Paris Agreement on climate change;
- **S – Modern Slavery:** For example, investment managers engaging with companies on their modern slavery policies especially with regards to their supply chains; and
- **G – Diversity & Inclusion:** For example, investment managers voting against a director appointment where the Board is not sufficiently gender diverse.

Early in the Plan year, these priorities were communicated to the Fund's investment managers, noting that, while they were not expected to have prioritised engagement in these areas previously, they will be expected to prioritise engagement in these areas going forward. As such, as part of the 2023 Stewardship & Engagement Report, the managers were asked to provide the number of engagements they had in these areas, to set a baseline to compare against in future years. The Trustee has also investigated what metrics it might be able to gather in relation to its other stewardship priorities and considered whether it could extend this climate report to a broader sustainability report. Based on its initial work, the Trustee concluded that adequate data was not available to do this in a meaningful way, but it will keep this under review in future years.



Further information can be found in the Plan's annual Stewardship Report, which can be found on the Plan website here:
mypension.dhl.co.uk/StewardshipReport

SECTION 2: STRATEGY

IMPACT ON ENGAGEMENT STRATEGY



Engagement Case Study: Commercial real estate property (Aviva)

Rationale for the engagement:

The 'agency' issue is well known in commercial real estate. To decarbonise buildings, both the owner and the occupier need agency to make changes, but both must collaborate in order that the changes are implemented safely, practically and with appropriate contractual and legal administration. In addition, energy performance data is rarely shared between parties, meaning it is difficult for both to know where to start. This creates a significant hurdle to practical decarbonisation projects and is a major cause of inaction on climate in the real estate sector.

The engagement:

Aviva's occupier engagement programme creates relationships with tenants in the buildings it manages for its clients. Through engagement it hopes to understand how the building is performing, what possible steps could be practically implemented to decarbonise the building and how it can work with the occupier to deliver this. In 2021, Aviva reached out to over 100 occupiers across two of its Commercial Assets Funds to create these relationships. This resulted in over 40 engagements and Aviva is now working with those occupiers to agree next steps towards decarbonisation.

Outcomes and next steps:

As a result of the programme, 50% of the occupiers that Aviva engaged with agreed to share data which helped Aviva understand how the building was performing.

Aviva then commissioned ten Net Zero due diligence audits which illustrated a route to decarbonisation for those buildings. Aviva also asked occupiers about their preferences for on-site interventions like electric vehicle charging and solar panel installation.

With the first round of engagements now complete, the asset management team is supporting occupiers to implement the agreed measures.

SECTION 2: STRATEGY

IMPACT ON ENGAGEMENT STRATEGY



Engagement Case Study: Private debt investment (Arcmont)

Rationale for the engagement:

Arcmont's Responsible Investment Policy states: 'ESG factors have the potential to impact financial performance. They are sources of investment risk and drivers of investment value. Therefore, understanding, and minimising ESG risks and promoting better ESG performance is essential to delivering absolute risk-adjusted returns to our investors.'

A ratchet mechanism is used by Arcmont to incentivise portfolio companies by adjusting the terms of the debt in line with performance against agreed performance indicators. For this investment in particular, the mechanism aims to encourage the transition to a low-carbon economy and improve sustainability disclosure.

The engagement:

Discussions between Arcmont and the portfolio company about a ratchet began in June 2022. Arcmont typically engaged with the Head of Treasury and ESG lead at the company, as well as the deal teams of the sponsor (the private equity firm that owns the portfolio company) and co-lender (the other private debt firm lending to the portfolio company). It was a collaborative process involving a number of email exchanges and calls. The ratchet was agreed in September 2022 and signed in June 2023.

The lenders set the following key performance indicators (KPIs) for the company:

- KPI 1: The company was set sustainability related performance targets (SPTs) that address its Scope 1, 2 (market-based) and 3 GHG emissions intensity:
 - SPT 1: Baseline data collection for calendar year 2022
 - SPT 2: Achieve a reduction target, to be agreed once baseline data is available
 - SPT 3: Achieve a reduction target, to be agreed once baseline data is available.
- KPI 2: The company is required to publicly disclose a set of ESG metrics each year (absolute Scope 1,2 and 3 GHG emissions; GHG emissions intensity; total company gender breakdown; average ratio of female to male board members).

The company must satisfy both KPIs in a year to be rewarded with a margin discount, with the discount being 2.5bps each year. The maximum reduction the company can receive is 7.5bps over the life of the loan.

Criteria will be retested each year to ensure performance doesn't regress. If the relevant SPT or KPI 2 is no longer met, the associated margin discount will be removed. The discount is also dependent on meeting the lenders' other conditions such as providing an annual certificate and supporting evidence of target achievement alongside the audited accounts.

Outcomes and next steps:

The ratchet mechanism aims to bring about change as the company has to take specific actions to meet the SPTs and provide sufficient evidence that it has done so. However, the company has not yet set the targets for SPT 2 and SPT 3, so the maximum discount currently available is only 2.5bps.

The company collected and published the ESG metrics for the calendar year 2022, meeting SPT 1 and KPI 2, and so was awarded a 2.5bps discount. It subsequently published the ESG metrics for 2023, but it was late in delivering the certification. Arcmont engaged with the company on this matter and is now discussing the appropriate next steps with the co-lender.

Arcmont continues to follow up with the company about the target-setting process. The company is working with a specialist consultant and expects to have targets ready during 2025, so it can begin working towards SPT 2 and 3.

SECTION 3: SCENARIO ANALYSIS

CLIMATE SCENARIOS



The Trustee uses climate risk scenario testing to help understand the Plan's exposure to climate risks. The scenarios considered by the Trustee are summarised on the next page. These scenarios have been chosen to show different sizes of the physical risks, based on the resulting temperature impacts and also different sizes of the transition risks. The Net Zero 2050 scenario, where decisive action is taken and the Delayed Transition Below 2°C scenario, where transition is more disorderly due to delays in meaningful action, represent bigger transition risks than the Below 2°C scenario.

As per the TCFD recommendations, various building blocks have been established by the global climate change research community to facilitate research and assessment of mitigation efforts required to achieve different climate outcomes.

The Trustee accepts that the selected scenarios below do not represent the full range of outcomes, nor do they necessarily represent the most adverse possible scenarios or capture the risk of climate tipping points, but they provide a useful understanding of potential behaviour of the Plan's assets and liabilities under five scenarios covering a range of temperature pathways.

The Trustee acknowledges the limitations of climate scenario modelling and therefore does not rely solely on scenario testing for its climate risk management and instead supplements quantitative analysis with qualitative information. The Trustee notes there are many reasons why outcomes may differ from those modelled, but in particular the models do not capture the most adverse possible scenarios and they have not considered the implications of various potential tipping points, which could cause escalating and irreversible global warming.

SECTION 3: SCENARIO ANALYSIS

CLIMATE SCENARIOS

	Nationally determined contributions (previously called 'Least common denominator')	Delayed transition below 2°C (previously called 'Inevitable policy response')	Below 2°C (previously called 'Global co-ordinated action')	Net Zero 2050 (previously called 'Climate emergency')	Hot house world (New scenario)
Description	A 'business as usual' outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	Delays in taking meaningful policy action result in a rapid policy shift around 2030. Policies are implemented in a less co-ordinated manner resulting in a more disorderly transition to a low carbon economy. Emissions exceed the carbon budget temporarily, but then decline.	Globally co-ordinated climate policies are introduced immediately, becoming gradually more stringent over time. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	A more ambitious version of the Below 2°C scenario where more aggressive policy is pursued immediately. More extensive technology shifts are achieved with Carbon Dioxide Removal, used to accelerate the transition broadly in line with sustainable levels of bioenergy production.	The world follows a Net Zero 2050 pathway, however the resultant temperature outcome exceeds 2°C due to a lower than expected remaining carbon budget and/or the impact of climate tipping points. Use of Carbon Dioxide Reduction technologies is relatively low.
Temperature rise	~2.5°C	~2.0°C	~2.0°C	~1.5°C	~3.0°C
Renewable energy by 2050	c. 85%	c 90%	c. 90%	c. 90%	c. 90%
Physical risk level (longer term)	High	Medium	Medium	Low-Medium	High
Transition risk level (shorter term)	Low	High	Medium	High	High

Source: WTW

SECTION 3: SCENARIO ANALYSIS

CLIMATE SCENARIOS

As noted in Section 2, the Trustee has used scenario analysis as at 31 March 2024 to understand if the funding and investment strategy is resilient to the potential impact of climate change. The scenario analysis has considered two approaches:

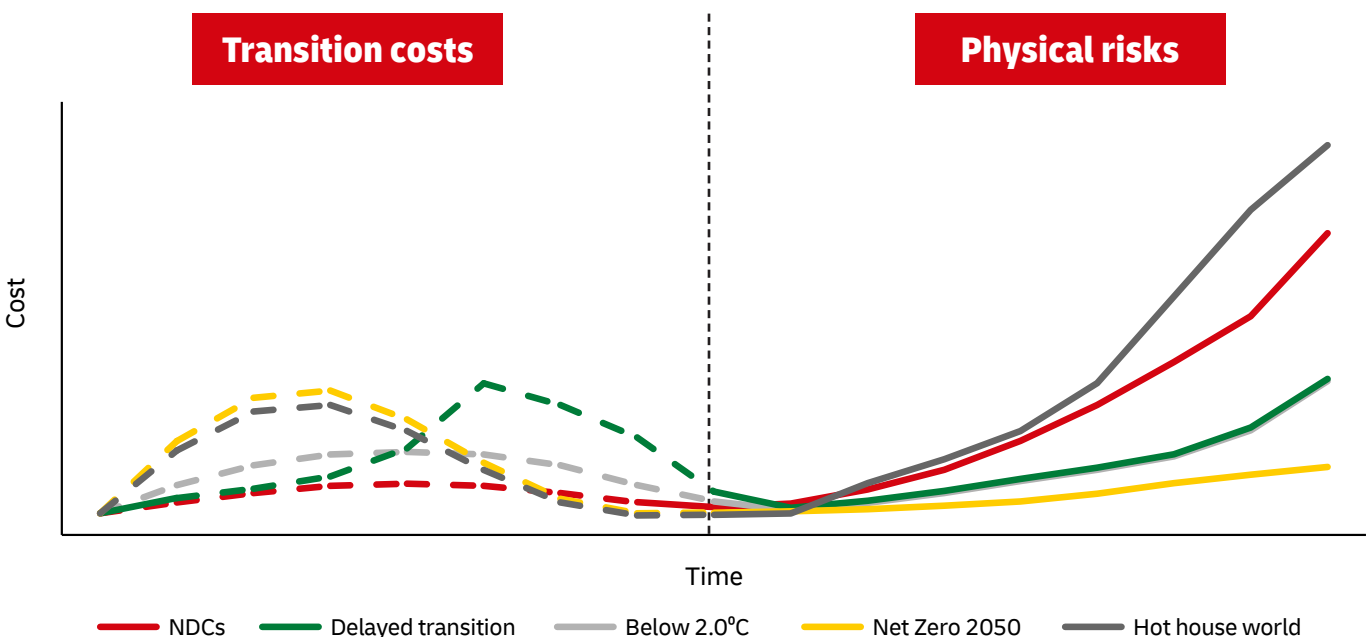
- i. the impact of climate-related risks as drags on asset returns and liabilities for the DB Sections that are felt each year and materialise over the next 15-20 years. This analysis was used to understand the impact over the medium-term i.e. to 2030.
- ii. the potential impact of the market suddenly pricing in each of these scenarios instantaneously i.e. as a climate shock, which assumes the entire cost of climate change is capitalised immediately. This analysis was used to understand the impact over the short-term i.e. in any one-year period.

