

# Nestlé UK Pension Fund 2021 Task Force on Climate-related Financial Disclosures (“TCFD”) Report

## July 2022

### *Introduction*

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD published its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies for how climate related risks and opportunities are being managed.

Regulations came into force in October 2021 to require pension schemes to report on how they are managing climate related risks and opportunities.

This report sets out our approach - as the Trustees of the Nestlé UK Pension Fund (‘the Fund’) - for the assessment, ongoing management and mitigation of climate-related risks and opportunities in the context of our regulatory and fiduciary responsibilities for managing the Fund on behalf of its members.

We are committed to being a responsible investor and believe that Environmental, Social and Governance (“ESG”) factors, including climate change can have a material impact on the financial performance of the Fund’s investments. We expect that considering these factors throughout the strategic decision-making process can lead to a more complete investment analysis. This in turn helps to reduce investment risk in the Fund and enhance long-term investment returns, while also aiming to help secure a more sustainable world for society as a whole.

The report provides an update on how the Fund is currently aligning with each of the four elements set out in the regulations, which link to the recommendations set out by the TCFD. These elements are:

- **Governance:** The Fund’s governance around climate-related risks and opportunities.
- **Strategy:** The actual and potential impacts of climate-related risks and opportunities on the Fund’s investments and funding strategy, and integration into investment decision-making.
- **Risk Management:** The processes used to identify, assess, and manage climate-related risks and integration into overall risk management.

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

This report covers the period from 1 January to 31 December 2021, the Fund's full financial year. We will issue our next report in 2023 covering the year from 1 January to 31 December 2022, and then annually thereafter.

The investment and pensions industries are adapting to these new reporting requirements. Some of the information needed to fully complete the report is not yet available, so this report gives the position using data available at the time of writing. We fully expect the situation to evolve over time, and for more data to become available in time.

Finally, this report is not designed to be a tool to help financial decision making for our members – you should not make any investment decisions as a result of information in this report. We do hope though that you find the report useful and would be happy to hear any feedback you have on the contents or structure of the report. Please get in touch with Nestlé Pensions if you have any feedback or questions on the report.

*Signed on behalf of the Trustees by:*

*Steve Delo*

Steve Delo  
Chair of the Nestlé UK Pension Fund Trustee Board

*Note: The Fund is managed by a Trustee Company: Nestlé UK Pension Trust Ltd. The company acts through its board of directors, who we generally refer to as 'Trustees'.*

## Summary

This section of the report provides a summary of our progress in each of the four elements set out above.

### Governance:

- We have put in place a robust framework for assessing climate-related risks and opportunities, including clearly identifying the roles that we, as Trustees, and our advisors carry out.
- We have updated our responsible investment policy to clearly define our investment beliefs and the roles and responsibilities of everyone involved.
- Our DB Investment Committee (DBIC) and DC Committee (DCC) regularly review climate risks and opportunities. We are additionally supported by the Investment Team within Nestlé Pensions, Nestlé's Group Pensions Unit and a specialist TCFD Working Group.

You can read more about the governance structure we have put in place and the responsibilities of each of the key parties in section one, starting on page 5. You can also find our investment beliefs in Appendix A.

### Strategy:

- We have taken steps to understand how climate change might affect both the DB and DC sections of the Fund. This includes an assessment of the impact on the Fund of several possible climate change scenarios.
- Within the **DB section**, we are in the process of reducing the exposure to riskier, and more carbon-intensive, assets.
- Within the **DC section**, we plan to review our approach to responsible investment, including the investment implications of climate change, in the forthcoming Fund year.
- Across **both the DB and DC sections**, we continue to **engage** with our advisors and investment managers to understand, review and improve their climate practices.

You can read more about the climate scenarios and the impact of each on the DB and DC sections of the Fund, in section two, starting on page 6.

**Risk management:**

- We have taken steps to identify climate related risks and opportunities and we expect these to evolve over time.
- We believe climate change is a material financial risk to the Fund, its sponsor and its members and we have incorporated climate risk into our Risk Management and Monitoring policy.

You can read more about how we are managing climate related risks in section three of the report, starting on page 16.

**Metrics and targets:**

- We have set three metrics and a target. We will measure progress towards our set target each year.
- We have collected and reviewed information about the greenhouse gas emissions and carbon footprint of the Fund's investments.
- We have also reported on where there are gaps in the data available to us and we have set a target to improve the quality of the data available year on year.

You can read more about the metrics and target we have set, as well as the Fund's current emissions, in section four of the report, starting on page 19.

## 1. Governance

We retain overall responsibility for oversight of climate related risks and opportunities, but we make use of our committees and advisors to assist us in carrying out these responsibilities.

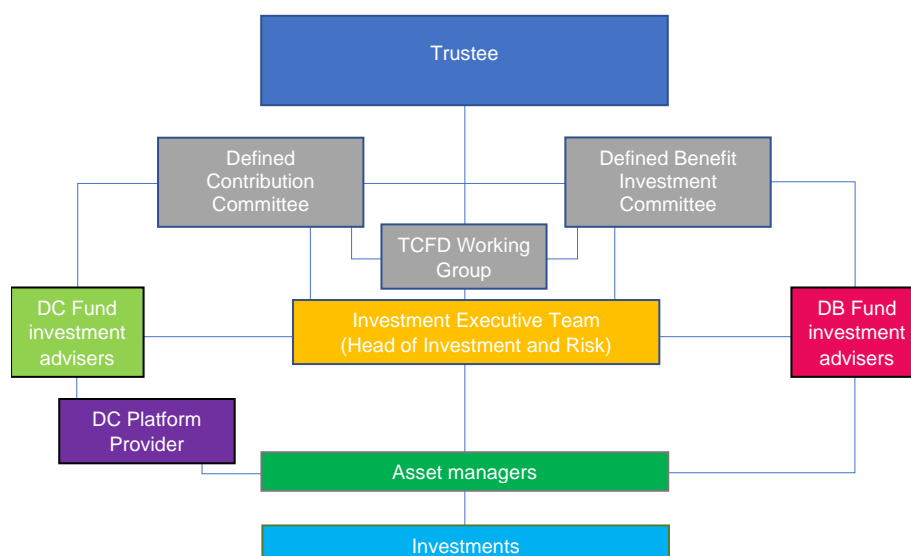
Our governance of climate-related risks and opportunities is underpinned a set of by responsible investment beliefs included within our Responsible Investment Policy. The full list of beliefs is detailed in Appendix A.

We reviewed this Policy, together with our legal advisors and subsequently updated it in September 2021. This ensured that our governance of climate-related risks remains robust and in line with recommended industry best practice and statutory requirements.

This policy is reviewed annually by the DBIC, DCC and the Trustee Board as a whole, and we consider any key developments (including in relation to climate-related risks and opportunities). Where appropriate we will update the Responsible Investment Policy or our investment strategy more generally, including the roles and responsibilities of the Fund’s different stakeholders, as is deemed appropriate.

The Board of Trustees and the Committees are supported by an internal Investment Executive Team, led by the Head of Investment & Risk. We are additionally supported by a TCFD Working Group, a dedicated resource comprising Trustee Directors and representatives of the sponsor, to support us with meeting our inaugural Climate Change Governance and Reporting requirements.

The diagram below outlines our Trustee’s governance structure for dealing with climate-related risks and opportunities, with further details on the responsibilities of each of these parties set out in Appendix B.



## 2. Strategy

### **DB Section**

Climate-related factors and their potential implications for the Fund's investment and funding strategy are incorporated into all aspects of our strategic decision-making. We consider the long-term position of the Fund's DB section to be of particular importance, but we also evaluate the implications of short- and medium-term climate-related risks and opportunities.

### Funding Strategy

We are conscious that, given the diversified nature of the Fund's investment portfolio, the source of climate-related risks is likely to be non-uniform and varied. To account for these differing sources, we have decided to evaluate the impact of climate-related risks through two lenses:

- **Transition Risk:** This includes policy, legal, technology, market and reputation risk factors that could arise from the adjustment towards a carbon-neutral economy – the severity of the impact will depend on whether the transition is orderly or disorderly.
- **Physical Risk:** Physical risks from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns and include risks such as a rise in sea levels, with impacts including flooding, and the destruction of biodiversity. These physical risks could have financial implications for the Fund, such as direct damage to assets and indirect destabilising impacts from supply chain disruption. Other potential impacts of physical changes in the climate are wider economic and social disruption, including mass displacement, environmental-driven migration and social strife.

As well as providing risks to the Fund and its sponsor, the transition to a lower carbon economy and the mitigation of and adaptation to the physical risks of climate change may create new investment opportunities.

### Time Horizons

We note the assessment of climate-related risks and opportunities may vary depending on the time horizon in question. As such, we assess climate-related risks and opportunities over the following time horizons, which they deem appropriate in light of the Fund's existing strategic objectives:

Time Horizon	Date	Details
<b>Short term</b>	Up to 2024	This relatively abrupt period will allow us to describe the short-term risks faced by the Fund from sudden climate-related behavioural changes.
<b>Medium term</b>	Up to 2050	This is aligned with our Responsible Investment belief that aligning the investment strategy with the goals of the Paris Agreement is likely to be in the best interests of the Fund's members.
<b>Long term</b>	Up to 2100	This reflects a period that is long enough for the Fund's liabilities to feasibly be fully accounted for in the climate stress tests, aligning with best practice guidance.

