Climate Strategy ...2025

Royal Mail Pension Plan

Contents

Abbreviations

ARF	Audit, Risk and Finance Sub-Committee
CI	Carbon Intensity
DBCBS	Defined Benefit Cash Balance Scheme
ESG	Environmental, Social and Governance
DMO	Debt Management Office
FSB	Financial Stability Board
GHG	Greenhouse Gases
HMT	His Majesty's Treasury
LDI	Liability Driven Investment
PCAF	The Partnership for Carbon Accounting Financials
POL	Post Office Limited
OCIO	Outsourced Chief Investment Officer
RAG	Red, Amber, Green
RCA	Risk Control Assessment
RI	Responsible Investment
RMG	Royal Mail Group
RMPP	Royal Mail Pension Plan
RMPTL	Royal Mail Pensions Trustees Limited
SIF	Strategic Investment and Funding Sub Committee
SBTi	Science Based Targets initiative

Glossary

Carbon Intensity	A measure of emissions that allows for comparison between entities of different size. It is measured in tCO2e/million USD of revenue annually.
Net zero	The amount of GHG added to the atmosphere is no more than the amount taken away
Scope 1, 2 and 3	GHG emissions are categorised into three groups by the GHG Protocol. Scope 1 covers direct emissions, Scope 2 covers indirect emissions, and Scope 3 covers supply and value chain emissions
The Plan	The Royal Mail Pension Plan (RMPP).
Trustee Executive	The Trustee Directors who sit on the Trustee Board delegate the day-to-day management to the Trustee Executive. The Trustee Executive is made up of a mix of professionals who complete a variety of tasks relating to managing governance, suppliers and delivering projects.
TCFD	Task Force on Climate-Related Financial Disclosures
TPI	Transition Pathway Initiative
UNEPFI	United Nations Environment Programme Finance Initiative
UNPRI	United Nations Principles for Responsible Investment
WACI	Weighted Average Carbon Intensity

About the Royal Mail Pension Plan ("RMPP")

The RMPP ("The Plan") had £8.9 billion of investment assets as at 31 March 2025 supporting the pensions and benefits of 122,595 members.

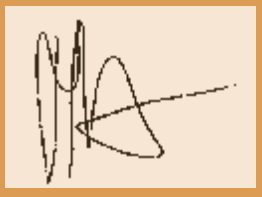
The Plan is sponsored by RMG and POL. The assets are sectioned to represent these two sponsors, and the change to DBCBS (for RMG) effective from 2018, and the POL section, which is insured via a 'buy-in' with Rothesay Life and transitioning to a 'buy-out'.

The mission of the Plan Trustee is to pay all of the benefits as they fall due under the Plan, in accordance with the Trust Deed and Rules. The Trustee has set out the following mission statement in relation to RI:

- We recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration.
- We commit to be an engaged and responsible long-term investor in the assets and markets in which we invest.
- We believe that the integration of financially material environmental (including climate change), social and governance ("ESG") factors within our investment process is not detrimental to the Plan's investment risk, RI does not need to require sacrificing returns. It can, in fact, enhance risk and return characteristics and assist risk management in the sustainable long term expected returns from the Plan's investments.
- We aim to continually enhance and develop our approach, in line with our ESG 'roadmap' to ensure the Plan is relatively advanced in its ESG and Climate development.
- We will work closely with the BlackRock Outsourced Chief Investment Office (and other advisers) to ensure ESG factors are integral to investment decisions.
- We work closely with the Plan sponsor on ESG issues including communicating the Plan's net zero commitment and to manage any key ESG risks identified in the covenant risk review.
- We will monitor and review ESG risks (including climate) regularly and where appropriate take actions identified as part of that monitoring and review to mitigate those risks.
- We appointed a Trustee Board ESG 'Champion' to develop the Trustee's ESG and climate awareness and to enable Trustee engagement in the Plan's ESG/Climate progress.
- We aim to appoint and retain managers whose beliefs and practices are consistent with our beliefs on ESG risks and opportunities (where relevant to their mandate) and we encourage best stewardship practice from our investment managers.
- We will actively engage with our investment managers regarding the portfolios' carbon emissions with a view to achieving the Plan's emission reduction targets.
- We will communicate ESG and Climate developments to the membership at least annually.
- As part of our commitment to RI, the Plan is a signatory to the United Nations-backed Principles for Responsible Investment and to the UK Stewardship Code.
- The Plan is a signatory to Climate initiatives such as Climate Action 100+ and the Transition Pathway Initiative (TPI).

About this report

The Trustee believes that the climate crisis requires urgent and decisive action. As a responsible and long-term investor, we are determined to follow a credible and robust pathway to achieve net zero emissions by 2050. This is the fourth report on climate strategy produced by the Trustee of the Plan and the Board recognises we are still in the early stages of a challenging journey. It is pleasing to see we have added further analysis but there is still more work to be done to understand the impact of our assets. We remain committed to engaging constructively on this topic across the diverse range of asset classes in which we invest.



Joanna Matthews, Chair of the RMPP

Executive Summary

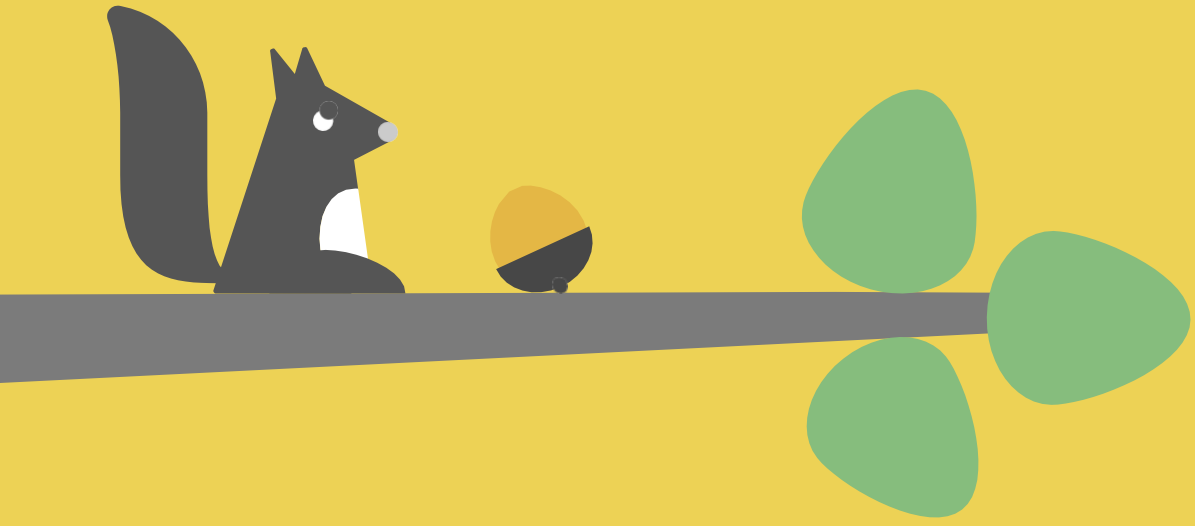
The Trustee believes that the climate crisis requires urgent action. The Plan is a signatory to the United Nations-backed Principles for Responsible Investment which acts as a framework for investors to take ESG issues into account. The Plan is also a signatory to Climate Action 100+ and TPI.

We wish to be as impactful as possible whilst adhering to the investment principles that have always guided the Plan. Whilst the reduction of emissions is paramount in managing climate risks, we have a broader belief that the source of most emissions comes from the ever-increasing demand for energy. Therefore, alongside the Trustee's target to reduce carbon emissions, investing in alternative energy and developing technology will also form a material part of the Plan's Climate Impact project.

We have been able to calculate the total emissions of the Plan for the year, so the Trustee now has a (near) complete figure to fully understand the scale of the Plan's contribution to global emissions. The Plan's total emissions were 3.54 million tonnes emitted on a Scope 1, 2 and 3 basis. This is down from 4.07 million tonnes from last year's report.

The POL section is fully insured via a 'buy-in' with Rothesay Life. It is in the process of transitioning to a 'buy-out' which is expected to complete in the short term. The Trustee considered ESG criteria in selecting Rothesay as its preferred insurer and has noted that Rothesay is carrying out TCFD reporting and on the same net zero pathway as the Plan. The Trustee has therefore prioritised implementing its climate reporting in relation to the much larger remaining sections of the Plan but has reviewed the TCFD report produced by Rothesay and included a summary later in this report.

The Trustee's longer-term target is to achieve net zero by 2050, and it has an interim target of reducing emissions by 50% for corporate bonds and equities by 2030 relative to the global economy's 2015 baseline and therefore be aligned to the Paris Agreement pathway.



Introduction

Scientific evidence proves that climate change has rapidly accelerated since the start of the industrial revolution. The world has already experienced around 1ºC of average warming above pre-industrial levels and continued increases will have an irreversible and catastrophic impact on the environment. The implications of climate change will have significant financial and human consequences.

The Plan has set a goal to have net zero GHG emissions (Scope 1-3) by 2050 and, in doing so, to be aligned with the Paris Agreement. In setting this goal, the Plan will reduce the risks posed by climate change and align its investments with efforts to limit global warming to well below 2°C above pre-industrial levels.

The Plan has also set an interim target to reduce GHG by 50%, including Scope 3 emissions, in its equities and corporate bonds portfolio by 2030 relative to a 2015 baseline.

Reporting in line with TCFD

The Plan reports in line with TCFD. TCFD was created in 2015 by the FSB to develop consistent climate-related financial risk disclosures for use by investors like the Plan in providing information to stakeholders.

The keys areas of TCFD reporting for the Plan are:

Governance	The Trustee's governance procedures around climate-related risks and opportunities
Strategy	The actual and potential impacts of climate-related risks and opportunities on the pension scheme
Risk Management	The Trustee's processes for identifying, assessing and managing climate-related risks
Metrics and Targets	The metrics and targets the Trustee uses to assess and manage climate-related risks and opportunities anywhere that information is material

Governance

The Trustee Board sets the strategy and is responsible for the management of the Plan. The 2050 net zero commitment is also set by the Trustee Board.

Each year the Trustee Board, which meets 4 to 6 times a year, will review its goals in terms of climate, ensuring these goals remain fit-for-purpose and follow best practice. Climate risk is currently a standing item on the Board agenda and climate strategy has been discussed at length at every meeting for the last 12 months given the importance of climate change to the Plan. The Board also receives regular updates from the CEO of the Trustee Executive on climate related risk and developing opportunities as part of the CEO update and Risk Dashboard included in every meeting.

The Trustee Board believes that companies (both listed and unlisted) need to publish information on their emissions, their emission reduction targets and the extent to which these align with the Paris Agreement and the goal of reaching net zero by 2050. The Trustee Board recognises that there is a disclosure gap between what is reported and what needs to be reported. While the Trustee Board believes that this gap will tighten over time, it recognises that this will not happen without suitable pressure from investors and policymakers. However, it has decided that this should not hold them back from getting a good understanding of the Plan's total emissions (even if there are uncertainties) and using this data to formulate the strategy to achieve its net zero ambitions. This year, data disclosure coverage for Scope 1 and 2 emissions reached 46% (2024-43%) and Scope 3 disclosure reached 23% for complete and material reporting (2024-19.5%). Both of these numbers are a meaningful improvement from last year.

Oversight of climate-related risk and opportunities management and internal controls within the Plan has been delegated by the Trustee Board to the ARF Sub-Committee. This Committee is responsible for agreeing the framework for assessing, monitoring and managing the key climate risks and opportunities within the Plan, and for providing recommendations on these climate-related risks and opportunities to the Trustee Board. The ARF will periodically monitor and evaluate the operation and effectiveness of the agreed framework and system of internal controls.

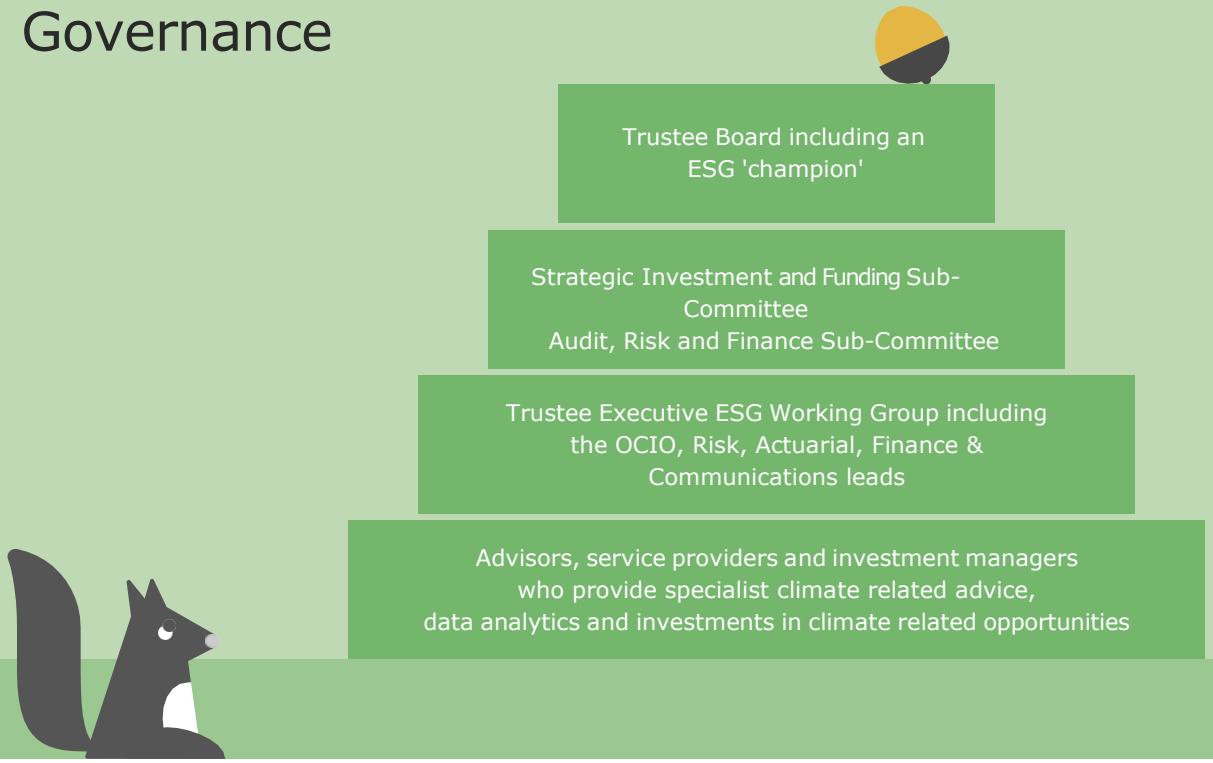
The investment team of the Trustee Executive and their advisors have many of the modelling skills required for quantifying and managing financial climate-related risk exposures and are called upon to support this analysis where required.