With the exception of the Tibbett and Britten Section, as the impact of the scenarios on the timeframe to expected full funding is limited (as described below), the Trustee does not feel it is necessary to revise the Fund's approach to funding or the investment strategy as a result of the impact of climate-related risks. For the Tibbett and Britten Section, the worst scenario considered does delay the timeframe to full funding significantly. The Trustee expects to take this into account when updating its funding strategy as part of the Plan's actuarial valuation as at 31 March 2024. The Trustee notes that, as climate change unfolds, the impacts will be taken into account in future actuarial valuations. The analysis below does not allow for any future changes in funding or investment strategy in response to climate change or other external factors.

When the Trustee carries out the scenario analysis again in 2027 (or sooner if deemed appropriate), the choice of scenarios will be reviewed to ensure that they remain appropriate for the Fund.

Transition and Physical risks in different scenarios

The Trustee has considered the impact of transition and physical risks in the different climate scenarios. In the graph below, transition risks are represented by the dotted segments of the lines whilst the solid segments represent physical risks. The scenarios which see greater transition initially and therefore transition costs, also see lower levels of costs arising due to the physical impact of climate change in the long run. This is most obvious in the Net Zero 2050 scenario, where the transition costs are material, but this results in the lowest physical costs. In the long run we would expect asset returns to be better in the Net Zero scenario rather than the Nationally Determined Contributions (NDCs) scenario, but it may be many decades of physical costs before this outcome is reached.



Source: WTW, for illustrative purposes only

SECTION 3: SCENARIO ANALYSIS

METHODOLOGY

Assumptions

The scenarios assume a 'base case' scenario, which reflects what is currently priced into the market. The deviance from the base case under each scenario reflects the impact of climate-related risks on the DB Sections of the Plan. The scenario analysis has been considered for each Section separately. The results for all Sections except the Tibbett and Britten Section are similar because the Sections have similar funding levels and the same investment strategy. The scenario analysis has therefore been presented in aggregate for these Sections in this report. The Tibbett and Britten Section has been presented separately as its lower funding level results in different expected outcomes under climate scenario analysis.

For all analysis, no allowance has been made for any de-risking after 2030. However, it is anticipated that there is likely to be a reduction in investment risk after this point, once the DB Sections are fully funded on a gilts + 0.5% p.a. basis. In addition, a 50% longevity hedge ratio has been assumed which has been kept constant through time to reflect the overall current position of the DB Sections.

The impact of physical and transition risks on cashflows will also vary over time with the transition risk being front-end loaded and the physical risk being back-end loaded. It is assumed that the transition risk impact in each scenario bites over the first eight years and the physical risk over the remainder of the period.

There were no data gaps that limited the analysis undertaken.

Limitations of the analysis

The purpose of the scenarios is to help UK pension fund trustees meet their regulatory requirements by assessing whether their investment and funding strategies are resilient to the impacts of climate change. They may not be suitable for any other purpose e.g. public policy making.

The scenarios are designed for risk management and therefore make no allowance for upside events (e.g. material technological breakthroughs around clean energy) and focus on the most plausible downside events. The presence of tipping points and feedback loops mean that materially worse outcomes could occur, particularly over longer time horizons.

Scenarios are derived on the basis of all other things being equal, which is unlikely to be the case in practice. For example, the climate transition could lead to higher or lower levels of global inflation, growth or interest rates, which would in turn have material impacts on investment returns. These second order effects and feedback loops are hard to estimate.

The impact of climate change on investment returns depends upon the extent to which actual outcomes are in line with market pricing. The market pricing of climate risk is almost impossible to observe and therefore broad brush assumptions must be made around what is currently priced in and when and to what extent market pricing will move.

Climate science is a rapidly evolving and uncertain field. The Trustee is aware of the debate underway which challenges whether climate modelling commonly used by the UK pension industry truly reflects the climate science and may consider alternative scenarios in the future, but for now notes that there can be no guarantee that any given level of transition in the scenarios will result in the associated level of warming and physical risk assumed.

A proxy investment portfolio based on current broad market indices is used in the climate model. This may not fully reflect the Plan's investment approach or the actual portfolio composition over time, as both the Plan's portfolio and the composition of market cap indices will evolve, most likely in the direction of reduced climate risk.

SECTION 3: SCENARIO ANALYSIS

LIFE EXPECTANCY

Impact of climate on UK mortality rates

Climate change may have both direct and indirect impacts on mortality rates and can also increase or decrease mortality rates. Direct impacts relate to increases in global (and UK) temperatures. A warmer winter could see a reduction on 'excess' winter deaths, although this may be offset by more summer heat waves, more weather-related disruption and larger swings in temperature. It has been assumed that small increases in global temperatures (like under the Below 2°C scenario) are more likely to increase UK life expectancy, but more dramatic increases (like under the Hot House World scenario) would be more likely to reduce UK life expectancy.

Indirect impacts are likely to arise due to changes in society to combat or adapt to climate change. Potential indirect impacts are outlined in the table below:

Reduction in mortality rates	Increase in mortality rates
Economic gains from positive action on climate change	Disruption to water supplies
Healthier diets	Less healthy diets
Healthier lifestyles	Deterioration in health services
Healthier environments (e.g. less pollution)	Less healthy environment

The impact of climate change on the mortality experience has been adjusted to reflect the longevity hedge.

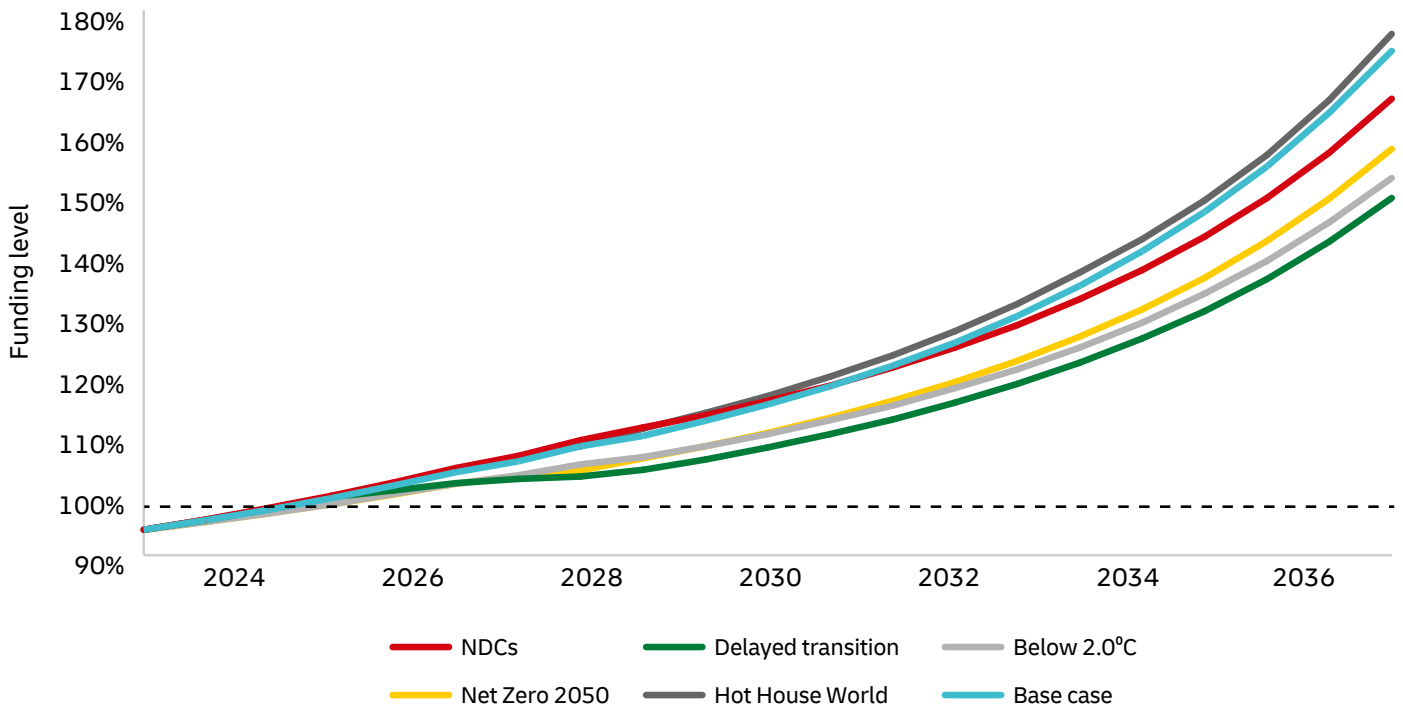
Source: WTW

SECTION 3: SCENARIO ANALYSIS

IMPACT ON JOURNEY PLAN

DB Sections – excluding Tibbett and Britten Section: impact over the medium term

The chart below shows the journey plan under the five scenarios vs. the current base case journey plan. This allows for the impact on assets and liabilities.



