Mercer

Clwyd Pension Fund

Analytics for Climate Transition (ACT) 2022

Private and confidential

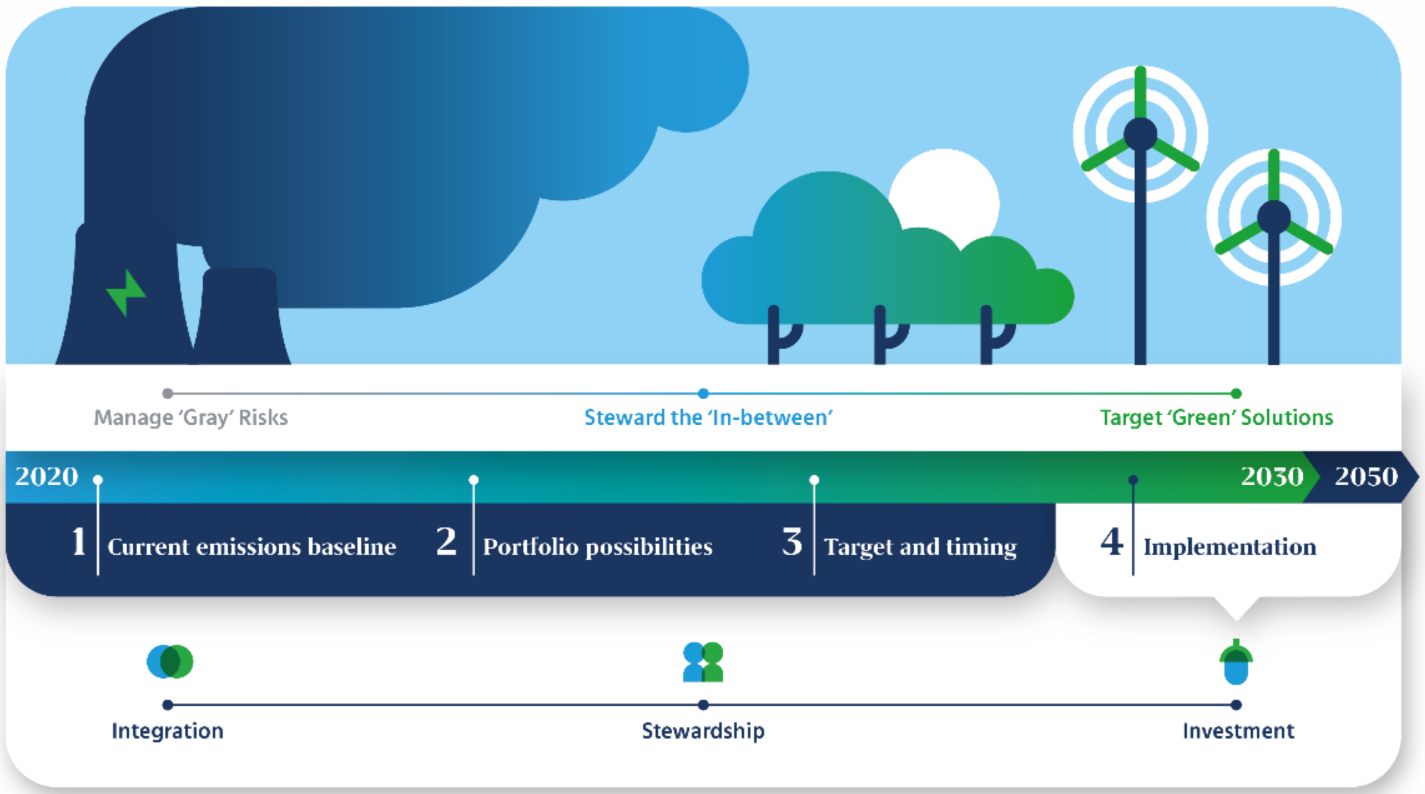
February 2023

welcome to brighter

Analytics for Climate Transition

The How and What?

Mercer's Analytics for Climate Transition (**ACT**), follows a step by step approach to align to a net zero* outcome by 2050 or earlier.



The recommendations are in the form of a **climate transition plan, including targets, and have confidence in answering key questions**:

Can we reduce emissions and set aligned targets while:

a) meeting investment objectives? &
b) not just divesting today's high carbon companies? And can this be practically implemented and monitored?

*'Net zero' means emissions are reduced as far as possible, where there are options to do so, with any remaining emissions offset by absorbing an equivalent amount from the atmosphere e.g. in nature (trees and soils) or via carbon capture and storage or use technologies

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Purpose of this Analysis

- This report provides the Fund with an updated understanding of the portfolio's transition capacity as at 31 March 2022 using the Mercer Analytics for Climate Transition (ACT) tool. It is the second year of this analysis.
- Analysis is carried out on the Fund's Listed Equities (Global and Emerging Markets Equity), synthetic equity and Multi-Asset Credit (MAC) portfolios, as well as on part of the Tactical Asset Allocation (TAA) portfolio. This results in c.40.5% of the total Fund being analysed.
- The aim of this analysis is to:
    - Monitor progress against the Fund's listed equity targets across decarbonisation, exposure to fossil fuels (oil, gas coal) and explore the proportion of emissions within high impact sector that are currently under engagement or aligned with a low carbon future.
    - Understand the transition capacity of the Fund's listed equity, MAC and TAA portfolios.
    - Present an updated high level implementation plan for listed equities that incorporates further asset classes over time.
- To date, the recommended targets have been set on scope 1 and 2 emissions and when the level of corporate reporting of scope 3 emissions improves we recommend including scope 3 emissions into the Fund's emissions baseline and target setting framework.
- We recommend using carbon footprint as the primary metric for monitoring decarbonisation progress, but to also monitor progress against absolute emissions and weighted average carbon intensity (WACI). This is a change to last year when targets were set on an absolute emissions basis.

The aim of this analysis is to understand the Fund's low carbon transition alignment and progress against the decarbonisation targets set and communicated in 2021.

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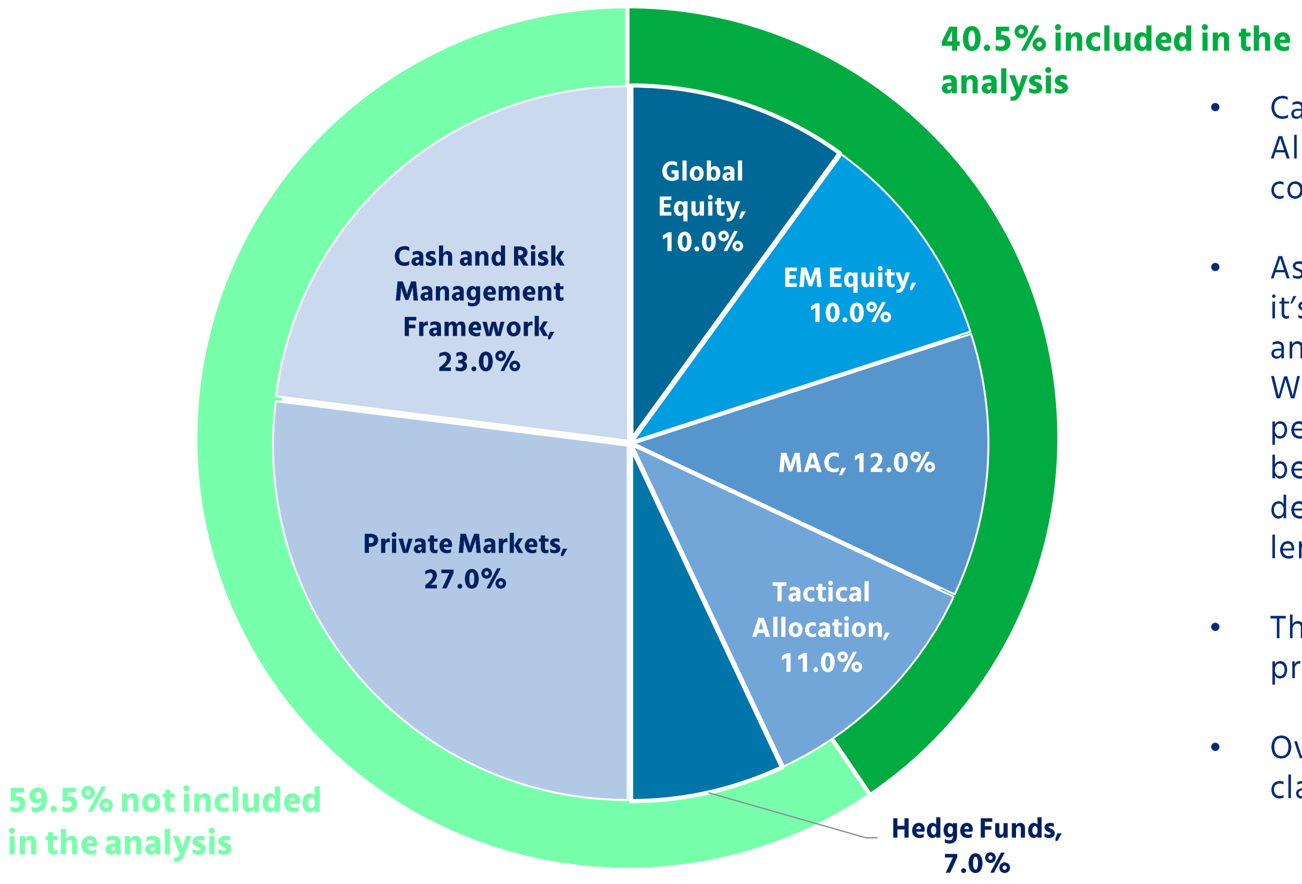
Proportion of Holdings Analysed

Fund strategic asset allocation as at 31 March 2022



- Carbon metrics have been provided on 40.5% of the Fund's Strategic Asset Allocation. Consistent with the previous year's analysis, the updated baseline consists of the Fund's global and emerging market equity mandates.
- As the Tactical Asset Allocation portion of the SAA is tactical and short term by it's very nature, this portion of the portfolio was excluded from the baseline analysis and assessment of progress versus listed equity portfolio targets. Whilst the majority of the TAA portfolio was analysed from a metrics perspective, the Commodity and the Sterling Liquidity Funds were not able to be analysed owing to data availability in the case of the former, and lack of decision usefulness in respect of the cash fund due to the very short term lending in the portfolio .
- There is an active ongoing exercise to gather carbon metrics data on the property holdings.
- Over time as consensus around methodology for less conventional asset classes grows, this analysis will cover a greater proportion of the Fund.

