The Oddfellows
SINCE 1810
making friends, helping people

Oddfellows' climate change journey

Climate change disclosures

year end 31 December 2022

Foreword

Welcome to the 2nd issue of the Society's report on its Climate Change Journey!
The Oddfellows exists to serve our members and policyholders. We have been around for over 200 years, and we aim to still be around and serving our members 200 years in the future.

As a Society we are primarily devoted to the wellbeing of our members and to securing good financial outcomes for our policyholders. As part of that commitment, we acknowledge climate change as a matter of scientific fact. Climate change fits in with our inter-generational time horizon. All the science tells us that it's happening now, but, as we all know, the effects will continue to be felt for decades to come. As you are aware from our first report issued in 2022, Climate Change is now a focus of our Regulators in terms of them formulating their expectations of how it should be managed and what disclosures should be made by the firms they regulate. Climate change is an issue that is of real importance to us all.

In the Society's Reports and Financial Statements for the year ended 31 December 2022, under the Strategic Report, you will see a high level summary of where we are as a Society, in terms of our journey on Climate Change. This document is to provide you with more information about what we have done, and what is on the horizon.

The disclosure expectations cover emissions arising out of our own activities ie. running the Society, as well as emissions from companies that the Society invests in whether that be equities or bonds we own as part of our investment portfolios. As you would expect, it takes time and effort to collate that information, and, once the information is to hand, further thought needs to be given as to what we can do to reduce or mitigate those emissions.

Our investments, for example, are intended to underpin our service to members and our commitments to policyholders. Therefore, we aim to invest for the long-term to generate value for current and future generations. In the medium to long term, climate change is likely to impact the global economy and, therefore, needs to be factored into our strategy, governance and risk management.

So, this is our 2nd climate change report aligned to the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations. We have made progress since 2021 and have again had our Office carbon emissions assessed and the results are included in this document. As the science continues to evolve over the coming months and years, I am sure we will build on those aspirations. We believe our members are best served by a steady pragmatic approach to reduction and mitigation.

Joe Nelson.

Chief Executive Officer

Introduction

To combat the increase in global temperatures, governments, including the UK Government adopted the Paris Agreement on Climate Change (The Paris Agreement) in 2015. The Agreement is a legally binding international treaty which requires signatory nations to substantially reduce greenhouse gas emissions to limit the global temperature increase in this century to 2°C whilst pursuing efforts to limit the increase even further to 1.5°C.

In response to the Paris Agreement, the UK Government announced its intention to introduce new statutory disclosure requirements for UK businesses designed to promote transparency on climate change and the transition to a sustainable economy. The purpose of the disclosures is so customers can make decisions aligned to their sustainability preferences. These requirements are in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Our TCFD disclosures are required to cover three main categories of emissions:

- Scope 1: direct emissions arising from fuel combustion, including the use of natural gas (for heating) or fuel in company cars.

- Scope 2: indirect emissions arising from the consumption of purchased electricity, heat or steam and relate to the running of our offices and of course, our Branches.

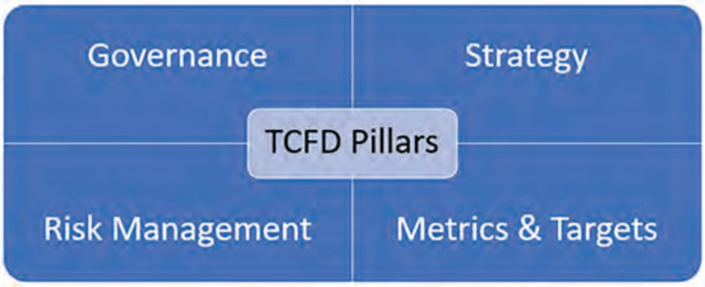
- Scope 3: indirect emissions related to the Society's use of purchased goods or services, such as paper, waste, water and car and rail travel by staff and Directors. The Society is also required to review and disclose "financed emissions", being those caused by, for example, companies whose shares or debt we invest in.

The expectation over the coming years is for firms, such as Oddfellows, to define metrics and targets to measure and reduce its direct and indirect carbon emissions (Scope 1, 2 and 3), in line with the UK Government target of reaching Net Zero greenhouse gas emissions by 2050 or sooner.

Net Zero is the balance between the amount of carbon produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount removed. This is not the same as zero emissions, which means that no carbon or other greenhouse gases are released at all. Net zero means that carbon gases are still being emitted, but the emissions are offset through action taken.

As a responsible mutual organisation, we are wholeheartedly committed to caring for our members, policyholders and the environment in which we all live. The Society will do so in a manner that is consistent with the size and complexity of our business.

