Pensioenfonds Detailhandel

Pensioenfonds Detailhandel Climate-related Disclosure Report

Introduction

The Task Force on Climate-related Financial Disclosures (the TCFD), commissioned in 2015, is a framework for disclosing voluntary and consistent climate-related financial disclosures useful to investors, lenders and insurance underwriters in understanding material climate-related risks. TCFD was setup in recognition of the risks posed by greenhouse gas emissions to the global economy and the impacts that are likely to be experienced across economic sectors. In 2017 the TCFD released its original recommendations for improving transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Guidance was also released to support organisations in developing disclosures consistent with the recommendations with supplemental guidance released for specific sectors and industries, including asset owners. The Task Force structured its recommendations around four thematic areas.

Pensioenfonds Detailhandel (Detailhandel) supports the TCFD recommendations as a framework to describe and communicate the steps the pension fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. Pensioenfonds Detailhandel is a long-term investor and is diversified across asset classes, regions and sectors. Therefore it is in the pension fund's interest that markets are able to effectively price climate-related risks and that policymakers are able to address these market failures. Detailhandel believes that TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest beneficiaries as well as wider market participants.

The Task Force structured its recommendations around four thematic areas:

Climate-related risks

In 2022, human activities are estimated to have caused approximately 1.1°C of global warming above pre-industrial levels (Source: NASA). The overwhelming scientific consensus is that the observed climatic changes are the result primarily of human activities including electricity and heat production, agriculture and land use change, industry, and transport. Chart 1 details how global temperatures have been changing since 1850.

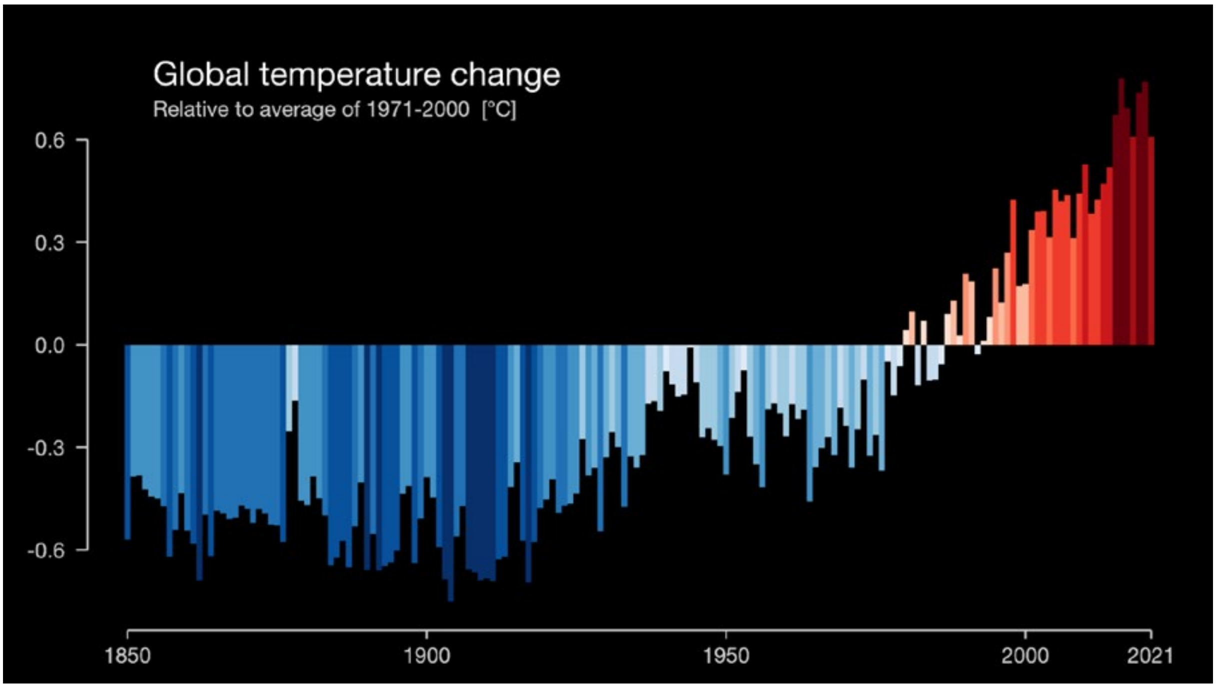
In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the current policies in place globally are predicted to result in global warming of around 2.7°C (Source: Climate Action Tracker). This is substantially higher than the Paris Agreement on Climate Change, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

Pensioenfonds Detailhandel recognises that climate change and rising temperatures present an unprecedented risk to the planet and to humanity. Pensioenfonds Detailhandel recognises that climate-related risks can be financially material and are likely to cause a high level of market volatility in the future. In light of this, taking climate action is aligned with Pensioenfonds Detailhandel's ambition to manage the investment portfolio in a responsible manner.

Pensioenfonds Detailhandel has defined two investments beliefs explicitly relating to the responsible investment policy of the pension fund. Following investment beliefs 8 and 9, the Fund sets out to both mitigate climate-related risks to the portfolio and contribute to the Paris Agreement objectives.

Investment belief 8: The Socially Responsible Investment policy of Pensioenfonds Detailhandel represents the norms and values of the fund's participants.

Chart 1. Global Temperature Change 1850-2021



Source: Ed Hawkins at University of Reading with data from Berkeley Earth, NOAA, UK Met Office, MeteoSwiss, DWD, SMHI, UoR, Meteo France & ZAMG (https://showyourstripes.info/c/globe)

Investment belief 9: The pension fund is convinced that integrating ESG factors contributes to long-term value creation.

Pensioenfonds Detailhandel also defined investment beliefs relating to risk management and a preference for a widely diversified, passively managed portfolio. These investment beliefs combined form the basis of the fund's investment policy, including its climate policy.

Climate Action Plan

Pensioenfonds Detailhandel's Climate Action Plan presented below aims to protect its pension assets against climate risk as well as capitalise on investment opportunities that emerge from the transition to a low carbon economy. Detailhandel's approach to managing climate change risk will evolve over time in line with the latest climate science and best practice in implementing climate strategies. The Climate Action Plan aims to capture the actions relating to climate risk the Fund is taking over the reporting year.

