



Taskforce on Climate-related Financial Disclosures

Product Report **Pathways 2**

Pathways 2 invests in the Fidelity Pre-Retirement Bond Fund. The Fund's investment objective is to achieve both capital growth and income relating to changes in annuity rates. The Fund will obtain exposure primarily to Sterling denominated (or hedged back to Sterling) government and corporate bonds.

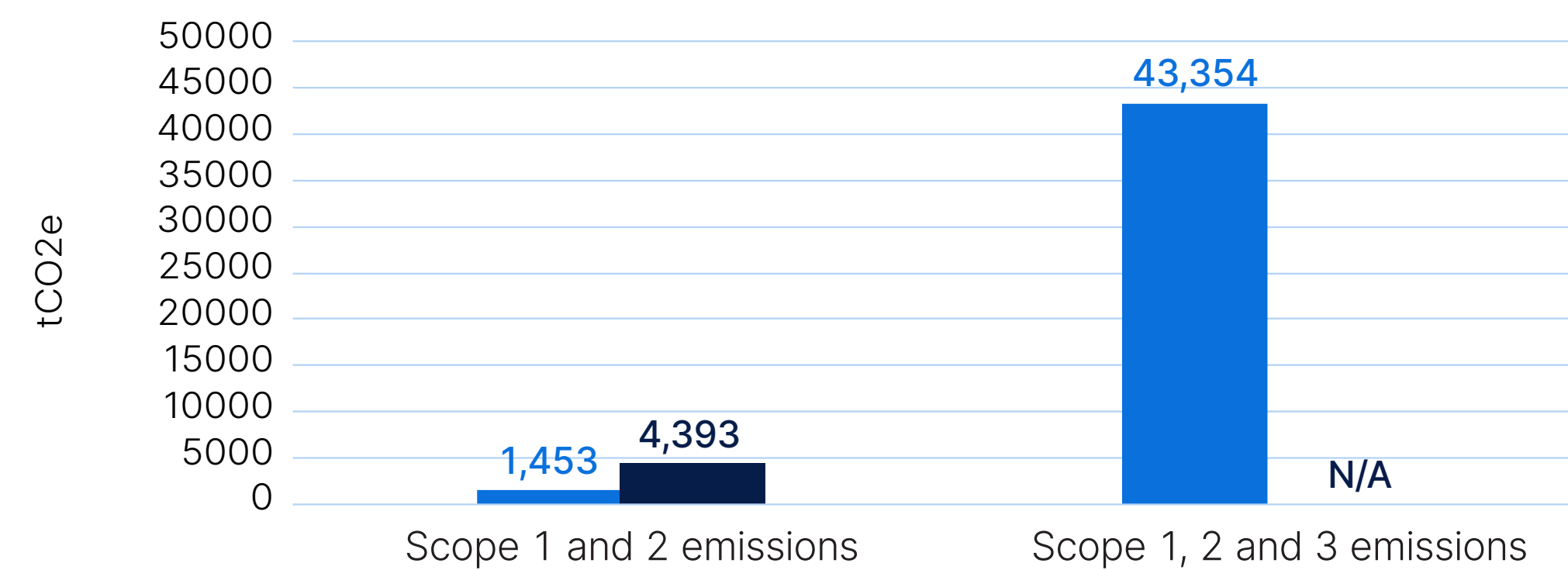
Please refer to our [entity Hargreaves Lansdown Fund Managers and Hargreaves Lansdown Asset Management TCFD Report](#) for our disclosures under the Governance, Strategy, and Risk Management TCFD recommendations.

Climate-related metrics

Please select the title of the data points
for the definition and methodology.

