Taskforce on Climate-Related Financial Disclosures ("TCFD") Statement – Year Ended 31 December 2023

Summary for members

This report has been produced by Rhodia Pensions Trust Limited (the "Trustee"), as the Trustee of the Rhodia Pension Fund (the "Fund"), and their advisors under the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) regulations 2021. As part of these regulations, the Fund is legally required to produce formal disclosures in line with the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"). This report covers both the Defined Benefit ("DB") and Defined Contribution ("DC") sections of the Fund and covers the period from 1st January 2023 to 31st December 2023.

This report covers the following four areas of the Climate Change Governance framework:

- **Governance**: the governance arrangements that have been put in place around climate-related risks and opportunities.
- **Strategy**: the actual and potential impacts of climate-related risks and opportunities on the strategy, covenant and financial plans of the Fund.
- **Risk Management**: how the Fund identifies, assesses, and manages climate-related risks.
- **Metrics and Targets**: the metrics and targets used to assess and manage climate-related risks and opportunities.

This summary intends to provide a summary for members of the following report and progress made by the Trustee so far.

As global warming continues to persist, the Trustee has identified two specific types of climate-related risks that could impact the Fund:

1. Transition risk: the risk that the Fund's investments are negatively impacted by the policy actions of transitioning to a lower-carbon economy.
2. Physical risk: the risk of extreme weather scenarios, supply chain disruption and other physical effects of climate change impacting the Fund's investments.

The Trustee uses two key tools to identify these climate risks: climate scenario analysis and monitoring climate metrics. The results of climate scenario analysis for both the DB & DC section can be found in the **Strategy** section of this report.

To keep abreast of the evolving methodology in this field, this year the Trustee refreshed the scenario analysis for the Fund's assets using scenarios developed by the Network for Greening the Financial System ("NGFS"). The NGFS scenarios allow the Trustee to consider how the Fund could be impacted in five different climate outcomes, ranging from an orderly transition that limits global warming to 1.5°C to a "Hot House World" scenario where some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Despite developments in methodology, the Trustee recognises that there are

significant limitations associated with quantitative climate scenario analysis currently. As such, the Trustee would consider adapting the approach adopted as good practice across the industry continues to develop.

The results of the analysis suggest that the Fund is more exposed to transition risk than physical risk. To mitigate this risk, the Trustee intends to engage with the Fund's managers to encourage them, and the companies they invest in, to align with the goals of the Paris Agreement.

Likewise, the climate-related metrics for both the DB & DC section can be found in full in the **Metrics & Targets** section of the following report.

The Trustee continues to report the total greenhouse gas emissions of the Fund's assets and the Fund's carbon footprint – i.e., the total greenhouse gas emission for the portfolio per million pounds invested.

The Trustee also reports the results of the NGFS "1.5°C Disorderly Transition" scenario for the Fund. This scenario was chosen as a 1.5°C increase is recognised as being the best-case outcome and a disorderly transition the most likely.

This year, the Trustee chose to update its portfolio alignment metric to monitor the Fund's Implied Temperature Rise ("ITR"). This metric estimates the global implied temperature rise in the year 2100 if the Fund was representative of the whole economy, allowing the Trustee to compare the Fund's progress against the goals of the Paris Agreement.

Having identified the climate-related risks the Fund is exposed to, the Trustee has sought to set a target which is focused on achieving real-world decarbonisation as opposed to only reducing the Fund's emissions. As such, the Trustee chose to set an updated portfolio alignment target: to reduce the Fund's implied temperature rise to below 2°C by 2035, with an interim reduction of 2.5°C by 2030.

Whilst the Fund's current ITR is in line with the global average, there is work to be done to achieve the Trustee's target. To do so, the Trustee plans to continuing engaging with the Fund's managers and encourage them to do the same with their top emitters. For example, over the year, the Trustee met with the Fund's main managers and challenged them on their approach to fossil fuel financing. More examples of the steps taken to manage the Fund's climate-related risks can be found in the **Risk Management** section of the following report.

The following pages summarise the Trustee's current position compared to the recommendations set out by the TCFD as set out in the Occupational Pension Schemes (Climate Change Governance and Reporting) regulations 2021.

Governance

The Trustee retains overall responsibility for oversight of climate-related risks and opportunities but makes use of advisors to assist in carrying out these responsibilities. The roles and responsibilities of the Trustee Board and external advisors are defined in the CCRMP (Appendix C). The Trustee drafted this Policy in 2022 with the support of their sustainable investment advisor and formalised it in December 2022. The CCRMP was last updated in May 2024.

The Trustee sets aside time to discuss climate risk at board meetings throughout the year. The investment advisor also brings their views on climate-related risks and opportunities to the Trustee as they deem appropriate; therefore, challenging the advisors and holding them accountable on delivery is an important element of the Trustee's role.

To ensure the Trustee spends appropriate time and receives proper advice on the governance of climate-related risks and opportunities, the Trustee has appointed an additional investment advisor focused solely on this area. The advisor was appointed in 2022 following a formal tender exercise and is responsible for, among other things, supporting the Trustee with respect to incorporating the recommendations of the TCFD into the Trustee's governance of the Fund. The Trustee continues to challenge their advisors on their experience and expertise and has set climate-related objectives for their advisors, which they review on an annual basis.

The processes for identifying, assessing and managing climate-related risks are in line with the Fund's wider CCRMP.

The Trustee received two formal training sessions related to climate over 2023:

- Training on Stewardship, covering what stewardship is and how it can be used as an effective climate-risk management tool.
- Training on nature-related risks, explaining the link between climate change and biodiversity loss and stewardship and natural capital allocations as tools to manage the risk.

Both sessions were delivered by Redington at the 15th June ESG day. Over 2023, the Trustee ensured that an appropriate amount of time was focused on ESG related matters.

Strategy

DB Section

The Trustee recognises that it has a fiduciary duty to exercise its powers for a proper purpose which, in relation to pension scheme investment, means acting in the best financial interest of members. The Trustee's long-term financial objective is to be fully funded on a Technical Provisions basis by 31 December 2027. A central part of the strategy to achieve this objective involves assessing risk and putting in place appropriate mitigation, and managing an investment strategy that is expected to achieve its investment objectives. The Trustee believes that climate change is a major systemic investment risk that needs to be addressed. At the same time, the Trustee recognises that solutions to mitigate the climate crisis could in themselves represent investment opportunities.

The Trustee notes, however, that the primary objective of the Fund's investment strategy is to generate return, using a risk-managed approach which incorporates managing all financial risks that apply to the Fund. The Trustee has therefore chosen to adopt an investment philosophy which delegates tactical asset allocation decisions to its investment managers, and the Fund's return-seeking portfolio consists mainly of investments across various actively-managed pooled multi-asset portfolios, such as diversified growth funds. This reflects the Trustee's view, supported by the sponsoring employer, that its investment managers have the required expertise to make appropriate decisions to manage economic risks and generate return. Within these funds, the allocations that these managers will be making to the underlying asset classes will be contingent on their views of the market cycle.