The Climate Action plan translates to four main points of actions:

1. Investment decisions
   a. We will further align our Carbon reduction targets with the Paris Agreement, this means we have set the following carbon emission targets (from a 31.12.2019 baseline):
      i. A 2050 target of net zero
      ii. 2030: listed assets need to reach a 60% reduction target in line with the European Policy Curve.
      iii. For 2025, we aim for a reduction emission in the high yield portfolio of at least 45% (compared to 31.12.2019). Other portfolios that have already transitioned to more sustainable benchmarks will be revised to take in the latest data on climate risk, forward-looking transition possibilities.
   b. We will divest from companies who have no or little ability to change and to transition
      i. This means: no longer investing in companies with large contributions to climate risk, in terms of carbon intensity, and little to zero transition ability. The fund in particular seeks to use divestment and or negative screening for specific instances within material sectors (as defined by the IIGCC): unsuccessful engagement, no transition ability, or ways of conducting business that go against Detailhandel's norms.
   c. We will positively contribute to the Paris Agreement's climate goals by targeting green and sustainable assets: targeting 20% sustainable assets in 2030 in listed categories (excluding sovereign bonds). For sovereigns, we aim to reach 10% sustainable (EU) sovereign bonds in 2030.

2. Exert influence:
   a. We will use our leverage more and will engage with companies and use our voting strategy. The Fund prefers to exert influence over divestment. We will work on a new stewardship strategy in 2022 and 2023.
      i. We will target companies that are most material to our Net Zero's journey
      ii. We will set clear targets and deadlines
      iii. We will divest if the engagement is unsuccessful
   b. We work together with peers in advocacy and in collaboration with the Net Zero Asset Owner alliance.

3. We will continue setting ambitious, goals, and enhancing research
   a. We will expand our net zero target setting to sovereign bonds and where possible, the LDI mandate when the guidelines on sovereign bonds target setting are released
   b. Scope 3 emissions, which are currently monitored, will be incorporated into the target setting framework when global frameworks and data develop sufficiently.
   c. We will use the latest and best in data opportunities as it comes in to align our investment decisions.

4. We will be transparent about our endeavors and results
   a. Yearly carbon emission reporting and reporting on progress of our targets.
   b. Reporting on our stewardship (engagement and voting) efforts.

Climate Action Plan

Strategy

Regularly conduct climate change scenario analysis
- Climate scenario analysis to be updated in 2023 and once every three years thereafter

Work to reduce exposure to climate risks and maximize exposure to climate opportunities in the entire investment process:
- Introducing climate-related considerations to the ALM-study of the pension fund, leading to a climate-resilient Strategic asset allocation
- Climate-related considerations and actions are integrated into every investment mandate in the fund
  - Priority portfolios in 2023-2024 are high yield and the listed real estate portfolios.
  - For the equity and euro credit indices, the fund works towards introducing forward-looking indicators into the indices.

Include climate change in stewardship strategy priorities
- The Fund is seeking collaboration with its engagement provider to effectively engage on climate-related matters in portfolio companies.
- This includes flagging companies that are lagging in terms of transition plans, especially for high-risk sectors., including accompanying voting strategies. Pensioenfonds Detailhandel is conducting a request for information for an engagement and voting provider in 2023.
- For Real Estate, the fund seeks to collaborate with the Global Real Estate Engagement Network (GREEN) and conducts engagement directly with privately held real estate funds.

Risk management

- Climate risks will be added more explicitly in the risk management framework
- The fund has conducted a physical climate risk study for the real estate portfolio.
- Climate considerations are taken into account in investment decisions

Governance

Climate considerations are embedded into the governance of the Fund and the organizational set-up around climate-considerations within the investment portfolio is matured. This means, there is adequate risk management around climate considerations as well as enough countervailing power (third party reviews).

Metrics & Targets

Measure and set reduction targets on scope 1 and 2 emissions of holdings within listed assets (excluding sovereign bond assets)
- Emissions baseline has been calculated from 31 December 2019, re-run at 31 December 2022 and will be run annually thereafter

Other asset classes and scope 3 emissions in investment targets when global guidance and frameworks have developed to allow this:
- It is the intention that Scope 3 emissions will be included into the target setting frameworkwhen data disclosure has improved in terms of coverage and reliability

Work to improve corporate reporting standards through engagement activities

Governance

"Disclose the organization's governance around climate-related risks and opportunities."

Recommended disclosures

a. Describe the board's oversight of climate-related risks and opportunities.

The board of the pension fund is responsible for climate-related risk and opportunities. The board constitues of 10 non-executive members, representing employers' organisations or employees' organisations (unions), as well as one member representing pensioners. Following the governance of Pensioenfonds Detailhandel, all board-decision are prepared in the Investment Committee, that convenes about 10 times a year and is made up out of 5 board members. The Investment Committee discusses climate- and ESG-related matters in depth and will prepare decision-making, both related to the formal climate policy of the board, and decisions around implementations of climate policy into other decisions such as ESG-integration into different portfolios.

Climate-related issues and risks are discussed in the Investment Committee periodically by discussing the yearly analyses from the fund's climate advisor, Mercer. They are also formally discussed when making investment-decisions. When material changes are made to the pension fund's climate strategy or responsible investment policy, board approval is needed. The board also decides on investment decisions, i.e. change in investment strategies overall and within portfolios, such as adjusting benchmarks for listed categories.

The board sets-out the investment policy of the pension fund. The pension fund has a responsible investment policy (RI-policy) in place, which lays out the climate-objectives and related indicators and KPI's. The board has approved a new Responsible investment policy in 2022, to be found on the website of Pensioenfonds Detailhandel. Pensioenfonds Detailhandel has first adopted a responsible investment policy in 2019, with alignment to four priority Sustainable Development Goals (SDG's). One of the priority SDG's is SDG 13: Climate Action. In the revision of the responsible investment policy of the fund, these SDG's still play a crucial role as does SDG 13. As such, the board is responsible for aligning its investments to SDG 13 Climate Action, as well as SDG 8 Decent Work, SDG 12 Responsible Production and Consumption, and SDG 16 Peace, Justice and Strong Institutions.

