Lloyds Banking Group Pensions Trustees Limited

Lloyds Bank Pension Scheme No.2

Annual Climate Disclosures Report

in respect of the Scheme year ending 31st December 2021

Some Helpful Definitions

Defined Benefit (DB): A defined benefit pension scheme promises members a certain amount of money each year from retirement. The amount promised will (broadly speaking) be based on how many years the member has worked for the employer and their pensionable salary.

Additional Voluntary Contribution (AVC): Some members may pay additional voluntary contributions (AVCs) to build up better benefits in the Scheme. Except where a member is buying added years in the DB section, AVCs are used to build up an individual AVC savings account in the same way as a defined contribution scheme.

Environmental, Social and Governance (ESG): These are important broader factors that the Trustee and Investment Managers consider when making investment decisions.

Responsible Investment: The incorporation of ESG factors into the investment decision making process.

Paris Agreement: The Paris Agreement commits participating countries to limit global temperature rise to well-below 2°C above preindustrial levels and to pursue efforts to limit warming to 1.5°C.

Carbon Dioxide Equivalent (CO_2e): The equivalent amount of Greenhouse Gas (GHG) or mixture of GHGs, expressed as the equivalent amounts of CO_2.

Scope 1 Emissions: Direct emissions that occur from sources owned or controlled by a company.

Scope 2 Emissions: Indirect emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by a company.

Scope 3 Emissions: All other emissions that occur in the value chain of a company. This can be broken down into upstream emissions that occur in the supply chain as well as downstream emissions that occur as a result of consumption of the associated products and services.

Financed Emissions: Total emissions (scope 1, 2 and 3) attributable to the pension scheme's lending and investing activity. Expressed in tonnes CO_2e.

Operational Emissions: Total emissions (scope 1, 2 and 3) as a result of the Trustee company's operational activities.

Portfolio Carbon Footprint: A measure of emissions intensity expressed at tCO_2e per $m invested.

Executive Summary

Lloyds Bank Pension Scheme No.2 (the Scheme) is managed by Lloyds Banking Group Pensions Trustees Limited (the Trustee). As at 31st December 2021, the Scheme had c. £9.5bn of assets in the DB section.

The Trustee believes climate change represents a long-term financial risk to the Scheme's members and beneficiaries. As such, in line with its fiduciary duty, the Trustee aims to align 100% of the Scheme's assets to the goals of the Paris Agreement by 2030. By doing so, the Trustee expects to reduce carbon emissions attributable to the Scheme's assets by at least 50% by 2030 and fully by 2050 (relative to a 31st December 2020 baseline) – this is the Trustee's "climate ambition".

This report describes how the Trustee identifies, assesses and manages climate-related risks and opportunities (CRRO) relevant to the Scheme as part of acting in the best interests of the Scheme's members. It follows the recommendations from the Taskforce on Climate-Related Financial Disclosures (TCFD) and is split into four sections:

1. ***Governance –*** the processes and controls in place to ensure appropriate oversight of CRRO
2. ***Strategy –*** the potential impacts of CRRO on the Scheme's assets and liabilities, and on the strength of covenant
3. ***Risk Management –*** the risk management processes and controls to ensure CRRO are identified, assessed and accordingly managed; and
4. ***Metrics and Targets –*** the climate-related metrics and targets used to assess CRRO.

The report focuses on the assets in the DB section of the Scheme. Consistent with the Regulations AVCs are not within scope of this report.

From a governance perspective, the Trustee Board is ultimately responsible for the Scheme's investment policy and therefore the management of CRRO. To assist with this, the Board has a number of sub committees that are responsible for identifying, assessing and putting processes and controls in place to manage CRRO. Knowledge and understanding of CRRO is crucial for effective management of the Scheme and this has been integrated into the Trustee Directors' training framework. The Trustee is supported by an in-house executive team and external advisors that provide regular monitoring and reporting of CRRO across the Scheme. The Trustee has introduced processes to ensure those assisting it are competent in regard to CRRO.