Notes: The data analysed excludes e.g. cash and derivative allocations within the funds analysed. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. Please note within the Cash and Risk Management Framework there is exposure to synthetic global developed equity.

Overview of Select Metrics

- This presentation sets out various metrics related to the greenhouse gas emissions attributable to the Fund’s mandates. The metrics contained in this presentation are calculated using MSCI data, with portfolio stocklists sourced directly from the investment managers. Metrics related to the property portfolio were sourced directly from the manager.
- We measure Absolute GHG Emissions, Carbon Footprint, Weighted Average Carbon Intensity (WACI), the percentage of companies with Science Based Targets Initiative (SBTi’s) targets and Data Quality. This report includes scope 1 & 2 emissions, which is required in a scheme’s first year of reporting.

Listed equities		
Emissions Metrics	**Overview**	**Description**
Absolute GHG emissions	Total greenhouse gas (GHG) emissions: tons of CO_2 equivalent (tCO_2e)	Calculates an investor’s share of the total emissions for each company/holding. It seeks to answer what emissions the investor is responsible for.
Carbon Footprint (CF)	tCO_2e / $million invested	Total GHG Emissions figure normalised to take account of the size of the investment made. It seeks to answer how carbon intensive the portfolio is.
Weighted Average Carbon Intensity (WACI)	tCO_2e / $million revenue	Average exposure (weighted by portfolio allocation) to GHG emissions normalised by revenue. It seeks to answer how carbon intensive the companies in the portfolio are.
Non-Emissions Metrics	**Overview**	**Description**
% of portfolio with SBTi targets	Alignment metric	A measure of how many companies in a portfolio have submitted climate transition plans that have been approved by the Science Based Targets Initiative (SBTi). There is more detail on SBTi in the appendix.
Implied temperature rise	Alignment metric	A metric that provides an indication of how companies and investment portfolios align to a global climate temperature pathway e.g. a portfolio that is Paris Aligned has an ITR of 2°C or below. Investors are increasingly targeting a 1.5°C outcome.

How ACT analysis has been used to date and key findings

Forward look to next 12-18 months

Over the last 12 months ACT has been used to:

- Set 2025 and 2030 decarbonisation and wider targets and monitor progress
- Provide insight into transition capacity and monitor progress
- Identify the most strategically important companies from an emissions perspective (slides 28 & 29)
- Support the RI strategy and policy approach
- Cover additional asset classes and strategies beyond listed equity

Key findings in this report include:

- Decarbonisation progress over the period: the listed equity portfolio, on a carbon footprint basis, has increased by 9.7% and is behind target. This was driven by the transition of the legacy EM mandates to the more carbon intensive WPP Emerging Market Equity Fund
- Transition capacity has increased for the two funds that were common to the baseline and to the last analysis*
- Fossil fuel exposure has fallen meaningfully across oil, gas and coal
- The proportion of the listed equity portfolio's financed emissions within the most material sectors that are currently aligned or are under active engagement

Key areas of focus for next 12-18 months:

- Setting more granular targets across:
  - Sustainable / climate solutions
  - Transition alignment
  - Engagement and Stewardship
- Expand net zero approach beyond the listed equity portfolio to property, infrastructure, private equity and multi-asset credit (data permitting)
- Integrate climate risk into TAA guidelines
- Potential connections to biodiversity / natural capital

Use insights and recommendations to shape discussions with WPP and support climate change reporting (TCFD)

* Please note that Mercer's transition capacity methodology has been updated over the year so the figures are not directly comparable year on year.

Current Targets and Progress

On Track | Progress Required

Scope	Current Target	Update on targets	Progress to Date
Total Fund	**The Fund targets net zero by 2045. Adopt a total Fund target of 50% carbon reduction by 2030.**	• Target setting us currently focused on listed equity with other asset classes and strategies being incorporated over time.	On Track
Total Fund	**Set total Fund low carbon and sustainable allocation target of 30% by 2030.**	• Current allocation to the BlackRock ESG equity fund with upcoming allocation to Russell Global Sustainable Equity Fund. In addition, commitments are already being made to sustainable allocations in private markets, with a 4% allocation to local / impact opportunities.	On Track
Total Fund	**Expand net zero target setting to incorporate synthetic equity, multi asset credit, TAA, property, private markets and hedge funds over 2022/23**	• This year's analysis has expanded to cover the Synthetic Equity, Multi-Asset Credit and TAA portfolio. In addition, the Fund's property managers have been contacted to assess the level of data they can provide versus the best practice Carbon Risk Real Estate Emissions Monitor (CCREEM) framework. Further work is required to set formal targets on these assets.	Progress Required

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As defined by the IIGCC Net Zero Framework

Current Targets and Progress

On Track | Progress Required

Scope	Current Target	Update on targets	Progress to Date
Listed Equities	Net zero transition trajectory: listed equity portfolio carbon reduction targets of 36% by 2025 and 68% by 2030, versus 2021 baseline position	• The listed equities portfolio is currently behind the proposed net zero transition trajectory, due to the increase in carbon footprint over the period under analysis. This increase is principally due to the transition of the legacy EM mandates into the WPP strategy. Focus on real world decarbonisation within this portfolio. The introduction of a WPP Sustainable Equity Fund is expected to improve ongoing portfolio decarbonisation.	Progress Required
Listed Equity Portfolio	Target of at least 30% green and sustainable assets by 2030	• The ACT analysis identifies companies well aligned with the low carbon transition. UK and EU green taxonomies currently under development. Refine target setting as methodologies develop.	On Track
Listed Equity Portfolio	Fossil Fuel targets: within the equity portfolio the Fund is targeting a reduction in potential emissions of 70% by 2025 and 90% by 2030 for Oil & Gas. For coal the targets are a 90% reduction by 2025 and 95% by 2030.	• Over the period under analysis, the listed equities portfolio Potential Emissions have decreased by c.60%, driven primarily by changes in the investment strategy. Coal has seen material reductions of 72.7% , whilst Oil & Gas has only declined by -14%.	Coal: On Track; Oil & Gas: Progress Required
Listed Equity Portfolio	Stewardship target: • 70% of financed emissions in key sectors* aligned to net zero or subject to engagement by 2025. • 90% of financed emissions in key sectors* aligned to net zero or subject to engagement by 2030.	• 67% of financed emissions within listed equity in key sectors* demonstrate evidence of aligning or being under active engagement. Work with Robeco and WPP to increase this over time.	On Track

*As defined by the IIGCC Net Zero Framework

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Strengthening targets

Real estate

Further engagement and prioritisation will be needed on property, given the limited responses received to date.

Private equity and infrastructure

Work with managers to understand availability of carbon metrics within the private equity and infrastructure holdings.

