

Schroders Retirement Benefits Scheme

Climate Change Report 2022

July 2023

Contents

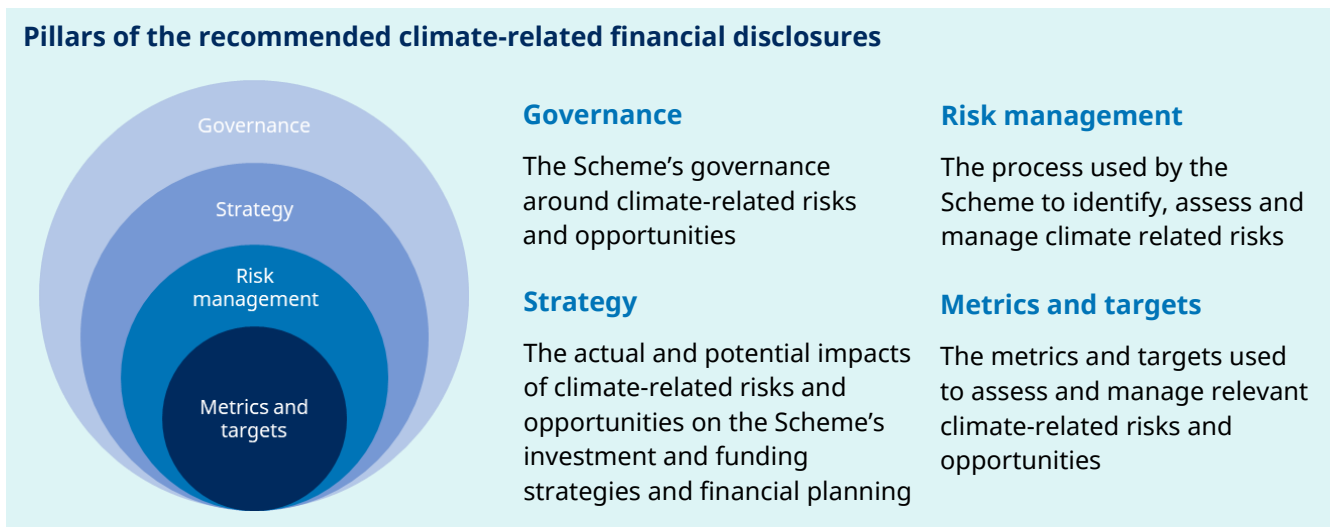
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Climate Change Report 2022

The purpose of this report is to give members of the Schroders Retirement Benefits Scheme (the Scheme) a better understanding of the Scheme's exposure to climate-related risk, how resilient the Scheme is to those risks and the climate-related opportunities we are looking at. The Scheme is a hybrid scheme with a closed Defined Benefit (DB) Section and an open Defined Contribution (DC) Section.

This report is the Trustee's response to, and is consistent with, the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures (TCFD). It sets out how the Trustee incorporates climate-related risks and opportunities into governance, strategy, risk management and metrics and targets, and how we are responding to the expectations of members. The Trustee has a strong governance and risk management framework and will continue to evolve its climate strategy.

This report follows the structure set out below:



Summary

What are our targets?



<p>DB Section</p>	<p>To reduce the predicted future temperature rise associated with the Scheme’s credit and listed equity investments from 2.7°C in 2021 to 2.2°C by 2030.</p>	<p>Predicted future temperature rise reduced by 0.2°C from 2021 to 2022.</p>
<p>DC Section</p>	<p>To reduce the predicted temperature rise associated with the Schroder Diversified Growth fund and Schroder Sustainable Multi-Factor Equity fund by 0.5°C by 2030. Ultimately leading to the same reduction in the default lifestyle strategy by 2030.</p>	<p>Predicted future temperature rise reduced by 0.2°C and 0.1°C respectively from 2021 to 2022.</p>

If we don't set targets we can't effectively drive change. Our targets are aligned with the goals of the Paris Agreement and with Schroders – including its ambition of achieving net zero by 2050. Both the DB and DC Sections have seen improvements versus the base year and the Trustee will continue to monitor progress.

What are we measuring?

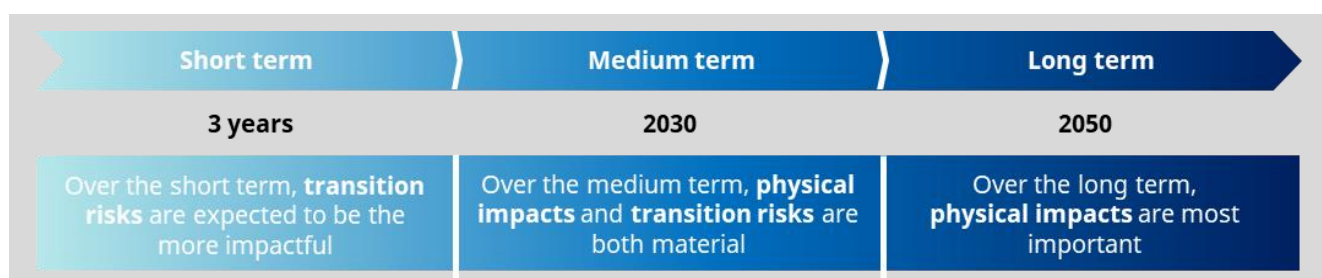
The Scheme has targets to reduce future temperature rise and monitors key carbon emission metrics to understand climate change risks and opportunities. There has been an overall reduction in emissions metrics measured from 2021 to 2022 and the Trustee is working with SIM to fully understand the drivers behind this. For instance, the decrease in Greenhouse Gas emissions shown below for the DB Section is partly explained by a reduction in the value of assets that are included in the calculation, rather than by any deliberate action taken.

Fund / Strategy	Greenhouse Gas Emissions (tonnes)	
	31 Dec 2021	31 Dec 2022
DB Section	41,174	23,207
DC Section:		
Default Lifestyle Strategy total	8,116	7,024
Schroder Life QEP Global Sustainable fund	1,776	1,913

What is the impact on the Scheme of different future temperature rises?

The impact of climate change on the Scheme’s investment strategies has been evaluated. We consider physical risks (e.g. extreme weather) and transition risks (e.g. shift to a low-carbon economy) over different time horizons and temperature rise scenarios.

Time horizons



Results

The DB Section strategy is resilient to climate-related risks. Over the medium term to 2030, the funding level is expected to deteriorate by less than 2% across all the scenarios considered. The DB Section has achieved a strong

funding position earlier than expected and the Trustee is now reviewing how we can reduce risk in the investment strategy to preserve the strong funding position from investment, funding and climate-related risks.

In the DC Section, the most significant climate-related risks are in the equity investment. It is most commonly younger members, who have a greater tolerance of return volatility, who have a larger investment in equities. The risks are being monitored and measured. There are also potential opportunities to be considered.

For both the DB and DC Section investment strategies, the Scheme benefits from the strong active ownership activity that Schroders undertakes on the underlying investments and this should also help to manage climate risks in the longer-term.

The Trustee acknowledges the limitations of current modelling in reaching these conclusions.

Governance and risk management

The Trustee is responsible for the Scheme's overall strategy, including sustainability and climate change. The Trustee's Investment Committee is delegated to manage and review the Scheme's investment managers and make recommendations to fulfil the Trustee's climate ambitions. Momentum and Mercer are appointed as investment advisors for the DB and DC Sections respectively, providing ongoing advice on investment strategy and risk management, including climate change. Investment strategy reviews consider climate-related risks and opportunities, alongside a number of other factors. Strategic objectives are set for the investment advisors, with performance against these monitored annually.

The Trustee manages risks that could financially impact the Scheme's investments and the DB Section funding position, including climate change. Climate change is a key risk that is considered alongside other financially material risks that may impact member outcomes, as part of the Trustee's risk management framework.



What actions have we taken?

- Established governance processes to ensure focus on climate change issues
- Considered environmental, social and governance (ESG) beliefs and produced a responsible investment and voting policy
- Embedded climate risk into our risk management approach
- Undertaken training to support current knowledge
- Engaged with investment managers to understand level of ESG integration and introduced regular monitoring of this
- Engaged with Schroders to understand potential impact of climate risk on the business
- Completed an analysis of different temperature scenarios and climate metrics to understand the risks and opportunities of climate change for the Scheme's investments
- Set targets for limiting implied temperature rises



What actions will we take?

- Work with data providers to improve the scenario analysis and data quality information
- Review climate scenario analysis, metrics and progress against targets regularly
- Engage and challenge current investment managers who are behind peer group to influence wider change
- Continue to include climate change when setting investment strategy
- Ensure climate credentials are considered when choosing new investments
- Continue to work with Schroders to understand how climate change risks may impact the business
- Continue to improve knowledge, to help enable the identification and implementation of market led developments and opportunities, as it responds to climate risks
- Ongoing assessment of how well ESG factors are integrated into investment decision making and incorporating recommendations into the future business plan framework

A message from the Chair



We know that where and how we invest really matters. We believe that investing responsibly, taking into account climate change factors, can lead to better financial outcomes and contribute to a more sustainable future.

On behalf of the Trustee, I am pleased to present our first Climate Change Report (the 'Report'). It is so important to understand and protect the Scheme from the risk of climate change and through that work, through the actions we are taking and will continue to take in the years to come, to contribute to a better future for all.

The impact of climate change is defining the time in which we live and the need to take action is growing increasingly urgent. As a pension scheme that has liabilities extending far into the future, it is vitally important that we encourage companies, through the assets and markets in which we invest, to focus on delivering sustainable investor value.

We intend to do that by investing responsibly, by integrating ESG issues, including climate change, into our investment decision making process, as well as engaging as long-term asset owners. We understand this is not risk free, but we also believe climate change to be one of the most significant risks the Scheme faces. It is important to aim to minimise the harm done by the decisions we make whilst keeping in mind our financial responsibilities to members.

As far as is practical we will align our approach with the goals of the Paris Agreement and have set targets across our in-scope investment portfolio to limit the implied temperature rise to a 2.2°C pathway by 2030. This is in line with the commitments made by Schroders.

We know this is challenging and our approach will need to continually evolve, due to the changing landscape with respect to sustainability, including climate-related issues, as well as broader industry developments. We are committed to making those ongoing changes and improvements so that our approach remains relevant, giving the Scheme the best possible opportunity to reach the targets set out in this Report.

Vivien Cockerill

Trustee Chair

Governance

The Trustee sees climate change as both a key risk and an opportunity, which requires sustained, long-term oversight and management. In this section, we describe how we assess, manage and monitor climate-related risks and opportunities.

Trustee governance approach

Trustee responsibilities

The Trustee has ultimate responsibility for the effective governance of climate-related risks and opportunities. It is responsible for the Scheme's overall strategy, which includes the Scheme's approach to sustainability and climate. Built on a set of investment and ESG beliefs, the Trustee agrees the Scheme's Statement of Investment Principles and Responsible Investment and Voting Policy. These documents are reviewed annually and the ESG beliefs will be re-evaluated at least every three years. The Trustee oversees that climate-related risks and opportunities are considered, understood and monitored and sets the key areas for focus. A risk register is maintained which includes risks arising from climate change. The Trustee is responsible for the management of the underlying risks identified and this is reviewed at least annually.

