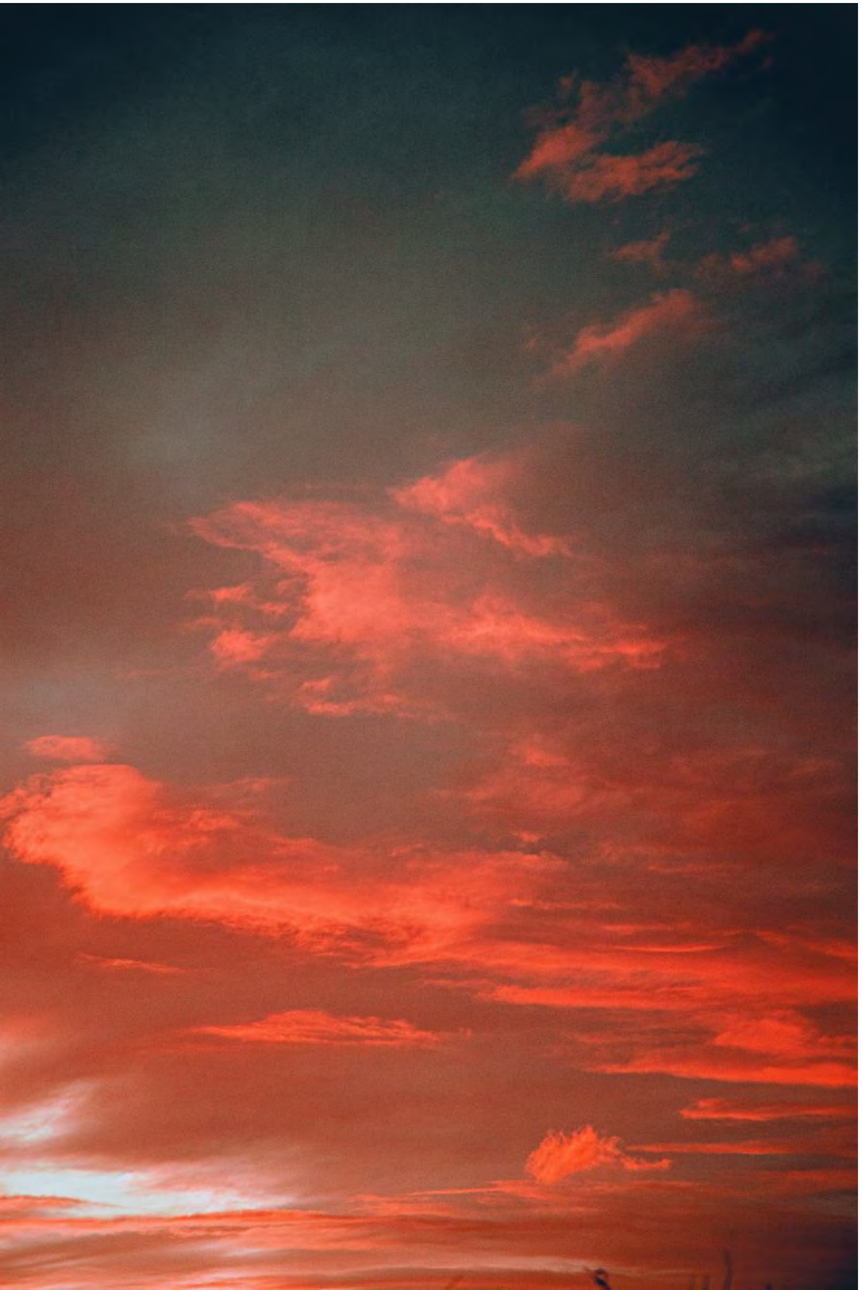
Rexam Pension Plan (the “Plan”)

Climate change report

A report for members by the Trustee of the Rexam Pension Plan

Plan Year ending 31 March 2024

Why have we written this report?



In the UK it is mandatory for the largest companies and financial organisations to disclose their climate-related risks and opportunities. This is part of the government's commitment to making the UK financial system the greenest in the world.

This report provides members the opportunity to find out more about the work carried out by the Trustee in relation to climate change.

It is the second climate change report by the Trustee of the Plan.

Towards the end of the year under review, the Trustee purchased a bulk annuity policy ("buy-in policy"). This fundamentally changes the make-up of the Plan, which now only has minor residual assets outside of this full buy-in. The completion of this full buy-in has therefore changed the extent to which the Trustee is able to directly change and influence the Plan's investment policy. We have set out further details on this with our report.

We hope you find it informative and would welcome any feedback.

signed

Chris Martin

Chairman of Rexam Pension Trustees Limited,
the Trustee of the Rexam Pension Plan

Overview

The Trustee of the Rexam Pension Plan views climate change as a risk to society, the economy and the financial system, but also recognises that reducing carbon emissions throughout the economy presents opportunities.

These risks and opportunities may impact the Plan's financial position, for example by impacting the businesses the Plan invests in. The Trustee monitors this potential impact and takes steps to reduce climate-related risks for members.