TAA

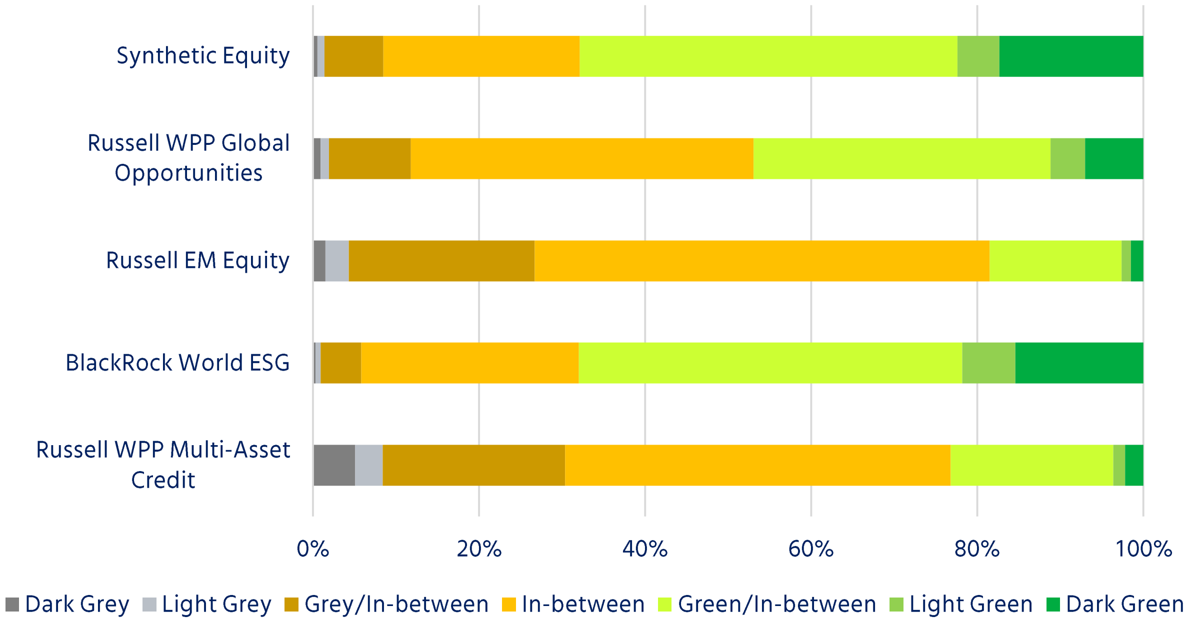
Use this year's baseline to measure progress. The TAA guidelines should be reviewed to embed SI considerations more formally into the mandate. The options on Mobius will need to be reviewed and where available, allocations switched to more ESG focused underlying funds. There will need to be a careful balance between the short term tactical views and expressing these through funds that may have different underlying characteristics.

MAC

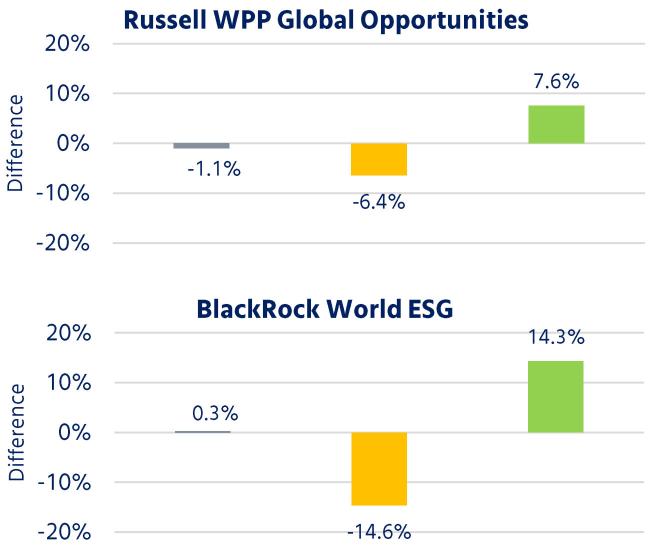
Use the findings from this analysis as a starting point to discuss setting net zero targets on the MAC portfolio with WPP.

Transition Alignment of the Portfolio

- **We present the transition alignment of the listed portfolio (ex. TAA),** to understand exposure to assets that are well aligned ("green") or not well aligned ("grey") or with the potential to align ("in-between") with the low carbon transition as well as the evolution since the first analysis.



2021 vs 2022



Highlights & Questions

✓ Higher allocations to Green across both funds in common with the baseline

✓ Retained fairly low allocations to Grey

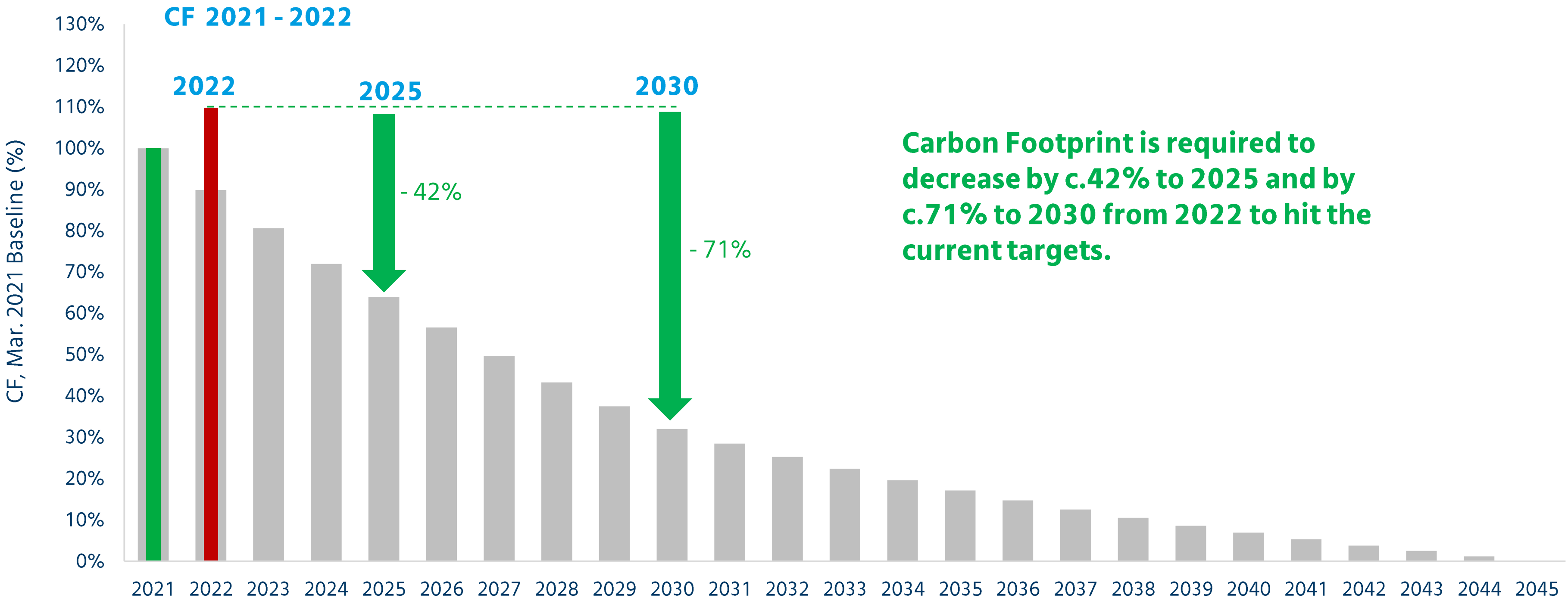
How is WPP and Robeco engaging with the most carbon intensive and Grey companies?

Notes: Figures may not sum due to rounding. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up to estimate coverage for 100% of the mandate. (see Appendix on limitations).

Decarbonisation Path – 2021 baseline

Listed Equities (ex. TAA)

In line/below target pathway
Above target pathway



Carbon Footprint is required to decrease by c.42% to 2025 and by c.71% to 2030 from 2022 to hit the current targets.

- Above is the proposed decarbonisation pathway for the Fund's listed equities portfolio, shown on a carbon footprint basis, starting with a 2021 baseline. This portion of the portfolio is shown versus the listed equity portfolio decarbonisation targets: 36% by 2025 and 68% by 2030, net zero by 2045.

- The Fund's listed equity carbon footprint has risen over the period due principally to the changes in the Emerging Market Equity portfolio, where the legacy Wellington and BlackRock EM mandates have been transitioned into the Russell WPP Emerging Market Equity mandate. The Russell WPP Global equity mandate also saw a modest increase in it's carbon footprint over the period, however this was more than offset by falls in the BlackRock World ESG Global Equity mandate. While the increase in intensity is driven by a change of strategy, it represents an opportunity to work with the emerging market companies within the portfolio to bring about real world decarbonisation. Further, the introduction of a WPP Sustainable Equity Fund is expected to drive ongoing portfolio decarbonisation.

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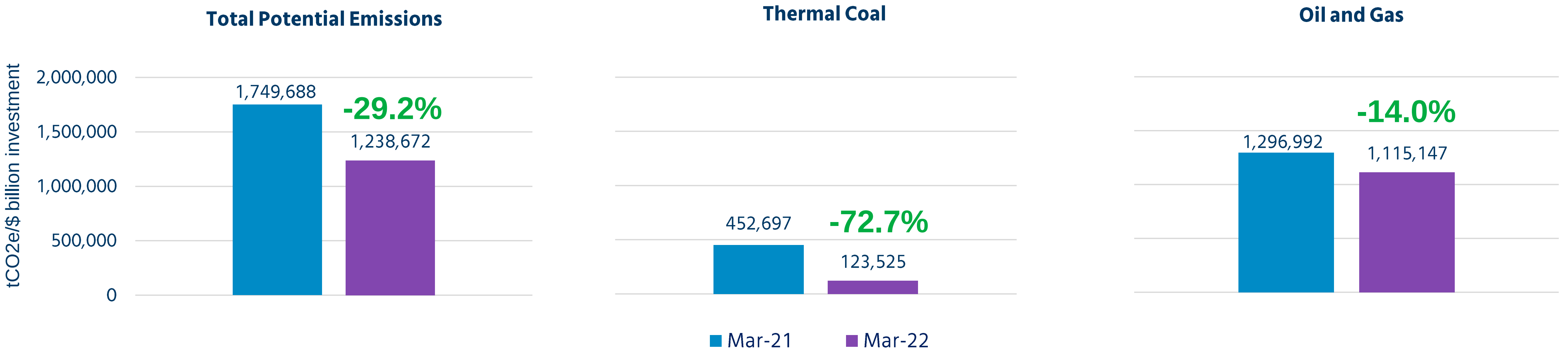
Notes: Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate .

Fossil Fuel Potential Emissions
Listed Equities



- In 2021, **the Fund set a target to reduce fossil fuel exposure relating to coal by 90% by 2025 and 95% by 2030. An Oil & Gas exposure reduction target of 70% by 2025 and 95% by 2030 was also set.** Progress against these targets is measured using potential emissions, which is an intensity metric linked to the emissions that would be produced should reserves from companies held in the portfolio be burnt.
- Over the year, **listed equity portfolio Total Potential Emissions have decreased by 29.2%, from 2021 to 2022. Thermal Coal Emissions decreased by 72.7%. The Oil and Gas Emissions decreased over the same period by 14.0%.**
- Relative to the 2021 baseline, the decreases shown above principally reflect changes to the investment manager line-up, driven by the introduction of the Russell WPP Emerging Markets fund, which replaced the Wellington Core, Wellington Local and BlackRock EM mandates.
- The BlackRock World ESG and Russell WPP Global Opportunities mandates, which were the only two common funds between both analyses, have moved in opposite directions. The Russell WPP Global Opportunities fund saw its Potential Emissions decrease across both categories, whilst the BlackRock World ESG saw increases in it's Potential Emissions across both categories. Oil & Gas Potential emission are found in all three equity mandates, however with the majority found within both the WPP EM and global equity funds. We recommend focusing engagement with WPP in the first instance in order to drive further decreases.

On a Total Fund level, the potential emissions relate to 1.4%, or £35.7m as at 31 March 2022. Holdings with potential emissions represented 1.1%, or £23.3m as at 31 March 2021.

Detailed analysis

Transition Alignment and Emissions Baseline

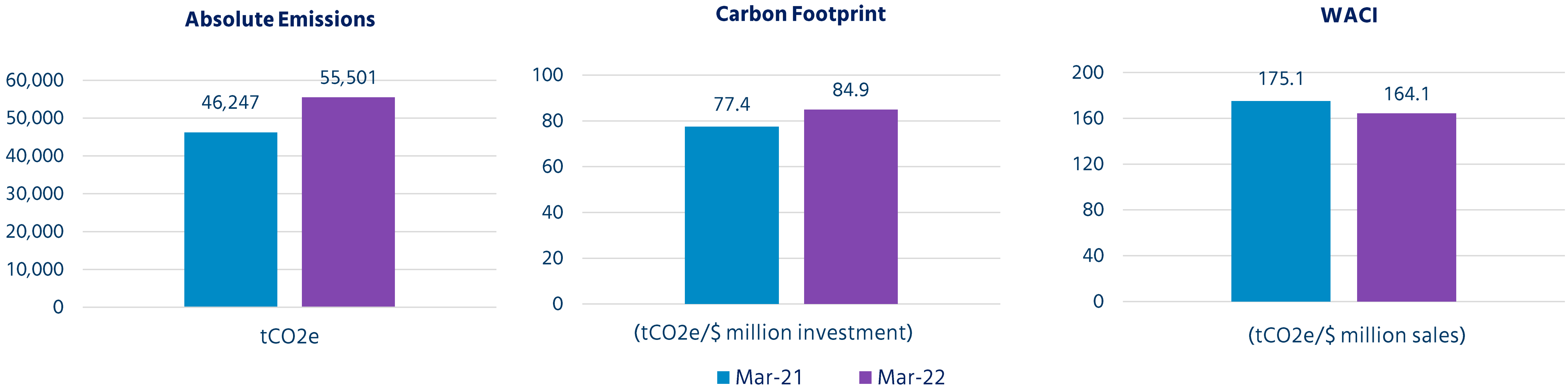
for Annual Monitoring as at 2022

		Portfolio	SAA Weight %	Absolute Emissions Coverage	Absolute emissions (tCO2e based on value of investment) Scope 1 + 2	WACI / Sovereign Carbon Intensity Coverage	WACI (tCO2e/$million sales) / Sovereign Carbon Intensity (tCO2e / $M PPP GDP) Scope 1 + 2	Carbon Footprint Coverage	Carbon Footprint (tCO2e/$million investment) Scope1 + 2	Implied Temperature Rise (°C)	*SBTi Alignment**
Included in the Baseline	**Global Equity**	BlackRock World ESG	5.0	99.2%	**4,063**	99.2%	**83.7**	99.1%	**24.9**	**2.2**	39.6%
Included in the Baseline	**Global Equity**	Russell WPP Global Opportunities	5.0	98.0%	**11,246**	98.0%	**116.5**	98.0%	**68.8**	**2.4**	26.7%
Included in the Baseline	**EM Equity**	Russell WPP EM Equity	10.0	95.6%	**40,193**	95.6%	**228.1**	95.6%	**122.9**	**2.9**	4.0%
	Total Listed Equities (ex. TAA)		20.0	97.1%	**55,501**	97.1%	**164.1**	97.0%	**84.9**	**2.6**	18.5%
	Credit	Russell WPP Multi-Asset Credit**	4.0	54.1%	**22,216**	57.9%	**381.2**	53.9%	**170.5**	**3.5**	5.8%
	Total Listed Equities and Corporate Bonds (ex. TAA)		24.0	90.0%	**77,718**	90.6%	**200.2**	89.9%	**99.1**	**2.7**	16.4%
	Tactical Allocation	BlackRock EM Equity	1.6	99.4%	**7,143**	99.5%	**320.1**	99.4%	**134.5**	**2.8**	5.1%
	Tactical Allocation	BlackRock European Equity	0.5	99.4%	**1,004**	99.4%	**104.5**	99.3%	**62.6**	**2.1**	48.6%
	Tactical Allocation	BlackRock US Opportunities	1.1	93.5%	**1,593**	94.1%	**180.7**	93.5%	**43.4**	**2.7**	19.4%
	Tactical Allocation	LGIM Infrastructure Equity MFG	2.0	99.8%	**12,085**	99.8%	**1,084.9**	99.8%	**184.2**	**3.5**	29.7%
	Tactical Allocation	LGIM North American Equity Index	1.1	98.0%	**1,176**	98.1%	**141.2**	98.0%	**34.2**	**2.2**	32.9%
	Tactical Allocation	LGIM UK Equity Index	0.8	87.1%	**2,079**	86.7%	**128.9**	86.7%	**75.8**	**2.3**	36.8%
	Tactical Allocation	Ninety-One Global Natural Resources	1.4	99.0%	**25,206**	99.0%	**815.5**	99.0%	**554.5**	**4.6**	5.1%
	Total Tactical Allocation		8.5	97.3%	**50,285**	97.3%	**509.4**	97.2%	**180.5**	**3.1**	21.8%
	Sovereigns	Russell WPP Multi-Asset Credit**	2.3	95.5%	**21,349**	92.0%	**272.6**	-	**-**	**-**	-
	Synthetic Eq.	Synthetic Equity***	-	-	**-**	99.8%	**138.9**	99.7%	**37.2**	**2.2**	39.6%

*This metric measures the proportion of companies in the portfolio with one or more active carbon emissions reduction target/s approved by the Science Based Targets Initiative (SBTi). **Percentages considering the respective asset class allocation. For Russell WPP Multi-Asset Credit, these represent a 33.2% and a 19.2% fund allocation to, respectively, corporate bonds and sovereign bonds. The remainder of the fund is allocated to asset classes not covered by the analysis, e.g., mortgages, swaps and loans. *** Synthetic Equity mandate composed of: 30% Euro Stoxx 50 Index, and 70% S&P 500 Index.

Progress versus the baseline across three emissions metrics

Listed Equities (ex. TAA)



- **The Fund's listed equity portfolio has increased by 20.0% on an absolute emissions basis, from 2021 to 2022. The Carbon Footprint increased by 9.7%. The Weighted Average Carbon Intensity (WACI) decreased over the same period by 6.3%.**

- The Fund's listed equity carbon footprint has risen over the period due principally to the changes in the Emerging Market Equity portfolio, where the legacy Wellington and BlackRock EM mandates have been transitioned into the Russell WPP Emerging Market Equity mandate. The Russell WPP Global equity mandate also saw a modest increase in its carbon footprint over the period, however this was more than offset by falls in the BlackRock World ESG Global Equity mandate.

- Conversely, the Russell WPP EM mandate had a marginally lower WACI than the previous EM portfolio. This along with decreases in WACI in both the Russell WPP Global Equity mandate and the BlackRock Global Equity mandate has led to the overall listed equity WACI falling by 6.3% over the year.

- In respect of absolute emissions, this increased by c.20% over the year. Please note that absolute emissions is impacted by both the amount of assets being analysed as well as the changes to the companies enterprise values as well as emissions, therefore exact attribution is not yet possible. Given the listed equity portfolio has seen an increase in carbon footprint, this result is likely driven by increases in underlying carbon intensity as well as an overall increase in the amount of assets being analysed (c.14%) in 2022 versus 2021.