The Trustee produces an Implementation Statement summarising the voting and engagement activity carried out on its behalf by the investment managers. The Trustee has a specified engagement priority, which includes focussing on climate change with the aim to support the transition to a low carbon economy and ESG risk management. Other priorities and key themes include investing in strategies that target long-term ESG themes, investor stewardship (voting and engagement), Diversity, Equity and Inclusion (DEI) and Biodiversity.

The Trustee is also responsible for:

- Identifying, assessing and managing the main climate-related risks and opportunities for the Scheme
- Incorporating climate-related considerations into investment beliefs, investment policies and risk register
- Allowing for climate-related considerations when assessing the strength of the Schroders covenant
- Considering and documenting how advisors' responsibilities in this area are included in any agreements

The Trustee undertakes training on a regular basis to ensure the Trustee Directors have sufficient knowledge and understanding of climate-related issues.

Investment Committee responsibilities

The Trustee has delegated to the Investment Committee (IC) the ongoing task of reviewing the management of the investments in the DB Section as well as overseeing the review of performance of the investment managers in the DC Section. The IC makes recommendations to the Trustee to help fulfil the Trustee's climate ambitions. The IC has representation from the Trustee Directors and employer representatives, which allows access to the employer's expertise and the consideration of immediate employer feedback. The maximum number of members on the IC is seven, of whom at least three, including the Chair, must be Trustee Directors. The Trustee appoints IC members and there are currently five members. Quorum for IC meetings is three members, of whom two must be Trustee Directors and one must be an employer representative.

The IC reviews and oversees the management and performance of the Scheme's investments and makes recommendations to the Trustee on the overall investment strategy. The IC reviews the Trustee policy and approach to managing climate change risks and opportunities, making recommendations on implementing and monitoring ESG and climate change related policies for the Scheme, supporting each of the areas for which the Trustee is responsible. The IC makes recommendations to the Trustee to support it in meeting the TCFD requirements by the relevant TCFD disclosure deadlines. A working group has been established to assist with the production of this Report. The IC meets at least four times a year.

Governance Structure



Sustainable investment beliefs

To identify the beliefs outlined below and to understand the key priorities of the Scheme, the Trustee has undertaken training on fiduciary duty, ESG and climate change, and has participated in an ESG beliefs survey.



ESG issues can be financially material to long-term investment portfolios and should be considered as part of the investment process and reviewed regularly.



Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities. Performance assessments should focus on the long term with a strong focus on sustainability.



Long-term sustainability issues, in particular climate change, pose a systemic and material risk, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate change outcomes. The Trustee supports the goals of the Paris Agreement.



Stewardship (or active ownership) can add value to the Scheme's assets in the long term and the Trustee will therefore seek to appoint managers who demonstrate strong engagement credentials, where portfolio relevant.



Asset managers are best placed to manage all risks related to ESG. The Trustee will consider managers' ESG ratings, provided by the investment advisors, amongst other factors around the manager's capability and the selection and retention decisions of manager appointments. Monitoring ESG risks can provide an early warning for other issues relating to the management or financial performance of companies.



Managing risks related to climate extend beyond carbon emissions and should consider nature related, biodiversity-related or natural capital-related issues.



Diversity, Equity & Inclusion should be considered in the selection and retention of investment managers.

Training on climate related issues

The Trustee and IC are committed to maintaining their knowledge and keeping up to date on sustainable investment and climate change-related risks and opportunities and how these may influence decisions in relation to risk management, strategy setting and in monitoring implementation. Most of the Trustee and IC members bring strong knowledge gained through employment with the sponsoring employer - which has strong expertise and a deep commitment to action in this area. The Trustee meets at least four times a year (and more frequently, as needed) where investment performance and risk management are reviewed, of which ESG and climate-related risks form part of the wider assessment.

The Trustee and IC take independent investment advice to help assess ESG and climate-related risks and opportunities, and look to ensure that any decisions continue to be integrated into a coherent investment strategy that supports the Scheme's ability to provide pensions.

Research into how climate-related risks and opportunities affect financial markets is constantly evolving and expanding. The Trustee carries out training on a regular basis to keep up to date with developments in this space, to further support the expertise brought by individual Trustee Directors and the sponsoring employer.

High level summary of training undertaken

- Introduction to TCFD
- What are the TCFD requirements and timescales
- ESG beliefs
- ESG review of the DC arrangements
- Climate considerations analysis
- Schrodgers' approach to TCFD and TCFD reporting
- Setting time horizons, metrics and scenario analysis

Role of advisors

Investment advisors

The Trustee has appointed Momentum as the investment advisor for the DB Section of the Scheme and Mercer as the investment advisor and consultant for the DC Section of the Scheme. Their role is to provide ongoing advice on investment strategy and asset manager appointments. This includes advice on performance and managing and monitoring investment related risks, including climate change. This is considered at quarterly meetings and climate-related risks and opportunities are considered as part of investment strategy reviews for both Sections of the Scheme. The Trustee sets strategic objectives for the investment advisors and monitors the appropriateness of the objectives and the performance against them annually.

Momentum specialise in advising large corporate pension schemes (most of which have assets in excess of £1bn) across all aspects of investment policy. A key aspect of this is advising clients on the integration and assessment of ESG risks, including climate risks. Momentum has partnered with Ortec Finance to support clients in climate risk scenario modelling and with Gordian Advice, a specialist Responsible Investment advisory firm to stay abreast of the latest developments. Momentum is a member of the Investment Consultants Sustainability Working Group and are helping to set the agenda in relation to developments in ESG and sustainability as part of this group.

Mercer is a leading global provider of investment consulting services, providing investment advice to over 3,900 clients with more than \$17 trillion in assets. Mercer has a global Sustainable Investment team, established in 2004. The team includes 25 dedicated specialists, supporting clients globally on all areas of sustainable investment, with sustainability being one of the five pillars of Mercer's investment beliefs. Mercer is a supporter/signatory of a number of sustainable initiatives, such as the Principles for Responsible Investment, UK Stewardship

Mercer and Momentum Objective

Mercer and Momentum will help the Trustee to develop and document its investment beliefs and constraints, including ESG beliefs and Climate Change considerations.

Mercer and Momentum should provide recommendations, information and modelling to inform Trustee decisions on integration of ESG, climate risk and stewardship considerations in their investment strategy decisions and investment manager appointments.

Code, Institutional Investors Group on Climate Change, TCFD and Climate Action 100+.

Mercer considers ESG ratings as part of the ongoing monitoring and appointment of investment managers and funds. Further information can be found at <https://www.mercer.com/solutions/investments/sustainable-investment>.

Mercer and Momentum will assist the Trustee in producing this Report each year. As part of this Mercer will provide certain climate-related metric information for the 'popular arrangements' in the DC Section.

What is a 'popular arrangement'?

This is a default investment option or single fund in which £100m or more of the Scheme's DC section assets are invested, or which account for 10% or more of the DC section assets.

Scheme Actuary

Jonathan Wicks of Aon is appointed as Scheme Actuary for the DB Section of the Scheme. He provides advice on a quarterly basis on the funding position of that section. On at least a triennial basis, this will also include an understanding of the potential funding impact resulting from changes to financial or demographic assumptions driven by climate.

Investment managers

The main investment manager for the Scheme is Schroders Investment Management (SIM). SIM provides climate-related metrics for the DB and DC Sections of the Scheme. SIM is a regular attendee at the IC meetings where the portfolio managers are questioned on investment performance and the underlying ESG credentials of the funds. Other Scheme investment managers are invited to IC meetings as required.

ESG integration, including climate change, is considered as part of the process to introduce any new funds and each year the voting and engagement information of the Scheme's investment managers is reviewed by the IC and Trustee, before being shared in the Scheme's Implementation Statement.

Covenant advice

The Trustee undertakes its own assessment of the willingness and ability of Schroders, the Scheme's principal employer and sponsor, to support the Scheme. Schroders is a UK FTSE 100 company with a stable AA rating. The Scheme is in a strong funding position measured on a prudent funding basis.

The impact of climate change on Schroders' covenant is an important consideration. The impact on Schroders of the climate risks it faces, along with the opportunities, are outlined in Schroders' own climate change report (mybrand.schroders.com/m/8645ae373488e2e/original/Schroders_TCFD_2022.pdf) and is now included in the assessment undertaken by the Trustee.

In-house Support

The Trustee and IC are supported by the Schroders Pensions Manager and Schroders Governance team, as well as wider Schroders support functions, such as Risk, Information Security, Solutions and Sustainable Investment as required, all providing subject matter expertise. In particular, given their expertise in advising UK pension schemes, the in-house Solutions team provide the climate scenario analysis. In the context of the Scheme, the role of the Pensions Manager is to support the Trustee in the execution of its duties and to act as an employer representative to the Trustee when required. All new Trustee Directors are made aware of this potential conflict and it is made clear when the Pensions Manager is speaking on behalf of Schroders. The Schroders governance team act as Secretary to the Trustee – supporting on all governance matters, including the management of conflicts. In practice there would not normally be conflicts arising, as the Trustee and Schroders approaches are generally aligned. Any potential conflicts are logged and managed as needed.

Alignment with Schroders

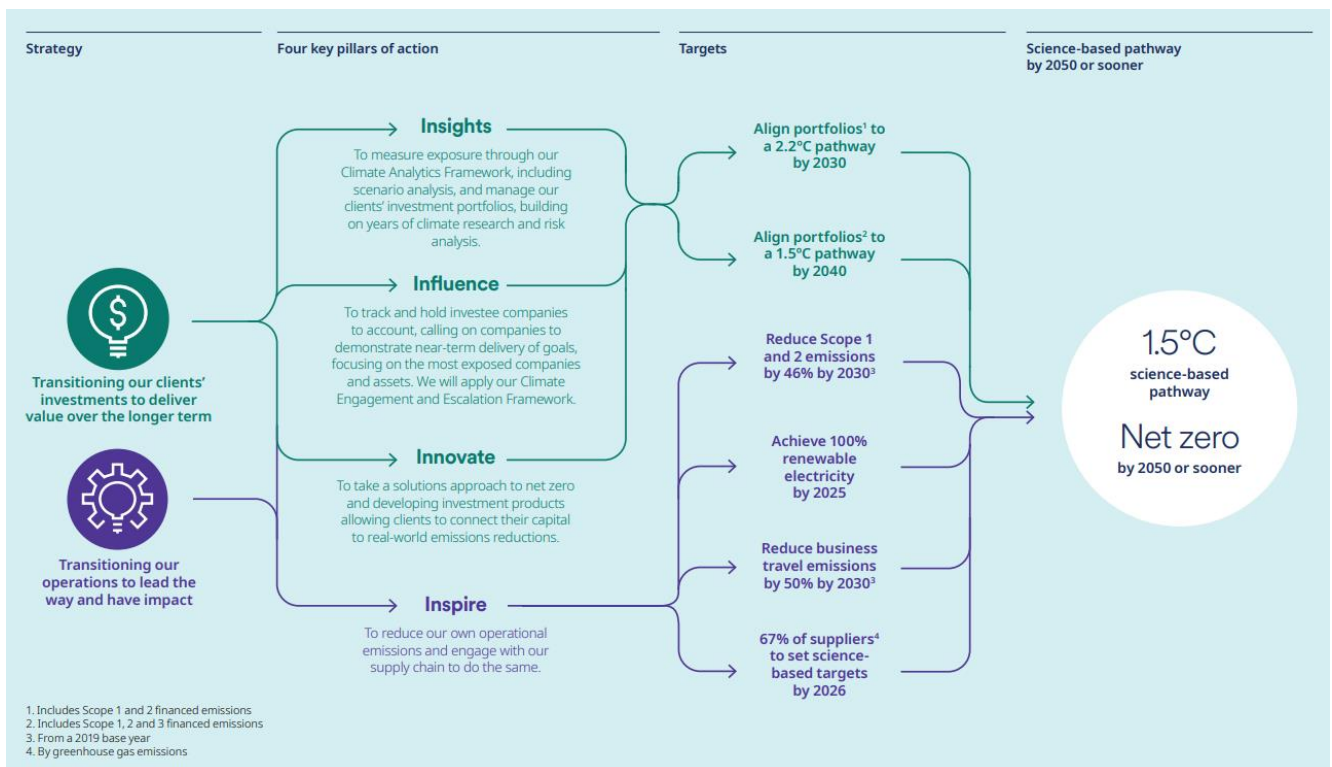
The Trustee believes its approach to sustainable investment should align with the Schroders approach. We also understand there may, on occasion, need to be differences. Schroders holds a strong belief that the threats and consequences of climate change are defining our era and that responsible investment is financially material to long-term investment portfolios and should therefore be considered as part of the investment process.