This report describes how the Trustee has identified, assessed and managed climate-related risks and opportunities to the Plan during the Plan year to 31 March 2024.

Contents

Appendices:

Introduction

About the The Rexam Pension Plan (the "Plan")

The Plan's circumstances materially changed in late October 2023 with the purchase of a buy-in policy with Rothesay Life ("Rothesay") which is designed to fund members' defined benefits as they fall due. The vast majority of the Plan's assets were either sold or transferred to Rothesay as payment of the buy-in premium. Due to this successful transaction, only a small amount of residual assets were held at the end of the Plan year (c.£33m) in money market cash and an index-linked gilt fund.

The Trustee continues to believe that the actions taken with regard to climate change risk can have a significant financial impact. However, it is recognised that this risk is now embedded through the Plan's buy-in policy and therefore it is Rothesay's approach to climate change and the actions they take which is of most importance and relevance going forward. For this reason Rothesay's approach to climate risks and other ESG factors was considered as a part of their selection as the Plan's buy-in provider. The Trustee is aware that going forward it will be difficult for them to directly influence the behaviour of Rothesay, however where possible the Trustee will seek to exercise influence on Rothesay where appropriate.

The purpose and structure of this report

The purpose of this report is to describe the Plan's governance framework for managing climate-related risks and opportunities and how it has been implemented in the year to 31 March 2024. It is the Plan's second report in line with the recommendations of the **Taskforce on Climate-Related Financial Disclosures ("TCFD")**, as required by the 2021 Climate Change Governance and Reporting Regulations. Given the transaction with Rothesay, the Plan will not be required under the legislation to produce a report for the Plan Year to 31 March 2025 and it is therefore likely that this report for the Plan Year to 31 March 2024 will be the Plan's last such report.

This report covers the TCFD's thematic areas of:

- **Governance** – the Trustee's governance around climate-related risks and opportunities;
- **Strategy** – the potential impacts of climate-related risks and opportunities on the Plan and the resilience of the Plan's investment strategy for the DB Sections and DB funding strategy under different climate-related scenarios;
- **Risk Management** – the processes used by the Trustee to identify, assess, and manage climate-related risks; and
- **Metrics and Targets** – the metrics and target used to assess and manage relevant climate-related risks and opportunities to the Plan.

Given the fundamental change in investment arrangements over the last 12 months, some of the analysis and reporting included previously is no longer relevant. This is covered in each section as appropriate.

Governance

As set out in the introduction, at the time of completing this report, the vast majority of the Plan's assets are now in a buy-in policy with Rothesay. There are some residual assets at the Plan year end which are held by Schroders in a liquidity plus fund and an index-linked gilt fund fund.

Alongside considering and overseeing the direct impact on the Plan's investments and liabilities, the Trustee also considers the impact of climate change risks and opportunities on the strength of the Company covenant. The Trustee notes that given the recent buy-in transaction, the risk that the Company is unable to continue to support the Plan is now of course significantly reduced.

The Trustee has ultimate responsibility for making scheme-wide decisions and ensuring effective governance of climate change risks and opportunities in relation to the Plan. The Trustee has not delegated its responsibilities to any other persons outside of the Trustee Board.

Climate change represents a systemic risk to society, the economy and the financial system, although the transition to a low carbon economy also presents opportunities. The Trustee Board identifies, assesses and manages them, with support from the Trustee Secretary and the Trustee's external advisers.

Roles and responsibilities

Trustee Chair

It is the Trustee Chair's responsibility, with support from the Trustee Secretary, to ensure that sufficient time is allocated for consideration and discussion of climate matters by the Trustee and its advisers.

Trustee

In broad terms, the Trustee is responsible for:

- ensuring the Trustee Directors have sufficient knowledge and understanding of climate change to fulfil their statutory and fiduciary obligations, and are keeping this knowledge and understanding up to date. This includes knowledge and understanding of the principles relating to the identification, assessment and management of climate-related risks and opportunities for the Plan;
- putting effective climate governance arrangements in place;
- determining the short-, medium- and long-term periods to be used when identifying climate-related risks and opportunities for the Plan;
- identifying and assessing the main climate-related risks and opportunities for the Plan over these time periods and documenting the management of them;
- incorporating climate-related considerations into strategic decisions relating to the Plan's investments and funding arrangements;
- incorporating climate-related considerations into the Plan's investment beliefs, investment policies and risk register;

- selecting and regularly reviewing metrics to inform its identification, assessment and management of climate related risks and opportunities, and setting and monitoring targets to improve these metrics over time where appropriate;
- ensuring that the Plan's actuarial, investment, covenant advisers have clearly defined responsibilities in respect of climate change, that they have adequate expertise and resources, including time and staff, to carry these out, that they are taking adequate steps to identify and assess any climate-related risks and opportunities which are relevant to the matters on which they are advising, and that they are adequately prioritising climate related risks;
- considering and documenting the extent to which the advisers' responsibilities are included in any agreements, such as investment consultants' strategic objectives and service agreements;
- ensuring that the Plan's investment managers are managing climate-related risks and opportunities in relation to the Plan's investments, and have appropriate processes, expertise and resources to do this effectively;
- communicating with Plan members and other stakeholders on climate change where appropriate, including public reporting in accordance with The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (together "TCFD reporting") when required.