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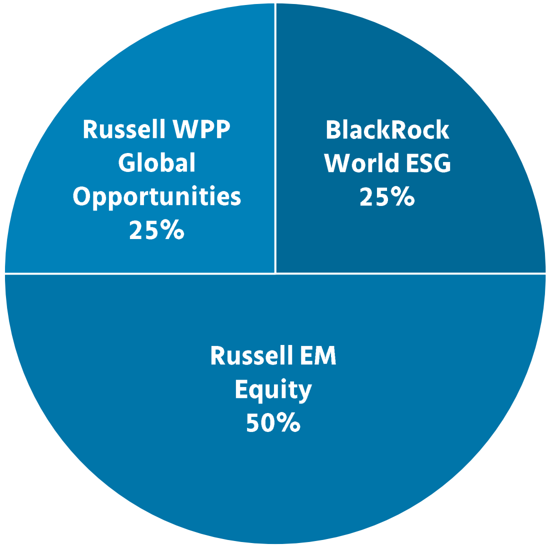
Notes: Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. Prior year absolute emissions have been recalculated according with the latest methodology, which resulted in a small increase of 0.26%.

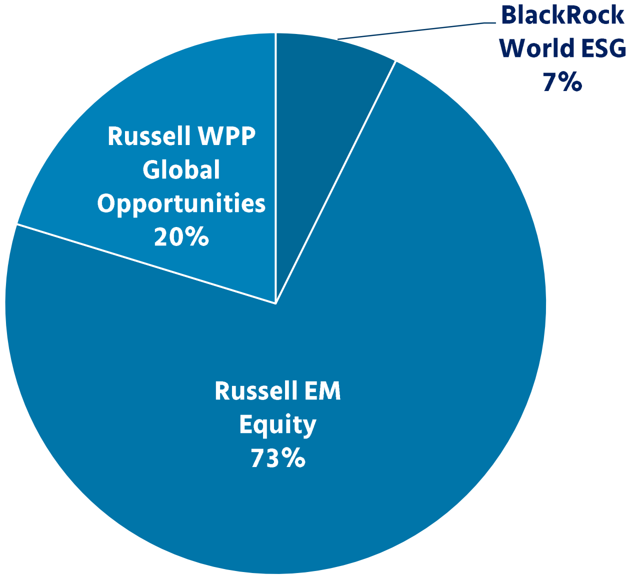
Part A: listed assets

Contribution to Carbon Footprint

Fund Assessment – Listed Equities (ex. TAA)



Listed Equities SAA scaled to 100%



Listed Equities Scope 1+2 Carbon Footprint

- **The Russell WPP EM Equity** mandate represents the highest allocation of the 3 equity mandates covered, and it has an outsized contribution versus it's allocation, representing c.75% of the scope 1+2 of the portfolio's carbon footprint. This is somewhat unsurprising given the higher proportion of highly carbon intensive sectors which is typical of emerging market economies.
- Despite the Russell WPP Global Opportunities and the BlackRock World ESG mandate having the same asset allocation, the BlackRock fund represents a much smaller portion of the overall portfolio carbon footprint, reflecting its lower carbon intensity.

Notes: Figures may not sum due to rounding. Analysis of listed equities. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. (see Appendix on limitations).

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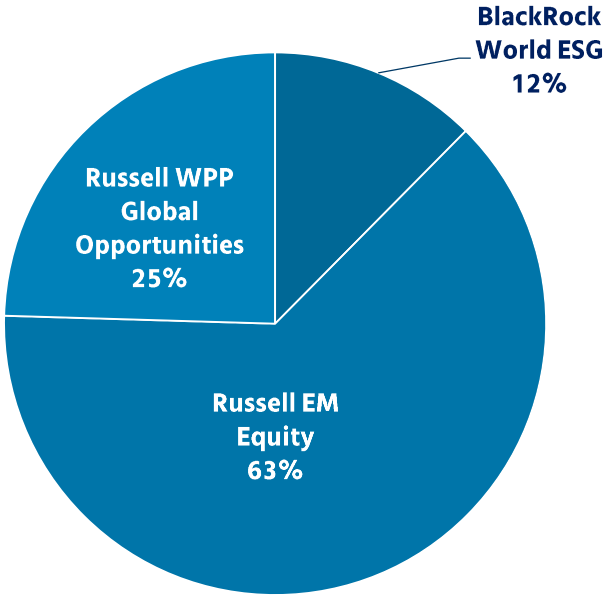
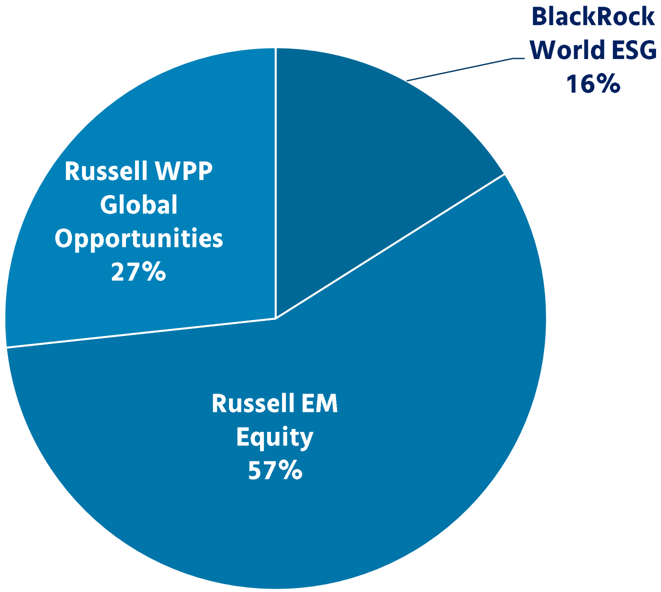
Contribution to Carbon Footprint

Fund Assessment – Listed Equities (ex. TAA)



Listed Equities Scope 3 Downstream Carbon Footprint

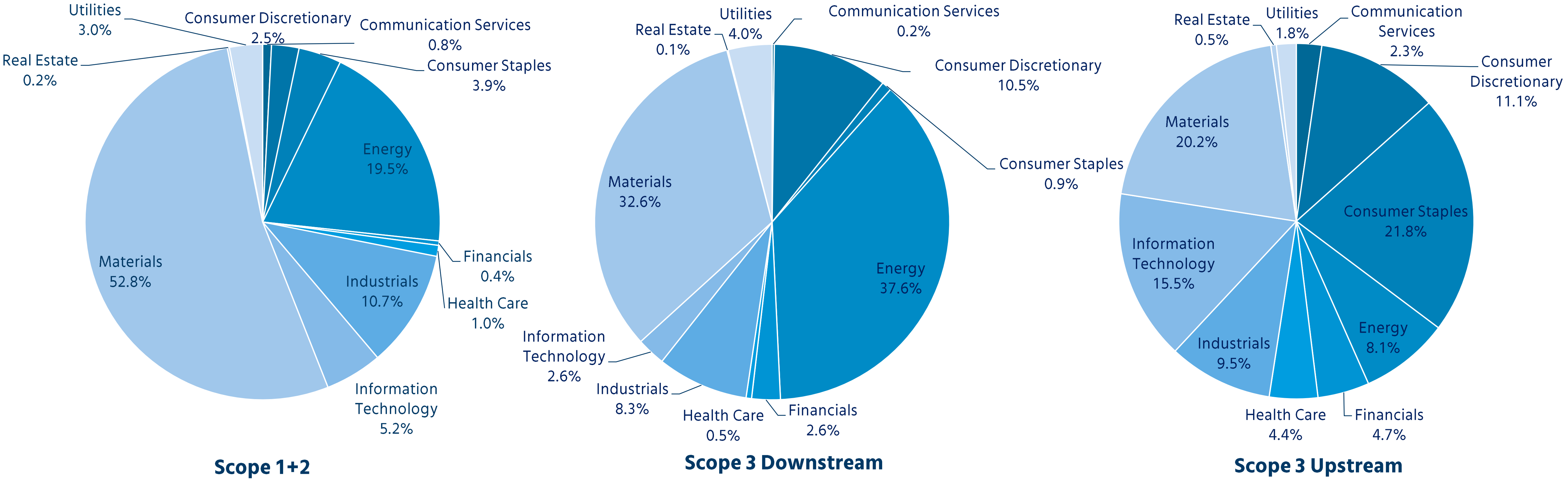


Listed Equities Scope 3 Upstream Carbon Footprint

- It is important to be aware of scope 3 emissions upstream and downstream and how they can add climate risk in the investment portfolio.
- Downstream scope 3 emissions are connected to emissions down the value chain, and represent emissions connected to goods sold to customers. Upstream scope 3 emissions are connected to emissions up the value chain, and represent emissions connected to inputs to production processes. The **Russell WPP Global Opportunities** mandate represents broadly the same proportion of up- and downstream carbon footprint as its asset allocation. All three mandates are broadly consistent when - comparing acorss downstream and upstream carbon footprint contribution.
- We recommend including scope 3 emissions in the Fund's target setting framework once data quality and consensus over calculation methodology are sufficiently robust.

Notes: Figures may not sum due to rounding. Analysis of listed equities. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. (see Appendix on limitations).