	Average drag on expected returns p.a. (Years 1–20)	Average drag on liabilities p.a. (Years 1–20)	Expected year of full funding
Base case	-	-	2028
Nationally Determined Contributions	-0.4%	-0.1%	2028
Delayed transition below 2°C	-0.4%	0.0%	2028
Below 2°C	-0.2%	0.1%	2028
Net Zero 2050	-0.2%	0.0%	2028
Hot House World	-0.5%	-0.3%	2028

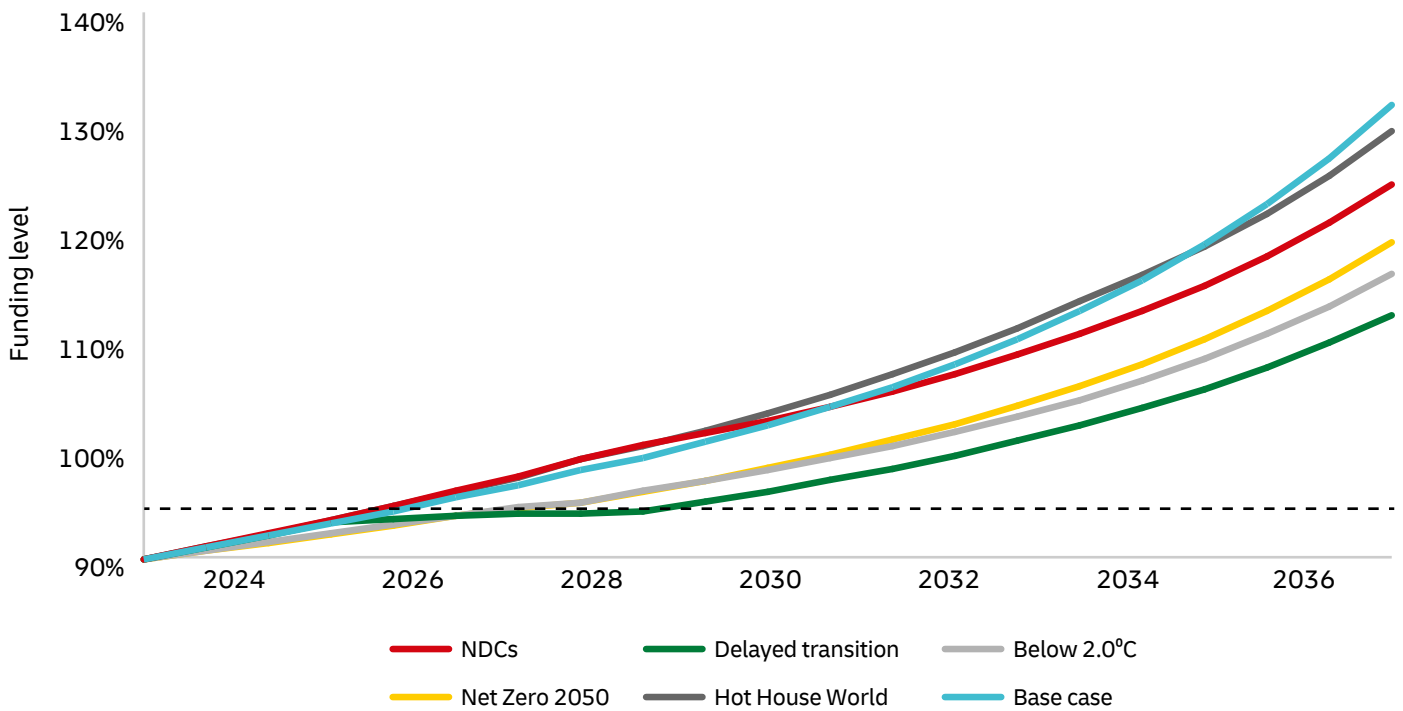
The results illustrate that, over the medium term, the impact on the journey plan is limited under all scenarios. Due to the impact of lower longevity improvements, the Hot House World and Nationally Determined Contributions scenarios lead to the same expected funding level in 2030 as under the current journey plan. The other three scenarios have slightly lower projected funding levels in 2030, however all are projected to reach a fully funded position in 2028.

SECTION 3: SCENARIO ANALYSIS

IMPACT ON JOURNEY PLAN

Tibbett and Britten Section: impact over the medium term

The chart below shows the journey plan under the five scenarios vs. the current base case journey plan. This allows for the impact on assets and liabilities.



	Average drag on expected returns p.a. (Years 1–20)	Average drag on liabilities p.a. (Years 1–20)	Expected year of full funding
Base case	-	-	2033
Nationally Determined Contributions	-0.3%	-0.1%	2032
Delayed transition below 2°C	-0.4%	0.0%	2038
Below 2°C	-0.2%	0.1%	2036
Net Zero 2050	-0.2%	0.0%	2036
Hot House World	-0.5%	-0.3%	2032

Due to the lower assumed current funding level (90%), the expected year of reaching a fully funded position is 2033 under the current journey plan. This is marginally better (2032) for the Nationally Determined Contributions and Hot House World scenarios, but for the other three scenarios the position worsens – the Delayed Transition Below 2°C scenario is projecting a fully funded position by 2038 (assuming no change to the level of deficit contributions or investment strategy).

SECTION 3: SCENARIO ANALYSIS

SHOCK ANALYSIS

DB Sections – excluding Tibbett and Britten Section: impact over the short term

The analysis over the short term assumes that the impact on the assets and liabilities occurs as an instantaneous shock (i.e. the entire climate change impact is capitalised instantaneously). In this analysis, it has been assumed that markets overprice the outcomes by a factor of two.

The analysis is shown in the table below. In each case, the deficit increases and the funding level decreases.

For comparison, the 1 in 20 Value at Risk (VaR) measure based on conventional investment risk modelling is £226m for these sections of the Plan as at the same date. This is broadly similar to the shock to the deficit in the Below 2°C scenario, slightly worse than the Net Zero 2050 scenario and less than the shocks in the other three scenarios.

The Trustee recognises that the entire impact of climate change on assets being capitalised at once is an unlikely scenario and not surprisingly potentially extreme compared to a 1 in 20 event, but nevertheless this shows the risk of early pricing.

Scenario	Asset shock (£m)	Liability shock (£m)	Change in deficit (£m)	Immediate change in funding level
Nationally Determined Contributions	-339	-47	292	-11%
Delayed transition below 2°C	-292	-20	272	-10%
Below 2°C	-178	+33	211	-8%
Net Zero 2050	-200	-7	193	-7%
Hot House World	-481	-80	401	-16%

Source: WTW

SECTION 3: SCENARIO ANALYSIS

SHOCK ANALYSIS

Tibbett and Britten Section: impact over the short term

The analysis over the short term assumes that the impact on the assets and liabilities occurs as an instantaneous shock (i.e. the entire climate change impact is capitalised instantaneously). In this analysis, it has been assumed that markets overprice the outcomes by a factor of two.

The analysis for the Tibbett and Britten Section is shown in the table below. In each case, the deficit increases and the funding level decreases.

For comparison, the 1 in 20 Value at Risk (VaR) measure based on conventional investment risk modelling is £61m for this section as at the same date. This is broadly similar to the shock to the deficit in most of the scenarios and significantly less than the shock in the Hot House World scenario.

The Trustee recognises that the entire impact of climate change on assets being capitalised at once is an unlikely scenario and not surprisingly potentially extreme compared to a 1 in 20 event, but nevertheless this shows the risk of early pricing.

Scenario	Asset shock (£m)	Liability shock (£m)	Change in deficit (£m)	Immediate change in funding level
Nationally Determined Contributions	-87	-13	74	-10%
Delayed transition below 2°C	-75	-6	70	-10%
Below 2°C	-46	+9	55	-7%
Net Zero 2050	-52	-2	50	-7%
Hot House World	-124	-22	102	-14%

Source: WTW

SECTION 4: RISK MANAGEMENT

IDENTIFYING, ASSESSING AND MANAGING RISKS

The Trustee maintains a risk register which identifies risks that have the potential to impact on the Plan's ability to achieve its objectives. ESG risks (including climate-related risks) are included within the Plan's risk register so are integrated into the Plan's risk management.

Each risk is identified and the causes and consequences are populated and then scored from 1–5 based on inherent likelihood and inherent impact. The results are multiplied to arrive at an inherent risk score. The steps taken to mitigate and effectively manage each risk are identified through a 'three lines of defence' system. The three lines of defence are as follows:

1 First Line of Defence: In-house teams/Advisers/Committee that set and operate ESG policies which reflect investment beliefs

- The investment beliefs for the DB Sections of the Plan reflect the Trustee's position on sustainable investment.
- The DB Statement of Investment Principles sets out the Trustee's policy on responsible investment and sustainability, including its priorities for investment stewardship.
- The Trustee has a Climate Risk Policy in place which outlines the arrangements in place to manage climate risk, including review of climate-related metrics annually and review of climate scenario analysis at least triennially.
- The Plan Secretary has oversight of the IIC's work in relation to ESG.

2 Second Line of Defence: Committee/Trustee that monitors and oversees compliance with and effectiveness of, the ESG policies

- The Trustee has delegated responsibility for compliance of its ESG policy to the IIC. This includes undertaking the governance requirements relating to ESG, such as production of the annual Implementation Statement and for monitoring investment managers regarding their ESG policies and practices.
- The IIC holds regular meetings with the investment managers to satisfy itself that they continue to carry out their work competently and have the appropriate knowledge and experience to manage the investments of the Fund. The investment managers are also reviewed in light of their approach to material ESG risks.
- The IIC requires all appointed managers to report regularly to the IIC and disclose all voting and engagement activity undertaken on its behalf. The IIC monitors the approach of each investment manager, focusing on the Trustee's stewardship priorities. In particular, the IIC reviews the positive outcomes each manager has achieved through its engagement activities and the alignment of the managers' stewardship activities with the Fund's long-term investment horizon. These activities are summarised by the DB Investment Adviser in its annual Stewardship & Engagement report.
- The covenant adviser incorporates ESG considerations in its assessment and monitoring advice on DPAG's covenant.
- The Trustee Board and its Committees undertake training on ESG topics from time to time to keep their knowledge up to date.
- The Committees are supported by their professional advisers and the in-house teams.




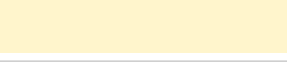
3 Third Line of Defence: Third parties that provide independent assurance

- For the DB assets, the Bank of New York Mellon Corporation is used as an external independent performance monitoring agency to consider the Fund's and investment managers' performance against the benchmarks against which they are monitored. They also provide reporting on ESG metrics, although it is noted that currently the total DB assets covered by the ESG reporting is low and steps are being taken to increase the coverage.
- The Trustee is a signatory to the UK Stewardship Code.

SECTION 4: RISK MANAGEMENT

IDENTIFYING, ASSESSING AND MANAGING RISKS

After taking into account the three lines of defence, the residual likelihood and residual impact are scored again from 1-5 and multiplied to give the residual risk score. The key to the risk scores is summarised in the table below:

	Risk Score	Number
	Critical	10-25
	High	6-9
	Moderate	3-5
	Minor	1-2

The ESG risks in the Plan's risk register are normally reviewed annually and there are various controls in place to address them, which are owned by the Secretariat team and IIC.

No changes were made to ESG risks in the risk register during the 12-month period to 31 March 2024. The inherent likelihood continued to be scored as 3 and the inherent impact as 5 over a one-year time horizon, resulting in an Inherent Risk Score of 15, which is viewed as Critical. The three lines of defence were then applied to calculate a residual Risk Score. The residual likelihood continued to be assessed as 1 and the residual impact as 3, resulting in a Residual Risk Score of 3 which is assessed as Moderate. However, since 31 March 2024, the ESG scores in the risk register have been reviewed and amended. The inherent likelihood is now scored as 4 and the residual likelihood as 3. The impact scores are unchanged, resulting in an Inherent Risk Score of 20 (Critical) and a Residual Risk Score of 9 (High).