We note that these time horizons are longer than those considered for the DC Section of the Fund. This is largely due to the periods over which the chosen scenario framework operates, which is described in more detail below.

#### Investments

To assess the impact to the Funding strategy via the Fund's investments, we completed scenario analysis on the Current Asset Allocation and Strategic Asset Allocation based on the concepts of the Prudential Regulation Authority's (PRA) 2019 Life Insurance Stress Tests ("the PRA stress test scenarios"), as recommended by the Pensions Climate Risk Industry Group. The stresses are designed to demonstrate the impact to the value of the Fund's assets under three scenarios. To enable equivalent comparisons, in each case the impact of time-value of money has been offset by discounting back to current values.

The PRA recognise that feedback loops between climatic shocks and structural economic change need to be incorporated when assessing the financial impacts on businesses of physical and transition risk under each emissions scenario. However, due to existing modelling and data constraints, this is a complexity that is purposely excluded from the modelling. The advantage of this simplification is that it allows the scenarios to be applied to all asset classes in the portfolio.

There is also an acceptance that the timing and sequence of financial impacts will be complex, as behavioural changes could result in physical risks preceding transition risks and vice versa. For the purpose of simplicity, where an asset is subject to both physical and transition risk, the shocks are applied consecutively, with the transition shock applied first.

Summary details of each scenario are presented in the table below. Please see Appendix C for further details on the PRA stress test scenarios.

Scenario	Details
<b>Scenario A (Fast Transition)</b>	<p>Abrupt transition to the Paris-aligned goal occurring in 2024 (temperature increase kept well below 2 degrees Celsius relative to pre-industrial levels).</p> <p>Under this scenario the downside risk comes almost entirely from <b>transition risk</b>.</p>
<b>Scenario B (Slow Transition)</b>	<p>Orderly transition to the Paris-aligned goal occurring in 2050 (temperature increase kept well below 2 degrees Celsius relative to pre-industrial levels).</p> <p>Under this scenario the downside comes from a mix of <b>transition risk</b> and <b>physical risk</b>.</p>
<b>Scenario C (No Transition)</b>	<p>A no-transition scenario with impacts assessed at 2100 (temperature increase in excess of 4 degrees Celsius relative to pre-industrial levels).</p> <p>Under this scenario the downside risk comes almost entirely from <b>physical risk</b>.</p>

### Liabilities

When assessing the Fund's liabilities, we consider three primary risk factors that could directly impact the present value of the Fund's liabilities. These are:

- Interest rate
- Inflation
- Longevity

Following advice from our investment advisor, at this stage, we do not feel there are sufficient tools in place to accurately understand how climate change could affect longevity risk for the Fund's membership. We are conducting a review of the Fund's longevity risk in 2022 and hope to complete an assessment of climate-related longevity risk factors in future TCFD reports.

Therefore, we have focused on how climate-related issues could affect the Fund's liabilities via their impact on UK interest rates and inflation.

Regarding interest rate and inflation risks, we have taken a strategic decision to hedge liability risks related to these factors by employing a Liability Driven Investment ("LDI") strategy, which invests in assets with specific interest rate and inflation sensitivities that match the sensitivity of the Fund's liabilities to interest rate and inflation changes. In practice, this means that the impact that climate change risk can have on the present value of the Fund's liabilities due to interest rate and inflation changes is expected to be



offset by the opposite change in value of the LDI portfolio. As a result, the overall impact on the Fund from climate-related changes in interest rates and inflation will be negligible.

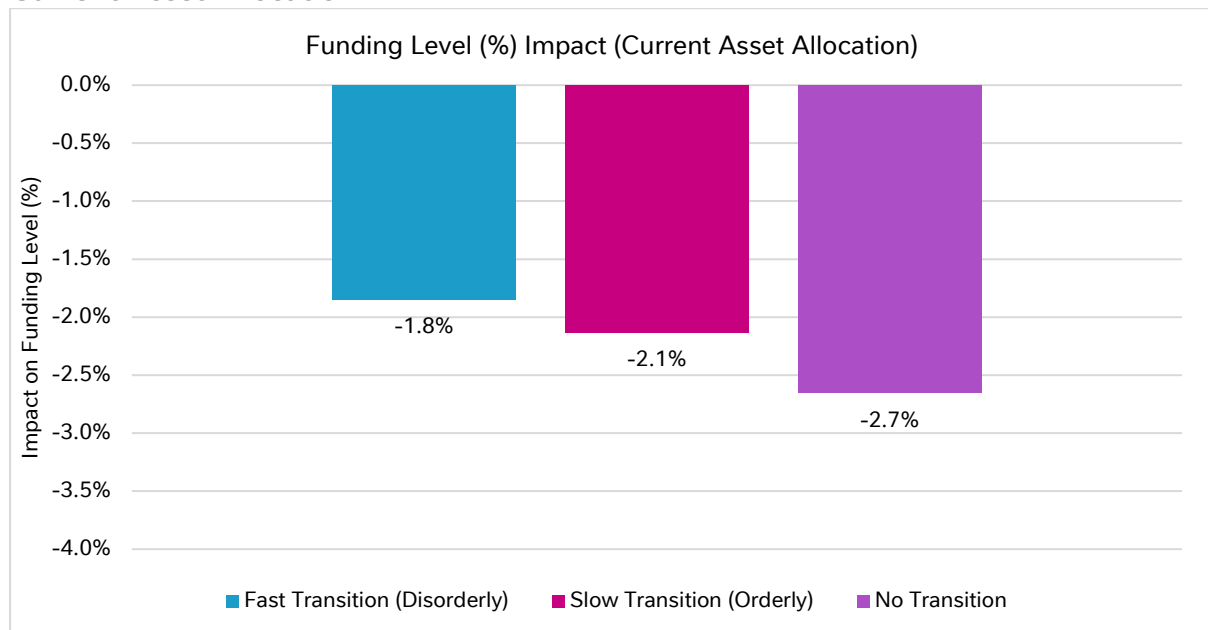
To consider how climate scenarios could affect interest rate and inflation specifically for the UK, we used, via our investment advisor, country-level research from the University of Notre Dame. Their findings based on this research showed that potential climate change risk on UK interest rate and inflation was in the level of spurious accuracy (0.03% - 0.26%), which also reflects the PRA stress test approach.

Therefore, based on the rationale listed above, at this stage, we have assumed that changes to UK interest rates and inflation as a result of climate change is likely to have no quantitative impact on our liability modelling.

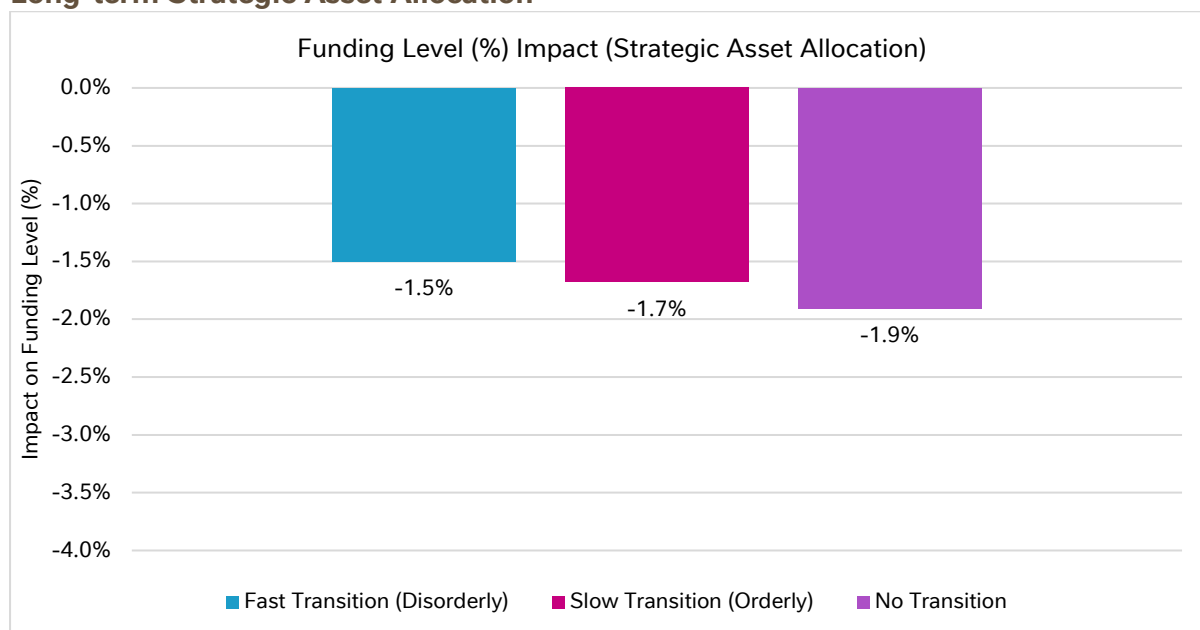
**Investment and Liability Scenario Analysis Results**

The results of the Investment and Liability scenario analysis on the Fund’s Current Asset Allocation and Strategic Asset Allocation are shown below, using the Fund’s asset and liability position and market conditions as at 30th September 2021. This analysis was completed on the Fund’s entire investment portfolio.

