



**DHL Group Retirement Plan (DHL GRP)**

Defined Contribution Section

# **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 what the potential impact might be to members’ investments. 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’ retirement savings.”

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

# INTRODUCTION



DHL Trustees Limited ('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 by reporting annually in line with the TCFD recommendations this will lead to better risk assessment and strategic planning, identifying potential investment opportunities and ultimately result in 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. Our investment strategy in the Defined Contribution (DC) Section is consistent with this – the vast majority of equity and corporate bond investments have been switched to funds that themselves have a Net Zero objective.

This, our third annual climate report, outlines how the Trustee's beliefs on climate risk and opportunities impact the investment 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. 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 DC Section of the Plan, over the Plan year from 1 April 2023 to 31 March 2024 and the DB Sections will be reported separately. 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**

# SECTION 1: GOVERNANCE

## SUMMARY OF THE REPORT

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

### Governance

- The Trustee has a robust governance framework for managing the Plan, including setting clear expectations and responsibilities in relation to climate change. This includes support from the Plan's advisers and investment managers.
- The Trustee has a clear set of investment beliefs around climate change which underpin all investment decisions made on members' behalf.

### Strategy

- This year the Trustee has updated its scenario analysis, looking at the potential impact on the returns on the DC Section funds under different potential climate change outcomes. This analysis indicates that, if climate risks materialise, we'd expect there to be a drag on fund returns over time, with the impact being much more significant for younger members who have a long-term time horizon as a saver in the Plan. Older members are less impacted, given they have a shorter time to retirement, but if market prices adjust much more quickly than we might expect, this could result in a more significant downwards adjustment to their fund values.
- No immediate changes have been made to the DC Section's investments as a result of climate risk. The DC Section's investments already include allocations to funds that focus on Environment, Social and Governance ('ESG') matters, including climate change – for example all of the equity, corporate bond and fixed interest investments used within the Lifestyle options invest in this way.

### Risk Management

- The Trustee recently updated the entries for 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 collates and reports on a number of climate-related metrics and tracks progress over time.
- Scopes 1 & 2 carbon footprint for the funds included in this report has decreased and, on a weighted average basis, the carbon footprint has gone down from 73.0 to 49.0 over the year – a 33% reduction.
- 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.
- This year the Trustee has set a new target for climate metrics, relating to the proportion of the portfolio for which the underlying companies have emissions reductions targets which have been approved by the Science Based Target initiative (SBTi – see page 27 for more details on this). Currently the level is 37.2% (as at 31 March 2024). By 2030 we want that level to be at least 65%, as we feel that is an ambitious but achievable level.
- For the first time in this report, we've also announced our ambition for the DC assets to be Net Zero by 2050.

# SECTION 1: GOVERNANCE

## OVERSIGHT AND INVESTMENT BELIEFS

The Trustee has responsibility for and oversight of the impact of climate risks and opportunities arising from the transition to a low carbon economy as they relate to the Plan.

The Trustee's approach to climate change and ESG issues more broadly is informed by its investment beliefs and outlined in its Statement of Investment Principles ('SIP') for the DC Section.

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 and discussed annually and are summarised below:

- ✓ The Trustee considers long-term sustainability to be an important and relevant issue to consider throughout the investment process.
- ✓ The Trustee recognises that an investment's financial success can be influenced by a number of factors including those arising from ESG issues, including climate change.
- ✓ The Trustee considers ESG issues, including climate change, to be financially material and takes them into account when designing and monitoring the Lifestyle strategies. A number of the Lifestyle and Freestyle funds include investments which have been chosen taking account of the approach that companies take to ESG issues.
- ✓ The Trustee believes that the impact of and potential 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.
- ✓ The Trustee expects the Plan's investment managers' engagement activities to cover a range of relevant matters including the ESG impact of underlying holdings.
- ✓ Where practicable, the Trustee will seek to avoid investment in controversial weapons (defined as weapons which are contrary to international treaties or conventions).

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.

In particular, 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.

# 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 its responsibilities as follows:

- **The DC Committee ('DCC')**, in relation to the investments in the DC Section, is responsible for undertaking the governance and reporting requirements relating to climate-related risks and the TCFD and making recommendations to the Trustee. These requirements include undertaking scenario analysis for the DC Section, to enable the Trustee to understand the impact of climate risks on the investments within the DC Section and the potential impact on member retirement outcomes. Further details of the scenario analysis are covered in Section 3.
- **The Audit & Risk Management Committee ('ARMC')** is responsible for maintaining the DC Section's risk management framework and risk register, and carrying out a risk assessment and review for the Plan, with input from the DCC, 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.
- **The TCFD Working Group**, consisting of representatives of Law Debenture and 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 DCC attend any climate-related training sessions.
- **The DC Investment Adviser** is responsible for advising on investment strategy, taking into account climate-related risks and opportunities. The DC Investment Adviser also supports the DCC with monitoring in relation to ESG and stewardship.
- **The Legal Adviser** is responsible for ensuring the Trustee is compliant with the regulations.
- **Investment managers** are current managers and potential new managers. They are assessed for their integration of climate risks into their wider stewardship activities. For example, the DC Investment Adviser provides a report to the DCC each year, providing their reviews and ratings of the managers' ESG and Stewardship policies and practices. The DCC also meets the DC Section's main investment manager, Legal & General Investment Management (LGIM) at least annually to review how they are exercising their corporate engagement and voting responsibilities. The investment managers are also responsible for providing the Trustee with the relevant data required to meet the TCFD requirements.
- **The 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.

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 reviewed its investment and actuarial advisers climate competencies based on the guide published by the Investment Consultants Sustainability Working Group ('ICSWG').