In addition, the output from the climate scenario analysis provides a holistic overview of the ways in which climate-related risks may affect the DB Sections. The output has been designed to be considered in the context of the wider risks faced by the Plan and will allow the Trustee to prioritise the risks which pose the most significant potential for loss and are most likely to occur.

During the reporting year, the ARMC progressed the work associated with the Effective System of Governance (ESOG) as prescribed by the Pensions Regulator's new General Code of Practice, with help from the Risk Management Adviser (Muse Advisory). It also completed its first Own Risk Assessment (ORA), significantly ahead of the statutory deadline for doing so.

The IIC will continue to identify, assess, manage and monitor climate-related risks and report its findings to the ARMC.

SECTION 5: METRICS AND TARGETS

OVERVIEW

Metrics

To inform its understanding and monitoring of the Fund's climate-related risks and opportunities, the Trustee has selected the following metrics.

Metric type	Metric name (unit)	High-level methodology*
Absolute emissions metric	Total Emissions (tonnes of CO ₂ e emitted).	The sum of each entity's most recent reported or estimated greenhouse gas (GHG) emissions attributable to the Fund's investment in the entity, where data is available. Emissions are attributed evenly across equity and debt investors, based on enterprise value of invested capital. Reported in tonnes of CO ₂ equivalent.
Emissions intensity metrics	Carbon Footprint (tonnes of CO ₂ e/\$m of asset value).	The total GHG emissions described above, divided by the value of the invested portfolio in \$m which has data available. Reported in tonnes of CO ₂ equivalent per \$1m invested.
	Weighted Average Carbon Intensity ('WACI') (tonnes of CO ₂ e/\$m of revenue).	The GHG emissions of each company divided by the company's revenue in \$m and aggregated across the portfolio based on the portfolio weights of the investee companies. Reported in tonnes of CO ₂ equivalent per \$1m of revenue. (Not calculated for non-corporate entities without revenue.)
Additional metric	OLD: Climate-Related Engagement (Proportion %)	Proportion of the portfolio's top 10 contributors (by number) to Scope 1 and 2 GHG emissions, held at year-end, for which engagement on climate-related issues took place over the previous year.
	NEW: Data quality (% reported, estimated and unavailable)	The proportion of the portfolio (by weight) for which GHG emissions data is reported, estimated or unavailable. 'Reported' emissions are reported by the emitting entity, whereas 'estimated' emissions are estimated by a third party and so are generally considered to be of lower quality. This is a new metric for this year's report.
Portfolio alignment metric	Science-Based Targets (Proportion %)	The proportion of the portfolio (by weight) of holdings with Science-Based Targets to reduce their GHG emissions, demonstrated by a target validated by the Science-Based Targets initiative ('SBTi') or equivalent (e.g. a company or asset that the asset manager deems has a science-based emissions target). This measures the extent to which the Fund's investments are aligned to the Paris Agreement goal of limiting global average temperature rises to 1.5°C.

*For assets other than Liability-Driven Investments ('LDI'). The methodology for LDI assets is described in the relevant sub-section below. Wherever possible, consistent methodologies have been used to calculate the metrics for the other asset classes.

SECTION 5: METRICS AND TARGETS

OVERVIEW

Choice of metrics

This year, the Trustee has made the decision to replace the 'additional metric' it reports on from 'climate-related engagement' to 'data quality'. Climate-related engagement still remains important to the Trustee and it continues to monitor progress in this area. However, it has proved difficult to obtain robust data for this metric and draw meaningful conclusions from it. This is partly because the top 10 contributors to emissions from each portfolio change over time. In addition, different managers may record engagements in different ways and it is not always possible to determine whether a particular engagement is meaningful or not. The Trustee will therefore review information on climate-related engagements qualitatively rather than via a quantitative metric going forwards. However, it has still reported progress against the engagement target it set two years ago later in this section.

The Trustee has replaced this metric with data quality, to help the Trustee monitor the quality and completeness of the emissions data it receives. This is one of the additional metrics recommended in the statutory guidance for TCFD reporting and is expected to be available for all mandates. It has also decided to replace climate-related engagement as the Trustee's chosen target with a new target based on the proportion of the portfolio with a Science-Based Target (see page 39).

The Trustee has broadened the definition of the portfolio alignment metric to 'Science-Based Targets', i.e. targets validated by the Science-Based Targets initiative (SBTi) **or equivalent**, which has enabled the metric to be extended to non-corporate mandates, including gilts. The Trustee has also switched from presenting a number (e.g. number of companies in the portfolio with a Science-Based Target) to a proportion (the proportion of the portfolio, by weight of assets, with a Science-Based Target), to be more informative and consistent with the DC Section's reporting.

The Trustee will continue to review its choice of climate-related metrics from time to time to ensure they remain appropriate for the Plan.

The IIC investigated the feasibility of reporting on broader ESG metrics for the Fund's assets, such as the diversity and independence of board members and the extent of any exposure to companies in violation of the UN Global Compact principles. It concluded that insufficient data is currently available, but will consider it again next year.

What are Scope 1, 2 and 3 emissions?

Scope 1 emissions are direct emissions from company-owned and controlled resources. In other words, emissions released to the atmosphere as a direct result of a set of activities, at a firm level.

Scope 2 emissions are indirect emissions from the generation of purchased energy, from a utility provider. In other words, all GHG emissions released in the atmosphere, from the consumption of purchased electricity, steam, heat and cooling.

Scope 3 emissions are all indirect emissions – not included in Scope 2 – that occur in the value chain of the reporting company, including both upstream and downstream emissions. In other words, emissions that are linked to the company's operations but which it does not directly control.

SECTION 5: METRICS AND TARGETS

OVERVIEW

Data availability

Data for the metrics has been sourced from the investment managers and sense-checked by the DB Investment Adviser. The table on the next page summarises the mandates where emissions data was available.

The metrics have been calculated based on portfolio holdings as at 31 March 2024, except where otherwise stated. Last year, portfolio holdings as at 31 December 2022 were generally used. An effective date of 31 March has been used this year for all Sections of the Plan so that data was collected after the recent investment strategy changes for the DC section. The Trustee expects to collect metrics as at 31 March in future years.

The Trustee notes that the emissions data available for the underlying holdings often relates to an earlier period than the measurement date due to reporting lags. Corporate emissions data typically relates to 12-month periods aligned to the corporate reporting year. As year-ends vary by company, the emissions data will be from various periods.

The Trustee has discussed data quality and recognises that there remains a long way to go to improve climate-related data. Additionally, the Trustee would like to collect data relevant to its other stewardship priorities. It is therefore increasing its attention and focus in relation to data quality issues and will now monitor emissions data quality as a metric.

There remains 44% of the Fund's total assets where no Carbon Emissions data is yet available. This is partly driven by the following mandates, which currently accounts for 19% of the Fund's total assets, where the managers currently do not provide any data:

- Angelo Gordon (Private Debt)
- Ares (Infrastructure)
- BlackRock (Global Credit Opportunities)
- BlackRock (Global Credit Opportunities II)
- LGIM (Collateral for the Longevity Hedge)
- LGIM (Synthetic Equities)
- Partners Group (Private Equity)
- Schroders (Life Insurance Linked Securities).

The IIC intends to discuss the remaining data gaps with the relevant managers as part of the annual manager meetings, to encourage them to improve the data they provide. The overall data coverage score is also partly driven by data coverage within the underlying mandates, where managers have provided some data but still have some data gaps for their portfolio.

It is worth noting that, as data availability improves, it is likely that the Carbon Emissions of the DB Sections will increase over the next few years due to more data becoming available.

The Trustee accepts that there is an ongoing concern with the lack of consistency, availability and quality of data to quantify the exposure to climate risk. The Trustee proactively raises data quality with investment managers in review meetings and expects that through continuous challenge this position is likely to improve over time.

The emissions metrics will be calculated for the Fund at least annually.

The Trustee notes that throughout the metrics section, figures may not sum due to rounding.

SECTION 5: METRICS AND TARGETS

OVERVIEW

Overview of emissions data available

Manager	AUM (% of total DB assets)		% of portfolio for which carbon emissions data is available		
	31 March 2024	31 December 2022	31 March 2024		31 December 2022
			Scopes 1 and 2	Scope 3	Scopes 1, 2 and 3
Aviva AIIF	3%	3%	86%	86%	80%
Aviva Lime	7%	7%	89%	89%	93%
Arcmont DLF III	3%	3%	100%	100%	100%
Arcmont SLF I	1%	1%	100%	100%	100%
Arcmont SLF II	3%	3%	100%	100%	100%
Bridgewater PA – long positions	3%	3%	57%	57%	23%
CQS	6%	6%	69%	68%	74%
Loomis	5%	4%	78%	78%	94%
M&G Secure Income	6%	6%	36%	34%	25%
M&G Secured Finance	8%	7%	2%	2%	42%
M&G CGP	6%	7%	8%	8%	23%
Wellington	4%	4%	64%	63%	77%
LGIM LDI	26%	26%	100%	100%	62%
Overall	81%	81%	56%	56%	51%
Bridgewater PA – short positions	n/a	n/a	50%	50%	13%
Data Unavailable	19%	19%	44%	44%	49%

Source: Investment Managers

Notes to this table:

1. Please note that numbers may not sum due to rounding.
2. For further information on data availability, including how the available data is made up of reported vs estimated data, see the 'Data quality' section of this report.
3. The data for the Aviva AIIF and Aviva Lime is as at 31 December 2023 as data was not available as at 31 March 2024. Aviva did not provide separate coverage data for Scope 1 and 2 emissions and Scope 3 emissions, so coverage has been assumed to be the same for both.
4. For Bridgewater, emissions for long and short positions have been presented separately in line with industry best practice, which differs from the approach taken last year. Bridgewater did not provide separate coverage data for Scope 1 and 2 emissions and Scope 3 emissions, so coverage has been assumed to be the same for both. Data is not available for the long and short positions' relative exposure, so the AUM shown for the long position is the overall allocation to Bridgewater.
5. The LDI data availability figures at 31 March 2024 relate to gilt holdings only. This is not consistent with the figures at 31 December 2022 which also include cash held as collateral.
6. For the M&G Secure Income Fund, data for the real asset holdings (which made up 25% of the Secure Income Fund's assets) was not separated out between Scope 1 and 2 and Scope 3 emissions. All the emissions have been assumed to be Scope 3, given the nature of the real assets held.

SECTION 5: METRICS AND TARGETS

TOTAL EMISSIONS (NON-LIABILITY-DRIVEN INVESTMENTS ('LDI') ASSETS)

This section sets out the total carbon emissions for non-LDI assets, where data has been provided. The non-LDI mandates that have provided data make up 55% of total DB Sections' assets as at 31 March 2024. Total carbon emissions data is available for c. 56% of these assets, which is c. 31% of the Fund's total assets.