The Trustee understands that this limits the direct control that they have over the underlying Fund investments. Recognising this, the Trustee requires their appointed fund managers to be cognisant of climate-related risks and opportunities within their investment processes as applied to the assets of the Fund. The Trustee has given its appointed fund managers full discretion in evaluating ESG factors, including climate change considerations, exercising voting rights attached to the investments and undertaking stewardship activities (including engagement activities). The fund managers exercise this discretion in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. Where relevant, the Trustee expects its managers to use voting rights in a manner that is consistent with the principles set out in both the Fund's Statement of Investment Principles and Sustainable Investment Policy.

The Trustee therefore monitors the performance of their investment managers and engages with them where relevant to ensure that adequate steps are being taken in this respect. Active engagement with underlying companies in which the Fund is invested, specifically relating to climate-related risks and opportunities, is delegated to the Fund's investment managers. The Trustee also relies on the manager research and manager monitoring capabilities of its investment advisor (including ESG ratings), to effectively assess climate-related risks and opportunities, both within individual manager mandates and across the DB and DC investment strategies.

Examples of how the Trustee, supported by its advisors, has assessed the active engagement quality of its fund managers is included in the 'Risk Management' section. This includes an

example of reducing the allocation to a particular fund due to concerns regarding its manager's approach to voting and engagement.

In addition, the Trustee considers climate-related risks and opportunities and their potential implications on the Fund's investment and funding strategy over the short-term, medium-term and long-term. Throughout the investment process – from strategic asset allocation to manager selection and portfolio monitoring – the Trustee considers how these factors can be assessed and managed throughout.

The Trustee is conscious that the source of climate-related risks is likely to be varied. The Trustee has identified two specific risks which could impact the Fund's investment and funding strategy – transition risk and physical risk – which are described below. It is important to note these are not the only risks that Fund will face and there are many others that are either unknown or not yet considered in climate analysis due to the difficulty in quantifying the risk.

- **Transition Risk:** Transition risk refers to the potential price impact on the Fund's assets as a result of policy actions taken to encourage economies to decarbonise, with risks being different depending on the shape of the pathway towards a low-carbon global economy. Policy actions are expected to affect asset values through channels such as carbon prices, technology change, and the greater adoption of renewable energy, for example. Portfolios that continue to have high exposures to carbon-intensive businesses are likely exposed to higher levels of transition risk. The transition to a low-carbon economy is also expected to produce opportunities for investing in businesses that are poised to benefit from the transition, such as producers of renewable energy.

- **Physical Risk:** Physical risk refers to the potential price impact on the Fund's assets as a result of changes in weather patterns, extreme weather scenarios, supply-chain disruption, as well as from other physical effects of climate change such as rising sea levels. These include floods, hurricanes and droughts, or chronic effects, such as sustained increases in temperatures, air humidity and ocean acidity. These risks can affect the value of physical assets; in particular, property and infrastructure located in certain geographies such as coastal areas. An example of the knock-on effects of these risks is weaker economic growth due to damage done to infrastructure as a result of increased natural disasters, for instance tsunamis and earthquakes. This could then lead to higher price inflation, as well as other macroeconomic and geopolitical tensions.

In line with the requirements of the regulations to consider climate-related risks and opportunities over different time horizons, the Trustee considers climate-related risks and opportunities and their potential implications for the Fund's investment and funding strategy over the short-, medium- and long-term.

The table below sets out the time horizons chosen by the Trustee for both the DB and DC sections, the rationale for these and examples of the risks identified within each.

Time Horizon	Rationale	Risks identified
Short Term 1-3 years	Set to align with the Fund's rolling 3-year actuarial valuation process on the DB Section. This period also allows the Trustee to evaluate the short-term risks faced by the DC section from sudden climate-related behavioural changes.	Short-term risks and opportunities may include stock price movements resulting from increased regulation directed at addressing climate change (i.e., mostly transition risk).
Medium Term 5-10 years	Aligned with the interim decarbonisation and alignment targets in support of the goals of the Paris Agreement, expected to impact both the DB & DC sections. Also aligned with the Fund's primary or long-term funding target for the DB Section.	Medium-term risks and opportunities include large scale re-pricing and changes in consumer spending habits following changes in technology, such as uptake of electric vehicles. Frequency and severity of extreme weather events are also likely to increase (i.e., a combination of transition and physical risk).
Long Term 10+ years	This time horizon is set to reflect the long-term time period over which pensions are expected to be paid out in the DB section and over which DC members are expected to take their pension. The Trustee notes that the latter is likely to be a longer period.	Longer-term risks may include physical damage to real assets as a result of rising sea levels for coastal property or infrastructure assets; there may be opportunities for outperformance for organisations that put in place strategies to mitigate these potential risks well in advance of them materialising (i.e., mostly physical risk).

Climate scenario analysis

As part of considering climate-related risks and opportunities and their potential implications for the Fund's investment and funding strategy, the Trustee, supported by its advisors, performs scenario analysis on the Fund's funding position.

When first performing such analysis, as at 31 December 2021, the Trustee incorporated each of the Fund's assets, liabilities and covenant. This helps to ensure that climate-related factors are incorporated throughout the Trustee's funding and risk management process, from strategic asset allocation to manager selection and portfolio monitoring, as well as considering potential risks to the covenant of the Fund.

The results and methodology used as at 31 December 2021 in regards to each of the assets, liabilities and covenant are disclosed in Appendix A. As part of the scenario analysis on the full funding strategy the Trustee engaged with the covenant advisor, PwC, to consider the sponsoring employer's exposure to climate physical and transition risks, and thus the possible effect on the covenant strength. The Trustee recognises that the potential impact on the covenant of the effects of climate change may influence the near-term or longer-term funding strategy of the Fund. Further information on this is included in Appendix A.

Following advice from their advisor, the Trustee has chosen to refresh the asset-side scenario analysis to be based on the assumptions of the Network for Greening the Financial System ("NGFS") scenarios, rather than those from the Prudential Regulation Authority's ("PRA") Life Insurance Stress Tests which were used previously. The new scenarios are viewed as representing an improvement on the current methodology as they are updated more frequently, are more granular and rigorous at company level and also capture upside potential from climate opportunities rather than focusing only on downside risk.

The NGFS scenarios represent a range of possible future climate scenarios, which allows the Trustee to assess potential impacts on the funding strategy under the following climate outcomes. The Trustee notes there is a high degree of alignment between the below scenarios and the previous PRA scenarios.

- 1.5°C Orderly Transition – Limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net-zero CO2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all GHGs.

- 2°C Orderly Transition – Gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.

- 1.5°C Disorderly Transition – Reaches net zero around 2050 but with higher costs due to divergent policies introduced across sectors leading to a quicker phase out of oil use.

- 2°C Disorderly Transition – Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 1.5°C. CO2 removal is limited.

- Hot House World (NDCs) – Includes all pledged policies even if not yet implemented.

The results as at 31 December 2023 in regards to the assets are shown below.

Asset stress	Scenario A: 1.5C Orderly Transition	Scenario B: 2C Orderly Transition	Scenario C: 1.5C Disorderly Transition	Scenario D: 2C Disorderly Transition	Scenario E: Hot House World
31/12/2023	-8.2%	-5.9%	-17.3%	-13.1%	-5.5%

The figures show the impact on the Fund's funding level for each scenario over the time period of the stress (up to 2100) discounted back to present day terms. The results of the scenarios provide the Trustee with an estimate of how resilient the current investment strategy is with regard to various different climate change outcomes. The Trustee is aware this does not allow for changes within the strategy that are expected over that time. Whilst the expected fall is greater than the fall recorded for comparative scenarios in last year's report, the Trustee notes this is largely due to the calculation of the output (e.g. the previous figures being annualised).