Contribution to Carbon Footprint
Sector breakdown – Listed Equities (ex. TAA)

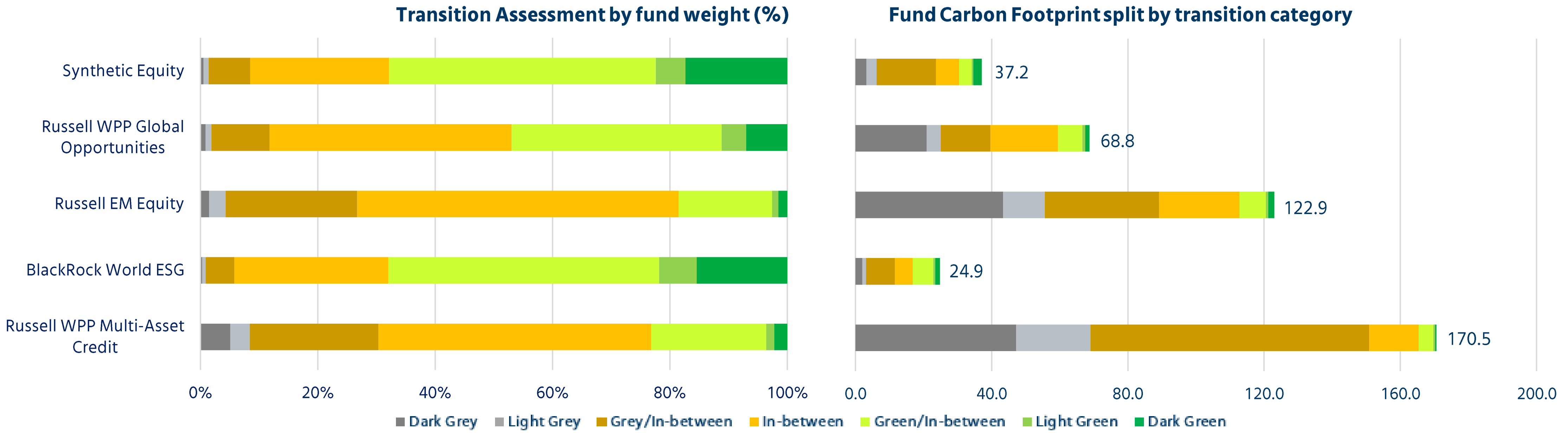


- The **Materials** sector makes up broadly half of the scope 1 and 2 carbon footprint, followed by **Energy** and **Industrials**. The **Energy** and **Materials** sectors are the top contributor to downstream scope 3 emissions, and **Consumer Staples** (closely followed by Materials) to upstream scope 3 emissions.
- We note a significant shift in emissions across scopes. **Materials** contributes the highest proportion across Scope 1+2 emissions, whilst making up a lower proportion within scope 3 emissions. **Communication Services**, **Health Care**, and **Real Estate** maintain their relatively low contributions across all scopes.

Notes: Figures may not sum due to rounding. Analysis of listed equities. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. (see Appendix on limitations).

Transition Alignment

Fund Assessment – Listed Equities and Corporate Bonds (ex. TAA)



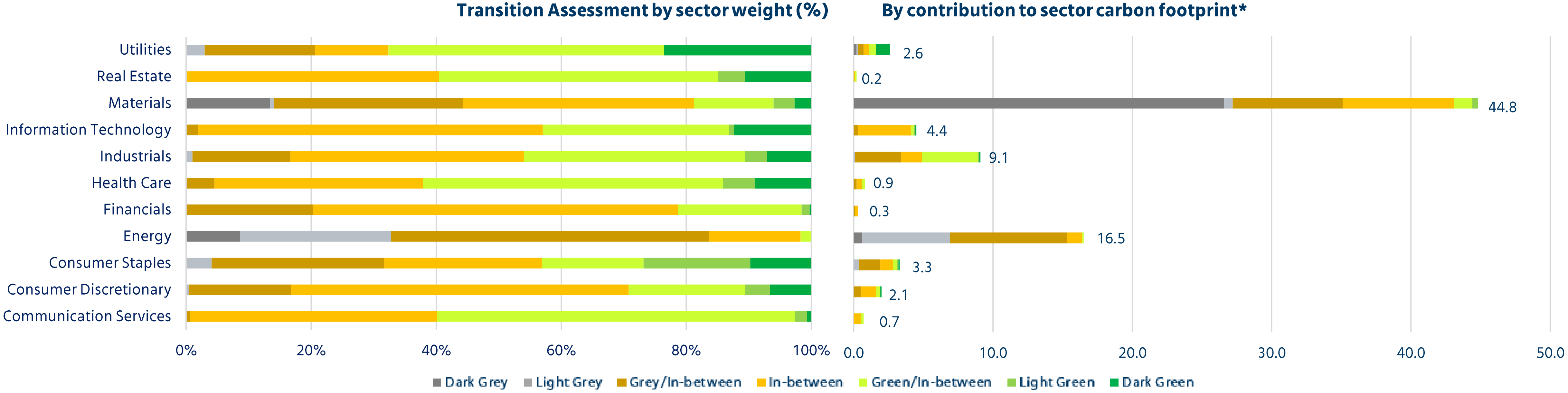
- The listed assets are composed primarily of **in-between** and **green/in-between** assets. In between assets are arguably the companies where stewardship could have the greatest impact.
- All the mandates have **dark grey** or **light grey** assets within their portfolio. These grey assets represent c.8% of **Russell WPP Multi-Asset Credit Corporate Bond** portfolio.
- The mandates with the highest exposures to green assets are the **Synthetic Equity** and **BlackRock World ESG**, which have relatively low exposure to the Utilities, Materials and Energy sectors.

- The **Russell EM Equity** fund is the most carbon intensive equity mandate. This is mostly explained by the contribution from carbon intensive sectors (namely Materials and Energy) within emerging markets. Within this mandate, the **dark grey** and **light grey** assets account for c.45% of total carbon intensity.
- The **Russell WPP Multi-Asset Credit** mandate is more intensive than the equity funds in the baseline, with c.8% of the mandate invested in grey assets, accounting for c.40% of total carbon intensity.

Notes: Figures may not sum due to rounding. Analysis of listed equities and corporate bonds. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. (see Appendix on limitations).

Transition Alignment

Sector Assessment – Listed Equities (ex. TAA)



- **Dark grey** assets are found within the **Materials, Energy,** and **Utilities** sectors.
- These carbon intensive sectors will be required for future energy needs. It is important to encourage these companies to transition and ensure they formalise their transition plans.
- **Materials, Energy**, and **Industrials** are the highest contributing sectors to the overall listed equity carbon footprint. Although the latter does not hold any **dark grey** assets, the contribution from **grey/in-between** and **green/In-between** holdings is still significant.
- **Utilities, Real Estate, Health Care** and **Communication Services** are mainly composed of green/in-between or **green assets**, and associated very low carbon intensity metrics.

Notes: Figures may not sum due to rounding. Analysis of listed equities and corporate bonds. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. (see Appendix on limitations).

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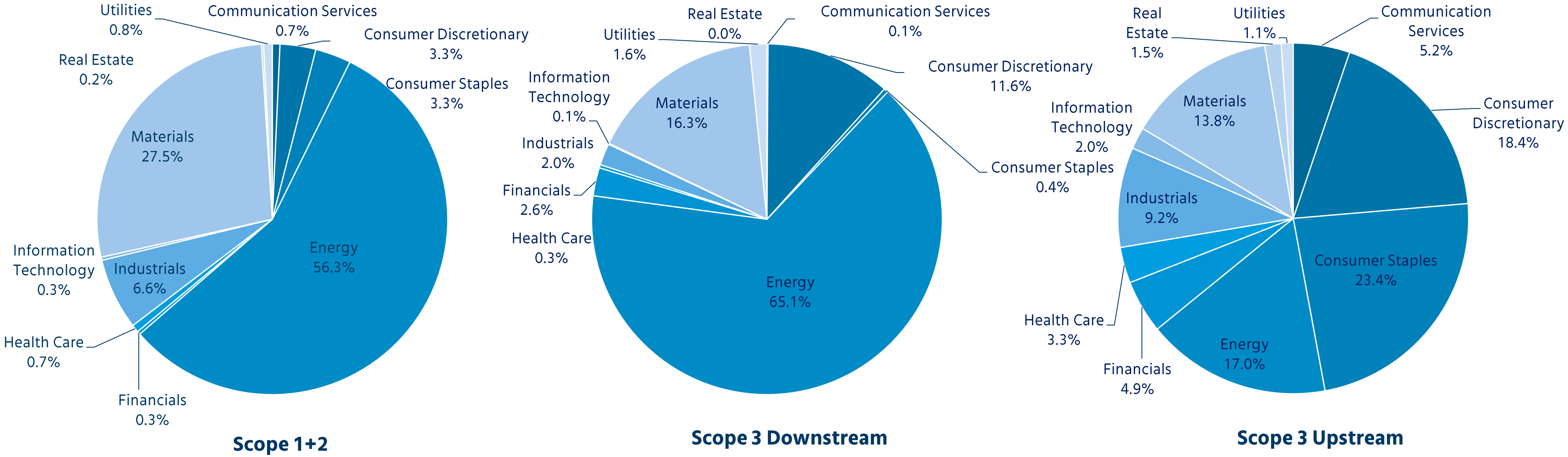
Part B: Multi-Asset Credit

Contribution to Carbon Footprint

Sector breakdown – MAC - Corporate Bonds



- The **Energy** sector is the most material sector to scope 1 and 2 emissions and to downstream scope 3 emissions, representing more than half of the total carbon footprint of the mandate (c.56% and c.65% respectively).
- Consumer Staples represents the biggest portion of upstream scope 3 emissions (c.23%), followed by Consumer Discretionary (c.19%) and Energy (c.17%).