The 2024 figures have not been pro-rated for missing data, therefore the carbon emissions only relate to a subset of the non-LDI assets. If more data was available, the figures would be higher. In future years, the emissions figures may increase as data availability increases. When preparing this report, the Trustee has not been able to determine whether data reported in previous years has been pro-rated, which means the 2022 figures below do not necessarily represent a like-for-like comparison.

Total Carbon Emissions (Tonnes CO₂e, for long exposures only)

	31 March 2024	31 December 2022
Scopes 1 and 2	34,359	53,813
Scope 3	180,429	131,625

The table on the following page shows the GHG emissions for each of the Fund's non-LDI managers, split into 'Scopes 1 and 2' and 'Scope 3' emissions, as at 31 March 2024 and 31 December 2022.

The total Scope 1 and 2 carbon emissions for the Fund's non-LDI mandates was 34,359 tonnes CO₂e, with the largest contributor to emissions being the Loomis portfolio, which contributed 39% to the total Scope 1 and 2 carbon emissions of the Fund. The total Scope 1 and 2 emissions for the Fund have decreased from 53,813 tonnes CO₂e as at 31 December 2022. This is partly driven by reduced data coverage within two of the M&G mandates, resulting in a much lower total emissions figure compared to 2022. There was also a reduction in emissions across some of the other mandates, with the most significant reduction being in the CQS mandate.

The total Scope 3 carbon emissions for the Fund's non-LDI mandates was 180,519 tonnes CO₂e, with the largest contributor to emissions again being from the Loomis mandate, which contributed 41% to the total Scope 3 carbon emissions of the Fund. The total Scope 3 emissions for the Fund has increased from 131,625 tonnes CO₂e as at 31 December 2022 which is predominantly driven by improved Scope 3 data coverage, particularly for the Bridgewater mandate (as seen in the table on the following page).

SECTION 5: METRICS AND TARGETS

TOTAL EMISSIONS (NON-LDI ASSETS)

Carbon Emissions (Tonnes CO₂e) – by mandate

Manager	Scopes 1 and 2		Scope 3	
	31 March 2024	31 December 2022	31 March 2024	31 December 2022
Aviva AllIF	149	250	124	255
Aviva Lime	6	6	237	274
Arcmont DLF III	3,828	2,816	7,382	10,177
Arcmont SLF I	440	649	1,919	2,699
Arcmont SLF II	1,158	1,155	7,069	4,009
Bridgewater PA – long positions	4,806	3,714	33,637	n/a
CQS	6,205	15,022	19,034	15,589
Loomis	13,482	12,065	74,044	78,857
M&G Secure Income	104	9,226	7,314	3,617
M&G Secured Finance	128	5,329	1,113	n/a
M&G CGP	346	195	4,321	n/a
Wellington	3,707	3,386	24,235	16,148
Overall Fund (long exposures only)	34,359	53,813	180,429	131,625
Bridgewater PA – short positions	-3,092	n/a	-20,784	n/a

Notes to this table:

- Figures relate only to holdings with data. Total emissions would be higher, both for individual mandates and for the Fund overall, if more data was available.
- Please note that numbers may not sum due to rounding.
- For information on which proportion of each mandate emissions data is available for, see the 'Overview of emissions data available' table. Information on how this data is split between estimated and reported information can be found in the 'Data quality' section.
- The data for the Aviva AllIF and Aviva Lime is as at 31 December 2023 as data was not available as at 31 March 2024. The Aviva data for 31 December 2022 has been restated in this report, based on the data received from Aviva this year.
- Scope 3 emissions data was not available for Bridgewater, M&G Secured Finance or M&G CGP as at 31 December 2022.
- For Bridgewater, the emissions have been presented separately for long and short positions in line with industry best practice, which differs from the approach taken last year. For the purpose of total Fund emissions, the short positions' emissions have been excluded. Last year, the long and short positions were combined and separate data is not available for a like-for-like comparison.
- For the M&G Secure Income Fund, data for the real asset holdings was not separated out between Scope 1 and 2 and Scope 3 emissions. All the emissions have been assumed to be Scope 3, given the nature of the real assets held.

SECTION 5: METRICS AND TARGETS

CARBON FOOTPRINT (NON-LDI ASSETS)

This section sets out the carbon footprint for the Fund's non-LDI assets, where data has been provided. The non-LDI mandates that have provided data make up 55% of total Fund assets as at 31 March 2024. Carbon footprint data is available for c. 56% of these assets, which is c. 31% of the total Fund assets.

Carbon Footprint (Tonnes CO₂e per USD million invested, long exposures only)

	31 March 2024	31 December 2022
Scopes 1 and 2	27	44
Scope 3	144	88
Scopes 1, 2 and 3	171	132

The table below shows the Carbon Footprint for each of the Fund's non-LDI managers, split into 'Scopes 1 and 2' and 'Scope 3' emissions, as of 31 March 2024 and 31 December 2022.

The total Scope 1 and 2 Carbon Footprint for the Fund's non-LDI mandates was 27 tonnes CO₂e/\$m as at 31 March 2024, with the largest contributor to emissions being the Loomis mandate, which contributed 39% to the overall Scope 1 and 2 Carbon Footprint of the Fund. The overall Scope 1 and 2 Carbon Footprint for the Fund has decreased from 44 tonnes CO₂e/\$m as at 31 December 2022.

The total Scope 3 Carbon Footprint for the Fund's non-LDI mandates was 144 tonnes CO₂e/\$m, with the largest contributor to emissions being Loomis mandate, which contributed 41% to the overall Scope 3 Carbon Footprint of the Fund. The Fund's overall Carbon Footprint for Scopes 1, 2 and 3 has increased from 132 tonnes CO₂e/\$m as at 31 December 2022 to 171 tonnes CO₂e/\$m as at 31 March 2024.

There have been some large changes in Carbon Footprint for individual mandates. Many of these are due to improvements in data quality or changes in data interpretation, so it is not possible to draw reliable conclusions from the figures presented on the next page.

SECTION 5: METRICS AND TARGETS

CARBON FOOTPRINT (NON-LDI ASSETS)

Carbon Footprint (Tonnes CO₂e per USD million invested) – by mandate

Manager	Scopes 1 and 2		Scope 3	
	31 March 2024	31 December 2022	31 March 2024	31 December 2022
Aviva AllIF	1	34	1	35
Aviva Lime	0	0	1	14
Arcmont DLF III	32	22	62	80
Arcmont SLF I	9	10	41	40
Arcmont SLF II	9	10	55	33
Bridgewater PA – long positions	66	28	462	n/a
CQS	42	92	127	77
Loomis	99	107	541	590
M&G Secure Income	4	314	87	28
M&G Secured Finance	18	292	159	n/a
M&G CGP	21	24	255	n/a
Wellington	35	32	234	167
Overall Fund (long exposures only)	27	44	144	88
Bridgewater PA – short positions	48	n/a	325	n/a

Notes to this table:

1. The data for the Aviva AllIF and Aviva Lime is as at 31 December 2023 as data was not available as at 31 March 2024. Aviva provided carbon footprint data relative to GBP £m invested, rather than USD \$m invested. The data has been converted to be relative to USD \$m invested using a currency conversion rate on 31 December 2023 of 1.27390.
2. Arcmont and M&G provided carbon footprint data relative to GBP £m invested, rather than USD \$m invested. The data has been converted to be relative to USD \$m invested using a currency conversion rate on 31 March 2024 of 1.26227.
3. Scope 3 carbon footprint data was not available for Bridgewater, M&G Secured Finance or M&G CGP as at 31 December 2022.
4. For Bridgewater, the emissions have been presented separately for long and short positions in line with industry best practice, which differs from the approach taken last year. Last year, the long and short positions were combined and separate data is not available for a like-for-like comparison. For the purpose of total Fund emissions, the short positions' emissions have been excluded. The overall carbon footprint for the Fund has been calculated based on this figure and the data availability across the non-LDI assets.
5. For the M&G Secure Income Fund, data for the real asset holdings in the fund was not separated out between Scope 1 and 2 and Scope 3 emissions. All the emissions have been assumed to be Scope 3, given the nature of the real assets held.

SECTION 5: METRIC AND TARGETS

WEIGHTED AVERAGE CARBON INTENSITY (WACI) (NON-LDI ASSETS)

This section sets out WACI for the Fund's non-LDI assets, where data has been provided. This metric is only available for corporate assets, due to the use of revenue in its calculation methodology. The non-LDI mandates that have provided data make up 55% of total Fund assets as at 31 March 2024. WACI data is available for c. 56% of these assets, which is c. 31% of the total Fund assets.

The table below shows the WACI for each of the Fund's non-LDI managers, split into 'Scopes 1 and 2' and 'Scope 3' emissions, as of 31 March 2024 and 31 December 2022.

The total Scope 1 and 2 WACI for the Fund's non-LDI mandates was 94 tonnes CO₂e/\$m (long exposures only), with the largest contributor to WACI being the Aviva AIIIF.

The total Scope 3 WACI for the Fund's non-LDI mandates was 375 tonnes CO₂e/\$m (long exposures only), with the largest contributor to WACI again being the Loomis corporate bond mandate.

Some of the changes in figures since last year may be due to improvements in data quality or changes in data interpretation, so it is not possible to draw reliable conclusions from the figures presented below.

WACI (Tonnes CO₂e per USD million revenue) by mandate

Manager	Scopes 1 and 2		Scope 3	
	31 March 2024	31 December 2022	31 March 2024	31 December 2022
Aviva AIIIF	374	267	693	633
Aviva Lime	-	7	250	303
Arcmont DLF III	67	62	91	190
Arcmont SLF I	18	23	71	83
Arcmont SLF II	17	23	87	91
Bridgewater PA – long positions	106	52	803	n/a
CQS	55	90	49	70
Loomis	195	238	957	1,363
M&G Secure Income	41	27	472	n/a
M&G Secured Finance	26	56	411	n/a
M&G CGP	142	53	396	n/a
Wellington	132	123	485	448
Overall Fund (long exposures only)	94	88	375	413
Bridgewater PA – short positions	116	n/a	910	n/a

Notes to this table:

1. The data for the Aviva AIIIF and Aviva Lime is as at 31 December 2023 as data was not available as at 31 March 2024. For Lime, Aviva did not provide separate Scope 1 and 2 and Scope 3 WACI figures, so the total figure has been included under Scope 3, given the nature of the real assets held. Aviva provided WACI data relative to GBP £m revenue, rather than USD \$m revenue. The data has been converted to be relative to USD \$m revenue using a currency conversion rate on 31 December 2023 of 1.27390.
2. Scope 3 WACI data was not available for Bridgewater, M&G Secured Finance or M&G CGP as at 31 December 2022.
3. Arcmont and M&G provided WACI data relative to GBP £m revenue, rather than USD \$m revenue. The data has been converted to be relative to USD \$m revenue using a currency conversion rate on 31 March 2024 of 1.26227.
4. For Bridgewater, the emissions have been presented separately for long and short positions in line with industry best practice, which differs from the approach taken last year. Last year, the long and short positions were combined and separate data is not available for a like-for-like comparison. For the purpose of overall Fund WACI, the short positions have been excluded.
5. Overall Fund WACI has been calculated as a weighted average of the available WACI data provided, weighted by AUM with data available.