The oversight and monitoring of climate-related risks and implementation of the net zero commitment in the investments of the Plan has been delegated to the SIF which meets 3 to 4 times a year. When selecting and appointing investment managers, the SIF considers how ESG, climate change and stewardship are integrated within the managers' investment processes. The ESG/Climate risk "RAG Scoring" chart captures prospective managers' ESG and Climate risk/opportunities development and integration into their processes. This is also used to monitor existing managers' progress. This analysis is balanced against other manager selection criteria such as (but not limited to) idea generation, portfolio construction, implementation, business management and fees and charges. The SIF has agreed that as large a proportion of the Plan's assets as possible will be measured. Where possible, published stock specific information is input (listed companies) and where information is not directly available, specific proxies have been input (unlisted companies). The Trustee Executive has been through the data to ensure that, where proxies using sector and sub-sector data have been used, as far as reasonably practicable these proxies fairly reflect the underlying assets. This year the Plan has achieved Scope 1, 2 and 3 emissions reporting in relation to 98% (2024-93%) of its portfolio.

The day-to-day oversight (including reviewing and monitoring climate risk and opportunities) is managed by the Trustee Executive and an internal ESG Working Group has been setup to implement the climate strategy across investment, finance, and risk management executives.

The internal ESG Working Group includes representatives from across the Trustee Executive including investments, finance, risk, and communications and is chaired by the CEO. These activities are reported to the SIF so direction, challenge and feedback can be given by members of the SIF at every meeting as part of the quarterly RI and stewardship update. This covers everything from engagement with investment managers to updates on climate-related projects. Specific items on climate risks and opportunities appear on the agenda when required and are also considered as part of the development of the investment strategy, which is approved by members of the ISC, such as climate-related investments.

Governance



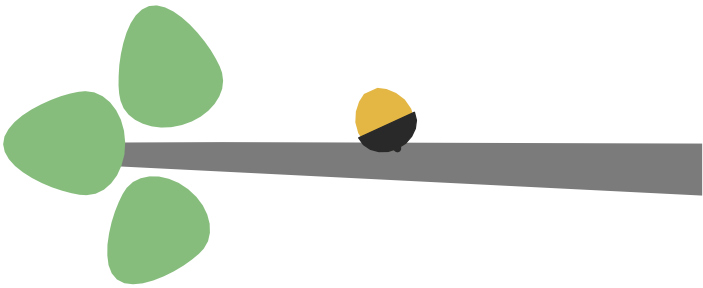
The Trustee Board and SIF is advised by, and the Trustee Executive is supported by, a number of external service providers including:

- BlackRock (the Outsourced Chief Investment Officer (OCIO) for the Plan).
- LCP (who are finalising an ESG Strategy review, which includes climate change, for the Plan). The outcomes of the LCP ESG review will be presented to the Trustee Board in late 2025.
- Mercer (the strategic investment advisor to the Plan).
- ICE (who provide carbon analytics for the investment portfolio).
- Sustainalytics (who engage with companies in the Plan's equity (including emerging markets) and corporate bond portfolios on ESG issues - including environment, human rights, labour rights and business ethics - and makes recommendations).

Training

In the last 12 months the Trustee Board has received training from BlackRock regarding the Plan's ESG performance and how each Section's managers are rated for their E, S, and G capabilities and their overall ESG score relative to peers, alongside the managers' carbon equivalent emissions. This has led to a new RAG status. A new Buy and Maintain Credit mandate was appointed after the SIF sub-committee was presented with the process for how that team incorporated both the positive and negative external forces that are incorporated into their fundamental credit rating view. The Executive received training on emission reporting and scenario analysis from BlackRock leading to a better understanding of how different methodologies and different data providers can affect the results of how the Plan can assess its emissions and emission reduction plans.

Strategy



The Trustee is committed to regularly reviewing its own approach in terms of climate risk and satisfying itself that climate related risks and opportunities are being managed.

The Trustee continues to track progress against the 'roadmap' established in 2021, when a comprehensive review of approach and governance arrangements in relation to ESG and climate change was conducted. This progress tracking includes a skills audit, and climate forms part of the Trustee Knowledge and Understanding assessment that takes place every year to establish training needs.

The Trustee also regularly assesses its advisors - including legal and actuarial - on their approach to climate change. The Trustee seeks assurance as part of its internal audit plan on the approach of its various climate specialist providers, particularly data and analytics, to satisfy itself that best practice is in place. Overall, the Trustee is aware that this is a significant, important and long-term project. It has built on the framework of the inaugural year to produce an estimate that covers as much of the Plan's emissions as possible, with a view that the data's robustness will strengthen over time.

The Plan is a signatory to the United Nations-backed Principles for Responsible Investment which acts as a framework for investors to take ESG issues including climate risks and opportunities into account.

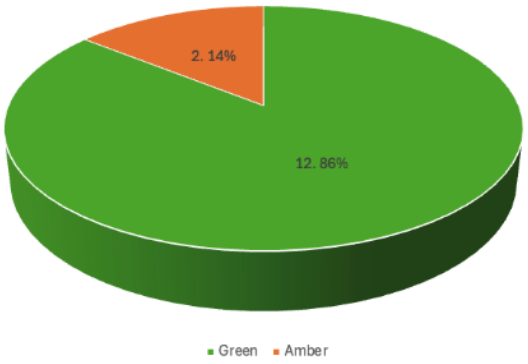
As the OCIO, BlackRock conducts quarterly reviews with all managers that cover many topics including performance, personnel and corporate changes, portfolio risk, concentration, voting, and market outlook, as well as ESG and stewardship updates. The outcomes of these reviews are reported to the Trustee.

This year, the Plan completed a ESG RAG rating review for all of the Plan's non-alternatives managers. The conclusion was that the non-alternatives managers are generally more advanced in their ESG/Climate risk and opportunities capabilities than the alternatives managers.

The overall results are presented below. Out of the 14 non-alternative managers rated, 12 were considered Green (signifying a current strong position on ESG risks and opportunities) and 2 were Amber (i.e. they had some gaps/weaknesses but were able to provide evidence that they were improving their position). None of the 14 managers was considered to be Red (i.e. with material gaps in their ESG policies).

Strategy

ESG ratings of non-alternatives managers



It is pleasing to note that all managers in the non-alternatives part of the Plan have signed up to UNPRI.

The ESG review of the non-alternatives managers was supplemented by BlackRock's own ESG review. This review considered ESG factors, as well as carbon emissions. The table below explains the methodology and assumptions employed:

	Metric	Methodology	Interpretation
ESG	**ESG Score (Adjusted)**	Best scoring company within a peer group is be given a score of 10, the worst scoring one will be given a score of 0 and a normal distribution will be applied for the ones in between.	Indicates how well an issuer manages its most material ESG risks relative to sector peers (0 worst, 10 best). Makes company scores across different industries comparable.
	Environment Score	Weighted average of key issue scores falling under the Environmental Pillar.	Indicates how well an issuer manages environmental risks such as greenhouse gas emissions, deforestation etc. relative to sector peers. (0 worst, 10 best).
	Social Score	Weighted average of key issue scores falling under the Social Pillar.	Indicates how well an issuer deals with social issues such as working conditions, employee relations & diversity etc. relative to sector peers. (0 worst, 10 best).
	Governance Score	Weighted average of key issue scores falling under the Governance Pillar.	Indicates how well an issuer deals with governance matters such as executive pay, tax strategy etc. relative to sector peers. (0 worst, 10 best).
Carbon	**Emissions Financed (metric tonnes / $ million total capital)**	$\sum\left(\frac{Scope\ 1\ \&\ 2\ GHG\ Emissions}{Total\ Capital}\right)$	Emissions normalized by total capital (total debt + total equity). With every million dollar invested x metric tons of emissions are financed.
	Emissions Intensity (metric tonnes / $ million sales)	$\sum\left(\frac{Scope\ 1\ \&\ 2\ GHG\ Emissions}{Total\ Sales}\right)$	Emissions normalized by total sale. With every million dollar revenue x metric tons of emissions are financed.

ESG data for funds and individual securities has been sourced from MSCI. Aggregation at the sleeve/ total portfolio level has been done using BlackRock approved methodology.

Additional Information can be found in the Glossary slides.

Legend for Relative Coloring Scheme

Lowest ESG Score — Highest ESG Score

The key results are summarised in the Tables and Figures below.

RMG Section

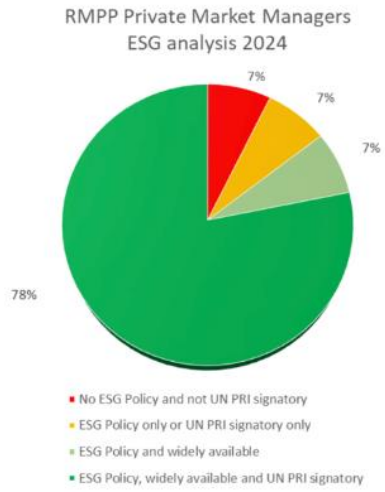
	ESG					Carbon
	ESG Coverage	ESG Adjusted Score	Environmental Score	Social Pillar Score	Governance Score	Emissions Intensity - Latest (metric tonnes / $ million total sales)
Total Liquid Asset Portfolio	89.6%	6.3	5.9	6.7	6.9	26.9
Equity	0.0%	-	-	-	-	-
Fixed Income	89.6%	6.3	5.9	6.7	6.9	26.9

Strategy

DBCBS

	ESG					Carbon
	ESG Coverage	ESG Adjusted Score	Environmental Score	Social Pillar Score	Governance Score	Emissions Intensity - Latest (metric tonnes / $ million total sales)
Total Liquid Asset Portfolio	61.0%	5.7	5.5	4.9	5.5	24.3
Equity	95.9%	6.9	6.3	5.3	5.9	176.3
Fixed Income	58.6%	5.6	5.5	4.8	5.4	13.9

For Private markets the majority of managers have now published ESG policies and/or are signatories to UNPRI (see Figure below). Only 7% of private market managers have not yet published an ESG policy or are a signatory to PRI.



For the Absolute Return portfolio, the manager selection and dynamic management of the overall strategy has been delegated to BlackRock. One of the benefits is that this has enabled the centralisation and enhancement of ESG analysis and reporting. Below are some extracts from the current reporting summarising the ESG credentials of the underlying managers.

Portfolio Overview

ESG Policy	DEI Policy	PRI Signatories	Diverse Ownership (Majority)	Diverse Ownership (Partial)
70.1%	70.2%	21.3%	9.9%	9.9%

Only includes active managers in the portfolio and does not include managers in liquidation or redemption. Diverse Ownership (Majority) is defined as equity ownership of greater than 50%. Diverse Ownership (Partial) is defined as equity ownership equal or greater than 25% but less than 50%. Diversity is defined as racial/ethnic minority, LGBTQ+, and/or a person with a disability.

MARSLTD	Overall ESG Score	E Score	S Score	G Score
Total Estimated MSCI Score	5.2	5.7	4.9	5.3

Estimated Carbon Footprint

MARSLTD	Direct Long Carbon Footprint Contribution	Indirect Long Carbon Footprint Contribution	Total Long Carbon Footprint	Gross Short Carbon Footprint	Net Carbon Footprint
Scope 1 & 2 Carbon Footprint	33	30	63	91	36
Scope 3 Carbon Footprint	202	221	423	426	203

Managers are aware that the reviews are done on a quarterly basis and that progress on ESG factors including climate will be a key consideration for ongoing manager appraisal.

Strategy

The Trustee has set the following strategic objective in relation to ESG including Climate:

	Strategic Priority	Risk Appetite	Risk Tolerance
Governance	To be committed to advancing ESG issues, including climate and a high level of compliance with relevant legislation, regulation, industry codes and standards as well as internal policies and sound corporate governance principles.	**Low** risk appetite to non-compliance potentially leading to regulatory interventions, civil or criminal sanctions or reputational damage	No fines from regulatory bodies No instances of fraud

The 2050 net zero goal is a key component of this strategic priority in relation to climate.