The Society made its first climate change disclosure in the Reports and Financial Statements for the year ended 31 December 2020 and has continued to report its response to climate change aligned to the Task Force on Climate-related Financial Disclosures' (TCFD) four key pillars:



In the Society's 2022 Reports and Financial Statements, under the Strategic Report, you will see a high level summary of where we are as a Society, in terms of our journey on climate change. This document provides further information about what we have done, and what is on the horizon.

Strategy

This section describes how climate related risks and opportunities are taken into account as part of the Society's strategy.

Ultimate responsibility for the design and delivery of the Society's strategy for managing climate change risks and opportunities lies with the Board.

The Board's role is to ensure that risks – especially climate change risks – are appropriately understood and managed and that opportunities consistent with the Society's strategy are also identified and pursued.

The table overleaf sets out the climate related financial risks and opportunities the Society has identified, the timescales over which these risks and opportunities could impact us (Short term: 2 to 5 years, Medium term: 7 to 10 years and Long term: over decades), materiality and the action taken to mitigate or develop the risks and opportunities.

Risk and opportunities	Time horizon	Materiality	Mitigating actions
Financial losses from investments from the costs of adjusting to a low carbon economy.	Medium to long term	Medium	Continuous engagement with Investment Managers to understand the impact on investment strategy and monitor ESG performance of funds.
Financial and reputational implications of failing to meet minimum EPC requirements in a timely manner.	Short to medium term	Medium	Early engagement with Property Managers to understand the new EPC requirements, address data issues and agree and implement strategy. Up to date EPC's for all residential and commercial properties have been obtained and a program of improvement work in relation to our commercial properties is in place.
Broadening of customers product preferences to sustainable or 'greener' options.	Short to medium term	Medium	Consideration of greener or sustainable products will be kept under review in line with the Society's product strategy.
Operational disruption as a result of the physical impact of climate change on utilities, supply chain and distribution network	Short to medium term	Low	Operational resilience and disaster recovery testing, processes and procedures in place

In addition to the risks and opportunities in the table above, further opportunities may arise from the transition to a low carbon economy, including:

- launching new sustainable products to meet the expectations of our customers;
- investing in ESG or green funds; and
- reduction in operational costs via energy efficiency and awareness over the long term.

In terms of the Society's investment portfolio and how we assess the impact of climate change upon the funds, detailed analysis of two funds was undertaken in 2021. The purpose of which was to start to understand the exposure of the funds to climate related risks. Specifically, we looked to identify and quantify the companies in which we invest exposed to transition risk i.e. companies within the higher carbon sectors, that will likely incur higher costs of transitioning to a lower carbon economy, such as those involved in oil and gas extraction.

The assessment also gave a good indication of any future adjustments we may need to make to the investment strategy in the transition to a low carbon economy.

It also enables us to monitor the progress that the companies in which we invest are making towards this transition, for example the automotive industry converting to electric or renewable energy. Further information on this analysis is set out in the Metrics and Targets section of this Report.

Given the outcome of that detailed analysis, it is not felt, at this time that analysis on our other funds is necessary as high level ESG reports are received direct from our Investment Managers but we will continue to keep this under review.

In addition to the analysis, we also work closely with our Investment Managers to monitor the funds, particularly the way in which the high carbon producing companies in which we invest are transitioning to lower carbon energy. As it is particularly important for us to understand how they are preparing to steer the portfolios to reduce our carbon footprint, whilst continuing to produce the anticipated yield.

We are also including, within, our climate change work, our properties, both commercial and residential properties held by the Society including all our Branches. The new EPC regime for commercial properties came into effect on 1 April 2023, meaning that all properties let on a Commercial Tenancy needed to have an EPC rating of at least E. The Society has one property that is not compliant at this time, however, that property is in Scotland, where the regulations differ but discussions continue to happen with a view to improving the EPC of that building.
In relation to the Branches, there are five who have outstanding EPC's for their commercial properties and Unity Office are supporting these Branches to ensure compliance at the earliest opportunity. Our assessment is also reported in the Metrics and Targets section of this Report.

To date, the Society has adopted a steady approach of pragmatic solutions to reduce its carbon emissions, which are set out in this report. However, we recognise our role in helping the UK transition to a low carbon economy and our aim is to reduce the equivalent carbon emissions of our activities to net zero by 2050 in line with UK Government requirements.

During 2023, we will consider further commitments and targets aligned to the Governments requirements

Governance

This section describes the Senior Management and Board approach to manage and oversee climate change financial risks and opportunities.