From a strategy perspective, the Trustee (with support from its advisors) undertook climate scenario analysis in 2021 to assess the resilience of the Scheme's investment and funding arrangements to climate change risk over the short, medium and long term. Three scenarios were assessed with varying warming potentials. Under all scenarios, the Scheme's investment and funding arrangements were deemed to be resilient to climate change risk. Even so, over the course of 2021, the Trustee implemented further measures to help manage the Scheme's exposure to climate change risk.

With regards to risk management, the Trustee maintains a Risk Register that considers all key risks to the Scheme. Each risk has its own set of controls to ensure it is appropriately managed. Climate change is identified as a far-reaching factor that interacts with a number of the other risks identified in the Risk Register. These risks are reported to the Trustee Board on a monthly basis.

Climate metrics can help inform understanding and monitoring of CRRO. The Trustee monitors a number of key climate metrics and has established certain targets, consistent with its climate ambition and fiduciary duty. These metrics are monitored on a periodic basis along with progress against selected targets. Climate data coverage and quality is improving which may lead to divergence against set targets over the short term. Nevertheless, the Trustee aims to reduce its Financed Emissions associated with the Scheme's assets as per the Trustee's climate ambition. The Trustee will keep its chosen metrics, targets and framework under review to ensure they remain fit for purpose.

The subsequent pages of the report provide further information on each of the sections outlined above.

Background & Introduction

This is the annual climate disclosures report for the Lloyds Bank Pension Scheme No.2 in respect of the Scheme year ending 31st December 2021. It follows the Task Force on Climate-Related Financial Disclosures (TCFD) framework and has been prepared in compliance with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (the Regulations).

By way of background, the Scheme is managed by Lloyds Banking Group Pensions Trustees Limited (the Trustee) and provides DB benefits. The Scheme is closed to new entrants and provides benefits based on a member's salary and length of service.

This report seeks to address how the Trustee identifies, assesses and manages CRRO that impact the Scheme's investment and funding strategies. For the purposes of this report, the focus is on the Scheme's Financed Emissions as opposed to Operational Emissions. Whilst the Trustee has not measured its operational carbon footprint, it is judged to be immaterial relative to its Financed Emissions.

This report covers the DB section of the Scheme. At the end of December 2021, the DB section had £9.5bn in assets. The Scheme also allows members to pay AVCs however, these are not within the scope of this report.

The Trustee believes climate change represents a long-term financial risk for the Scheme. As such, in line with its fiduciary duty, **the Trustee aims to align 100% of the Scheme's assets to the goals of the Paris Agreement by 2030. By doing so, the Trustee expects to reduce carbon emissions attributable to the Scheme's assets by at least 50% by 2030 and fully by 2050 (relative to a 31st December 2020 baseline)**.

To support this, Trustee activity is focused on three areas:

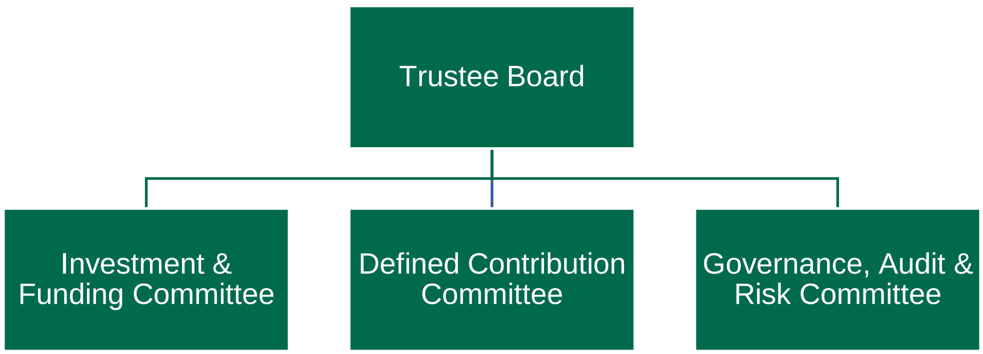
1) Understanding and quantifying the Scheme's exposure to CRRO;
2) Ensuring new and existing investments are managed in a way that takes account of CRRO; and finally
3) Engaging with the wider investment community on climate change risk issues. The most notable engagements include the Trustee's membership of the Institutional Investors Group on Climate Change (IIGCC) and its signature of the Paris Aligned Investment Initiative Net Zero Asset Owner Commitment.