The funding level is expected to reduce under all five scenarios. The largest reduction in funding level is under the 1.5°C Disorderly Transition, suggesting the fund is more exposed to transition risk than physical risk. To both mitigate the likelihood of this scenario occurring and improve the Fund's resilience if it did, the Trustee intends to engage with the Fund's managers and, via these managers, their issuers to align with the goals of the Paris Agreement, in turn reducing the Fund's exposure to transition-related climate risk.

The Trustee notes that, although the Hot House World scenario has the lowest impact, this is in large part due to the methodology used, given the scenario has high physical risk which occurs later in the future and is therefore more heavily discounted. Regardless, the Trustee is clear that this scenario is not in the best interest of members, given its detrimental impact on people and the environment.

Acting in a proportionate manner and reflecting that the effects of such scenarios on the liabilities and covenant are likely to change less over relatively short time periods than they are for the assets, the Trustee has chosen to not refresh the liability and covenant scenario analysis. As per the statutory guidance to update scenario analysis every three years, the Trustee will update the scenario analysis for the Fund's assets, liabilities and covenant in the next report as at 31 December 2024. In doing so, the Trustee would consider incorporating evolving methodologies in the field, acknowledging that there are still limitations within the NGFS scenarios.

On an annual basis, the Trustee monitors the output of the "1.5°C Disorderly Transition" scenario on an asset-only basis as their "Additional metric" to ensure consistency with the goals of the Paris Agreement. Further detail of this is set out in the 'Metrics and Targets' section of this document. Overall, the Trustee is comfortable that the investment strategy is sufficiently resilient to climate risks it may face.

Whilst the Trustee will continue to monitor the output of the scenario analysis on an annual basis and refresh it in line with the regulatory requirements, the Trustee acknowledges that current climate scenario analysis models are based on assumptions that do not accurately reflect the real world. For instance, overlooking climate tipping points and underestimating the likely implied temperature rise and physical impacts of climate change. Moreover, the time horizons of the scenarios available do not align with the Trustee's own short- medium- and long-term time horizons identified previously. As such, the Trustee does not consider the results as influential in its decision-making process, preferring instead to incorporate a qualitative assessment of climate risk. For example, as expanded on in the 'Risk Management' section of this report, through assessments of the Fund's underlying

investment managers' approach to and capabilities in stewardship (i.e. voting and engagement).

DC Section

In carrying out climate scenario analysis for the DC section, the Trustee has focused on the strategies which they have the most influence over and are the most popular in terms of where members' assets are invested. These are the Rhodia Growth Portfolio, BlackRock Aquila (50:50) Global Equity Fund and L&G Future World Annuity Aware Fund.

The same five climate scenarios as applied for the DB section have been used for the DC section.

The results of the scenario analysis on the Fund's DC assets as at 31 December 2023 are displayed below, combined the Rhodia Growth Portfolio, BlackRock Aquila (50:50) Global Equity Fund and L&G Future World Annuity Aware Fund:

Asset stress	Scenario A: 1.5C Orderly Transition	Scenario B: 2C Orderly Transition	Scenario C: 1.5C Disorderly Transition	Scenario D: 2C Disorderly Transition	Scenario E: Hot House World
31/12/2023	-13.3%	-9.9%	-25.4%	-21.6%	-9.4%

The largest fall in assets is projected under a disorderly transition, suggesting that the funds are most exposed to transition risk.

On an annual basis, the Trustee monitors the output of the "1.5°C Disorderly Transition" scenario on an asset-only basis as their "Additional metric" to ensure consistency with the goals of the Paris Agreement. Further detail of this is set out in the 'Metrics and Targets' section of this document.

Risk Management

As set out in the 'Strategy' section, the Fund is exposed to climate-related risks in the form of transition and physical risk. The Trustee considers the impact of these climate-related risks on all the assets in which it invests by conducting and reviewing the results of climate-related stress tests on, at least, a triennial basis.

For all appointed fund managers, evaluation of ESG risk management, including climate-related risks, is part of the selection process and continued due diligence or monitoring (which includes engaging with the managers on their stewardship activities) that the Trustee undertakes. The Trustee also relies on the manager research capabilities of their investment advisor(s) to effectively assess climate-related risks and opportunities.

In line with the Trustee's commitment to integrate ESG issues into stewardship practices, the Trustee has formalised a Stewardship Policy Statement. The Statement includes the Trustee's approach to delegating voting and engagement, collaborative engagement and an assessment framework for monitoring the Fund's investment managers and taking appropriate action. Climate change is articulated as a key theme as part of the Trustee's ESG Investment Beliefs Statement which feeds into this Policy.

Over the course of 2023, the Trustee took several steps to implement this policy, specifically with the intention of using stewardship as a tool to manage climate-related risk. Firstly, the Trustee received training on stewardship, which covered the key components of effective voting and engagement and how the Trustee could assess the Fund's managers on these. For example, analysing the coverage and quality of a managers' engagement with its top emitters.

Following this training, the Trustee, with the help of their advisors, undertook a stewardship assessment of the Fund's managers. The manager's ability to engage with issuers on climate-related topics formed a key part of this assessment. For example:-

- For one manager, the Trustee engaged with them on their engagement approach with one of the world's largest mining companies in light of a proposed expansion to their business.
- With another, the Trustee challenged the manager on their voting record in regard to fossil fuel financing. Noting that the manager had voted against a shareholder policy asking a bank to agree to a time-bound policy to phase out new fossil fuel lending, the Trustee engaged with them to understand how this decision sat within their wider engagement with banks on this topic.
- One manager's articulation of their voting and engagement activities was viewed by the Trustee as disappointing, to the extent that the Trustee decided to reduce the strategic allocation to this fund in the portfolio.

In all cases, the purpose was for the Trustee to use their ability as an investor to influence and improve the managers' own stewardship practices in regard to climate. Through effective engagement by the Fund's investment managers with mining companies and banks, the Trustee expects real-world decarbonisation to be achieved, in turn, reducing the Fund's exposure to climate-related risks and leading to better outcomes for members.

The Trustee also monitors relevant climate metrics as set out under the Department for Work and Pensions' ("DWP's") adoption of the recommendations of the TCFD (and as further

discussed in the 'Metrics and Targets' section). This allows the Trustee to better identify and manage the climate-related risks which are relevant to the Fund on an ongoing basis.

Although the Trustee is ultimately responsible for making decisions on strategic matters, including investment and funding strategy and investment manager selection, it relies on its advisors for advice on such matters. In particular, the Trustee assesses the "climate competency" of each of its advisors when appointing and reviewing its advisors, to ensure they are suitably well able to assist the Trustee in achieving its climate-related objectives.

Metrics & Targets

Metrics

The Department for Work and Pensions ("DWP") guidance for pension schemes submitting TCFD reporting suggests that the following metrics are chosen: an absolute emissions metric (total greenhouse gas emissions), a carbon intensity metric (carbon footprint), an additional non-emissions-based metric and a portfolio alignment metric.