Establishing responsibilities

In September 2022, the Trustee agreed a Climate Governance Statement (formally the "Trustee Statement on Governance of Climate Change Risks and Opportunities"). This statement documents the division of responsibilities between the Trustee, actuarial adviser, investment adviser, covenant adviser and investment managers to that it has oversight of the climate-related risks and opportunities relevant to the Plan and that it can be confident that its statutory and fiduciary obligations are being met.

The Statement was reviewed and agreed by each of the Plan's advisers to ensure they had a clear understanding of roles and responsibilities.

The Trustee notes that the majority of the oversight activity undertaken has been consolidated following the buy-in transaction.

Governance

Oversight activity

The Trustee considers a range of different information about the climate change risks and opportunities faced by the Plan to enable it to fulfil its responsibilities.

Quarterly

- the Trustee reviews updates on the Plan's investments from the Plan's investment adviser which will incorporate climate-related risks and opportunities as appropriate.
- The Trustee also engages with its investment managers at quarterly meetings and ensures that the Plan's investment managers provide an update on Environmental, Social and Governance ("ESG") factors and climate change as part of their regular reporting.

Annually

The Trustee reviews and (where appropriate) revises its governance arrangements, investment beliefs and policies in relation to climate change. It also reviews:

- data on at least four climate metrics for the Plan's investments from its investment adviser, and performance against any targets set in relation to these metrics;
- whether to retain or replace any targets set in relation to these metrics
- whether it is appropriate to carry out scenario analysis that illustrates how the Plan's assets and liabilities might be affected under various climate change scenarios, in years when this is not required because it has been carried out within the previous two years; and

the advisers' climate competency and assess how they have performed against their climate responsibilities

Other regular items

- A responsible investment report from the Plan's investment adviser that reviews the Plan's investment managers in relation to environmental, social, governance (ESG) factors and climate change;

At least every three years (or following major changes)

- Choice of short-, medium- and long-term time periods to be used when identifying climate-related risks and opportunities to the Plan;
- Scenario analysis that illustrates how the Plan's assets and liabilities might be affected under various climate change scenarios, along with commentary on the potential impacts for the Pearson Group and the implications for the resilience of the Plan's funding and investment strategies; and
- Choice of metrics to inform the Trustee's identification, assessment and management of climate-related risks and opportunities.

The Trustee will consider climate-related risks and opportunities whenever the following activities are undertaken:

- actuarial valuation of the Plan;
- review of the Plan's investment strategy;
- assessment of the sponsoring employer's covenant.

Ensuring adequate oversight of climate-related risks and opportunities

Oversight activity – appointments

The Trustee seeks input from its investment, actuarial and covenant advisers to ensure that it can identify, assess and manage climate risks and opportunities. From time to time, the Trustee will review the climate competency of its advisers and take appropriate action if any concerns are identified.

With appropriate advisers in place, the Trustee ensures that climate-related risks and opportunities are considered as part of any relevant advice such as investment strategy reviews, the actuarial valuation process and assessment of the employer's covenant, with climate change included in the agenda items for each of these at the relevant meetings.

The Trustee satisfies itself that their advisers take adequate steps to identify and assess climate-related risks and opportunities (which are relevant to the matters on which they are advising) by ensuring that their advisers:

- have clearly defined responsibilities in respect of climate change–having reviewed and agreed their responsibilities in the Trustee Statement on Governance of Climate Change Risks and Opportunities;
- Have documented their responsibilities in relevant agreements, such as the investment consultant's strategic objectives;
- have adequate expertise and resources, including time and staff, to carry these out; and
- are adequately prioritising climate-related risk.

Oversight activity - objectives set for advisers

The Trustee has the below climate related objective in place to reflect their investment advisor's new responsibilities as set out in the Trustee Statement on Governance of Climate Change Risks and Opportunities.

Climate-related investment consultant objective

- Support the Trustee in relevant Responsible Investment and climate requirements and decisions, including support with preparation of TCFD climate reporting

Strategy

Identification and assessment of climate-related risks and opportunities relevant to the Plan

The Trustee must consider climate-related risks and opportunities over various time periods which it believes are most relevant to the Plan.

The following short-, medium- and long-term time horizons were agreed in September 2022 taking into account the membership profile at the time and the timing of widely held future climate milestones. These time horizons were used for the climate scenario analysis conducted in the same month.

The Trustee has not expressly re-visited these time horizons following the transaction with Rothesay and given that it is now unlikely to carry out further climate scenario analysis.