Notes: Figures may not sum due to rounding. Analysis of listed equities. Analysis captures carbon dioxide equivalent emissions. Where there is partial coverage of a portfolio we scale up the absolute emissions to estimate coverage for 100% of the mandate. (see Appendix on limitations).

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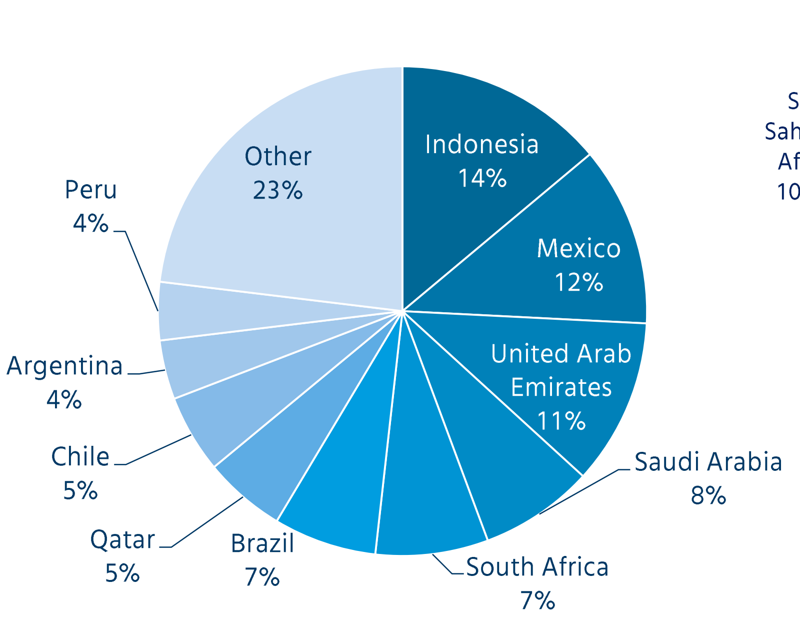
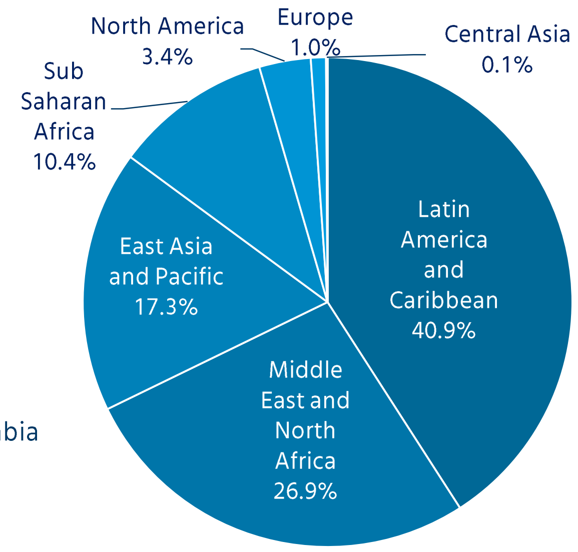
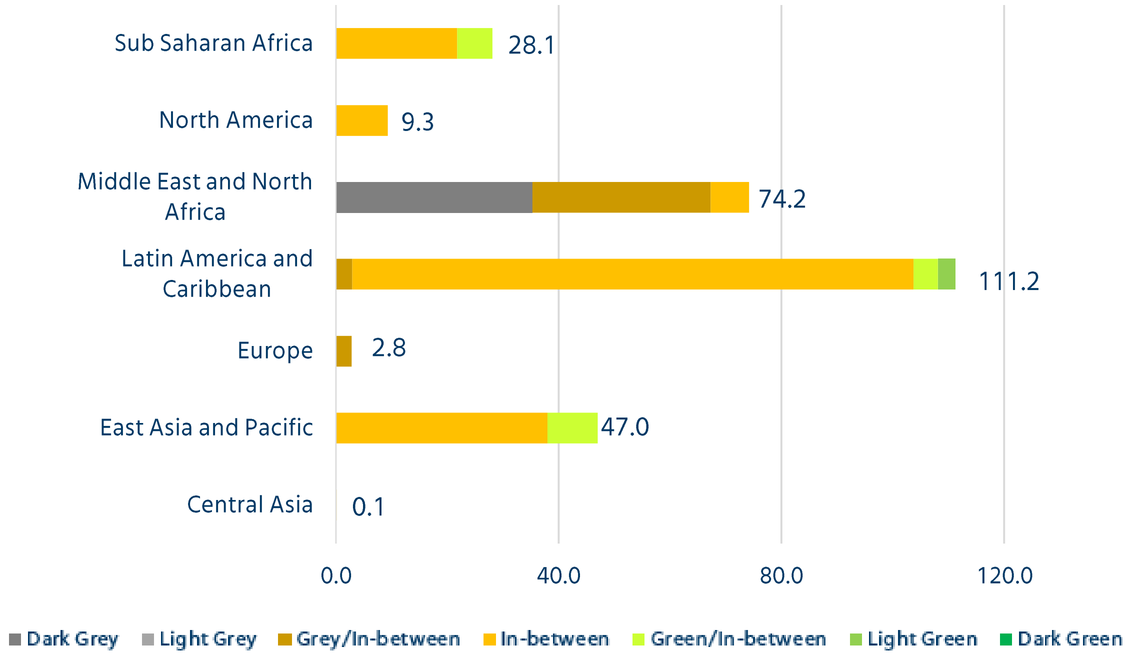
Transition Alignment

Regional Assessment – MAC - Sovereign Bonds







- **Indonesia** is the main contributor to carbon intensity, followed by **Mexico** and the **United Arab Emirates**. Together, the three countries make up c.37% of sovereign carbon intensity.
- **Latin America and Caribbean & the Middle East and North Africa** represent **the Fund's most carbon intensive regional exposure,** with a high proportion of Dark Grey assets, particularly in the Middle East and North Africa.

*Carbon intensity is calculated in line with the latest PCAF methodology and is computed in units of tons co2e / USDM of PPP Adjusted GDP.

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Part C: Engagement targets

Engagement Targets
Which Companies to Focus on?

It is important to continually monitor the companies that are the highest contributors to the carbon footprint as the Fund requires these holdings to decarbonise by the greatest amount to achieve the Fund's 2045 net zero target.

There are a number of important considerations for each holding :

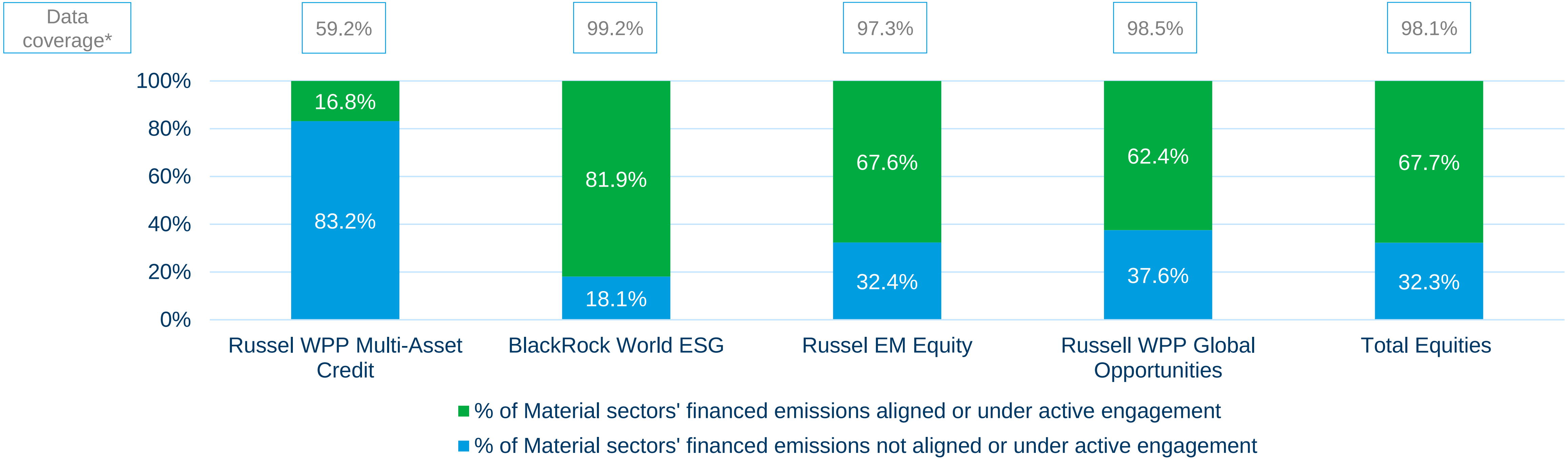
- Are they a transition risk? We detail the ACT transition category to evaluate each company's transition capacity.
- Do they have a transition plan in place aligned with Science Based Targets initiative (SBTi) and/or how well are they positioned according to the Transition Pathway Initiative (TPI) assessment? If they do have a transition plan that has been submitted to SBTi or a favourable TPI assessment it is more likely they will meet their decarbonisation targets.
- Are the companies listed on the Climate Action 100+ focus list? Being on this list highlights that these companies have already been identified as key to driving the global net zero emissions transition and that these companies are already subject to engagement through the Climate Action 100+ framework.
- Are WPP's engagement provider Robeco engaging with the company? Companies that have been identified as material to the Fund's decarbonisation progress but are not currently under engagement by Robeco should be communicated to Robeco to increase their coverage.

