Royal Mail Defined Contribution Plan

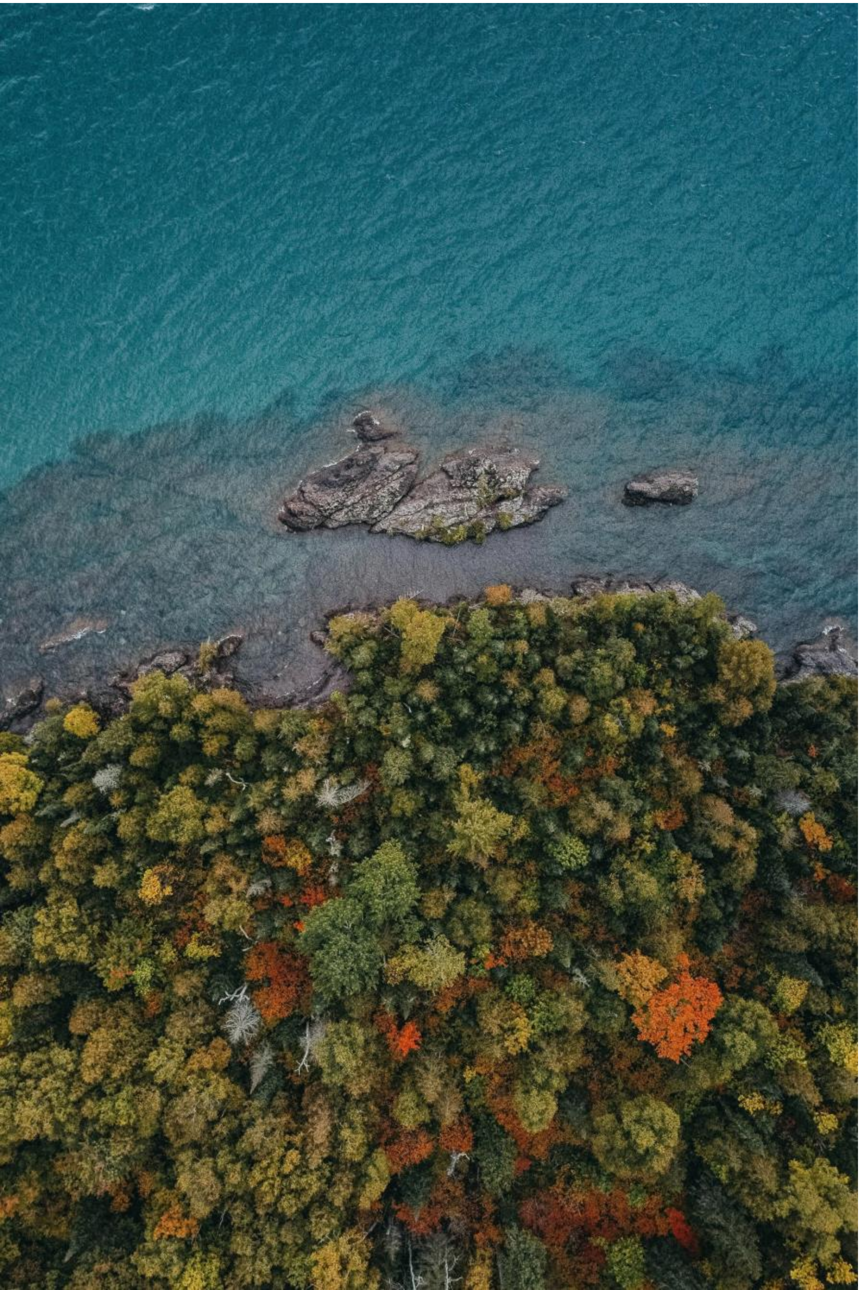
Climate change report

A report for members by the Trustees of the Royal Mail Defined Contribution Plan

Plan year to 31 March 2023

Contents

Why have we written this report?



The UK has become the first G20 country to make it mandatory for Britain's largest companies and financial organisations to disclose their climate-related risks and opportunities.

This is part of the government's commitment to make the UK financial system the greenest in the world.

This report provides members with the opportunity to find out more about the work carried out by the Trustees in relation to climate change and its potential financial impact on members' pensions savings.

It is the first climate change report produced by the Trustees of the Plan and will be repeated on an annual basis. We hope you find it informative and would welcome any feedback.

Venetia Trayhurn

Chair of Trustees for the Royal Mail Defined Contribution Plan

Executive Summary

1. Governance

The Trustees have a robust framework for managing the Plan, including setting clear expectations and responsibilities in relation to climate change.

A Climate Governance Statement defines responsibilities of everyone involved

Climate-related risks and opportunities are reviewed regularly in light of the Trustees' beliefs

The Plan's asset managers and advisers support the Trustees on climate-related matters

2. Strategy and Risk Management

The Trustees have taken steps to understand how climate change might affect the Plan's investments and to control the risks they have identified. Based on the analysis carried out, the Trustees expect climate change to potentially impact the Plan more significantly over the longer term. The Trustees aim to reduce the risks to the Plan in several ways, including:

Significantly reducing the Plan's carbon intensity through its investments, where possible

Investing responsibly, in line with the Trustees' beliefs

Regularly reviewing the Plan's investment managers' climate practices

Using the Plan's influence as an investor to encourage climate action

3. Metrics

The Trustees have collected and reviewed information about the greenhouse gas emissions and carbon footprint for the assets the Plan invests in. This analysis helps the Trustees to understand the Plan's exposure to climate risks.

Collected and reviewed greenhouse gas emissions data for the Plan's investments

Reported proportion of investments with no data

Introduction

The Trustees of the Plan view climate change as a risk to society, the economy, and the financial system; they also recognise that reducing carbon production throughout the economy could present investment opportunities.

These risks and opportunities have the potential to affect members' assets in the Plan (e.g. through the impact they have on the businesses these assets are invested in). The Trustees monitor this potential impact and take a number of steps to reduce climate-related risks for members.

This report provides members the opportunity to find out more about the processes carried out by the Trustees in relation to climate change. It describes how the Trustees have identified, assessed, and managed climate-related risks and opportunities to the Plan during the year to 31 March 2023. The key areas addressed in this report are summarised below.

1. **Governance** – This section sets out information on the governance framework and how it operates in practice.
2. **Strategy and Risk management** – This section sets out the potential affects of climate-related risks and opportunities on the Plan and the resilience of the Plan's investment strategies, and the processes used by the Plan to identify, assess, and manage climate-related risks.
3. **Climate Scenario Analysis** – This section describes the climate scenarios considered and the potential financial impacts on members' pensions savings.
4. **Metrics and Targets** – This section describes the metrics and target used to assess and manage relevant climate-related risks and opportunities to the Plan.

Section 1 – Governance

Oversight of climate-related risks and opportunities

1. The Trustees' and Trustee Chair's roles

It is the Chair of the Trustees' responsibility, with support from the Plan Secretary, to ensure that sufficient time is allocated for consideration and discussion of climate matters by the Trustees, the Investment Sub-Group ("ISG") and their advisers.

The Trustees of the Plan have ultimate responsibility for ensuring effective governance of climate change risks and opportunities in relation to the Plan. The Trustees identify, assess and manage them on a regular basis, with some matters delegated to the ISG, and with support from the Trustees' external advisers.

The Trustees have agreed a Climate Governance Statement. The Statement documents the governance processes the Trustees have put in place to ensure that they have oversight of the climate-related risks and opportunities relevant to the Plan and that they can be confident that their statutory and fiduciary obligations are being met. It also sets out how climate governance will be incorporated into the Trustees' business as usual operations to ensure that climate issues are properly and regularly considered in the course of their oversight of the Plan.