Time Horizons	Date	Reasoning
Short-term	**1 year**	This covers the period over which the Plan's next actuarial valuation will be finalised.
Medium-term	**6 years (to 2030)**	This is a key period over which policy action will determine if Paris Agreement goals are likely to be met
Long-term	**16 years (to 2040)**	Longer-term exposure to climate related risks and opportunities if Plan is maintained for longer-term (for example if buyout is not feasible or best estimate returns not achieved.) Reflects approximate duration of Plan liabilities.

Climate scenarios analysis

With the Plan having entered into an insurance policy designed to fund all members' defined benefit payments as they fall due, investment and longevity risks have effectively now been very significantly or fully mitigated. Therefore, whilst the recent transaction has fundamentally changed how the Plan invests, the Trustee views there to be no benefit in undertaking further scenario analysis (Scenario analysis is a tool for examining and evaluating different ways in which the future may unfold). The remainder of this section therefore describes the modelling and results that were produced during 2022.

The Trustee carried out climate scenario analysis in September 2022, with the support of one of its investment advisers, LCP, based on scenario sets described below and based on market conditions as at 31 March 2022.The Trustee has not undertaken scenario analysis for the investments in the Defined Contribution part of the Plan, given the immaterial size of non-AVC DC assets relative to the total assets in the Plan (about 0.1%) and that it would be disproportionate in terms of time and cost to do so.

The analysis looked at three possible scenarios, which are set out (in no particular order of likelihood) below.

Transition	Description	Why the Trustee chose it
Failed Transition	Global net zero carbon emissions not reached by 2050; only existing climate policies are implemented and temperatures rise significantly	To explore what could happen to the Plan's finances if carbon emissions continue at current levels and this results in significant physical risks from changes in the global climate that disrupt economic activity.
Orderly Net Zero by 2050	Global net zero carbon emissions is achieved by 2050; rapid and effective climate action (including using carbon capture and storage), with smooth market reaction	To see how the Plan's finances could play out if global net zero carbon emissions is achieved by 2050, meaning that the economy makes a material shift towards low carbon by 2030.
Disorderly Net Zero by 2050	Same policy, climate and emissions outcomes as the Orderly Net Zero scenario, but financial markets are initially slow to react and then react abruptly	To look at the risks and opportunities for the Plan if global net zero carbon emissions is achieved by 2050, but financial markets are volatile as they adjust to a low carbon economy.

In summary from the 2022 review, the Plan's strong funding position and significantly de-risked strategy indicated that **the impact of climate change is projected to be limited in the short, medium and long-term.** The Trustee will continue to monitor how Rothesay continues to manage its climate risks as that will have an impact on its ability to fulfil their obligations of paying the insured members of the Plan.

Risk Management

Processes for identifying, assessing, and managing climate-related risks and opportunities

The Trustee has implemented a number of processes and tools for identifying, assessing, and managing climate-related risks and opportunities, including:

- Climate scenario analysis;
- Monitoring of managers' climate approaches;
- Monitoring of metrics; and
- Stewardship activities.

The Trustee also ensures its advisers have processes in place to help it research its investment managers' climate-related practices (and ensures they proactively raises concerns in relation to the investment managers), thereby helping it make informed judgments about its managers.

These tools have helped the Trustee consider issues such as:

- Which climate change risks are most material to the Plan;
- How to take account of transition and physical risks; and
- How climate change affects the Trustee's risk appetite.

The tools are used to identify the key risks that the Trustee should focus on. The Trustee assesses these risks as part of its investment decision-making processes and monitors them through its risk register to ensure all risks are being considered and managed consistently and proportionately.

In addition, the Trustee expects its investment managers to identify, assess and manager climate-related risks to the Plan's assets on a day-to-day basis. The above processes are integrated into the overall risk management of the Plan through the business plan, the risk register and regular support from its advisers.

Risk register

The Trustee maintains a risk register covering the wide range of risks applicable to the Plan. The Trustee has included in the register specific climate risks to ensure that the Trustee manages these as part of their regular risk reviews.

The potential impacts identified in the risk register that arise from climate risks include the risk of under-funding because of asset and market exposure to climate-related risks (eg extreme weather events or a disorderly transition to Net Zero) resulting in lower than expected returns.

The Trustee reviews the risks and opportunities regularly to ensure they are current, to assess any significant priority risks and opportunities to manage / embrace and to ensure regular action is maintained in monitoring and mitigating the risks identified.

Since the buy-in the focus of the Trustee will turn to monitoring and engaging with Rothesay.

Risk Management

Processes for identifying, assessing, and managing climate-related risks and opportunities

Investment Monitoring

The Trustee also receives and reviews information about its investment managers' responsible investment credentials, including climate change mitigation, on a biennial basis. This information is provided by the Trustee's investment adviser, LCP, and is based on proprietary manager research carried out by LCP. The Trustee's investment adviser conduct engagement with the managers, encouraging them to improve their practices further, reporting back to the Trustee periodically.