This strategic objective is integrated into the investment strategy via the Trustee Statement of Investment Principles ("SIP"), which states the following:

The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests. The Trustee believes that the integration of financially material environmental, social and governance ("ESG") factors within investment managers' investment processes is not detrimental to the risks and may enhance the sustainable long term expected returns from the Section's investments. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that may increasingly require explicit consideration.

ESG factors (including climate change) are integrated into the Trustee's investment process. As the Trustee does not directly manage the Plan's assets, it aims to appoint and retain managers whose beliefs and practices are consistent with the Trustee's beliefs on ESG risks and opportunities, in so far as relevant to the mandate in question. The Trustee's investment consultants are asked to assess current and potential managers in relation to their ESG policies and practices, and such assessment is taken into account in relation to manager appointment, retention and withdrawal decisions.

Strategy

There are 4 key elements to integrating the investments into the 2050 net zero commitment:

Portfolio Construction	Mandates and Managers	Stewardship	Collaboration
• The Trustee is introducing more investments that provide climate benefits to the Plan. • Examples include 'green' gilts in LDI portfolio, the first of which was purchased by the LDI manager in 2021, and the investment in the BlackRock LEAF cash fund which excludes issuers with below average Environmental practices. • In private markets, more than £150m have been committed to renewables.	• Using work by ICE to identify 'hot spots' and engage with managers. • Net zero target communicated to all managers. • The Executive, in conjunction with the OCIO, will evaluate and challenge managers net zero alignment. • The Trustee engages with the OCIO on climate-related matters in quarterly meetings between BlackRock and the Executive. The OCIO also reports CI of each manager in its ESG quarterly report that is reviewed by the SIF and Board. • The Trustee Executive, with help from the OCIO, gives all managers a RAG status based on review meetings held at least annually that includes development on managing climate risk, engagement, TCFD preparedness and ESG integration into their investment process.	• The Plan will require managers to vote and engage on climate change with companies and other stakeholders in the financial system. • 86% of Plan assets are managed by companies who are signatories to the FRC Stewardship Code • Sustainalytics were appointed as an engagement provider on elements of the United Nations Global Compact – namely Environment, Labour Rights, Human Rights and Business Ethics, which includes climate issues. • Sustainalytics also provide a Material Risk Engagement service where they protect and promote long-term value engaging with issuers on unmanaged material ESG and Climate related issues.	• The Trustee is signed up to multiple climate initiatives, such as Climate Action 100+ and the TPI. • These commit the Trustee to curbing emissions, strengthening climate-related financial disclosures, improving governance on climate change and ensuring RI is considered as part of decision making.

The POL section is de-risked via a bulk annuity contract. Given the nature of the relationship and the influence that the Trustee has with Rothesay Life, the Trustee has decided that engagement with Rothesay Life on ESG matters is a lesser priority than with other suppliers where a more active relationship allows for more effective stewardship. The Trustee notes that Rothesay Life is carries out their own TCFD reporting and is on the same net zero pathway as the Plan.

The impact of investment and asset allocation decisions on climate-related risks and opportunities are modelled by advisors when the Trustee is considering its investment and funding strategies. An example of this is included in the scenario analysis section modelled by LCP.

Climate change is also incorporated into the strategy via the covenant assessment of the sponsors of the Plan. For the 2021 triennial valuation, ESG factors in the covenant, including climate, were explicitly reviewed by the Plan's covenant advisors for RMG. RMG has recently undertaken more detailed TCFD analysis on the financial impact of climate risks and opportunities, and this is in the process of being incorporated into ongoing covenant monitoring.

The Royal Mail environment strategy targets net zero by 2040. Royal Mail management has highlighted that the average CO2e per parcel for Royal Mail is lower than most of its competitors due to its "feet on the street" model. However, the Trustee recognises the risk of Royal Mail falling behind competitors if the business is not dynamic. The Trustee therefore monitors climate-related covenant metrics as part of its broader ESG review process. These metrics include CO2e per parcel, percentage of the fleet using alternative fuels and CO2e. Note: The acquisition of IDS plc by EP Group may change the level of ESG and TCFD reporting, which may alter the metrics that are monitored.

Risk Management

ESG (including climate) Risk Management Process

The day-to-day management of climate-related risks within the Plan is the responsibility of the Risk Manager who:

- Acts as the organisation's risk champion
- Oversees risk management activities across the organisation
- Provides guidance to the climate-related risk owners
- Challenges business decisions on key climate-related risk areas
- Coordinates climate-related risk information across the organisation

The Three Lines of Defence

Climate-related risk governance features described in this section are intended to enable a "Three Lines of Defence" approach to risk management. The three lines are:

1. Business operations: the climate-related risk and control environment that covers the day-to-day operations.
2. Oversight functions: climate-related risk and compliance teams, which provide guidance and direction and develop the risk framework.
3. Independent assurance: this reviews the previous two lines and provides an independent perspective.

In this context the climate risk governance arrangements are as follows:

First Line of Defence	Second Line of Defence	Third Line of Defence
• The Executive • Outsourced Service Providers (e.g. OCIO) • Strategic Investment and Funding and Administration Sub-Committees	• Risk Manager • Audit, Risk & Finance Sub-Committee	• Internal Audit

Risk Management

ESG (including climate) Risk Identification

The ESG risk identification process is conducted once a year. The Risk Manager acts as facilitator and coordinator of the risk identification process. The key techniques used to identify climate-related risks include:

- ESG forward planning with senior management and Board
- Attendance at, and reviewing minutes of, Board and Sub-Committees
- Attendance at industry-wide ESG workshops and conferences (e.g. PLSA Conferences)
- Discussion and feedback with ESG advisors and service providers, including internal audit
- Brainstorming and ESG workshops with other members of the Executive
- Networking and idea sharing with other pension plans
- Project management oversight
- Incident reporting and feedback

ESG Risk Assessment

Once climate-related risks are identified they are recorded in the integrated risk register and scored. The risk score is derived by multiplying the probability by impact. ESG advisors are used where specialist knowledge is required. Different thresholds for the impact scoring have been developed for the different sections of the Plan to reflect the different sizes of the sections and the Trustees differing appetite for risk between them.

The scoring process for the ESG risk assessment is based on a forward-looking view of the climate related risk and the likelihood and impact of the risk occurring in the future.

Time Period	Risks	Opportunities	Actions
Short term	Exposure to climate-related investment risks may be highest – particularly for the DBCBS – while the Plan retains an allocation to growth assets especially over the short term where transition risks are higher.	While the Plan retains return-seeking allocations in the investment portfolio, the climate mitigation and adaptation investment opportunities are greatest.	Continue to consider climate solutions for investment opportunities and drive managers to improve their climate action and reporting.
Medium term	Market volatility could cause investment losses and impact the affordable pension increases in the DBCBS. This could be exacerbated further by the pricing in of physical climate risks as they become more apparent.	Climate-aware credit mandates could increase the resilience of assets to climate risks.	Closely monitor the impact of climate change on market pricing and ensure climate is incorporated as a focus in the investment mandates.
Long term	Further pricing in of the more severe physical risks as they materialise could have detrimental funding impacts. Cost of buy-out may increase.	Buy-out may provide greater protection from climate risks for members' benefits, so insurer pricing opportunities will increase in importance.	Continue to keep up to date with the insurance market, pricing and their approach to managing climate risks.

Risk Management

ESG RCA

The RCA is used for monitoring the ESG and climate risks identified in the risk register. It sets out the Climate metric used to monitor the climate-related risks, the source of the data for the metric, and the tolerance for the particular ESG risk using a RAG status.

These thresholds are generally quantitative in nature, however it may be appropriate to incorporate other information beyond the agreed metrics when giving an ESG RAG status.

The Trustee's risk appetite influences the thresholds for the different ESG and Climate RAG statuses, along with input from the ESG advisors/Executive. The RCA uses a backward-looking approach to monitor the risks as opposed to the risk assessment in which is forward-looking. Each quarter the risk owner provides the data for each metric and inputs into the ESG and Climate RCA. The Risk Manager ensures that the ESG and Climate RCA is updated and monitors the RAG status of the climate related risks. The RCA also sets out the contingency planning for each climate related risk, with key triggers and the appropriate actions to take should the trigger occur.

Risk Dashboard

The Risk Dashboard is included in the Strategic Business Plan and presented to the Trustee at each Board meeting. The risk dashboard is updated each quarter and consists of the top 10 risks based on their risk assessment score recorded in the risk register and RCA. Summarising the risks in this way brings the most significant risks to the Trustee's attention, allowing the Trustees to focus its time efficiently.

For each risk included in the dashboard, the current RAG status based on the Inherent Risk RAG assessment is shown along with its recent RAG metric from the RCA. To indicate the forward-looking approach the Residual Risk RAG status has also been included. The actions being taken to mitigate the risks are shown under Control both from a Business Operations and Oversight perspective. When presented to the Trustee Board, the dashboard references any relevant upcoming agenda items to direct the Trustee to further detail and current recommendations / actions in relation to the particular risk.

Internal Audit

Internal audit is the independent assessment of the effectiveness of the organisation's internal controls. The internal audit plan sets out a list of assignments to be carried out in a 12-month period which will review the effectiveness of controls in certain areas. The audit plan is drawn up by focussing on areas of risk highlighted in the risk register. Preparation of the internal audit plan is the responsibility of the Risk Manager with agreement sought from the ARF Sub-Committee.

Following each assignment, the internal auditors will report their findings to management including recommendations for improvement in internal controls where appropriate.

The first climate specific internal audit was completed in February 2025 with findings due to be finalised and presented to the Trustee later in the year. The review consisted of:

- A review of the Plan's ongoing compliance with ESG aspects of current legislation and guidance.
- A review of the Plan's compliance with its formal voluntary ESG commitments.
- A review of progress versus the Plan's ESG roadmap.
- Commentary on the changes to ESG requirements that may be introduced over the next few years.

The audit concluded that the Plan complies with most legislative ESG requirements and formal voluntary ESG commitments and that appropriate actions have been taken to manage climate-related risks. Further specific recommendations will be presented to the Trustee later in the year and will be reported on in subsequent TCFD reporting.

Risk Management

Risk Framework

The Trustee has a comprehensive risk framework which sets out the governance of risk management, the risk management process and the reporting and tools used. The Trustee maintains a specific risk related to ESG in its risk register which is summarised below:

Description	Cause(s)	Consequence(s)
Climate change or a transition to a low-carbon economy financially impacts the Plan Trustee decisions in relation to Climate Risk result in negative publicity	• Risk that changes to Climate requirements result in a negative impact on investments • Rapid change to ESG requirements • Low allocation to carbon neutral funds • Changes to public perception of Climate Risk • Extreme weather events • Not engaging early enough with stranded assets (e.g. coal)	• Impairment to funding position • Sub-optimal investment strategy and implementation • Reputational damage

Risk Management

The Trustee set three time periods for the identification and assessment of climate-related risks and opportunities – short term, medium term, and long term.

The Trustee reviews these time periods on a regular basis, for example following a material change in the membership or as part of a review of the SIP. These time periods are set out in the Table below.

Time period	Years	RMG Section (pre-2018 benefits)
Short term	3 years	In line with triennial valuation assessments.
Medium term	8 years	Expected period over which the greatest transition risks will develop.
Long term	15 years	The period over which the long-term journey of the Plan will be achieved if not sooner.

Time period	Years	DBCBS (post 2018 benefits)
Short term	3 years	In line with triennial valuation assessments.
Medium term	8 years	Expected period over which the greatest transition risks will develop.
Long term	15 years	Anticipating the continuation of this Section, the Trustee will need to keep in mind the long-term impacts of climate change on the DBCBS of the Plan.

Climate change as a risk may have material adverse consequences for the Plan due to transition as well as physical risks. Transition risks include changes in climate and energy policies (i.e. the inevitable policy response), such as a shift to low carbon technologies and liability issues, potentially leaving heavy emitters of carbon unprofitable (stranded assets). Physical risks such as flooding, droughts and wildfires can impact water availability, food security, supply chains and employee safety, and consequently financial stability. Physical risks are relevant for all time horizons, although their impact is expected to increase over time as climate conditions become increasingly volatile. Transition risks are likely to be most relevant over short and medium term horizons.

The Trustee has a low-risk appetite related to climate and seeks to reduce the risk wherever possible.

The Trustees have put in place a series of business operation, independent assurance and oversight controls to mitigate the risks of climate change. These controls are assessed on at least an annual basis. The Trustee also monitors a number of metrics, including a CI metric, on a quarterly basis. These metrics are included in the quarterly ESG reports which are provided by the OCIO and reviewed by the SIF and the Board. In addition, the Trustees assess the metrics set out in the next section on an annual basis.

Metrics and Targets

Data Collection and Methodology

The Trustee Board collects emissions data on Scope 1 (Direct Emissions), 2 (Indirect Emissions) and 3 (Supply and Value Chain Emissions) bases where available. The emissions data can help manage the risks and opportunities due to climate change.

The Trustee is now in its fourth year of collecting emissions data and presenting its findings. We continue to see improvements across the board in terms of data coverage and disclosure. Many public market companies are now routinely presenting their emissions data. We also note that the FSB has disbanded the TCFD and is now looking to the IFRS Foundation to take over the monitoring of companies' disclosures under IFRS S1 and S2 (International Financial Reporting Standards). The Trustee broadly welcomes this development as it will help evolve reporting to become part of the mainstream and aid confidence in investors' decision making.