We present the top 10 contributors to carbon footprint within the listed equity and corporate bonds portfolios with details about which mandate they are held in and data points related to the above considerations.

The Fund can use its influence and the voice of WPP, as a capital provider to engage for change with these holdings.

Engagement Targets – Material Sectors' Financed Emissions

Material sectors' financed emissions that are not aligned or not subject to active engagement - Listed Equities and Corporate Bonds (ex. TAA)



- Companies have been assessed as **under active engagement** if they are within the list of companies that Robeco are engaging with and/or captured within the Climate Action 100+ engagement list. In respect of **alignment,** companies have been deemed to evidence of aligning if they have approved SBTi targets or are categorized as aligned by the Transition Pathway Initiative ("TPI").
- Please note that owing to the different coverage levels across investment funds, it is difficult to compare the investment funds side by side, however comparing an investment fund's progress on these metrics year on year will provide useful progress indicators to engage with investment managers.

*Sum of company weights that have come out of MSCI.

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Part D: Implementation

Climate Transition

High level implementation plan

<table>
<tr><th></th><th>Integration
(Risk Reduction)</th><th>Stewardship
(Transition Support)</th><th>Investment
(Solutions)</th></tr>
<tr><td>2022</td><td>Reporting and communication

• Communicate listed equity progress versus decarbonisation targets to key partners and members. Incorporate into TCFD reporting.</td><td>Stewardship:

• Discuss the companies raised in Mercer’s ACT analysis as engagement priorities with WPP and Robeco.

• Work with WPP and Mercer to establish the extent to which financed emissions in material sectors are currently aligned to net zero or under engagement today. The target is 70% of financed emissions in material sectors are either aligned to net zero or under active engagement.</td><td rowspan="3">• Work to better define the current target to have 30% of total Fund and listed equity portfolio in sustainable investments by 2030. This can capture climate solutions, allocations to low-carbon / sustainability-themed exposures, including transformative solutions.

• The Fund already has a 4% target asset allocation to local / impact investments which include low carbon sustainability themed investments.

• Opportunities that could be explored include nature based solutions. Mercer’s green transition alignment score provides an indication of current green exposures within the equity portfolio.</td></tr>
<tr><td>2022 - 2025</td><td>Emissions Reduction Target:
• Achieve a 36% reduction in emissions by 2025 versus the listed equities 2021 baseline. Monitor this principally on a carbon footprint basis, but track on a WACI and absolute emissions basis too.

Wider asset classes and Scope 3:
• Expand net zero target setting to wider asset classes – infrastructure, property etc. – when data quality and methodologies exist. Work is ongoing to assess the property managers’ data availability.
• Include Scope 3 within emissions reduction efforts when corporate reporting quality increases sufficiently.</td><td>Engagement targeting :
• Work with Mercer, WPP and Robeco to ensure that engagement progress is made, focusing on the companies that are most material to the Fund’s decarbonisation journey, supported by annual ACT monitoring.

Escalation:
• Evaluate the success of the stewardship activities with target companies. Companies that haven’t produced the desired change following stewardship could be considered for replacement.</td></tr>
<tr><td>2030</td><td>• Emissions Reduction Target:
Decarbonise, with 68% reduction in emissions in the listed equity portfolio by 2030 (vs 2021 baseline).

Fossil Fuel Exposure:

• Work to reduce fossil fuel exposure in line with previously agree 2025 and 2030 targets.</td><td>Stewardship:
• 90% of financed emissions in material sectors are either aligned to net zero or under active engagement by 2030.

‘Just Transition’
• Use the Fund’s influence as a shareholder to encourage companies and policy makers to adapt their activities to support the transition to a low carbon economy, especially across developing nations and societies.

Alignment target
• Set a target on increasing the % assets under management in net zero or aligning assets by 2025 and 2030.</td></tr>
</table>

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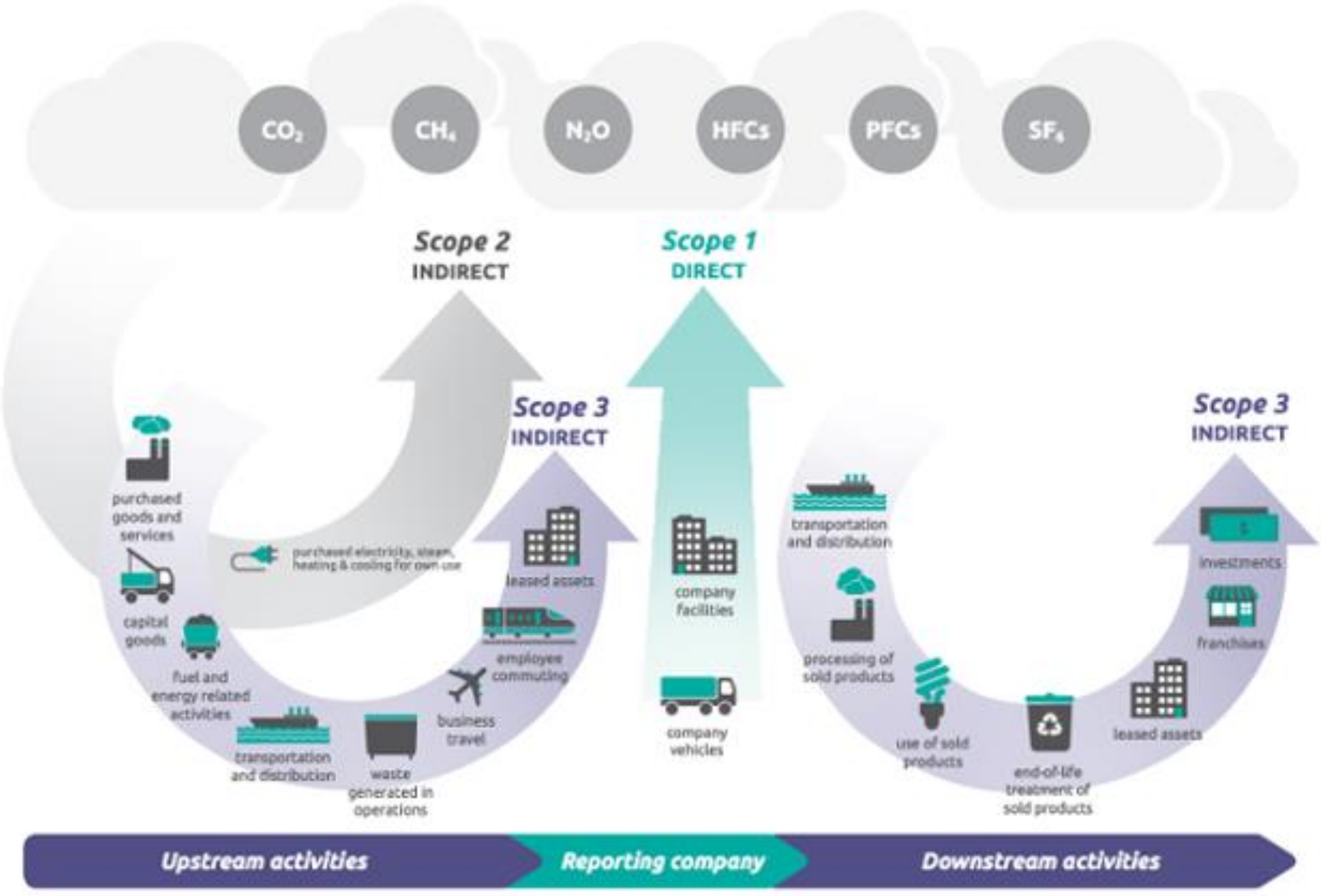
Appendix

Emissions Data
Understanding the Scopes



Decarbonisation – Emissions Metrics
Notes on the Analysis

- The analysis focuses on the listed equity portfolio, showing contributions to Fund emission metrics. We assess carbon dioxide "equivalent" metrics.
- Caution should be exercised in interpreting individual data points, as in reality, emissions may differ, given the data coverage in the analysis is less than 100%. Where companies do not have data points, companies are assumed to have the same carbon metrics as the average of companies that we do have data points for, therefore we do not assume that companies have zero emissions because we do not have data for them.
- Emissions are likely underestimated as Scope 3 emissions are not included in the metrics presented within. Although we do present an overview of the attribution of Scope 3 emissions by fund and sector as part of our detailed analysis.

Emissions Metrics
Understanding the Limitations

- Many of the IPCC's scenarios are reliant on net zero (or net negative) assumptions later this century. This can include the deployment of mitigation technologies, such as carbon capture and storage, as well as ecosystem approaches, such as land and forest conservation and restoration. There has been some scepticism as to whether such technologies and approaches are viable, at the required scale. Mercer will look to integrate further assumptions around net zero emissions in due course, as science and technology evolves.
- The focus of these decarbonisation curves is currently on Scope 1 and Scope 2 emissions. Mercer will however seek to integrate Scope 3 emissions as methodologies improve.
- Given the limitations to all of the Metrics, Mercer advocates for monitoring decarbonisation progress on absolute emissions, WACI and carbon intensity basis.

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