It was assessed that the Plan's fund managers take a reasonable approach to net zero and climate practices and the Trustee used the output of the reviews to drive climate related conversations with their investment managers over the year.

Changes to investment mandates

If the Trustee identifies any concerns with the way one of the Plan's managers addresses climate related risks and opportunities, it will initially engage with the manager to raise concerns and seek improvements. If the manager does not sufficiently improve, the Trustee may switch to a different manager.

Over the year under review the Trustee disinvested the majority of the assets to purchase a bulk annuit policy with Rothesay. As part of the insurer selection process the Trustee assessed the insurers on various aspects of responsible investment including climate risk.

Stewardship

The Trustee uses stewardship to help manage climate-related risks. Voting and engagement activities are delegated to the individual investment managers. The Trustee has set out two stewardship priorities:

1. Climate change
2. Corporate transparency

The investment manager of the Plan's residual assets has its own ESG policy, which includes assessment of climate-related risks and policies on voting on climate-related resolutions. In order to monitor how the manager is exercising its voting rights and undertaking engagement the Trustee:

- periodically meets with the Plan's investment manager, to engage with them on how they have considered ESG issues (including climate change) within their stewardship activities and seek to challenge the investment manager on these matters where they think this is in the best interests of members; and
- further monitor the investment manager by receiving stewardship and governance reports on a regular basis.

Metrics and Targets

Metrics

The Trustee has chosen four climate-related metrics to help it monitor climate-related risks and opportunities relevant to the Plan. These are listed below and reported on the following pages (as far as the Trustee was able to obtain the data). These are consistent with those selected last year.

Metric	High-level methodology
Absolute emissions: Total greenhouse gas emissions	The sum of each company's most recent reported or estimated greenhouse gas emissions attributable to the Plan's investment in the company, where data is available. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent. This methodology was chosen because it is in line with the statutory guidance.
Emissions intensity: Carbon footprint	The total greenhouse gas emissions described above, divided by the value of the invested portfolio in £m, adjusted for data availability. Emissions are attributed evenly across equity and debt investors. Reported in tonnes of CO_2 equivalent per £1m invested. This methodology was chosen because it is in line with the statutory guidance.
Portfolio alignment: Science-based targets	The proportion of the portfolio by weight of companies that are aligned with a Net Zero target, demonstrated by a target approved Science Based Targets initiative (SBTi) or equivalent. Reported in percentage terms. The Trustee chose this "binary target" measure because it is considered the simplest and most robust of the various portfolio alignment metrics available.
Data quality	This is the proportion of the portfolio for which each of Scope 1-2 emissions are **verified, reported, estimated or unavailable**.

The data has been calculated using portfolio holdings as at 31 March 2024. with this date being after the bulk annuity transaction, the only assets aside from the insurance policy held at this date was two small holdings (totalling c.£33m combined), in a money market cash and gilt fund.

Metrics and Targets

Asset class	Valuation	Scope 1 and 2 emissions (for holdings with data)			Data quality (% reported / estimated / unavailable)	Portfolio alignment	Date of portfolio value and holdings
		Coverage	Total GHG emissions (tCO_2e)	Carbon footprint (tCO_2e/£m)		Proportion with SBT (%)	
Index linked gilt fund (2038-2047) [1]	£1.7m	100%	230	135	100/0/0	100%	31/03/2024
Liquidity Plus Fund	£31.4m	45%	63	2	40/5/55	N/A	31/03/2024

Asset class	Valuation	Scope 3 emissions (for holdings with data)			Data quality (% reported / estimated / unavailable)	Portfolio alignment	Date of portfolio value and holdings
		Coverage	Total GHG emissions (tCO_2e)	Carbon footprint (tCO_2e/£m)		Proportion with SBT (%)	
Index linked gilt fund (2038-2047) [1]	£1.7m	100%	144	85	100/0/0	100%	31/03/2024
Liquidity Plus Fund	£31.4m	45%	1,507	48	0/45/55	N/A	31/03/2024

We note that Rothesay's TCFD report including its emission metrics as at 31 December 2023 were not available at the time of writing this report. However, the Trustee noted the data from Rothesay as at 31 December 2022 (which pre-dates the Plan year and the buy-in policy). As at 31 December 2022 Rothesay's Scope 1 and 2 weighted average carbon emissions intensity was 183 tCO_2e/\$m across its total portfolio (excluding money market & cash) with 93% data coverage. Furthermore, 40% of Rothesay's corporate debt portfolio had SBTi alignment.

Source: Investment manager, Rothesay.

[1] Gilts metrics are calculated on a different basis to other mandates shown, so cannot be compared with them. The emissions intensity has been calculated as "total greenhouse gas emissions produced in the UK" divided by "UK GDP using PPP methodology" using publicly available data sources. Total greenhouse gas emissions have been calculated as "value of your investment in gilts" multiplied by "emissions intensity". The UK has a net zero by 2050 target written into law, with carbon budgets based on advice from the independent Committee on Climate Change, so UK government bond exposure has been treated as having a credible science-based target.