Areas of continued focus for improvement are for Scope 3 emissions and private market investments. While 46% of assets reported their Scope 1 and 2 emissions this year, up from 43% last year, Scope 3 disclosure was just 23% for complete and material reporting, an increase from 19.5% last year.

For private markets, we saw greater coverage this year with responses from 46 funds, up from 36 funds last year. We have also seen greater engagement from private markets managers. We aim to engage with the managers over the coming year to help improve further, starting with a focus on the Plan's top three private markets managers.

The Trustee reports emissions using under the science-based protocols methodology (see Appendix for more information about data calculation methodology) and the four metrics presented will be in line with last year: Absolute Emissions, Emissions Intensity, Implied Temperature score, and Projected Pathway. The report covers nearly all the Plan's assets on Scope 1, 2 and 3 (including inferred data where relevant), to give the Trustee a near complete understanding of the Plan's total carbon emissions. As the data and the Plan's data sets builds, clearer distinctions can start to be made from the results to feed into the Trustee's strategy for the years ahead.

There are no major changes to last year's data collection and processing methodology and the projected pathway analysis remains based on the 4th iteration of the NGFS methods and assumptions. The main difference in the data collection this year is the process for the inferred data of private markets exposures. To help improve the coverage, the data provider ICE has reduced the number of data collection points but balanced this with having those data points for a greater period of time.

Data Results

The Trustee considers both an absolute total emissions figure and an emissions intensity figure ((metric) tonnes of CO2 equivalent emitted per $1 million of revenue) on nearly all the Plan assets.

The results for the Plan show that 98% of the Plan's assets were covered on the full Scope 1, 2 and 3 bases (up from 93% last year), and covered 69 funds, up from 60 last year.

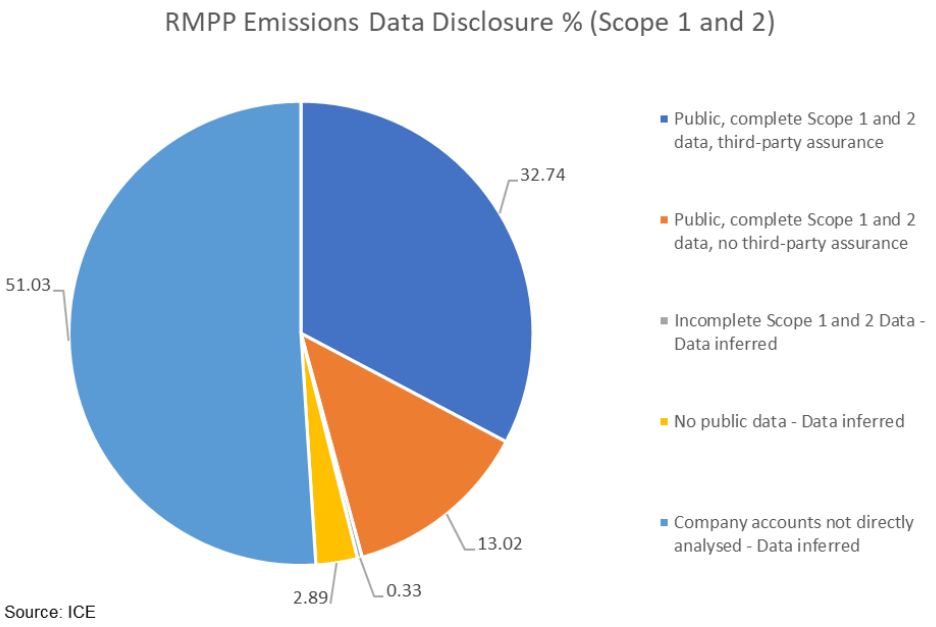
The Plan invests around 63% of total assets in the Gilts (LDI) portfolio and conversely 37% of total assets are Growth assets.

Metrics and Targets

The chart below shows what proportion of the Plan's companies disclose, and have verified, their emissions data (the chart below excludes sovereign bonds and does not include Scope 3 emissions). To highlight the improvements, two years ago, just a third of the Scope 1 and 2 emissions data was publicly disclosed and two-thirds of that was verified by a third party.

This year we have 46% of publicly disclosed data (up from 43% last year) and of that, nearly three-quarters was verified by a third party. The amount of modelled data is also down, from 57% last year to 54% this year.

Despite these improvements, the Disclosure Gap is still a material issue for investors. Where companies don't publicly disclose emissions data (as is the case for ICE categories 3, 4 and 5 below), inferred emissions data is generated by ICE using their proprietary models.



Source: ICE

ICE Disclosure Category 1: Complete with Accepted Assurance - Covers at least 95% of a company's global emissions and is third-party verified.

ICE Disclosure Category 2: Complete without Accepted Assurance - Covers at least 95% of a company's global emissions and is not third-party verified.

ICE Disclosure Category 3: Incomplete - Covers less than 95% of company's global emissions.

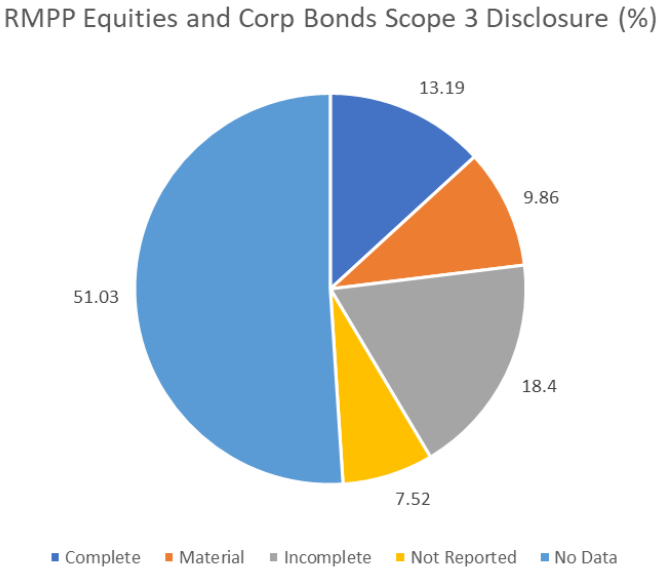
ICE Disclosure Category 4: No public data. When a company does not disclose any GHG emissions data for the analysed reporting period.

ICE Disclosure Category 5: Not directly analysed.

Inferred emissions data for companies that fall under Category 3, 4 and 5, is assessed for completeness in accordance with the complete coverage of emissions boundary, as defined in the GHG Protocol Corporate Accounting and Reporting Standards.

This year, we are also including the disclosure of Scope 3 emissions to help separately monitor improvements in this area over the years to come. While the inferred data is similar to Scope 1 and 2, there is a material amount of not reported and incomplete data.

Metrics and Targets



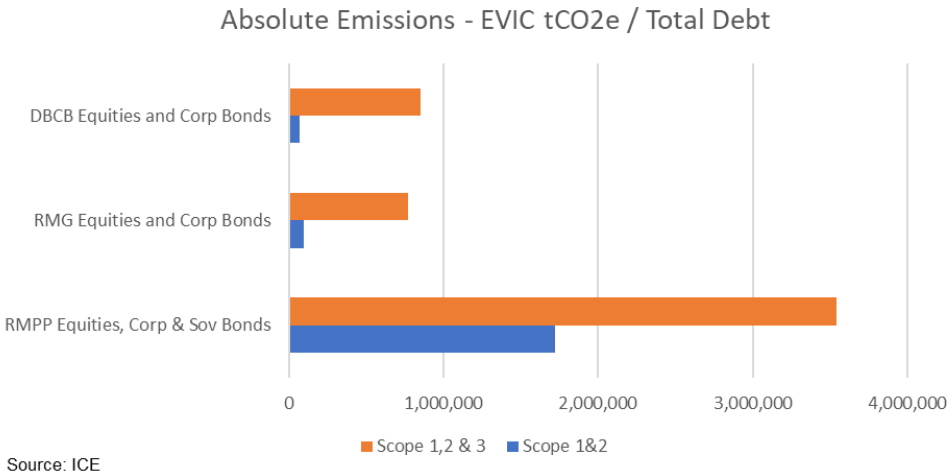
Source: ICE

Metric 1 – Total Plan GHG Emissions (Absolute Emissions)

The Plan's total GHG emissions in CO2e, were 3.54 million tonnes emitted on Scope a 1, 2 and 3 basis. This is down from 4.09 million tonnes from last year's report. This is calculated on an Enterprise Value basis including cash for corporate emissions, and PPP adjusted GDP for sovereign emissions.

We also consider the absolute emissions of the Plan's two main sections, RMG and DBCB but focus on their growth assets which is where the Trustee can have more influence given the sovereign bonds (gilts) in their LDI strategy. We note that the RMG section has total emissions of around 770,000 tonnes CO2e on a Scope 1, 2 and 3 basis, with DBCB higher at 853,000 tonnes CO2e. On a Scope 1 and 2 basis, RMG section has 93,000 tonnes CO2e (78,000 tonnes last year) relative to DBCBS's 67,000 tonnes CO2e (64,000 tonnes last year). Part of these changes relate to marginal changes to the asset allocation but signify a broad downward sloping trend in emissions.

RMPP Total GHG Emissions (Tonnes of CO2e emitted using EVIC for equities and corporate bonds and total debt for sovereign bonds)



Source: ICE

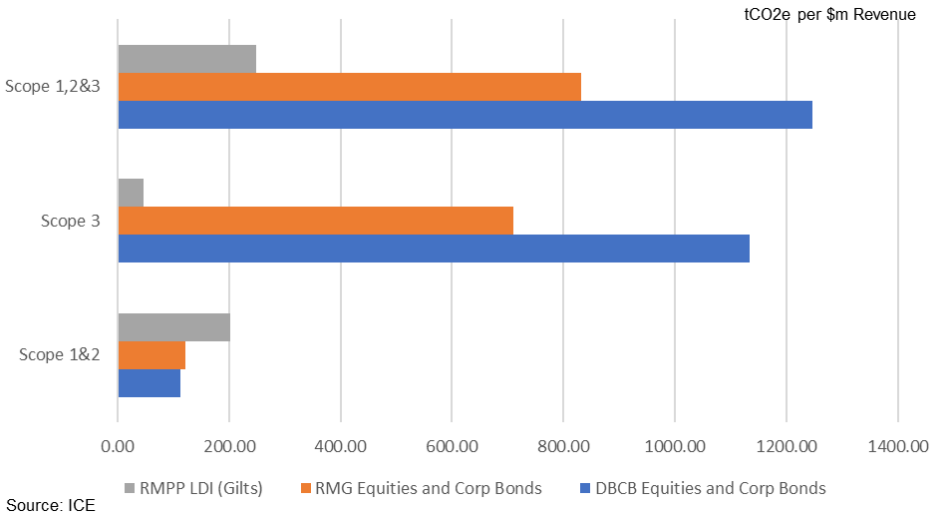
Metrics and Targets

Metric 2 – Carbon (equivalent) Emissions Intensity

Under Metric 2, we consider the intensity of the Plan's emissions. The intensity of the Plan's return seeking assets for the two sections is highlighted as well as the Plan's Gilt holdings. The return seeking assets are displayed in intensity of CO2e per million dollars of revenue, and the Gilts assets (LDI) are displayed in intensity of CO2 equivalent per million dollars of GDP.

The results for the RMG section are an intensity of 831t CO2e/$m (down 22%) and for DBCBS 1,246t CO2e/$m (down 4%). This compares to a UK sovereign intensity of 249t CO2e/$m GDP (down 6%).

RMPP Plan Assets CI

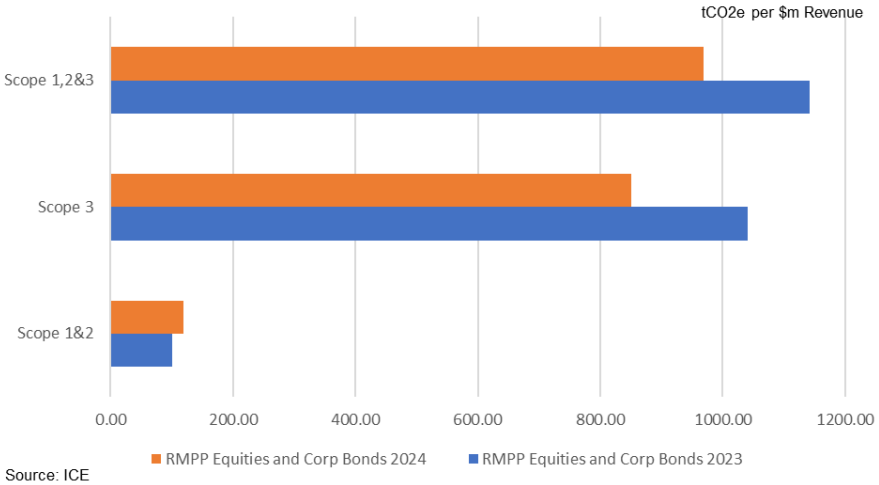


Source: ICE

These emissions intensity figures are down from last year, and the chart below shows the comparison from the previous year's outputs.

The decrease in emissions intensity is a result of the lower Scope 3 emissions, as the data indicates that Scope 1 and 2 emissions intensity showed a marginal increase from last year.