The Board retains ultimate responsibility for climate-related financial risks and opportunities, including the design and delivery of the Society's climate strategy. With that in mind, the Board will articulate clear messages to steer the Society's direction covering:

- what we want to achieve;
- how we expect to achieve it;
- the parameters of risk the Society is willing to accept to achieve our goal;
- the persons to whom responsibility for specific steps is delegated;
- the metrics and targets we will use to measure both risk and success; and
- the processes in place to ensure that the risk remains within acceptable parameters

The Society's governance approach to climate change financial risks and opportunities begins with the Board's strategy and flows down to all levels of the firm. Put simply, it deals with:

- the formal delegation of responsibility for the execution of the Board's strategy;
- the oversight of the metrics and targets used to measure risk and success; and
- the formal implementation of checks and balances to ensure that the Society remains firmly on track and within its risk parameters.

The Board in turn has assigned Senior Management responsibility to the CEO, who is responsible for executing our strategy and managing the climate-related risks and opportunities and reporting.

Senior Management regularly report to the Board on climate change developments which affect the Society, including follow-ups after each quarterly meeting with our Investment Managers and updates on the identification and management of climate related financial risks.

Climate related responsibilities have also been delegated to the Commercial Board, for example their role is to consider the development of sustainable features within our product proposition and capital management. Therefore, during 2023, we will look at the accountabilities of the Main Board, Sub-Boards and Committees in respect of climate change to ensure that their remit is clearly extended to include the strategic, financial and operational risks and opportunities inherent in Climate Change.

The Board will also review its Risk Appetite Statement (see Risk Management below) to ensure that the Society's appetite for climate change risk is suitably formalised. Our Own Risk and Solvency Assessment (ORSA) will be updated to enhance the consideration of climate change based on three different climate change transition scenarios to ensure that their impact of these differing scenarios on our financial stability has been properly considered and documented (see Risk Management section opposite).

Risk management

This section summarises how the Society's risk management approach is evolving to consider climate change risks and opportunities.

The purpose of risk management is to protect and enhance stakeholder value and the Society's viability by managing the uncertainties that could impact upon us achieving our objectives and strategy.

Effective risk management is the ability to identify, assess and manage the risks to which the Society is or could be exposed.

Over time the Society has evolved its polices, tools and processes to ensure robust risk management in line with the expectations of stakeholders and the requirements of our regulators.

These activities are them documented to form the Society's Risk Management Framework, which includes:

- the Society's Risk Policies;
- the Society's Risk Appetite Statement; and
- the Society's Risk Register.

Together, they are designed to manage the Society's exposure to risks and ensure that residual risk remains within our agreed risk appetite. Climate change is an evolving aspect of risk which has been included in our evaluation.

Climate-related risks are considered in terms of:

- ***Transition risk*** is the risk associated with transitioning to a lower carbon economy which may entail extensive policy and legal (ie the growing number of mandatory requirements), technology (ie. substituting carbon intensive products and services for low carbon products on carbon emitting materials. The Society is also exposed to transition risk if there is a material change in customer's preferences for "green" investment products that we are unable to meet.

- ***Physical risk*** which is split into acute (ie. one off climate events) and chronic (ie. gradual long term changes in weather patterns) and addresses the possibility of buildings or equipment being damaged or destroyed as a result of extreme weather events such as flooding, wildfires, rises in sea levels. For the Society, it means we are reviewing our property portfolio to ensure that all buildings are suitable as discussed in detail under Metrics and Targets. The Society's current policies include limited amount of life underwriting which may, over time, result in minor exposure to climate change.

While the Risk Management Framework, including the Risk Register have been updated to include climate change risk, we will continue to develop them during 2023 and beyond. We need to ensure that climate change is adequately represented in our risk management documents, with sufficient granularity to reflect the different sources of climate change risks (transition and physical) and their materiality for Oddfellows.

As described in the strategy section above, we recognise climate change as a cross cutting risk and during 2023, we will further enhance our understanding of the impact of climate change across our primary risk categories.

In addition, our Own Risk and Solvency Assessment (ORSA), is a forward looking assessment of the risks to which the Society and our stakeholders are exposed and explores mitigating factors and actions. The goal is to ensure that the Society is able to continue serving its members and policyholders from a position of financial strength. Our most recent ORSA (agreed by the Commercial Board in December 2022) contains our scenario analysis of climate change risks, considering how investment returns and expenses may be impacted.