The Trustee believes its investment mandates should aim to align with the Paris Agreement, where appropriate.

Schroders also shares the belief of limiting temperature rises to two degrees above preindustrial levels or lower – in line with the commitments made through the Paris Accord. Schroders believes it is among the most urgent and biggest challenges facing global economies and societies.

Schroders has built on years of climate research, risk analysis, proprietary tool development and action to understand and manage the risks and opportunities posed by climate change. It has made a number of commitments to accelerate its progress on managing climate risk and achieving net zero by 2050 or sooner, spanning both its own operations and the investments it manages. You can read more in the Schroders climate change report (mybrand.schroders.com/m/8645ae373488e2e/original/Schroders_TCFD_2022.pdf).

Schroders is a member of The Institutional Investors Group on Climate Change (IIGCC) and it supports the TCFD and encourages companies to report against the key elements of this framework. It also looks for membership of industry associations and lobbying groups to be aligned with corporate commitments on climate changes and uses its influence as an investor through engagement and voting to push companies to prepare and demonstrate the efforts they take to address key climate risks.



The majority of the Scheme's assets are invested in Schroders funds and therefore the Trustee has the assurance that ESG considerations have been incorporated into the investment process in an efficient way, since Schroders has a detailed and credible ESG process.

Strategy

We have already begun to experience the effects of climate change and these will continue to be felt over many decades to come. It can also be challenging to be accurate in understanding how and when the associated risks will be felt, however, we do know that climate change will impact our investment strategies over the short term through to the long term.

In this section we set out the time frames over which we look at the risks and opportunities that climate change poses and what those risks and opportunities are, as well as sharing how the Scheme could be impacted in different climate change scenarios.

Summary of investment arrangements

This section sets out the Scheme’s invested assets and highlights parts of the asset portfolio which are within the scope of climate-change related reporting requirements and therefore considered as part of the scenario analysis and metrics (where available) in the remainder of this Report.

DB Section

The long-term strategic asset allocation of the DB Section is set out in the chart to the right. All the DB Section assets are managed by SIM.

The climate scenario produced by the in-house Solutions team provides analysis on the investment and funding strategy based on the strategic asset allocation. The metric analysis completed by SIM covers the growth assets and the corporate bonds within the matching assets. This represents approximately 60% of the DB Section’s assets.

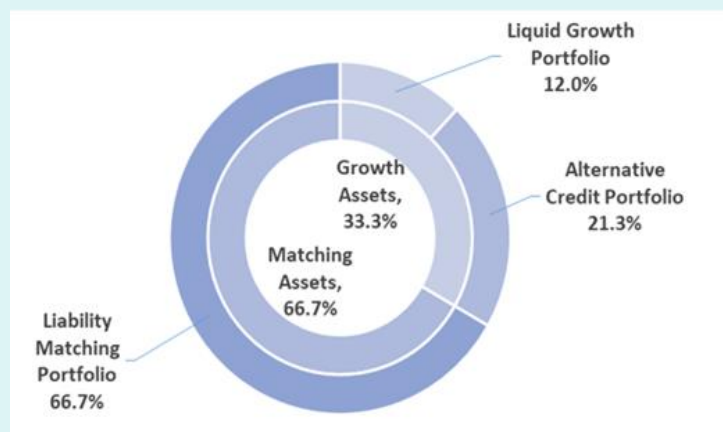
The climate metric analysis does not include the government bonds within the matching assets as they are not currently covered by the Morgan Stanley Capital International (MSCI) tool that is used for the metric analysis. The Trustee acknowledge this limitation in the analysis and will aim to improve the coverage of the Scheme’s reporting to include government bonds as the data becomes available and there is an agreed methodology in this area.

DC Section

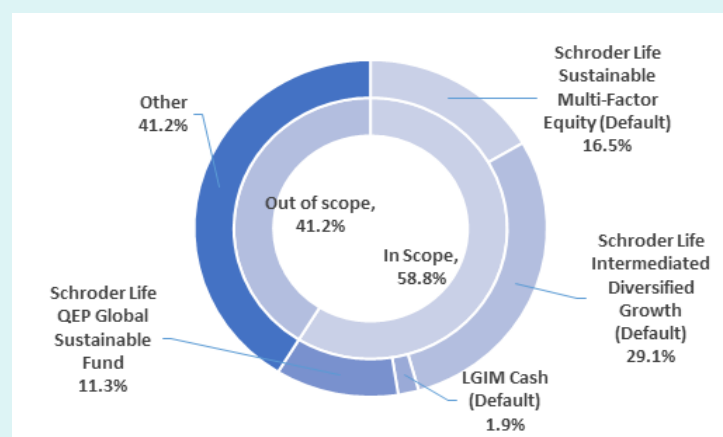
The Scheme’s DC Section investment arrangements are available to members on the Phoenix Life platform. A number of funds are available for members to invest in which are invested with a number of investment managers as set out in the Scheme’s Statement of Investment Principles

(www.schroders.com/en-gb/uk/local/schroders-retirement-benefits-scheme). All the popular arrangements (as defined earlier in this Report) are managed by SIM, with one fund managed by Legal & General Investment Management Limited. The DC Section investment allocation chart provides a summary of the DC Section investment arrangements including the popular arrangements. The popular arrangements represent

DB Section strategic asset allocation



DC Section investment allocation



approximately 60% of the total DC Section assets. The majority of these assets (around 48%) are invested in the default investment option. Further details of this strategy are provided in Appendix 1.

The climate scenario and metric analysis completed covers all the popular arrangements as follows:

1. Default investment option which invests in the Schroder Sustainable Multi-Factor Equity, Schroder Diversified Growth and LGIM Cash funds
2. Schroder Life QEP Global Sustainable fund

Time horizons

As a long-term investor, the Trustee recognises the risks and opportunities arising from climate change are diverse and continuously evolving. In relation to climate-related risks, the Trustee believes it is important to understand how the Scheme's exposure to these risks may change over time, when the risk exposure may be greatest and what actions can be taken now, or in the future, to avoid those risks becoming financially material to the Scheme.

The Trustee has defined short, medium and long-term time horizons over which to consider climate-related risks and opportunities. It is important to understand how these change over time and how the Scheme's exposure to those risks and opportunities will also change over time, as that allows us to plan what action can be taken – either now or in the future.

When agreeing the time horizons, the Trustee has considered the importance of aligning the short-term time horizon with the triennial strategy reviews for both Sections of the Scheme. Looking further ahead, the Trustee has thought about the likely time horizon over which:

- DB Section members' benefits will both start and continue to be paid
- DC Section members' monies will be invested to and through retirement

The Trustee also believes it is important and appropriate to have alignment with the time horizons that Schroders, as the sponsoring employer and main asset manager for the Scheme, has adopted in its approach to addressing climate related risks and opportunities.

Agreed time horizons



The time horizons chosen relate to both the DB and DC Sections of the Scheme, starting with a 2021 base year.

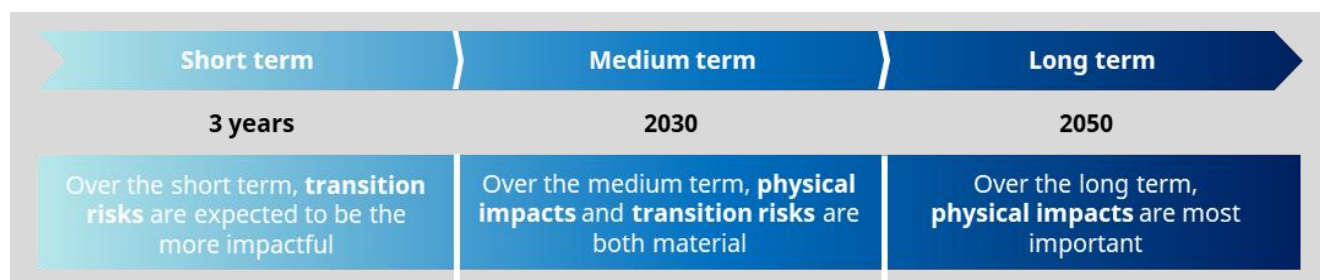
Climate-related risks and opportunities

In line with developing best practice and regulatory expectations we have considered climate-related risks and opportunities through the lens of transition risk and physical impacts.

Transition risks reflect the risks stemming from changes in the economy that will be required to limit long-run temperature rises, including higher or lower rates of demand growth, costs or risk profiles to companies, sectors or asset classes. These may include new or enhanced corporate climate change laws and regulations, changes in investor demand for climate-focused products, and more volatility in financial markets as asset prices adjust to reflect the increasing regulation of carbon emissions.

Physical impacts reflect the risks associated with long-term changes in the climate and more extreme weather events on future business activities. Physical impacts can be acute, such as increased extreme weather events, or chronic, such as changing weather patterns, rising temperatures and rising sea levels. In this context we are particularly interested in the impacts on the value of investments caused by these direct or indirect physical climate changes and events.

When these risks are expected to impact the Scheme over the short, medium and long term are shown below:



Having considered the strategic asset allocation of the DB Section and the popular arrangements within the DC Section, the following risks and opportunities have been identified:

- Over the short term, the Trustee has identified the inter-related risk of climate transition risk and asset repricing risk as being most relevant to the DB investment strategy and DC popular arrangements. Over this time period opportunities are most likely to occur in transition related investment such as climate solutions.
- Over the medium term, the Trustee has concluded that both transition risk and physical risk (particularly in the form of asset repricing to allow for future physical damage) could be material. The Trustee's ability to understand these changes may position it favourably, for example by increasing investments in new emerging technologies.
- Over the long term, the Trustee has identified physical risk as the key driver of climate-related risk. Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water. The Trustee's ability to understand these changes may position it favourably in the future, for example increasing investments in infrastructure projects that display a high-level of climate resilience, etc. A changing climate may directly impact the viability of some assets or business models (for example, flood risk for real estate and the availability and cost of insurance).