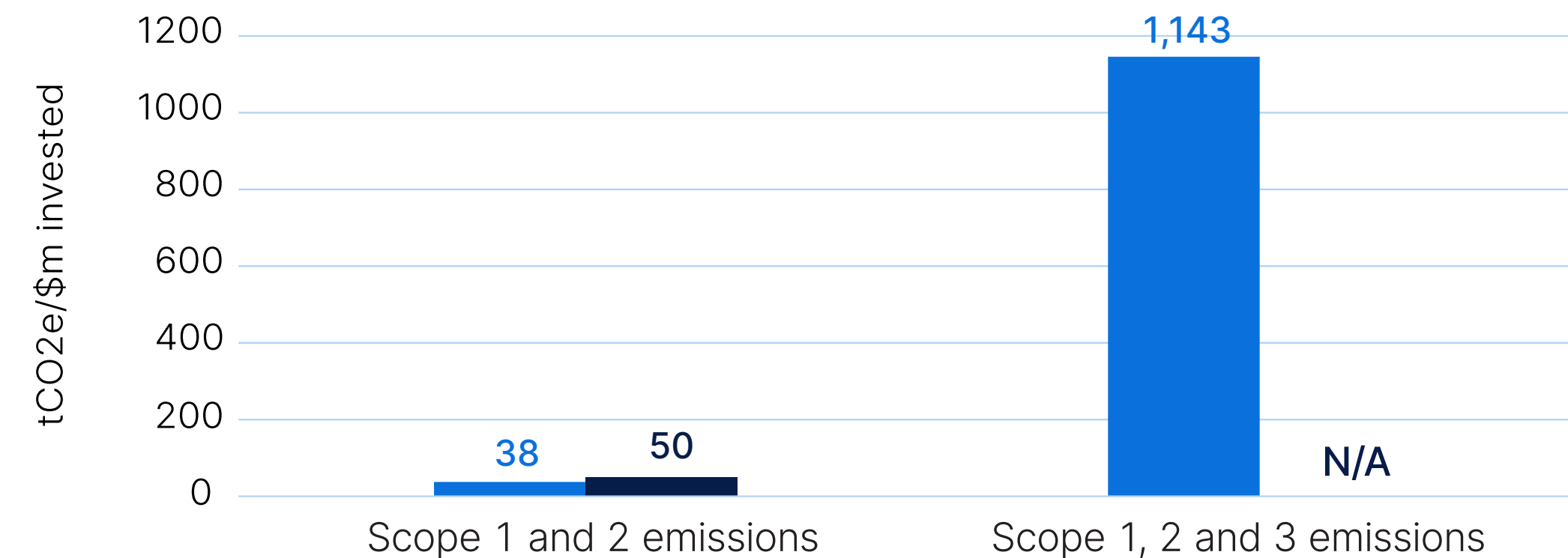
Total carbon emissions

● 2024 ● 2023



Carbon footprint

● 2024 ● 2023



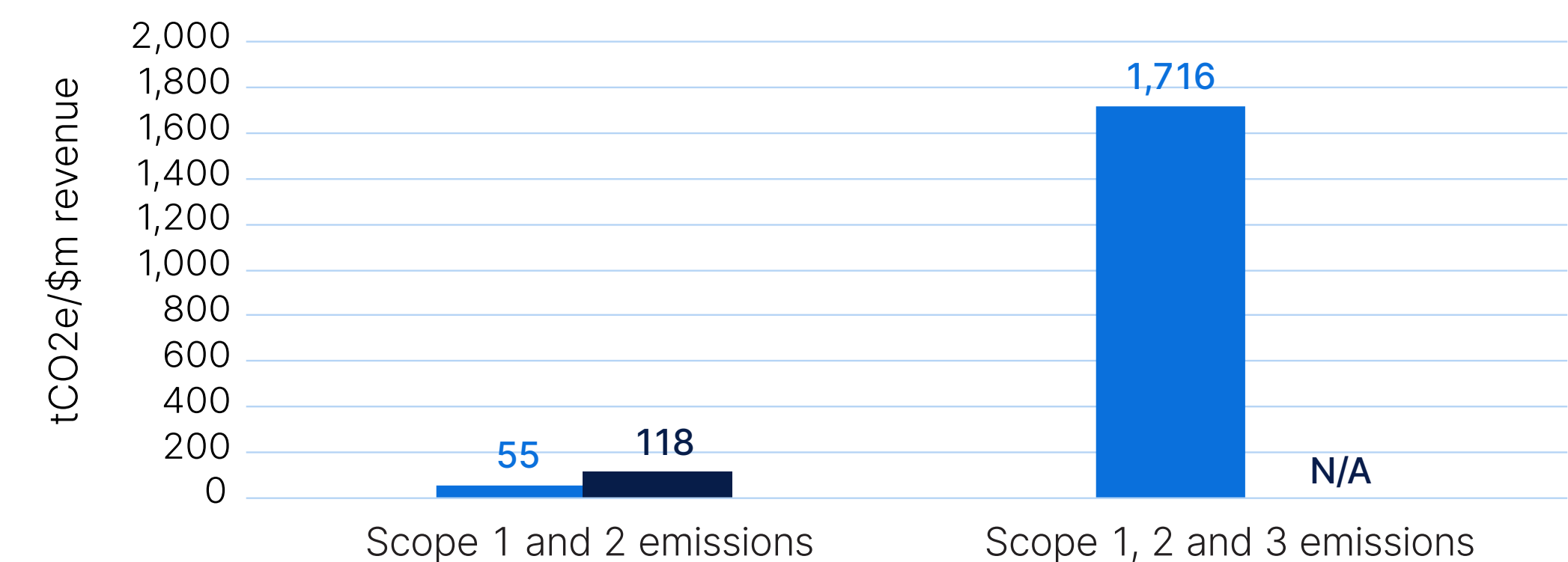
Data coverage

Scope 1 and 2 emissions: **42%**

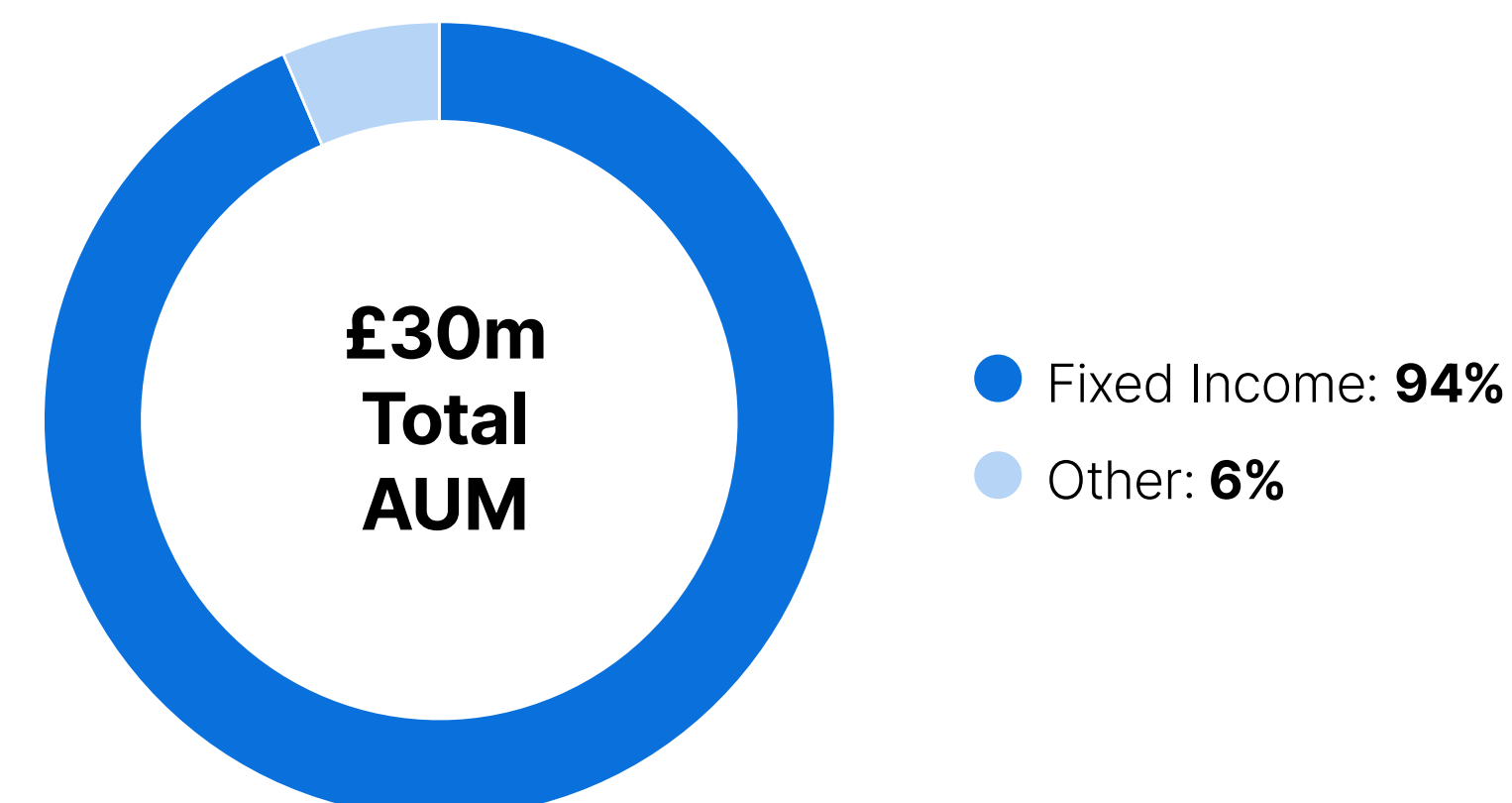
Scope 1, 2 and 3 emissions: **42%**

Weighted average carbon intensity

● 2024 ● 2023



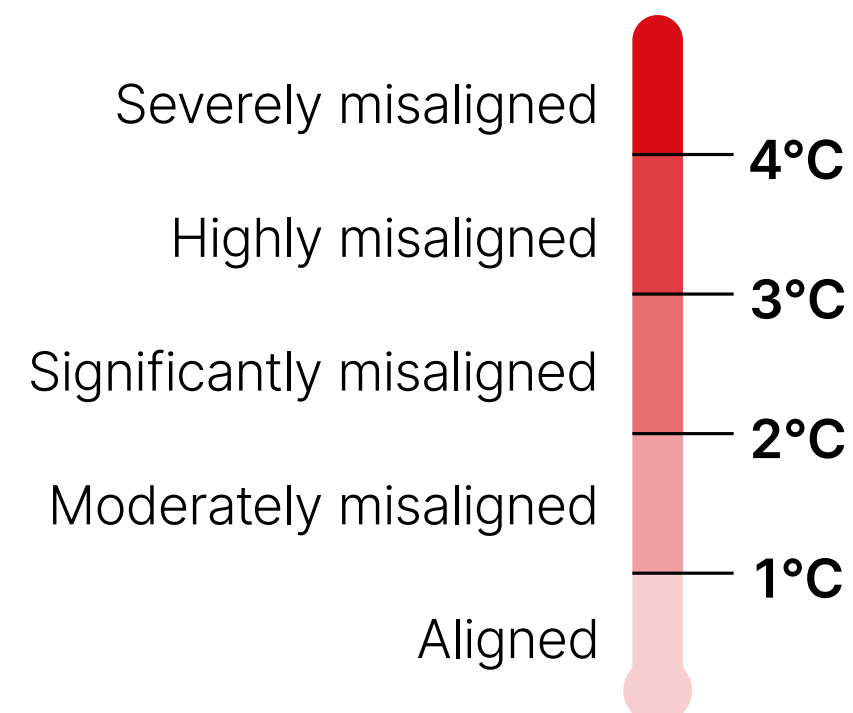