**Current Asset Allocation**



### Long-term Strategic Asset Allocation



When the stress tests are applied to the Fund's funding level using the Current Asset Allocation, the estimated impact is a fall in the funding level ranging from c.1.8% - c.2.7%. When applied to the long-term Strategic Asset Allocation, the estimated impact is a fall in the funding level ranging from c.1.5% - c.1.9%. The Strategic Asset Allocation represents a lower-risk total portfolio allocation. The results suggest the impact to the funding level is likely to be more subdued under the Strategic Asset Allocation than the Current Asset Allocation. This reflects the de-risked nature of the assets within the Strategic Asset Allocation versus the current asset allocation, with a larger allocation to developed market investment grade credit and smaller allocation to illiquid and real assets. The Fund is currently in the process of transitioning towards the Strategic Asset Allocation.

In both cases, the funding level is likely to be most severely impacted under Scenario C (No Transition). The key driver of this impact is the Fund's exposure to real assets, which are expected to be most significantly affected by physical risks that develop under a longer-term, no transition scenario. We regularly engage with the asset managers overseeing these portfolios, via our investment advisors and the Investment Executive Team, to ensure they are adequately monitoring, and seeking to reduce where possible, the climate-related risks of the assets within the portfolio.

The results of the scenario analysis indicate to us how resilient the long-term investment strategy is with regards to various climate change outcomes. We assess the results of these climate scenarios on the Fund's investment strategy and incorporate these (as well as the impact of any climate-related investment opportunities) into the investment decision-making process.

### Funding

We have requested that Cardano Advisory (“Cardano”) consider the resilience of the employer covenant in two scenarios consistent with the funding and investment risks assessed separately: “Fast Transition” (i.e. low-warming) and “No Transition” (i.e. high-warming). In order to be proportionate, we took the decision not to undertake a third scenario analysis of the impact of a “Slow Transition” on the basis that the “Fast” and “No” transitions represent ‘book-ends’ of possible outcomes and should be sufficiently informative for this first assessment.

Cardano’s analysis assesses the potential impact of climate-related risks and opportunities over the short-term, the medium-term and the long-term to facilitate integration with funding and investment risks and to support our strategic decision making.

Cardano’s assessment was based on the Nestlé SA Group rather than the Fund’s immediate sponsoring employers given the integrated nature of the Group and the guarantees from Nestlé SA.

### Conclusions

The summary output from Cardano’s climate analysis on the covenant is set out in the table below:

	Near-term < 3 years	Mid-term 3-13 years	Long-term 13 years
Fast transition	Medium risk	Medium risk	Medium risk
No transition	Lower risk	Medium risk	Higher risk

The highest risk to the employer covenant was assessed to be in the long-term in the No Transition scenario as the changing global climate over the long-run would be expected to impact on the ability of the business to source commodities such as coffee. However, the near-term risks in the No Transition scenario were assessed to be limited on the basis that this effectively represents the status quo.

The Fast Transition scenario was assessed to be medium risk throughout all time horizons, as a result of:

1. Carbon pricing impact on Nestlé’s relatively carbon-intensive processes
2. Changing consumer preferences for less carbon-intensive products
3. Rising cost of underlying supply chains due to rising costs associated with the global energy transition

In response to climate risks, Nestlé has produced a strategic response which sets out its transition plan towards its net zero emission target in 2050. A number of behavioural and operational changes which, if effectively implemented, would have the effect of reducing emissions and diminishing the potential impact of Fast Transition risks set out above.

#### Implications for the Fund and the Trustee's strategy

Our strategy is to materially remove reliance on the employer covenant (ie be financially independent from the employer) by 2036. The analysis performed above has indicated that medium climate-change risk to the sponsor will exist over this timeframe. While we have determined that our current strategy remains appropriate, we will continue to monitor our covenant-related climate risks alongside our regular monitoring of the employer covenant.

Furthermore, the analysis has highlighted that in a No Transition scenario, risk levels could be increased towards the end of the Fund's journey plan. In addition to the ongoing monitoring of covenant-related climate risks, we will also explore options to accelerate reducing reliance on the employer covenant when opportunities arise.

#### **DC Section**

We note that climate-related risks and opportunities will evolve over time as more information and new investment products come to the fore.

Given the likely time horizon over which members' benefits are expected to be paid by the Fund, we have agreed short, medium, and long-term time horizons of 5-10, 20-25 and 35+ years respectively. We note that the 35-year time horizon roughly aligns to 2050, the date by which countries bound to the Paris Agreement have agreed to meet net-zero requirements.

Some of the identified risks and opportunities over the short, medium and long term are outlined below.

Action	Manage climate risk	Capturing climate opportunities
Amend strategic asset allocation of the default arrangement	<p>There is no one-size-fits all approach to improve resilience, as the impact of climate change on the assets varies for different ages of members.</p> <p>The DCC will consider this as part of the upcoming investment strategy review.</p> <p>Timeframe: Short term</p>	<p>There may be scope to capture opportunities through investment in new ventures/projects supporting the climate transition, which could offer scope to improve outcomes for members.</p> <p>The DCC will be responsible for incorporating the opportunities into the DC investment strategy.</p> <p>Timeframe: Short to medium term</p>
Improve efficiency at fund level	<p>In general, there is expected to be significant scope to improve the management of climate risks and opportunities through individual fund selection.</p> <p>The TCFD Working Group expects to produce further analysis in the coming years to understand where improvement can be made as more tools and opportunities are presented</p> <p>Timeframe: Short to medium term</p>	
Effective stewardship	<p>As investors, there is significant scope to influence progress towards longer-term climate goals through effective stewardship.</p> <p>The DCC will continue to work with managers to understand their ongoing approach to engagement.</p> <p>Timeframe: Short to medium term</p>	<p>The scope to capture opportunities may be more limited but could still be value enhancing.</p> <p>The Working Group, DCC and Trustee Board can engage with all fund managers to understand and assess how they manage climate risk and capture opportunities through stewardship.</p> <p>Timeframe: Short to medium term</p>

We expect to undertake an investment strategy review in the coming Fund year to assess the appropriateness of the strategy and alignment to the agreed climate-related investment beliefs. As part of this review, we will consider the impact that any such strategy will have on our agreed target set out later in this document.

We will provide further information regarding our considerations with respect to climate-related issues, opportunities and risks both at a strategy level and individual asset class level in the TCFD report for the Fund year 31 December 2022.

### Scenario Analysis Results

The TCFD Working Group has undertaken scenario analysis stress testing to test the resilience of the DC sections of the Fund in three different climate scenarios all with differing likelihoods of reaching a less than 2°C temperature increase by 2100, namely:

Scenario	Details
<b>Scenario 1: 'Green revolution'</b>	Concerted policy action starting now e.g. carbon pricing, green subsidies etc with increased public and private spending on "green solutions". Ultimately leading to a high expectation of achieving a less than 2°C temperature increase.
<b>Scenario 2 'Delayed Transition'</b>	No significant action in the short-term, meaning response must be stronger when it does happen. There will be a shorter and sharper and period of transition. There is still a high expectation of achieving a less than 2°C temperature increase.
<b>Scenario 3 'Head in the sand'</b>	No or little policy action for many years leading to growing concern over ultimate consequences leading to market uncertainty and price adjustments. There is a low/no expectation of achieving a less than 2°C temperature increase.

These scenarios are similar in nature to those considered for the DB section, although not identical due to differences in approach taken by our DB and DC investment advisors.

The TCFD Working Group has considered the impact of the three scenarios above for three average members within DC Section of the Fund.

- **A young member aged 25**, could potentially be impacted both negatively and positively by all the modelled climate scenarios because of their long investment horizon. A 'green revolution' scenario in which high volatility in the early part of their savings journey (associated with policy action) becomes embedded represents the greatest downside risk to their projected pension income.
- **A member aged 40**, faces the risk of slightly larger losses as a result of policy action in the short to medium term, but under the current strategy the expected retirement income is less affected, even in adverse scenarios.
- **For a member much closer to retirement, for example age 55**, the scenarios in which policy action is delayed for a number of years are not expected to affect their pension and, should policy action be immediate, the lower risk

strategy as a member approaches retirement is likely to offer protection for their savings showing that the current strategy helps to reduce downside risk.

The nature of the DC section, where the potential impact of climate risk is dependent on a range of factors such as pot size, salary and years to retirement makes it more difficult to provide a single quantitative output from the scenarios than for the DB section. To address this, the TCFD Working Group discussed the impact of the scenarios on a broad range of members in different circumstances.

It should be noted that the scenario analysis we have described is based on the output of modelling. The specification of the modelling methodology and the setting of underlying assumptions often requires subjective judgement and different approaches will lead to different results.

### 3. Risk management

We believe that the transition and physical risks in relation to climate change presents a material long-term financial risk for the Fund which could impact the Fund's investments, the Fund's sponsor, and the world into which its members will retire. As such, climate change has been specifically identified as a principal risk exposure of the Fund.

We are currently in the process of updating the Fund's Risk Register and expect to expand the assessment and management of climate-related risk within it. This is likely to involve rating the likelihood and impact of each risk event to produce a score reflecting the threat that the risk event poses to the Fund, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action. Rating the risk's likelihood and impact will be informed by scenario analysis and calculated metrics where relevant.