The Trustee has investigated the potential impacts of these risks and opportunities in the scenario analysis that follows.

Climate scenario analysis

Our approach to climate scenario analysis

We consider climate scenario analysis to be a valuable tool for better understanding a range of possible future states and the resilience of the Scheme's investment and funding strategies. Because there is uncertainty around when and how risks will have an effect, we have analysed the exposure of the Scheme's assets to physical impacts and transition risks under a range of climate scenarios.

Our analysis has been undertaken with the support of our in-house Solutions team who have partnered with Ortec Finance, a climate risk modelling specialist, to carry out this analysis on the Scheme's investment strategies. The analysis undertaken by the Trustee considers the projection of the Scheme's funding level (DB Section) or assets (DC Section) under three climate scenarios described in the table below. The liability projections for the DB Section have been completed using simplified modelling and does not at this time take into account the impact of changes to mortality. The Trustee will work with its actuarial advisor to consider this analysis in future, however, we have considered this qualitatively in this Report.

It is important to note that, because of the uncertainties involved, the analysis may under or overstate the true level of risk. As with any model, there are some other data and calculation limitations to be aware of:

- Asset projections are assumed to be in line with the current strategic allocations, in reality this asset allocation will change over time
- The three scenarios considered are medians from a range of possible outcomes

- The data is modelled over very long-time horizons and therefore the range of uncertainty around any projection is very wide
- Modelling is done by asset class and does not allow for specific underlying holdings
- Small changes to inputs can result in large changes at the output level

The following assumptions apply to the three scenarios that have been modelled:

Scenarios:	Orderly Net Zero Transition	Disorderly Net Zero Transition	Failed Transition
Paris Agreement outcome	Paris Agreement goals met.	Paris Agreement goals met.	Paris Agreement goals not met.
Global warming	Average global warming stabilises below 2 degrees Celsius above pre-industrial levels.	Average global warming stabilises below 2 degrees Celsius above pre-industrial levels.	Average global warming reaches 3.8 degrees Celsius by 2100, compared to pre-industrial levels.
Transition risks	<p>Large transition impact:</p> <ul style="list-style-type: none"> – Ambitious low carbon policies – High investment in low-carbon technologies – Substitution away from fossil fuels to cleaner energy sources and biofuel 	<p>Large transition impact:</p> <ul style="list-style-type: none"> – Ambitious low carbon policies – High investment in low-carbon technologies – Substitution away from fossil fuels to cleaner energy sources and biofuel 	<p>Limited transition impact:</p> <ul style="list-style-type: none"> – Economies follow business-as-usual track continuing low carbon policies and technology trends – No additional new policy measures
Physical risks	Moderate physical impacts occur up to 1.5/2 degrees which are greater than today but still much less than under a Failed Transition.	Moderate physical impacts occur up to 1.5/2 degrees which are greater than today but still much less than under a Failed Transition.	Severe physical impacts occur increasing over time as temperatures rise – both gradual physical changes such as agricultural and worker productivity, as well as more frequent and severe extreme weather events.
Impact on GDP	Global GDP is lower than the climate-uninformed scenario in 2100. US GDP expected to be 3% lower than the climate-uninformed scenario in 2040.	In the long term, Global GDP is slightly worse than in the Paris Orderly Scenario due to sentiment shock.	Global GDP is significantly lower than the climate-uninformed scenario in 2100. US GDP expected to be 60% lower than the climate-uninformed scenario by 2100.
Financial market impacts	Transition is assumed to occur as smoothly as possible. Market pricing-in dynamics of transition & physical risks occur smoothed out over 2021-2025 period respectively.	Transition has disruptive effects on financial markets with repricing of assets followed by a sudden sentiment shock to the financial system in 2025.	Markets price in physical risks up to 2050 by end of this decade. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks post-2050.

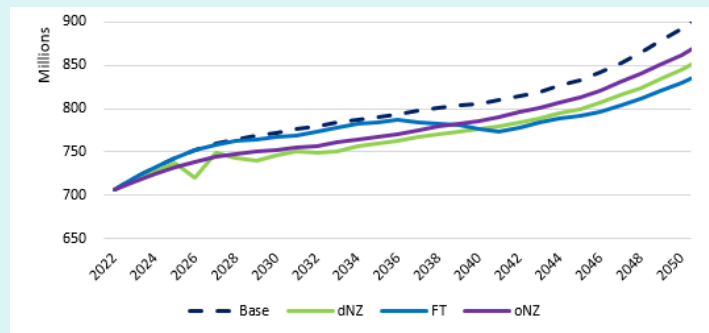
Source: Ortec Finance

Scenario analysis findings

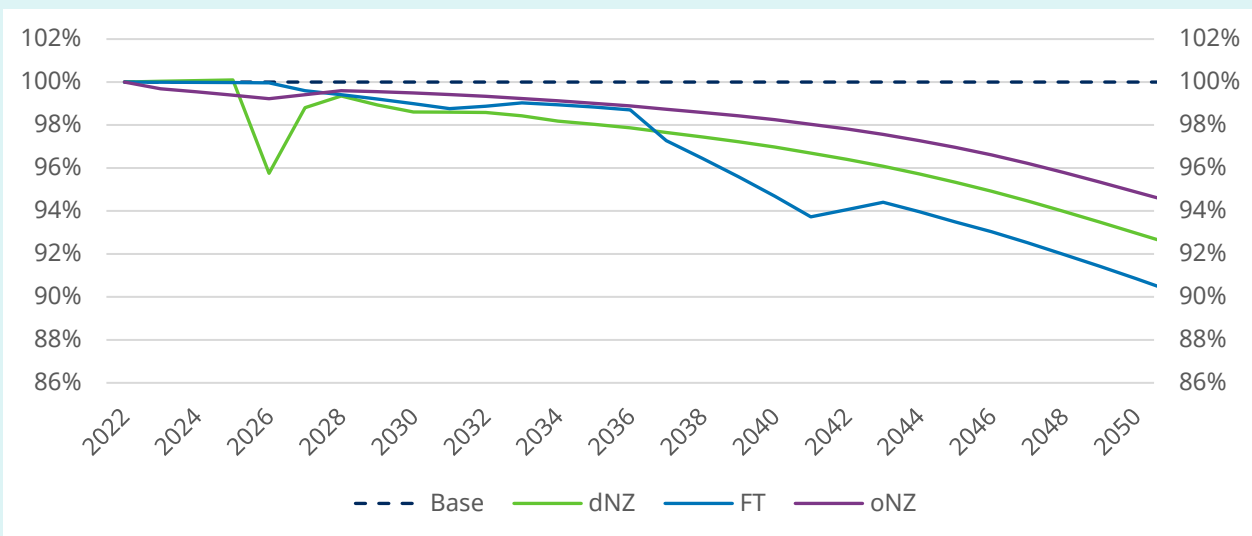
DB Section

For the DB Section, scenario analysis has been completed based on the Scheme’s current investment strategy as at 31 December 2022. The result is a projected impact out to 2050 of the Scheme’s funding level and asset returns compared to a baseline ‘climate uninformed’ scenario. This base scenario assumes the Scheme follows its projected journey plan and achieves its current target investment return uniformly, with no impact from climate change. The other scenarios have been projected relative to this base scenario; therefore the funding deterioration experienced as a result of a climate change may in fact be a scenario where the funding position has improved in absolute terms, but has deteriorated relative to the scenario where climate risks had not had any impact. Additionally, no de-risking has been allowed for in these projections and it is assumed that the Scheme’s current investment strategy will be retained indefinitely. In reality, the Scheme is expected to de-risk as it matures and hence the outcomes in the longer-term are likely to over-state the Scheme’s exposure to climate risks. The Trustee will be considering its longer-term objectives and can refine this analysis in a future Report.

Projection of asset returns under each scenario



Relative funding level performance under each scenario



Source: Schroders Solutions, Ortec Finance, 31 December 2022.

FT = Failed transition

dNZ = Disorderly net zero transition

oNZ = Orderly zero transition

Looking at the Scheme’s assets, over the short to medium term the failed transition scenario has the least impact on Scheme assets. During this time transition risk are the most impactful, meaning the disorderly transition scenario has the most impact on asset returns. As the physical risks manifest over the longer term to 2050, the failed transition scenario becomes the most detrimental to asset values, with potential losses of around -8%.

The key conclusions of the analysis on the funding progression are:

- Over the long term to 2050, the Scheme's strategy is most resilient under an orderly transition with a failed transition being the worst outcome. However, given the Trustee expects to de-risk the strategy in the longer term, the physical risks impacts over the long term are likely to be over-stated in this analysis.
- Over the short term (up to 3 years) and medium term (up to 8 years), the Scheme is most exposed to a disorderly transition, and particularly the transition risks resulting from a sudden repricing of assets followed by a sudden sentiment shock to the financial system.
- While the Trustee acknowledges that the Scheme may not be in a position to have de-risked meaningfully before the impacts of a disorderly transition, this isn't considered a material risk to the Scheme, given it has the time horizon to recover potential short-term financial losses. In addition, the analysis suggests that the potential impact even by 2030 is only c.1% of funding level deterioration.
- Given the Scheme is already approximately fully funded, and has a strong covenant (see climate scenario analysis on the covenant below), the Trustee believes the DB Section to be resilient to climate risks.
- In addition, although this analysis is undertaken at asset class level, and does not consider the specific securities invested in, the Trustee believes the risks of a disorderly and failed transition are to an extent managed by SIM's stewardship activities in relation to the funds and companies the Scheme is invested in.

In relation to mortality assumptions, while quantitative analysis has not been undertaken, the Trustee believes the following impacts at a general population level are likely to occur in each scenario in the longer term:

- Failed transition – the physical effects of climate change are likely to lead to greater incidence of extreme weather including increasing frequency of heatwaves, water shortages, higher pollution and reduced agricultural yields. In such an environment, greater mortality would be expected in the longer term.
- Disorderly transition – there may be some shorter-term impacts on health spending from resources being diverted to meet ambitious climate policies, however, longer term the Trustee does not expect a material impact given the worst physical impacts will have been avoided.
- Orderly transition – as both the worst impacts from physical and transition risks are avoided, and indeed there should be benefits from reduced pollution and economic growth from high government funding and private sector innovation, the Scheme may experience mortality improvements, however, the Trustee does not expect this to be material.

Taking these into account with the analysis of the Scheme's funding progression above, the Trustee does not believe the mortality impacts alter the key conclusions stated. Indeed, in a failed transition, which is the worst scenario for the Scheme in the long term, the expected worsening of mortality would partially offset the impact to assets.

DC Section

For the DC Section, scenario analysis has been completed for the popular arrangements:

- The Scheme's default investment option which is a lifestyle strategy investing in the Schroder Sustainable Multi-Factor Equity, Schroder Diversified Growth and LGIM Cash funds
- Schroder Life QEP Global Sustainable fund

For the default arrangement the analysis allows for the lifestyling that members will experience between the underlying funds depending on the time to retirement as shown in the Appendix 1.