RMPP Plan Assets CI Comparison to Previous Year



Source: ICE

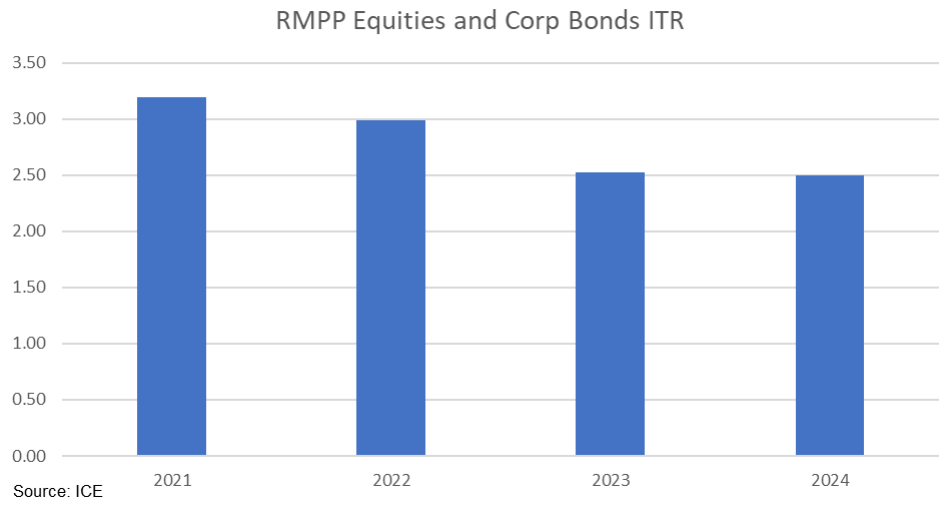
Metrics and Targets

Metric 3 – Temperature Score (Implied Temperature Rise)

The Trustee considers a portfolio alignment metric to calculate the Plan's temperature in relation to the long-term temperature goals of the Paris Agreement of 2015, to keep global surface temperatures to well below 2°C above pre-industrial levels and to achieve net zero carbon emissions by 2050. The Implied Temperature Rise (ITR) metric measures the alignment of a portfolio's historical emission reductions and decarbonisation targets under a set of forward-looking scenarios. It represents a linear relationship between a portfolio's cumulative emissions and global mean temperature using the NGFS scenario-aligned pathways.

Given the current growth assets of each section, if the Plan's return seeking assets continue to emit at the same rate, this is consistent with the planet's surface temperatures rising by 2.50°C from preindustrial levels on a long-term basis. This is down from the 2.52°C reported last year, and 3.19°C the year before.

The temperature score relative to the Trustee's target of well below 2°C is a function of a high number of companies not publishing an ambition to reduce emissions and these companies are, therefore, given a default temperature rise of 2.84°C. However, given the portfolio has not materially changed in the last couple of years, our assessment is that the reducing temperature score is, in part, due to the increasing number of companies that are now producing emissions reduction plans. The data shows that 73% of the Plan's listed securities now have a temperature target for Scope 1 and 2 emissions, with 49% covering Scope 1, 2, and 3. We will continue to monitor these data to see how current geopolitical events affect our ITR metric over time.



Source: ICE

**The global mean temperature is represented by the Transient Climate Response to cumulative Emissions (TCRE) which is the ratio of the globally averaged surface temperature change per unit carbon dioxide (CO_2) emitted, which is the net carbon remaining in the atmosphere after accounting for relevant sources and sinks.*

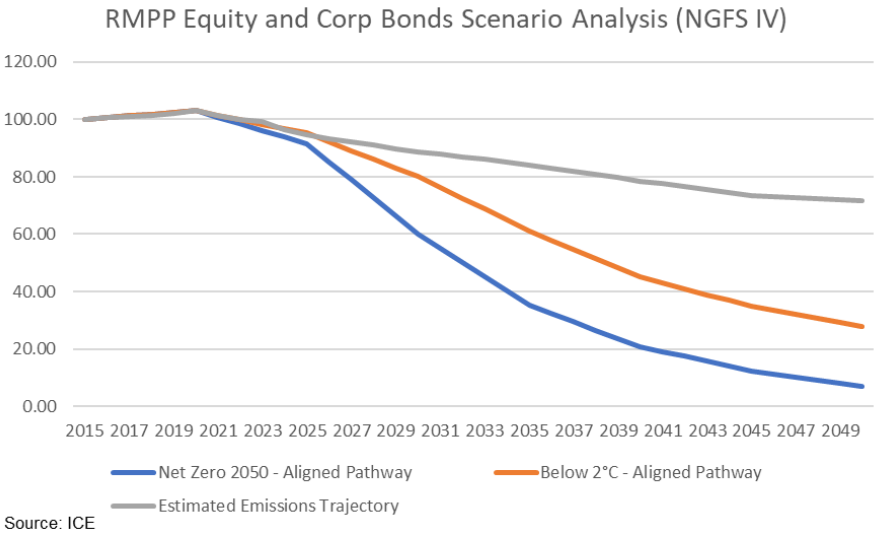
Metrics and Targets

Metric 4 – Projected Emissions Pathway to 2050

The expected pathway for the Plan's portfolio ('Estimated Emissions Trajectory' line below) given reasonable emission reduction plans, current trends and momentum, and any company specific targets published, is compared to the net zero pathway below. This expected pathway has some differences to the temperature score above which assumes that no additional action or trends are taken into account.

The chart shows that the Plan's trajectory is materially behind both the Trustee's net zero 2050 target and the 2°C aligned pathway. We know that the Plan's private markets modelling assumes that emissions reductions will be backloaded and or not great enough. This increases the probability that we will see a disorderly or failed transition to a low carbon economy and the risks that are associated with that.

RMPP Alignment to the Transition Pathways



Source: ICE

NGFS IV net zero 2050 is an ambitious scenario that limits global warming to 1.5 °C through stringent climate policies and innovation, reaching net zero CO_2 emissions around 2050. Under this scenario (NGFS IV, net zero 2050) some jurisdictions such as the US, EU and Japan are expected to reach net zero for all greenhouse gases by this point.

NGFS IV Below 2 °C scenario represents a gradual increase in the stringency of climate policies, giving a 67% chance of limiting global warming to below 2 °C.

Metrics and Targets

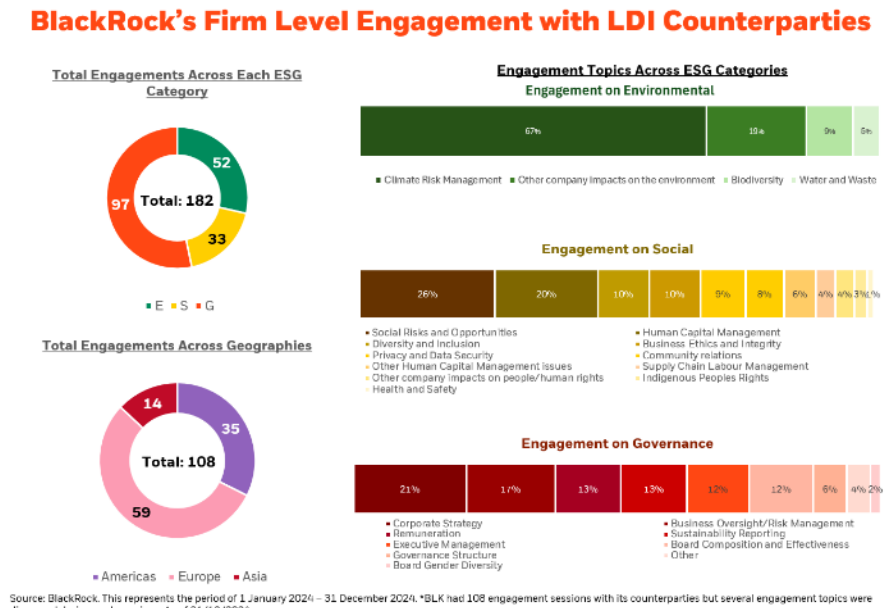
Carbon Impact Investment Strategy

The Trustee continues with its Carbon Impact investment strategy, which has four broad steps: Measure; Manage; Mitigate; and Monitor.

The Trustee is aware that as currently presented, it would not achieve its Interim Target of reducing equity and corporate bond emissions by 50% relative to a 2015 baseline without taking any action. Having previously decided to adhere to the investment principles which have always guided them, and not be led by blunt data and targets, ideas such as sector screening or exclusion have been discounted to achieve lower emissions. The Trustee has therefore been reviewing appointments with managers in the liquid fund space and reviewing where managers have emissions that are greater than the reference universe or index. Alongside this, the Trustee continues to engage with the asset managers rather than the underlying companies with a view to understanding where emissions can be reduced, or reasons why they might be higher than expected. In line with the thinking of the Transition Pathway Initiative, or TPI, managers are expected to evidence that while a fund may have high relative emissions, the underlying companies that are causing these elevated levels have plans to reduce their emissions either through innovation or credible emission reduction plans.

Both the RMG and DBCBSs are undertaking strategic reviews and new mandates are being implemented. Having BlackRock as the Trustee's Outsourced CIO, means the Trustee leverages the resources of the Manager, from their in-house Stewardship team to the integration of ESG and climate risk management into the managers appointed through their open architecture. The Trustee regularly monitors enhanced reporting in these areas to assist their engagement activities and better assess where engagement can be focussed to ensure the Plan's emissions continue their downward trajectory.

The illustration below shows the engagement their stewardship team have had with LDI's trading counterparties in the year to 31 December 2024:



Source: BlackRock. This represents the period of 1 January 2024 – 31 December 2024. *BLK had 108 engagement sessions with its counterparties but several engagement topics were discussed during each session. As of 31/12/2024.

Metrics and Targets

The majority of Plan assets are held in gilts as part of the funding level hedging strategy. BlackRock is the asset manager for these assets and so the Trustee requires their engagement on emissions attributable to the Gilts holding. BlackRock engages regularly with regulators, governments and debt management offices on a range of topics. As an important part of their fiduciary duty, the Trustee supports their advocating for public policies that they believe are in investors' long term best interests.

Engagement examples from BlackRock over the last year include:

- At the end of February 2025, BlackRock responded to the consultation report on leverage in non-bank financial intermediation issued by the FSB (fsb-leverage-in-non-bank-financial-intermediation-consultation-report-022825.pdf)
- BlackRock partnered with ICMA and others in the industry to work on a response to the HMT consultation on the potential need for a specific UK green taxonomy.

BlackRock continues to be an active participant and leader in the evolution of the green bond market. An example of BlackRock's involvement on defining the evolving green bond market is its role on the issuance of the inaugural green gilt. At the time of writing, the Plan holds the 2053 green gilt in its LDI portfolio.

BlackRock favourably views the mitigation heavy focused project allocations thus far in UK's green gilt program. BlackRock provided guidance and direction in terms of best practices for impact reporting. In a call with the UK DMO, the UK green gilt impact reporting methodology was discussed; they delved into programs and reporting details for categories like clean transport, energy efficiency, and eligible UK expenditures in Official Development Assistance (ODA)-eligible countries, among others.

The Trustee continues to use BlackRock's Liquid Environmentally Aware Fund for the Plan's cash investment, known as "LEAF". BlackRock has Sustainable Investing baseline screens which are applied broadly across their platform, the BlackRock LEAF fund also applies an additional Environmentally tilted screen (but does not exclude). However, individual issuers of Money Market Fund instruments will be excluded from direct investment if (at the time of investment) they have below average Environmental practices as viewed by their external ESG research provider. This attributes to an investment universe reduction of around 300 parent issuers, or a 54% reduction. Tangibly this means LEAF reports a higher E (environmental) score at a fund level. Given the Plan's larger cash holding ahead of its strategic review, it's expected that will reduce in next year's data.

The Plan is yet to account for and present stranded assets and avoided emissions. We have previously referred to accounting for negative emissions and look forward to how this area of climate impact risk management will develop, including the use of carbon credits and allowances. The price discovery of these instruments is improving and is starting to put a more tangible value on the emissions and pollution that companies emit.

We look forward to the further development of the Plan's climate impact investment strategy into the Mitigate stage.

Metrics and Targets

The POL Section

We have not included the POL buy-in contract in the strategy, but we have reviewed the latest TCFD report (2023) produced by the insurer Rothesay Life. Rothesay have confirmed their commitment to be net zero by 2050 and are therefore on the same pathway as the Trustee. Rothesay also aims to achieve, by 2030, a CI reduction of 50% across their total investment portfolio (vs a 2020 baseline), building on their previous target for reducing CI of its portfolio of publicly traded corporate debt portfolio by 20% by 2025. In the 2023 report they disclosed the following progress against these targets:

Target	Base Year Value (2020 unless stated otherwise)	2023 Value	Change vs Base Year (%)
20% reduction in the Carbon Intensity of our portfolio by 2025	211[1]	128	-39%
50% reduction in the Carbon Intensity of our PTCD aligned sub-portfolio by 2050	222[2]	135	-39%
1.5°C portfolio temperature alignment	2.7°C (2021)	2.2°C	N/A

Since the last report, Rothesay have:

- Become a signatory of the A4S Sustainability Principles Charter for the Bulk Annuity Process
- Been re-accepted as a signatory of the UK Stewardship Code
- Initiated a review of nature risks within their portfolio
- Continued to engage Grant Thornton to provide assurance over a selection of their climate metrics
- Maintained CarbonNeutral company certification

We note that Rothesay continues to improve TCFD reporting and reported improved data coverage year on year. The Plan will continue to engage with and monitor Rothesay on progress in achieving their climate targets.