Risks and opportunities should be considered in absolute terms and in relation to the risk appetite of the Fund. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk.

The financial risks and opportunities arising from the impacts of climate change may include physical and transition risks. We seek to identify, through our investment advisors, the impact of climate-related risks on all the assets in which we invest. Identification includes:

- conducting and reviewing the results of climate-related stress tests,
- the use of emissions- and non-emissions-based climate metrics on a quarterly basis, and
- regular reporting by and engagement with the Fund's asset managers.

The Fund's investment advisors are expected to advise on, and provide objective assessments of, differing approaches to responsible investment to help us decide on a responsible investment strategy and adopt appropriate responsible investment objectives for the Fund. The responsibilities of the investment advisors were set out in more detail in Section 1: Governance.

We require our appointed investment managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Fund. Within the DB Section, which is currently in the process of reducing risk across its portfolio as it transitions to the Strategic Asset Allocation, we have actively sought to incorporate climate-related considerations into the guidelines given to the investment managers. This includes activity such as optimising a portfolio's emissions profile versus a representative benchmark to the reduce overall climate risk and considering the temperature alignment of a mandate's emissions.



Where a climate-related risk has been identified as material, consistent with our broader investment objectives, this may be subject to further assessment by our investment advisors, who will in turn report to the DBIC or DCC as appropriate on the potential impact of the risk to the Fund and engage with the relevant manager(s) to understand the source of this risk and the steps being taken to address it.

If engagement highlights that the degree of alignment to our climate-related policies and objectives remains at an unsatisfactory level, we will be notified and this will be used to inform future manager selection and, if appropriate, asset allocation decisions. Arrangements with the existing manager may also be altered or in some cases their appointment terminated.

We prefer engagement over divestment when considering good stewardship of their investments. This means that where voting rights are held (e.g. through the ownership of shares), these rights should be exercised where appropriate. We also expect managers without voting rights to engage with companies on issues that are material to the performance of the asset.

We have delegated the execution of voting and engagement activity to the Fund's asset managers. Such managers are expected to vote at company meetings and engage with companies on our behalf in relation to ESG considerations and other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

#### Scenario analysis

One of the key risk management tools is the scenario analysis described in Section 2: Strategy above.

For the DB Section, the results of the scenario analysis indicated that the Fund is most likely to be impacted under a No Transition scenario due in part to the real asset exposure of the Current and Strategic Asset allocations. We receive specific updates on the climate-related risks of these assets each quarter from the relevant asset managers.

The scenario analysis showed that the Fund's Property, Aircraft Leasing and Private Equity mandates are likely to suffer the largest aggregate impact under all three scenarios. The Fund is currently divesting from these mandates and therefore they are not subject to specific Trustee focus, in part due to the likely time-horizon over which material climate risks will manifest and their small size in the context of the Fund's total portfolio. Nonetheless, we continue to receive climate-related reporting, where relevant, pertaining to these mandates which is considered as part of the Fund's broader climate risk exposure.

#### Annual Watchlist Report

Another key risk management tool is the annual Watchlist Report received by the DBIC and DCC from their investment advisors. This report covers engagement and voting

activities of various investment managers and the DBIC and DCC use these to monitor performance in line with the agreed beliefs and resulting expectations for investment managers as well as any requirements within mandates in place.

The results of the 2021 assessment, completed using data as at 31 December 2020, highlighted that the proportion of companies within the Fund's overall portfolio deemed to be climate laggards had fallen from the first assessment completed using data as 31 December 2019.

In spite of the aggregate improvement, the analysis highlighted that the Fund's Buy & Maintain Credit mandate had experienced an increase in the total portfolio value attributable to climate laggards. We engaged, via our investment advisor and Investment Executive Team, with the mandate's manager to understand the rationale for including these companies in the portfolio, and what efforts were being undertaken by the manager to ensure the companies improve their climate-related characteristics over time. Where any concerns were identified, progress against our objectives will be reviewed again in 2022 as part of our annual assessment.

In addition, we engaged with the manager of our Global Equity mandate with the intention of improving the reporting provided by the manager on climate-related engagement carried out on our behalf. Specifically, the manager was asked to provide more detailed case study examples of active engagement and the resulting impacts of this engagement on the assets of the Fund. This represents an ongoing area of focus for us.

## 4. Metrics and targets

Climate-related metrics are expected to form an important part of the Fund's investment decision-making process to measure, manage and disclose climate risk.

We have considered advice from our advisors when selecting which metrics to use in measuring the climate-related risks and opportunities present for the Fund. The selected metrics will also aid us in identifying opportunities for further engagement with investment managers and underlying investee companies. The chosen metrics are as follows:

- **Metric 1 ("absolute emissions metric"):** Total greenhouse gas emissions of the Fund's assets. Greenhouse gases are gases in the Earth's atmosphere that are capable of absorbing infrared radiation and thereby trap and hold heat in the atmosphere. The main greenhouse gases are:
  - carbon dioxide ("CO<sub>2</sub>")
  - methane
  - nitrous oxide

Different GHGs have different levels of impact on the atmosphere, with some gases being more potent than others. For example, methane is 25x more potent than CO<sub>2</sub> whereas Nitrous Oxide is 298x more potent. For the purposes of calculating Scope 1, 2 and 3 GHG emissions as set out below, GHG emissions are expressed in terms of tonnes of Carbon Dioxide equivalent (**tCO<sub>2</sub>e**).

- **Metric 2 ("emissions intensity metric"):** Carbon footprint of the Fund's assets – i.e., total carbon dioxide emissions, normalised by the investor's share of the company's capital structure – defined as Enterprise Value Including Cash ("EVIC"). This is measured as tonnes of CO<sub>2</sub> equivalent emissions, over £m invested (**tCO<sub>2</sub>e/EVIC £m**).
- **Metric 3 ("data quality metric"):** Proportion of assets in which the fund invests with scope 1, 2 and 3 emissions data disclosed and calculated by the companies themselves subject to MSCI verification.

We have set a target to **achieve a minimum of a 10% improvement (weighted by portfolio weight) over 2022 in terms of scope 1, 2 and 3 emissions data disclosed and calculated by the companies in the portfolio themselves in which the fund invests subject to MSCI verification.**

Definitions of Scope 1,2 and 3 Greenhouse Gas Emissions	
<b>Scope 1</b>	Scope 1 emissions are direct emissions produced by the activities of the emitter.
<b>Scope 2</b>	Scope 2 emissions are indirect emissions generated by the electricity, heat, or steam consumed and purchased by the emitter.
<b>Scope 3</b>	Scope 3 emissions are other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities not covered in Scope 2, outsourced activities, waste disposal, etc. These emissions may be upstream (within the supply chain of a company) or downstream (within the use of the products or services provided by a company).

In line with our governance and risk management processes, we receive an update on these metrics and the Fund's progress against the specific target as part of the regular reporting provided by our investment advisors. Although this target relates to improvement over 2022 only, it is expected that performance against the target will be reported on an annual basis (or reviewed as necessary) in future TCFD reports<sup>1</sup>. We will annually review our selection of metrics and the relevance of our target to ensure they remain appropriate for the Fund.

The results represent the first iteration of this analysis, and the expectation is that the output will evolve over time as data availability improves following more widespread public disclosures and industry consensus on appropriate methodologies. Although some of the emissions data included in this section has been sourced post year end, we consider it to be useful information to include nonetheless.

In future reports, we will monitor the metrics on an at least an annual basis and identify whether performance has improved or deteriorated over time. Where performance has deteriorated, we will look to engage further to understand the reasoning and undertake any appropriate remedial actions. The metrics will also be used to monitor the Fund's performance in line with climate-related targets.

We have included information on the data coverage in Appendix E, along with more details of these metrics, the methodology used to produce them and relevant data disclaimers.

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<sup>1</sup> As the 2021 data is effectively the baseline for our target it is not possible to comment on progress against this target in this year's report.

## DB Section

The results of the analysis as at 30 September 2021 using the Fund's DB section's asset allocation at that time are shown below. On the advice of our investment advisor, the absolute emissions and emissions intensity metrics have been calculated using line-by-line holdings data for mandates for which line-by-line data coverage is above 50%, and on an asset class basis for mandates where line-by-line coverage is below 50%, using emissions data provided by MSCI.

As such, the Fund's Global Equity and Buy & Maintain Credit and Liability Driven Investment ("LDI") portfolios are calculated on a line-by-line basis, with the remainder of the assets modelled on an asset class basis. This allows us to have a more holistic view of the Fund's absolute carbon emissions and carbon footprint by ensuring a larger proportion of assets are included in the analysis, while recognising the asset-class modelled data may not be perfect.

The absolute and emissions intensity of the Fund's LDI portfolio has been provided by Legal and General Investment Management, the Fund's LDI manager. This analysis excludes derivative instruments including repo. LGIM assumes the carbon intensity of government bonds should reflect carbon emissions of the entire country. To that end, carbon intensity is measured as the total carbon equivalent GHG emissions within a country border normalised for GDP (tCO<sub>2</sub>e/\$m GDP). For the carbon footprint, the numerator remains the same whilst the denominator is the total capital stock, a measure of total value of investment in the economy at a point in time (tCO<sub>2</sub>e/\$m invested). Due to data availability constraints, the absolute emissions of the LDI portfolio are calculated using the LDI portfolio NAV (£m) as at 30 September 2021 and multiplying this figure by the portfolio's Emissions Intensity, translated from USD into GBP, as at 31 December 2021.