Asset class mix



Scenario analysis

How climate change is likely to impact the assets within the product under 'orderly' transition, 'disorderly' transition and 'hot house world' scenarios.

Implied Temperature Rise



Pathways 2

2.2°C

'Significantly Misaligned'

Representative Portfolio

2.2°C

'Significantly Misaligned'

Transition risks

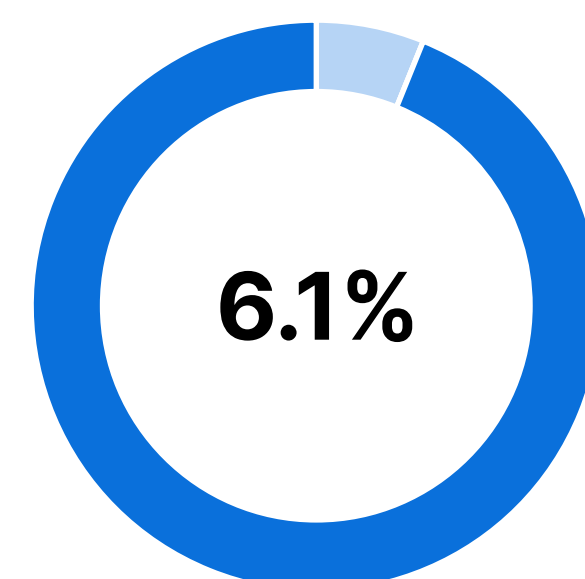
This section explores the potential impact of transition risks—both policy and market—on the portfolio from now until 2050 under 'orderly' and 'disorderly' scenarios.

The Climate Value-at-Risk is the potential absolute loss in value the portfolio may experience based on its expected misalignment to a net zero pathway.