Governance

The Trustee Board is ultimately responsible for the Scheme's investment policy. This policy is built upon a set of investment beliefs as outlined in the Trustee's Statement of Investment Principles. One belief is that *"responsible investment is likely to enhance risk-adjusted performance. Environmental, social and governance (collectively known as ESG) issues are therefore a relevant factor in investment decision-making."*

To help fulfil this responsibility and implement the Trustee's investment policy and strategic ambitions, certain decisions are delegated to sub-committees or internal executive teams and individuals.

The chart below shows the relevant committees of the Trustee governance structure that are involved in identifying, assessing and managing CRRO. The Trustee Board and its sub committees meet at least quarterly or more frequently if required. Information specifically relating to CRRO is provided to the sub committees and Board at least annually and the Board considers and challenges this information as appropriate.



Trustee Board maintains overall responsibility for investment matters including setting investment and funding objectives. It agrees the Responsible Investment policy and sets the Trustee's overarching climate ambition.

Investment and Funding Committee (IFC) is responsible for recommending the investment strategy for the DB section and setting standards and limits relating to investment portfolios consistent with the Board's investment and funding objectives. The Committee is also responsible for agreeing climate metrics and targets, tracking progress against agreed targets, and assessing the impact of climate change on the investment and funding strategies, in each case in relation to the DB assets and liabilities.

Defined Contribution Committee (DCC) is responsible for recommending the investment strategy for the defined contribution assets (including AVCs) and setting standards and limits relating to investment portfolios consistent with the Board's investment objectives. The Committee is also responsible for agreeing climate metrics and targets, tracking progress against agreed targets, and assessing the impact of climate change, in each case in relation to the default strategy and the other investments in the AVC fund range.

Governance, Audit and Risk Committee (GA&R) is responsible for Trustee Knowledge and Understanding, Trustee effectiveness, monitoring the risk register and ensuring that other committees take appropriate action to mitigate the risks that they are responsible for.

The Trustee may also form special project groups to address ESG issues. For example, to prepare for climate disclosures and reporting, the Trustee established a working group formed of in-house executives and Trustee directors.

The Trustee maintains a training framework to ensure there are sufficient skills, knowledge and understanding across a variety of areas relating to the management of the Scheme. Knowledge and understanding of CRRO have been integrated into this framework. Trustee Directors are required to complete and report on their training progress as well as receive periodic training sessions on climate-related matters where skills gaps have been noted. This is designed to help the Trustee identify, assess and manage CRRO.

The Trustee appoints external investment managers to manage the day-to-day investment decisions relating to specific companies and securities. The Trustee is supported by an in-house executive team that assists the Trustee in delivering its strategic objectives, including the oversight and monitoring of these external investment managers to ensure they are taking CRRO into account.

More specifically, the Trustee is provided with a suite of periodic reporting, training and analysis to enable it to oversee CRRO. Examples include:

- Climate key performance indicators that assess Trustee progress against its climate ambition;
- Climate scenario analysis that assesses the resilience of the Scheme's investment and funding strategies;
- Climate-related metrics and performance against targets;
- ESG ratings of appointed investment managers and voting and engagement statistics of the underlying managers with a particular focus on climate risk; and
- A Risk Register where CRRO act as cross cutting drivers across a number of identified key risks.