SECTION 5: METRICS AND TARGETS

CARBON ACCOUNTING FOR LIABILITY-DRIVEN INVESTMENTS ('LDI')

Methodologies

The methodology used in this year's climate report for calculating emissions metrics for the LDI portfolio differs from the methodology used last year. Emissions have been calculated for the government bond (gilts) holdings only. The method used this year is in line with guidance from the Partnership for Carbon Accounting Financials ('PCAF'), which was issued in December 2022 following public consultation. The Trustee has adopted this method on the advice of its new DB Investment Advisor, which expects it to become standard practice for calculating and reporting on government bond emissions data.

GHG emissions for government bonds are calculated on a different basis from the other asset classes, so cannot be compared with the other emissions figures shown in this report.

The emission figures in this report were calculated by the DB Investment Adviser using publicly available data sources. As suggested in the Statutory Guidance for TCFD reporting, Scope 1 and 2 emissions have been interpreted as the production-based emissions of the UK. Scope 3 emissions have been interpreted as the emissions embodied in goods and services imported by the UK and consumed within the UK (rather than re-exported).

Emissions intensity has been calculated as:

UK GHG emissions

PPP-adjusted GDP for the UK¹

GHG emissions have then been calculated as:

Emissions intensity x value of Plan's investment in gilts.

1. Purchasing Power Parity ('PPP') is a theory of long-term equilibrium in exchange rates based on relative prices. For example, if the price of a basket of goods in the UK is £100 and the same basket costs \$200 in the USA, then the PPP exchange rate would be £1:\$2. The PPP rate and the actual market exchange rate can differ.

The value of the Plan's investment in gilts has been calculated as the market value of the gilt exposure (including the repo loan amount) but not the swap positions. This is in line with the DB Investment Adviser's understanding of the typical interpretation of the Statutory Guidance by investment managers and consultancies as not requiring estimation of emissions for swap exposures at this time.

In the next section, data coverage for the LDI portfolio is based on the gilt exposure only and so is treated as 100%. The data is considered to be fully reported, as it is based directly on data provided by the UK government, rather than third-party estimates. The gilt exposure of the LDI portfolio is more than the total market value of the LDI holdings, due to the use of leverage in this mandate. However, the overall data quality for the Fund has been calculated by weighting the mandates using their market value.

Double-Counting

The emissions figures for gilts are based on the UK's total emissions which includes corporates, households and public sector emissions. The emissions from corporates can therefore be accounted for both through corporate bond holdings in the non-LDI mandates, as well as part of the emissions of the UK economy in the LDI mandate. This is in addition to potential double-counting within the non-LDI mandates where, for example, the Scope 1 and 2 emissions of one company contribute to the Scope 3 emissions of the companies which purchase its products, which may also be held by the Fund.

SECTION 5: METRICS AND TARGETS

CARBON ACCOUNTING FOR LDI

Carbon metrics for the LDI portfolio as at 31 March 2024

Portfolio	Gilt exposure at 31 March 2024 (£m)	Scopes 1 and 2		Scope 3	
		Emissions (tonnes CO ₂ e)	Emissions intensity (tonnes CO ₂ e per £m GDP)	Emissions (tonnes CO ₂ e)	Emissions intensity (tonnes CO ₂ e per £m GDP)
LDI portfolio	1,349	229,000	170	183,000	136

Comparison with metrics in last year's report

The LDI metrics from last year's climate report are shown on the following page. Please note that these numbers are not directly comparable with the table above as the calculation methodologies differ. In particular:

- This year's metrics are based on the overall gilt exposure within the LDI portfolio, made up of both physical gilt holdings and gilt repo. Last year, separate figures were provided for unlevered exposure (i.e. only including physical gilt holdings) and levered exposure (i.e. including gilt repo as well).
- This year's emissions calculations do not include cash held as collateral within the LDI mandate, whereas cash is included in the figures on the following page. As cash has a lower emissions intensity than gilts, this results in lower carbon footprint and WACI for the unlevered exposure.
- The emissions intensity metrics above are normalised based on PPP-adjusted GDP in this report, which is similar to the WACI calculation used for last year's report (in comparison, the carbon footprint provided in last year's report normalised emissions based on total capital stock). However, the WACI data is not directly comparable due to the inclusion of cash holdings in last year's calculations. The WACI for gilts alone was 140 tonnes CO₂e per \$m last year, compared to 170 tonnes CO₂e per £m above.
- Carbon emissions on the following page are calculated by multiplying carbon footprint by the market value of the portfolio, so are not comparable to the Scope 1 and 2 carbon emissions figures above.

SECTION 5: METRICS AND TARGETS

CARBON ACCOUNTING FOR LDI

Carbon metrics for the LDI portfolios, based on unlevered exposure as at 31 December 2022

Mandate	AUM (% of total DB assets)	Data availability (%)		Scope 1 and 2		
		Carbon emissions and Carbon footprint	WACI	Carbon emissions (tonnes CO ₂ e)	Carbon footprint (tonnes CO ₂ e per \$m total capital stock)	WACI (tonnes CO ₂ e per \$m GDP)
LGIM LDI (Exel)	12%	63%	68%	15,298	46	84
LGIM LDI (Ocean)	6%	63%	67%	8,218	48	88
LGIM LDI (T&B)	8%	59%	64%	8,913	40	73

Note: Carbon emissions have been scaled up to account for missing data.

Carbon metrics for the LDI portfolios, based on levered exposure as at 31 December 2022

Mandate	AUM (% of total DB assets)	Data availability (%)		Scope 1 and 2		
		Carbon emissions and Carbon footprint	WACI	Carbon emissions (tonnes CO ₂ e)	Carbon footprint (tonnes CO ₂ e per \$m total capital stock)	WACI (tonnes CO ₂ e per \$m GDP)
LGIM LDI (Exel)	30%	136%	140%	40,136	60	112
LGIM LDI (Ocean)	20%	171%	176%	27,709	63	120
LGIM LDI (T&B)	24%	151%	156%	30,613	60	112

Note: Carbon emissions have been scaled up to account for missing data.

SECTION 5: METRICS AND TARGETS

DATA QUALITY

This year, the Trustee has made the decision to replace the ‘additional metric’ it reports on from ‘climate-related engagement’ to ‘data quality’. This new metric should help the Trustee monitor the quality and completeness of the emissions data it receives. This is one of the additional metrics recommended in the statutory guidance for TCFD reporting.

Given that this is a new metric, comparator data as at 31 December 2022 is not available.

Scopes 1 and 2 Data quality

Fund	AUM (% of total DB assets)	Scope 1 and 2 Data quality			
		Available Data			Unavailable
		Reported	Estimated	Total	
Aviva AIIF	3%	86%	0%	86%	14%
Aviva Lime	7%	n/a	n/a	89%	11%
Arcmont DLF III	3%	0%	100%	100%	0%
Arcmont SLF I	1%	0%	100%	100%	0%
Arcmont SLF II	3%	0%	100%	100%	0%
Bridgewater PA – long positions	3%	n/a	n/a	57%	43%
CQS	6%	34%	35%	69%	32%
Loomis	5%	70%	9%	78%	22%
M&G Secure Income	6%	36%	3%	39%	61%
M&G Secured Finance	8%	2%	0%	2%	98%
M&G CGP	6%	5%	2%	8%	92%
Wellington	4%	57%	7%	64%	36%
LDI total (gilts only)	26%	100%	0%	100%	0%
Unavailable assets	19%	0%	0%	0%	100%
Overall Fund (long exposures only)	100%	39%	10%	56%	44%
Bridgewater PA – short positions	n/a	n/a	n/a	50%	50%

Notes to this table:

1. Please note that numbers may not sum due to rounding.
2. Aviva and Bridgewater did not provide separate coverage data for Scope 1 and 2 emissions and Scope 3 emissions, so coverage has been assumed to be the same for both.
3. The split between reported and estimated emissions was not available for the Aviva Lime and Bridgewater PA mandates. As such, the overall Fund reported and estimated emissions do not sum to the overall Fund available emissions.
4. The short positions in the Bridgewater mandate have been excluded from the overall Fund data coverage. Data is not available for the long and short positions’ relative exposure, so the AUM shown for the long position is the overall allocation to Bridgewater.

SECTION 5: METRICS AND TARGETS

DATA QUALITY

Scope 3 Data quality

Fund	AUM (% of total DB assets)	Scope 3 Data quality			
		Available Data			Unavailable
		Reported	Estimated	Total	
Aviva AIIF	3%	80%	0%	80%	20%
Aviva Lime	7%	0%	100%	100%	0%
Arcmont DLF III	3%	0%	100%	100%	0%
Arcmont SLF I	1%	0%	100%	100%	0%
Arcmont SLF II	3%	n/a	n/a	100%	0%
Bridgewater PA – long positions	3%	n/a	n/a	57%	43%
CQS	6%	22%	46%	68%	32%
Loomis	5%	70%	9%	78%	22%
M&G Secure Income	6%	32%	0%	32%	68%
M&G Secured Finance	8%	2%	0%	2%	98%
M&G CGP	6%	5%	3%	8%	92%
Wellington	4%	n/a	n/a	63%	37%
LDI total (gilts only)	26%	100%	0%	100%	0%
Unavailable assets	14%	0%	0%	0%	100%
Overall Fund (long exposures only)	100%	36%	14%	56%	44%
Bridgewater PA – short positions	n/a	n/a	n/a	50%	50%

Notes to this table:

1. Please note that numbers may not sum due to rounding.
2. Aviva and Bridgewater did not provide separate coverage data for Scope 1 and 2 emissions and Scope 3 emissions, so coverage has been assumed to be the same for both.
3. The split between reported and estimated emissions was not available for the Aviva Lime Bridgewater PA and Wellington mandates. As such, the overall Fund reported and estimated emissions do not sum to the overall Fund available emissions.
4. The short positions in the Bridgewater mandate have been excluded from the overall Fund data coverage. Data is not available for the long and short positions' relative exposure, so the AUM shown under the long position is the overall allocation to Bridgewater.

SECTION 5: METRICS AND TARGETS

COMPANIES WITH SCIENCE BASED TARGETS INITIATIVE ('SBTI') TARGETS IN PLACE

The Trustee has chosen the proportion of assets with Science-Based Targets in place as its forward-looking climate alignment metric. In most cases, these are investments where the underlying portfolio companies have set carbon emission reduction targets that have been verified by the external body, SBTi.

