Pensioenfonds Detailhandel

Pensioenfonds Detailhandel TFCD-rapportage 2024

Task Force on Climate-Related Finance Disclosures

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.

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 interest of beneficiaries as well as wider market participants.

The Task Force structured its recommendations around four thematic areas:

Climate-related risks

In 2023, human activities are estimated to have caused approximately 1.4°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.

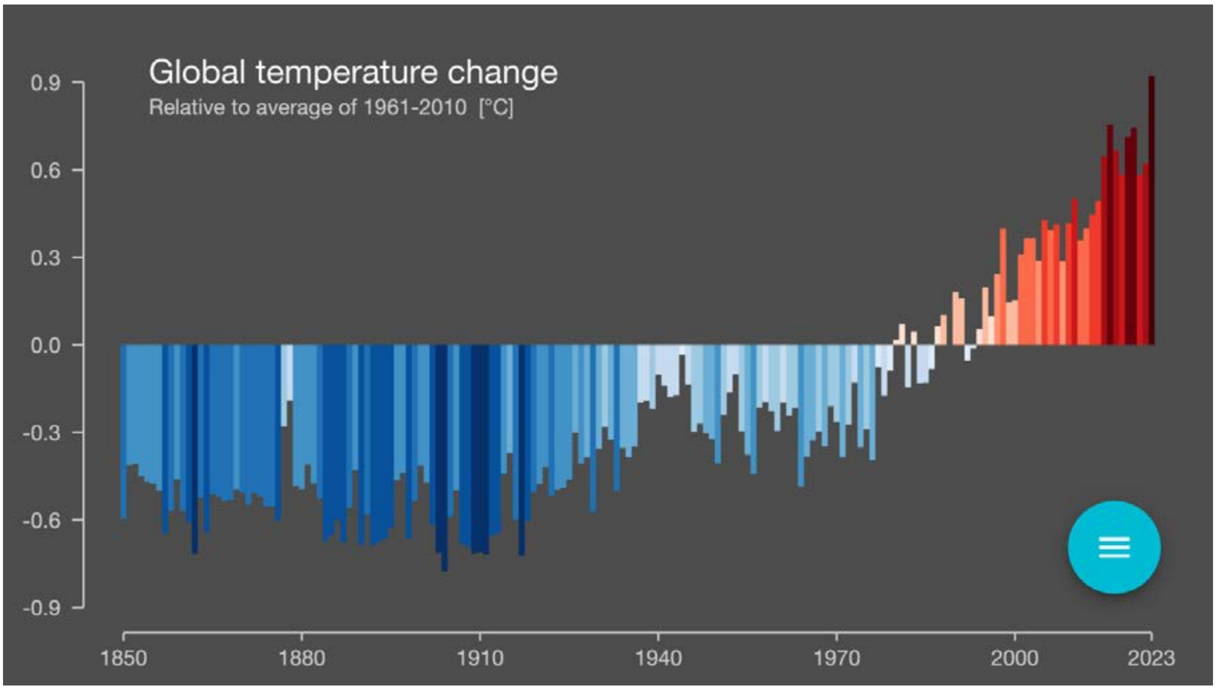
Pensioenfonds Detailhandel has defined two investments beliefs explicitly relating to the responsible investment policy of the pension fund. Following investment beliefs 8 and 9, the Fund sets out to both mitigate climate-related risks to the portfolio and contribute to the Paris Agreement objectives.

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

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

Pensioenfonds Detailhandel also defined investment beliefs that indirectly connect to climate risks, such as those 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.

Chart 1. Global Temperature Change 1850-2023



Source: Ed Hawkins at University of Reading with data from Berkeley Earth & ERA5-Land, NOAA, UK Met Office, MeteoSwiss, DWD, SMHI, ov & ZAMG (https://showyourstripes.info/c/globe)

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.

GOVERNANCE

Climate considerations are embedded into the governance of the Pensioenfonds Detailhandel and the organizational set-up around climate-considerations within the investment portfolio is matured. Pensioenfonds Detailhandel is in the process of updating its risk management framework to further mature risk management around climate considerations and stenghten the oganisation of countervailing power (third party reviews).