As part of the annual assessment of its DC Investment Adviser's performance against strategic objectives, the Trustee considers how each adviser has supported the Climate Risk policy. In relation to the DC Section the last such assessment was carried out in November 2023 and this included an assessment of how WTW had assisted the Trustee in the development and implementation of its ESG policies (including climate change). The Trustee concluded that WTW had fulfilled this objective, evidenced by the detailed Sustainable Investment reporting WTW had provided during the year and the work to fulfil the Trustee's obligations in the context of TCFD reporting. The Trustee appointed WTW to carry out scenario analysis at least every three years, the results of which are detailed in Section 3.

# 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, and an update from WTW on the DC Section’s climate metrics. It also met with Legal & General Investment Management (‘LGIM’) in August 2023 and learned more about the manager’s approach to assessing climate risk within their funds.

The Trustee continues to work closely with the Deutsche Post 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 Deutsche Post DHL Group provided an update on its progress towards its climate-related goals.

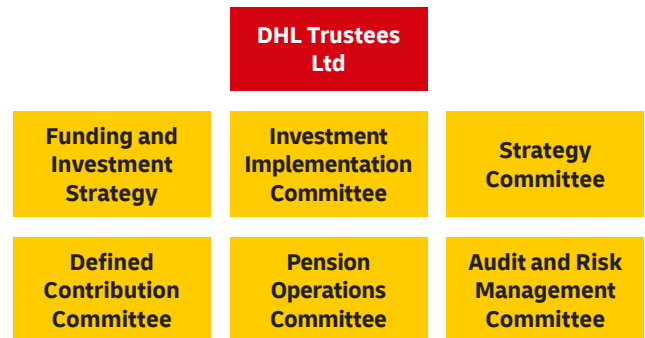
The Trustee views climate risk as a significant risk, and therefore a significant amount of time has been dedicated to increasing the Trustee’s knowledge and understanding in relation to climate-related risks and opportunities. This has been a standing item on the agenda for various committees throughout the Plan year.

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, with each Trustee Director also maintaining their own training log.

### DTL Board



### Committees



# SECTION 2: STRATEGY

## IMPACT ON 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, reflecting the time horizons for members with different retirement terms. In this context, it has considered the potential impact on members' projected account values at retirement, where 'short-term' is taken to be the investment horizon for a member in the default Lifestyle investment strategy who is five years from retirement. 'Medium-term' has been considered as the investment horizon for a member in the middle part of their career who has 20 years to go until retirement. 'Long-term' has been considered as the investment horizon for a new joiner to the DC Section with 40 years to go until retirement.

The Trustee has also considered what the potential impact may be on members' current account values arising from a climate shock assuming this took place over any given one-year period.

### Types of risks and opportunities

The Trustee has identified the following key climate-related risks to its investment strategy for the DC Section 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, environmental-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 DC Investment Adviser to bring any suitable climate-related opportunities to its attention. As an example, as part of the triennial investment strategy review which was completed during the Plan year, the DC Investment Adviser discussed various climate-related investment funds that could be considered and advised on the replacement of the previous corporate bond allocations with the Future World Corporate Bond funds.



# SECTION 2: STRATEGY

## IMPACT ON INVESTMENT STRATEGY

### Impact on investment strategy

The Trustee undertook its first scenario analysis in November 2021 to consider the impact on the investment strategy and on potential member retirement outcomes 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 and the results are summarised in Section 3 – Scenario Analysis. This time around an additional scenario has been included in the analysis, with other scenarios being re-named and the assumptions have been fully reviewed and updated as required.

Through the scenario analysis the Trustee has considered the potential impact on members' retirement outcomes through two 'lenses':

#### Investment return 'drags'

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

#### Investment return 'shocks'

Whilst the drag scenarios assume the costs 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.

In summary, the scenario analysis illustrated that the impact on members' projected final account values depends very much on their savings time horizons and whether the impact materialises as a 'drag' on returns over time or as a 'shock' to asset prices over a very short time. For younger members a drag reduction in return has a much bigger impact than it does for older members, given the relative timeframes over which the drag occurs. Older members see much less impact in their final pot value if the impact occurs as a drag, but a shock to the system would be significant, given the level of savings built up already.

No immediate changes have been made to the DC Section investment as a result of the 2024 scenario analysis. The DC Section's investments already include allocations to funds that focus on ESG matters, including climate change – for example all of the equity, corporate bond and fixed interest investments used within the Lifestyle options invest in this way.

### Impact on engagement strategy

The Trustee's view 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 their engagement and voting activities. The DCC monitors the engagement of the DC Section's investment managers through regular reporting provided by the DC Investment Adviser and through dialogue with the managers. The Trustee's view is also reflected in the choice of metrics that the Trustee has adopted, which is detailed on page 23.

During the previous Plan year, the Trustee agreed to 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.

These priorities have been communicated to the Plan's investment managers and are used as a basis for evaluating the managers' stewardship practices. The managers were asked to provide examples of engagements they have undertaken in these areas and these are documented in the Implementation Statement for the year ending 31 March 2024.

# 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 following pages. 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 following scenarios do not represent the full range of outcomes, nor do they necessarily represent the most adverse possible scenario or capture the risk of climate tipping points, but they provide an 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)
<b>Description</b>	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 (CDR) 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 (CDR) technologies is relatively low.
<b>Temperature rise</b>	~2.5°C	~2.0°C	~2.0°C	~1.5°C	~3.0°C
<b>Renewable energy by 2050</b>	c85%	c90%	c90%	c90%	c90%
<b>Physical risk level (longer term)</b>	High	Medium	Medium	Low-Medium	High
<b>Transition risk level (shorter term)</b>	Low	High	Medium	High	High