Only CQS, Loomis and Wellington were able to report on the number of companies with Science-Based Targets as at 31 March 2024. This data was also only available for the corporate bond holdings within each portfolio. The first table below therefore shows the proportion of each fund which is held in corporate bonds, as this is the part of each portfolio that the data relates to. Across the corporate bond holdings, the Wellington mandate had the largest proportion of assets with Science-Based Targets, with 33% of holdings having a Science-Based Target. CQS and Loomis had similar proportions of corporate bond holdings with Science-Based Targets, at 23% and 24% respectively.

The second table also shows the LDI mandates. The gilts managed by LGIM are considered to have a Science-Based Target because the UK has a Net Zero by 2050 emissions target written into law and sets shorter-term carbon budgets to achieve this target based on advice from the independent Committee on Climate Change. In line with the reporting on carbon emissions metrics for the LDI portfolio, the LDI alignment data is based on the gilt exposure in the portfolio only (i.e. it does not include the swap exposure or cash exposure). In practice, the gilt exposure of the portfolio is more than the total market value of the LDI holdings, due to the use of leverage in this mandate. However, the overall proportion of the Fund with Science-Based Targets has been calculated by weighting the mandates using their market value.

Based on the corporate bond and LDI data, c. 29% of overall Fund assets had a Science-Based Target in place as at 31 March 2024.

As explained on page 26, the Trustee has switched from presenting a number (e.g. number of companies in the portfolio with a Science-Based Target) to a proportion (the proportion of the portfolio, by weight of assets, with a Science-Based Target). Comparator data as at 31 December 2022 is therefore not available.

Proportion of assets with Science-Based Targets by Mandate

Corporate bonds:

Mandate	AUM (% of total DB assets)	Corporate bond holdings (% of mandate)	Corporate bond AUM (% of total DB assets)	% of corporate bond holdings in mandate with		
				Science-Based Target	No Science-Based Target	No Data
CQS	6%	68%	4%	23%	77%	0%
Loomis	5%	90%	4%	24%	70%	6%
Wellington	4%	64%	3%	33%	60%	8%
Overall	15%	74%	11%	26%	70%	4%

Please note numbers may not sum due to rounding.

Overall Fund:

Asset class	AUM (% of total DB assets)	% of holdings with		
		Science-Based Target	No Science-Based Target	No Data
Corporate bonds	11%	26%	70%	4%
LDI (gilts only)	26%	100%	0%	0%
Other assets	63%	0%	0%	100%
Overall	100%	29%	8%	63%

SECTION 5: METRICS AND TARGETS

NEW AMBITION AND TARGET

Net zero ambition

The Trustee has set an ambition to achieve Net Zero greenhouse gas emissions ('GHG') (Scopes 1, 2 and 3) by 2050 or sooner across its asset portfolio. This ambition is part of the Trustee's efforts to manage the impact of climate change on the Fund's investments and the consequent impact on the financial interests of its members.

To achieve this ambition, the Trustee will monitor its emissions, emissions intensity and portfolio alignment (currently measured as the proportion of assets with a Science-Based Target).

The Trustee will focus initially on high priority mandates (for example, those with significant assets under management, invested in asset classes with well-established Net Zero approaches) and consider further mandates over time. It will favour actions that are expected to lead to real economy emission reductions.

Proportion of assets with Science-Based Targets in place

The Trustee previously set a target for climate-related engagement, aiming for 100% of the top 10 contributors to carbon emissions to have been engaged with on climate-related issues within the last two calendar years for each mandate. The Trustee has decided to discontinue reporting on the engagement metric, as explained on page 26. It has also decided to replace its target for climate-related engagement with a target based on the proportion of the portfolio with a Science-Based Target. This target will support the Trustee's ambition for the Plan's assets to reach Net Zero emissions by 2050.

PREVIOUS TARGET: Review the top 10 contributors to carbon emissions in each portfolio and target 100% engagement on climate-related issues with these entities over a 2-year period.

NEW TARGET: 60% of the Fund's corporate bond assets to be covered by a Science-Based Target by 31 March 2030.

The Trustee has set its new target in relation to corporate bond assets only, since Science-Based Target data is currently poor for other asset classes (except LDI which is currently treated as being fully covered by a Science-Based Target).

As set out in the previous section, at 31 March 2024, 11% of assets were held in corporate bonds, with 26% of these having a Science-Based Target.

The Trustee is taking a number of steps to meet its target of 60% of the Fund's corporate bond assets being covered by a Science-Based Target by 31 March 2030. For existing mandates, the Trustee expects managers' engagement to be the main lever to increase the proportion of corporate bond holdings with Science-Based Targets, rather than changes to portfolio construction, in order to have a greater real world impact. It is also encouraging its managers to improve the level of data available. When new mandates are awarded in future, the Trustee intends to consider this target as part of any mandate construction. The Trustee believes that the target level of 60% is ambitious but achievable.

The Trustee will review its target annually. If there are material changes to the investment strategy, or changes in data availability, the Trustee may amend the target.

SECTION 5: METRICS AND TARGETS

PREVIOUS METRIC/TARGET

Climate-related engagement

As explained above under 'choice of metrics', the Trustee found it difficult to obtain robust data on its climate-related engagement and to draw meaningful conclusions from the data it was provided.

It is therefore difficult to assess whether or not the Trustee achieved its climate-related engagement target over the 2-year period to 31 March 2024. Four managers (Arcmont, Wellington, Loomis, CQS) provided some information on their engagements with the highest emitters in their portfolio. However, they did not do so in a consistent manner and the information was generally incomplete.

One manager reported that it had engaged 7 of its top 10 emitters. The other three did not provide sufficient evidence to judge whether they had engaged with all of the top 10 highest emitters in their respective portfolios. However, the information indicates that the Trustee's previous climate-related engagement target was met for few, if any, of the Fund's mandates.

As noted above, the Trustee regards climate-related engagement as important and will continue to engage with relevant managers to understand their approach and encourage best practice.





DHL Group Retirement Plan (DHL GRP)

Defined Benefit Sections

APPENDICES



APPENDIX 1: COVENANT ASSESSMENT

DPAG ESG TARGETS

DPAG has affirmed its ESG targets, which include clear, science-based CO₂ targets to be achieved by 2030. These targets are supported by Management's compensation being impacted by the achievement of ESG targets.

DPAG's key ESG targets along its three core sustainability roadmap commitments

Clean operations for climate protection	Great company to work for all	Highly trusted company
<p>Reduce emissions to</p> <h1><29M</h1> <p>metric tonnes CO₂e by 2030 (SBTi) No offsetting included</p> <h1>Net Zero</h1> <p>GHG emissions by 2050</p> <p>>30% 60%</p> <p>share of sustainable fuels by 2030 e-vehicles used in pick-ups and deliveries by 2030</p> <p>All new owned buildings to be</p> <h1>climate neutral</h1>	<h1>>80%</h1> <p>group-wide Employee Engagement (aggregated and weighted result of 5 statements in Employee Opinion Survey)</p> <p>Increase share of women in middle and upper management to</p> <h1>>30%</h1> <p>by 2025</p> <p>Reduce lost time injury frequency rate (LTFR) to</p> <h1><3.1</h1> <p>by 2025</p>	<h1>30%</h1> <p>ESG-related targets in bonus calculation for the Board of Management as of 2022</p> <h1>98%</h1> <p>share of valid compliance training certificates in middle and upper management (FY 2024 target)</p> <h1>≥690 out of achievable 820 points</h1> <p>Cyber security rating (FY 2024 target); equals top quartile in reference group</p>

DPAG's Sustainability Roadmap lays out three core commitments within which its ESG targets fall:

- **Clean operations for climate:** Science-Based Target for CO₂ reduction targeting more than carbon-neutral growth – absolute reduction by 2030 with €7bn expected spend on decarbonisation measures by 2030 with a focus on the modes of transport using the most fuel and generating the most emissions; this is reflected in DPAG's medium-term financial guidance.
- **Great company to work for all:** incorporating employee matters.
- **Highly trusted company:** including compliance on anti-corruption, data protection and security.

ESG targets are also anchored in corporate board incentivisation with 30% of the board's targets for bonus calculation being ESG-related.

Source: Penfida (11 June 2024), Management Roadshow March 2024

APPENDIX 1: COVENANT ASSESSMENT

ESG ISSUES/CONSIDERATIONS

DPAG operates in the transportation sector which is estimated to be responsible for c.16% of global GHG. As such, DPAG faces significant potential ESG issues now and in the future which could impact both the underlying operations of DPAG as well as its ability to access capital.

DPAG is currently largely rated ahead of its peers by third party agencies. Whilst these ratings continue to evolve, they suggest that DPAG should prove resilient to and be capable of managing, long-term ESG risks.

Potential ESG issues impacting DPAG

Category	Risk
Operational	Risk of operational restrictions due to climate change
Human Resources	Impact of collective bargaining
Information Technology	IT security incident
Market and customer-specific	Availability of sustainable aviation fuels and energy from renewable sources
Regulation	Carbon taxation Restriction on GHG emissions

ESG Rating Benchmark

Rating agency	Performance
Sustainalytics	Ranks DPAG's ESG risk rating 12th strongest (out of 414) in the transportation sector universe, outperforming peers such as UPS and FedEx which are ranked 80th and 94th respectively. Categorised as 'low' in terms of exposure to material ESG issues and 'strong' in terms of how robust its ESG framework is.
CDP	2023 B rating for climate change (reduced from A- in 2018) meaning it is 'managing' climate change risk, rather than 'leading'. UPS scored a B- rating and FedEx scored a C rating for climate change in 2023 (UPS achieved a C and FedEx achieved a B in 2022).
MSCI	DPAG has been awarded an A rating from MSCI (2022: AA rating) which categorises it as 'average' in the air freight and logistics industry with regards to its resilience to long-term, industry material ESG risks. UPS and Fedex are rated A and 'average' in the industry.

Source: Penfida (11 June 2024), DPAG 2023 ESG presentation, Climate Watch, the World Resources Institute (2020); Sustainalytics; CDP; MSCI

APPENDIX 1: COVENANT ASSESSMENT

CLIMATE-RELATED RISKS AND OPPORTUNITIES

DPAG's 2023 TCFD report concluded that DPAG is exposed to significant climate change related transition risks; physical climate related risks were assessed as being insignificant.

The four key transition risks identified by Management are assumed by Management to have a 'medium' level of significance. This equates to having a potential c.€150m – €500m negative impact on EBIT (earnings before interest and taxes) with a medium to high probability or a potential >€500m negative impact on EBIT with a low to medium probability.