STRATEGY

Pensioenfond Detailhandel works to reduce exposure to climate risks and maximize exposure to climate opportunities in the entire investment process:

- By introducing climate-related considerations to the ALM-study of the pension fund, leading to a climate-resilient strategic asset allocation
- By integrating climate-related considerations and actions into every investment portfolio
  - Priority portfolios in 2024-2025 are the developed market equity portfolio and the listed real estated portfolio. The developed market equity portfolio is undergoing an update in line with the lastest climate methodologies and available data, whilst the listed real estate portfolio is likely to transition to a more climate-oriented benchmark.

RISK MANAGEMENT

Climate risks will be added more explicitly in the risk management framework, including enterprise-risk as well as climate-risk to the investment portfolio. Pensioenfonds Detailhandel conducts regular risk analyses, such as a physical climate risk study for the real estate portfolio.
Climate considerations are taken into account in investment decisions and integrated into investment decision-procedures.

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, and there is an annual review to measure progress.

Other asset classes and scope 3 emissions in investment targets when global guidance and frameworks have developed to allow this:
Work to improve corporate reporting standards through engagement activities

The above 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, starting with Developed Market equity portfolio.

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. Pensioenfonds Detailhandel 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 Pensioenfonds Detailhandel prefers to exert influence over divestment. We are working to formulate a new stewardship and climate engagement strategy alongside our engagement advisor Columbia Threadneedle in 2024 and 2025.
   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 will continue to enhance our research

a. Where possible, we will expand our net zero target setting to sovereign bonds and possibly 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.

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 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 at the exective bureau. The executive bureau oversees the work done by external parties, such as 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 years. The integration of climate-considerations 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 Pensioenfonds Detailhandel 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 and mortgage portfolio 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, Columbia Threadneedle Investments.. We will work to update our stewardship and climate engagement strategy alongside Columbia Threadneedle in 2024 and 2025.