So-called decision-making documents are prepared to accompany Investment committee advises and board decisions. These documents include a description of SDG-alignment. From 2023 onwards, they also include a risk-opinion from the Risk-function of the board. In 2023 Pensioenfonds Detailhandel has also launched a project to map out ESG-related risk within the Risk Management Framework. Once this exercise is completed in 2024, Pensioenfonds Detailhandel will have it's risk framework updated to more solidly represent climate-related risk in each investment decisions made, as well as other ESG-topics.

The board is advised in their decision-making, as is the Investment Committee in their advise to the board, by its external advisors, as explained under 'b' below.

b. Describe management's role in assessing and managing climate-related risks and opportunities.

The ultimate responsibility for assessing and managing climate-related risks and opportunities is with the Board. The Board is supported by the Investment Committee of the fund, which constitutes of five board members.

The investment committee and board are supported by internal staff (the pension bureau) who oversee the advisory work done by external parties, such as the analyses and advisory work of Mercer. Mercer was appointed as the strategic climate advisor of the pension fund in 2020, after they have also been providing ALM-studies to the pension funds for many years. In addition, the integration of climate into benchmarks, is done by FTSE Russell, based on the investment beliefs of the pension fund. The investment committee is also supported by the advisory work of Professor Rob Bauer, of the University of Maastricht. The asset manager of the pension funds, BlackRock will conduct periodically and ad-hoc climate-analyses, to add to the climate advisory work of Mercer. The advisor Finance Ideas, is responsible for monitoring and reporting on climate-risks in the direct real estate portfolio, as well as to report on the impact investments of the fund. These real estate and impact-investment reports include climate-risks and climate-related impact indicators, such as avoided carbon emissions. Lastly, Pensioenfonds Detailhandel has a dedicated voting and engagement service provider who conducts engagement and voting activities on their behalf. They provide analyses on the effectiveness of stewardship activities and the progress of targeted companies. In 2023 Pensioenfonds Detailhandel has set out a Request for Information for these services. After this search, Detailhandel plans to update their engagement and voting policy.

Strategy

"Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material."

Recommended disclosures

a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

For a diversified asset owner, there are a wide range of climate-related risks and opportunities. These risks are constantly evolving. The risks identified in the World Economic Forum's Global Risks Report 2020 were discussed when the fund undertook its climate scenario analysis (discussed later in this TCFD report. See Table 1.

Table 1: The Evolving Risks Landscape

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	Asset price collapse	Storms and cyclones	Income disparity	Income disparity	Income disparity	Interstate conflict	Involuntary migration	Extreme weather	Extreme weather	Extreme weather	Extreme weather
2	Slowing Chinese economy	Flooding	Fiscal imbalances	Fiscal imbalances	Extreme weather	Extreme weather	Extreme weather	Involuntary migration	Natural catastrophes	Climate change mitigation and adaption failure	Climate change mitigation and adaption failure
3	Chronic disease	Corruption	Greenhouse gas emissions	Greenhouse gas emissions	Unemployment/ under-employment	National governance failures	Weak climate change response	Natural catastrophe	Cyberattacks	Natural catastrophes	Natural catastrophes
4	Fiscal cries	Biodiversity loss	Cyber attacks	Water supply crises	Climate change	State collapse	Interstate conflict	Terrorist attack	Data fraud	Data fraud	Biodiversity loss
5	Global governance gaps	Climate change	Water supply crises	Aging population	Cyberattacks	High unemployment	Natural catastrophes	Data fraud	Climate change adaption failure	Cyberattacks	Man-made environmental disaster