In broad terms, the Trustee Board is responsible for:

- ensuring the Trustees 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, including incorporating and maintaining climate related considerations in the Plan's risk register;
- incorporating climate-related considerations into their investment beliefs and the Plan's investment policies;
- 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 the Plan's risk register;
- ensuring that the Plan's investment and legal 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. Further, that a correct monitoring process is in place, such as investment consultants' strategic objectives and service agreements;
- considering and documenting the extent to which the advisers' responsibilities are included in any agreements, such as investment consultants' strategic objectives and service agreements; and
- 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 and The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (together "TCFD reporting").

Oversight of climate-related risks and opportunities

2. The role of the Investment Sub-Group ("ISG")

Ad-hoc investment tasks are often delegated down to the ISG. In broad terms, based on the advice given to the ISG by its external advisers and hence consequently the decisions made, the ISG (or the Trustees, if it is instead decided to cover these items in detail in Trustee meetings) is expected to be responsible for making recommendations to the Trustee Board on:

- incorporating climate-related considerations into strategic decisions relating to the Plan's investment strategy;
- 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; and
- selecting and regularly reviewing metrics to inform the Trustees' identification, assessment and management of climate-related risks and opportunities and setting and monitoring targets to improve these metrics over time where appropriate.

In addition to the fulfilment of its responsibilities outlined in the section above, the ISG assists the Trustees where appropriate on duties including but not limited to the investment aspects of:

- identifying and assessing the main climate-related risks and opportunities for the Plan over the short-, medium- and long-term, and documenting the management of them; and
- communicating with Plan members and other stakeholders on climate change where appropriate, including TCFD.

3. Other parties' and advisers' roles

Investment adviser

In broad terms, the Plan's investment adviser is responsible, as requested by the Trustees and/or ISG, for:

- providing training and other updates to the Trustees and ISG on relevant climate-related matters;
- helping formulate the Trustees' investment beliefs in relation to climate change and reflecting these in the Plan's investment policies and strategy;
- advising how climate-related risks and opportunities might affect the different asset classes in which the Plan might invest over the short-, medium- and long-term, and the implications for the Plan's investment strategy;
- advising on the appropriateness and effectiveness of the Plan's investment managers' processes, expertise and resources for managing climate-related risks and opportunities, given the Trustees' investment objectives and beliefs, and engaging with the managers to improve their climate-related integration over time;
- assisting in incorporating climate change considerations and the metrics the Trustees have set into investment monitoring;
- advising on the inclusion of climate change considerations in the Plan's governance arrangements, risk register and working with the Trustees, the ISG and the other advisers as appropriate;
- assisting in identifying, monitoring and using suitable climate-related metrics and targets in relation to the Plan's investments, including liaising with the Plan's investment managers regarding provision of the metrics; and
- leading on the preparation of the Trustees' TCFD reporting and assisting with other communication with stakeholders in relation to climate change, working with the Trustees, the ISG and the other advisers as appropriate.

3. Other parties' and advisers' roles (cont.)

Legal adviser

In broad terms, the Plan's legal adviser is responsible, as requested by the Trustees and/or ISG, for:

- providing training and other updates to the Trustees and ISG on relevant climate-related legal matters;
- ensuring the Trustees and ISG are aware of their statutory and fiduciary obligations in relation to climate change and working with the Trustees' other advisers to ensure alignment between these obligations;
- working with the Trustees' other advisers to assist the Trustees in incorporating climate change in their governance arrangements, risk register, and communication with stakeholders (including, but not limited to, their TCFD reporting) as appropriate; and
- where requested, assisting in the documentation of any contractual requirements to be included in the arrangements with the Plan's investment managers with respect to the governance, management and reporting of climate-related matters.

Investment managers

In broad terms, the Plan's investment managers are responsible for:

- identifying, assessing and managing climate-related risks and opportunities in relation to the Plan's investments, in line with the investment management arrangements agreed with the Trustees (and ISG where powers have been delegated to it);
- exercising rights (including voting rights) attaching to the Plan's investments, and undertaking engagement activities in respect of those investments, in relation to climate-related risks and opportunities in a way that seeks to improve long-term financial outcomes for Plan members;
- reporting on stewardship activities and outcomes in relation to the Plan's investments on an annual basis, wherever feasible and appropriate; and
- providing information either directly, or by consent to source the data from third parties such as the external platform provider, to the Plan's investment adviser on climate-related metrics in relation to the Plan's investments, as agreed from time to time, and using its influence with investee companies and other parties to improve the quality and availability of these metrics over time.

Oversight of climate-related risks and opportunities

4. Trustee monitoring

The Trustees and ISG consider a range of different information about the climate change risks and opportunities faced by the Plan to enable them to fulfil their responsibilities. The following documents will incorporate climate-related risks and opportunities as appropriate, in accordance with the roles and responsibilities set out above. The Trustees and ISG will review, revise and approve when required the following, according to their roles and responsibilities:

Annual reviews

At one or more meetings each year, the Trustees will review, revise (where appropriate) and approve:

- the Plan's risk register, following review and updates from their advisers;
- an update report on the metrics in the Plan, following review by their advisers.
- their governance arrangements in relation to climate change matters;
- their draft TCFD reporting;
- a draft business plan for the following year that outlines the main topics due to be discussed at each Board meeting, including climate-related topics, and the papers expected from advisers in relation to each item;
- their investment beliefs and the Plan's investment policies in relation to climate change and other wider beliefs;
- whether it is appropriate to carry out scenario analysis that illustrates how members' investments 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;
- the advisers' climate competency and assess how they have performed against their climate responsibilities.

Further, at one or more meetings each year, the ISG, or the wider Trustees, will review:

- a responsible investment report from the Plan's investment advisers that reviews the Plan's investment managers in relation to environmental, social and governance ("ESG") factors and climate change;
- updates on the Plan's investments from the Plan's investment advisers;
- data on ESG metrics for the Plan's investments from their investment advisers, including at least three climate related metrics, and performance against any targets set in relation to these metrics;
- whether to retain or replace any targets set in relation to these metrics.

At least every three years (or following major changes)

The Trustees, with help from the ISG where appropriate, will consider climate-related risks and opportunities whenever a review of the Plan's investment strategy is undertaken.

The Trustees, with help from the ISG where appropriate, will also review:

- their choice of short-, medium- and long-term time periods to be used when identifying climate-related risks and opportunities to the Plan;
- the results of scenario analysis that illustrates how members' investments might be affected under various climate change scenarios, along with commentary on the potential impacts for the Plan's investment strategies.

The ISG will, at least every three years, review its choice of metrics to inform the Trustees' identification, assessment and management of climate-related risks and opportunities.

Whenever reviewing agreements with external advisers, or appointing new advisers, the Trustees will consider and document the extent to which the advisers' climate-related responsibilities are included in the agreements and/or any adviser objectives set.

Oversight of climate-related risks and opportunities (cont.)

4. **Trustee monitoring**

Oversight activity – appointments

The Trustees seek input from their investment advisers to ensure that they can identify, assess, and manage climate risks and opportunities. The Trustees will review the climate competence of their advisers and take appropriate action if any concerns are identified.

Over the Plan year, the Trustees and ISG have undertaken significant activity on climate change matters, based on information provided to them by their advisers and investment managers. Where appropriate, the Trustees have questioned the information provided to ensure they have a clear understanding of the risks facing the Plan and the actions being taken to reduce them.

