Zurich Financial Services UK Pension Scheme

Climate change policy

Defined Contribution assets

15 June 2021

ZCashBuilder

Contents

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

1.5. The Trustee has a sub-committee, the DC Committee, that manages investment matters for the DC assets. The DC 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 a third party DC investment adviser (the "Adviser"), who advises on the suitability of investments for members and the requirements set out in the legislation that applies to the investment of pension scheme assets.

1.8. The Trustee maintains a range of investment choices for members in the Scheme, including a range of default strategies. While the Trustee assesses the suitability of the range, the Trustee is not responsible for selecting which funds a member should invest in if a member decides to choose self-select investment options.

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. Member savings in the DC Section of the Scheme face risks from climate change and as such, the Trustee has developed and published this policy as 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 DC Committee supports the Trustee and makes recommendations when appropriate. The Investment Analyst will assist the Trustee in developing and monitoring appropriate metrics to understand and if required address climate-related risks and opportunities, which are likely to have a material impact on member outcomes. 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 member outcomes.

To address climate change risk, the Trustee considers potential areas affected and assesses their likely impact by monitoring agreed metrics where appropriate. The Trustee reviews investment options and default strategies available to the members at least every three years. The climate change risks and opportunities are one of the considerations of this review. The Trustee offers members self-select investment options some of which directly incorporate climate change considerations into the fund investment process.

The Trustee considers the risk over short-, medium- and long-term time horizons in line with the UN Paris Agreement. The agreement was adopted in December 2015 setting out actions up to 2035 to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. .

<u>Short-term</u> horizon is up to 5 years

<u>Medium-term</u> horizon is 5 to 10 years

<u>Long-term</u> horizon is greater than 10 years

2. Climate change policy

2.4. Risk and opportunities management

The Trustee identifies and manages the risks and opportunities that might affect the likelihood of its members achieving a good outcome, especially where such risks and opportunities are interdependent. The Trustee also considers what should be done should the risks materialise. 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 are elevated and highly uncertain.

The members are 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. The Trustee recognises that:

- in giving members the opportunity to invest in pooled funds it has delegated consideration of stock-specific issues to the fund manager, and
- in giving members the opportunity to invest in passively managed funds the choice of benchmark dictates the assets held by the investment manager who has limited freedom to take climate change into account.

To mitigate these risks, the fund manager selection process now includes consideration of the manager's approach to engaging with companies on climate change and how these considerations are taken into account over an appropriate time horizon.

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. For example, the Trustee has implemented the metrics described in point 2.5. which monitor exposure to carbon intensive investments. As is the case for physical risks, the Trustee recognises the limitations of using pooled and passively managed funds and engages with its fund managers and investment platform provider on a regular basis as part of its ongoing monitoring process.

Climate related opportunities

The Trustee recognises that members are long term investors 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 to allow members to invest in green assets.

2. Climate change policy

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.

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