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

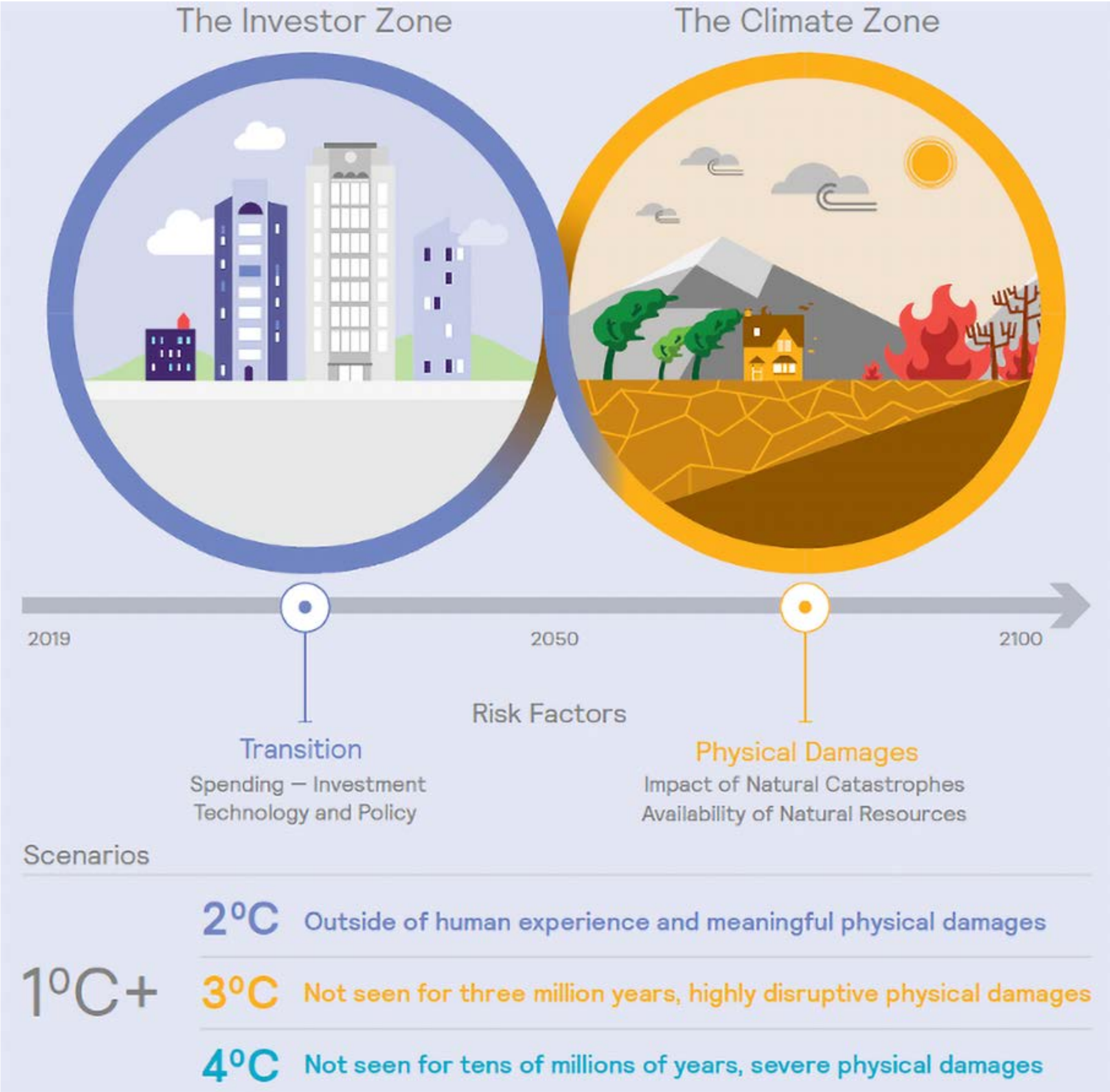
IN TERMS OF IMPACT

	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

Building on these climate risks, Pensioenfonds Detailhandel is in the process of integrating the identified climate risks in the enterprise-risk framework.

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 above-mentioned 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-alignment of this portfolio goes beyond integrating climate-considerations by aligning investments to SDG 13: Climate Action. Pensioenfods Detailhandel also integrates SDG 8: Decent work, SDG 12: Responsible production and Consumption and SDG 16: Peace, Justice and Strong Institutions.

Since launching the developed equity benchmark, Detailhandel 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). Moreover, Pensioenfonds Detailhandel also transitioned its High Yield mandate to a SDG-aligned customized benchmark constructed by FTSE Russell last year. Detailhandel is now planning on selecting a new benchmark for listed real estate, that would include climate risk considerations and is revisiting its benchmark in developed market equity.

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.

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 has lead to an ALM-study in 2023-24 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 the ALM-study of Pensioenfonds Detailhandel is taking longer than in regular ALM-study cycles.

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 directly impacting real-world outcomes by its investments. Therefore, Pensioenfonds Detailhandel has added a dedicated green bond portfolio to its 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 reductio, 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, although engagement on financial-material topics such as climate change is found to be more effective than engaging on non-material matters, influencing companies through engagement has its limits.
To increase the effectiveness of engagement, Pensioenfonds Detailhandel works closely with their engagement provider Columbia Threadneedle, appointed after careful selection, seeks collaboration with others, and uses escalation strategies in voting. Stewardship requires adequate planning and oversight. Therefore, Pensioenfonds Detailhandel will set 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 set out to include the latest research when available. Mercer as a strategic climate advisor is the main 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 BlackRock for additional climate insights and expertise, as well as analyses from the engagement and voting provider Columbia Threadneedle.

c. 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 once the pension fund has more clarity on the strategic asset allocation of the fund after transitioning to the new pension regime. 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).

1. Bauer, Rob and Derwall, Jeroen and Derwall, Jeroen and Tissen, Colin, Private Shareholder Engagements on Material ESG Issues (May 31, 2023). Financial Analysts Journal, Forthcoming, Available at SSRN: https://ssrn.com/abstract=4171496 or http://dx.doi.org/10.2139/ssrn.4171496

The analysis used three different climate scenarios as summarised below:

- **2°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°C scenario:** this scenario assumes some climate change action but a failure both to meet the Paris Agreement 2°C objective and meaningfully alleviate anticipated physical damages. This scenario models physical impacts not seen for over 3 million years.
- **4°C 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.

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

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

> -10 bps, < 10bps ≥ 10 bps

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

2. 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.