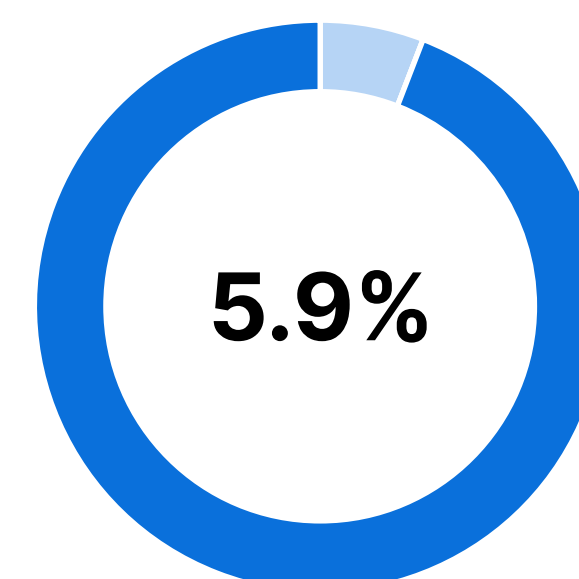
Climate Value-at-Risk

Pathways 2

'Orderly' scenario

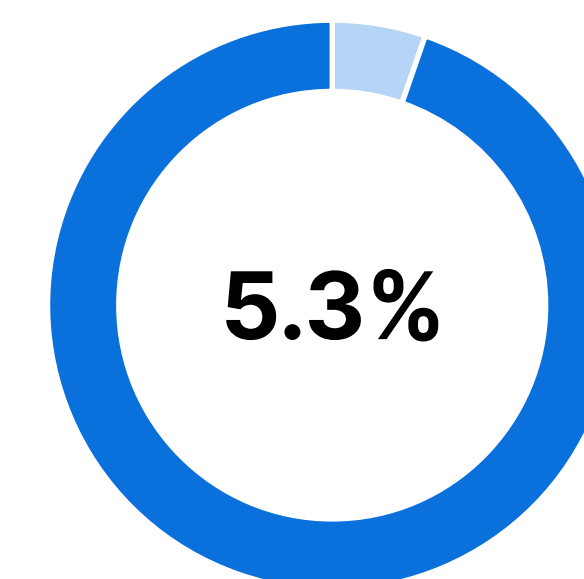


'Disorderly' scenario

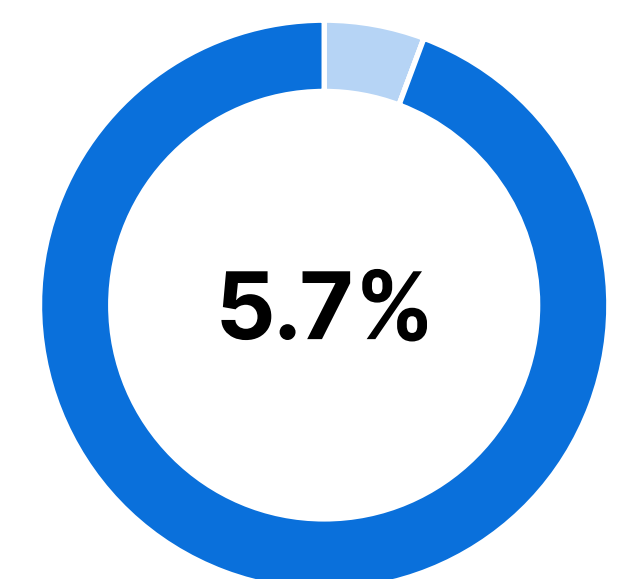


Representative Portfolio

'Orderly' scenario



'Disorderly' scenario



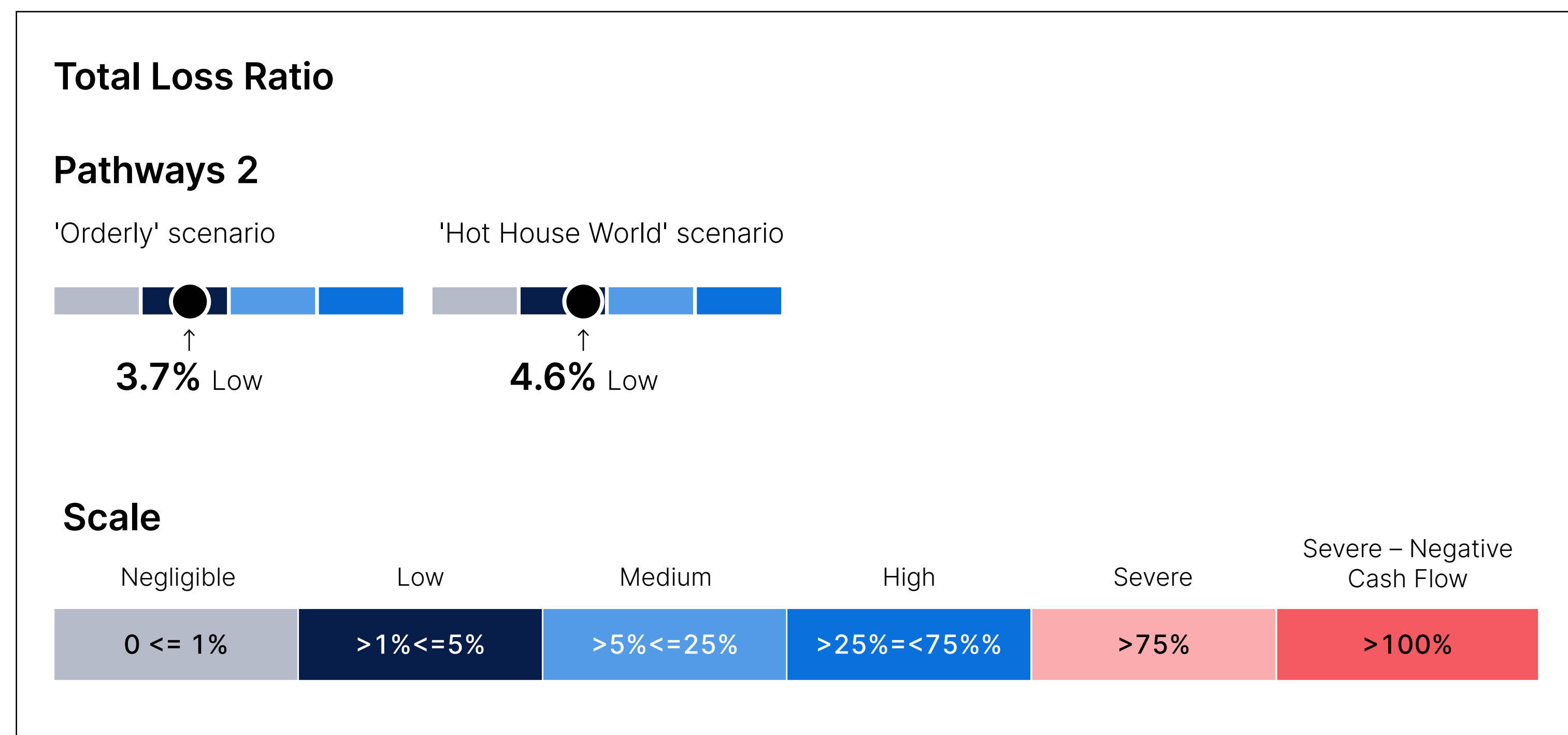
Physical risks

This section examines the most significant physical hazards in 2030 and 2050, comparing the effects of climate change under 'orderly' and 'hot house world' scenarios on the product.

Flooding and coastal inundation pose the greatest direct risks to the portfolio, potentially damaging the physical assets the fund invests in, while extreme heat presents the greatest risk to the productivity of the portfolio's investee companies.

In an 'orderly' scenario, direct and indirect physical climate risks could reduce the portfolio's total value by up to 3.7% by 2050. By 2030, flooding is expected to be the leading contributor to asset damage risk, while extreme heat is forecast to have the largest impact on non-damage-related disruptions, such as productivity loss from worker heat stress. By 2050, rising sea levels are projected to pose the greatest risk to asset damage, while extreme heat is expected to be the primary driver of productive capacity loss.

In a 'hot house world' scenario, direct and indirect physical climate risks could reduce the portfolio's total value by up to 4.6% by



2050. By 2030, flooding is expected to be the leading contributor to asset damage risk, while extreme heat is forecast to have the largest impact on non-damage-related disruptions. By 2050, rising sea levels are projected to pose the greatest risk to asset damage, while extreme heat is expected to be the primary driver of productive capacity loss.

The most significant drivers of impact on the product

Approximately 31% of the fund is invested in sectors with high material impact due to greenhouse gas emissions within their value chains. Banking, which makes up 16% of

the portfolio, is the largest of these sectors. Banking is considered carbon intense due to its lending activities, asset management, investment banking, and underwriting.

The fund's exposure to the fossil fuel industry has reduced in the last year, from 7% to 6%. The product maintains diversified exposure across various sectors to achieve its target risk/return objectives.