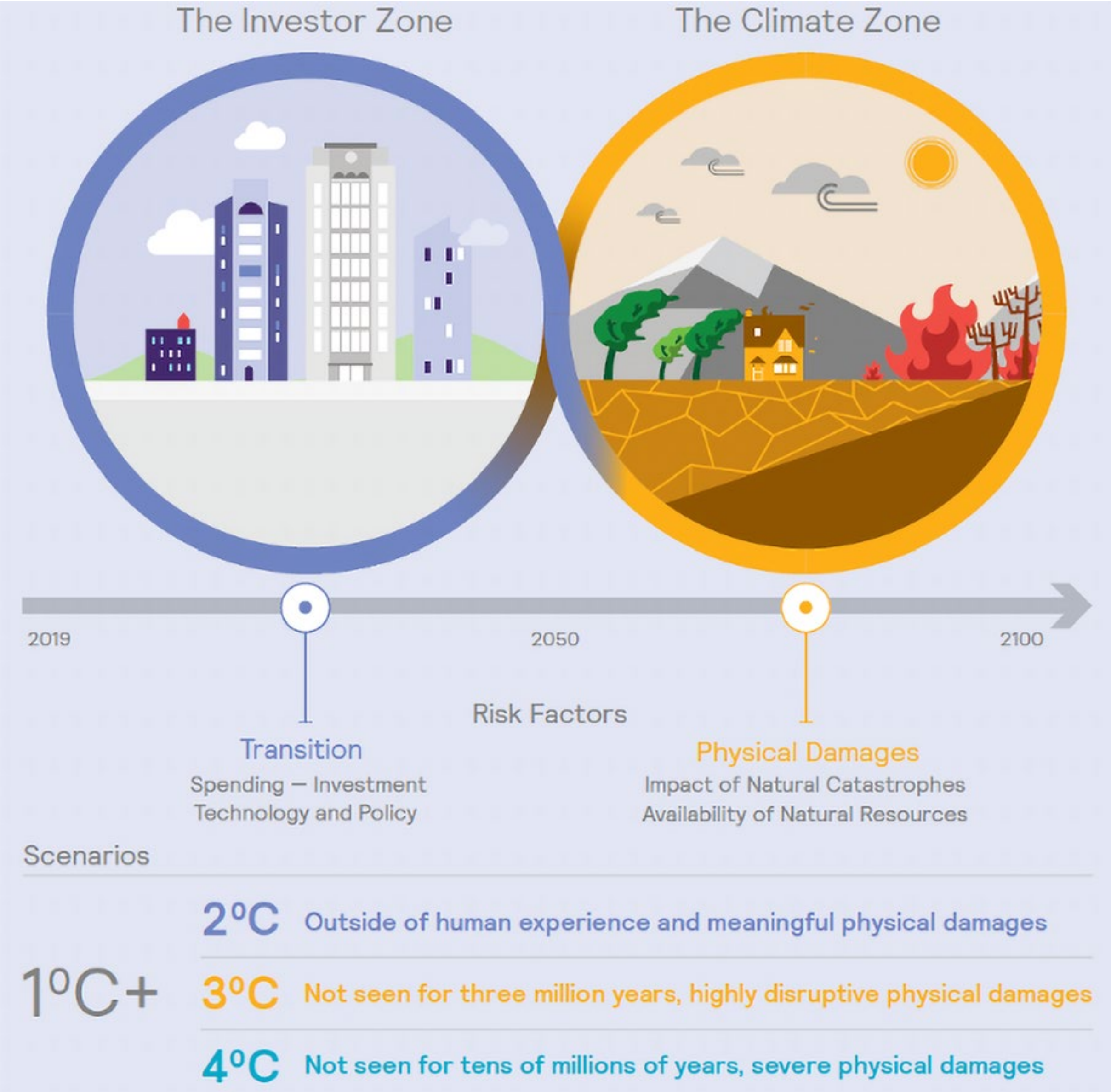
IN TERMS OF IMPACT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	Asset price collapse	Fiscal crises	Systematic financial failure	Systematic financial failure	Fiscal crises	Water crises	Weak climate change response	WMDs	WMDs	WMDs	Climate change mitigation and adaption failure
2	Retrenchment from globalisation	Climate change	Water supply crises	Water supply crises	Climate change	Infectious diseases	WMDs	Extreme weather	Extreme weather	Climate change mitigation and adaption failure	WMDs
3	Oil price spike	Geopolitical conflict	Food crises	Fiscal imbalances	Water crises	WMDs	Water crises	Natural catastrophes	Natural catastrophes	Extreme weather	Biodiversity loss
4	Chronic disease	Asset price collapse	Fiscal imbalances	WMDs	Unemployment/ under-employment	Interstate conflict	Involuntary migration	Water crises	Climate change adaption failure	Water crises	Extreme weather
5	Fiscal crises	Extreme energy price volatility	Volatility in energy and agri-cultural prices	Weak climate change response	Critical ICT systems breakdown	Weak climate change response	Energy price shock	Weak climate change response	Water crises	Natural catastrophes	Water crises

Economic | Environmental | Geopolitical | Societal | Technological

Source: World Economic Forum, Global Risks Report 2020, (https://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf)

Graphic 1: Climate change risks



Source: Mercer, Investing in a Time of Climate Change – The Sequel 2020

The investment committee and the board discussed these risks in the context of the climate scenarios and the different levels of transition and/or physical risk that are assumed under each of the climate scenarios. See Graphic 1.

The Mercer climate change model identifies the presence of both transition and physical risk but also identifies transition opportunities. To consider the impact of different climate change scenarios on investment returns and volatility Mercer identified four climate change risk factors that are used in each of the climate change scenarios.

Risk Factors

Transition factors – short-to-medium term
Definition: Risks from policy changes, reputational impacts and shifts in market preferences, norms and technology.

- Spending: rate of investment spending to catalyse the transition to a low carbon economy
- Transition – Technology and Policy: development of technology and low carbon solutions and climate change focused policy targets, legislation and regulations aiming to reduce the risk of further human-induced climate change

Physical risk factors – longer-term
Definition: Dangers or perils related to the physical or natural environment that pose a threat to physical assets e.g. buildings, equipment and people.

- Impact of natural catastrophes: physical damages due to acute weather incidence/severity; for example, extreme or catastrophic events
- Resource availability: long-term weather pattern changes — for example, in temperature or precipitation — impacting the availability of natural resources like water

b. Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

From 2019 onwards, Pensioenfonds Detailhandel has sped up its policy and investment practices relating to responsible investing, including but not limited to, decisions and actions relating to the abovementioned climate risk. Pensioenfonds Detailhandel also recognizes that this is an ongoing process. Therefore, it aims to work on the most material aspects of its investment policy first, and should eventually cover all aspects of the investment practice. There are three main points of actions that determine the fund's climate strategy: investment decisions, active ownership, and lastly, conducting research and analyses.

Investment decisions
Pensioenfonds Detailhandel launched its first SDG-aligned custom benchmark in 2019, in the developed market equity portfolio. SDG-aligning this portfolio goes beyond climate alone (SDG 13: Climate Action), the fund also takes into account labour conditions (SDG 8: Decent work), Circularity and prudent use of resources (SDG 12: Responsible production and Consumption); and Human rights and democracy (SDG 16: Peace, Justice and Strong Institutions) into account.

Detailhandel has since launching the developed equity benchmark also launched a custom SDG-benchmark for emerging market equity, euro credit (mainly European corporate credit), emerging market debt portfolios (both hard currency and local currency). Pensioenfonds Detailhandel plans to align the high yield portfolio to the four priority SDG's. Launching this custom SDG High Yield index is planned for late 2023 or early 2024. Detailhandel is also electing a new benchmark for listed real estate, that would include climate risk considerations.

When it comes to climate-specific considerations, Pensioenfonds Detailhandel makes use of FTSE's climate framework. Using the three elements of the Climate Framework – Carbon Emissions, Fossil Fuel Reserves and Green Revenues – that are proxied using different indictors, this framework allows Detailhandel to identify which companies are best in alignment with SDG 13. Recently, data from the Transition Pathway Initiative was added to this framework, allowing the fund to also take some forward-looking data into account in the creation of the SDG-benchmarks.