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

- A low carbon 2ºC scenario is most beneficial, whilst the high carbon 4ºC scenario created a drag on investment returns
- The SDG equity indices provide a low carbon transition premium for the total portfolio under a 2ºC 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

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. Therefore, the work of the benchmark provider FTSE Russell is a crucial component 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 Detailhandel'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 well over 100 engagements with companies regarding climate change, leading to over 50 reported successes where the engaged companies have met the objectives set-out at the beginning of the engagement. Pensioenfonds Detailhanel reports every quarter on engagement results on its website. In addition to engagement, Columbia Threadneedle also conducts voting activities for Detailhandel. Detailhandel has formulated its own voting principles, that are in turn translated to voting actions by Columbia Threadneedle. In 2023, 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.

Besides managing climte-related risks, Detailhandel also looks at climate-related opportunities. It has formulated a 2030-target of 20% for sustainable investments in equity and corporate credit, as well as 10% sustainable investments in sovereigns.

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. Detailhandel 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 Mramework. Detailhandel 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-reports of external providers to assess climate-risks for the entire portfolio and parts thereof. These assesments are used to monitor risks and are used for decision-making. The external strategic risk assessor (*Sleutelfunctiehouder Risk*) provides risk opinions for every decision-making document, based on the Risk Management Framework of the pension fund. ESG-risks, including climate-risk, will be integrated in the monthly risk report of the external risk provider once these are sufficiently integrated in the Risk Management Framework. These processes are expected to finalize in 2025.

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.

Pensioenfonds Detailhandel 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.

Table 3: Carbon risk metrics summary

Emissions Metrics	Type of Metric	Description
Absolute GHG emissions	Total GHG emissions (tCO2e)	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 (tCO2e) / $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) (tCO2e / $m revenue) Sovereign = tCO2e/$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).

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 pension 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. However, noting IFRS have incorporated climate disclosures within their S2 disclosure standards that require companies to report their scope 3 emissions, we expect more widespread corporate reporting of scope 3 emissions by 2025. This position on scope 3 target-setting is therefore expected to be reviewed over the next years (December 2025/26 reports) in line with market developments and reporting improvements.

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 2023.

Chart 2. Carbon Footprint (scope 1 & 2) – listed assets (exc. Sovereigns)[3]

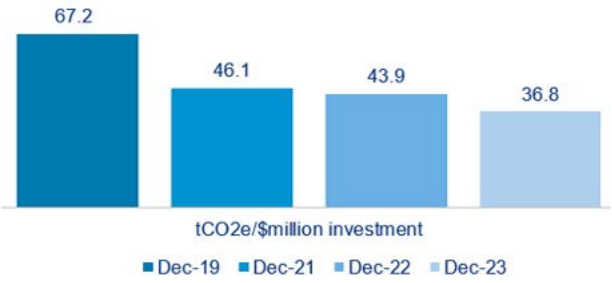


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Chart 2 shows that the Pensioenfonds Detailhandel's listed assets (exc. Sovereigns) decarbonised by c.45.2%, from December 2019 to December 2022. With the exception of the real estate equities mandate, all mandates saw a decrease in their carbon footprint since December 2019 , which was supported by investment decisions made by the fund, including transitioning to custom SDG-aligned benchmarks for equity and corporate bonds. The real estate mandate which saw a carbon footprint increase of 2.5% since December 2019 is, however, an already carbon efficient mandate, consistently presenting the lowest carbon footprint amongst the listed portfolio. Regardless, this mandate is under review to transition to a green benchmark and will be a focus of decarbonisation efforts in the near future.

Although the Euro Corps (Corporate bonds portion) mandate has slightly increased its carbon footprint over the last year as table 4 shows, it is still the mandate with the biggest decrease relative to the baseline (c.77% decrease).

The high yield mandate, which was identified last year as being a key mandate to decrease overall climate emissions risk in the investment portfolio, has the second biggest decrease relative to the baseline date (c.45%). This is line with the expectation, as it has moved to an SDG-aligned benchmark last year resulting in a sharp decrease in its carbon footprint from December 2022 to December 2023 (c.48% decrease).

3. Please note there was a methodology calculation correction for the Carbon Footprint figure as at Dec-19, which resulted in an adjustment from the Dec-19 figure stated in last year' TCFD report (57.9 tCO2e / $M invested).