Metrics and Targets

Target

As noted the Plan's remaining assets at the end of the reporting year was the Plan's buy-in policy, a money market cash fund and an index-linked gilt fund. The Trustee agreed that there is little merit in setting a target around any of the metrics.

We note it is not possible to track the progress against the specific target set out in last year's report: Increase data quality (coverage) for scope 1 and 2 emissions for the corporate bond assets to 90% by 2026) as the assets which were in scope were disposed ahead of the year end.

We do note that Rothesay (in their latest available published TCFD report – 2022) set out that they intend to have transitioned their investment portfolio to net zero by 2050.

Amongst other commitments, Rothesay are also committed:

- To engage with at least 20 issuers contributing at least 65% of their Carbon Intensity within their corporate bond sub-portfolio.
- To a 50% reduction in the Carbon Intensity of their publicly trade corporate bond debt by 2030.
- to aim to reduce the Scope 1&2 Carbon Intensity of their total portfolio by 20% over five years (beginning with the base line set in 2020).

Source: LCP, Rothesay.

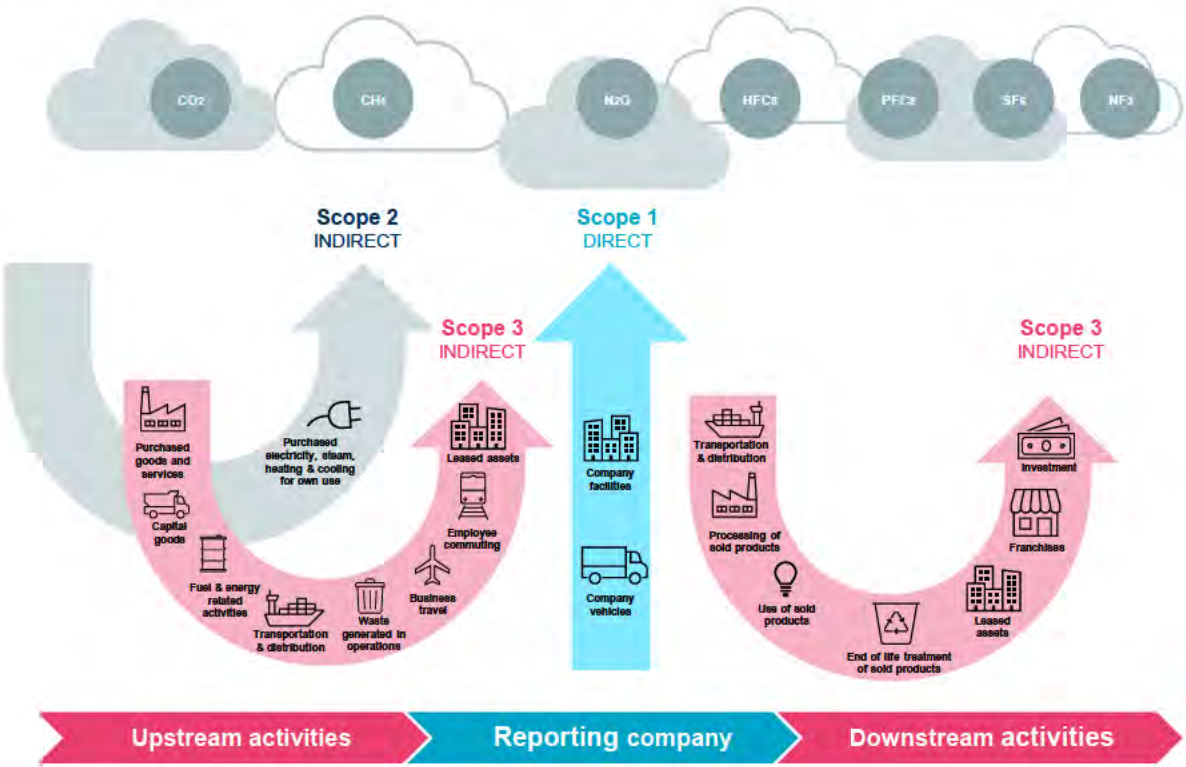
Appendices

Appendix 1 – Greenhouse gas emissions explained

Within the 'metrics and targets' section of the report, the emissions metrics relate to seven greenhouse gases – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3). The figures are shown as "CO_2 equivalent" (CO_2e) which is the amount of carbon dioxide that would be equivalent to the excess energy being stored by, and heating, the earth due to the presence in the atmosphere of these seven greenhouse gases.

The metrics related to greenhouse gas emissions are split into the following three categories: Scope 1, 2 and 3. These categories describe how directly the emissions are related to an entity's operations, with Scope 1 emissions being most directly related to an entity's everyday activities and Scope 3 referring to indirect emissions in an entity's value chain. Scope 3 emissions often form the largest share of an entity's total emissions, but are also the ones that the entity has least control over.