The Trustee has chosen the following metrics:

DWP suggested metric	Metric selected	Rationale
Absolute emissions	Total greenhouse gas emissions[1]	This is the absolute emissions metric recommended by the DWP.
Emissions intensity	Carbon Footprint[2]	This is the emissions intensity metric recommended by the DWP.
Additional metric	Scenario analysis outlining the impact on the Fund's assets under the NGFS 1.5°C Disorderly Transition scenario[3]	This metric is the output of the asset-side scenario analysis and can help assessing the level of downside risk exposure of the Fund's assets and any hedging provided by assets that may benefit from climate-related opportunities.
Portfolio Alignment	Implied Temperature Rise ("ITR")[4]	This metric allows the Trustee to compare the Fund against the temperature goals of the Paris Agreement in the form of a temperature score.

[1] Measurement of the CO2e emissions of a fund per million pounds of enterprise value including cash ("EVIC") using Scope 1, Scope 2 and Scope 3 emissions. Given a company's direct Scope 1 emissions will inevitably be another company's indirect Scope 3 emissions, aggregating the individual Scope emissions results in a higher number of emissions than exists. Presently there is no universally agreed upon methodology for mitigating double counting at fund level, and therefore Scope 1 & 2 emissions are reportedly separately from Scope 3 emissions. This metric may be used to assess a fund's contribution to global warming versus other funds.
[2] Measurement of the Total greenhouse gas emissions, per million pounds of EVIC (tCO2e / £m invested)
[3] A 1.5°C Disorderly Transition scenario, whereby net zero is reached around 2050 but with higher costs due to divergent policies introduced across sectors leading to a quicker phase out of oil use. The NGFS stress tests help assess the impact of climate related risks on the value of the assets held within the Fund under various scenarios. The results of the scenarios provide the Trustee with an estimate of how resilient the investment strategy is with regards to different climate change outcomes.
[4] The Implied Temperature Rise, expressed in degrees Celsius (°C), estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over-/undershoot level as the company (or portfolio) in question.

The Trustee receives reporting on the above metrics on an annual basis or more frequently as necessary (on an ad-hoc basis). These metrics will be considered when the Trustee is reviewing the investment strategy and they will be reported on an annual basis in future TCFD reports. The Trustee will annually review its selection of metrics to ensure they remain appropriate for the Fund. For example, as part of the last annual review, the Trustee chose to update the methodology for Metric 3 and change the metric used for Metric 4. These changes are expanded on below.

1. Total Emissions

The Trustee monitors the total greenhouse gas emissions of the Fund's assets. Greenhouse gases are gases in the Earth's atmosphere that are capable of absorbing infrared radiation and thereby trap and hold heat in the atmosphere. The main greenhouse gases are carbon dioxide ("CO2"), methane ("CO4"), and nitrous oxide ("NO2"). Recognised protocol is to aggregate these emissions and translate them to a carbon dioxide equivalent ("CO2e") for consistency of measurement and reporting.

There are three scopes of carbon emissions:

- **Scope 1** emissions are direct emissions from an entity's owned or operationally controlled sources;
- **Scope 2** emissions are those from the use of electricity purchased by an entity;
- **Scope 3** emissions are indirect emissions from the use of company's products, or any other emissions across its supply chain.

For a pension scheme, scope 1 emissions include the use of gas fuel and refrigerants in the office whilst scope 2 emissions include the use of electricity in the office buildings. The primary emissions a pension scheme therefore relate to its Scope 3 emissions, i.e., the emissions of the assets which are held by the Fund. The Trustee monitors the Scope 1, 2 & 3 emissions of the investments held by the Fund and does not report on its own Scope 1 & 2 emissions.

There is inherent double-counting of emissions in the current greenhouse gases protocol and no clear guidance on how to combine Scope 1 & 2 and Scope 3 emissions to allow for this double-counting. Therefore, the Trustee has reported Scope 1 & 2 and Scope 3 emissions separately.

This analysis is performed using asset class assumptions. Further detail is set out in Appendix B.

2. Emissions Intensity

The Trustee monitors carbon footprint as its emissions intensity metric. Carbon footprint measures the carbon efficiency of a portfolio in terms of emissions per million pounds invested. It normalises the total financed emissions for the value of the portfolio. In other words, as it shows the emissions per millions of pounds invested, the metric is comparable between investments of different sizes.

At a portfolio level, the emissions intensity measures are calculated as the average of the emissions intensity of the underlying holdings, weighted by the value of each holding. A portfolio with a high emissions intensity will have a steeper route towards decarbonisation

than a less intensive one. Hence, measuring the emissions intensity across the Fund is useful in order to gauge how difficult (or easy) it will be to progressively decarbonise its portfolios.

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

As with total emissions, this analysis is performed using asset class assumptions.

3. Additional Climate Change

For the non-emissions-based metric, the Trustee previously adopted the output of the PRA "Slow Transition" stress test. This reflected the view that the Slow Transition scenario was most aligned with the objectives of the 2050 Paris agreement, and that both physical and transition risks were adequately reflected in this scenario.

In line with the update from PRA to NGFS for the climate scenario analysis methodology, the Trustee has opted to utilise the NGFS "1.5°C Disorderly Transition" climate scenario analysis. This scenario is the most aligned with the previously used PRA Slow Transition scenario. A 1.5°C increase is recognised as the best-case outcome and a disorderly transition is expected to be more likely than an orderly transition. This scenario therefore provides a tool which could support the Trustee in examining the impact that current and future asset allocation decisions may have upon the Fund's climate risk profile.

4. Portfolio Alignment

The Trustee previously adopted the Science Based Target's initiative assessment score as the Fund's portfolio alignment metric, which captures a company or issuer's progress against a self-developed decarbonisation target using science-based methodology. This was chosen due to its larger coverage relative to other portfolio alignment metrics at the time.

Following recent improvements in data coverage, and in order to align the methodology used to calculate the Fund's metrics (i.e. using asset class assumptions), the Trustee has chosen to adopt Implied Temperature Rise as the updated portfolio alignment metric to monitor going forward.

The ITR metric estimates the global implied temperature rise in the year 2100 or later, if the Fund was representative of the whole economy. As such, the Trustee believes it is an intuitive metric to monitor alignment, given its focus on real-world decarbonisation.

Target

The Trustee previously adopted a target against Metric 3 (Slow Transition Scenario Stress Test), such that the output of the PRA Slow Transition Stress Test should remain below 50% of the Fund's Value at Risk in a 1-in-20 downside scenario (i.e., 1-year VaR95). This target was intended to help the Trustee take climate risk into account when reviewing the current and future investment allocations and ensure that the Fund's climate risk exposure is proportional to the amount of investment risk being taken.

As outlined previously, the Trustee recognises the ongoing industry-wide debate regarding the limitations of climate scenario analysis. Whilst the Trustee endeavours to stay abreast of the evolving methodologies in this field, for example updating the Fund's own methodology to NGFS, the Trustee believes there are more "decision-useful" metrics against which to set the Fund's target.

The Trustee has therefore set an updated portfolio alignment target, to reduce the Fund's implied temperature rise to below 2°C by 2035, with an interim target of 2.5°C by 2030. The Trustee believes this updated target better reflects the Fund's focus on achieving real-world decarbonisation.