The following in-house executives have been identified as assisting and advising the Trustee with governance activities:

Role	Description	Responsibilities relating to CRRO
Director, Group Pensions and Trustee Services	Operates as Chief Executive Officer for the Trustee, leads and implements the delegated model.	Responsible for ensuring there are sufficient internal resource, training and expertise allocated to identify, assess and manage CRRO across the Scheme.
Chief Investment Officer (CIO) and Deputy CIO	Has delegated authority from the Trustee to maintain investment strategy within pre-set ranges including appointing and terminating fund managers.	Responsible for recommending investment strategy to the IFC and DCC taking into consideration CRRO, and for appointing and terminating investment managers.
Investment Risk Officer (IRO) and Deputy IRO	Responsible for ensuring CIO decision making is consistent with delegated authorities. Direct reporting line to the Trustee Board.	Ensuring investment related decisions including those relating to CRRO are within Trustee risk appetite.
Members of the in-house investment team	Make recommendations to the CIO and Trustee on investment related matters.	Responsible for making recommendations to appoint and terminate investment managers and ensuring appointed investment managers are taking climate change issues into account when making investment decisions.
Investment Operations and Reporting team	Responsible for transitioning scheme assets as well as regular investment related reporting.	Responsible for a suite of investment related reporting including Scheme and manager performance as well as broader climate change reporting.
Senior Risk Manager	Executive owner of the Trustee Risk and Control Framework, reviews and monitors the operational effectiveness of control environment and ensures a structured approach to managing risk and positive risk culture for the Trustee.	Responsible for ensuring CRRO are adequately considered when assessing the materiality and likelihood of key risks faced by the Scheme.

Executives within the in-house team are expected to maintain a minimum level of knowledge and understanding of the impact of climate risks to the Scheme. Different types and levels of training are required by the executives dependent on the nature of their work. For example, all executives (investment and non-investment) are required to complete mandatory sustainability training provided by Lloyds Banking Group. They have also received training on the climate regulatory requirements for UK pension schemes. Those within the in-house investment team are expected to have deeper knowledge and the skills to assess the impact of climate risks on a range of different asset classes. Many of them are members of the Institute and Faculty of Actuaries or the Chartered Financial Analyst Institute and are expected to incorporate climate change knowledge and understanding within their Continuing Professional Development activities. The Trustee reviews the training requirements of the executives annually and believes the executives have the required skills and knowledge in relation to CRRO.

The Trustee is also supported by a number of external professional advisors on investment, actuarial and covenant matters. These advisors provide advice and analysis to assist the Trustee in making decisions relating to CRRO. Objectives (including those specifically relating to CRRO) are set and agreed at least triennially and their performance, including the standards and quality of advice, is assessed at least annually. The Trustee also reviews its advisor appointments triennially to ensure it keeps up with market offerings.

Strategy

The Scheme invests for the long term and therefore is exposed to CRRO that may materialise over a multitude of time horizons. CRROs have the potential to impact the long-term funding objective of the Scheme.

The Trustee has selected the following time horizons for the purposes of assessing CRRO having considered the Scheme long-term funding objective and key climate milestones (informed by climate science, regulations and government policies around the world).

Short Term	Medium Term	Long Term
Now to 2029	2030 – 2040	2040 onwards

The Trustee also identified the CRROs that are relevant to the Scheme over the time horizons noted above and has assessed the impact of these on the investment and funding strategies. A summary of the CRRO identified, and their impact, is shown in the tables below.

CRRO	
Strategies considered	Investment and funding strategy of the DB section
CRRO relevant to the Scheme and the impact of these on the investment and where relevant funding strategy	Short term: The Scheme is exposed to climate transition risks, however, the funding strategy is deemed to be strong enough to withstand the potential impact and still achieve the Scheme's long term funding objective. Medium term: the Scheme is aiming to be significantly de-risked by 2034 at which point the financial impact from climate change risk is expected to have reduced materially. Long term: Given the expected investment strategy the impacts past 2040 are not expected to have a material impact on the Trustee's strategic objectives. Nevertheless, climate change can have a material impact on a scheme's longevity risk if not managed (i.e. hedged). Further longevity hedging is expected to help manage funding volatility in the future. There are opportunities across a variety of asset classes. Possibilities include "impact" investments, particularly within property and infrastructure and private credit as well as financing opportunities to help finance the climate transition.

The Trustee keeps these CRRO under review on an ongoing basis, particularly taking into account the results of the calculations of any metrics and the assessment of performance against targets.