- **Scope 1** greenhouse gas emissions are all direct emissions from the activities of an entity or activities under its control.
- **Scope 2** greenhouse gas emissions are indirect emissions from electricity purchased and used by an entity which are created during the production of energy which the entity uses.
- **Scope 3** greenhouse gas emissions are all indirect emissions from activities of the entity, other than scope 2 emissions, which occur from sources that the entity does not directly control.



Source: GHG Protocol

Appendix 2 – Glossary

Actuarial valuation – an actuarial valuation is an accounting exercise performed to estimate future liabilities arising out of benefits that are payable to members of a DB pension plan, typically once every three years. In the actuarial valuation exercise, a liability payout at a future date is estimated using various assumptions such as discounting rate and salary growth rate.

Alignment – in a climate change context, alignment is the process of bringing greenhouse gas emissions in line with 1.5°C temperature rise targets. It can be applied to individual companies, investment portfolios and the global economy.

Asset class – a group of securities which exhibit broadly similar characteristics. Examples include equities and bonds.

Avoided emissions – these are reductions in greenhouse gas emissions that occur outside of a product's life cycle of value chain, but as a result of the use of that product. For example, emissions avoided through use of a wind turbine or buildings insulation.

Bond – a bond is a security issued to investors by companies, governments and other organisations. In exchange for an upfront payment, an investor normally expects to receive a series of regular interest payments plus, at maturity, a final lump sum payment, typically equal to the amount invested originally, or this amount increased by reference to some index.

Buy-in – DB pension plan trustees may choose to "buy-in" some of their plan's expected future benefit payments by purchasing a bulk (i.e., one covering many individuals) annuity contract with an insurance company. This allows the trustees to reduce their plan's risk by acquiring an asset (the annuity contract) whose cash flows are designed to meet i.e., "match" a specified set of benefit payments under the pension plan. The contract is held by the trustees and responsibility for the benefit payments remains with the trustees. Common uses of buy-in arrangements have been to cover the payments associated with current pensioners or a subset of those members. Contracts to meet payments to members who are yet to become pensioners can also be purchased.

Buy-out – DB pension plan trustees may choose to "buy-out" some or all of their plan's expected future benefit payments by purchasing a bulk (i.e., one covering many individuals) annuity contract from an insurance company. The insurer then becomes responsible for meeting pension benefits due to plan members (effected ultimately by allocating to each plan member an individual annuity contract). Following a full buy-out, (i.e., one covering all plan members) and having discharged all of the trustees' liabilities, the pension plan would normally be wound up.

Carbon emissions - These refer to the release of carbon dioxide, or greenhouse gases more generally, into the atmosphere, for example from the burning of fossil fuels for power or transport purposes.

Carbon footprint – In an investment context, the total carbon dioxide or greenhouse gas emissions generated per amount invested (eg in £m) by an investment fund. Related definitions are used to apply the term to organisations, countries and individuals

Climate change adaptation – steps taken to adapt to the physical effects of climate change such as improving flood defences and installing air conditioning.

Climate change mitigation – steps taken to limit climate change by reducing greenhouse gas emissions, for example by shifting to renewable sources of energy – such as solar and wind – and by using less energy and using it more efficiently.

Covenant – the ability and willingness of the sponsor to make up any shortfall between a DB plan's assets and the agreed funding target.

CO2e (carbon dioxide equivalent) – the standard measurement of GHG emissions in terms of the most common GHG, carbon dioxide (CO2)

Credit – long-term debt issued by a company, also know as corporate bonds. Corporate bonds carry different levels of credit risk which is indicated by their rating and credit spread.

Defined Benefit (DB) – a pension plan in which the primary pension benefit payable to a member is based on a defined formula, frequently linked to salary. The sponsor bears the risk that the value of the investments held under the plan fall short of the amount needed to meet the benefits.

Appendix 2 – Glossary

Debt – money borrowed by a company or government which normally must be repaid at some specified point in the future.

Environmental, social and governance (ESG) – an umbrella term that encompasses a wide range of factors that may have been overlooked in traditional investment approaches. Environmental considerations might include physical resource management, pollution prevention and greenhouse gas emissions. Social factors are likely to include workplace diversity, health and safety, and the company's impact on its local community. Governance-related matters include executive compensation, board accountability and shareholder rights.

Equity – through purchase on either the primary market or the secondary market, company equity gives the purchaser part-ownership in that company and hence a share of its profits, typically received through the payment of dividends. Equity also entitles the holder to vote at shareholder meetings. Note that equity holders are entitled to dividends only after other obligations, such as interest payments to debt holders, are first paid. Unlike debt, equity is not normally contractually repayable.

Ethical investment – an approach that selects investments on the basis of an agreed set of environmental, social and governance (ESG) criteria that are motivated by ethical considerations. These can be positive – e.g., choosing companies involved in water conservation, or negative – e.g., not choosing companies involved in the arms trade.