Methodology

By way of background, the Fund's investment strategy consists mainly of various tactical, actively managed multi-asset portfolios which rely on manager skill to generate outperformance, such as diversified growth funds. Within these funds, the allocations that these managers will be making to the underlying asset classes will be contingent on their views of the market cycle. Therefore, the Fund's overall exposures could vary vastly between two different dates, even if the same strategic asset allocation between the Fund's managers is maintained. Due to this, it is difficult to compare climate-related analysis based on the portfolio's underlying exposures meaningfully between two dates.

In addition, there is limited data coverage available for these funds.

Whilst the Trustee prefers to monitor 'line by line' emissions reporting for funds, the Trustee recognises the challenges set out above. Following advice from its investment consultant, the Trustee decided to undertake the analysis based on asset class modelling. This approach applies a broad assumption to each investment fund based on the investment style of the fund. This seeks to smooth out the fluctuations that are seen throughout the market cycle by assuming a fixed allocation to the underlying 'building blocks'. This simplifies the analysis whilst providing a holistic view of the Fund's total portfolio emissions which would be comparable from year to year.

The Trustee recognises the limitations associated with using asset class modelling of emissions. As such, the Trustee would consider carrying out detailed assessment using line-by-line analysis on an ad-hoc basis where possible. This analysis was last carried out as at 31 December 2021. The analysis calculated the carbon footprint of each diversified growth fund's equity component and compared these to a global equity index (MSCI World).

DB Section

Metrics

The results of the analysis as at 31 December 2023 using the Fund's DB section's asset allocation at the time are shown below. As noted earlier, the absolute emissions and emissions intensity metrics have been calculated using asset class assumptions, rather than line-by-line security data.

LDI and cash assets are excluded from the analysis due to carbon accounting methodologies not being sufficiently developed in these areas, meaning that the Trustee was not able to calculate the metrics using data available.

Total*	Absolute Carbon Emissions (tCO2e)		Carbon Footprint (tCO2e/EVIC £m		NGFS 1.5°C Disorderly Transition**	Implied Temperature Rise (°C)**
	Scopes 1 & 2	Scope 3	Scopes 1 & 2	Scope 3		
31/12/2021[1]	45,847	236,533	58	300	N/A	N/A
31/12/2022	29,803	151,126	56	285	N/A	N/A
31/12/2023	25,887	153,615	47	280	-17.3%	2.76

**Assets only basis, excluding LDI and cash (i.e., return-seeking assets only)*

***Metrics changed following 31/12/2023, therefore no previous data is available*

The absolute carbon emissions reported above demonstrate the total share of direct and indirect emissions for which the Fund's assets are responsible (based on Scope 1 & 2 and Scope 3 emissions separately).

The Fund's carbon footprint reveals how carbon efficient the portfolio is per million pounds invested (based on Scope 1 & 2 and Scope 3 emissions separately). This measure provides an insight into the carbon intensity of the Fund's assets.

The NGFS "1.5C Disorderly Transition" scenario monitors the Fund's exposure to a broad spectrum of transition risk, physical risk and technology opportunity. This provides an indication of the direction and magnitude of climate risk the Fund is exposed to. The figure reported relates only to the asset stresses.

The ITR portfolio alignment metric indicates a temperature score of the Fund's assets which can be compared against the temperature goals of the Paris Agreement.

[1] Asset-side analysis as at 31 December 2021 was carried out using total AUM as at 31 December 2021, and the SAA as at 31 May 2022.

All metrics have been modelled using asset-class assumptions for each fund. Further details can be found in Appendix B. The expectation is that the output will evolve over time as data availability is likely to improve. As and when new data becomes available, the Trustee will review the targets which have been set to ensure they remain feasible in light of this new information.

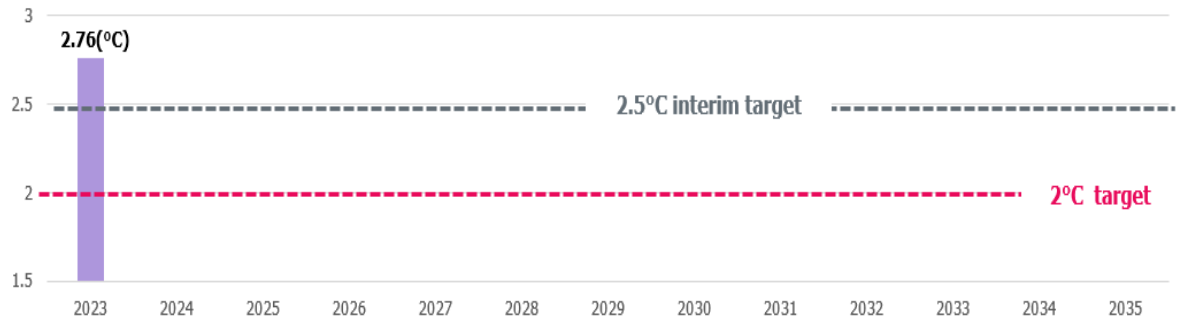
The Trustee observes that, for scopes 1 & 2, both the Fund's absolute carbon emissions and carbon footprint have fallen over the year. The main driver of this was a change to some of the modelling of the asset class assumptions used to model the Fund's multi-asset funds. There was relatively limited change in Scope 3 carbon emissions over the year.

The Trustee will continue to consider the results in identifying climate-related risks and opportunities which are relevant to the Fund. These might include, for example, engaging with fund managers who have material carbon intensity levels or with other industry participants, exploring low-carbon alternative investment options, and updating investment guidelines for managers where the Trustee has discretion to make such changes.

Target

As previously outlined, the Trustee has agreed an updated portfolio alignment target to reduce the Fund's implied temperature rise to below 2°C by 2035, with an interim reduction of 2.5°C by 2030. The Fund's progress against this target so far is shown in the graph below.

The Fund currently has an Implied Temperature Rise of 2.76°C. This is in line with the global average. The Trustee targets a reduction of the Fund's ITR to below 2.5°C by 2030, through targeted engagement with each of their diversified growth managers. Engagements will focus on each manager's approach to engaging with their own top emitters. Steps taken so far include challenging one manager on their voting record in regard to fossil fuel financing.



Note: All analysis is provided by Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©. Please refer to the data disclaimer in Appendix B.

For completeness, the table below displays the DB Section's position against the Trustee's previous target that the output of the PRA Slow Transition Stress Test should remain below 50% of the Fund's Value at Risk in a 1-in-20 downside scenario (i.e., 1-year VaR95).

Date	1-year Var95	50% of VaR95 for Target	Slow Transition Scenario Stress Test	Slow Transition Stress Test lower than Target
31/12/2021[1]	-£119m[2]	-£59.5m	-£44m	Yes
31/12/2022	-£61.7m	-£30.8m	-£28m	Yes
31/12/2023	-£87m	-£43.5m	-£23m	Yes

The Fund was on track against this target as at 31 December 2023. When comparing to the results as at 31 December 2022, the Fund's position improved.

DC Section

The calculated metrics for the DC Section of the Fund as at 31 December 2023 are presented below.