Pensioenfonds Detailhandel's direct real estate portfolio is also covered by a responsible investment policy, including but not limited to climate considerations. Pensioenfonds Detailhandel commissioned physical climate-risk analyses conducted by Finance Ideas. These analyses were conducted using data by Climate Adaption Services and allowed Detailhandel to drill down to actual physical building level and provided insights on heat stress, water risks, impact of prolonged droughts, and risk of flooding.

Pensioenfonds Detailhandel undertook a Climate Change Scenario Analysis in 2020. This preliminary work should lead to an ALM-study in 2023 where also climate considerations are integrated in ALM-analyses, and ultimately, in strategic asset allocation decisions. Because The Netherlands is altering its pension fund regulation (moving from a DB-scheme centered pension system to a DC-structure), the ALM-study of Pensioenfonds Detailhandel is taking longer than anticipated. Climate considerations will thus be part of he ALM-study, but other considerations are taking longer to finalize.

Pensioenfonds Detailhandel does not only take climate-risk into consideration in relation to risk and opportunity of its own portfolio, it has also set out to contribute to indirectly or directing impacting real-world outcomes by its investments. Therefore, Pensioenfonds Detailhandel has a dedicated green bond portfolio, and has increased the sustainable assets both in public markets (by increasing the exposure to green bonds and green revenue) and in private markets (by making direct impact investments, and by engaging real estate managers).

Being an active owner
Detailhandel prefers to engage rather than divest. It believes it can exert influence by being an active owner and by forming strong alliances with like-minded investor peers, and use voting as a tool to enhance engagement. This belief for a large part determines the fund strategy and its preferred way to mitigate climate risk. Although climate-risk mitigation, and especially in terms of financed carbon emission reduction, for the portfolio of Detailhandel itself can be (most easily) achieved by divestment, Detailhandel believes this does not mitigate climate change in the real world as effectively. It thus prefers to engage rather than divest. Yet, Pensioenfonds Detailhandel is also considering the effectiveness of engagement; grand-scale divestment from climate-risk companies from like-minded peers reduce the effectiveness of collaborative engagement in theory, and in practice, only 1 out of 5 engagements is deemed effective. Therefore, engagement as a tool only works when working with the right engagement provider, in collaboration with others, and by using effective escalation strategies such as voting. Stewardship thus requires adequate planning and oversight. Therefore, Pensioenfonds Detailhandel will set clear targets for engaging the most material companies in the portfolio; and it will also identify companies in portfolio where engagement is not expected to yield any benefit. Detailhandel seeks out to use its engagement capacity for companies that score high on climate risk and are also thought to be capable to make the necessary transition.

Research and analyses
Research and analyses underpin Detailhandel's strategy. Therefore, Pensioenfonds Detailhandel has also set out to include the latest research when available. Mercer as a strategic climate advisor is themain research partner, but Pensioenfonds Detailhandel will also use the research conducted by FTSE Russell on specificities of the benchmark, and will include analyses of the asset manager, to act to provide additional climate insights and expertise, as well as the engagement and voting provider.

d. Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Analysis was carried out by Mercer for Detailhandel to understand the extent to which the fund's risk and return characteristics could come to be affected by a set of climate scenarios. This analysis was completed in 2020. The climate scenario analysis will be updated in Q3 2023 and once every three years thereafter. The analysis includes an estimation of the annual climate-related impact on returns and climate stress tests (to explore the potential impact of a sudden climate-related price movement).

The analysis used three different climate scenarios as summarised below:

- 2^{o}C scenario: a low carbon economy transformation most closely aligned with both successful implementation of the Paris Agreement's ambitions and the greatest chance of lessening physical damages. This scenario assumes that emissions peaked in 2020 and a 50% chance of meeting this temperature target to the end of the century. The scenario also leads to a "low carbon transition premium" for assets that are well aligned with this scenario.

- 3^oC scenario: this scenario assumes some climate change action but a failure both to meet the Paris Agreement 2^oC objective and meaningfully alleviate anticipated physical damages. This scenario models physical impacts not seen for over 3 million years.
- 4^oC scenario: this scenario is characterised by fragmented policy pathway where policy commitments are not implemented and serious failures to alleviate anticipated physical damages. This scenario models physical impacts not seen for tens of millions of years.

Two different portfolios were modelled:

- The 2020 Strategic Asset Allocation (SAA) with traditional listed equity exposures in developed and emerging markets.
- The 2020 SAA with Sustainable Benchmarks, which re-invests the developed and emerging listed equity exposures within custom FTSE SDG indices, with the same proportion to developed and emerging markets

Key findings from the results of the climate scenario analysis, as presented in table 2, were:

- A low carbon 2^oC scenario is most beneficial, whilst the high carbon 4^oC scenario created a drag on investment returns
- The SDG equity indices provide a low carbon transition premium for the total portfolio under a 2^oC scenario
- Climate change impacts, and low carbon transition impacts in particular, are most visible at a sector level
- Stress testing can help to prepare for sudden onset events, which are more likely in the context of climate change

Table 2: Cumulative Climate Change Impact on Portfolio Returns to 2030, 2050 and 2100[1]

		2020 SAA	2020 SAA with Sustainable Benchmarks
2^oC	2030	-0.1%	+1.9%
	2050	-2.2%	+1.3%
	2100	-4.0%	-0.8%
3^oC	2030	-0.1%	+0.1%
	2050	-1.3%	-0.3%
	2100	-4.0%	-2.4%
4^oC	2030	-0.4%	-0.4%
	2050	-1.9%	-1.9%
	2100	-5.6%	-5.6%

Source: Mercer report "Climate Change Scenario Analysis" produced for Pensioenfonds Detailhandel

1. Extract from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" prepared for and issued to Pensioenfonds Detailhandel for the sole purpose of undertaking climate change scenario analysis. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third-party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

Risk Management

"Disclose how the organization identifies, assesses, and manages climate-related risks."

Recommended disclosures

a. Describe the organization's processes for identifying and assessing climate-related risks.