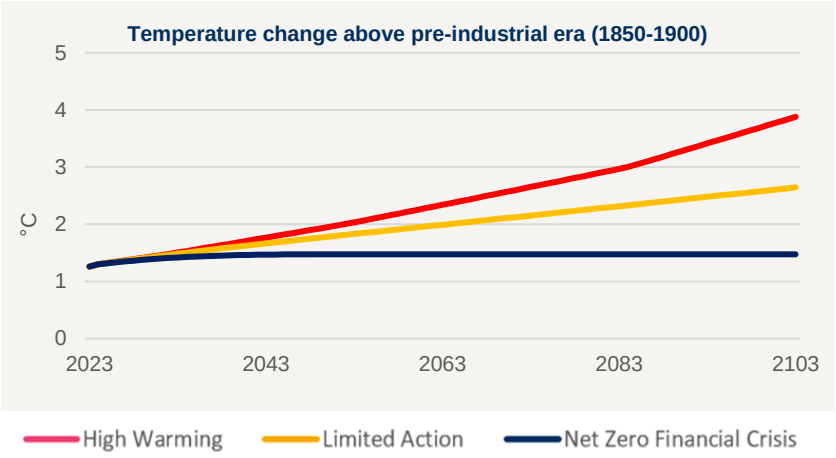
Scenario Analysis

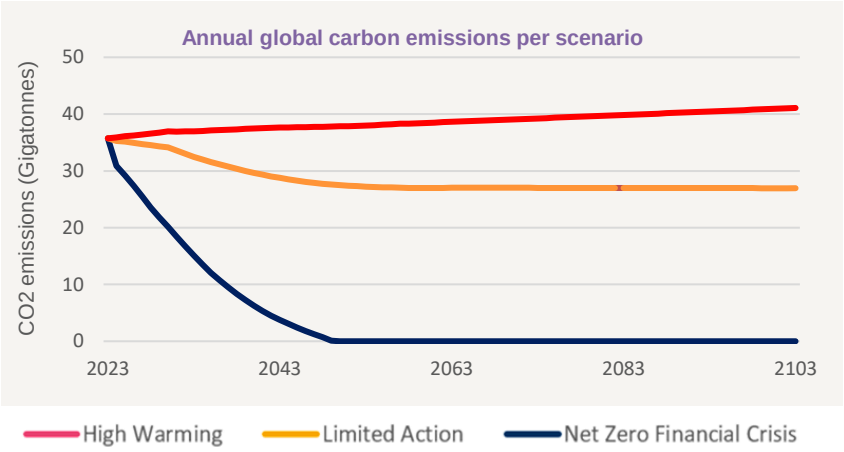
The Trustee has undertaken scenario analysis assessing the impact on the Plan's assets and liabilities. The climate scenario analysis will help the Trustee:

- Understand how risks and opportunities related to climate change could affect the Plan's investments, funding and covenant.
- Prioritise potential actions to identify, monitor and manage those risks.

The Trustee has modelled three different scenarios with the support of LCP and in one of those scenarios the global average temperature increase selected by the Trustee must be within the range of 1.5°C above pre-industrial levels to and including 2°C above pre-industrial levels.

- High Warming: No new* low-carbon policies enacted and some existing ones are scaled back. Current technological trends continue. Paris Agreement goals not met, and the resulting high warming leads to severe physical impacts
- Limited Action: Policymakers implement limited new climate policies and fall short of meeting the Paris Agreement goals, resulting in a combination of transition and physical risks
- Net Zero Financial Crisis: Global net zero CO2 emissions achieved by 2050 via rapid and effective climate action. Financial markets react abruptly in 2025





* New compared to the International Energy Agency's World Energy Outlook 2021 – Stated Policies Scenario (STEPS)

Scenario Analysis

The scenarios above all contain plausible elements that help illustrate the different ways climate change might impact the scheme. For example, net zero Financial Crisis gives important insight into potential volatility in financial markets caused by climate change. Meanwhile, the physical outcomes under Limited Action are also plausible, although the route to get there might be expected to be less smooth.

The Trustee acknowledges that many alternative plausible scenarios exist, but found these were a helpful set of scenarios to explore how climate change might affect the Plan in future.

To provide further insight, the Trustee also compared the outputs under each scenario to a "climate uninformed base case", that makes no allowance for either changing physical or transition risks in future.

The scenarios' key features are summarised in the Appendix, along with the key assumptions.

These scenarios show that equity markets could be significantly impacted by climate change with lesser but still noticeable impacts in bond markets. All three scenarios envisage, on average, lower investment returns and these result in a worse DB funding position.

The analysis for the Plan has been carried out as at 31 March 2024 based on climate scenarios as at 31 March 2024. Once the new investment strategy has been implemented an updated scenario analysis will be produced for the next climate report.

The climate scenarios are updated by Ortec Finance each year for the latest scientific, macro-economic, and policy data. LCP then applies these impacts to market conditions at each quarter-end to provides the Trustee with an up-to-date picture of the potential impacts on the Plan.

Scenarios:	*High Warming*	*Limited Action*	*Net Zero Financial Crisis*
Low carbon policies	There are no new* low-carbon policies enacted in this scenario and some existing ones are scaled back. Current technological trends continue (eg significant falls in renewable energy prices).	Moderate steps taken by policymakers to increase climate action including working towards the 2030 targets and net zero commitments. Carbon Capture and Storage also used.	Ambitious low carbon policies, high investment in low carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel. Carbon Capture and Storage also used to achieve global net zero by 2050.
Paris Agreement outcome	Paris Agreement goals not met.	Paris Agreement goals not met	Global net zero CO_2 achieved by 2050; Paris Agreement goals met.
Global warming	Average global warming is about 2°C by 2050 and 3.7°C by 2100, compared to pre-industrial levels.	Average global warming is about 1.8°C by 2050 and 2.6°C by 2100, compared to pre-industrial levels.	Average global warming stabilises at around 1.5°C above pre-industrial levels.
Physical impacts	Severe physical impacts. Multiple climate tipping points are reached and modelled and many countries suffer from extreme weather events.	High physical impacts.	Moderate physical impacts.
Impact on GDP	Global GDP in 2100 predicted to be almost 80% lower than in the Ortec Finance / Cambridge Econometrics base case.	Global GDP in 2100 predicted to be about 50% lower than in the Ortec Finance / Cambridge Econometrics base case.	Global GDP is slightly behind the Ortec Finance / Cambridge Econometrics base case by 2100.
Financial market impacts	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks.	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the high physical risks.	Abrupt repricing of assets and a sentiment shock to the financial system in 2025.

Scenario Analysis

How the current scenarios map to the previous ones

2022 Scenarios	2024 Scenarios	Comment
Failed Transition	High Warming	Renamed for consistency with Ortec Finance's naming convention. Introduction of tipping points – based on research by McKay et Al. Other modelling updates applied in the usual manner – including some allowance for more recently agreed policies.
Paris Disorderly	Net Zero Financial Crisis	Renamed for consistency with Ortec Finance's naming convention. New scenario is similar in concept, except that net zero emissions are reached earlier so that the global average temperature rise in 2100 is limited to 1.5°C.
Paris Orderly	Removed	As time has gone on, this scenario has become less plausible. We have therefore replaced it with a scenario we think is more helpful to trustees.
	Limited Action	A scenario introduced in 2023 that Ortec Finance hadn't previously produced. Introduced as a potential middle ground scenario between High Warming and Net Zero Financial Crisis, where some new policies are implemented but net zero is not achieved by 2050.

To identify risks and opportunities

Under the TCFD regulations, trustees are required to set 3 time periods for the identification and assessment of climate-related risks and opportunities - short term, medium term and long term.

These time periods are scheme-specific, reflecting key dates in the Scheme's funding strategy, investment strategy and/or climate pathways. The Trustees should review these time periods on a regular basis, for example, following a material change in the membership or as part of a review of the SIP.

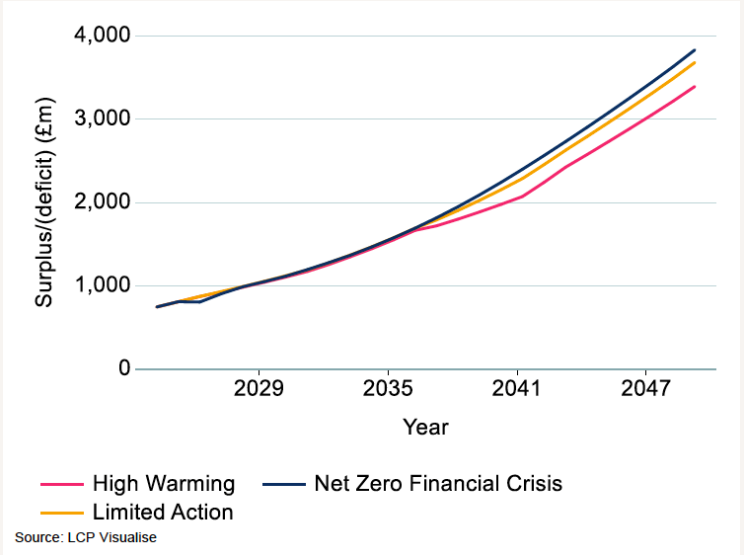
The current time horizons as they fit with the current circumstances of the Plan.

Time period	RMG Section
Short term	3 years – In line with triennial valuation assessments.
Medium term	8 years – Expected period over which the greatest transition risks will develop
Long term	15 years – The period over which the long-term journey of the Plan will be achieved if not sooner

Time period	DBCB Section
Short term	3 years – In line with triennial valuation assessments
Medium term	8 years – Expected period over which the greatest transition risks will develop
Long term	15 years – The period over which a majority of the benefits will come into payment

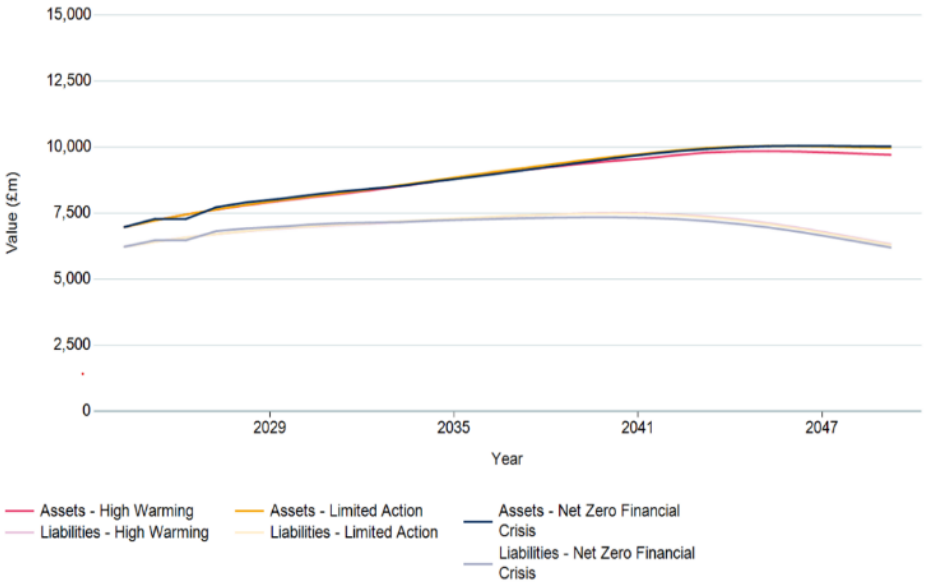
RMG Section climate scenario projections

The lower risk investment strategy will reduce the impacts on the funding level.



Given the significant surplus of the RMG Section, modelling shows limited impact on the financial position in a large range of outcomes. Therefore, focus should be given to more extreme outcomes for a full understanding of the potential climate impacts.

The modelling, and the fact that that the visualisation uses median lines will to some extent mask the potential volatility in the asset projection. Some downside risks could result in significant worsening of funding positions compared to those illustrated here.



With the overall risk level in the RMG Section portfolio being managed down, the projections show limited impacts on the assets. However, as with the funding level projections, this masks the wide range of outcomes and increasing levels of risk under the more uncertain scenarios, especially those where physical climate risks manifest.

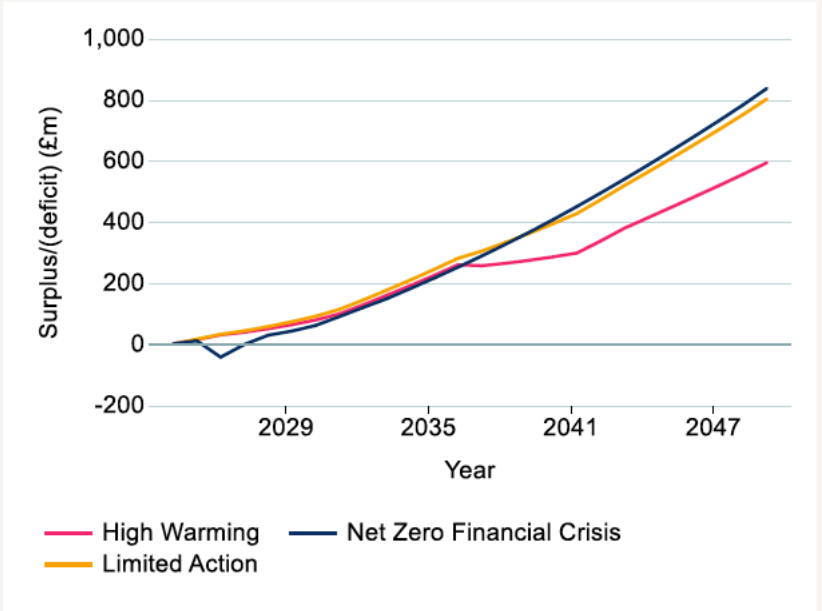
Scenario Analysis

Resilience of the RMG Section's Investment Strategy

The RMG Section is relatively de-risked (i.e. only 15% in return-seeking assets and the liability-hedging assets provide a hedge of 100% of the interest rate and inflation sensitivities of the self-sufficiency liabilities). As such, the modelling of the scenarios does not show a significant worsening impact on the funding position of the RMG Section. Any further de-risking would be expected to further reduce any impact. Therefore, considering the climate related risks alongside other risks to the funding level, the Trustee believes the current investment and funding strategy to be resilient to climate related risks.