We note that carbon accounting analysis on LDI portfolios is unlikely to inform asset allocation decisions given the need for the Fund to hold these assets to allow for interest rate and inflation hedging<sup>2</sup>. We also note there is not currently a standardised accounting methodology for quantifying the climate risks associated with the assets held within LDI portfolios, namely sovereign bonds and derivative instruments, and we therefore have reservations regarding the robustness of the metric outputs. For these reasons, the emissions metrics for the LDI portfolio have been reported separately.

We recognise that when calculating the CO<sub>2</sub>e (carbon dioxide equivalent) emissions of a fund using Scope 1, Scope 2 and Scope 3 emissions, a company's direct Scope 1 emissions are likely to form part of another company's indirect Scope 3 emissions. Therefore, aggregating the individual Scope emissions could result in a higher emissions estimate than the true level. To mitigate this double counting, a scaling factor of 0.22 is

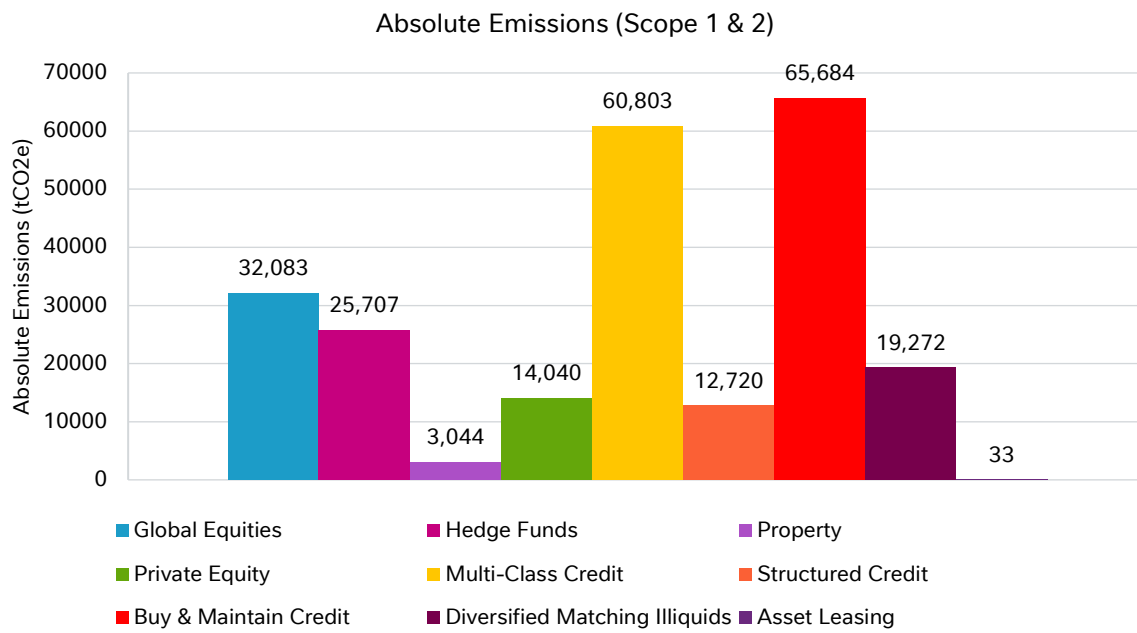
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<sup>2</sup>This is consistent with leading industry frameworks (including the IIGCC's NZIF) that recommend excluding assets that are held for liability matching purposes from climate-related risk analysis.

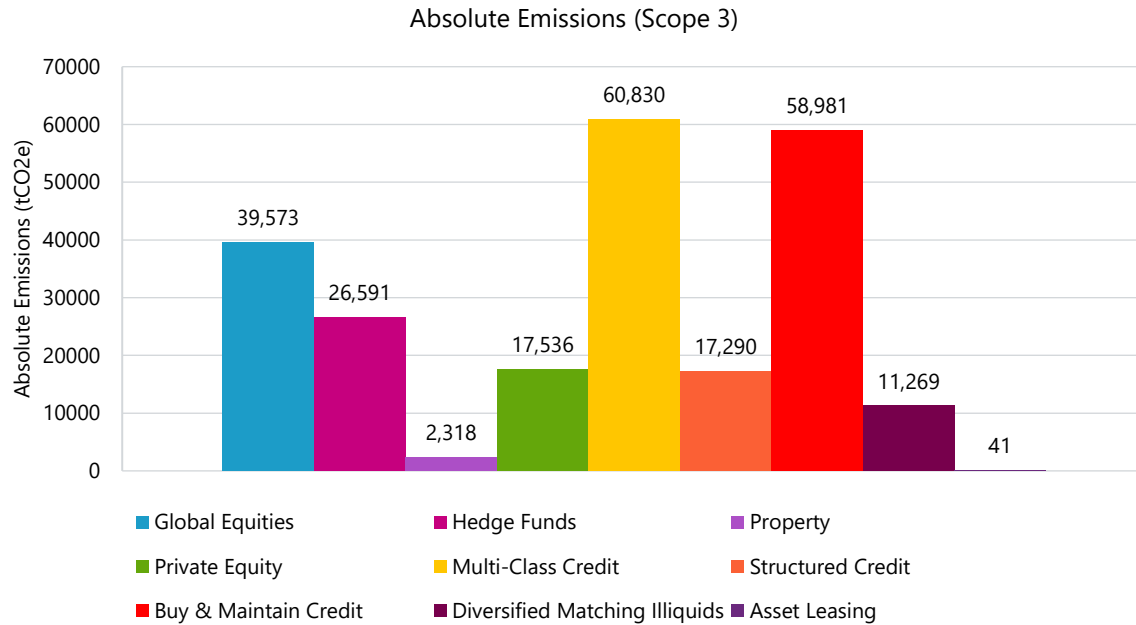
applied to Scope 3 emissions in accordance with MSCI’s methodology. The total Scope 1 and 2 and Scope 3 absolute emissions and carbon footprint are reported separately.

Additional details and information on the methodologies applied are provided in Appendix D.

**Metric 1 (Non-LDI Portfolio): Absolute Emissions (Scope 1 and 2) - Total: 233,386 tCO2e**



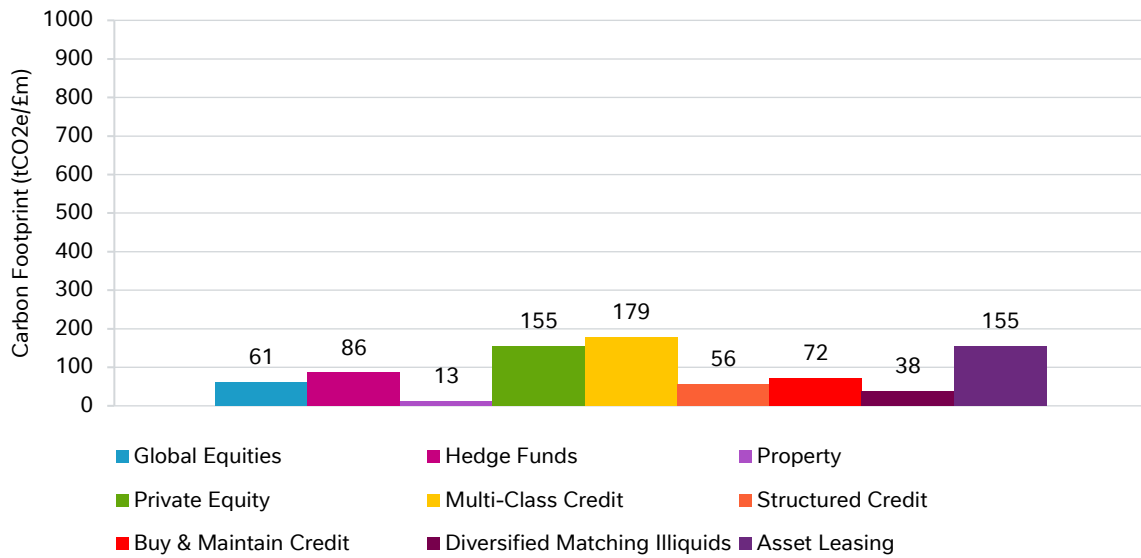
**Metric 1 (Non-LDI Portfolio): Absolute Emissions (Scope 3) - Total: 234,429 tCO2e**



The absolute emissions of a mandate is naturally in part a function of its size, with larger mandates in terms of assets invested likely to have larger total emissions. Consistent with this relationship, the analysis showed that the Fund’s Multi-Class Credit and Buy & Maintain Credit mandates had the largest absolute Scope 1 & 2 as well as Scope 3 emissions, followed by the Global Equity mandate. These mandates are among the largest allocations of the Fund’s non-LDI portfolio.