Pensioenfonds Detailhandel seeks to identify and assess climate-related risks at the total portfolio level and at the individual asset level. Please see Table 1 in the Strategy section for examples of the type of climate risks that were discussed. Both 'top-down' and 'bottom-up' analysis has been received from the pension fund's strategic climate advisor Mercer. The tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. Detailhandel aims to use the best available information to assess climate-related threats to investment performance. As far as possible climate risks are assessed in terms of investment return, in order to compare with other investment risk factors.

Pensioenfonds Detailhandel's external asset manager has little to no room to deviate from the mandated guidelines set-out by the board of the pension fund. The asset manager has no active room to make climate-related considerations thus they have no role as portfolio managers to manage climate-related risks. Therefore, the role of the benchmark provider FTSE Russell is crucial in the mitigation of climate-related risks. The asset manager has recently been asked to conduct climate-related assessments and analyses to compliment the work both Mercer and FTSE Russell have been doing on climate. This will allow the board to make the best possible decisions in mitigating climate risks and will provide them with multiple viewpoints.

Stewardship activity is conducted with investee companies by the pension fund. Detailhandel's stewardship activity is conducted by a specialist third party voting and engagement service provider (Columbia Threadneedle). Pensioenfonds Detailhandel has laid out voting principles in their voting policy to ensure the Fund's investment beliefs and principles are reflected in voting and engagement activity with portfolio companies.

b. Describe the organization's processes for managing climate-related risks.

Stewardship, or active ownership, is a crucial process within the organization's efforts to mitigate risks. Pensioenfonds Detailhandel aims to use their stewardship efforts to mitigate both the climate-related risks to their portfolio; as well as to mitigate risks their portfolio has on the outside world. This is what is known as 'double materiality'. The risks are material to the organisation, and also to stakeholders amd external parties. Another process to mitigate this double materiality risk is making investment decisions (please see section 'Investment decisions' on page 9.).

In terms of stewardship, the pension fund has hired Columbia Threadneedle to conduct engagement and voting activities. In 2022, Columbia Threadneedle has conducted 591 climate change related engagements with 315 companies. This has led to 88 reported successes, those are instances where the engaged companies have met the objectives set-out at the beginning of the engagement. The fund reports every quarter on engagement results on its website. In addition to engagement, Columbia Threadneedle also conducts voting activities for the pension fund. Detailhandel has set-out their own voting principles, that are in turn translated to voting actions by Columbia Threadneedle. In 2022, this resulted in votes for climate-related shareholder proposals, as well as voting against 'regular' management proposals such as the appointment of board members, accepting the yearly report, or proposed remuneration policies.

c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

Climate risk is integrated in the Risk Management Framework, more specifically, in Pensioenfonds Detailhandel's risk management framework handbook for investments. The fund has described the objective of its risk management efforts to manage risks that can prevent the fund from reaching its objectives, mainly, to pay-out its liabilities to beneficiaries.

Climate is an explicitly identified risk in relation to that objective. In 2023, Detailhandel has launched a project to update ESG-risks in the Risk Management Framework. Pensioenfonds Detailhandel thus expects an updated risk process in 2024.

Pensioenfonds Detailhandelhas linked its risk strategy to the investment beliefs of the fund. The risk management process is described in the Risk management framework. The fund has also laid out the beliefs of climate risks in that document, to explain the importance of managing climate-risk. In addition, the fund uses investment cases, decision-making documents, and ESG-report of external providers to assess climate-risks for the entire portfolio and parts thereof. Those assesments constitute of both monitoring risks as including those risks when decisions are made for changing investment practices.

In addition, the fund is looking to further enhance the climate-risk policy by also including risk opinions of the Sleutelfunctiehouder (the externally strategic risk advisor) to every decision-making document. And, to also include ESG-risks including climate-risk to the risk reports as reported by the external risk manager. This will further enhance Detailhandel's climate-risk management.

The Analytics for Climate Transition (ACT) analyses conducted by Mercer are the main starting point in identifying climate-related risks in the portfolio of Detailhandel.

Metrics and Targets
"Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material."

a. Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Fund measures the greenhouse gas (GHG) emissions and other climate metrics as far as possible across the investment portfolio to assess and manage climate-related risks and opportunities. The GHG emissions scopes and metrics measured by the Fund are presented below.

The GHG Protocol defines three "scopes" for reporting direct and indirect GHG emissions:

- Scope 1: All direct GHG emissions occurring from sources that are owned or controlled by the company, for example from combustion in owned or controlled boilers and vehicles.
- Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam.
- Scope 3: Other indirect emissions which are a consequence of the activities of the company but occur from sources not owned or controlled by the company. Examples include the extraction and production of purchased materials and fuels, and use of products and services sold by the company.

There are currently challenges for a large multi-asset investor due to limited availability of data and inconsistency of calculation methodologies across the industry. Emissions data is most readily available for listed public companies in developed markets.

The focus of reporting is on carbon dioxide equivalents (CO2e) of scope 1 and 2 emissions. Company reporting of scope 3 data is low, data sets are incomplete and volatile. Data providers still rely on estimation to report scope 3 data sets. Scope 3 emissions are reported for the penion fund's investment portfolio, but they are not yet incorporated into the emissions baseline or target setting framework until company reporting of scope 3 emissions improves.

Pensioenfonds Detailhandel

Table 3: Carbon risk metrics summary

Emissions Metrics	Type of Metric	Description
Absolute GHG emissions	Total GHG emissions (tCO_2e)	Market standard to report on total GHG emissions, calculates an investor`s share of the total emissions for each company/holding
Emissions intensity	Carbon Footprint GHG emissions (tCO_2e) / $m invested)	Total GHG Emissions figure weighted to take account of the size of the investment made. It seeks to answer how carbon intensive the portfolio is.
Alternative emissions intensity	Weighted Average Carbon Intensity Corporate = (WACI) (tCO_2e / $m revenue) Sovereign = tCO_2e/$million PPP Adjusted GDP	Average exposure (weighted by portfolio allocation) to GHG emissions normalised by revenue or GDP. It seeks to answer how carbon intensive the companies or countries in the portfolio are.
Non-Emissions Metrics	**Type of Metric**	**Description**
Implied temperature rise (ITR)	Temperature alignment metric	The ITR metric provides an indication of how companies and investment portfolios align to a global climate temperature e.g. a portfolio is considered to be Paris Aligned if has an ITR of 2°C or below.
% of portfolio with SBT/TPI targets	Net zero transition aligment metric	A measure of how many companies in a portfolio have submitted climate transition plans that have been verified or supported by the Science Based Targets Initiative (SBTi) or Transition Pathway Initiative (TPI).