When appointing new advisers in the future, the Trustees will consider whether the advisers have suitable climate credentials.

With appropriate advisers in place, the Trustees ensure that climate-related risks and opportunities are considered as part of any relevant advice such as investment strategy reviews.

Activities undertaken during the 2022-2023 Plan Year

During the Plan Year, the Trustees:

- updated the SIP to reflect the Trustees' beliefs in relation to climate change (Q2 2022);
- finalised the Climate Governance Statement which documents the governance processes that the Trustees have put in place to ensure that they have oversight of the climate-related risks and opportunities relevant to the Plan (Q2 2022);
- carried out climate scenario analysis to understand the impact that climate-related risks may have on the Plan (Q3 2022);
- reviewed their managers' climate approaches at a high level and engaged with some managers who were slightly behind expectations (Q3 2022/Q1 2023);
- selected and reported on 4 metrics for the 'popular arrangements'*, or funds used within the default lifecycle, in line with TCFD requirements (Q4 2022); and
- set a target for the portfolio alignment metric (Q1 2023).

Activities scheduled for the 2023-2024 Plan Year

As part of their TCFD compliance activities, the Trustees plan to undertake the following actions over the next Plan Year:

- review the Climate Governance Statement to ensure it remains appropriate for the Plan;
- produce an update report on 4 metrics, in line with TCFD requirements;
- review and, where appropriate, revise the Plan's risk register, following review and updates from their advisers;
- review the governance arrangements in relation to climate change;
- review the managers' climate approaches at a high level where necessary and engage with some managers who are still behind expectations as and when needed;
- approve their draft TCFD reporting; and
- review and approve a draft business plan for the following year that outlines the main topics due to be discussed at each Board meeting, including climate-related topics, and the papers expected from advisers in relation to each item.

* For Defined Contribution schemes, the Department for Work and Pensions' Statutory Guidance defines a popular arrangement as one in which £100m or more of the scheme's assets are invested or which accounts for 10% or more of the assets used to provide money purchase benefits (excluding assets which are solely attributable to Additional Voluntary Contributions).

1. Introduction

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

- Climate scenario analysis;
- Monitoring of metrics; and
- Stewardship activities.

The Trustees also ensure their advisers have processes in place to help them research their investment managers' climate-related practices, thereby helping them make informed judgments about their managers.

These tools have helped the Trustees 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 Trustees' risk appetite.

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

2. How the Trustees have assessed climate exposure

The Trustees have used climate scenario analysis to identify, assess and manage climate-related risks and opportunities. In particular, they have used the analysis to identify the time horizons over which physical risks and transition risks to Plan members could materialise.

Using the scenario analysis, the Trustees have considered what the possible impacts of climate change could be over short-, medium-, and long-term time horizons and whether their investment strategy is likely to be robust against these risks (or able to take advantage of any opportunities). Climate scenario analysis was carried out for the Plan in September 2022 (see Section 3, Climate Scenario Analysis).

The Trustees will carry out scenario analysis at least every three years and check annually if the review should be carried out sooner.

The results will feed into the Trustees' discussions and decisions on the default investment option and how members could be impacted at different ages over different time periods.

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

Trustees must decide the short-, medium- and long-term time horizons* that are relevant to their scheme. It is up to trustees how they determine their time horizons for the purpose of identifying and assessing climate-related risks and opportunities.

The Trustees have defined the below time horizons for the Plan. In setting these time horizons, the Trustees have taken into account the membership profile and the timing of widely held future climate milestones.

The Trustees will review the designated time periods regularly and following any material change to the Plan's membership. These time horizons have informed the Trustees' climate-related considerations and decisions during the year.

* The time horizons used by the Trustees are aligned to those proposed for Defined Contribution schemes by The Pensions Regulator in its guidance on the governance and reporting of climate-related risks and opportunities.

Time horizon	Description
Short-term	**5 years[1] (2027)** - Major improvements in climate data quality are expected over this period
Medium-term	**10 years[1] (2032)** – Key period over which policy action will determine if Paris Agreement goals met
Long-term	**28 years[1] (2050)** – Many economies are targeting to be net zero by this point.

Note: 1. Number of years until targeted date is as of 2022 when time horizons were agreed.

4. Overview of the climate-related risks and opportunities relevant to the Plan that the Trustees have identified

The Trustees have identified and assessed the risks and opportunities to the Plan over the short-, medium-, and long-term time horizons defined by the Trustees (see below).

These risks and opportunities are considered further in the following sections.

	Key risks	*Key opportunities*
Short term	Older members within 5 years of retirement will be most exposed to transition risks in the short term in the event of a Paris disorderly[1] pathway.	Low carbon investments can mitigate the impact of market shocks due to a market repricing event.
Medium term	Transition risks may still be heightened over the medium term creating volatility. Market returns may be lower if disorderly transition[1] harms economic performance.	Impact investments can take advantage of the shift to a low carbon economy and may provide an enhanced source of return over this period.
Long term	Physical risks are most prevalent in the failed transition[1] pathway, impacting those members 28 years or more from retirement.	Engagement with investment managers to ensure they are exercising stewardship in support of net zero pathways is key to avoiding a failed transition.

Note: Long term target is the number of years until 2050, as of 2022 when time horizons were agreed.

[1] The Paris disorderly, orderly and failed transition pathways have been defined on p.15 of this report.

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

Risk register

The Trustees maintain a risk register covering the wide range of risks applicable to the Plan, as well as climate-related risks to ensure that the Trustees manage these as part of their regular risk reviews.

The potential impacts identified in the risk register that arise from climate risks are climate change, or a transition to a low-carbon economy, impacting the Plan. This could be caused by:

- Poor investment performance which could be limited to member-level risk; or
- Broader reputational risk to Trustees and/or sponsor (based on decisions taken in relation to ESG).

The Trustees also identified potential opportunities for improving member outcomes arising from climate-related opportunities in their climate scenario analysis.

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

The Trustees' current assessment, based on consideration of their impact and likelihood, is that climate-related risks are a moderate risk for the Plan, relative to other risks. The Trustees incorporated a Climate Tilt fund in the Plan's default investment strategy in March 2021 to manage the potential impact of a disorderly transition to a low-carbon economy. To manage the likelihood of this risk, the Trustees have articulated Trustee beliefs regarding ESG aspects and continue to work with LCP to ascertain whether the investment choice can be even better aligned with the Trustees' beliefs.

Investment Monitoring

The Plan's investment adviser provides quarterly investment performance monitoring reports in respect of the Plan's Default, alternative lifecycles and self-select investment arrangements. No concerns about the investment managers' approaches to mitigating climate risks were raised by the investment adviser over the year.

The Trustees also receive and review information about their investment managers' responsible investment credentials, including climate change mitigation, annually. This information is provided by the Plan's investment adviser, LCP, and is based on proprietary manager research carried out by LCP.

In the latest report presented by the Trustees' investment adviser, it found that the majority of managers and funds used within the Plan have moderate or strong climate credentials, however there are some areas for improvement for some funds such as improving their climate data reporting. The report concluded that the Trustees could engage and monitor some managers on actions such as increasing portfolio alignment metrics reporting, improving climate scenario analysis and signing up to climate-related initiatives.

1. Climate Scenarios Considered

The Trustees carried out climate scenario analysis in September 2022 with the support of their investment adviser, LCP. The analysis looked at three possible scenarios, which are set out in the table below.

The Trustees will carry out scenario analysis at least every three years and check annually if the review should be carried out sooner.