Total*	Absolute Carbon Emissions (tCO2e)		Carbon Footprint (tCO2e/EVIC £m		NGFS 1.5°C Disorderly Transition**	Implied Temperature Rise (°C)**
	Scopes 1 & 2	Scope 3	Scopes 1 & 2	Scope 3		
31/12/2021[1]	**592**	**3,542**	**71**	**424**	**N/A**	**N/A**

[1] Asset-side analysis as at 31 December 2021 was carried out using total AUM as at 31 December 2021, and the SAA as at 31 May 2022.
[2] For comparison purposes when setting the Target, the Trustee reviewed the Slow Transition Stress against the 30 April 2022 Value at Risk position, noting the approximate approach taken to assessing the position using 31 December 2021 AUM and 31 May SAA.

31/12/2022	**561**	**2,752**	**75**	**369**	**N/A**	**N/A**
31/12/2023	**632**	**4,624**	**72**	**525**	**-25.4%**	**2.61**

**Includes the Rhodia Growth Portfolio and Pre-Retirement Fund, accounting for 93% of total DC Section assets as at 31 December 2023.*

***Metrics changed following 31/12/2023, therefore no previous data is available*

Consistent metrics are used for the DC Section as for the DB Section. These will provide similar insights into the DC Section's investment strategy as for the DB Section.

The Trustee observes that Absolute Carbon Emissions, both Scope 1 & 2 and Scope 3, have increased over the year. Scope 1 & 2 Absolute Carbon Emissions have increased despite a slight decrease in the Scope 1 & 2 Carbon Footprint, which shows the Absolute Carbon Emissions increase is due to an increased value of the DC Section assets. The Scope 3 Absolute Carbon Emissions is also affected by this increased value of assets, but has more materially increased due to a rise in Scope 3 Carbon Footprint.

As Metric 3 and Metric 4 were updated as at 31 December 2023, there is no previous data available for comparison.

Note: All analysis is provided by Redington Ltd ("Redington"), and the data in the report is sourced from MSCI©. Please refer to the data disclaimer in Appendix B.

Appendix A: Summary of Prior Year Scenario Analysis

As outlined in the 'Strategy' section, the Trustee completed climate scenario analysis on the Fund's assets only as at 31 December 2023, using the updated approach of adopting NGFS methodology. This section outlines the approach taken previously by the Trustee when completing climate scenario analysis across the Fund's assets, liabilities and covenant.

In order to assess the impact on the Fund's assets, the Trustee undertook triennial scenario analysis consistent with the Prudential Regulation Authority's ("PRA") Life Insurance Stress Tests, as recommended by the Pensions Climate Risk Industry Group ("PCRIG"). The stresses were designed to demonstrate the impact to the value of the Fund's assets under three scenarios. The scenarios modelled were defined in terms of the pace and the extent of the world's response to climate risks. The scenarios are summarised below:

- Scenario A ("Fast Transition") – Abrupt transition to the Paris-aligned goal occurring in the three years (temperature increase kept below 2°C relative to pre-industrial levels).
- Scenario B ("Slow Transition") – Orderly transition to the Paris-aligned goals occurring by 2050 (temperature increase kept below 2°C relative to pre-industrial levels).
- Scenario C ("No Transition") – A no-transition scenario occurring in 2100 (temperature increase in excess of 4°C relative to pre-industrial levels).

The results of the scenarios provided the Trustee with an overview of how resilient the investment strategy was with regards to various climate change outcomes. The Trustee carried out an assessment of the Fund's full funding strategy as at 31 December 2021. The results of this analysis are summarised below:

Funding level stress	Scenario A: Fast Transition	Scenario B: Slow Transition	Scenario C: No Transition
Assets only	-3.4%	-3.7%	-4.1%
Liabilities (mortality) only	+1.5%	+0.3%	+3.4%
Total (assets and liabilities)	**-1.9%**	**-3.4%**	**-0.7%**

Following advice from their advisor, the Trustee refreshed the asset-side scenario analysis to be based on the assumptions of the Network for Greening the Financial System ("NGFS") scenarios, rather than those from the PRA Life Insurance Stress Tests which were used previously. The new scenarios represent an improvement on the current methodology as

they are updated more frequently, are more granular and rigorous at company level and also capture upside potential from climate opportunities rather than focusing only on downside risk.

The NGFS is a group of 138 members and 21 observers committed to sharing best practices, contributing to the development of climate- and environment- related risk management in the financial sector and mobilising mainstream finance to support the transition towards a sustainable economy.

The NGFS Scenarios have been developed to provide a common starting point for analysing climate risks to the economy and financial system and highlight a few important themes including rapid decarbonisation of electricity, increasing electrification, more efficient uses of resources, and a spectrum of new technologies to tackle remaining hard-to-abate emissions.

Covenant scenario analysis

The Fund's principal sponsoring employer, Solvay Solutions UK Ltd, is a chemicals and materials firm. The nature of the sponsor's products, and the sectors in which it operates such as aerospace, automotive and agriculture are directly impacted by climate related risks and opportunities. ESG and sustainability related factors are important components of the overall covenant strength of the group.

As part of the scenario analysis on the full funding strategy in last year's report, the Trustee engaged with the covenant advisor, PwC, to consider the sponsoring employer's exposure to climate physical and transition risks, and thus the possible effect on the covenant strength. The Trustee recognises that the potential impact on the covenant of the effects of climate change may influence the near-term or longer-term funding strategy of the Fund.

The analysis suggested that short term climate-related covenant risks are potentially low, with longer term climate-related risk slightly higher, and that both transition risks and physical risks are likely to remain persistent over most timeframes. Overall, based on information available at the time of the analysis (October 2022) and assuming an orderly transition as the base case, the climate-related impact on the Sponsor's covenant prospects was considered to be broadly neutral.

In the event of more extreme climate scenarios, particularly the "No Transition" case (based on the PRA scenarios used at the time), it was expected that there may be significantly greater covenant challenges both from physical risk and also disruption to the wider geopolitical and economic climate. The analysis also highlighted that the Sponsor's portfolio supported and seemed well placed to take advantage of the scale of market opportunities arising from climate change factors.

The Trustee has chosen to not refresh the covenant scenario analysis in this report. As per the statutory guidance to update scenario analysis every three years, the Trustee will update the scenario analysis for the Fund's assets, liabilities and covenant in the next report as at 31 December 2024. In doing so, the Trustee intends to incorporate evolving methodologies in the field, acknowledging that there are still limitations within the NGFS scenarios.

Appendix B: Additional reporting on climate metrics

Climate reporting as of 31 December 2023 can be found on the following pages. This reporting includes the chosen first, second and fourth metrics as described under in the 'Metrics and Targets' section. The third metric (the result of the "NGFS 1.5°C Disorderly stress test") is outlined in Appendix A.

As described in the 'Metrics and Targets' section of this paper, given the nature of the Fund's investment strategy and construction of its portfolio, asset class-level assumptions have been used for all metrics.

The asset class modelling of emissions has been provided by Redington and is based on asset class 'building blocks'. These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI ACWI as a proxy for a broad equity fund) or in some cases these indices are used and extrapolated to other asset classes based on given assumptions.