Moreover, Table 4 also shows that while developed world equity mandate represents the highest weighting in the listed assets (exc. Sovereigns) SAA, it contributes a relatively lower weighting to the overall absolute emissions of the listed assets (exc. Sovereigns).

As for sovereign bonds, please note the methodology used has improved over the years, making it unfair to compare year-on-year data. As a result, the current analysis shown in Table 5 does not take into account the sovereign figures from previous analyses.

Moreover, Pensioenfonds Detailhandel adopted the recommendations of the Partnership for Carbon Accounting Financials (PCAF) to report scope 1 emissions both including and excluding land use, land use change and forestry (LULUCF) when reporting sovereign emissions.

Table 4. Climate metrics reporting for listed equity and corporate bonds as at Dec-2023 – Scope 1 +2

Key:
▼ Improvement vs previous year ▲ Worsened vs previous year

Asset Class	Mandate	WACI (tCO2e / $M sales)		Carbon Footprint (tCO2e / $M invested)		Absolute Emissions (tCO2e)		Implied Temperature Rise (°C)		SBTi	Allocation Weight
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage		
Listed equity	Developed World Equities	52.0 ▼	99.0%	25.5 ▼	99.0%	230,193 ▼	99.1%	2.3°C	99.2%	52.2%	27.1%
	EM Equities	206.7 ▼	96.7%	94.6 ▼	96.6%	160,642 ▲	96.6%	2.7°C	96.7%	21.8%	5.1%
	Real Estate	83.4 ▼	99.2%	7.8 ▲	98.9%	6,079 ▲	99.2%	2.6°C	99.1%	48.5%	2.4%
Total listed equity		76.9	98.7%	34.5	98.6%	396,914	98.8%	2.4°C	98.8%	47.5%	34.6%
Corporate bonds	HY	156.5 ▼	85.4%	92.0 ▼	81.8%	98,036 ▼	81.8%	2.5°C	81.3%	35.9%	3.2%
	Euro Corps (CB)*	37.9 ▲	93.7%	18.3 ▲	56.4%	47,835 ▲	56.7%	2.0°C	75.4%	27.5%	7.9%
	Green Bonds (CB)*	253.5 ▼	94.6%	104.3 ▼	50.7%	24,023 ▲	51.1%	1.9°C	69.8%	26.1%	0.7%
Total corporate bonds		82.9	91.5%	43.5	63.0%	169,894	63.2%	2.1°C	76.6%	29.7%	11.8%
Total equity and corporate bonds		78.5	96.8%	36.8	89.6%	566,808	89.7%	2.3°C	93.2%	42.9%	46.3%

Source : Mercer analysis, MSCI ©2024 MSCI ESG Research LLC. Reproduced by permission.
*Notes: All data as at 31 December 2023. An overview of these metrics is provided in the Appendix. Allocation weights represent the strategic asset allocation for that mandate. *MSCI classification has been used to differentiate holdings between sovereign and corporate bonds, resulting in the Euro Corporates mandate having a 81.1% corporate bonds exposure and a 18.9% sovereign exposure, and the Green Bonds mandate having a 69.7% corporate bonds exposure and a 30.3% sovereign exposure, excluding cash and derivative allocations.*

Table 5. Climate metrics reporting for sovereign bonds as at Dec-2023

		Excl. LULUCF				Incl. LULUCF*				
Asset Class	Mandate	Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		Sovereign Carbon Intensity (tCO2e / $M PPP-Adjusted GDP)		Absolute Emissions (tCO2e)		Allocation Weight
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	
Sovereign bonds	Euro Corps (Sov)**	185.0	9.0%	113,180	9.0%	169.3	8.2%	103,557	8.2%	1.8%
	Green Bonds (Sov)**	130.8	74.8%	13,185	74.8%	127.2	71.6%	12,817	71.6%	0.3%
	EMD HC	227.9	87.8%	402,430	87.8%	237.9	87.8%	419,967	87.8%	5.3%
	EMD LC	239.2	99.5%	501,927	99.5%	261.9	99.5%	549,662	99.5%	6.3%
	Euro Gov Bonds	125.4	100%	467,747	100%	122.6	100%	457,240	100%	11.2%
	Euro Long Gov Bonds	124.5	100%	435,492	100%	122.3	100%	427,732	100%	10.5%
	LDI***	115.3	100%	43,028	100%	111.3	100%	41,520	100%	10.0%
Total sovereign bonds		153.1	94.7%	1,976,989	94.7%	154.7	94.6%	2,012,495	94.6%	45.4%