At this stage, the physical risks of climate change are not anticipated to have a material impact upon the Society. However, during 2023 we will be enhancing our climate scenario analysis to help to better understand the impact of physical and transition risks in future potential scenarios. The analysis will focus on the outcomes of different transition paths to a low carbon economy and the balance sheet impacts for the Society of each. The first transition path is based around taking early action to transition to a low carbon economy, the second is delayed action ie. action to transition is not taken until 2030 however transition to a low carbon economy occurs. The third is a path where no transition occurs.

Metrics and Targets

This section summarises the metrics and targets used by the Society to assess climate-related risks and opportunities in line with its strategy and risk management process.

A range of metrics to measure, monitor and assess progress against targets are in place. However we recognise that climate change is a journey and these metrics and targets are likely to evolve over time.

Own operations

Oddfellows House, the Society's Central Office in Manchester achieved the Building Research Establishment Environmental Assessment Method (BREEAM) Certification in relation to a range of sustainability factors but this award alone does not discharge our obligation to reduce carbon emissions.

The Society undertook its first carbon footprint assessment in 2021. Carbon footprint is a measure of the impact of an organisations or individuals activities on the environment in terms of the greenhouse gas produced. It is measured in units of carbon dioxide (CO_2e) and is made up of two parts, direct emissions and indirect emissions.

The purpose of the assessment is to measure, monitor, reduce and/or offset the greenhouse gas emissions produced and the first report served as a baseline for comparing further reporting of emissions.

Therefore, to monitor the emissions from our operations and develop our strategy to reduce these emissions, the assessment was also completed in 2022. Between 1 April 2021 and 31 March 2022, the Society's emissions across our operations, including our Manchester and Liverpool offices and associated travel costs totalled 100.89 tonnes.

The assessment covers areas within our immediate control and addresses in particular:

- Scope 1: covers direct emissions – arising from fuel consumption, being natural gas used to heat the offices, and petrol burned by company cars. For the 12 months to 31 March 2022 it was assessed that company cars emitted 0.99 tonnes of CO_2e , and office heating produced 10.22 tonnes of CO_2e ;

- Scope 2: covers indirect emissions – arising from electricity consumption for running the office which represented by far the largest chunk of our carbon footprint, being responsible for 51.65 tonnes of CO_2e ; and

- Scope 3: covers indirect emissions – arising from the use of purchased goods or services such as paper consumption, car and rail travel and outsourcing activities. (It also includes financed emissions ie. investments – however financed emissions did not form part of the carbon footprint assessment). Indirect emissions accounted for 38.03 tonnes of CO_2e .

This total represents a slight increase in emissions in 2022 of 7.9%, however, a much larger increase was expected for 2022 due to the fact that almost all staff were working from home as a result of the Covid-19 lockdowns during the 2021 assessment period.

For comparison, the table below set out our emissions for the periods 2020/21 and 2021/22:

Element	Tonnes of CO_2e for footprint ending in March of calculation period:		
	2020/21	2021/22	% change on previous year
Site electricity	56.64	56.22	-0.7%
Well To Tank	10.57	19.57	+85.1%
Grey fleet	1.25	12.27	+881.7%
Site gas	10.03	10.22	+1.9%
Company car travel	0.19	0.99	+421.7%
Paper	0.60	0.83	+38.9%
Rail travel	0.06	0.79	+1,208.6%
Home-workers	14.17	*	n/a
Total Tonnes of CO_2e	**93.51**	**100.89**	**+7.9%**
Tonnes of CO_2e per employee	**1.70**	**1.77**	**+4.1%**

*Not included.

Well to tank emissions is the emissions released into the atmosphere from the processing and delivery of energy and is in addition to the emissions produced from using energy.

Whereas, grey fleet measures the greenhouse gases emitted from employees own vehicles when used for work related travel and is measured separately from cars owned by the Society.

Following each assessment, the Society has implemented various initiatives to reduce and also offset the emissions produced, which are set out below.

As well as looking to reduce its own emissions, the Society has also offset its carbon emissions. Funding schemes that help to provide solutions to climate change.

In 2021, the Society sponsored tree planting in Brazil's Amazon rainforest and in the UK, which contributed to the offsetting of the annual carbon footprint of our offices at that time, achieving carbon neutral status. For 2022, sponsorship was given to reduce deforestation and degradation in Brazil, plus further tree planting in the UK to help to rewild an area in Scotland, offsetting more emissions than the total produced, achieving carbon neutral plus status.

The Society is not only committed to offsetting our emissions, but also ways of reducing them. Following the first assessment, the Society commissioned an energy audit to identify the main sources of electricity consumption in the Manchester office and steps we might take to reduce this. The main sources of electricity were heating, hot water, the server room and lighting.