Source: WTW

# SECTION 3: SCENARIO ANALYSIS

## CLIMATE SCENARIOS

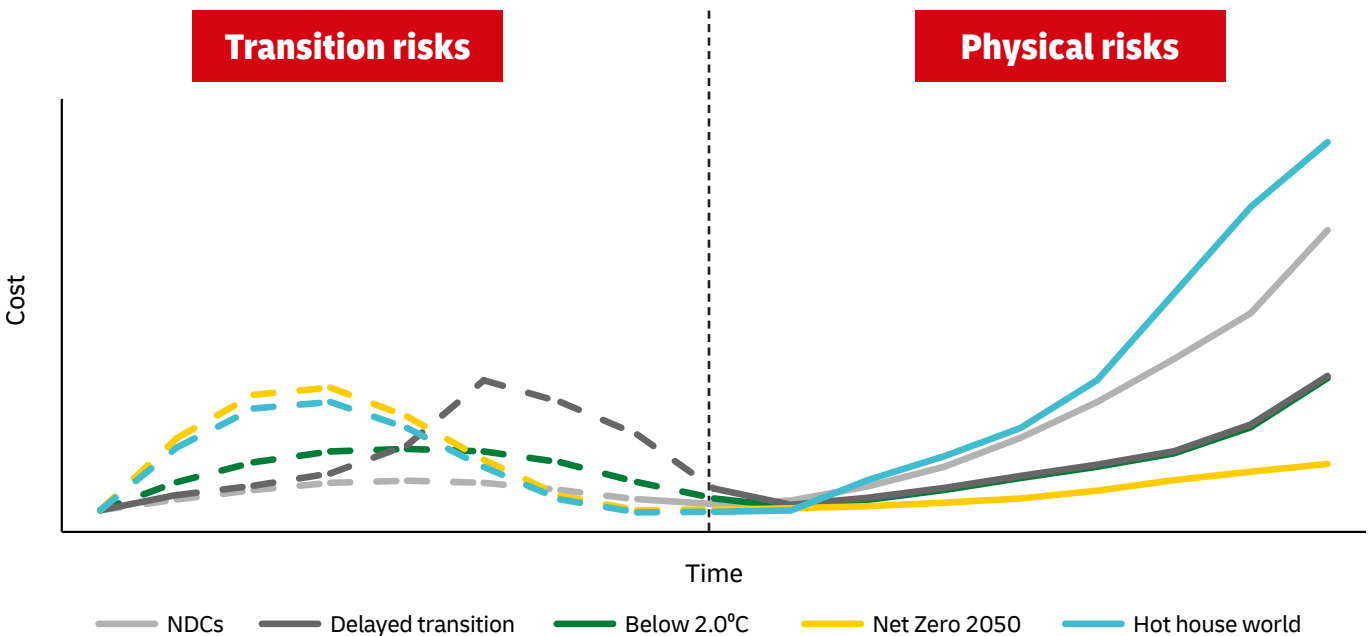
The Trustee has used Scenario Analysis as at 31 March 2024 to understand if the investment strategy for the DC Section is resilient to the potential impact of climate change. The Scenario Analysis considered two approaches:

- i. The impact on members' projected final account values if impacts on investments due to climate change materialise as drags on return through time.
- ii. The potential impact on members' account values of the market suddenly pricing in each scenario instantaneously i.e. as a climate shock, which assumes the entire cost of climate change is capitalised immediately.

For each of the above the Trustee looked at the impact for three example members at different stages of their Plan membership, representing short, medium and long-term investment horizons. Members are assumed to invest in one of the DC Section's default lifestyle investment strategies – the DHL Lifestyle – Drawdown or the DHL Lifestyle – Annuity. The Trustee also considered one year climate shock impact on returns for each underlying fund used within these Lifestyle options.

### Transition and physical risks in different scenarios

The Trustee 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

# 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 DC Section of the Plan, in respect of each example member.

The impact of physical and transition risks on cashflows will 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 10 years and the physical risk over the remainder of the period.

### 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 the climate modelling commonly used by the UK pension industry truly reflects the climate science and may consider alternative scenarios in 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.

### Example members

The example members used in the scenario analysis for the DC Section are outlined in the table below:

Member Status	Age	Retirement Age	Existing pot size	Initial salary	Contribution rate	Annual salary increase
New Joiner	25	65	£0	£24,000	9%	Consumer Prices Index
Mid career	45	65	£35,000	£30,000	12%	Consumer Prices Index
Pre-retirement	60	65	£60,000	£35,000	15%	Consumer Prices Index