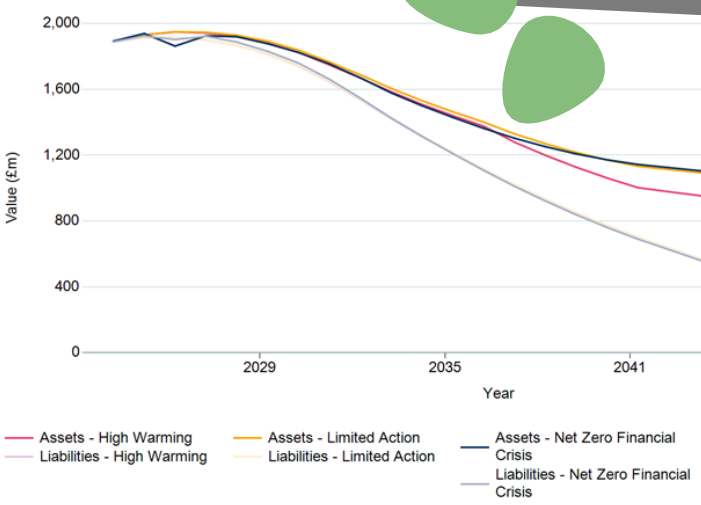
DBCBS climate scenario projections

Market volatility and significant climate impacts will affect the potential pension increase outcomes.



In the short term, market volatility from the low carbon transition or from pricing in of physical risks could have a significant impact on the funding position, resulting in lower pension increases than desired.

Scenario Analysis



Over time, the base expectation is that of an improvement in the position. We have modelled this as a growing surplus, but in practice the Trustee and RMG may spend these funds to improve the annual increase (above CPI+2.5% pa) to member pots – i.e. the surplus will be spent over time. In addition, as the Section matures the ability to recover any downsides will be reduced as the duration (and therefore overall investment gains each year and over time) of the Section will decrease. As a result, given the uncertain nature of the impacts of physical climate risks, climate risks and opportunities should form a key part of the decision-making processes for pension increases and the strategic asset allocation alongside the ability of the covenant to continue to support funding.

Resilience of the DBCBS's Investment Strategy

The DBCBS is less de-risked than the RMG Section given the less mature membership profile (i.e. around 75% in return-seeking assets and the liability-hedging assets provide a hedge of 70% of the interest rate and 30% of the inflation sensitivities of the liabilities). The chart above shows that this has the effect of increasing the climate-related risks to the Section relative to the RMG Section. Taking these climate-related risks alongside other risks to funding, the Trustee still considers the asset allocation for the DBCBS to be resilient to climate-related risks but will continue to closely monitor and consider this position as the asset allocation evolves over time.

Plans for the next 12 months

In 2021 the Plan established an ESG roadmap that set out specific actions over the following 12 months, 1-2 years, and 2+ years. Many of these actions were climate-related and actions cover areas including:

- Governance
- Investment Strategy
- Risk Management
- Engagement; and
- Reporting and Transparency

The Trustee ESG roadmap has continued to evolve as the specific points have been actioned, and now also includes annual, recurring actions as well as new shorter term actions required to stay up to date with current requirements and Plan ambitions in this area. Each action is reported, tracked, and reviewed periodically by the ESG and Climate Working Group. The ESG Roadmap is currently in the process of being reviewed and updated. The revised roadmap will include the streamlining of public statements and an annual review for accuracy.

The Trustee is required to complete its first Own Risk Assessment (ORA) by 31 March 2026. The ORA is a key regulatory requirement and involves assessing how well the Plan's Effective System of Governance (ESOG) is working and the way potential risks are managed, including stewardship and climate-related risks. This will also involve a review of the plan's net zero target.

The Trustee continues to work around the structure for its Carbon Impact Investment Strategy of Measure, Manage, Mitigate, Monitor. We are pleased to see continued improvements in the measurements of emission data and analysis. As new mandates are implemented to the Plan, the Trustee is conscious to select managers that have carbon impact embedded into their processes and security selections so that the Plan can move forward in its ambitions to reduce the emissions it is responsible for.

As part of the enhanced ongoing monitoring, outliers are subjected to interrogation and the Trustee expects to see improvements going forward or robust justification aligned to the principles of the TPI framework where high emitters should have credible plans for innovation or emissions reduction plans. This monitoring will take place alongside the library of the top 20 contributors to emissions which is kept each year.

As the Plan has such a high allocation to UK government bonds, we will also be examining ways to include sovereign bonds into the projected emissions pathway rather than just looking at the Plan's equities and corporate bonds.

Work on negative emissions will continue, identifying avoided emissions and understanding how they might possibly be recorded to identify where the Plan is improving its emissions.

Appendix – Modelling assmptions for Scenario Analysis

Modelling assumptions for Scenario Analysis

Information has been provided by LCP

Limitations of the climate-related modelling

Modelling has limitations and the scenario modelling considered here makes no allowance for:

- Tail risks
- Variations from median outcomes
- Impacts of migration and increased likelihood of armed conflict
- Impacts of food and other resource shortages
- Other (systemic) risks (e.g. new pandemics, financial market volatility, energy security)
- Tipping points are allowed for to some extent in the High Warming scenario, but not in the other scenarios.
- Some aspects, such as market pricing-in shocks and the level of adaptation to climate risks are modelled in certain scenarios, but the impact and timing is highly uncertain and could mean actual outcomes are very different to what has been modelled.

These are key limitations of the modelling and can result in:

- Underestimating downside risks
- Simplifications masking some impacts that could be significantly better or worse (e.g. using simplified metrics to allow for weather events)

These limitations can be taken into account qualitatively, including considering possible impacts of more significant climate change which may include:

- Significant economic decline
- Debt default by major economy governments
- Large scale increase of defaults and downgrades of investments
- Failure of bank counterparties for LDI and other derivative exposures
- More significant health and mortality impacts including increased risk of new pandemics
- Material decline of healthcare systems
- Failure of insurance companies and possibly the Financial Services Compensation Scheme
- Some regions becoming effectively uninsurable if not uninhabitable

These risks are recognised as being particularly challenging to model and there are significant research gaps in these areas. The Trustee continues to monitor develops in modelling.

Modelling assumptions for Scenario Analysis

Limitations of the climate modelling and derivation of economic impacts

Material uncertainties in climate modelling are inevitable. For example, there is uncertainty about the physical changes in the climate that will emerge as a result of greenhouse gases ("GHG") that have already been emitted (i.e. the locked-in effects of climate inertia) and how the climate will respond to future rises in GHG concentrations. There is also huge uncertainty about the future trajectory of GHG, the actions that will give rise to that trajectory, and the economic effects of those actions.

In aggregate, Ortec Finance's modelling may under-estimate the potential impacts of climate-related risks. This uncertainty is typical of climate-economic modelling.

The scenarios are intended to be illustrative and do not reflect all possible risks. Moreover, as described elsewhere, LCP is using median values from Ortec Finance's stochastic modelling outputs. We consider three scenarios out of infinitely many that are possible. Alternatives include different long-term temperature outcomes, different combinations of policy/technological/behavioural actions to achieve similar long-term temperature outcomes to those we are modelling, and different financial market reactions to the same policy/technological/behavioural actions that we are modelling. Plausible scenarios we have not considered include:

Disorderly transition where the disorder arises from delayed and/or uncoordinated policy action, unexpected technological breakthroughs, and/or a sudden shift in consumer sentiment (not just a disorderly financial market reaction).

A 'worst of both worlds' scenario. For example, where policy action is too late to prevent severe physical risks but when eventually introduced it is rapid and disorderly causing significant additional transitional risks.

Climate modelling is based on CO2 emissions from energy use only. A climate sensitivity coefficient is used to implicitly include other GHGs (ie CO2 emissions from agriculture or changes in land use and gases other than CO2).

The High Warming scenario allows for the modelled impacts of some tipping points (e.g. the irreversible loss of the Greenland ice sheet), informed by recent academic research. It is not known when tipping points would be hit and what impacts they would have. The actual physical impacts could be very different to what has been modelled. Tipping points are not modelled in the other scenarios.

Some natural resource constraints (e.g. water) are not fully reflected in the modelling framework.

The modelling of gradual physical risks does not explicitly include changing rainfall patterns (which will affect agriculture and food security). These are indirectly captured via increasing temperature and the impact of that on agricultural productivity, although this seems unlikely to fully capture the effects.

The effect of climate change related migration and conflicts on GDP are only implicitly captured via the GDP damage function. Impacts on health, mortality and migration flows are not explicitly modelled.

Food and other resource shortages which may lead to both lower GDP and higher inflation are only taken account of to a limited extent.

Limitations of the derivation of financial market impacts from economic impacts

There is particular uncertainty about how climate change might affect interest rates and inflation. The modelling assumes inflation and interest rates fall broadly together in the climate scenarios, which means that the real interest rate does not change that much. Plausible narratives can be constructed in which interest rates fall but inflation is stable or rises. Such scenarios could lead to significant increases in the value of liabilities.

Ortec Finance models climate impacts on financial markets using the GDP and inflation impacts from Cambridge Econometrics' macro-econometric modelling and historically-observed relationships between these macro variables and the financial market parameters. GDP, inflation and sector Gross Value Added are the translation mechanisms from the macro econometric model to the stochastic financial scenario model. Other potential translation mechanisms are not modelled in the stochastic financial model explicitly but are embedded in the climate-informed macro variables (for instance, carbon-price impacts inflation in the Cambridge Econometrics modelling, and inflation impacts interest rates in the Ortec Finance stochastic financial model).

Modelling assumptions for Scenario Analysis

There is a great deal of uncertainty in the timing of market responses to climate change. Ortec Finance's model assumes the biggest market movements under the Limited Action and High Warming scenarios occur after 2030, so DB schemes which wind up before then would avoid the worst impacts. However, the market movements could occur a lot earlier.

Financial market volatility might increase as the physical and transition impacts of climate change unfold, particularly if this happens in an unpredictable manner. The modelling does not make any allowance for this, except in the Net Zero Financial Crisis during 2025 while pricing-in of climate-related risks takes place.

Adjustment of Ortec Finance scenarios by LCP

Ortec Finance's view of financial markets is different in a number of ways to LCP's central estimate, including how climate change is allowed for in their base case. To allow the scenarios to be used alongside other LCP modelling in a meaningful way we have applied the difference between the Ortec Finance scenarios and their base case to LCP's base case at the relevant quarter end.

Adjusting Ortec Finance's climate scenarios in this way can produce inconsistencies in the resulting scenarios. Interest rates, credit spreads, and consistency of fixed income returns are areas that are particularly at risk of this. However, we have assessed these risks and are comfortable that they do not make a material difference to the modelling output.

There is significant uncertainty around the extent to which climate risks are already "priced-in" to financial markets, and so there is a risk that LCP's baseline asset return assumptions are overly optimistic or overly pessimistic about the level of risk already reflected.

Features not specifically modelled or only partly modelled

Ortec Finance's modelling does not incorporate any changes to the definitions of UK inflation measures, for example in the gap between RPI and CPI measures. The effects of any changes are expected to be very similar under each scenario, so there would be minimal impact on the gap between all scenarios.

No explicit allowance has been made in the climate shocks modelled for the comparative impacts on markets or climate policy for specific ongoing global conflicts.

In the High Warming scenario, the only low carbon policies allowed for are those in force (based on the International Energy Agency's World Energy Outlook 2021 – Stated Policies Scenario (STEPS)), with some existing policies being scaled back. For example, the US Inflation Reduction Act is not allowed for in the High Warming scenario, but it is in the Limited Action scenario.

The future pricing of buy-ins and buy-outs depends on a wide range of factors, beyond changes due to climate change-related risks. Any commentary or discussion with you about buy-in and buy-out pricing in each of the climate scenarios considered is on the basis that other factors that affect pricing (such as changes in longevity, the availability of longevity reinsurance, the appetite of insurers to write business and for providers of capital to support new business, and the level of competition and demand) are the same in each scenario. The analysis of the impact of climate change-related risks on buy-in pricing is therefore focused on the impact of climate change on the value and returns available on assets which insurers are likely to hold, along with the potential for changes to capital reserving requirements to cover the associated climate change-related risks.

General limitations of financial modelling

Models in general are relatively simplistic approximations of real-world behaviour that are not able to capture every possible real-life permutation. The use of any model of future economic and investment experience is subject to risks arising from the underlying uncertainties inherent in predicting the future. Risk models are only models, even if complex and/or powerful.

The random variation in future inflation and investment returns over a short or medium period of time may result in experience that is significantly different to the expected long-term average experience over much longer time periods. In short, circumstances that are (reasonably) assumed by a model to be very unlikely to occur may, nevertheless, occur.

The conclusions of the modelling process will depend on the structure of the underlying model (particularly the relationships between different economic and investment indicators) and on the detailed parameterisation of the model.