Significant climate change risks in 2023

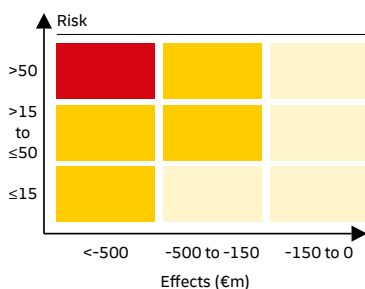
Category	Opportunity/Risk	Significance
Operational	Risk of operational restrictions due to climate change	Medium
Market- and customer-specific	Availability of Sustainable Aviation Fuels ('SAF') and energy from renewable sources	Medium
Regulation	Carbon tax	Medium
	Restrictions of GHG emissions	Medium

- DPAG assessed its risks and opportunities arising from climate change using scenario analysis on the left and summarised them as set out in the table on the left.
- When assessing physical risks, Management evaluated the impacts from both chronic and acute risks.
- The assessment of transition risks included those due to changes in regulation, technology, changing market conditions and reputational risks.
- Management concluded that the DHL Group's exposure to physical risks was insignificant. However, four significant transition risks were identified.
- The key transition risks identified (see table) are assumed by Management to have a medium level of significance.
- From a quantitative perspective, this equates to having a potential c.€150m – €500m negative impact on EBIT with a medium to high probability, or a >€500m negative impact on EBIT with a low to medium probability (see opposite for the detailed matrices).
- Management also stated that 'there were no identifiable risks for DPAG in the current forecast period which, individually or collectively, cast doubt upon DPAG's ability to continue as a going concern. Nor are any such risks apparent in the foreseeable future'.

Assessing quantitative and qualitative risks

Assessing quantitative risk

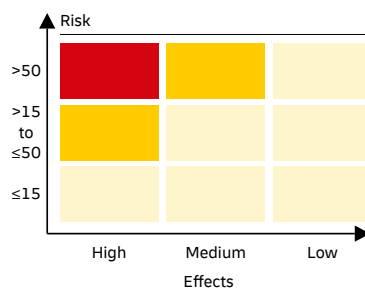
Probability of occurrence (%)



Significance for the Group: ■ High ■ Medium ■ Low

Assessing qualitative risk

Probability of occurrence (%)



The Trustee has considered the potential impact on the covenant if all four key transition risks were to materialise at the same time and as the Plan's assets/liabilities experiences a shock as a result of climate related risks. This shock was based on the Hot House World shock analysis outlined in the main report, since this has the most negative impact of the scenarios considered. The covenant shock assumed that the decrease in EBIT was permanent, rather than being a one-off reduction in the first year. This integrated analysis showed a material decline in deficit coverage, but there remained substantial support for the Plan.

Source: DPAG 2023 ESG presentation, DPAG FY2023 annual report; Penfida (11 June 2024)

APPENDIX 2: GLOSSARY

Actuarial valuation – an actuarial valuation is an accounting exercise performed to estimate future liabilities arising out of benefits that are payable to members of a DB pension scheme, typically once every three years. In the actuarial valuation exercise, a liability payout at a future date is estimated using various assumptions such as discounting rate and salary growth rate.

Alignment – in a climate change context, alignment is the process of bringing greenhouse gas emissions in line with 1.5°C temperature rise targets. It can be applied to individual companies, investment portfolios and the global economy.

Asset class – a group of securities which exhibit broadly similar characteristics. Examples include equities and bonds.

Bond – a bond is a security issued to investors by companies, governments and other organisations. In exchange for an upfront payment, an investor normally expects to receive a series of regular interest payments plus, at maturity, a final lump sum payment, typically equal to the amount invested originally, or this amount increased by reference to some index.

Carbon emissions – these refer to the release of carbon dioxide, or greenhouse gases more generally, into the atmosphere, for example from the burning of fossil fuels for power or transport purposes.

Carbon footprint – in an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (e.g. in millions of pounds) by an investment fund. Related definitions are used to apply the term to organisations, countries and individuals.

Climate change mitigation – steps taken to limit climate change by reducing greenhouse gas emissions, for example by shifting to renewable sources of energy – such as solar and wind – and by using less energy and using it more efficiently.

Covenant – the ability and willingness of the sponsoring employer to make up any shortfall between a DB scheme's assets and the agreed funding target.

Defined Benefit (DB) – a pension scheme in which the primary pension benefit payable to a member is based on a defined formula, frequently linked to salary. The sponsoring employer bears the risk that the value of the investments held under the scheme fall short of the amount needed to meet the benefits.

Defined Contribution (DC) – a pension scheme in which the sponsoring employer stipulates how much it will contribute to the arrangement on behalf of each member, which may depend upon the level of contributions the member is prepared to make. The resultant accumulated fund (or 'pot') of money for each member is a function of the investment returns achieved (net of expenses) on the contributions and how long the money is invested. DC members typically use their accumulated pot for one of three purposes – annuity purchase, cash or drawdown. In contrast to a DB scheme, the individual member bears the risk that the investments held are insufficient to meet the desired benefits.

Debt – money borrowed by a company or government which normally must be repaid at some specified point in the future.

Engagement – dialogue between investors and relevant parties with the aim of preserving and enhancing the long-term value of assets on behalf of clients and beneficiaries. Relevant parties include companies in which the investor holds equity or debt, regulators, policymakers and other stakeholders.

Environmental, social and governance (ESG) – an umbrella term that encompasses a wide range of factors that may have been overlooked in traditional investment approaches. Environmental considerations might include physical resource management, pollution prevention and greenhouse gas emissions. Social factors are likely to include workplace diversity, health and safety and the company's impact on its local community. Governance-related matters include executive compensation, board accountability and shareholder rights.

Equity – through purchase on either the primary market or the secondary market, company equity gives the purchaser part-ownership in that company and hence a share of its profits, typically received through the payment of dividends. Equity also entitles the holder to vote at shareholder meetings. Note that equity holders are entitled to dividends only after other obligations, such as interest payments to debt holders, are first paid. Unlike debt, equity is not normally contractually repayable.

Fossil fuels – fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Coal, oil and natural gas are examples of fossil fuels.

APPENDIX 2: GLOSSARY

Funding position – a comparison of the value of assets with the value of liabilities for a DB pension scheme.

Gilts – bonds issued by the UK government. They are called gilts as the bond certificates originally had a gilt edge to indicate their high quality and thus very low probability of default.

Greenhouse gas (GHG) emissions (Scopes 1, 2 and 3) – gases that have been and continue to be released into the Earth's atmosphere. Greenhouse gases trap radiation from the sun which subsequently heats the planet's surface (giving rise to the 'greenhouse effect'). Carbon dioxide and methane are two of the most important greenhouse gases.

Gross Domestic Product (GDP) – this is the value of all goods and services produced in a country over a given period, typically a year.

Liabilities – obligations to make a payment in the future. An example of a liability is the pension benefit 'promise' made to DB pension scheme members, such as the series of cash payments made to members in retirement. The more distant the liability payment, the more difficult it often is to predict what it will actually be and hence what assets need to be held to meet it.

LDI (Liability Driven Investment) – an investment approach which focusses (more than has traditionally been the case) on matching the sensitivities of a DB pension scheme's assets to those of its underlying liabilities; this may be in response to changes in certain factors, most notably interest rates and inflation expectations.

Long – when an investor benefits from a rise in the price of an asset, they are said to have a 'long position' or simply to be 'long the asset'. With traditional assets such as equities or bonds, a long position simply means buying the asset, but it can be more complicated with derivatives. Contrast with the definition for Short (on the following page).

Net Zero – this describes the situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed. This can be considered at different levels, e.g. company, investor, country or global.

Paris Agreement – the Paris Agreement is an international treaty on climate change, adopted in 2015. It covers climate change mitigation, adaptation and finance. Its primary goal is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Physical risk – these are climate-related risks that arise from changes in the climate itself. They include risks from more extreme storms and flooding, as well as rising temperatures and changing rainfall patterns.

Portfolio alignment metric – this measures how aligned a portfolio is with a transition to a world targeting a particular climate outcome, such as limiting temperature rises in line with the Paris Agreement. Assessments using these metrics typically consider companies' and governments' GHG emissions reduction plans and likelihood of meeting them, rather than current, or the latest reported, GHG emissions.

Purchasing Power Parity (PPP) – the PPP is a theory of long-term equilibrium in exchange rates based on relative prices. For example, if the price of a basket of goods in the UK is £100 and the same basket costs \$200 in the USA, then the PPP exchange rate would be £1:\$2. The PPP rate and the actual market exchange rate can differ.

Repo – a repo trade is a type of loan between two financial institutions. The borrower 'sells' an asset (normally a bond) to the lender in exchange for cash. At the same time, there is an agreement by the borrower to repurchase the asset at some specified future date for a higher price. The interest rate implicit in this higher price is similar to the interest rate on a traditional secured loan.

Responsible Investment (RI) – the process by which ESG issues are incorporated into the investment analysis and decision-making process and into the oversight of investments through stewardship activities. It is motivated by financial considerations aiming to improve risk-adjusted returns.

Science-Based Targets – targets to reduce GHG emissions that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

Science-Based Targets initiative (SBTi) – an organisation that sets standards and provides validation for Science-Based Targets set by companies and investors.

Scenario analysis – a tool for examining and evaluating different ways in which the future may unfold.

APPENDIX 2: GLOSSARY

Scope 1, 2 and 3 – a classification of greenhouse gas emissions. Scope 1 emissions are direct emissions from company-owned and controlled resources. In other words, emissions released to the atmosphere as a direct result of a set of activities, at a firm level. Scope 2 emissions are indirect emissions from the generation of purchased energy, from a utility provider. In other words, all GHG emissions released in the atmosphere, from the consumption of purchased electricity, steam, heat and cooling. Scope 3 emissions are all indirect emissions – not included in Scope 2 – that occur in the value chain of the reporting company, including both upstream and downstream emissions. In other words, emissions that are linked to the company's operations but which it does not directly control.

Short – when an investor benefits from a fall in the price of an asset, they are said to have a 'short position' or simply to be 'short the asset'. Being short an asset is generally more complex to manage than being long the asset. For example, to short an equity requires the 'investor' to borrow the equity (for a fee), to then sell the equity and finally to buy it back at some future date, at which point the expectation/hope is that the price has fallen. Contrast with the definition for Long (on the prior page).

Statutory obligations – statutory obligations are those obligations that do not arise out of a contract, but are imposed by law.

Stewardship – stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is often implemented via engagement with investee companies and exercising voting rights.

Stranded assets – assets that have suffered an unanticipated loss of value before the end of their expected useful economic life. The term is most often applied to fossil fuel investments in the context of climate policy, where legislative and market developments may result in assets being worth less than the value recorded on company balance sheets.

Sustainable investing – an approach in which an assessment of the environmental and social sustainability of a company's products and practices is a key driver in the investment decision. ESG analysis therefore forms a cornerstone of the investment selection process.

Swaps – swaps are derivative contracts between two parties in which those parties agree to exchange one set of cash flows for another.

Taskforce on Climate-related Financial Disclosures (TCFD) – a group of senior preparers and users of financial disclosures, established by the international Financial Stability Board in 2015 which operated until 2023. The TCFD developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations to inform investors and other parties about the climate-related risks they face.

Transition risk – these are climate-related risks that arise from the transition to a low-carbon economy and can include changes in regulation, technology and consumer demand.