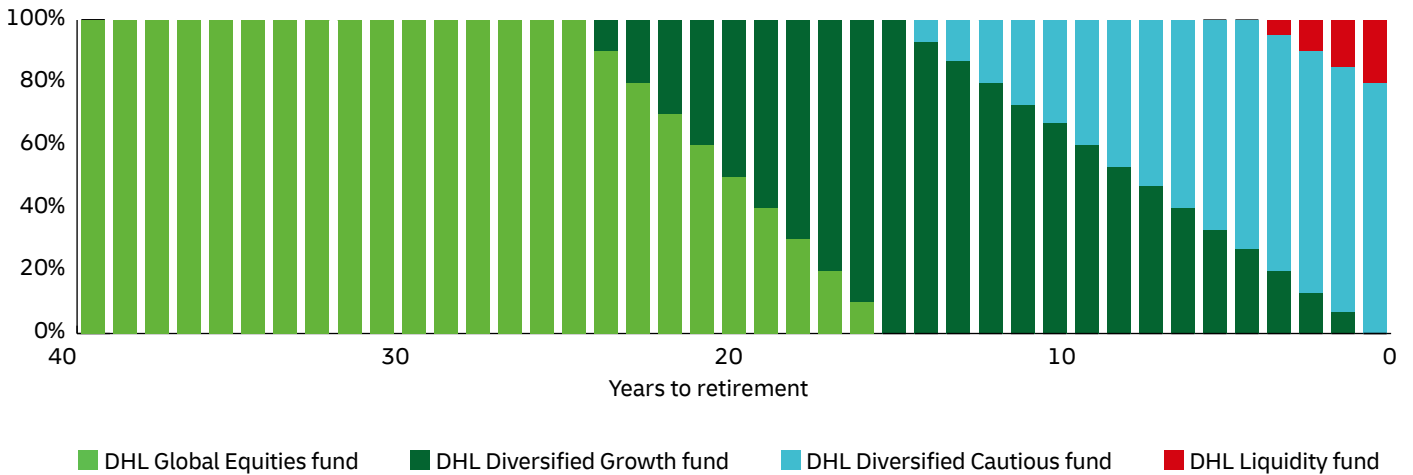
# SECTION 3: SCENARIO ANALYSIS

## METHODOLOGY

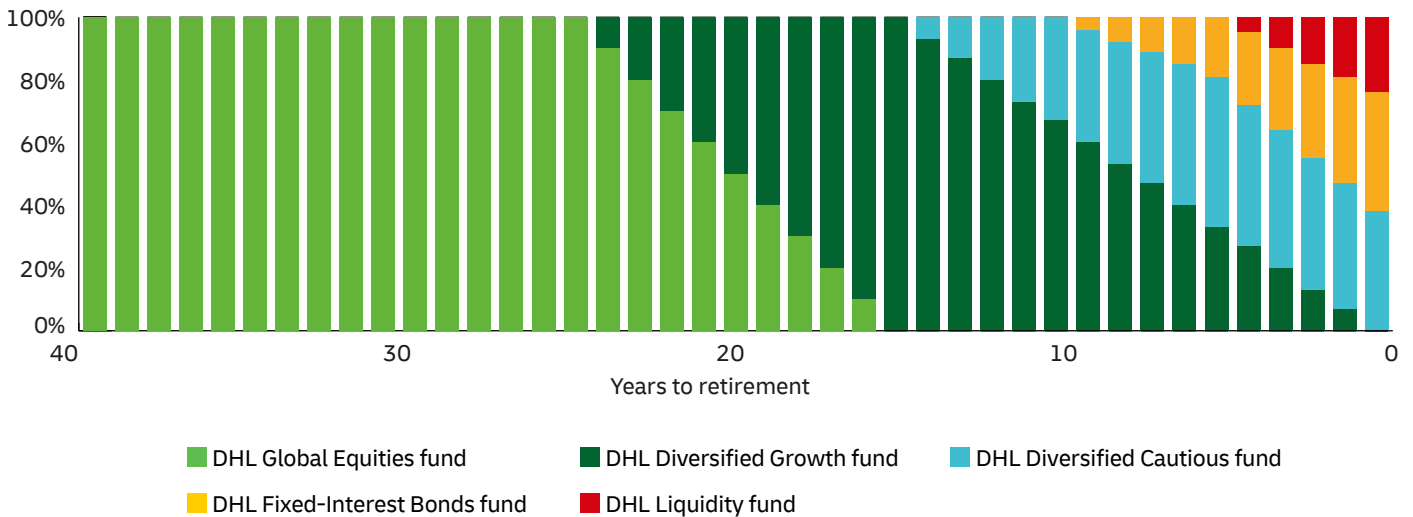
### Default Lifestyle strategies

The DHL Lifestyle strategies automatically move members from more risky investment funds to lower risk investment funds over time, as outlined in the charts below:

#### DHL Lifestyle – Drawdown



#### DHL Lifestyle – Annuity



# SECTION 3: SCENARIO ANALYSIS

## IMPACT ON PROJECTED MEMBER OUTCOMES

### DHL Lifestyle – Drawdown

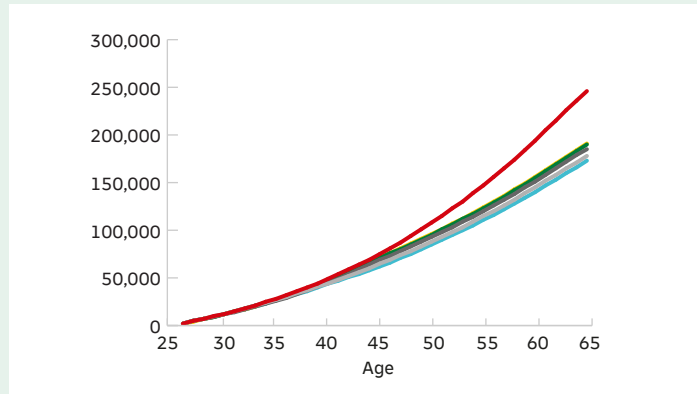
The charts below show the impact on projected final account values under the three scenarios vs. the current base case.



#### Jack

**Age:** 25 years  
**Retirement age:** 65 years  
**Current pension account value:** £0, as he's a new joiner  
**Initial salary:** £24,000

#### New Joiner



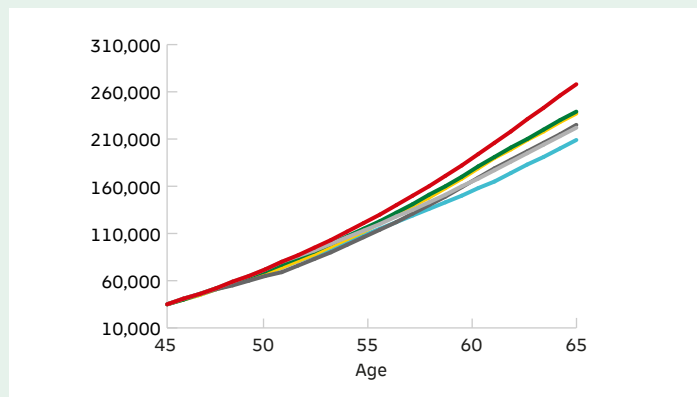
- Base Case  
**£246,000**
- NDCs  
**£178,000**
- Delayed Transition  
**£185,000**
- Below 2°C  
**£190,000**
- Net Zero 2050  
**£191,000**
- Hot House World  
**£173,000**



#### Nadia

**Age:** 45 years  
**Retirement age:** 65 years  
**Current pension account value:** £35,000  
**Initial salary:** £30,000