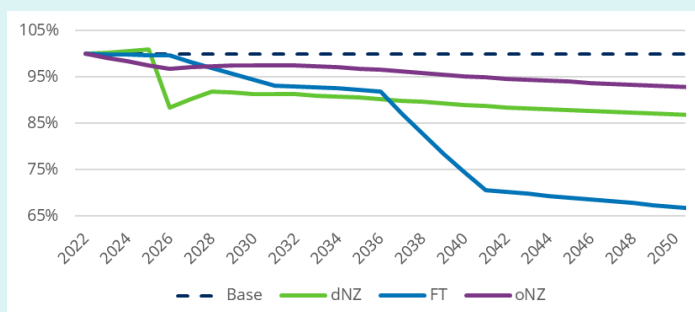
To align with the Trustee's chosen time horizons, analysis has been undertaken considering a member at 5, 10 and 40 years to retirement, however, the experience of an individual member will depend on their specific age and the point in the lifestyle strategy they are currently at. The following charts show the results for each under the default arrangement. We have not shown the charts for the QEP Global Sustainable fund as the results are similar.

The key conclusions of the analysis on the asset progression are:

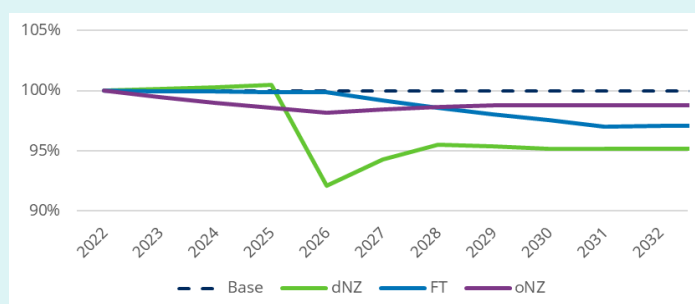
- Over the long term to 2050, members with over 20 years to retirement are most exposed to potential significant relative loss in a failed transition scenario. This is due to the fact members will not begin to de-risk out of equities (which they are most exposed to through the Schroder Sustainable Multi-Factor Equity fund) until after the worst physical effects from climate change have been experienced.
- The Schroder Life QEP Global Sustainable fund is exposed to similar risks as the Schroder Sustainable Multi-Factor Equity fund due to the underlying equity holdings. This means members invested in the QEP Global Sustainable fund will be most impacted by the failed transition.
- The Trustee regularly reviews the strategy and if it believes there is insufficient action from global stakeholders and policymakers in meeting the Paris goals, it will consider amending the strategy to build in more resilience.
- Over the shorter term (next 3 years to 2026), all members are expected to be impacted more by the disorderly transition scenario (between 5% loss for members closer to retirement and up to 10% for younger members) which may lead to a sudden repricing of assets followed by a sudden sentiment shock to the financial system. This could affect members pension pots if this happens within a very short period to retirement.
- Over the medium term (up to 2030), all members continue to be most impacted by the disorderly transition
- The Trustee believes the risks from a disorderly and failed transition are managed through the active ownership activities of Schrodgers over the funds which help to build in resilience in the specific companies underlying the funds.
- The analysis here does not reflect the specific companies chosen by the portfolio managers. The Trustee monitors the climate risks within each of the funds through separate reporting received from SIM and will engage with the portfolio managers as it deems necessary in order to manage climate risks the members are exposed to.

Relative asset performance under each scenario

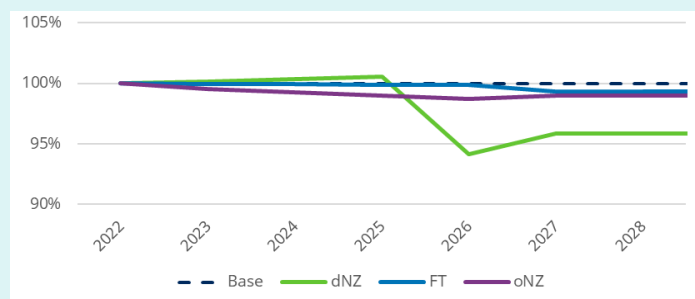
Default - 40 years to retirement



Default - 10 years to retirement



Default - 5 years to retirement



dNZ = Disorderly net zero transition FT = Failed transition
oNZ = Orderly zero transition

Sector and regional analysis for both sections




From a sector perspective, holdings in oil and gas are most impacted by the net zero scenarios due to the reduced reliance on fossil fuels for transportation and power stations under a rapid transition scenario. From a regional perspective, the emerging Asia utilities sector is the most exposed under the failed transition scenario,

despite lower transition risk, due to its increased exposure to physical impacts that are anticipated to affect the region sooner in comparison to other regions globally.

There are also opportunities that the Trustee will consider as part of ongoing monitoring and future investment strategy reviews, for example, the greatest opportunity is in the Western Europe utilities sector due to favourable policies in place supporting the establishment of renewable infrastructure and power generation.

Climate-change assessment of the sponsoring employer

Schroders has a legal obligation to financially support the DB Section now and in the future. Its ability to do that is called the covenant. The Trustee knows that climate-related risks will affect Schroders, as well as being one of Schroders strategic business priorities. The Trustee has considered Schroders climate disclosures within the Schroders climate change report (mybrand.schroders.com/m/8645ae373488e2e/original/Schroders_TCFD_2022.pdf) and a summary of the key climate change-related risks and opportunities are summarised here:

Risk	Description	Timeframe	Impact	Rating ¹	Operational Management Approach
Climate risks					
Transition: Policy & Legal	Increased carbon pricing on our own emissions	L	Increased costs	Low	Monitoring by the Policy, Regulatory and Compliance teams. Supported by Corporate Sustainability, Sustainable Investment and Sustainability Regulatory Steering Committee.
Transition: Policy & Legal	Increased regulatory requirements	S	Increased costs	Medium	Monitoring by the Policy, Regulatory and Compliance teams. Supported by Corporate Sustainability, Sustainable Investment and Sustainability Regulatory Steering Committee.
Transition: Technology	Costs to transition to lower emissions technology for own emissions	M	Increased cost	Medium	Feasibility studies and modelling at property level. Specific initiatives dependent on technology (for example, Building Management System upgrades, onsite renewables, electric car charging points).
Transition: Market	Increased volatility in energy prices due to supply chain disruptions	S	Increased costs	Medium	Energy contracts are monitored at property level. Where we procure directly, we carry out energy market analysis and a tender process to achieve a competitive price. RE100 compliant contracts are prioritised.
Transition: Reputation	Perception of not having responded appropriately to climate challenges	S	Decreased revenue	High	Monitoring of external benchmarks and emerging best practice by internal teams (for example, Corporate Sustainability). Use of indicators and external benchmarks (for example, CDP) to improve performance. Ongoing monitoring and discussion at relevant Committee (for example, GSI Committee).
Transition: Acute & chronic	The impact on physical operations of extreme weather events or changes in temperature	L	Increased business disruption, capital expenditure and insurance costs	Medium	Real estate climate risk model (provided by Verisk Maplecroft). Risk assessment of our office locations evaluating 23 individual acute (for example, drought, flood, severe storm) and chronic (for example, heat stress, water stress, air quality) risk indicators. Review of insurance premiums.
Climate Opportunities					
Resource efficiency	Increase energy efficiency of property portfolio	S	Decreased GHG emissions and costs		Implement ISO 14001 Environmental Management System (EMS) certification. Feasibility studies and modelling at property level. Specific initiatives dependent on measure, for example, Building Management System upgrades.
Energy source	Lower emission sources and increased resilience of energy for offices and car fleet	S	Decreased GHG emissions. Short term increase in costs		Feasibility studies and modelling at property and fleet level. Specific initiative dependent on measure (for example, onsite renewables, hybrid/electric company cars).
Time frame					
 Short term 0-5 years  Medium term >5-10 years  Long term 10+ years					

¹Relative impact of the risk on Schroders' own operations

The Trustee uses information from the Schroders climate change report to assess the covenant risks and opportunities in relation to climate change and how those are managed over the Trustee's time horizons:

- In the short term, transition risks are likely to have the biggest impact on Schroders. In particular, increased regulatory requirements leading to increased costs and damage to Schroders reputation by not responding appropriately to climate change risks and challenges leading to a reduction in future revenues.
- In the medium term, transition risks continue to have the greatest impact through increased costs of moving to lower emissions technology in Schroders operations, such as the use of onsite renewables.
- In the long term, physical risks such as severe weather events or extreme temperature changes, become more pronounced and have an increasing impact on Schroders operations. This could potentially lead to greater insurance costs and greater maintenance costs of its real estate footprint.

As detailed in the above table, Schroders has processes in place to monitor and manage these risks and has already made progress in reducing carbon emissions within its operations. In 2022, Schroders' total Scope 1 and 2 Greenhouse gas (GHG) emissions decreased by 34% from the 2019 base year and decreased by 24% compared to 2021. The main reasons for the reduction in Scope 1 and 2 GHG emissions were a result of the following actions:

- Reduction in energy consumption in offices and implementing environmental management systems. Site specific net zero action plans are in place which include energy efficiency measures.
- Improving the sustainability of the company car fleet. There has been a significant reduction in company car emissions since 2019 due to less business miles being recorded and an increased uptake of hybrid and electric vehicles.

Schroders is also well placed to take advantage of climate change-related opportunities by increasing energy efficiency in properties and using lower emissions sources within offices and company car fleets. These will lead to a further reduction in GHG emissions.

Based on the information available, along with the Scheme's current very strong funding position and relative size compared to Schroders, the Trustee has assessed the overall covenant climate change-related risk exposure as low.

Conclusion on Scheme resilience

The impact of climate-related risks has been considered by the Trustee. Although the scenario analysis shows a potential relative funding level impact of up to 10% within the DB Section in a failed transition scenario, in the context of the Scheme's overall investment risk, including the impact on Schroders and the strength of the covenant provided, it is concluded that the DB Section strategy remains resilient to climate-related risks. This assessment will be kept under review and the Trustee will continue to monitor climate related risks as part of the wider risk management framework. In particular, the Trustee will undertake further climate change scenario analysis on the Scheme's overall funding strategy by considering the impact of mortality scenarios as part of the next actuarial valuation.

With regards to the DC Section, the most material climate-related risks within the popular arrangements are within the equity mandates: Schroder Sustainable Multi-Factor Equity fund and Schroder Life QEP Global Sustainable fund. These risks are monitored and measured by SIM and there are also potential sector and regional opportunities which will also be considered by SIM in the ongoing management of the funds. The Trustee will consider these risks and opportunities further as part of the next triennial strategy review and climate-related risks will be considered as part of the wider risk management framework when setting the default investment strategy.

In determining these conclusions the Trustee notes the limitations of the current modelling.

What are Scope 1, 2 and 3 emissions?

- **Scope 1 emissions** are direct Greenhouse Gas emissions from sources that are owned or controlled by the company, such as emissions from combustion of fossil fuels in boilers or vehicles.
- **Scope 2 emissions** are indirect GHG emissions from the generation of purchased electricity, heat or steam consumed by the company.
- **Scope 3 emissions** are all other indirect GHG emissions that occur in a company's value chain, including emissions from the production of purchased materials and fuels, transportation and distribution, waste disposal, and the use and disposal of products and services.