To help assess the impact of climate change on the Scheme, the Trustee undertook scenario analysis in 2021. The scenario analysis assessed the potential impact on the Scheme's assets, liabilities and covenant of different hypothetical warming scenarios, based on the Scheme's investment strategy following the recent (2019) triennial actuarial valuation. The scenario analysis also considered the resilience of the funding strategy in these scenarios. The analysis was carried out by independent advisors.

Three climate scenarios were selected and a brief description of each is set out below.

Scenario	Description	Implied Temperature Rise
Orderly Transition	Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	~2 degrees Celsius
Disorderly Transition	Delays in taking meaningful policy action result in a rapid policy shift in the mid to late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy.	~2 degrees Celsius
Business As Usual	Current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.	~3.5 degrees Celsius

The scenarios analysed were chosen because they differ in the size, pattern and impact of physical risks and transition risks based on the resulting temperature impacts. From an asset perspective, the scenario analysis focused on the potential financial impacts on different asset classes from climate change (in particular physical and transition risk) over the next few decades as well as a one-off shock event. From a liability perspective, the scenario analysis focused on the impacts on mortality from climate change. From a covenant perspective, the scenario analysis examined the climate change impacts on the sponsor's, Lloyds Banking Group, business model, including its mortgages, lending and insurance business lines.

Further details on the key assumptions for each scenario can be found in Appendix 1. It is worth noting scenario analysis is based on a set of assumptions which can change over time. The Trustee will review the appropriateness of the chosen scenarios on a periodic basis.

Under all of the three scenarios analysed**, the Scheme's investment and, where applicable, funding strategy is deemed to be resilient to climate change risk.** Further details are outlined below.

Scenario Analysis	
Strategies considered	Investment and funding strategy of the DB section
Potential impact on assets, liabilities and covenant	The DB Sections funding level is impacted by both changes in assets but also liabilities. Looking at the assets in isolation, all scenarios are expected to have a negative impact on the Scheme's assets. However, the expected impact of climate change on the Scheme's liabilities depends on the scenario analysed. Under the Orderly Transition scenario, living standards are expected to improve and hence Scheme members live longer. As such, Scheme liabilities are expected to grow and ultimately lead to a deterioration in funding level. Under the Disorderly Transition and Business As Usual scenarios, future improvements in mortality are expected to fall relative to current assumptions. As such, Scheme liabilities are expected to fall and ultimately lead to a modest improvement in funding level. From a covenant perspective, the climate impact assessment on the covenant shows that the strength of Sponsor remains strong under all scenarios.

Activities undertaken

In addition to the scenario analysis carried out, the Trustee worked with a number of its investment managers and advisors to analyse and measure the financial impacts of climate change at a more granular level. The result has led to the Trustee's decision to reduce its exposure to sectors and companies that are perceived to be highly exposed to climate change.

In addition, new portfolio limits have been introduced across the investments where possible and practical to do so. For example, in the credit portfolios certain limits have been applied to long term lending to companies that are perceived to be highly exposed to the risks of climate change. The Trustee will keep its approach under review and make refinements where necessary.

As part of its regular monitoring and oversight, the Trustee reviewed its investment managers from an ESG perspective which includes each manager's approach to CRRO. The in-house investment team actively engaged with the managers where improvements are required. If adequate improvements have not been made over a reasonable period, the Trustee may choose to terminate the appointment of the manager.

In early 2021, the Trustee became a signatory to the IIGCC Paris Aligned Investment Initiative Net Zero Asset Owner commitment. This is consistent with the overarching Trustee climate ambition.

Future Activities

The Trustee has a three-pillar approach to help achieve its climate ambition and targets. This covers the following:

1) Strategic asset allocation
2) Investment manager and fund selection
3) Engagement and stewardship

With regards to strategic asset allocation, the Trustee will continue to incorporate the potential impact of climate change when determining asset allocation and the resilience of asset classes to climate change. The Trustee will seek to ensure that the Scheme's investment and funding strategy remains resilient to climate change and its potential impacts.