#### Mid Career



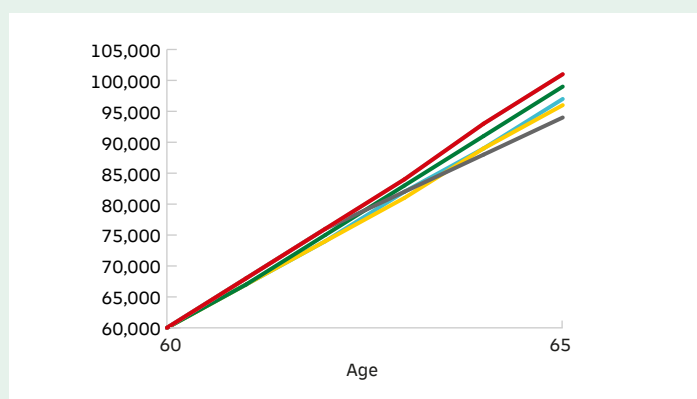
- Base Case  
**£268,000**
- NDCs  
**£222,000**
- Delayed Transition  
**£225,000**
- Below 2°C  
**£239,000**
- Net Zero 2050  
**£237,000**
- Hot House World  
**£209,000**



#### Hannah

**Age:** 60 years  
**Retirement age:** 65 years  
**Current pension account value:** £60,000  
**Initial salary:** £35,000

#### Pre-retirement



- Base Case  
**£101,000**
- NDCs  
**£101,000**
- Delayed Transition  
**£94,000**
- Below 2°C  
**£99,000**
- Net Zero 2050  
**£96,000**
- Hot House World  
**£97,000**

Source: WTW

# SECTION 3: SCENARIO ANALYSIS

## SHOCK ANALYSIS

### DHL Lifestyle – Drawdown

#### Impact of a climate shock

The analysis over the short term assumes that the impact on the DC Section investments occurs as an instantaneous shock (i.e. the entire climate change impact is capitalised instantaneously). The analysis is shown in the table below with the shock expressed as the impact on each member's current account value over a one year period, expressed as a percentage of the member's current salary – we show it this way to 'bring it to life' in terms of what such a fund reduction may look like relative to a member's salary. The Trustee recognises that the entire impact of climate change on assets being capitalised at once is an unlikely scenario, but nevertheless this shows the risk of early pricing.

Pension account at risk (as proportion of salary)	New joiner*	Mid-career	Pre-retirement
	Initial fund value: £0 Initial Salary: £24,000	Initial fund value: £35,000 Initial Salary: £30,000	Initial fund value: £60,000 Initial Salary: £35,000
Base Case	0%	0%	0%
Nationally Determined Contributions	0%	-20%	-26%
Delayed Transition Below 2°C	0%	-20%	-31%
Below 2°C	0%	-13%	-17%
Net Zero 2050	0%	-17%	-23%
Hot House World	0%	-33%	-43%

\*The pension account at risk for a new joiner is zero, because the member has a zero current fund value.

Source: WTW



# SECTION 3: SCENARIO ANALYSIS

## IMPACT ON PROJECTED MEMBER OUTCOMES

### DHL Lifestyle – Annuity

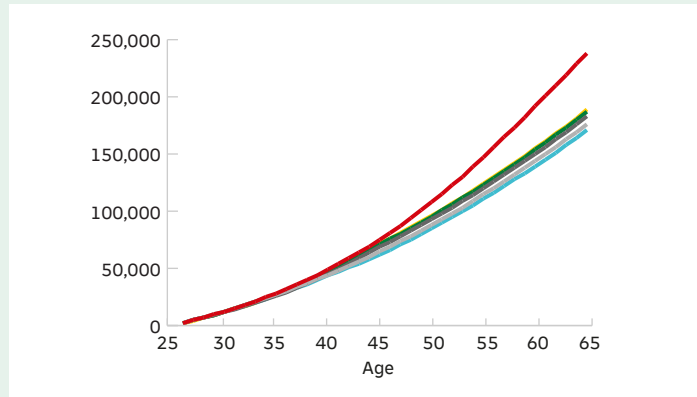
The charts below show the impact on projected final account values under the three scenarios vs. the current base case.



#### Jack

**Age:** 25 years  
**Retirement age:** 65 years  
**Current pension account value:** £0, as he's a new joiner  
**Initial salary:** £24,000

#### New Joiner



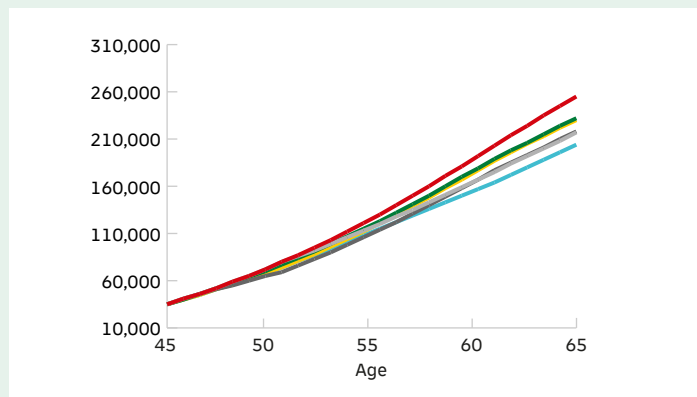
- Base Case **£238,000**
- NDCs **£176,000**
- Delayed Transition **£183,000**
- Below 2°C **£187,000**
- Net Zero 2050 **£189,000**
- Hot House World **£171,000**



#### Nadia

**Age:** 45 years  
**Retirement age:** 65 years  
**Current pension account value:** £35,000  
**Initial salary:** £30,000