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

*Sovereign emissions data shown are consistent with the PCAF definition of Scope 1 sovereign emissions, aligning with the UNFCCC definition of domestic territorial emissions, including emissions from exported goods and services. Emissions data include land use, land use change and forestry (LULUCF). **MSCI classification has been used to differentiate holdings between sovereign and corporate bonds, resulting in the Euro Corporates mandate having a 81.1% corporate bonds exposure and a 18.9% sovereign exposure, and the Green Bonds mandate having a 69.7% corporate bonds exposure and a 30.3% sovereign 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 of the LDI portfolio of 10%.

Notes: Euro Corps and Green Bonds mandates experience a higher coverage for the metrics excluding land use, land use change and forestry, compared to metrics including land use, land use change and forestry. Please note that for these mandates differences in coverage can cause data biases given different assets in the mix, and does not allow for an exact comparability between the figures excluding and the figures including land use, land use change and forestry.

Table 5 shows 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 benchmarks in emerging market debt in 2022.

Table 6. Climate metrics reporting for listed equity and corporate bonds as at Dec-2023 – Scope 3

Asset Class	Mandate	WACI (tCO2e / $M sales)				Carbon Footprint (tCO2e / $M invested)				Absolute Emissions (tCO2e)				Allocation Weight
		Scope 3 Upstream		Scope 3 Downstream		Scope 3 Upstream		Scope 3 Downstream		Scope 3 Upstream		Scope 3 Downstream		
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	
Listed equity	Developed World Equities	239.3	99.2%	367.8	99.2%	92.7	99.1%	203.5	99.1%	817,724	99.1%	1,788,610	99.1%	27.1%
	EM Equities	276.8	96.7%	576.5	96.7%	135.7	96.5%	328.2	96.5%	239,851	96.6%	567,845	96.6%	5.1%
	Real Estate	244.3	99.1%	4.8	99.1%	23.1	99.1%	0.6	99.1%	19,041	99.1%	475	99.1%	2.4%
Total listed equity		245.2	98.8%	373.9	98.8%	94.3	98.7%	208.1	98.7%	1,076,616	98.8%	2,356,930	98.8%	34.6%
Corporate bonds	HY	278.6	85.2%	493.8	85.2%	181.5	81.7%	362.6	81.7%	203,192	81.8%	393,558	81.8%	3.2%
	Euro Corps (CB)*	172.0	95.9%	824.1	95.9%	93.3	56.7%	180.5	56.7%	251,852	56.7%	469,365	56.7%	7.9%
	Green Bonds (CB)*	205.4	95.1%	1,028.7	95.1%	106.6	51.1%	250.2	51.1%	26,010	51.1%	58,117	51.1%	0.7%
Total corporate bonds		203.0	92.9%	746.4	92.9%	118.1	63.1%	234.2	63.1%	481,054	63.2%	921,039	63.2%	11.8%
Total equity and corporate bonds		234.4	97.3%	468.5	97.3%	100.4	89.7%	214.7	89.7%	1,557,669	89.7%	3,277,969	89.7%	46.3%

Source : Mercer analysis, MSCI ©2024 MSCI ESG Research LLC. Reproduced by permission.

Notes: Allocation weights represent the strategic asset allocation for that mandate. *MSCI classification has been used to differentiate holdings between sovereign and corporate bonds, resulting in the Euro Corporates mandate having a 81.1% corporate bonds exposure and a 18.9% sovereign exposure, and the Green Bonds mandate having a 69.7% corporate bonds exposure and a 30.3% sovereign exposure, excluding cash and derivative allocations.

Pensioenfonds Detailhandel recognizes Scope 3 emissions are important to measure to evaluate a company's climate risk throughout its value chain. Pensioenfonds Detailhandel will seek to integrate Scope 3 emissions into the target setting framework as methodologies and company reporting improve.