From a manager selection perspective, the Trustee will continue to critically assess its investment managers from an ESG perspective. Consideration of the risks/opportunities arising from climate change form part of this.

Finally, stewardship and engagement with investment managers and the broader investment community, exerting influence where possible to assist the transition to a low-carbon economy.

Risk Management

The Trustee considers the impact of climate change is a key risk which is identified in the Statement of Investment Principles.

To ensure key risks of the Scheme are managed appropriately, the Trustee maintains a Trustee Risk and Control Framework (TRCF) and associated Risk Register. Each risk has associated controls to ensure the risk is appropriately managed.

Climate change is identified throughout the TRCF and Risk Register as a far-reaching and cross-cutting factor that interacts with a number of the other risks identified in the Risk Register. These risks are reported to the Trustee Board on a monthly basis and are overseen by the Governance, Audit and Risk Committee, and other committees which have principal responsibility for managing individual risks.

The approach to identifying, prioritising, assessing and managing climate-related risks is the same as the existing method applied to all risk types. A brief description of the approach taken is outlined below.

1. Horizon scanning identifies upcoming regulatory change, external events, legal test cases, evolving stakeholder expectations and related sector activity. Emerging themes are triaged to identify where there is an existing associated risk in the register or whether a new risk is required. Vulnerability and speed of onset are considered when determining materiality and prioritisation. Mitigating actions are agreed which can include additional controls.
2. The Trustee assesses risks based on the likelihood of crystallisation and the potential impacts from the risk across a number of impact factors – member, legal and regulatory, financial, reputational, reporting and resource.
3. The internal risk monitoring system supports ongoing management of risks – inherent and residual risk assessments, control assessment and testing, risk event and action plan management.

Some of the core climate change risks currently facing the Trustee are managed by the following embedded mitigation activities:

- Consideration of asset class resilience to climate change when designing the investment strategy
- Fund manager appointments, appraisals & on-going due diligence (includes evaluation of ESG risk management, which includes climate-related risks)
- Monitoring of the employer covenant (including, for example, consideration of exposure of the mortgage book to rising sea levels)

In addition to this, the Trustee believes engagement with the broader investment community and policy makers also helps manage climate change risk.

Metrics & Targets

Climate metrics can help identify, assess and measure climate-related risks and opportunities. The Trustee monitors a number of quantitative climate metrics and has set certain targets consistent with the Regulations and the Trustee's climate ambition as shown below.

Metric	Measure	Target
Absolute Emissions Metric	Total GHG Emissions	No explicit target
Emissions Intensity	Portfolio Carbon Footprint	50% reduction by 2030 100% reduction by 2050
Other Climate Change Metric	Percentage of assets aligned to the goals of the Paris Agreement	100% of assets aligned to the goals of the Paris Agreement by 2030

The Absolute Emissions and Emissions Intensity metrics have been chosen in line with the recommendations of the Department for Work & Pensions as set out in its statutory guidance. When selecting the Other Climate Change Metric, the Trustee felt it was most appropriate to use a metric consistent with the Trustee's climate ambition as set out earlier in this document (i.e. the ambition to align 100% of the Scheme's assets to the goals of the Paris Agreement by 2030). Each of the emissions based targets are assessed against a base year of 31st December 2020 and are applied at the Scheme level.

In line with the regulatory guidance, the Trustee has attempted to collect data for each metric, as far as it is able, and measured the Scheme's performance against the targets. This data can be found in the table below. To assist with data collection for the Absolute Emissions and Emissions Intensity metrics, the Trustee appointed an external investment consultant.