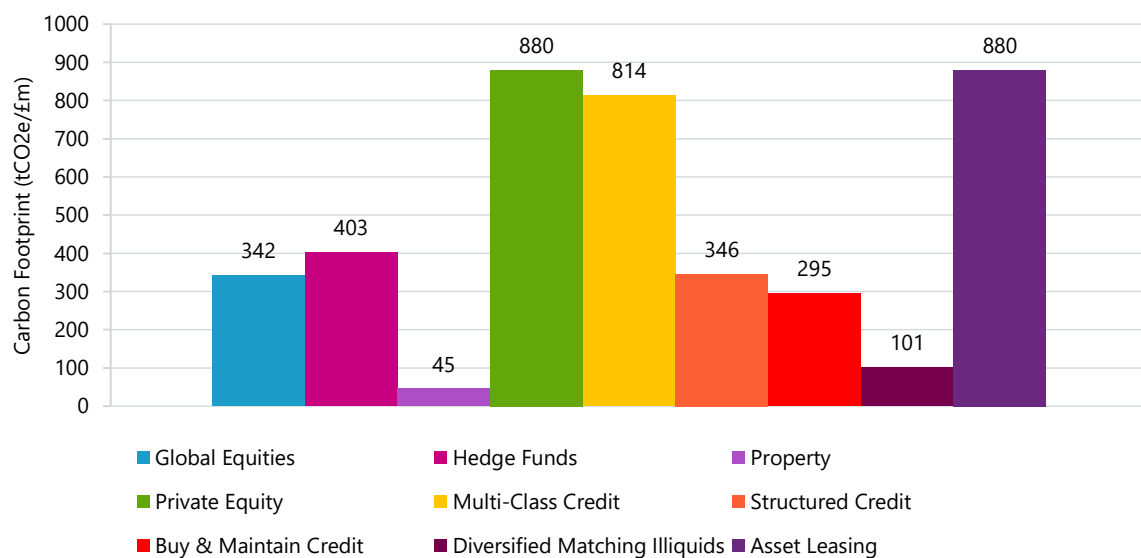
**Metric 2 (Non-LDI portfolio): Emissions Intensity (Scope 1 and 2) – Total 74 tCO<sub>2</sub>e/EVIC £m**

Carbon Footprint (Scope 1 & 2)



**Metric 2 (Non-LDI portfolio): Emissions Intensity (Scope 3) – Total 340 tCO<sub>2</sub>e/EVIC £m**

Carbon Footprint (Scope 3)





The analysis of carbon footprint showed that the Multi-Class Credit, Private Equity, and Asset Leasing mandates, modelled using an asset class basis rather than line-by-line data, had the highest scope 1 and scope 2 carbon footprints, respectively. The Fund is currently in the process of fully divesting from these three asset classes as part of its transition to the Strategic Asset Allocation. While the Asset Leasing mandate has a large carbon footprint, the Fund has an immaterial exposure to this asset class, as indicated by the absolute emissions analysis. The results also highlighted that even though the Buy & Maintain Credit mandate came out as the highest in the absolute emissions analysis (due to its large allocation), the mandate's carbon footprint does not stand out as compared to overall carbon footprint of the Fund.

### Metrics 1&2 (LDI portfolio):

Metric class	Result
Estimated Absolute Emissions Scope 1 & 2 (tCO <sub>2</sub> e)	294,333
Estimated Carbon Footprint Scope 1 & 2 (tCO <sub>2</sub> e/EVIC £m)	96

*Note: LDI portfolio Absolute Emissions are calculated using the LDI portfolio NAV (£m) as at 30 September 2021 and multiplying by Carbon Footprint. Carbon Footprint calculated as at 31 December 2021. Analysis is issued by Legal and General Investment Management Limited ("LGIM"), and the data is sourced from ISS.*

### Metric 3: Data quality - Proportion of assets in which the fund invests with scope 1, 2 and 3 emissions data disclosed and calculated by the companies themselves subject to MSCI verification

We monitor the data quality of the Fund's emissions data and have set a target to achieve a minimum of 10% improvement (weighted by portfolio weight) over 2022 in terms of Scope 1, 2 and 3 emissions data, subject to MSCI verification. This target encompasses the Fund's entire portfolio. This target initially relates to 2022 only, rather than being a year-on-year target, and will be reviewed as appropriate next year.

Where a mandate does not achieve this annual improvement, we will, via our investment advisors and Investment Executive Team, engage with the relevant managers to understand what steps they are taking to improve the data reporting quality of the companies within their mandate.

As at 30 September 2021, MSCI-verified emissions data was available for four of the Fund's mandates. These were:

- Global Equities
- Multi-Class Credit
- Structured Credit
- Buy & Maintain Credit

The table below shows the portfolio-weighted (using the Fund's respective allocation to each mandate as at 30 September 2021) proportion of holdings for which MSCI verified issuer reported emissions data was available for the non-LDI portfolio.

**Metric 3 (Non-LDI Portfolio): Data quality:**

	Portfolio-weighted MSCI-verified coverage % (Scope 1 & 2)	Portfolio-weighted MSCI-verified coverage % (Scope 3)
DB assets – non-LDI	34.4%	0.0%

We recognise that, although the emissions data is not verified by MSCI, the LDI portfolio accounts for a meaningful proportion of the Fund's total assets and the target may be subject to change in accordance with the review process described above. As such, the following table shows the total portfolio-weighted issuer reported (though not MSCI-verified) when the LDI portfolio is accounted.

	Portfolio-weighted issuer reported coverage % (Scope 1 & 2)	Portfolio-weighted issuer reported coverage % (Scope 3)
Total DB assets	48.0%	0.0%

*Note: All DB section analysis excluding LDI portfolio analysis is provided by the Fund's Investment Advisor, Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©. Please refer to the data disclaimer in Appendix D. LDI portfolio analysis is issued by Legal and General Investment Management Limited ("LGIM"), and the data in the report is sourced from ISS. Please refer to the data disclaimer in Appendix D. Note: All Scope 3 emissions data is sourced from MSCI estimates, and therefore the reported Scope 3 coverage is zero for all mandates.*

## DC Section

The calculated metrics for the DC Section of the Fund as at 30 September 2021 are presented below.

### Metric 1 Absolute Emissions and Metric 2 Carbon Footprint

Fund	Metric 1		Metric 2
	Total Scope 1+2 Carbon Emissions (tCO <sub>2</sub> e)	Total Scope 3 Carbon Emissions (tCO <sub>2</sub> e)	Carbon Footprint (Scope 1 & 2) (tCO <sub>2</sub> e/EVIC £m)
<b>Growth</b>	<b>5,732</b>	<b>29,969</b>	<b>72</b>
<b>Blended Assets</b>	<b>2,098</b>	<b>13,911</b>	<b>55</b>
<b>Equities</b>	<b>1,230</b>	<b>5,974</b>	<b>78</b>
<b>Pre-retirement to cash</b>	<b>No data available</b>	<b>No data available</b>	<b>No data available</b>
Ethical Growth	63	356	34
Property	16	45	10
Corporate Bonds	59	493	58
Cash	No data available	No data available	No data available
Ethical Consolidation	4	20	7
Pre-retirement to annuity	8	53	75

Sources: LGIM, SSGA, BlackRock, PIMCO, Schroders, Hymans MSCI tool

The funds shown in **bold** in the table above are used within the default arrangement, which most members invest in. In order to estimate metrics 1 and 2 for the overall default arrangement we have weighted the metrics by the estimated proportion of these funds held by members in the default arrangement<sup>3</sup>. The table below shows the estimates for metrics 1 and 2 for the aggregate default arrangement.

### Metric 1 Absolute Emissions and Metric 2 Carbon Footprint – default arrangement

Fund	Metric 1		Metric 2
	Total Scope 1+2 Carbon Emissions (tCO <sub>2</sub> e)	Total Scope 3 Carbon Emissions (tCO <sub>2</sub> e)	Carbon Footprint (Scope 1 & 2) (tCO <sub>2</sub> e/EVIC £m)
<b>Default arrangement</b>	<b>8,340</b>	<b>46,171</b>	<b>63</b>

<sup>3</sup> We have based this estimate on the proportion of these funds held by members in the default arrangement as at 24 January 2022, expected to be very similar to the split at 30 September 2021 due to the relatively few members making changes to their holdings.

Recognising that the exposure to climate-related risk will differ for members at various stages of their journey through the default arrangement we have also presented estimates of these metrics for members in each phase of the lifestyle arrangement below. The figures for metric 1 are shown assuming a member invests £10,000.

Member in default arrangement	Metric 1 (shown for a £10,000 investment)		Metric 2
	Total Scope 1+2 Carbon Emissions (tCO2e)	Total Scope 3 Carbon Emissions (tCO2e)	Carbon Footprint Scope 1 & 2 (tCO2e/EVIC £m)
Growth phase – more than 15yrs to retirement	0.72	3.78	72
Consolidation phase – 5-10 yrs to retirement	0.55	3.66	55
Pre-retirement phase – 2.5yrs to retirement	0.28	1.83	28

**Metric 3: Data quality - Proportion of assets in which the fund invests with scope 1, 2 and 3 emissions data disclosed and calculated by the companies themselves subject to MSCI verification**

	Portfolio-weighted MSCI-verified coverage % (Scope 1 & 2)	Portfolio-weighted MSCI-reported coverage % (Scope 3)
Total DC assets	55%	49%
Estimate for default arrangement	55%	48%

*Note: Total Scope 1+2 emissions, and the equivalent emissions intensity figures are based on a combination of reported and estimated data. Scope 3 emissions represent only company reported data. Data coverage figures represent a weighted average for each portfolio.*

## Appendices

### Appendix A – The Trustee’s investment beliefs & engagement policy

The following investment beliefs are pertinent to our responsible investment policy.