DB Section:

Fund	Fund Value (£m)	Absolute Carbon Emissions (tCO2e)				Carbon Footprint (tCO2e / EVIC £m)			
		31/12/23 – Scope:		31/12/22 – Scope:		31/12/23 – Scope:		31/12/22 – Scope:	
		1+2	3	1+2	3	1+2	3	1+2	3
BlackRock Market Advantage Fund	17	424	10,452	6,593	40,090	24	603	100	610
BlackRock Strategic Alternative Income Fund	37	953	3,383	1,560	4,202	26	91	38	101
Legal and General MAAA Diversified Growth Fund	152	7,531	42,947	6,097	30,088	50	283	51	253
Nordea Diversified Growth Fund	127	6,288	35,861	4,677	23,080	50	283	51	253
Ruffer Absolute Return Fund	127	6,270	35,755	6,491	32,031	50	283	51	253
Schroders Diversified Growth Fund	89	4,422	25,217	4,385	21,636	50	283	51	253
TOTAL PORTFOLIO (excluding LDI and cash)	**549**	**25,887**	**153,615**	**29,803**	**151,126**	**47**	**280**	**56**	**285**

	Fund Value (£m)	Implied Temperature Rise (°C)		NGFS 1.5°C Disorderly Transition	
		Current	Previous	Current	Previous
BlackRock Market Advantage Fund	17	4.06	-	-30.2%	-
BlackRock Strategic Alternative Income Fund	37	1.63	-	-12.7%	-
Legal and General MAAA Diversified Growth Fund	152	2.80	-	-17.2%	-
Nordea Diversified Growth Fund	127	2.80	-	-17.2%	-
Ruffer Absolute Return Fund	127	2.80	-	-17.2%	-
Schroders Diversified Growth Fund	89	2.80	-	-17.2%	-
TOTAL PORTFOLIO (excluding LDI and cash)	**549**	**2.76**	**-**	**-17.3%**	**-**

DC Section:

Fund	Fund Value (£m)	Absolute Carbon Emissions (tCO2e)				Carbon Footprint (tCO2e / EVIC £m)			
		Current – Scope:		Previous – Scope:		Current – Scope:		Previous – Scope:	
		1+2	3	1+2	3	1+2	3	1+2	3
Rhodia Growth Portfolio	7.7	566	4,106	521	2,550	74	536	76	372
BlackRock Aquila Connect Global Equity Fund	0.6	49	426	-	-	87	755	-	-
LGIM Future World Annuity Aware Fund	0.6	17	92	40	203	29	155	66	334
TOTAL (94% of total DC Section assets)	**8.8**	**632**	**4,624**	**561**	**2,752**	**72**	**525**	**75**	**369**

	Fund Value (£m)	Implied Temperature Rise (°C)		NGFS 1.5°C Disorderly Transition	
		Current	Previous	Current	Previous
Rhodia Growth Portfolio	7.7	2.58	-	-26.2%	-
BlackRock Aquila Connect Global Equity Fund	0.6	2.64	-	-35.0%	-
LGIM Future World Annuity Aware Fund	0.6	2.56	-	-5.9%	-
TOTAL (94% of total DC Section assets)	**8.8**	**2.61**	**-**	**-25.4%**	**-**

Glossary of Terms (ESG and Carbon Metrics)

Enterprise Value Including Cash (EVIC): Defined as the sum of market capitalisation of shares and book values of total debts and minority interests at fiscal year-end. No deductions of cash or cash equivalents are made to avoid potential negative enterprise values. This is the recommended denominator metric for carbon attribution according to the GHG Protocol, the global standard for carbon accounting endorsed by the European Union and the DWP.

Absolute Carbon Emissions (tons): Represents the share of Scope 1, Scope 2 and Scope 3 carbon emissions a fund is responsible for. Please note the metric is sensitive to the investment holding size in the fund.

MSCI Climate Metrics Coverage: The proportion by value of a fund for which carbon metrics are available from MSCI.

NGFS 1.5°C Disorderly Transition Scenario: Assumes net zero is reached around 2050 but with higher costs due to divergent policies introduced across sectors leading to a quicker phase out of oil use.

Carbon Footprint (tCO2e / EVIC £m): Measurement of the CO2e emissions of a fund per million pounds of EVIC. Scope 1 emissions refer to those which are directly connected to the production of a company's product or service e.g., burning of fossil fuels to power the electricity grid. Scope 2 emissions refer to those from electricity used to power company facilities. Scope 3 emissions are indirect emissions from the use of company's products, or any other emissions across its supply chain.

Implied Temperature Rise (ITR): The Implied Temperature Rise metric provides an indication of how companies and investment portfolios align to global climate targets. Expressed in degrees Celsius (°C), the Implied Temperature Rise metric estimates the global implied temperature rise (in the year 2100 or later) if the whole economy had the same carbon budget over-/undershoot levels as the company (or portfolio) in question.

Tons of Carbon Dioxide Equivalents (tCO2e): Tons of greenhouse gases including methane, nitrous oxide, carbon dioxide, and fluorinated gases. Given the abundance and prominence of carbon as a greenhouse gas, all the other gasses are considered carbon equivalents.

Limitations of Carbon Metrics

TCFD based regulations require portfolios to report on their climate metrics without asset class adjustments. Therefore, metrics in funds with a lower coverage (below 80%), or in multi-asset funds and liquid / semi-liquid credit need to be evaluated with more context. This is because a low coverage means a larger part of emissions are unknown, and because the carbon risk of equity holdings will tend to be higher than that of credit holdings.

Specific line-by-line modelling of emissions is currently available only for publicly listed equity and credit assets. For unlisted asset classes, we have reported asset class-level estimations of carbon emissions. This provides a broad and longer-term understanding of what the portfolio's emissions are and where the biggest amount of emissions come from. We believe this is appropriate from a strategic asset allocation perspective but will not capture specific actions managers are taking to reduce their CO2e footprint.

Due to lags in company carbon reporting and database updates, carbon footprint numbers have a one-to-two-year lag. The carbon numbers included in this report are updated at the start of every year.

Appendix C: Climate Change Risk Management Policy

Rhodia Pensions Trust Limited (the "Trustee"), as the trustee of the Rhodia Pension Fund (the "Fund"), recognises climate change as a systemic, long-term material financial risk to the value of the Fund's investments. Therefore, the Trustee has a fiduciary duty to consider climate change risk when making investment decisions, and the Trustee should assess the impact of climate change risks and opportunities.

This Climate Change Risk Management Policy ("CCRMP") documents the Trustee's approach to identifying, assessing, and managing risks specifically related to climate change. The CCRMP details the roles and responsibilities of the Trustee Board and the Fund's external advisors in assessing, managing, and monitoring climate-related risks and opportunities. The CCRMP is consistent with the Trustee's Statement of Investment Principles ("SIP"), ESG Investment Beliefs Statement, and Stewardship Policy Statement.

Statement of Trustee's Climate-related Investment Principles

The following investment principles are pertinent to the Trustee's approach to climate change in the context of Responsible Investment ("RI"), which it believes are in the interest of members:

- Climate-related risks should be managed in line with the Fund's overall risk management and included in its risk management framework.
- Climate-related risks could be material over the short (1-3 years), medium (5-10 years), and long-term (10+ years) to the Fund.
- Climate-related factors will likely create investment opportunities that the Trustee should consider taking advantage of as appropriate within its wider investment objectives.
- The Fund should invest in a way that is measurably aligned with achieving the goals of the Paris Agreement (limiting global temperature rises to well below 2 degrees Celsius above pre-industrial levels by the end of the century) to the extent that is possible, and in the financial interests of members to do so.
- Engagement, collaboration and using voting rights as appropriate are one of a number of effective tools to manage climate-related risks.