The results of the modelling depends crucially on the methodology and assumptions used. Using different models or using different assumptions in the same model can give rise to very different results. The results of the modelling should be regarded as illustrative. Given the extent of uncertainty in climate modelling, and given that the scenarios are not typically mutually exclusive, it is not advisable to attach probabilities to scenarios. The model is best used to compare potential outcomes between scenarios.

Modelling assumptions for Scenario Analysis

Impact of climate change on life expectancy

A potentially significant driver for future mortality will be the knock-on effects of a change to economic growth in the UK due to rising temperatures or the net zero transition. A slow down in economic growth as envisaged under the High Warming scenario would result in a weaker economy, and potentially less public and private funds available for healthcare provision and healthy living. This could have an impact on the general health of the nation, and potentially life expectancies. The opposite reasoning holds for a successful net zero transition. Compared to an average person in the UK, we expect those more affluent, such as a typical pension Plan member, to be less affected as they have more financial resilience.

The link between the economic health of the UK and mortality over the medium to long-term is presently unclear, and will probably remain so. For example, we note that many commentators have speculated on the link between the significant slow down seen in mortality improvements since 2010 and the introduction of austerity around the same time. Although there is a correlation, proving a causal relationship is harder. The possible impact of climate change on current and future life expectancies are considered periodically and this is allowed for when setting assumptions.

Bespoke impacts on mortality of each scenario would vary by scheme.

There is considerable uncertainty on the link between the economic health of UK and climate change, and further uncertainty on how this would feed through, if at all, to spending on national health and social care, and then on mortality rates.

Modelling assumptions for Scenario Analysis

Asset class returns – 31 March 2024:

Expected return (% pa)	LCP base case			High Warming			Limited Action			Net Zero Financial Crisis		
	5 years	10 years	40 years	5 years	10 years	40 years	5 years	10 years	40 years	5 years	10 years	40 years
Money market cash	3.9%	4.0%	4.3%	3.9%	4.0%	4.2%	3.9%	4.0%	4.3%	3.8%	4.0%	4.3%
Fixed interest gilts (18 years)	3.9%	4.0%	4.3%	3.9%	4.0%	4.3%	3.9%	4.0%	4.3%	3.8%	3.9%	4.3%
Index-linked gilts (23 years)	3.9%	4.0%	4.3%	3.9%	3.9%	4.4%	3.9%	4.0%	4.4%	4.1%	3.8%	4.3%
Investment grade corporate bonds (8 years)	4.8%	4.9%	5.2%	4.6%	4.9%	5.2%	4.7%	4.9%	5.2%	4.8%	4.8%	5.2%
Investment grade (ex-BBB) corporate bonds (8 years)	4.7%	4.8%	5.1%	4.5%	4.7%	5.0%	4.6%	4.7%	5.1%	4.6%	4.7%	5.1%
IG ex-BBB Corp bonds FRN	4.7%	4.8%	5.1%	4.6%	4.8%	5.0%	4.7%	4.8%	5.1%	4.6%	4.7%	5.1%
IG Corp bonds FRN	4.8%	4.9%	5.2%	4.8%	4.9%	5.2%	4.8%	4.9%	5.2%	4.7%	4.8%	5.2%
Short duration credit FRN	5.2%	5.3%	5.6%	5.2%	5.3%	5.6%	5.2%	5.3%	5.6%	5.1%	5.2%	5.6%
IG Corp bonds 15Y+ FRN	4.8%	4.9%	5.2%	4.5%	4.8%	5.1%	4.6%	4.8%	5.2%	4.8%	4.8%	5.2%
UK equities	6.6%	6.7%	7.0%	5.6%	5.8%	5.1%	5.9%	6.1%	6.1%	4.4%	5.5%	6.8%
Overseas equities	6.9%	7.0%	7.3%	5.8%	6.1%	4.8%	6.1%	6.3%	6.1%	4.4%	5.6%	7.1%
Overseas equities (currency hedged)	6.8%	6.9%	7.2%	5.7%	6.0%	4.7%	6.0%	6.2%	6.1%	4.4%	5.6%	7.0%
Global equities	6.9%	7.0%	7.3%	5.8%	6.1%	4.8%	6.1%	6.3%	6.1%	4.4%	5.6%	7.1%
Emerging markets equities	7.9%	8.0%	8.3%	7.0%	7.2%	6.1%	7.3%	7.5%	7.1%	5.5%	6.8%	8.1%
Private equity	7.9%	8.0%	8.3%	6.5%	6.8%	6.0%	7.0%	7.2%	7.3%	5.9%	6.8%	8.1%
High yield debt	6.1%	6.2%	6.5%	5.9%	6.2%	6.4%	5.9%	6.2%	6.4%	5.9%	6.1%	6.4%
Emerging market debt	5.8%	5.9%	6.2%	5.7%	5.7%	5.8%	5.7%	5.7%	5.9%	5.2%	5.5%	6.2%
EM multi-asset	7.0%	7.1%	7.4%	6.5%	6.6%	6.1%	6.7%	6.8%	6.6%	5.5%	6.3%	7.3%
UK property	5.5%	5.6%	5.9%	3.8%	4.1%	3.6%	4.6%	4.8%	4.9%	4.8%	5.2%	5.9%
Absolute return bonds	5.2%	5.3%	5.6%	5.2%	5.3%	5.6%	5.2%	5.3%	5.6%	5.1%	5.2%	5.6%
Diversified growth	6.1%	6.2%	6.5%	5.5%	5.7%	5.2%	5.7%	5.8%	5.9%	4.9%	5.5%	6.4%
Unlisted Infrastructure equity	6.4%	6.5%	6.8%	6.0%	8.1%	6.8%	5.8%	5.9%	6.0%	5.7%	5.7%	6.6%
Commodities	4.8%	4.9%	5.2%	4.8%	4.9%	5.0%	4.8%	4.9%	5.0%	3.3%	3.8%	4.8%
Fund of hedge funds	5.2%	5.3%	5.6%	4.9%	5.1%	5.0%	4.9%	5.1%	5.3%	4.7%	5.0%	5.6%
Multi-asset credit	6.3%	6.4%	6.7%	6.2%	6.4%	6.6%	6.2%	6.3%	6.6%	6.1%	6.3%	6.7%
Dynamic LDI LIBOR (3x lev)	4.3%	4.4%	4.7%	4.3%	4.4%	4.6%	4.3%	4.4%	4.7%	4.2%	4.4%	4.7%
Opportunistic credit	7.3%	7.4%	7.7%	6.7%	7.0%	6.9%	6.9%	7.1%	7.3%	6.6%	7.0%	7.6%
Private credit	7.5%	7.6%	7.9%	7.4%	7.6%	7.9%	7.4%	7.6%	7.8%	7.5%	7.6%	7.9%
Long lease property	5.7%	5.8%	6.1%	4.0%	4.3%	3.8%	4.8%	5.0%	5.1%	5.0%	5.4%	6.1%
Alternative risk premia	4.9%	5.0%	5.3%	4.6%	4.8%	4.7%	4.6%	4.8%	5.0%	4.4%	4.7%	5.3%
Insurance-linked securities	5.9%	6.0%	6.3%	5.6%	5.8%	5.7%	5.6%	5.8%	6.0%	5.4%	5.7%	6.3%
Asset-backed securities	5.7%	5.8%	6.1%	5.6%	5.8%	6.2%	5.6%	5.8%	6.1%	5.8%	5.8%	6.1%
Low carbon global equities (hedged)	6.8%	6.9%	7.2%	5.8%	6.0%	5.2%	6.2%	6.3%	6.2%	5.8%	6.3%	7.2%
Low carbon global equities (unhedged)	6.9%	7.0%	7.3%	5.9%	6.1%	5.2%	6.3%	6.4%	6.2%	5.8%	6.4%	7.3%
Low carbon UK equities	6.6%	6.7%	7.0%	5.5%	5.7%	5.3%	6.0%	6.2%	6.2%	7.0%	7.0%	7.2%
Diversified growth (relative value)	5.2%	5.3%	5.6%	4.6%	4.8%	4.3%	4.8%	4.9%	5.0%	4.0%	4.6%	5.5%
Global property	5.4%	5.5%	5.8%	3.7%	4.0%	3.5%	4.5%	4.7%	4.8%	4.7%	5.1%	5.8%
Credit default swaps fund	4.9%	5.0%	5.3%	4.7%	4.9%	5.2%	4.8%	5.0%	5.3%	4.9%	5.0%	5.3%
Listed infrastructure equity	6.1%	6.2%	6.5%	5.7%	5.8%	4.7%	5.4%	5.5%	5.4%	2.5%	3.9%	5.8%

Modelling assumptions for Scenario Analysis

Data and Calculation Methodology

The portfolio emissions metrics used by ICE measure both the emissions intensity and absolute financed emissions. ICE's WACI approach is TCFD aligned and provides a portfolio's CI expressed in terms of tonnes CO2e per $1M of revenue, covering Scope 1, 2 and 3 (the six main GHGs are expressed in terms of carbon dioxide equivalent (CO2e) per the GHG protocol).

This method was chosen as it is the approach recommended to TCFD by the PCAF for the global GHG accounting and reporting standard for the financial industry. The reason that CO2e/$1M revenue was used rather using £ as the Trustee's base currency, is that the Plan is a global investor and US$ is the most widely reported currency for investors. It provides a more consistent and easily comparable metric than having to translate currencies for each year's data.

For this approach, GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value) using individual company level emissions data. This metric, using revenue to normalise emissions for company size, allows for easier comparisons across different asset classes and between portfolios and benchmarks.

The methodology for sovereign bond (Gilt) emissions accounting follows the proposed approach agreed by PCAF, UNEPFI and PRI.

There are two possible approaches for accounting for the GHG emissions of sovereign bonds, territorial and government. We discounted the territorial approach where we consider all emissions holistically within the economic boundary within sovereign emissions (and scope 3 relates to exported emissions) as this leads to double counting of emissions with corporate emissions. The government approach treats the government as an economic entity in which we consider only those emissions that are generated by the public sector. Under this method, scope 1 accounts for the direct emissions of central government, scope 2 accounts for emissions from energy purchases, and scope 3 accounts for emissions from government expenditures in other sectors and all other territorial non-govt emissions. However, acknowledging that emissions accounting for corporates and sovereigns are significantly different, both in terms of scope, coverage, and time lag, ICE has developed the following methodology to combine the measurement techniques from both.

Financed emissions from corporations calculated using the PCAF methodology (Enterprise value including cash) can be combined with the financed emissions from sovereigns using the PPP-Adjusted GDP metric, also a methodology recommended by PCAF (purchasing power parity ("PPP") helps normalise across sovereigns). A combined asset class intensity of Revenue and GDP can be calculated by using intensity of revenue for corporates, and intensity of PPP-Adjusted GDP for sovereigns. This is then calculated with the weighted average approach to give an overall emissions figure that is broadly comparable.

Analysing the emissions from property also requires a different method to the more regular financed emissions. Each asset is assessed by type (to the most granular sub-type available) along with use of the property, size, and location. Specific metrics include energy consumption of the property by floor area, considering the property sub-type, location, and energy source. Renewable energy produced and used at the property can also be taking into consideration if the data is available. These are the key factors which are taken into consideration when calculating the carbon emissions for property assets.

Asset backed securities and securitised funds proved challenging to assess with an appropriate degree of confidence and so have been left out of the data set for this year.

Modelling assumptions for Scenario Analysis

The approach for Absolute Return strategies is to only report on the long positions within the portfolio. While market neutral strategies (and others) could argue they have no positive direction and therefore no positive emissions, we believe that each position in isolation was contributing capital and therefore contributing to emissions. We are aware that some short positions are taken as climate activist positions, but to apply that to all short positions would not be appropriate and hence short positions were not offset. We did consider the separate reporting of the short positions, but for now, we do not believe that there is a credible argument for reporting in this way.

Further, we took the approach that as many of the long positions were expressed through derivatives, we assessed if the position had a clear asset look through and then accounted for the emissions of the derived asset (e.g. an S&P 500 future). But, if a position was part of a complex synthetic exposure or trade, we determined that the horizon for that exposure was too short and should therefore be treated as cash (and cash does not attract any emissions).

We take this opportunity to ask for some standardization and clarity of approach from the hedge fund community. Many of the managers were keen to work with us and find an approach that was sensible and appropriate, and in part it is our discussions with them from which our approach was formed, but we look forward to discussion and development in this area.

This point brings on to a wider issue of how to report on "negative emissions". Some schemes may have investment strategies that include short exposures, some may have investments which generate carbon credits or carbon allowances, and some data providers are able to account for avoided emissions. We are not yet aware of consensus in this area on how to report these emissions. Should they be excluded from the analysis, accounted for separately, or netted off against overall emissions? It may appear that an asset owners' results could benefit from their positive impact actions, but we appreciate that there may be unintended consequences to allowing broad participation of "negative emissions" making their way into overall netting of results. Again, we look forward to discussion and development in this area.

The net zero pathway uses forward-looking factors such as momentum, trends, and specific published targets to plot the estimated trajectory of the pathway for the Plan's financed emissions. It is aligned to the Paris 1.5°C pathway and uses SBTi agreed temperature targets.

Royal Mail Pensions Trustees Limited registered in England and Wales.
Registered number 3248664

Registered office at 2nd Floor, 11 Ironmonger Lane, London, EC2V 8EY.

Royal Mail Pension Plan