We believe that:

- ESG, including climate-related factors, are financially material and should be measured and monitored.
- Climate change risk in particular represents a long-term material financial risk for the Fund, which could impact the Fund’s investments, sponsor and members. Risks to the Fund arising from climate change include economic, demographic and asset risks – whether from the physical impacts of climate change itself or the impact of transition to a lower carbon economy.
- In the long term better financial returns are likely to be achieved by investing in companies and assets that demonstrate they contribute to the long-term sustainable success of the global economy.
- Engagement is the preferred means of aligning the Fund’s investments with our goals, but we will consider an exclusion and divestment strategy where engagement fails to yield meaningful alignment and where consistent with our fiduciary duties.
- Achieving alignment with the goals of the Paris Agreement is likely to be in the long-term financial interests of the Fund and its members and we will incorporate consideration of this goal into strategic decision making.
- The impact of ESG including climate-related factors is of growing importance for strategic decision making. We recognise that there is ongoing development in the understanding of these factors overall and the financial impact they can have. Therefore, we will endeavour to evolve our thinking over time to further incorporate future developments in this area.

The Trustee prefers engagement over disinvestment when considering good stewardship of their investments. This means that where voting rights are held (e.g., through the ownership of shares), these rights should be exercised where appropriate. The Trustee also expects managers without voting rights to engage with companies on issues that are material to the performance of the asset.

The Trustee has delegated the execution of voting and engagement activity to the Fund’s asset managers. Such managers are expected to vote at company meetings and engage with companies on the Trustee’s behalf in relation to ESG considerations and

other relevant matters (such as the companies' performance, strategy, risks, capital structure, and management of conflicts of interest).

The Fund's asset managers are required to provide qualitative and quantitative data to the Investment Executive Team on a regular basis regarding their recent voting and engagement activities, including in respect of issues addressed by the Core Responsible Investment Themes, which is reviewed and monitored by the relevant sub-committee on an ongoing basis using the following framework:

- Companies in which the Fund hold an indirect investment via its asset managers are evaluated based on the six Core Themes<sup>4</sup> selected by the Trustee.
- Those companies whose business operations cross the thresholds against which the Core Themes are judged are flagged and placed on a watchlist for further assessment.
- The voting and engagement activities with regards to companies that have been flagged and placed on the watchlist are then examined in further detail, distinguishing between Environmental, Social and Governance factors.

Following engagement, if there remain material concerns surrounding the practices of companies held by the Fund, the sub-committee and Head of Investment and Risk will advise the Trustee on appropriate measures to mitigate these, including consideration of exclusions or divestment.

The Trustee expects their asset managers to be signatories to the FRC's UK Stewardship Code. Where a manager is not a signatory, the Trustee will seek to understand why this is the case and encourage them to become signatories.

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## **Appendix B – Details of the key climate-related responsibilities**

### Responsibilities of the Trustees

We are ultimately responsible for the identification, assessment, and management of climate-related risks and opportunities. This includes the approval of the Fund's climate-related target, climate metrics and scenario analysis methodology. The climate-related target, climate metrics, and scenario analysis methodology included in this report were selected by us following recommendations from the TCFD Working Group.

We receive an annual report from our investment advisors on how the Fund's managers are addressing key climate-related risks and opportunities, as well as periodic updates that are pertinent to our investment decision-making.

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<sup>4</sup> The six Core Themes are Environment, Human rights, Corporate governance, Climate change, Labour, Corruption

### Responsibilities of the DBIC, DCC and Investment Executive Team

We have delegated the responsibility for the ongoing day to day assessment of climate-related risks and opportunities to the DBIC and DCC for the DB and DC Sections respectively. This includes the assessment of climate risk and opportunities highlighted by our investment advisors, and reviewing of climate-related metrics. The DBIC and DCC are also responsible for reviewing the performance of the advisors and asset managers against their respective climate-related objectives and providing us with recommended action should their performance fall below expectations.

The DBIC and DCC are supported in their efforts by the Fund's Investment Executive Team, headed by the Fund's Head of Investment and Risk, who work with the Fund's advisors and Nestlé's Group Pensions Unit to agree the implementation of our climate-related beliefs and objectives and to provide oversight of the Fund's asset managers.

In order to ensure the ongoing suitability of our approach to climate-related risks, the Fund's Head of Investment and Risk ensures that the Trustees, including new Trustee directors, and members of the DBIC and DCC receive regular training on climate-related topics. As part of their annual business planning, we will ensure that periodic training sessions are directly focused on climate change, with updates on key developments (including in relation to climate-related risks and opportunities).

In 2021, the Trustee Board and members of the DBIC and DCC received training on climate-related issues including the financial risks posed by climate change, climate change scenario analysis, climate risk-metrics, and strategies for enhanced engagement.

We mainly receive training from our investment advisors and asset managers, but we also use external specialists and other engaged pension funds to provide exposure to a range of opinions and approaches for effective governance.

### Responsibilities of the Investment Advisors

Our investment advisors are expected to identify, advise on, and provide objective assessments of climate-related risks and opportunities, and to help us decide an appropriate responsible investment and climate-related strategy that adopts appropriate objectives for the Fund. This includes the provision of advice that will enable us to effectively monitor climate-related risks and opportunities of the Fund's portfolios and be promptly informed of new investment opportunities or emerging risks that the advisors believe would help the Fund meet its long-term goals and objectives.

The Fund's advisors are also expected to assist with the completion of climate scenario analysis to assess the Fund's resilience to climate-related risks and opportunities, regularly measure and review climate-related metrics, including emissions- and non-emissions-based metrics and provide advice concerning climate-related targets.

To ensure the Fund's advisors are taking adequate steps to identify and assess risks and opportunities related to ESG factors, we have included specific objectives in our investment advisors' annual appraisal to:

- Develop our policies and beliefs, including those in relation to Responsible Investment (including climate change).
- Ensure the investment advisor's advice reflects our own policies and beliefs, including those in relation to Responsible Investment.
- Help us meet our reporting obligations on ESG, voting and engagement matters in respect of our investment arrangements, liaising with asset managers as necessary.

The Investment Executive Team annually assesses the delivery of this advice using the Competition and Markets Authority's Investment Consultant Objectives framework and provide a report for the DBIC and DCC with its view on whether the advisors have met the requirements set out in their annual objectives. It is the responsibility of the DBIC and DCC to provide the Trustee Board with recommended escalation steps should they deem that the objectives have not been adequately met.

#### Responsibilities of the Asset Managers

The day-to-day management of the climate-related risks associated with the Fund's assets is delegated to the Fund's appointed asset managers, who are responsible for all day-to-day decisions regarding the implementation of our investment strategy.

We require our appointed investment managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Fund. Managers' investment strategy and decision-making with respect to climate-related factors are monitored and reviewed by our investment advisors and Investment Executive Team on a continual basis, who assess performance against their objectives and alignment with our climate-related investment policies.

When selecting new investment managers or funds, where relevant to the investment mandate, we explicitly consider potential managers' approach to responsible investment, based on advice from their investment advisors. The advisors provide us with recommendations based on extensive research, which itself incorporates an assessment of potential candidates' incorporation of ESG factors, including climate change, within their decision-making and risk management processes.

We require all of the Fund's asset managers to provide reporting on ESG factors, including climate change, where possible. This is monitored by the Fund's investment advisors and Investment Executive Team. Should this monitoring process reveal that a manager's integration of climate-related risks and opportunities is not aligned with our objectives, the Investment Executive Team, supported by our advisors as appropriate,



will engage with the manager to discuss how alignment may be improved. The findings of this engagement are reported to the DBIC or DCC as appropriate, who may decide further escalation is necessary.

### **Appendix C – PRA Stress Test Scenarios**

As part of its 2020 biennial stress tests, the Bank of England's PRA conducted an exploratory exercise to test the impact of future climate change scenarios on the assets and liabilities of insurers, using predictions by the Intergovernmental Panel on Climate Change and academic literature as the basis for their modelling assumptions.

Using the same methodology, our advisors have constructed similar tests that allow us to examine the impact on the funding position, via the effect on asset and liability values, of the Fund under three scenarios.

The magnitude of each of the physical and transition shocks varies across industries under each scenario, meaning some assets may be better or worse in terms of resilience to shock, under one scenario compared to another.

The PRA recognise that feedback loops between climatic shocks and structural economic change need to be incorporated when assessing the financial impacts on businesses of physical and transition risk under each emissions scenario. However, due to existing modelling and data constraints, this is a complexity that is purposely excluded from the modelling.

There is also an acceptance that the timing and sequence of financial impacts will be complex, as behavioural changes could result in physical risks preceding transition risks and vice versa. For the purpose of simplicity, where an asset is subject to both physical and transition risk, the shocks are applied consecutively, with the physical shock applied second.