Fossil fuels – fuels made from decomposing plants and animals, which are found in the Earth's crust. They contain carbon and hydrogen, which can be burned for energy. Coal, oil, and natural gas are examples of fossil fuels.

Funding position – a comparison of the value of assets with the value of liabilities for a DB pension plan.

Gilts – bonds issued by the UK government. They are called gilts as the bond certificates originally had a gilt edge to indicate their high quality and thus very low probability of default

Greenhouse gas (GHG) emissions (scopes 1, 2 and 3) – gases that have been and continue to be released into the Earth's atmosphere. Greenhouse gases trap radiation from the sun which subsequently heats the planet's surface (giving rise to the "greenhouse effect"). Carbon dioxide and methane are two of the most important greenhouse gases.

Investment mandate – see pooled mandate and segregated mandate

Integrated risk management – Integrated risk management is an approach used by DB pension plan trustees to identify, manage and monitor the wide range of risks (relating to investment, funding and covenant) which might impact the chances of meeting their plan's overall objectives

Liabilities – obligations to make a payment in the future. An example of a liability is the pension benefit 'promise' made to DB pension plan members, such as the series of cash payments made to members in retirement. The more distant the liability payment, the more difficult it often is to predict what it will actually be and hence what assets need to be held to meet it.

LDI (Liability Driven Investment) – an investment approach which focusses more than has traditionally been the case on matching the sensitivities of a DB pension plan's assets to those of its underlying liabilities in response to changes in certain factors, most notably interest rate and inflation expectations.

Net zero – this describes the situation in which total greenhouse gas emissions released into the atmosphere are equal to those removed. This can be considered at different levels, e.g., company, investor, country or global.

Offsetting – the process of paying someone else to avoid emitting, or to remove from the atmosphere, a specified quantity of greenhouse gases, for example through planting trees or installing wind turbines. It is sometimes used to meet net zero and other emission reduction targets.

Physical risk – these are climate-related risks that arise from changes in the climate itself. They include risks from more extreme storms and flooding, as well as rising temperatures and changing rainfall pattens.

Appendix 2 – Glossary

Pooled mandate – a feature of a collective investment vehicle whereby an investor's money is aggregated (i.e., "pooled") with that of other investors to purchase assets. Investors are allotted a share of those assets in proportion to their contribution. Ownership is represented by the number of "units" allocated – e.g., if the asset pool is worth £1m and there are 1m units then each unit is worth £1. Pooled funds offer smaller investors an easy way to gain exposure to a wide range of investments, both within markets (e.g., by buying units in a UK equity fund) as well as across markets (e.g., by buying units in both a UK equity fund and a UK corporate bond fund).

Portfolio alignment metric – this measures how aligned a portfolio is with a transition to a world targeting a particular climate outcome, such as limiting temperature rises to well below 2°C, preferably to 1.5°C, as per the Paris Agreement. Assessments using these metrics consider companies' and governments' greenhouse gas (GHG) emissions reduction plans and likelihood of meeting them, rather than current, or the latest reported, GHG emissions.

Responsible Investment (RI) – the process by which environmental, social and governance (ESG) issues are incorporated into the investment analysis and decision-making process, and into the oversight of investments companies through stewardship activities. It is motivated by financial considerations aiming to improve risk-adjusted returns.

Science-based targets – targets to reduce greenhouse gas emissions that are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement.

Science-Based Targets initiative (SBTi) – an organisation that sets standards and provides validation for science-based targets set by companies and investors.

Scenario analysis – a tool for examining and evaluating different ways in which the future may unfold.

Scope 1, 2 and 3 – a classification of greenhouse gas emissions.

Segregated mandate – a segregated investment approach ensures that an investor's investments are held separately from those of other investors. This approach offers great flexibility – for example, the investor can stipulate the precise investment objective to be followed and can dictate which securities can or cannot be held.

Stakeholder – an individual or group that has an interest in any decision or activity of an organisation. The stakeholders of a company include its employees, customers, suppliers and shareholders.

Statutory obligations – statutory obligations are those obligations that do not arise out of a contract, but are imposed by law.

Stewardship – stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. It is often implemented via engagement with investee companies and exercising voting rights.

Stranded assets – assets that have suffered an unanticipated loss of value before the end of their expected useful economic life. The term is most often applied to fossil fuel investments in the context of climate policy, where legislative and market developments may result in assets being worth less than the value recorded on company balance sheets.

Sustainable investing - an approach in which the environmental and social sustainability of a company's products and practices is evaluated and is a key consideration in the investment decision. ESG analysis therefore forms a cornerstone of the investment selection process.

Taskforce on Climate-related Financial Disclosures (TCFD) – a group of senior preparers and users of financial disclosures from G20 countries, established by the international Financial Stability Board in 2015. The TCFD has developed a set of recommendations for climate-related financial risk disclosures for use by companies, financial institutions and other organisations to inform investors and other parties about the climate-related risks they face.

Transition risk – these are climate-related risks that arise from the transition to a low-carbon economy and can include changes in regulation, technology and consumer demand.