#### Mid Career



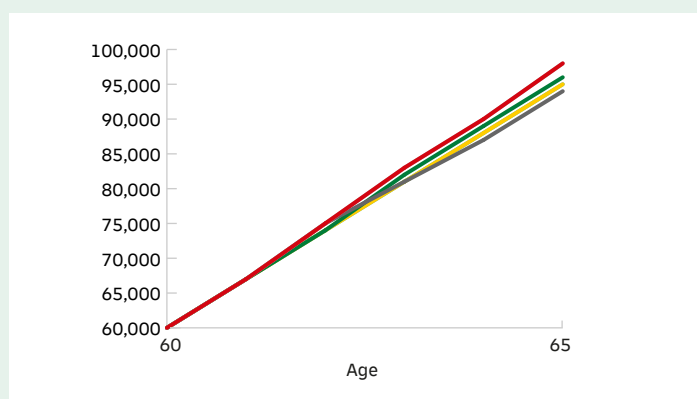
- Base Case **£255,000**
- NDCs **£217,000**
- Delayed Transition **£218,000**
- Below 2°C **£232,000**
- Net Zero 2050 **£230,000**
- Hot House World **£204,000**



#### Hannah

**Age:** 60 years  
**Retirement age:** 65 years  
**Current pension account value:** £60,000  
**Initial salary:** £35,000

#### Pre-retirement



- Base Case **£98,000**
- NDCs **£98,000**
- Delayed Transition **£94,000**
- Below 2°C **£96,000**
- Net Zero 2050 **£95,000**
- Hot House World **£95,000**

Source: WTW

# SECTION 3: SCENARIO ANALYSIS

## SHOCK ANALYSIS

### DHL Lifestyle – Annuity

#### Impact of a climate shock

The analysis over the short term assumes that the impact on the DC Section investments occurs as an instantaneous shock (i.e. the entire climate change impact is capitalised instantaneously). The analysis is shown in the table below with the shock expressed as the impact on each member's current account value over a one year period, expressed as a percentage of the member's salary – we show it this way to 'bring it to life' in terms of what such a fund reduction may look like relative to a member's salary. The Trustee accepts that the entire impact of climate change on assets being capitalised at once is an unlikely scenario, but nevertheless this shows the risk of early pricing.

Pension account at risk (as proportion of salary)	New joiner*	Mid-career	Pre-retirement
	Initial fund value: £0 Initial Salary: £24,000	Initial fund value: £35,000 Initial Salary: £30,000	Initial fund value: £60,000 Initial Salary: £35,000
Base Case	0%	0%	0%
Nationally Determined Contributions	0%	-20%	-17%
Delayed Transition Below 2°C	0%	-20%	-23%
Below 2°C	0%	-13%	-11%
Net Zero 2050	0%	-17%	-14%
Hot House World	0%	-33%	-31%

\*The pension account at risk for a new joiner is zero, because the member has a zero current fund value.

Source: WTW

# SECTION 3: SCENARIO ANALYSIS

## SHOCK ANALYSIS

### Individual funds

#### Impact of a climate shock

At an individual fund level, the table below outlines the expected impact of climate-related risk on each of the relevant funds under each scenario. The shocks reflect the potential impact if markets were to suddenly price in each of the climate scenarios.

Fund	Nationally Determined Contributions (NDCs)	Delayed Transition Below 2°C	Below 2°C	Net Zero 2050	Hot House World
	Impact (%)				
DHL Global Equities Fund	-18.1%	-19.2%	-10.75%	-14.1%	-28.99%
DHL Diversified Growth Fund	-13.2%	-16.1%	-8.43%	-11.9%	-22.88%
DHL Diversified Cautious Fund	-17.6%	-16.1%	-9.7%	-11.6%	-26.0%
DHL Fixed Interest Bonds Fund	-3.2%	-4.7%	-1.3%	-2.9%	-5.9%

Source: WTW

### Comments on the scenario analysis

For younger members a drag reduction in return has a much bigger impact than it does for older members, given the relative timeframes over which the drag occurs. Older members see much less impact in their final pot value if the impact occurs as a drag, but a shock to the system would be significant, given the level of savings built up already.

Generally speaking, the impact of the drags and shocks is lower for the Annuity strategy than for the Drawdown strategy in percentage terms. This is a function of the asset classes used in the strategies, notably the inclusion of the Fixed Interest Bonds fund in the Annuity strategy which has a more muted impact from climate change. However, the absolute value of the projected funds is higher for the Drawdown strategy, despite these larger percentage impacts.

# 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 risk register and 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 DC Section of the Plan reflect the Trustee's position on sustainable investment.
- The DC 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 governance 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 DCC's work in relation to ESG.

### **2 Second Line of Defence: Committee/Trustee that monitor and oversee compliance with and effectiveness of the ESG policies**

- The Trustee has delegated responsibility for compliance of its ESG policy to the DCC. This includes undertaking the governance requirements relating to ESG, such as the production of the annual Implementation Statement and for monitoring investment managers regarding their ESG policies and practices.
- The DCC obtain updates and a presentation at least annually from LGIM on their governance practices in relation to ESG matters. This includes discussions on how LGIM have undertaken stewardship activity in the priority areas identified by the Trustee, which include Climate Change.
- The DCC obtains an annual update from WTW on the sustainable investment governance practices of all its DC investment managers.
- In respect of DC assets, the majority of equity and corporate bond exposure is invested through the LGIM Future World fund range, which aims to reflect specific ESG issues.
- 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.




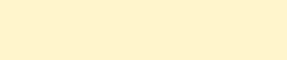
### **3 Third Line of Defence: Third parties that provide independent assurance**

- In respect of DC assets both LGIM and HSBC Global Asset Management are signatories to the UK Stewardship Code and the United Nations Principles of Responsible Investment.

# 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:

	<b>Risk Score</b>	<b>Number</b>
	Critical	10–25
	High	6–9
	Moderate	3–5
	Minor	1–2

The risks are normally reviewed annually and there are various controls in place to address them, which are owned by the Secretariat team and the Investment Implementation Committee.