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

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

These scenarios show that equity markets could be significantly impacted by climate change with lesser but still noticeable impacts in bond markets. All three scenarios envisage, on average, lower investment returns and these result in lower retirement outcomes for DC members.

Transition	Description
Failed Net Zero	Net zero is not met by 2050, or at all; the Paris Agreement goals are therefore not achieved; only existing climate policies are implemented.
Orderly Net Zero	Global net zero reached by 2050 and subsequently go carbon-negative; rapid and effective climate action, with smooth market reaction.
Disorderly Net Zero	Same policy, climate and emissions outcomes as the Orderly Net Zero, but financial markets are initially slow to react and then react abruptly.

Note: Net zero refers to a state in which the human-caused greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. The term net zero is important because the scientific consensus is that global CO_2 emissions need to reach net zero no later than 2050 for there to be a good chance of limiting temperature rises to 1.5°C.

1. Climate Scenarios Considered (cont.)

The key features of each of the climate scenarios considered are summarised in the table below.

Scenarios:	***Failed Transition***	***Orderly Net Zero by 2050***	***Disorderly Net Zero by 2050***
Low carbon policies	Continuation of current low carbon policies and technology trends (eg significant falls in renewable energy prices)	Ambitious low carbon policies, high investment in low-carbon technologies and substitution away from fossil fuels to cleaner energy sources and biofuel. Carbon Capture and Storage also used to achieve global net zero by 2050.	
Paris Agreement outcome	Paris Agreement goals not met	Global net zero achieved by 2050; Paris Agreement goals met	
Global warming	Average global warming is about 2°C by 2050 and over 4°C by 2100, compared to pre-industrial levels	Average global warming stabilises at around 1.5°C above pre-industrial levels	
Physical impacts	Severe physical impacts	Moderate physical impacts	
Impact on GDP	Global GDP is significantly lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be almost 50% lower than in the climate uninformed scenario.	Global GDP is lower than the climate-uninformed scenario in 2100. For example, UK GDP in 2100 predicted to be about 5% lower than in the climate-uninformed scenario.	In the long term, global GDP is slightly worse than in the Orderly Net Zero scenario due to sentiment shock.
Financial market impacts	Physical risks priced in over the period 2026-2030. A second repricing occurs in the period 2036-2040 as investors factor in the severe physical risks	Transition and physical risks priced in smoothly over the period of 2022-2025	Abrupt repricing of assets and a sentiment shock to the financial system in 2025

Source: Ortec Finance. Figures quoted are medians.

2. Modelling

Modelling approach

- The scenario analysis is based on a model developed by Ortec Finance and Cambridge Econometrics. The outputs were then applied to the Plan's assets by LCP.
- The three climate scenarios are projected year by year, over a 40-year period. The results are intended to help the Trustees to consider how resilient the default lifecycle strategy is to the physical effects of climate change and/or the transition risks from technological change and government policies that seek to address climate change.
- The three climate scenarios chosen are intended to be plausible, not "worst case". They are only three scenarios out of countless others which could be considered.
- Other scenarios could give better or worse outcomes for the Plan.

Modelling limitations

- As this is a "top-down" approach, investment market impacts were modelled as the average projected impacts for each asset class. This contrasts with a "bottom up" approach that would model the impact on each individual investment held by the default strategy. As such, the modelling does not require extensive scheme-specific data and so the Trustees were able to consider the potential impacts of the three climate scenarios for all of the Plan's assets in the default lifecycle strategy.
- In practice, the Plan's investments may not experience climate impacts in line with the market average.
- Like most modelling of this type, the modelling does not allow for all potential climate-related impacts and, therefore, is quite likely to underestimate some climate-related risks. For example, tipping points (which could cause runaway physical climate impacts) are not modelled and no allowance is made for knock-on effects, such as climate-related migration and conflicts.

3. Potential Plan impacts under each scenario

The scenario analysis looked at the retirement outcomes (in terms of the size of retirement pots) for individual members of different ages who are invested in the Default lifecycle strategy.

For an active member invested in the 10 Year Royal Mail Lifecycle strategy (the Default Lifecycle Strategy)

	Member aged 30	Member aged 40	Member aged 50
Starting pot	£13,400	£14,500	£14,700
	Change relative to climate-uninformed outcome in brackets		
Climate-uninformed outcome	£263,700	£161,900	£85,400
Paris Orderly outcome	(-8.3%)	(-4.9%)	(-2.0%)
Paris Disorderly outcome	(-11.6%)	(-9.0%)	(-6.1%)
Failed Transition outcome	(-29.5%)	(-20.6%)	(-4.3%)

For a deferred member invested in the 10 Year Royal Mail Lifecycle strategy

	Member aged 50
Starting pot	£6,500
	Change relative to climate-uninformed outcome in brackets
Climate-uninformed outcome	£9,600
Paris Orderly outcome	(-5.2%)
Paris Disorderly outcome	(-13.5%)
Failed Transition outcome	(-6.3%)

Source: Starting pot sizes are the median for each member age based on Scottish Widows data as at 30 June 2022. Contribution rates are based on data as at July 2020. Projections calculated using LCP Horizon Pro.

3. Potential Plan impacts under each scenario

The analysis highlighted that members will be subject to climate risks to varying degrees. In addition to the impact over time on members' pots, the Trustees note that market shocks for members near retirement can be particularly detrimental to their retirement planning and outcomes.

- In the short-term, older members within 5 years of retirement will be most exposed to transition risks, in the event of a Net Zero disorderly pathway.
- In the medium-term, transition risks may still be heightened, creating volatility. Market returns may be lower if disorderly transition harms economic performance.
- In the long-term, physical risks are most prevalent in the failed transition pathway, impacting those members 30 years or more from retirement.

The Trustees believe that appointing managers that are committed to an efficient and effective transition to a low-carbon economy is an important means of facilitating good member outcomes. The Trustees believe that the transition to a low carbon economy presents risks and opportunities for the Plan's investment returns, and that mitigating the risks and seeking out the opportunities offers the potential to make the investment strategy more resilient and enhance the Plan's investment returns.

Source: Starting pot sizes are the median for each member age based on Scottish Widows data as at 30 June 2022. Contribution rates are based on data as at 23 July 2020. Projections calculated using LCP Horizon Pro.

1. Metrics

The Trustees have chosen four climate-related metrics to help them monitor climate-related risks and opportunities relevant to the Plan. These are listed below and reported overleaf (as far as the Trustees were able to obtain the data).

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, demonstrated by a target approved Science Based Targets initiative (SBTi) or equivalent. Reported in percentage terms. The Trustees 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 and Scope 3 emissions are **verified, reported, estimated or unavailable**.

The data has been calculated using portfolio holdings and data as at 30 September 2022.

The majority of assets are invested in the default lifecycle strategy, with the assets allocated depending on members' expected retirement dates, as shown in Appendix 1. As at 30 September 2022, 94.3% of assets were invested in this strategy. The remaining assets are invested in alternative lifecycles available within the Plan and a range of self-select funds, the largest self-select fund allocation being c1.2% (£15.2m). The Trustees have not collected metrics for the self-select funds as it did not feel proportionate to do so. This is in line with the guidance issued by the Department for Work and Pensions.

Equities make the most significant contribution to climate risk in the default strategy, both as a result of equities being one of the assets most strongly impacted by climate risk and given the high allocation in the default strategy. The Plan's bond and multi asset funds contribute a smaller proportion of the Plan's total emissions.

The default investment lifecycle allocations are shown in Appendix 1, along with the alternative lifecycle allocations. Each of the lifecycles target differing retirement options.