### **Appendix D- Climate Metric Analysis**

#### DB Section

The absolute emissions and emissions intensity metrics have been calculated using line-by-line holdings data for the Fund's Global Equity, Buy & Maintain Credit, and LDI mandates. The emissions data for the Global Equity and Buy & Maintain Credit is from MSCI. The emissions data for the LDI portfolio is provided by LGIM. The remainder of the Fund's assets have been modelled at an asset class level by the investment advisor, also using emissions data from MSCI. We have adopted this combined approach to enable a more holistic view of the Fund's total portfolio emissions, while recognising the asset-class modelled data may not be perfect.

The asset class modelling of emissions is based on asset class "building blocks". These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI ACWI as a proxy for a broad equity fund) or in some cases these indices

are used and extrapolated to other asset classes based on given assumptions. The emissions modelling will be reviewed and updated on an annual basis.

Line-by-line data coverage for the Fund's mandates is shown in the table below. Line-by-line data was only available for five mandates due to the illiquid nature of the assets held within the remaining mandates. The five mandates for which line-by-line data was available were:

- Global Equities
- Multi-Class Credit
- Structured Credit
- Buy & Maintain Credit
- Liability Driven Investment

Of these mandates, coverage only exceeded 50% for the Global Equity mandate, the Buy & Maintain Credit mandate, and the Liability Driven Investment mandate. As a result, we have used line-by-line emissions calculation for these three mandates only. The remaining assets have been modelled on an asset class basis. The tables below show the line-by-line coverage achieved for each mandate, as well as the proportion of assets by AUM that were modelled using line-by-line data versus an asset class approach.

#### Mandate coverage for Scope 1 & 2:

Asset class	Reported Issuer coverage % (Scope 1 & 2)	Estimated Issuer coverage % (Scope 1 & 2)	Total coverage % (Scope 1 & 2)
Global Equities	84.4%	15.4%	99.8%
Hedge Funds	0.0%	0.0%	0.0%
Property	0.0%	0.0%	0.0%
Private Equity	0.0%	0.0%	0.0%
Multi-Class Credit	8.4%	18.2%	26.6%
Structured Credit	0.1%	0.1%	0.2%
Buy & Maintain Credit	66.6%	22.5%	89.2%
Diversified Matching Illiquids	0.0%	0.0%	0.0%
Asset leasing	0.0%	0.0%	0.0%
Liability Driven Investment	61.7%	0.0%	61.7%

**Mandate coverage for Scope 3:**

Asset class	Reported Issuer coverage % (Scope 3)	Estimated Issuer coverage % (Scope 3)	Total coverage % (Scope 3)
Global Equities	0.0%	99.8%	99.8%
Hedge Funds	0.0%	0.0%	0.0%
Property	0.0%	0.0%	0.0%
Private Equity	0.0%	0.0%	0.0%
Multi-Class Credit	0.0%	26.6%	26.6%
Structured Credit	0.0%	0.2%	0.2%
Buy & Maintain Credit	0.0%	89.2%	89.2%
Diversified Matching Illiquids	0.0%	0.0%	0.0%
Asset leasing	0.0%	0.0%	0.0%
Liability Driven Investment	0.0%	0.0%	0.0%

**Asset modelling:**

Asset modelling type	Proportion
Line by line modelling	72.1%
Asset class modelling	27.9%

When calculating the CO<sub>2</sub>e emissions of a fund per million pounds of EVIC using Scope 1, Scope 2 and Scope 3 emissions, a company's direct Scope 1 emissions are likely to be part of another company's indirect Scope 3 emissions. Therefore, aggregating the individual Scope emissions could result in a higher estimated emissions than exists. To mitigate double counting, a scaling factor of 0.22 is applied to Scope 3 emissions in accordance with MSCI's methodology.

Emissions metrics will be calculated in line with the GHG Protocol Methodology, the global standard for companies and organisations to measure and manage their GHG emissions. The GHG Protocol provides accounting and reporting standards, sector guidance and calculation tools. It has created a comprehensive, global, standardised framework for measuring and managing emissions from private and public sector operations, value chains, products, cities, and policies to enable greenhouse gas reductions across the board.

## Summary – Non-LDI assets

Asset class	Estimated Total Mandate Carbon Emissions Scope 1 & 2 (tCO2e)	Estimated Total Mandate Carbon Emissions Scope 3 (tCO2e)	Estimated Total Carbon Emissions (tCO2e)	Estimated Scope 1 & 2 Carbon Footprint (tCO2e / EVIC £m)	Estimated Scope 3 Carbon Footprint (tCO2e / EVIC £m)	Estimated Total Carbon Footprint (tCO2e / EVIC £m)
Global Equities	32,083	39,573	71,656	61	342	136
Hedge Funds	25,707	26,591	52,298	86	403	174
Property	3,044	2,318	5,362	13	45	23
Private Equity	14,040	17,536	31,575	155	880	349
Multi-Class Credit	60,803	60,830	121,633	179	814	358
Structured Credit	12,720	17,290	30,011	56	346	132
Buy & Maintain Credit	65,684	58,981	124,665	72	295	137
Diversified Matching Illiquids	19,272	11,269	30,542	38	101	60
Asset leasing	33	41	75	155	880	349
<b>Total</b>	<b>233,386</b>	<b>234,429</b>	<b>467,816</b>	<b>74</b>	<b>340</b>	<b>149</b>

All Grand Totals are weighted averages with the exception of Total Mandate Carbon Emissions (tCO2e). ESG and MSCI Carbon Metrics meet the current minimum UK DWP's TCFD-aligned "Metrics and Targets" regulations. However, regulations are subject to change. Redington monitors developments closely. Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission. Carbon calculations are performed at the asset class level for funds for which the MSCI Climate Metrics Coverage is less than 50%.

Data Disclaimer:

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## **LDI – LGIM Methodology Details and Data Disclaimer (Note – text below is provided by Legal and General Assurance (Pensions Management) Limited)**

### Methodology:

Sovereign carbon metrics: LGIM assumes the carbon intensity of government bonds should reflect carbon emissions of the entire country. To that end, carbon intensity is measured as GHG emissions within a country border / GDP (ie tCO<sub>2</sub>e/\$m GDP). For the carbon footprint, the numerator remains the same whilst the denominator is the total capital stock, a measure of total value of Investment in the economy at a point in time (tCO<sub>2</sub>e/\$m invested).

### Data Disclaimer:

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Carbon Emissions Notes: i. Carbon dioxide equivalent (CO<sub>2</sub> e) is a standard unit to compare the emissions of different greenhouse gases. ii. The carbon reserves intensity of a company captures the relationship between the carbon reserves the company owns and its market capitalisation. The carbon reserves intensity of the overall fund reflects the relative weights of the different companies in the fund. iii. LGIM consider one barrel of oil equivalent to 0.425 tonnes of CO<sub>2</sub> e, based on International Energy Agency and Intergovernmental Panel on Climate Change guidelines. iv. The choice of this metric follows best practice recommendations from the Task Force on Climate-related Financial Disclosures. v. Data on carbon emissions from a company's operations and purchased energy is used. vi. This measure is the result of differences in weights of companies between the index and the benchmark, and does not depend on the amount invested in the fund. It describes the relative 'carbon efficiency' of different companies in the index (i.e. how much carbon was emitted per unit of sales), not the contribution of an individual investor in financing carbon emissions. vii Sovereign Calculations: Carbon Emissions intensity is calculated by uses: the CO<sub>2</sub>e/GDP , Carbon Emissions Footprint uses: CO<sub>2</sub>e/Total Capital Stock viii LGIM define 'Sovereigns' as, Agency, Government, Municipals, Strips and Treasury Bills ix Derivatives including repo are not presently included and the methodology is subject to change. Leveraged positions are not currently

supported. If a leveraged position distorts the coverage ratio over 100% then the coverage ratio will not be shown.

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DC Section**Data coverage**

The table below shows the line-by-line coverage achieved for each fund.

Fund	Coverage of verified/reported carbon emission data (excluding estimated data)		Coverage (including estimated data) of carbon emission data	
	Scope 1+2 (verified data)	Scope 3 (reported data)	Scope 1+2	Scope 3
Growth	65%	53%	82%	67%*
Blended Assets	42%	34%	44%	40%*
Equities	75%	61%	98%	79%*
Pre-retirement to cash	0%	0%	0%	0%
Ethical Growth	66%	59%	71%	70%
Property	50%	32%	99%	98%
Corporate Bonds	0%	0%	0%	0%
Cash	0%	0%	0%	0%
Ethical Consolidation	14%	13%	15%	15%
Pre-retirement to annuity	61%	56%	86%	79%*

1. Data for the DC Section calculations has been sourced from MSCI for non-gilt funds. Metrics have been calculated as at 30 September 2021 as far as practicable.

2. A standardised approach has been calculated for investment in gilt funds based on total UK gross emissions for 2020, divided by total government debt as at 31 December 2020. This figure has been applied for all gilt funds, assuming this should be reported as Scope 1+2 emissions only.

3. Metrics for each blended fund have been calculated based on the actual distribution of assets across each component fund as at 30 September 2021.

4. Total Scope 1+2 emissions, and the equivalent emissions intensity figures are based on a combination of reported and estimated data. Scope 3 emissions represent only company reported data. Data coverage figures represent a weighted average for each portfolio.