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 DC Section's investments. 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 DCC 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 DC Section's climate-related risks and opportunities, the Trustee has selected the following metrics. These have been collated in respect of the funds making up the DHL Lifestyle – Drawdown and the DHL Lifestyle – Annuity:

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<b>Absolute emissions metric</b>	<b>Total Emissions</b> The total Greenhouse Gas (GHG) emissions for the DC Section assets (tonnes of CO <sub>2</sub> e emitted). This will cover Scope 1, 2 and 3 emissions.
<b>Emissions intensity metrics</b>	<b>Carbon Footprint</b> The total carbon GHG emissions of each fund, divided by the current value of the fund for which emissions data is available (tonnes of CO <sub>2</sub> e/\$m of EVIC*). <b>Weighted Average Carbon Intensity (WACI)</b> Each fund's exposure to carbon-intensive companies with attribution of emissions based on revenue (tonnes of CO <sub>2</sub> e/\$m of revenue).
<b>Portfolio alignment metric</b>	<b>Science Based Targets (or equivalent)</b> Proportion of the portfolio invested in companies with approved Science Based Targets (verified by the Science Based Targets initiative, SBTi), or equivalent. For completeness we have also shown the proportion of the portfolio invested in companies which have committed to seeking SBTi approval in the short-term.
<b>Additional metric</b>	<b>OLD: Climate-Related Engagement</b> Proportion of the portfolio's top 10 contributors (by number) to Scope 1+2 GHG emissions, held at year-end, for which engagement on climate-related issues took place over the previous year. <b>NEW: Data Quality</b> Proportion of each fund for which emissions data has been verified, reported or estimated. We note that for the 2022 and 2023 Climate Reports the Trustee used Climate-Related Engagement matters as the additional metric; however, the Trustee has decided to change to the Data Quality metric for this year's report, due to difficulties in comparing how engagements are measured across different portfolios.

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\*EVIC defined as 'Enterprise Value Including Cash' (value of a company's equity and debt, plus cash on the balance sheet)

# 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 Engagement qualitatively rather than via a quantitative metric going forwards. However, it has still reported progress against the engagement target it set two years ago (see page 27).

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 27).

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 DCC 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.

### Data availability

Data for the metrics has been sourced from the investment managers, and sense-checked by the Trustee's DC Investment Adviser. Data has been provided for all metrics for all funds covered by this report.

The emissions metrics will be calculated for each fund at least annually. The Trustee will review its metrics from time to time to ensure they remain appropriate for the Plan.

### 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. It is divided into four categories: stationary combustion (combustion of fossil fuels, heating sources), mobile combustion (burning of fuel of all vehicles), fugitive emissions (unintentional releases/leaks of GHG) and process emissions (released during industrial processes and on-site manufacturing). All fuels that produce GHG emissions must be included in Scope 1.

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

## METRICS

The following table shows the absolute Scope 1 and 2 GHG emissions for each of the funds, as at 31 March 2024 (data as at 31 December 2022 is shown in brackets as a comparator – this was the data disclosed in our 2023 Climate Report).

Fund	Value 31/03/24 (£m)	Absolute Carbon Emissions (tonnes)	Carbon Footprint (tonnes carbon emissions per US\$m EVIC)	WACI (tonnes carbon emissions per US\$m revenue)	SBTi coverage <sup>1</sup>	Data Quality <sup>2</sup>
<b>DHL Global Equities</b>	801.1 (187.3)	24,309 (6,946)	24.0 (30.9)	57.0 (90.0)	47.7% approved 12.3% committed (55.3%)	90% reported 9% estimated (98%)
<b>DHL Diversified Growth</b>	980.3 (1,227.8)	75,558 (113,105)	61.0 (76.9)	217.7 (270.3)	37.8% approved 9.0% committed (42.5%)	80% reported 13% estimated (94%)
<b>DHL Diversified Cautious</b>	523.3 (542.7)	47,575 (59,275)	71.9 (91.0)	242.8 (288.4)	27.9% approved 7.0% committed (32.9%)	75% reported 13% estimated (91%)
<b>DHL Fixed Interest Bonds</b>	132.0 (131.7)	8,483 (8,695)	50.7 (54.7)	90.2 (107.9)	27.2% approved 4.3% committed (32.1%)	80% reported 0% estimated (76%)
<b>DHL Liquidity</b>	80.5 (68.4)	112 (765)	1.1 (9.3)	3.2 (17.5)	0.8% approved 9.7% committed (6.0%)	59% reported 3% estimated (57%)
<b>Total or weighted average<sup>3</sup></b>	2,517.3 (2,157.9)	156,037 (188,786)	49.0 (73.0)	158.2 (241.2)	37.2% approved 9.4% committed (39.4%)	81% reported 10% estimated (91%)

### Notes:

1. Previous year's data is the total approved and committed, as it was not possible to provide a more detailed breakdown at that time.
2. Previous year's data is the total reported and estimated, as it was not possible to provide a more detailed breakdown at that time.
3. Total for Value and Absolute emissions, weighted average for other data.

Source: Investment manager, WTW

Carbon Footprint and WACI have reduced for all funds shown and SBTi coverage (the total of approved and committed) has improved. Data coverage (the total of reported and estimated data) has improved for the DHL Global Equities, DHL Fixed Interest Bonds and DHL Liquidity funds, but has reduced slightly for the DHL Diversified and Cautious Growth funds. Overall, on a weighted average basis, the total data coverage is at the same level as a year ago and SBTi coverage (approved and committed) has improved somewhat. The Trustee will continue to work with the investment manager to help increase coverage and improve the overall quality of the data.

Changes in the total emissions data will reflect the changes to the sizes of the respective funds, influenced by a large degree by the transition activity in late March 2024. This saw a significant inflow to the DHL Global Equities fund and outflow from the Diversified Growth fund, as a result of the changes to the design of the Lifestyle strategies. Overall, total emissions have reduced by around 17%.



# SECTION 5: METRICS AND TARGETS

## METRICS



The table below shows each example member's 'share' of the carbon emissions, based on their fund allocations and fund values.