2. Scope 1+2 emissions

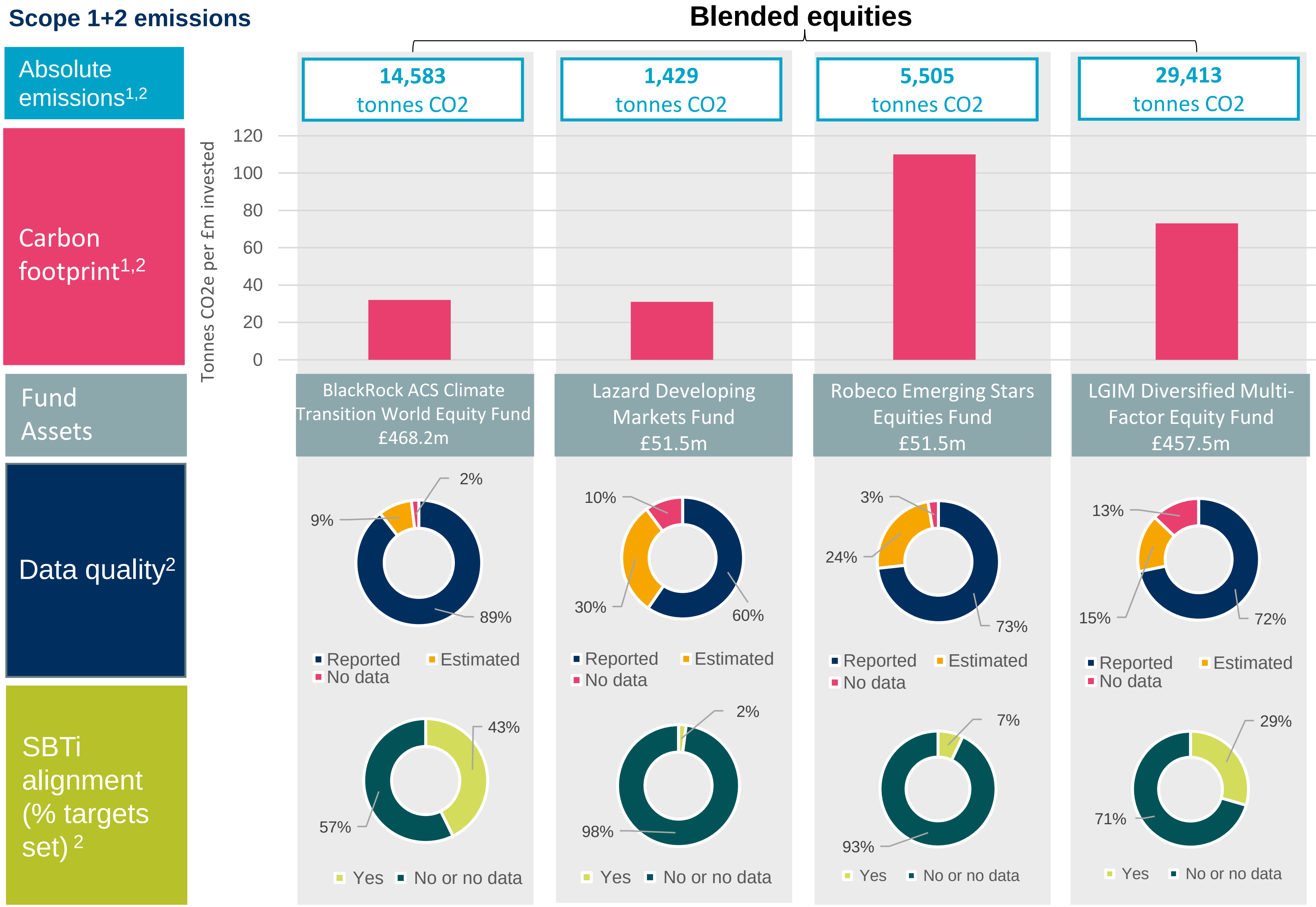
Portfolio emissions coverage	<75%	75%-90%	>90%

All data has been sourced from LCP's Climate Dashboard tool[2].

Portfolio	Manager	Assets at 30 September 2022 / % of total RMDCP assets	Metric 1: Emissions (tonnes CO_2e)[1,2]	Metric 2: Carbon footprint (tonnes CO_2e per £m invested)[1,2]	Coverage[2]	Metric 3: SBTi alignment % targets set[2]	Metric 4: Data quality (% reported / estimated / no data)
Blended equities	BlackRock ACS Climate Transition World Equity Fund	£468.2m / 36%	14,583	32	98.1%	42.8%	89 / 9 / 2
	Lazard Developing Markets Fund	£51.5m / 4%	1,429	31	89.8%	2.0%	60 / 30 / 10
	Robeco Emerging Stars Equities Fund	£51.5m / 4%	5,505	110	97.2%	7.0%	73 / 24 / 3
	LGIM Diversified Multi-Factor Equity Fund	£457.5m / 36%	29,413	73	87.1%	29.5%	72 / 15 / 13
Diversified growth	BlackRock Aquila Life Market Advantage Fund ('ALMA')	£118.0m / 9%	566	22	21.2%	4.3%	14 / 7 / 79
Absolute return bonds	Aegon Absolute Return Bond Fund	£11.0m / 1%	187	25	67.5%	11.6%	57 / 10 / 33
	BNY Mellon Global Dynamic Bond Fund	£49.5m / 4%	479	49	20.0%	3.0%	17 / 3 / 80
	M&G Total Return Credit Investment Fund	£49.5m / 4%	2,518	93	54.5%	15.9%	43 / 11 / 45