The Trustee supports the Paris Agreement's long-term temperature goal of keeping the mean rise in temperature to well below 2°C above pre-industrial levels, and preferably limit the increase to 1.5°C. The Trustee therefore takes efforts to ensure that climate-related risks and opportunities are integrated within the approach of investment managers to ESG and stewardship activities.

In the context of its fiduciary responsibility and the above ESG Beliefs, the Trustee has adopted the following policy:

- Climate change is recognised as a financial risk to the Fund's funding position, and it is viewed as an external risk that affects investments. As such, the Trustee will appropriately factor in climate change risks and opportunities when making strategic asset allocation and manager selection decisions.

- The Trustee requires the appointed investment managers to understand and, as appropriate for the investment strategy they are employed to implement, be cognisant

of climate change risks and opportunities within their investment processes as applied to the assets of the Fund. The Trustee's approach to stewardship and engagement is set out in the Stewardship Policy Statement.

- In line with the Trustee's commitment to integrating ESG issues into stewardship practices, the Trustee will act in accordance with the Stewardship Policy Statement and, where relevant, expects its asset managers to actively engage with companies to better manage climate change associated risks.

- The Trustee supports the Task Force on Climate-related Financial Disclosures ("TCFD") and will incorporate its recommendations into the Fund's annual reporting, subject to availability of data.

- The Trustee supports the further development of effective climate change risk metrics to enhance our ability to assess and minimise climate risks. The Trustee expects its investment managers to continue to improve the climate-related data they provide on the assets of the Fund.

- The Trustee recognises that climate change will be subject to much further analysis and subsequent related policy changes in the coming years. The Trustee will evolve its policy to ensure relevant developments are captured.

- The Trustee is responsible for setting climate-related objectives and climate metrics in relation to the Fund's assets. These metrics, and progress towards these objectives, will be explicitly monitored on an annual basis. Specifically, the Trustee has agreed to adopt and monitor the following 4 Metrics:

Metrics	Metric Focus	Metric Adopted
Metric 1	Absolute Emissions	Total Greenhouse Gas ("GHG") Emissions
Metric 2	Emissions Intensity	Carbon Footprint
Metric 3	Additional Climate Change	NGFS 1.5°C Disorderly Transition Scenario Stress Test
Metric 4	Portfolio Alignment	Implied Temperature Rise ("ITR")

- The Trustee has adopted a target against Metric 4 (Implied Temperature Rise) to reduce the Fund's ITR to below 2°C by 2035, with an interim reduction of 2.5°C by 2030. The Trustee believes this updated target better reflects the Fund's focus on achieving real-world decarbonisation.

- The Trustee carries out scenario analysis on the Fund's funding and investment strategy using climate scenarios. These scenarios represent a range of possible future climate scenarios, which allows the Trustee to assess potential impacts of the funding strategy under the following climate outcomes.

    - 1.5°C Orderly Transition – Limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net-zero CO2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all GHGs.

    - 2°C Orderly Transition – Gradually increases the stringency of climate policies, giving a 67 chance of limiting global warming to below 2°C.

    - 1.5°C Disorderly Transition – Reaches net zero around 2050 but with higher costs due to divergent policies introduced across sectors leading to a quicker phase out of oil use.

    - 2°C Disorderly Transition – Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 1.5°C. CO2 removal is limited.

    - Hot House World (NDCs) – Includes all pledged policies even if not yet implemented.

- Training on climate-related risks and opportunities is part of the broader programme of ongoing Trustee knowledge and understanding activity, including induction activities for any new Trustees. This aims to enable the Trustee Board to have the relevant knowledge and understanding of climate-related issues.

The roles of the relevant parties within the Fund's governance structure for climate change are summarised below:

Governance: Roles and Responsibilities

Role of the Trustee Board

- **Sets the overall investment and funding strategy and objectives and governance framework, which includes the identification, assessment and management of climate-related risks and opportunities:** The Trustee is committed to integrating and managing the consideration of climate-related issues within the Fund as the Trustee is ultimately responsible for overseeing climate-related risks and opportunities of the Fund.

- **Sets climate-related objectives:** The Trustee is also responsible for setting the Fund's climate-related objectives, including risk appetite, and approving metrics to measure progress towards these objectives.

- **Sets climate-related metrics and climate scenario analysis:** The Trustee is responsible for setting the relevant metrics and scenario analysis which allow the

Trustee to consider climate-related risks and opportunities when setting the Fund's funding and investment strategy.

- **Determines appropriate climate-related objectives in the investment consultant's annual objectives.** The Trustee is responsible for setting objectives for its investment consultants in accordance with the requirements of the Competition and Markets Authority ("CMA") which take climate-related considerations into account.

- **Selects, monitors, and reviews the investment managers:** The Trustee ensures the investment managers remain suitable and that they remain appropriately placed to help achieve the Fund's climate-related objectives. The Trustee's assessment framework for ensuring its investment managers align with their goals is set out in more detail in the Stewardship Policy Statement.

- **Monitors and oversees its advisors and consultants:** Although the Trustee is ultimately responsible for making decisions on strategic matters including investment and funding strategy and investment manager selection, it relies on its advisors and consultants for advice on such matters. In particular, the Trustee assesses the "climate competency" of each of its advisors when appointing and reviewing its advisors, to ensure they are suitably well able to assist the Trustee in achieving its climate-related objectives.

Role of the external advisors

- **Advise on climate-related risks and opportunities:** The Trustee requires the Fund's external advisors (namely the Investment Consultant, the Actuary and the Covenant Advisor) to advise on climate-related risks and opportunities, including, but not limited to, providing relevant training, information concerning market developments and integrating climate-related considerations in setting the Fund's investment strategy. The Trustee has appointed an independent advisor to carry out the responsibilities of the investment consultant with regards to climate-related considerations but will continue to involve the Fund's existing investment consultant where appropriate.

- **Provision of climate scenario and climate risk metric analysis:** The external advisors are responsible for assisting the Trustee in carrying out climate scenario analysis on the Fund's funding and investment strategy. The Trustee also requires the external advisors to recommend and regularly calculate relevant climate metrics that meet the regulatory requirements for the Trustee to monitor.

- **Climate-related considerations are included in the advisors' annual objectives:** This ensures the Fund's advisors are taking adequate steps to identify and assess climate-related risks and opportunities. The Trustee annually assesses the delivery of this advice against the Investment Consultant Objectives.

    - The DB asset and DC asset analyses are performed by the Fund's investment advisor(s).

- The liability analysis is performed by the Fund Actuary.
- The covenant analysis by the Fund's Covenant advisor.
- The Trustee reviews the Fund's investment managers to ensure ESG and climate-related risks are appropriately integrated into portfolio management; specifically carried out by the Fund's Investment Consultant.

Trustee Knowledge and Understanding

- Training on climate-related risks and opportunities is part of the broader programme of ongoing Trustee knowledge and understanding activity, including induction activities for any new Trustees. This aims to enable the Trustee Board to have the relevant knowledge and understanding of climate-related issues.

- The Trustee works with the Fund's external advisors to ensure the Trustee has the appropriate training and that policy and documentation reviews are conducted in line with the regulatory requirements to identify, assess and manage climate-related risks.