The report recommended a range of short and medium term measures for consideration. Some of the medium term measures are based upon upgrading equipment on expiry. We are working through some of the short term options and to date have replaced all fluorescent light fittings with more energy efficient LEDs. Furthermore, from November 2022, 100% of our electricity is sourced from renewable energy in our Manchester Office.

Our aim is to reduce the emissions associated with our operations and we will continue to assess the impact of the energy efficient changes we make, however we are at the start of our journey and over time we will work towards introducing clear targets.

The Society's property portfolio

The Society owns three portfolios of rental properties – both residential and commercial.

To raise the energy efficiency of rental properties, the UK Government is introducing changes to the current EPC (Energy Performance Certificate) requirements incrementally over the next few years.

During 2021, we worked closely with our Property Managers to complete a comprehensive review of the EPC rating of all commercial properties in our portfolio, including addressing data issues identified to ensure that each property had a valid EPC in place. Then during 2022, once all EPC assessments had been completed and EPC data collated, we agreed a strategy to raise the energy efficiency of the portfolio, where required, in line with the following targets:

- All units in the commercial portfolio to have an EPC of E or better by April 2023 and then B or better by Spring 2030, unless an exemption applies; and

- All units in the residential portfolio to have an EPC of C or better by Spring 2028, unless an exemption applies.

Starting in 2022, support has also been given to Branches in relating to collating the EPC information of all commercial units within their property portfolio, understand relevant requirements, any applicable exemptions and also any improvements that may be required to raise the energy efficiency of properties where required and meet these expectations.

The Society's portfolios of investments

The Society's investment portfolios, which unpin its Long Term Business are managed by professional Investment Managers in accordance with criteria that reflect the nature of the underlying commitments.

During 2021, we worked closely with an external climate change consultancy to better understand the environmental impact of some of our investments. This project involved identifying and quantifying the carbon emissions associated with some of our investment funds. These are scope 3 emissions and are usually referred to as "financed emissions".

The widely accepted Paris Agreement Capital Transition Assessment (PACTA) model was used as a tool to assess the extent to which some of the Society's funds are aligned to global climate change goals. The analysis covered the investments managed by two of the Society's Investment Managers. These are a UK index tracker fund representing 50% of the Society's investments and two actively managed funds covering fraternal assets.

The main outcomes of the analysis of the funds were reported in the 2021 Climate Change Disclosure Report. To summarise these results, overall there is limited exposure of both funds to the sectors responsible for most CO_2 emissions (oil and gas extraction, steel making, coal mining, power generation, aviation, cement, automotive), with the UK Tracker Fund at 13.5% and Fraternal assets at 20%. While the exposure is relatively small, it generates between 70% and 80% of the total carbon emissions of the funds.

While it is noted that some of the investments in these sectors do not have green alternatives e.g. oil and gas extraction, overall, the companies in the sectors in which we are invested are making some progress towards aligning with the Paris Agreement over the next 5 years.

During 2022, the Board considered whether continuing to assess the carbon emissions of the remaining investment portfolios is material. However, after carefully considering the potential outcome and cost of do so, the Board determined that it would not be beneficial at this time given that in some cases the portfolios are naturally running down as benefits are paid out upon maturity of the underlying policy. However, the Board will keep this under review.

A way in which the Society has been monitoring the environmental impact of its investment portfolio is via an ESG score which is applied to the funds to assess their performance in relation to each of the following factors; Environmental, Social and Governance.

To evaluate the exposure of the Society's investment portfolios to ESG risks, each of the Society's Investment Managers applies an ESG metric and provides an overall ESG rating. The ESG rating then enables the Society to monitor how each fund is performing.

Each Investment Manager utilises a different metric to measure and monitor ESG performance of the funds they manage, which gives a good indication of the impact of the Society's investment.

For example, for the past 2 years we have been able to track the Greenhouse Gas Emissions intensity of two of our funds and when compared to the benchmark and our funds have consistently achieved a lower emissions rating in comparison to the Sterling Corporate index tracker. Further information on the ESG ratings of the funds can be found in the 2022 Reports and Financial Statements.

The Society will continue to work closely with its Investment Managers to monitor the impact and performance of the funds and their strategy to drive forward ESG initiatives and issues.

Climate change and the underlying issues we face will continue to be monitored.

The challenge that the Society will continue to try and balance in 2023 and beyond, is the need to remain cognisant to balance climate change against the need to achieve favourable returns for our Branches and policyholders.

The Oddfellows is the trading name of The Independent Order of Odd Fellows Manchester Unity Friendly Society Limited,
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