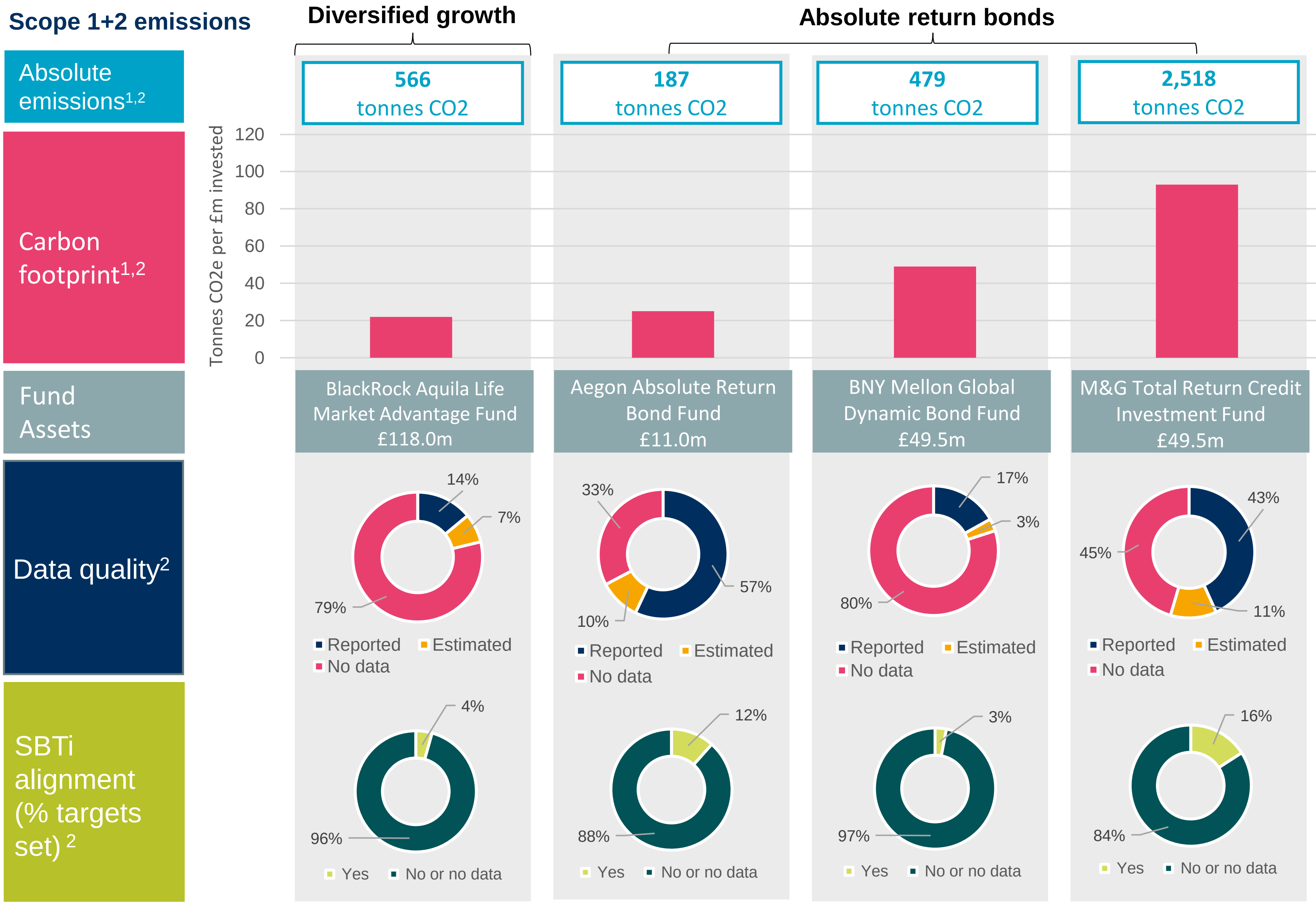
- The total carbon emissions are given for each of the Plan's funds used within the **Default lifecycle strategy**. Naturally, the funds with the largest assets have the largest total carbon emissions.
- In terms of data gaps, **all of the Plan's funds used in the Default lifecycle strategy have reported a proportion of missing data for data quality**. The equity funds have higher levels of reported data in comparison to the absolute return bond funds. We would expect data coverage for these types of funds to be lower than equity funds given the less transparent nature of the underlying holdings, but we expect that this will improve over time as companies become more used to reporting these types of metrics.
- Data quality for BlackRock ALMA is significantly lower as reported data includes only listed equity and corporate bond holdings. Given the Fund has allocations to a lot of different asset classes where data is unavailable, coverage is very low as we would expect.

Data as at 30 September 2022. Data quality % may not add to 100% due to rounding.
[1]Figures relate only to the assets for which data is available. Total emissions are for RMDCP's assets, not the whole pooled fund.
[2]Source: Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission. See Appendix 4 for more details.



Data as at 30 September 2022. [1]Figures relate only to the assets for which data is available. Total emissions are for RMDCP's assets, not the whole pooled fund.
[2]Source: Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission. See Appendix 4 for more details.

Section 4 – Metrics and Targets



Data as at 30 September 2022. [1]Figures relate only to the assets for which data is available. Total emissions are for RMDCP's assets, not the whole pooled fund.
[2]Source: Certain information ©2022 MSCI ESG Research LLC. Reproduced by permission. See Appendix 4 for more details.

2. Target

The Trustees have set the following target for the SBT metric. Progress against the target will be measured annually as part of the review of the Trustees' chosen metrics.

Target	Coverage	Reference base date
Aspire to increase the percentage of equities and corporate bonds within the default arrangement with a Science Based Target from the current level of 20% to 35% by 30 September 2027.	Equities and corporate bonds within the default lifecycle strategy	30 September 2022

The following steps will be taken to achieve the target:

The Trustees, with help from their investment advisers (LCP), will communicate the target to the relevant investment managers.

The investment advisers encourage managers to support the goal of net zero emissions by 2050 or earlier and has published their expectations for investment managers in relation to net zero. This includes the use of effective voting (where applicable) and engagement with portfolio companies to encourage achievement of net zero. The investment advisers continue to engage with managers on this topic and will encourage them to use their influence with portfolio companies to increase the use of SBTi targets.

The Trustees will review progress towards the target each year and consider whether additional steps are needed to increase their chance of meeting the target.

Conclusion

Overview

The Trustees have produced this report to align their annual governance activities with best practice expectations on climate reporting. It is the first report of its kind produced for the Plan and will be followed by updated versions on an annual basis.

Over the Plan Year, the Trustees focused on establishing appropriate climate-related governance to help them manage the risks and opportunities presented by climate change. To that end, the Trustees have put in place a new Climate Governance Statement and updated their other governance documents to take account of these risks and opportunities.

The Trustees have also focused on understanding the Default Lifecycle's climate impact through dedicated climate metrics analysis. These will be measured in future years to enable the Trustees to evaluate the Plan's exposure to climate-related risks over the long-term.

Next Steps

Climate considerations are one of a number of factors that feed into the Trustees' decision-making in regard to the Default lifecycle investment strategy.

The Trustees do not intend to take any immediate actions as a result of the analysis carried out in preparing this document.

However, the findings of this and subsequent TCFD reports will be considered as part of:

- Ongoing monitoring of the underlying investment managers, who the Trustees will continue to challenge to reduce funds' exposure to climate risks; and

- Periodic investment strategy reviews, where the Trustees will consider whether there are additional steps they could take as part of the Plan's investment design to mitigate climate-related risks.

Appendix 1: Lifecycle strategies

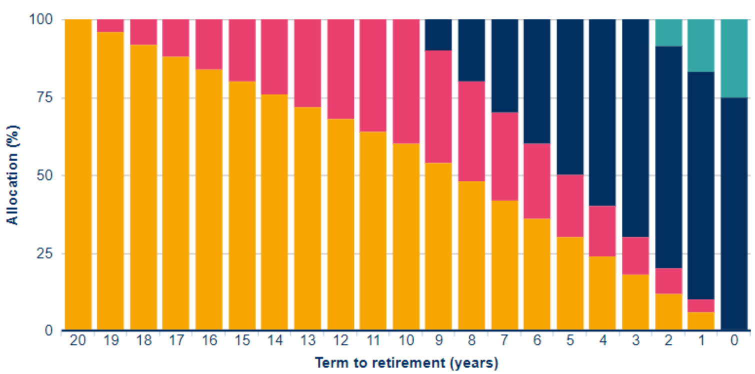
The lifecycle strategies

Four lifecycles with differing retirement options

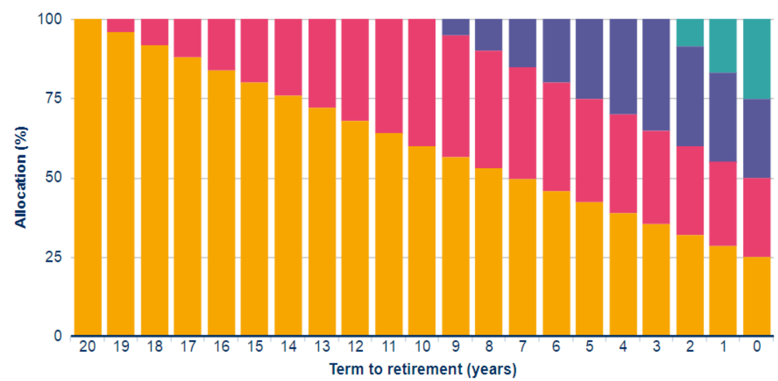
10 Year Royal Mail Lifecycle strategy (default)

5 Year Royal Mail Lifecycle strategy

10 Year Royal Mail Annuity Lifecycle strategy



10 Year Royal Mail Flexible Retirement Lifecycle strategy



Blended Equity Fund **Diversified Assets Fund** **Diversified Bonds Fund** Annuity Bonds Fund Cash Fund

Most members are invested in the 10 Year Royal Mail Lifecycle strategy (the default strategy). The default strategy and the 5 Year Royal Mail Lifecycle strategy are most suitable for members who wish to take their pot as one or more cash sums at, or close to, their selected retirement age. Alternative lifestyles targeting different retirement outcomes, such as annuity purchase, are also available.