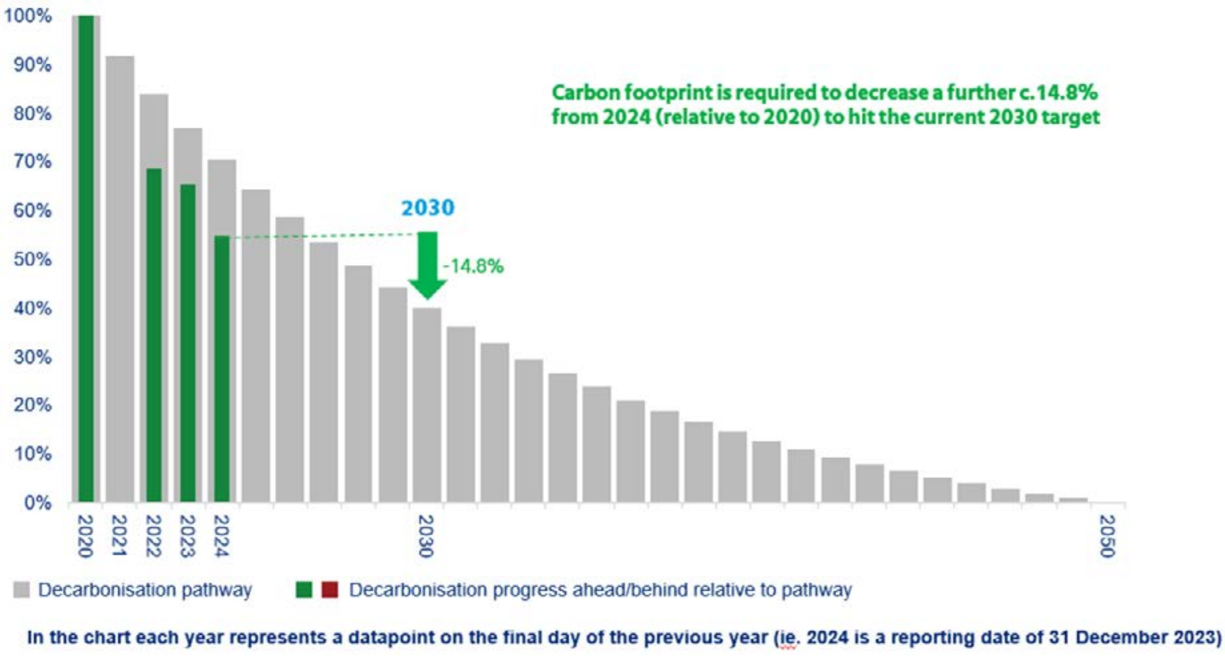
c. Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

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.

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. Pensioenfond Detailhandel 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 7.

Chart 3. Decarbonisation pathway for listed assets (exc. sovereigns)[4]



Source : Mercer analysis, MSCI ©2024 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.

4. Please note there was a methodology calculation correction for the Carbon Footprint figure as at Dec-19, which resulted in an adjustment in the decarbonisation progress since baseline.

Table 7. 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%	100%	
2022	84%	69%	-15%
2023	77%	65%	-12%
2024	70%	55%	-16%
2025	64%		
2030	40%		
2035	24%		
2045	5%		
2050	0%		

Source : Mercer analysis, MSCI ©2024 MSCI ESG Research LLC. Reproduced by permission.
Note: The dates in the above table correspond to the preceding reporting date, i.e., 2020 equates to 31/12/2019

As shown in Chart 3 and Table 7 Pensioenfonds Detailhandel is ahead of the emission reduction target in 2024.

Pensioenfonds Detailhandel has undergone strategy changes through transitioning its mandates to SDG-aligned benchmarks which have helped to reduce emissions across the investment mandates. In addition certain mandates already following UN SDG-aligned benchmarks are undergoing a review of their climate characteristics to take into account the latest data on climate risk as well as forward-looking transition possibilities

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 the effect of these activities are carried out it is expected that there will continue to be significant decarbonisation in the future, keeping Pensioenfonds Detailhandel in line to meet its targets and decarbonisation pathway.

The target of Pensioenfonds Detailhandel has undergone data reconciliation exercises between Mercer and the asset manager BlackRock as a means of validating the target. Currently, Pensioenfonds Detailhandel does not foresee using carbon credits to achieve the target.

Pensioenfonds Detailhandel