Assets Analysed	2020	2021	Target
Scheme Assets (£m) *(1)*	**9,479**	**9,494**	Not applicable
Assets successfully analysed *(2)*	**23%**	**67%**	No target set
Absolute Emissions	**2020**	**2021**	**Target**
Total (tCO2e)	**186,552**	**1,437,458**	No target set
Listed Equities & Corporate Bonds (tCO2e) (Scope 1 & 2 only) (3)	*186,552*	*206,707*	
Sovereign Bonds (tCO2e) (3)		*1,230,707*	
Real Estate (tCO2e) (Scope 1 & 2 only) (4)		*44*	
Emissions Intensity	**2020**	**2021**	**Target**
Listed Equities & Corporate Bonds (tCO2e / $m invested) (Scope 1 & 2 only) (3)	*62*	*67*	*50% reduction by 2030 100% reduction by 2050 relative to 31st December 2020*
Real Estate (kgtCO2e / m2) (Scope 1 & 2 only) (4)		*72*	
Alignment to Paris	**2020**	**2021**	**Target**
% of assets considered to be aligned to the Goals of the Paris Agreement (5)	*46%*	*46%*	*100% of assets aligned to Paris by 2030*

(1) Asset values are taken as at year-end (i.e. 31st December) and do not include cash held in Trustee bank accounts.

(2) % of assets analysed from a carbon emissions perspective.

*(3) Data provided by Mercer. Absolute emissions for listed equities and corporate bonds are based on enterprise value plus cash. Sovereign bond analysis has been conducted in line with the recommended methodology set out in the ongoing Partnership for Carbon Accounting Financials (PCAF) consultation and is based on total exposure (total sovereign exposure (funded and unfunded) / PPP adjusted GDP) * Sovereign Production Emissions.*

(4) Data provided by underlying investment managers. Due to the lag in emissions reporting, this value is as at 31st December 2020.
(5) Based on internal assessment framework.

The Trustee considered data quality, cost as well as industry consensus on asset class carbon accounting methodology when assessing the carbon footprint of the Scheme's Financed Emissions. For this report, the Trustee focused its efforts on the Scope 1 and 2 emissions arising from its listed equity, corporate bond and sovereign bond portfolios (c. 65% of the DB section assets) where data quality and coverage were reasonable with well-established methodologies. As data coverage and quality improves, the Trustee will look to incorporate a greater proportion of the Scheme assets as well as Scope 3 emissions into its calculations. Given this, the metrics measured and progress against targets are expected to fluctuate over the short to medium term.

The Trustee is a supporter of the IIGCC Paris Aligned Investment Initiative. Using their framework, the Trustee has developed a methodology for measuring the Other Climate Change Metric across a variety of asset classes. The methodology to assess Paris Alignment varies by asset class using various inputs such as the legally binding sovereign commitment to the goals of the Paris Agreement, decarbonisation pathways consistent with the Paris Agreement as well as Paris aligned climate risk policies. The Trustee acknowledges that this is an evolving area and will keep its framework and methodology under review. As a result, any changes in methodology are likely to impact the associated metric and hence progress versus chosen target.

To help achieve the targets listed above, the Trustee is taking the following steps:

1) Periodically reviewing investment strategy and design with a view to managing climate change risk;
2) Introducing new portfolio limits, where practical and appropriate to do so, aiming at reducing exposures in sectors deemed to be highly exposed to climate change risk; and
3) Engagement with underlying investment managers and the broader investment community to facilitate the sharing of best practice and emerging trends.

The activities undertaken in 2021 aim to further align the Scheme's assets to the goals of the Paris Agreement and as a result reduce portfolio carbon footprint.

The Trustee will keep its metrics and targets under periodic review to ensure ongoing appropriateness.

Appendix 1 – Scenario Analysis

Scenario		Orderly Transition	Disorderly Transition	Business As Usual
Description		Policy makers agree on and immediately implement policies to reduce emissions in a globally co-ordinated manner. Companies and consumers take the majority of actions available to capture opportunities to reduce emissions.	Delays in taking meaningful policy action result in a rapid policy shift in the mid to late 2020s. Policies are implemented in a somewhat but not completely co-ordinated manner resulting in a more disorderly transition to a low carbon economy.	The "business as usual" outcome is where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns.
Temperature Rise		~2.0 degrees Celsius	~2.0 degrees Celsius	~3.5 degrees Celsius
Key assumptions	Renewable Energy by 2050	65-70%	80-85%	30-40%
	Physical risk financial impact	Low - medium	Low - medium	High
	Transition risk financial impact	Low - medium	High	Low