Appendix 2: Modelling assumptions and methodology

Summary of assumptions

- Our modelling is designed to illustrate, for each climate scenario and the default lifecycle strategy, the development of a typical member's fund value.
- The key investment assumptions behind our modelling are set out overleaf.
- These assumptions are used within our modelling to determine:
  - the expected fund at retirement and various measures of the risk of achieving this; and
  - the pension the member could buy and various measures of the risk of achieving this.
- We have assumed a 0% pa real increase in the member's salary. Our output is shown in real terms.
- Our assumptions for the long-term expected annual return and expected standard deviation of the annual returns for each asset class or investment are set out overleaf.
- The expected return assumptions are geometric average long-term annual figures.
- The assumptions are intended to be best estimates; this means for each assumption there is a 50 / 50 chance that the observed value will be either higher, or lower, than assumed. The return assumptions have been reduced to allow for the typical investment management fees required to invest in each asset class.
- The climate-uninformed expected return assumptions for cash, gilts, index-linked gilts, corporate bonds, high yield debt and emerging market debt are based on observed market yields as at 31 March 2022. Other climate-uninformed assumptions have been set by:
  - looking at analyses of historical information;
  - taking into account the views of a number of investment organisations; and
  - making pragmatic judgements.

Model due diligence

Our review of the Ortec Finance and Cambridge Econometrics model

- To review Ortec Finance's financial model, the following has been done:
  1) Held meetings to discuss the modelling and the initial results provided by Ortec Finance.
  2) Reviewed documentation describing different aspects of the modelling.
  3) Held follow ups meeting to discuss questions arising from the documentation review.
- Following this review process, we also adjusted the scenario outputs provided by Ortec Finance so they are better aligned to LCP's best estimate financial assumptions. Ortec Finance have given their agreement to our adjustment methodology.
- The scenarios illustrated should not be regarded as forecasts. They are intended to illustrate possible future outcomes to help stakeholders assess the risks posed to pension schemes by climate change.
- We note that uncertainty in climate modelling is inevitable. In aggregate, it is quite likely that Ortec Finance's modelling underestimates the potential impacts of climate-related risks, especially for the Failed Transition scenario.
- Ortec Finance reviews and updates its model twice a year, both to enhance the modelling and to update for market and climate-related changes. The figures in this report are based on the 31 December 2021 version of the model.

We have concluded that Ortec Finance's standard financial model follows a robust and well documented methodology which is on par with, or more advanced than, similar methodologies of other providers in the market.

Modelling assumptions

Asset class returns – 31 March 2022

Expected return (% pa)	Climate uninformed based case			Orderly Net Zero			Disorderly Net Zero			Failed Transition		
	5 years	10 years	40 years	5 years	10 years	40 years	5 years	10 years	40 years	5 years	10 years	40 years
Money market cash	1.4%	1.6%	1.6%	1.5%	1.7%	1.6%	1.5%	1.7%	1.6%	1.4%	1.6%	1.5%
Fixed interest gilts (18 years)	1.4%	1.6%	1.6%	1.3%	1.5%	1.6%	1.4%	1.5%	1.6%	1.4%	1.7%	1.6%
Index-linked gilts (23 years)	1.4%	1.6%	1.6%	1.7%	1.8%	1.7%	1.8%	1.8%	1.7%	1.4%	1.7%	1.7%
Investment grade corporate bonds (8 years)	2.5%	2.7%	2.7%	2.4%	2.8%	2.7%	2.4%	2.7%	2.7%	2.4%	2.7%	2.6%
Investment grade (ex-BBB) corporate bonds (8 years)	2.4%	2.6%	2.6%	2.3%	2.7%	2.6%	2.3%	2.6%	2.6%	2.3%	2.6%	2.5%
UK equities	6.5%	6.7%	6.7%	5.6%	6.3%	6.4%	3.6%	5.4%	6.1%	6.1%	5.8%	5.2%
Low carbon UK equities	6.5%	6.7%	6.7%	5.7%	6.5%	6.5%	4.7%	6.0%	6.4%	6.1%	5.8%	5.2%
Overseas equities	6.5%	6.7%	6.7%	5.2%	5.9%	6.1%	2.6%	4.7%	5.8%	6.0%	5.7%	4.8%
Overseas equities (currency hedged)	6.4%	6.6%	6.6%	5.3%	6.0%	6.3%	2.8%	4.9%	6.0%	5.9%	5.6%	4.8%
Global equities	6.5%	6.7%	6.7%	5.2%	5.9%	6.1%	2.6%	4.7%	5.8%	6.0%	5.7%	4.8%
Low carbon global equities (currency hedged)	6.5%	6.7%	6.7%	5.5%	6.4%	6.6%	4.9%	6.1%	6.5%	6.0%	5.7%	4.9%
Low carbon global equities (unhedged)	6.4%	6.6%	6.6%	5.4%	6.3%	6.5%	4.8%	6.0%	6.4%	5.9%	5.6%	4.8%
Emerging markets equities	7.6%	7.8%	7.8%	6.8%	7.4%	7.2%	3.7%	5.9%	6.8%	7.2%	6.9%	5.5%
Private equity	7.5%	7.7%	7.7%	6.1%	7.1%	7.2%	3.4%	6.0%	6.9%	7.0%	6.4%	5.5%
High yield debt	3.4%	3.6%	3.6%	3.1%	3.8%	3.6%	3.1%	3.8%	3.6%	3.2%	3.5%	3.3%
Emerging market debt	4.3%	4.5%	4.5%	4.2%	4.4%	4.5%	4.4%	4.4%	4.5%	4.2%	4.5%	4.4%
EM multi-asset	6.3%	6.5%	6.5%	5.9%	6.3%	6.2%	4.5%	5.6%	6.0%	6.1%	6.1%	5.3%
UK property	4.9%	5.1%	5.1%	4.7%	5.1%	4.9%	3.0%	4.4%	4.7%	4.5%	4.1%	3.4%
Global property	5.6%	5.8%	5.8%	5.4%	5.8%	5.6%	3.7%	5.1%	5.4%	5.2%	4.8%	4.1%
Absolute return bonds	3.0%	3.2%	3.2%	3.0%	3.3%	3.2%	3.1%	3.3%	3.2%	3.0%	3.2%	3.1%
Diversified growth (traditional)	4.6%	4.8%	4.8%	4.0%	4.5%	4.6%	2.8%	4.0%	4.5%	4.3%	4.3%	3.9%
Diversified growth (relative value)	3.3%	3.5%	3.5%	2.7%	3.2%	3.3%	1.5%	2.7%	3.2%	3.0%	3.0%	2.6%
Listed infrastructure equity	6.4%	6.6%	6.6%	5.9%	6.4%	6.2%	3.9%	5.5%	5.9%	6.1%	5.8%	5.0%
Unlisted Infrastructure equity	6.1%	6.3%	6.3%	5.6%	6.1%	5.9%	3.6%	5.2%	5.6%	5.8%	5.5%	4.7%
Commodities	4.8%	5.0%	5.0%	5.3%	5.6%	5.1%	2.1%	4.6%	4.9%	4.9%	5.1%	5.1%
Fund of hedge funds	4.6%	4.8%	4.8%	4.1%	4.4%	4.6%	3.7%	4.2%	4.5%	4.5%	4.6%	4.4%
Multi-asset credit	4.1%	4.3%	4.3%	4.0%	4.4%	4.3%	4.0%	4.4%	4.3%	4.1%	4.3%	4.2%
Opportunistic credit	7.1%	7.3%	7.3%	6.5%	7.2%	7.2%	5.7%	6.9%	7.1%	6.8%	6.9%	6.5%
Private credit	5.4%	5.6%	5.6%	5.5%	5.9%	5.6%	5.5%	6.0%	5.6%	5.3%	5.6%	5.5%
Long lease property	5.2%	5.4%	5.4%	5.0%	5.4%	5.2%	3.3%	4.7%	5.0%	4.8%	4.4%	3.7%
Alternative risk premia	4.6%	4.8%	4.8%	4.1%	4.4%	4.6%	3.7%	4.2%	4.5%	4.5%	4.6%	4.4%
Insurance-linked securities	5.8%	6.0%	6.0%	5.3%	5.6%	5.8%	4.9%	5.4%	5.7%	5.7%	5.8%	5.6%
Asset-backed securities	3.2%	3.4%	3.4%	3.3%	3.5%	3.4%	3.4%	3.6%	3.4%	3.2%	3.4%	3.3%