Risk Management

A key part of the Trustee's role is to understand and manage risks that could have a financially material impact on both the Scheme's investments and the wider funding position. Climate change is an important risk that the Trustee considers alongside other financially material risks that may impact member outcomes.

This section summarises the primary climate-related risk management processes and activities of the Trustee. These help the Trustee understand the materiality of climate-related risks, both in absolute terms and relative to other risks, that the Scheme is exposed to. The Trustee prioritises the management of risks primarily based on its potential impact on the security of members' benefits/prospective investment returns.

Governance

- The Trustee's Statement of Investment Principles is reviewed on an annual basis and sets out how investment climate-related risks are managed and monitored.
- Alongside the statutory disclosures required in the Statement of Investment Principles the Trustee has established a Responsible Investment and Voting Policy which includes how the Trustee embeds ESG considerations within Scheme management and investment process. This is reviewed annually, with the ESG investment beliefs it contains to be reviewed every 3 years.
- The Trustee maintains a risk register, which includes explicit climate risks, to monitor and mitigate financially material risks to the Scheme. The climate-related risks are reviewed annually. This allows a continuing assessment of the likelihood and impact for the Scheme, given the developing research and understanding on this subject. This also enables new and emerging risks related to climate change to be identified and assessed.
- The Trustee will continue to receive regular training on climate-related issues, to further support the expertise brought by individual Trustee Directors and the sponsoring employer. The training allows the Trustee to challenge whether the risks and opportunities are effectively allowed for in our governance processes and wider activities, and to be able to challenge our advisors to ensure the governance support and advice adequately covers the consideration of climate-related risks and opportunities. This process also affords the Trustee an opportunity to identify new and emerging risks related to climate change.
- A benchmarking analysis of the extent to which ESG factors are integrated into investment decision making at the portfolio level has been undertaken by Mercer and will be refreshed periodically. The Trustee incorporates recommendations from the assessment into its future business plan framework and will monitor the score over time.

Strategy

- The Scheme's advisors take climate-related risks and opportunities into account as part of the wider strategic investment advice provided to the Trustee and the Investment Committee. This includes highlighting the expected change in climate-risk exposure through proposed asset allocation changes, both from the top-down level (via climate scenario analysis) and bottom-up (via climate-related metrics).
- The Trustee believes that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and will therefore be considered as part of the Scheme's investment process. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that require explicit consideration. When setting investment strategy, ESG factors, including climate change, will be considered alongside a number of other factors that can influence investment strategy.
- Climate scenario analysis for the investment strategy of the Scheme will be reviewed at least triennially, or more frequently if there has been a material change to the strategic asset allocation and/or the popular arrangements. Key findings from the Trustee's latest climate scenario analysis were set out in the previous section. The impact of climate-related risks and opportunities is included as part of the regular employer covenant reviews. Climate scenario analysis is the primary tool to help the Trustee understand the materiality of climate-related risks that could impact the Scheme over time.

Reporting

- The Trustee will receive annual reports on climate-related metrics and progress against targets in respect of the assets held in the Scheme. The Trustee may use the information to engage with the investment managers and is committed to challenging managers who are behind their peer group for ESG integration and active ownership activities.
- The Trustee receives a voting and engagement activity summary on an annual basis as part of the preparation of the Implementation Statement. The statement summarises how the investment managers vote and engage on climate-related issues (among other key engagement priorities). The statement is available on <https://www.schroders.com/en-gb/uk/local/schroders-retirement-benefits-scheme/>.

Manager selection and retention

- The Trustee, with advice from Mercer and Momentum in their roles as investment advisors, will consider an investment manager's firm-wide and strategy-specific approach to managing climate-related risks and opportunities when either appointing a new manager, in the ongoing review of a manager's appointment, or as a factor when considering the termination of a manager's appointment.
- Mercer rates investment managers on the extent of integration of ESG factors (including climate change) into their processes. A manager's stewardship process forms part of the rating assessment. This is considered at the firm level and at the investment strategy/fund level. The ratings are presented in quarterly investment performance reports and are reviewed by the Trustee.

Metrics and Targets

The Trustee supports Schroders ambition and its commitments to achieving net zero by 2050, or sooner. Like Schroders, it is important for the Trustee to set climate-related targets against which to monitor the Scheme’s investment strategy performance, to ensure that the Scheme’s investment strategy is aligned with the Trustee’s own ambition.

The following section outlines the metrics we report on to help achieve this and the methodologies used. These are all in line with the Task Force on Climate-related Financial Disclosures recommendations and approved methodologies as set out within the statutory guidance. We also highlight some of the challenges associated with collecting and analysing carbon and climate data.

Metrics

Climate-related metrics help the Trustee to understand the climate-related risk exposures and opportunities associated with the Scheme’s investment portfolios and identify areas for further risk management, including investment manager portfolio monitoring and voting and engagement activity and priorities. The metrics covered in this Report are:

1. Absolute emissions metric: Total carbon emissions
2. Emissions intensity metric: Carbon footprint and weighted average carbon intensity
3. Portfolio alignment metric: Implied temperature score
4. Additional (non-emissions based) metric: Data quality

Where available the Trustee is reporting on Scope 1, 2 and 3 emissions, which are defined on page 20.

Approach and methodology

SIM has provided the climate-related metric data for the DB and DC Sections of the Scheme, with Mercer providing certain climate-related metric information for the DC popular arrangements. The methodology for the **total carbon emissions, carbon footprint** and **weighted average carbon intensity** is set out below:

Metric	Methodology	Usage	Limitations
Total Carbon emissions Establishes the total GHG emissions of a portfolio’s investments	$MtCO_2e = \sum \left(\frac{\text{Current value of investment}}{\text{Issuer's EVIC}} \times \text{Issuer's GHG emissions} \right)$ EVIC = Enterprise Value Including Cash	Establishes the absolute volume of GHG emissions emitted by a portfolio.	Limited in terms of comparability or benchmarking due to its link to portfolio size.
Carbon footprint Measures a portfolio’s GHG emissions normalised by its market value	$tCO_2e/\$m \text{ invested} = \frac{\sum \left(\frac{\text{Current value of investment}}{\text{Issuer's EVIC}} \times \text{Issuer's GHG emissions} \right)}{\text{Current portfolio value}}$	Intensity metrics that enable comparison of different portfolios’ emissions irrespective of assets under management.	Sensitive to changes in portfolio value.
Weighted Average Carbon Intensity (WACI) Measures a portfolio’s exposure to carbon-intensive companies	$tCO_2e/\$m \text{ revenue} = \sum \left(\frac{\text{Current value of investment}}{\text{Current portfolio value}} \times \frac{\text{Issuer's GHG emissions}}{\text{Issuer's revenue}} \right)$ Scope 1 and 2 GHG emissions are allocated based on portfolio weights (and the current value of investment relative to the current portfolio value) rather than the equity ownership approach.	Enables easy comparison between a portfolio and a benchmark.	Can only be used with listed equity and corporate bonds

The **implied temperature score** is a forward-looking metric that considers the pledges, commitments and business strategy changes that underlying investee companies/issuers have made. It provides a prediction of the potential temperature rise over the rest of the century based on the activities of those companies and issuers. The metric illustrates the degree of portfolio alignment with the goals of the Paris Agreement.

For the implied temperature rise metric, a CDP-WWF temperature rating methodology¹ is used to assess the forward-looking climate ambition of the investment portfolios, which is in line with Schroders public commitments to the Science Based Targets initiative². This model calculates the implied temperature pathway of the holdings based on the level of ambition by corporate GHG emissions reduction targets set by the investee companies. More information on this methodology used can be found in Appendix 2.

Data quality aims to represent the proportions of the portfolio for which the Trustee has high quality data. This metric summarises whether the underlying emissions data has been reported by the company, estimated by the data provider, or unavailable. This metric helps the Trustee to determine how representative the analysis is of the Scheme’s actual portfolio.

Data quality also assists the Trustee in monitoring quality of reporting over time, as companies are expected to continually improve their reporting on climate-related metrics. As the quality of data improves, the decision usefulness of the climate metrics reported on the Scheme’s portfolio increases. In addition, the Trustee is able to identify the companies in the portfolio that are not currently reporting emissions data and use this as the basis for engagement.

At the time of writing this Report, the data quality metric analysis as at 31 December 2022 was not available. This is due to the limitations of the data received from MSCI. The Trustee has been liaising with SIM regarding the availability of this data and SIM has confirmed that the data should be available for inclusion in the next Report (for the year to 31 December 2023). This will also include retrospective data as at 31 December 2022 so that the Trustee can track any improvements (or otherwise) in data quality over the year.

In absence of the data quality metric, the Trustee has focussed on **data coverage** within this Report. Coverage is defined as the percentage of data on the metric in question which is available within the fund.

The metrics data is provided in the following tables and charts. Please note:

- The base year used is 31 December 2021
- Where “-” is shown, this indicates where data is not available due to eligibility or coverage criteria not being met. SIM only considers specific corporate assets under management in the calculation of GHG metrics – in particular, for the DB Section, only corporate bonds and listed equity are covered which represents 60% of the total DB Section assets. Further details of the assets covered under the DC Section are set out in this section. Schroders also excludes short positions, cash, certificates of deposit and derivative positions.

1. Total carbon emissions analysis

The carbon emissions analysis includes Scope 1, 2 and 3 emissions for the DB Section and DC Section popular arrangement assets. This looks at GHG emissions, which are harmful gasses released into the atmosphere, for example, carbon dioxide and methane, amongst others.

DB Section total carbon emissions 31 December 2022 versus base year

Section	Value 31/12/2022 ¹	Percentage of Scheme assets	GHG Emissions Scope 1 and 2 (tonnes)		GHG Emissions Scope 3 (tonnes)	
			Base year	2022	Base year	2022
DB section	£703.2m	60%	41,174	23,207	149,275	99,000

¹Base year asset values, as at 31/12/2021, can be found in Appendix 3.

The DB Section has seen a reduction in both Scope 1 and 2 and Scope 3 emissions versus the base year. Over the 12 months, Scope 1 and 2 emissions have reduced by approximately 44%. This is likely due to the fall in asset values over the year, amongst other factors, with total DB Section assets falling by 34% over the year to 31 December 2022.

¹ [CDP-WWF temperature rating methodology - CDP](#)

² The metric uses the Science Based Target Initiatives approved methodologies

DC popular arrangement total carbon emissions 31 December 2022 versus base year

Fund / Strategy	Value 31/12/2022 ¹	Percentage of Scheme assets	GHG Emissions Scope 1 and 2 (tonnes)		GHG Emissions Scope 3 (tonnes)	
			Base year	2022	Base year	2022
			Schroder Sustainable Multi-Factor Equity fund	£75.8m	16.5%	3,560
Schroder Diversified Growth fund	£133.1m	29.1%	4,556	3,574	31,654	30,500
LGIM Cash fund*	£8.6m	1.9%	-	-	-	-
Default Lifestyle Strategy total	£217.5m	47.5%	8,116	7,024	59,215	67,214
Schroder Life QEP Global Sustainable fund	£51.8m	11.3%	1,776	1,913	13,482	19,805

* Emissions data not available for the LGIM Cash Fund due to the short term nature of the underlying holdings.