	Assumed fund value (£)	Absolute Carbon Emissions (tonnes)	Carbon Footprint (tonnes carbon emissions per US\$m EVIC)	WACI (tonnes carbon emissions per US\$m revenue)
<b>New Joiner</b>	0	0	24.0	57.0
<b>Pre De-risking</b>	35,000	2.0	42.5	137.4
<b>Pre Retirement (Drawdown)</b>	60,000	5.1	68.3	234.4
<b>Pre Retirement (Annuity)</b>	60,000	4.9	64.3	205.8

Source: Investment manager, WTW

# SECTION 5: METRICS AND TARGETS

## METRICS

### Scope 3 Emissions metrics

The table below shows the Scope 3 GHG emissions metrics for each of the funds, as at 31 March 2024 (with 31 March 2023 data shown in brackets). No data coverage figures were available for Scope 3 emissions as at 31 March 2023.

Fund	Absolute Carbon Emissions (tonnes)	Carbon Footprint (tonnes carbon emissions per US\$m EVIC)	WACI (tonnes carbon emissions per US\$m revenue)	Data Quality
<b>DHL Global Equities</b>	435,718 (70,453)	434.3 (296.2)	859.9 (735.5)	64% reported 34% estimated
<b>DHL Diversified Growth</b>	451,247 (489,660)	411.0 (349.7)	1,122.6 (1,415.2)	52% reported 32% estimated
<b>DHL Diversified Cautious</b>	218,404 (212,312)	444.7 (393.9)	1,200.8 (1,510.7)	41% reported 27% estimated
<b>DHL Fixed Interest Bonds</b>	59,308 (35,360)	574.7 (316.8)	1,081.1 (634.8)	35% reported 7% estimated
<b>DHL Liquidity</b>	18,531 (4,255)	262.7 (73.5)	1,556.1 (501.1)	22% reported 31% estimated
<b>Total or weighted average<sup>1</sup></b>	1,183,208 (812,040)	429.3 (345.4)	1,066.9 (1,303.6)	52% reported 30% estimated

#### Notes:

1. Total for Value and Absolute emissions, weighted average for other data.

Source: Investment manager, WTW

Scope 3 Carbon Footprint and WACI have increased for all funds shown. However, we are aware of the general unreliable nature of the available data for Scope 3 emissions and Data Quality generally is a lot poorer than for Scopes 1 & 2. The Trustee will continue to work with the investment manager to help increase coverage and improve the overall quality of the data.

As for Scopes 1 & 2, changes in the total emissions data will also reflect the changes to the sizes of the respective funds, influenced by a large degree by the transition activity in late March 2024.

# SECTION 5: METRICS AND TARGETS

## OUR CHOSEN TARGET AND OUR NET ZERO AMBITION



### Our ambition: to be Net Zero by 2050

For the first time we are formally publishing our ambition to achieve Net Zero Greenhouse Gas emissions (GHG) (Scopes 1, 2 and 3) by 2050. To start with, we will focus on our 'popular' DC funds covered by this report, as these have the most significant assets under management of all the DC funds. We are confident this can be achieved, particularly as our equity and corporate bond assets, as well as the DHL Fixed Interest Bonds fund, invest in the LGIM Future World fund range, which has Net Zero as one of its core policies and has committed to emissions reductions of 50% by 2030. For our funds we will use the carbon footprint data as at 31 March 2024 as our baseline and will measure the progress towards Net Zero in our future climate reports.

### New Target: Science-Based Targets (or equivalent)

The Trustee has chosen to set a more short-term, interim target for the climate metrics based on the coverage by the SBTi. The SBTi is a partnership between the Carbon Disclosure Project (CDP), the United Nations Global Compact (UNGC), World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).

SBTi defines and promotes best practice in emissions reductions and Net Zero targets in line with climate science for companies and financial institutions to follow. SBTi provides technical assistance and expert resources to companies who set Science-Based Targets in line with the latest climate science, using a team of experts to validate submitted targets to ensure compliance. Measuring the extent to which our funds are covered by the SBTi provides a measure of how well-positioned the portfolio is to be able to achieve Net Zero.

We have based our target on the proportion of companies in the portfolio with **approved** Science-Based Targets and have taken a weighted average of the approved SBTi data for the funds covered by this report, which was 37.2% as at 31 March 2024. Our target is for this level to reach 65% by 31 March 2030, a level that we feel is ambitious, but achievable.

The Trustee is taking a number of steps to meet its target. For example the DC Section's investments already include allocations to funds that focus on ESG matters, including climate change – for example all of the equity, corporate bond and fixed interest investments used within the Lifestyle options invest in this way.

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 existing target.

# SECTION 5: METRICS AND TARGETS

## OUR CHOSEN TARGET AND OUR NET ZERO AMBITION

### Previous target: Climate-Related Engagement

For our first two years of climate reporting we had set a target based on Climate-Related Engagement. This was to 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. We used WACI as the emissions measure for this purpose. The table below illustrates how the DC funds have scored relative to this target in over the last two years (ending 31 December 2023, with previous year's data in brackets).

Fund	Number of top 10 contributors to emissions engaged with on climate
DHL Global Equities	2 (4)
DHL Diversified Growth	0 (1)
DHL Diversified Cautious	0 (1)
DHL Fixed Interest Bonds	0 (3)
DHL Liquidity	2 (3)

Anchoring the target to the level of engagement with the top 10 contributors to carbon emissions on climate-related matters has meant it is difficult to draw meaningful conclusions. The top 10 contributors to the emissions from each portfolio will change over time and therefore it is difficult to accurately reflect progress towards the target. In addition, managers will seek to engage with companies on a number of ESG topics and will focus on the areas which they believe are most important for each company at any particular time.

For these reasons we have decided to change our target to the Science-Based Target outlined above. That is not to say that engagement on climate risk is not important – it is and remains one of our top priorities for investment stewardship.



# APPENDIX: GLOSSARY

**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.

**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.

**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.

**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.

**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.

**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.

**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.