Similarly sovereign bond emissions will be important for the Fund to report on in the future due to the allocation to sovereign bonds in the portfolio. There is currently no universally agreed guidelines for setting emissions targets on sovereign bonds emissions. Pensioenfonds Detailhandel will incorporate sovereign emissions into the emissions baseline and target setting framework once an industry standard approach has been agreed.

b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.

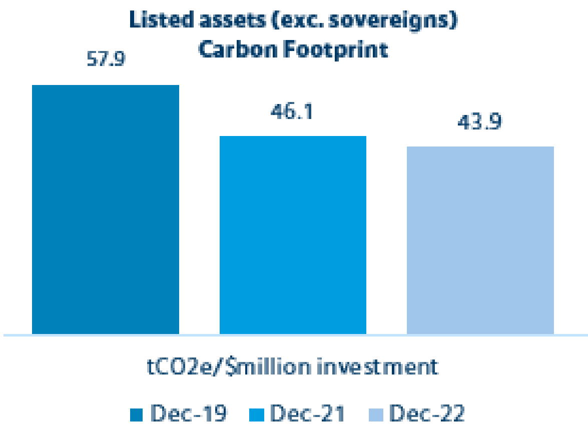
Analysis of the GHG emissions associated with the Scheme's investment portfolio was carried out at 31 December 2022.

Chart 2 shows that the Fund's listed assets (exc. sovereigns) decarbonised by 24.2%, from December 2019 to December 2022. All mandates apart from the high yield mandate contributed to the decarbonisation, which was supported by investment decisions made by the fund, including transitioning to custom SDG-aligned benchmarks for equity and corporate bonds.

The high yield bond mandate experienced an increase in carbon footprint between December 2019 and December 2022. The high yield mandate has a relatively high exposure to high polluting sectors such as utilities and energy, which in 2022 experienced emissions increases partly due to the effects of the Russian invasion of Ukraine which caused disruptions to energy markets.

Table 4 shows the developed world equity mandate represents the highest weighting in the listed assets (exc. sovereigns) SAA but contributes a relatively lower weighting to the overall absolute emissions of the listed assets (exc. sovereigns).

Chart 2. Carbon Footprint (scope 1 & 2) – listed assets (exc. sovereigns)



Source : Mercer analysis, MSCI ©2023 MSCI ESG Research LLC. Reproduced by permission.

Table 4. Climate metrics reporting for all Fund mandates

Good coverage >50% | Some coverage <50% | Not covered
▼ Improvement vs previous year | ▲ Worsened vs previous year

	Portfolio	SAA Weight %	Absolute Emissions Coverage	Absolute emissions (tCO2e based on value of investment)	WACI Coverage	WACI (tCO2e/$million sales) and Carbon Intensity (tCO2e/$m GDP)	Carbon Footprint Coverage	Carbon Footprint (tCO2e/$million investment)	SBTi Aligned	TPI Aligned
				Scope 1 + 2		Scope 1 + 2		Scope1 + 2		
Listed Equity	Developed World Equities	27.1%	99.0%	239,202 ▼	99.2%	70.8 ▲	99.0%	30.1 ▲	49.2%	2.0%
	EM Equities	5.1%	99.0%	145,344 ▼	99.1%	213.5 ▼	99.0%	97.1 ▼	9.7%	1.2%
Listed Real Estate	Real Estate	2.4%	98.9%	4,419 ▼	99.2%	85.3 ▼	98.9%	6.4 ▼	35.8%	0.0%
Corporate bonds	HY	3.2%	75.8%	166,563 ▼	81.0%	398.8 ▲	75.8%	177.2 ▼	21.9%	2.8%
	Euro Corps	9.7%	46.8%	42,714 ▼	82.6%	35.8 ▼	46.8%	15.0 ▼	20.4%	0.7%
	Green Bonds (CB)*	0.7%	50.6%	22,648 ▼	97.3%	305.3 ▼	50.6%	108.8 ▼	22.9%	4.8%
Listed Assets (exc. Sovereigns) Total		48.2%	86.2%	620,890	94.6%	104.8	86.2%	43.9	36.4%	1.7%
Sovereign Bonds and LDI	Green Bonds (Sov)*	0.3%	83.5%	16,692 ▼	83.5%	196.0 ▼	-	-	-	-
	EMD HC	5.3%	91.2%	486,606 ▼	91.2%	312.7 ▼	-	-	-	-
	EMD LC	6.3%	99.4%	582,612 ▼	99.4%	315.0 ▼	-	-	-	-
	Euro Gov Bonds	11.2%	99.9%	533,051 ▼	99.9%	162.1 ▼	-	-	-	-
	Euro Long Gov Bonds	10.5%	100.0%	496,398 ▼	100.0%	161.0 ▼	-	-	-	-
	LDI**	10.0%	100.0%	56,476 ▼	100.0%	152.6 ▼	-	-	-	-
Sovereign Bonds and LDI Total		43.6%	98.7%	2,171,835	98.7%	200.3**	-	-	-	-
Illiquid Assets	Illiquid Real Estate	2.4%		-		-		-	-	-
	Dutch Mortgages	4.4%		-		-		-	-	-
	Direct Impact Portfolio	1.0%		-		-		-	-	-
	Cash	0.5%		-		-		-	-	-