¹Base year asset values, as at 31/12/2021, can be found in Appendix 3.

Within the DC Section, all funds considered, with the exception of the Schroder Life QEP Global Sustainable fund, have seen a reduction in the level of Scope 1 and 2 emissions versus the base year. In particular, the Scope 1 and 2 emissions for the DC Default Lifestyle Strategy, which represents approximately 48% of the DC Section assets, reduced by approximately 13% over the 12 months to 31 December 2022.

The Default Lifestyle Strategy has seen an increase in Scope 3 emissions versus the base year. This is because of an increase in the Scope 3 emissions from the Schroder Sustainable Multi-Factor Equity fund. This increase has been partially offset by a decrease in the Scope 3 emissions from the Schroder Diversified Growth fund.

The Scope 1 and 2 and the Scope 3 emissions for the Schroder Life QEP Global Sustainable fund have also increased relative to the base year.

Following this analysis of the DB and DC Sections, the Trustee has been liaising with SIM to understand the reasons for the changes in the emissions for the underlying funds.

2. Carbon footprint and weighted average carbon intensity

Carbon footprint is defined as the number of tonnes of GHGs produced per £1million invested in the fund. The weighted average carbon intensity is defined as the number of tonnes of GHGs produced per £1million of revenue in the fund.

For carbon footprint, where data is not reported by the underlying holdings, SIM assume the emissions are zero. For the weighted average carbon intensity metric, where data is not reported by the underlying holdings, SIM also assume the emissions are zero but take an additional step to remove the security from the calculation. This process of 'normalisation' allows SIM to extrapolate the portfolios exposure to carbon-intensive companies, which is important because weighted average carbon intensity can be used as a proxy measure for climate risk.

The 31 December 2022 fund values and percentage of Scheme assets are the same as shown in the 'Total carbon emissions analysis' section.

DB Section total carbon footprint 31 December 2022 versus base year

Section	Carbon Footprint (tCO ₂ e / £m invested)							
	Scope 1 and 2		Coverage		Scope 3		Coverage	
	Base year	2022	Base year	2022	Base year	2022	Base year	2022
DB section fund	64.0	42.3	55.9%	48.9%	231.9	180.4	55.6%	47.9%

The Carbon Footprint for the DB Section of the Scheme has reduced for both Scope 1 and 2 (by 34%) and Scope 3 (by 22%) emissions relative to the base year. We note that the coverage has also marginally reduced.

DC popular arrangement total carbon footprint 31 December 2022 versus base year

Fund / Strategy	Carbon Footprint (tCO ₂ e / £m invested)							
	Scope 1 and 2		Coverage		Scope 3		Coverage	
	Base year	2022	Base year	2022	Base year	2022	Base year	2022
Schroder Sustainable Multi-Factor Equity fund	48.0	46.2	97.3%	98.7%	371.8	492.2	97.3%	98.6%
Schroder Diversified Growth fund	46.4	38.0	65.5%	56.6%	322.2	324.2	65.2%	55.9%
LGIM Cash fund*	-	-	-	-	-	-	-	-
Default Lifestyle Strategy total	47.1	41.6	79.1%	75.2%	343.6	398.5	79.0%	74.8%
Schroder Life QEP Global Sustainable fund	39.1	36.9	97.1%	98.4%	296.8	382.3	97.1%	98.3%

* Emissions data not available for the LGIM Cash fund due to the short term nature of the underlying holdings.

The Scope 1 and 2 carbon footprint for all popular arrangements considered in the DC Section has reduced relative to the base year. In particular, the carbon footprint for the Schroder Diversified Growth fund has reduced by approximately 18% over the last 12 months. This is likely to be due to changes in the underlying holdings within the fund. The coverage has also reduced over this period.

The Scope 3 carbon footprint has increased for all popular arrangements considered. The Trustee expect to see volatility in these numbers over the short term as data quality and coverage improves.

DB Section weighted average carbon intensity 31 December 2022 versus base year

Section	Weight Average Carbon Intensity (tCO ₂ e / £m revenue)							
	Scope 1 and 2		Coverage		Scope 3		Coverage	
	Base year	2022	Base year	2022	Base year	2022	Base year	2022
DB Section fund	203.0	128.7	63.6%	55.4%	515.1	343.1	61.8%	53.9%

The carbon intensity for the DB Section of the Scheme has reduced for both Scope 1 and 2 (by 37%) and Scope 3 (by 33%) emissions relative to the base year. We note that the coverage has also reduced.

DC popular arrangement weighted average carbon intensity 31 December 2022 versus base year

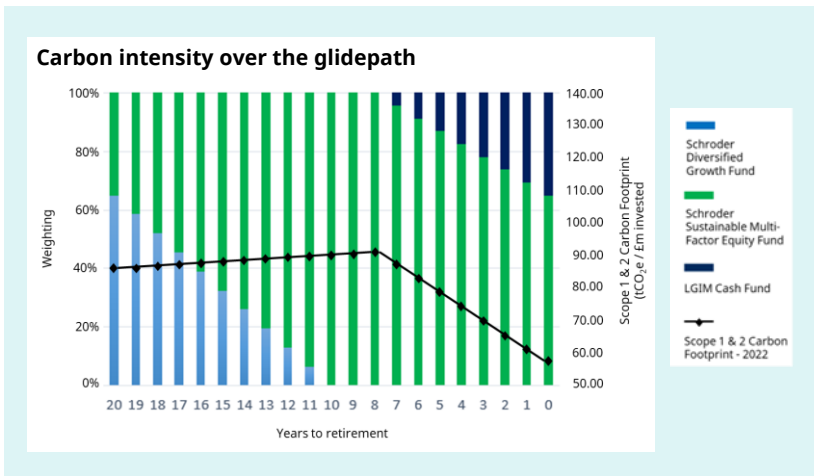
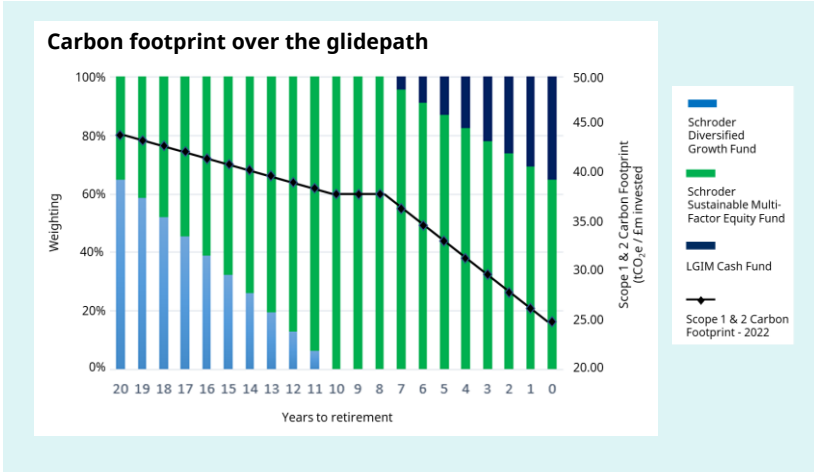
Fund / Strategy	Weight Average Carbon Intensity (tCO ₂ e / £m revenue)							
	Scope 1 and 2		Coverage		Scope 3		Coverage	
	Base year	2022	Base year	2022	Base year	2022	Base Year	2022
Schroder Sustainable Multi-Factor Equity fund	90.8	84.5	97.6%	99.8%	770.4	981.1	97.3%	99.6%
Schroder Diversified Growth fund	129.8	89.3	68.3%	60.6%	794.6	621.2	66.6%	58.4%
LGIM Cash fund*	-	-	-	-	-	-	-	-
Default Lifestyle Strategy total	113.0	87.2	80.9%	77.9%	784.2	780.4	79.8%	76.6%
Schroder Life QEP Global Sustainable fund	78.3	79.0	97.5%	99.6%	672.9	713.7	97.4%	98.5%

* Emissions data not available for the LGIM Cash fund due to the short term nature of the underlying holdings.

The carbon intensity for the popular arrangements considered within the DC Section have reduced for both Scope 1 and 2 and Scope 3 emissions relative to the base year, with the exception of Scope 3 emissions for the Schroder Sustainable Multi-Factor Equity fund, which have increased.

Illustrative examples of how carbon intensity may change throughout the Default Lifestyle Strategy as a member approaches retirement

The chart to the right demonstrates how the carbon footprint is expected to change over the DC Section default investment option glidepath to retirement for Scope 1 and 2 emissions. As members approach retirement (between year 20 and year 10) the carbon footprint decreases slightly due to the marginally lower carbon footprint of the Schrodgers Diversified Growth fund, which increases in allocation towards retirement. We note that the carbon footprint is significantly lower in 2022 (relative to 2021) at all ages.

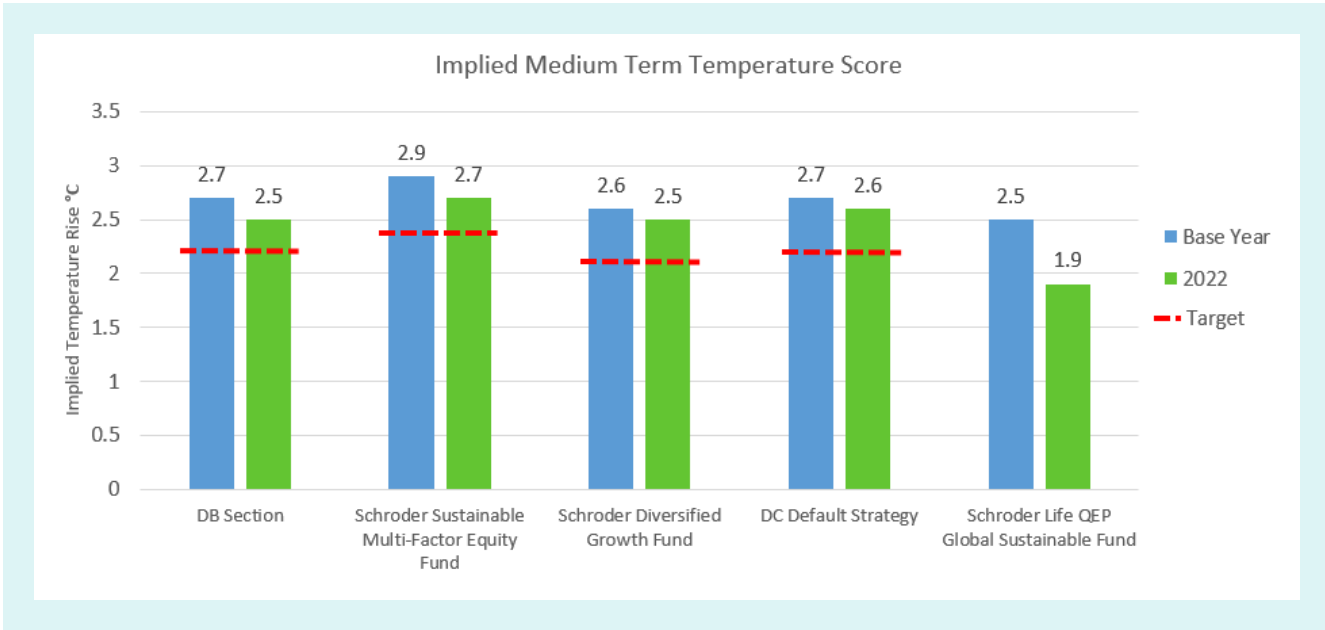


The chart to the left demonstrates how the weighted average carbon intensity is expected to change over the glidepath for Scope 1 and 2 emissions. The weighted average carbon intensity for the Schrodgers Diversified Growth fund is marginally higher than the Schroder Multi Factor Equity fund which results in an increase in carbon intensity between years 20 and 10. The weighted average carbon intensity is expected to reduce as a member approaches retirement.

