Zurich Financial Services UK Pension Scheme

Climate change policy

Defined Benefit assets

15 June 2021

Contents

	Section	Page
1	Introduction	3
2	Climate change policy	
	2.1. Climate-change risks and opportunities	4
	2.2. Governance of climate change risks and opportunities	4
	2.3. Climate strategy	4
	2.4. Risk and opportunities management	5
	2.5. Metrics	7

1. Introduction

1.1. This policy is made by Zurich Financial Services UK Pension Trustee Limited ("the Trustee") the trustee of the Zurich Financial Services UK Pension Scheme ("the Scheme").

1.2. This policy is aimed at the defined benefit ("DB") assets of the Scheme, a separate policy is available for the defined contribution ("DC") assets.

1.3. The purpose of this policy is to provide the Trustee's view on climate change as a risk and opportunity as well as guidance on monitoring and measuring those risks and opportunities

1.4. The Scheme's assets are held in trust by the Trustee, whose investment powers are set out in the Scheme's governing Trust Deed and Rules. The content of this statement does not conflict with those powers.

The Scheme has two sections: the ZPen section (with its associated sub arrangements) and the ES Executives' section.

1.5. The Trustee has a sub-committee, the Funding Committee, that manages investment and valuation matters for the DB arrangements. The Funding Committee has delegated authority from the Trustee in respect of investment matters, except where a change to scheme documentation is required e.g. the Statement of Investment Principles ("SIP").

1.6. The Trustee has a service agreement in place with Zurich Insurance Company Ltd (the "Investment Analyst") which covers analytical and advisory services.

1.7. The Trustee has appointed an authorised investment adviser (the "Adviser"), who advises on the suitability of certain investments having regard to the nature of the Scheme's liabilities and the requirements set out in the legislation that applies to the investment of pension scheme assets.

2. Climate change policy

2.1. Climate-change risks and opportunities

Climate change is perhaps the most complex environmental risk facing society today. The risks and opportunities associated with climate change are intergenerational, international and interdependent. As a large UK pension scheme, the Trustee faces risks from climate change and provides this disclosure per its commitment to adopt the recommendations of the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD).

2.2. Governance of climate change risks and opportunities

The Trustee is responsible for the Scheme's oversight of and action with respect to climate change. The Funding Committee supports the Trustee and makes recommendations when appropriate. The Investment Analyst will assist the Trustee in developing and monitoring appropriate metrics and targets to understand and if required address climate-related risks and opportunities, which are likely to have a material impact on the Trustee's strategy and funding. If necessary, the Trustee seeks an external assessment of those proposals from the Trustee's Adviser. The Trustee is accountable for the execution of the Scheme's climate-change policy.

2.3. Climate strategy

The Trustee recognises that climate change risk deserves specific attention, over and above that given to more general Environmental, Social and Governance ("ESG") factors due to its likely material impact on the Scheme's investments, funding position and sponsor's covenant.

To address climate change risk, the Trustee considers potential areas affected and assesses their likely impact by performing scenario analysis and monitoring agreed metrics where appropriate. The Trustee will also include a climate risks and opportunities assessment when changing its funding and investment strategies.

The Trustee considers the risk over short-, medium- and long-term time horizons.

Short-term horizon is up to 5 years and risks are measured using a 5-year scenario analysis

Medium-term horizon is 5 to 10 years by the end of which approximately 80% of the Scheme's liabilities will be in respect of pensioners.

Long-term horizon is greater than 10 years when over 80% of the Scheme's liabilities will be in respect of pensioners, which may result of a change in profile of the Scheme's assets

2.4. Risk and opportunities management

The Trustee identifies and manages the risks and opportunities that might affect the likelihood of meeting its objectives for the Scheme, especially where such risks and opportunities are interdependent. The Trustee also considers what should be done should the risks materialise. The Integrated Risk Management (IRM) policy formalises the approach to monitoring, assessing and mitigating risks the Scheme faces. The Trustee uses competent and trusted advisers and suppliers to support its risk assessment.

The Trustee distinguishes between different types of climate change risks, including but not limited to:

Climate related physical risks

In the scenario of a failure to limit global warming to well below two degrees above pre-industrial levels, climate change is expected to change the frequency, severity and geographical distribution of extreme weather events such as tropical cyclones and extreme rainfall and associated flooding or heat waves.

Over the short term, natural climate variability will have a higher impact on natural catastrophe losses than long-term climate change trends. Regional variations will be large, but particularly exposed areas are likely to see adverse change earlier. To accommodate the unfolding nature of climate risk, the Trustee considers short, medium and long-term time horizons as a basis to develop mitigating actions. Overall, the Trustee considers its short-term climate change-related risks to be manageable and foreseeable, whereas long-term risks to are elevated and highly uncertain.

The Trustee is exposed to physical risk of climate change through the performance of investments across asset classes (e.g. equities, real estate, sovereign and corporate bonds) and regions. To mitigate this risk, the Trustee engages with its asset managers on a regular basis to ensure sufficient emphasis is put on including these aspects in security selection and the ongoing monitoring process. The Trustee reserves its right to impose specific investment guidelines within its segregated mandates to ensure the Scheme's risks are mitigated and targets are met.

The Trustee considers the risk to its own operations from climate change to be less material, as they are not located in highly exposed areas and business continuity plans are in place to react to relevant extreme weather events.

2. Climate change policy

Climate related transition risk

Achieving a transition to a low-carbon economy requires fundamental changes to all parts of the economy. While monitoring and acting upon the results of scenario analysis will lower physical climate risk, the technological and policy changes required create their own sets of risks. Independently of the precise pathway, the transition could be disruptive, as significant asset price moves are required to shift resources to low carbon technology on a global scale. Changes in public perception and the regulatory landscape could reshape the legal, financial and reputational risk landscape. Transition risk is considered more uncertain than physical risks.

Mitigation of climate related transition risk will be an ongoing need as the risk landscape is reshaped. Some mitigating actions have already been taken, the Trustee has implemented a coal and oil sands restriction to limit its investment in fossil fuels, as well as implementing metrics described in point 2.5. which monitor exposure to carbon intensive investments. As is the case for physical risks, the Trustee also engages with its asset managers on a regular basis to ensure sufficient emphasis is put on including these aspects in security selection and the ongoing monitoring process.

Climate related opportunities

The Trustee accepts its fiduciary duties as a long term investor and sees advantages of managing physical risk and transition risks, as well as benefiting from the changes required to move towards a low-carbon economy.

Climate-related regulations aimed at incentivising a low-carbon economy result in an increased demand for alternative low-carbon solutions and provide opportunities for new markets. The impact of these regulations, which is currently expected to be low in the short to medium term, will increase in scale over time. The Trustee receives regular training on climate change and its advisers have considerable expertise in providing solutions for green assets. The Trustee also invests in ‘green’ opportunities through assets linked to renewable energy or water clean-up solutions etc.

2.5. Metrics

Climate change metrics and targets have been defined by the Trustee to ensure continuous improvement in performance on responsible business practices. The metrics in place are designed to track the mitigation of operational and investment related risks. Latest data for these metrics, along with historical data to facilitate trend analysis, will be published in a TCFD report on the Scheme's website www.zpen.info from January 2023.