- The table above shows the investment annualised returns assumed under each scenario in our modelling over a specified time horizon from 31 March 2022. These annualised returns are a consequence of the many assumptions underlying the scenario modelling.
- We have illustrated returns over distinct periods. As such, these do not show the timings of exactly when these returns are expected to take place, in particular the timings of any market shocks described throughout this report.

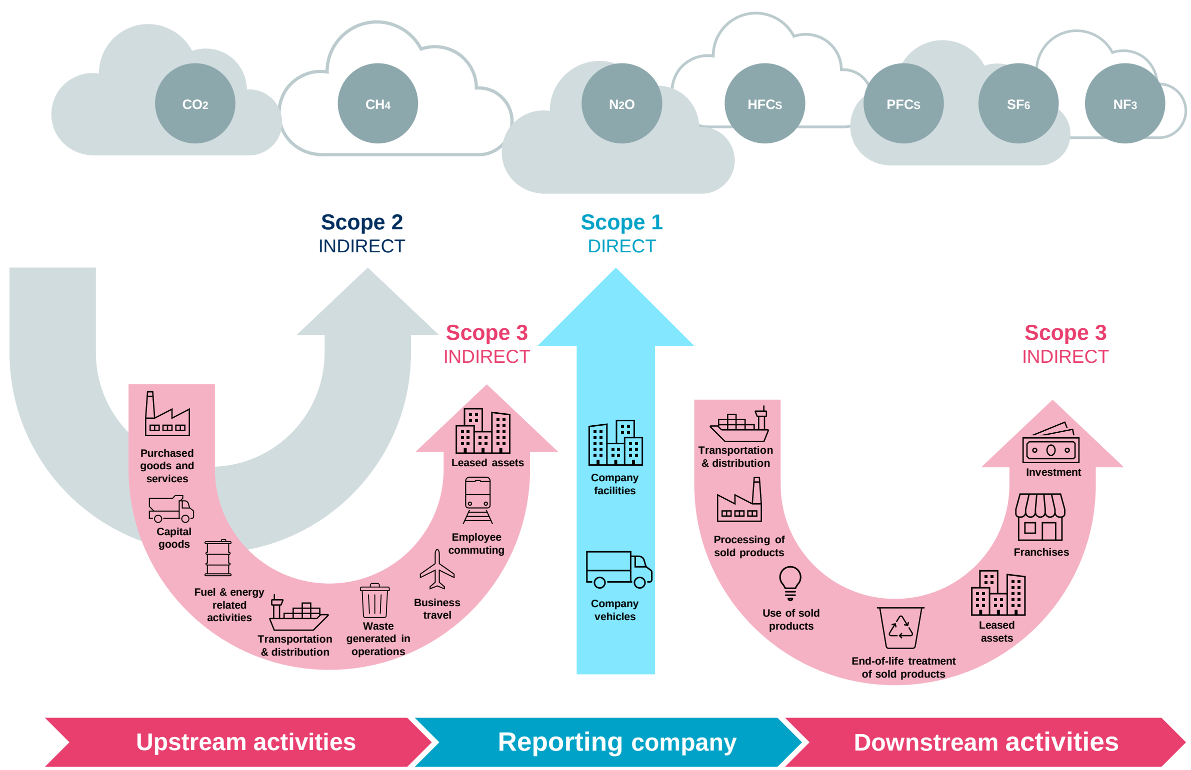
Appendix 3: Greenhouse gas emissions

Greenhouse gas emissions explained

Within the ‘metrics’ 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 4: Further information on climate-related metrics

Further information on climate-related metrics

1. Listed equities and corporate bonds

Notes for data sourced from MSCI (shown in metrics and targets section)

Emissions are attributed to investors using “enterprise value including cash” (ie EVIC, the value of equity plus outstanding debt plus cash).

The total GHG emissions figures omit any companies for which data was not available. For example, if the portfolio was worth £200m and emissions data was available for 70% of the portfolio by value, the total GHG emissions figure shown relates to £140m of assets and the portfolio’s carbon footprint equals total GHG emissions divided by 140. In other words, no assumption is made about the emissions for companies without data.

The science-based targets metric equals the % of portfolio by weight of companies that have a near-term carbon emissions reduction target that has been validated by the Science Based Targets initiative (SBTi). The MSCI database does not distinguish between companies which do not have an SBTi target and companies for which MSCI does not check the SBTi status, so the coverage for this metric is equal to the % of the portfolio with an SBTI target.

Emissions data coverage and quality

Where coverage of the portfolio analysed is less than 100%, this is because the MSCI database:

- Does not cover some holdings (eg cash, sovereign bonds, bonds that have recently matured, shares in companies no longer listed when the analysis was undertaken);
- Does not hold emissions data for some portfolio companies because the company does not report it and MSCI does not estimate it; and/or
- Does not hold EVIC data for some portfolio companies, so emissions cannot be attributed between equity and debt investors.

The last of these reasons is usually the main explanation for the fairly low coverage of bond portfolios.

The MSCI database records whether emissions data is reported or estimated, and which estimation method has been used, but not whether companies’ reported emissions have been independently verified. Our investment consultant has asked MSCI to introduce this distinction. Where emissions data is estimated, MSCI uses one of three methods.

- For electric utilities, MSCI’s estimate of Scope 1 emissions is of direct emissions due to power generation, calculated using power generation fuel-mix data.
- For companies not involved in power generation, which have previously reported emissions data, MSCI starts with a company-specific carbon intensity model.
- For other companies, MSCI uses an industry segment-specific carbon intensity model, which is based on the estimated carbon intensities for 1,000+ industry segments.

MSCI is a leading provider of climate-related data, so we would expect the coverage to compare favourably with other data sources. Our investment consultant is engaging with MSCI to encourage them to improve EVIC coverage for debt issuers and to distinguish between companies which do not have an SBTi target and companies for which it does not check the SBTi status.

Further information on climate-related metrics

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