The Trustee takes into account climate risks as part of the wider considerations when setting the investment strategy. The strategy has not been designed by the Trustee to reduce both the carbon footprint and carbon intensity as members reach retirement. The main reason for the reduction in carbon footprint and carbon intensity as members approach retirement is as a result of the reduction in allocation to longer-term growth assets and an increase in allocation to cash. For the purpose of these two charts, cash emissions are assumed to be zero due to their short-term nature.

3. Implied temperature score

The following chart shows the implied temperature score over the medium term (from now to 2030) for both the DB Section and the popular arrangements within the DC Section. The scores are shown as at the base year and 31 December 2022 (green bars represent an improvement in score).



The Trustee believes its approach to sustainable investment should align with the Schrodgers approach, where possible. As such, the Trustee has set targets against the implied medium term temperature score to align with the targets Schrodgers have set against the investments they manage. The Trustee believes this approach is appropriate as the majority of the Scheme’s assets are invested with Schrodgers. Further details on the agreed targets are provided in the ‘Targets’ section. The red bars on the chart above show the target for each fund/Section.

4. Data quality

As referenced earlier in this section, as at the base year and 31 December 2022, figures for the data quality metric are not yet available. In the absence of data quality being shown, the Trustee has included the coverage figures for absolute emissions below. Coverage figures represent the availability of data which has been used to calculate the absolute emissions for the funds, including where data has been estimated.

DB Section coverage at 31 December 2022 versus base year

Fund / Strategy	Absolute Emissions			
	Scope 1 and 2 Coverage		Scope 3 Coverage	
	Base year	2022	Base Year	2022
DB Section fund	55.9%	48.9%	55.6%	47.9%

The coverage for the DB Section of the Scheme has reduced for both Scope 1 and 2 (by 7%) and Scope 3 (by 7.7%) relative to the base year. These figures should be interpreted against a backdrop of an evolving data landscape. The Trustee believes the reduction is primarily due to the change in invested assets within the DB Section over the 12 month period. We expect that the coverage percentage will increase once the methodologies for government bonds and other out of scope assets are agreed. We are also continuing to work with SIM to determine any other drivers that may have contributed to this change.

DC popular arrangement coverage at 31 December 2022 versus base year

Fund / Strategy	Absolute Emissions			
	Scope 1 and 2 Coverage		Scope 3 Coverage	
	Base year	2022	Base Year	2022
Schroder Sustainable Multi-Factor Equity fund	97.3%	98.7%	97.3%	98.6%
Schroder Diversified Growth fund	65.5%	56.6%	65.2%	55.9%
LGIM Cash fund*	-	-	-	-
Default Lifestyle Strategy total	79.1%	75.2%	79.0%	74.8%
Schroder Life QEP Global Sustainable fund	97.1%	98.4%	97.1%	98.3%

* Emissions data not available for the LGIM Cash fund due to the short term nature of the underlying holdings.

The coverage for the Schroders Diversified Growth fund has reduced for both Scope 1 and 2 (by 8.9%) and Scope 3 (by 9.3%) relative to the base year, which had led to an overall decrease in coverage for the Default Lifestyle Strategy, despite a slight increase in the Schroder Sustainable Multi-Factor Equity fund coverage. The Trustee believes that the likely reason for the reduction in coverage for the Schroders Diversified Growth fund is due to changes to the underlying asset classes held within the fund. However, these figures should be interpreted against a backdrop of an evolving data landscape and we are working with SIM to determine the driver of this change. There has been a small increase in the Schroder Life QEP Global Sustainable fund coverage.

Targets

The Trustee has agreed to the following targets for the Scheme:

- For the DB Section, reduce the implied temperature score across 100% of the Scheme's credit and listed equity holdings under Scope 1 and 2 emissions from 2.7°C in 2021 (base year) to 2.2°C by 2030.
- For the DC Section, reduce the implied temperature score of the Schroder Diversified Growth fund and Schroder Sustainable Multi-Factor Equity fund under Scope 1 and 2 emissions by 0.5°C by 2030 respectively, relative to the 2021 score (base year). These reductions could ultimately lead to an overall reduction of 0.5°C for the total default lifestyle strategy by 2030 (relative to the base year).

Both targets have been set with reference to the 2021 base year.

The table below shows the implied temperature score for the base year and 2022 along with the target score.

Section / Fund / Strategy	Implied Medium Term Temperature Score (°C)		
	Base Year	2022	2030 Target
DB Section	2.7	2.5	2.2
Schroder Sustainable Multi-Factor Equity fund	2.9	2.7	2.4
Schroder Diversified Growth fund	2.6	2.5	2.1
Default Lifestyle Strategy total	2.7	2.6	2.2

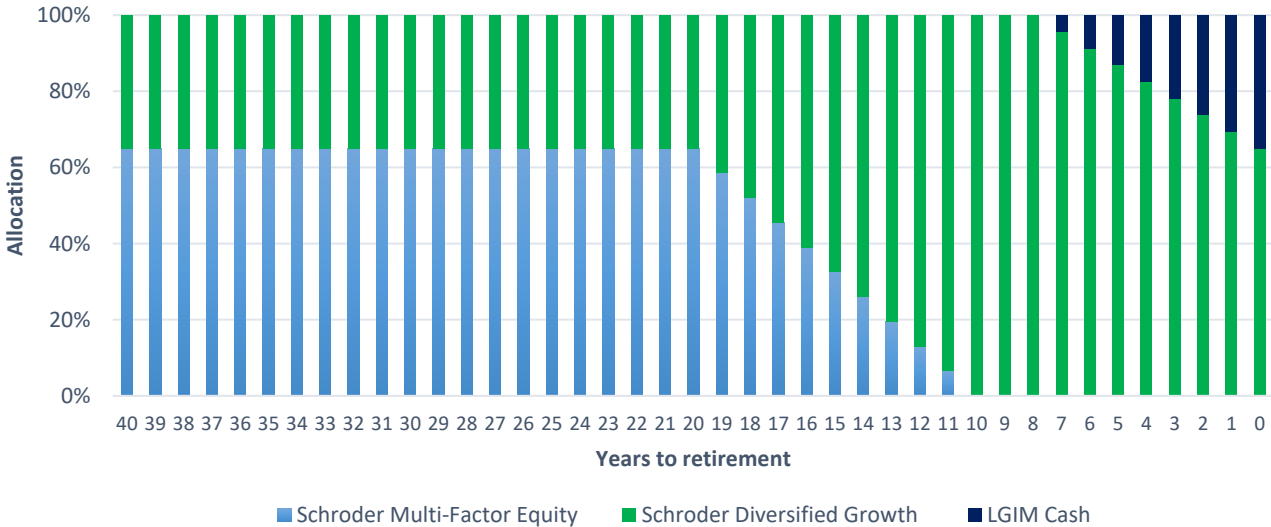
For both the DB and DC Sections there have been improvements versus the base year in respect of the implied temperature score target set.

The Trustee believes that the targets set remain suitable for the Scheme. The Trustee is also comfortable with the progress against the target and will continue to monitor progress annually.

Appendix 1 DC Section Default Lifestyle Strategy

The Trustee has made available a range of investment options for members. The default investment option is the “SRBS Default Lifestyle Strategy”. Within the default investment option, members' pension savings are automatically switched between funds as they approach their selected retirement age. Initially members' pension savings are invested 65% in the Sustainable Multi-Factor Equity fund and 35% in the Diversified Growth fund. An initial switching period starts 20 years before members’ selected retirement age, with a gradual transition to achieve a 100% allocation in the Diversified Growth fund 10 years before their selected retirement age. There is then a further transition over the final 7-year period to their selected retirement age, to achieve an ultimate allocation of 65% in the Diversified Growth fund and 35% in the Cash fund at retirement.

The chart below shows how the default investment options works:



Appendix 2 Implied temperature rise metric methodology

SIM use the CDP-WWF temperature rating methodology¹ to assess the forward-looking climate ambition of its investment portfolios in accordance with its public commitments to the SBTi. This model calculates the implied temperature pathway of the holdings based on the level of ambition by corporate GHG emissions reduction targets set by the investee companies.

Temperature alignment methodology - worked example

“Absolute GHG reduction target of 30% between 2015 and 2030”

$$LAR = \frac{\% \text{ emissions reduction}}{\text{Target year} - \text{Base year}} = \frac{30\%}{15} = 2\%$$

Target Class	SR1.5 scenario variable / benchmark
Absolute GHG reduction	Emissions Kyoto Gases (AR5-GWP-100)
GHG Economic Intensity	Emissions Kyoto Gases (AR5-GWP-100)/ GDP PPP

Company discloses emissions reduction target

Target expressed as Linear Average Reduction (LAR)

Target type mapped to scenario-variable using CDP-WWF mapping

Appropriate regression model used with LAR to calculate temperature score for the given time frame

Aggregated to group level using EVIC emissions weighted temperature score (ECOTS)

Score aggregated across scopes to arrive at final company temperature score for each time frame

LAR → for example 2030 = 2.2°C

$$\sum_n \left(\left(\frac{\text{Investment value}_i \times \text{Company emissions}_i}{\text{Total EV + Cash owned emissions}} \right) \times TS_i \right)$$

TS = Temp score

	Short term 2021-2024	Mid term 2025-2034	Long term 2035-2050
Scope 1+2	Temp score	Temp score	Temp score
Scope 3	Temp score	Temp score	Temp score
Scope 1+2+3*	Temp score	Temp score	Temp score

Greenhouse gas emissions

* Calculated using a weighted average based on Scope 1 + 2 emissions and Scope 3 emissions only for companies required to report on Scope 3.

¹<https://www.cdp.net/en/investor/temperature-ratings/cdp-wwf-temperature-ratings-methodology>

Appendix 3 DB and DC Section asset values

The in-scope assets values for the Scheme as at the base year date, 31 December 2021, and as at 31 December 2022 are shared here:

Fund / Strategy	Value 31/12/2021	Value 31/12/2022
DB Section fund	£1,067.9m	£703.2m
Schroder Sustainable Multi-Factor Equity fund	£75.0m	£75.8m
Schroder Diversified Growth fund	£133.6m	£133.1m
LGIM Cash fund	£8.1m	£8.6m
Default Lifestyle Strategy total	£215.6m	£217.5m
Schroder Life QEP Global Sustainable fund	£58.0m	£51.8m