Source : Mercer analysis, MSCI ©2023 MSCI ESG Research LLC. Reproduced by permission.
Notes: Scope 1+2 only. % of fund directly analysed reflects coverage under the MSCI tool used in this analysis. Figures may not sum due to rounding. 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).
Sovereign analysis has been conducted in line with the recommended methodology set out in the ongoing PCAF consultation. Intensity formula: Production Emissions /PPP Adjusted GDP ($M). Data for Production Emissions (GHG) for 2021 sourced from EDGARv7.0 website, Crippa et al. (2021, 2022). Data for PPP Adjusted GDP for the latest available data (2020-2021) sourced from The World Bank.
**MSCI classification has been used to differentiate holdings between sovereign and corporate bonds, resulting in the mandate having a 71.3% corporate bond exposure and a 28.7% sovereign bond exposure., excluding cash and derivative allocations.*
***Considering the Physically Funded Gilts portion of the mandate only (the rest of the portfolio includes interest rate swaps, cash and European Union bonds. Please note the aggregate sovereign intensity metric is calculated using the full strategic weight to the LDI portfolio of 10%. If the aggregate metric was calculated based on the asset value of physical sovereign bonds for the LDI portfolio, the aggregate intensity figure would be 212.2.*

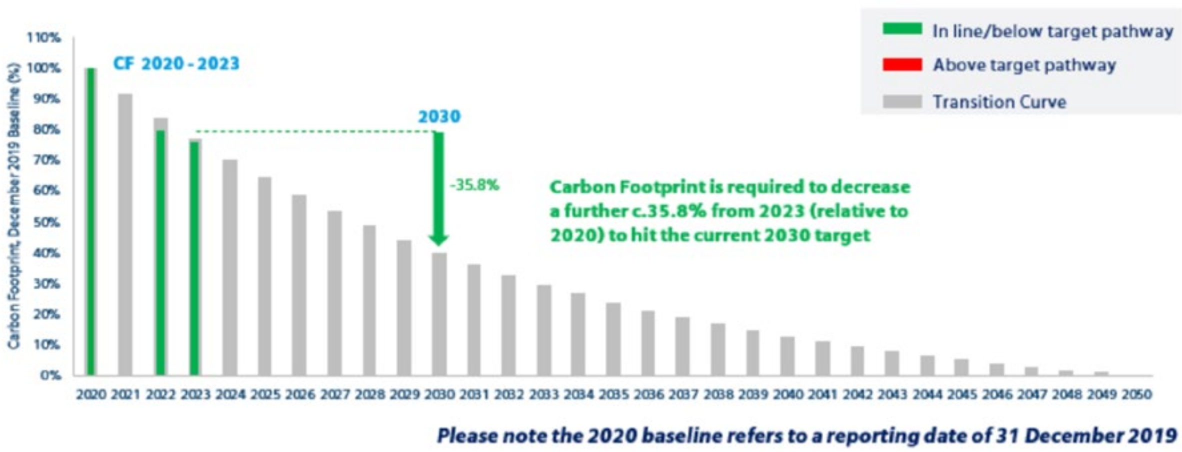
The high yield bond mandate represents a relatively small weighting in the SAA but contributes to a large proportion the overall absolute emissions of the listed assets (exc. sovereigns). This mandate will be important to decreasing overall climate emissions risk in the investment portfolio and will be a focus of decarbonisation efforts in the near future by building a custom Detailhandel SDG-aligned index.

The emerging market sovereign debt mandates are a relatively small allocation in the strategic asset allocation, but account for a large share of total absolute sovereign emissions. Pensioenfonds Detailhandel moved to custom Detailhandel SDG-aligned indices in emerging market debt in 2022, resulting in lower emissions.

c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Climate policy and net zero target
Pensioenfonds Detailhandel has set an overall 2050-net zero target with interim targets. It has set-out ways to reach those targets, most importantly in terms of investment decisions and stewardship.

Chart 3. Decarbonisation pathway for listed assets (exc. sovereigns)



Source : Mercer analysis, MSCI ©2023 MSCI ESG Research LLC. Reproduced by permission.
Note : The actual European Policy baseline is 1990 however it is impractical for the baseline for the Fund to be calculated from this date so the Fund aligns with this pathway going forwards from the 2020 baseline.

Targets and decarbonisation pathway
Pensioenfonds Detailhandel has set its decarbonisation pathway in-line with the decarbonisation pathway of European Policy as this is the region where the Fund is based, and the portfolio has large investment allocations to European assets.

Pensioenfonds Detailhandel has set decarbonisation targets in-line with the decarbonisation pathway detailed in Chart 3. All targets are set to achieve the net zero emissions target of 2050 with interim targets every 5 years based on carbon footprint reductions. Carbon footprint is the preferred metric as it is an intensity metric so can measure emissions changes independent of changes to market values of the Fund. Currently the targets are based on listed assets excluding sovereigns and are on scope 1 and 2 emissions. The Fund has a plan in place to include sovereign bonds and scope 3 emissions in the emissions baseline and target setting framework when framework and data evolve. The interim targets and progress against these is presented in Table 5 below.

As shown in Chart 3 and Table 5 Pensioenfonds Detailhandel was slightly ahead of the emission reduction target for 2022. Pensioenfonds Detailhandel is currently undergoing strategy change through transitioning its mandates to SDG-aligned benchmarks. The Emerging Market Debt portfolio has transitioned in 2022. The high yield bond mandate, which is a significant contributor to the Fund's total absolute emissions, is due to transition in 2023/ early 2024. In addition to this, Pensioenfonds Detailhandel is undertaking actions around stewardship through conducting a series of targeted engagements with the largest contributors to absolute emissions on their climate transition plans. As both of these activities are carried out it is expected that there will be significant decarbonisation in the future bringing Pensioenfonds Detailhandel more in line with the decarbonisation pathway.

Table 5. Carbon footprint (GHG emissions (tCO2e) / $m invested)Scope 1 and Scope 2) reduction targets versus actual emissions for listed assets (exc. sovereigns)

Year	Emission target versus 2019 baseline	Actual emissions versus 2019 baseline	Actual Emissions Relative to Target
2020	100%	N/A	
2022	83%	96%	-13%
2023	77%	76%	+1%
2025	64%		
2030	40%		
2035	24%		
2045	5%		
2050	0%		

Source : Mercer analysis, MSCI ©2023MSCI ESG Research LLC. Reproduced by permission.