How the metrics should be interpreted

Scenarios

In assessing the resilience of the product, we have considered a range of climate-related scenarios, as outlined in the TCFD guidance. These scenarios – ‘orderly’, ‘disorderly’, and ‘hot house’ world—have been used to evaluate the specified risks, considering both the likelihood and impact of these risks on our business.

Orderly

A scenario where global warming is limited to well below 2°C, aiming for 1.5°C by the end of the century. Early, coordinated action is taken, with immediate, effective climate policies and rapid technological innovation. Transition risks are present but relatively moderate as businesses and economies have time to adapt. However, carbon intensive sectors may face elevated transition risks. Physical climate risks are significantly lower compared to delayed action scenarios.

Disorderly

A scenario where global emissions do not decrease until 2030, delaying meaningful climate action. To limit global warming to below 2°C, governments and markets are forced to introduce sudden, stringent policies and regulations from 2030. The abrupt and reactive policy shifts lead to higher transition risks and also result in higher physical risks than the ‘Orderly’ scenario. However, the scenario avoids the most severe long-term physical impacts.

Hot house world

A scenario based on current policies, with emissions continuing to rise until 2080, leading to around 3°C of warming. This results in severe physical risks, including irreversible impacts such as higher sea levels. It reflects a path with limited action on climate change, creating significant long-term risks to the economy and financial system.

Limitations and assumptions

The holding data is correct as of 31/12/2023 or 31/12/2024. 31/12/2024 has been used where no date has been specified. The holdings data for third-party funds in this report reflects the most accurate information available up to 31/12/2024.

‘N/A’ is used in cases where data from the previous year is unavailable or not reported.

The data considers our equity and corporate bond investments and is reweighted where appropriate to account for data gaps and out of scope asset classes. Cash held in the product is omitted from the calculations.

When assessing the proportion of reported Scope 3 data, please note Morningstar Sustainalytics may categorise the firm as reported once they disclose one of the fifteen Scope 3 categories.

Our analysis is currently dependent on our data provider to supply three scenarios for assessing the potential impact of climate-related risks on our portfolio. We are committed to disclosing the impact of three comparable scenarios against our portfolio in next year's report, once the necessary data becomes available.

The representative portfolio provides context for interpreting the results. It is constructed by benchmarking each asset class individually, using MSCI AC World for the equity allocation and the ICE BofAML Global Corporate Index for the corporate bond allocation, weighted in line with the product's asset mix.

Metric	Definition	Calculation methodology
Total carbon emissions	The absolute greenhouse gas (GHG) emissions associated with the portfolio. Scope 1 and Scope 2, and Scope 3 if specified, GHG emissions are allocated to investors based on an enterprise value approach. This is the total emissions associated with the fund.	$\sum \left(\frac{\text{current value of investment}}{\text{investee company's enterprise value}} \times \text{investee company's emissions*} \right)$ <p>The enterprise value calculation values a company based on both the equity and debt value of a company including any cash.</p>
Carbon footprint	The total carbon emissions for the portfolio normalised by the market value of the portfolio. This is the emissions associated with \$1 million of investment.	$\frac{\sum \left(\frac{\text{current value of investment}}{\text{investee company's enterprise value}} \times \text{investee company's emissions*} \right)}{\text{current portfolio value (\$M)}}$
Weighted average carbon intensity	The portfolio's exposure to carbon-intensive companies, relative to revenue. Scope 1 and Scope 2, and Scope 3 if specified, GHG emissions are allocated based on portfolio weights (the current value of the investment relative to the current portfolio value). This is the economic carbon efficiency of the fund.	$\sum \left(\frac{\text{current value of investment}}{\text{current portfolio value}} \times \frac{\text{investee company's emissions*}}{\text{investee company's revenue}} \right)$

*Emissions reported are based on Scope 1 and 2 GHG emissions unless specified to include Scope 3. Scope 3 data quality may be less reliable, as it includes 15 indirect emissions categories. If a company does not disclose any Scope 3 data, our data provider will estimate the emissions. However, if a company only partially discloses its material Scope 3 emissions, the data provider may not supplement this disclosure, potentially leading to an incomplete view of the company's absolute emissions.

Metric	Definition	Calculation methodology
Implied temperature rise	<p>This rating signifies the temperature to which the world would warm (above pre-industrial levels) should all companies' expected emissions differ from their net-zero budgeted emissions to the same degree as this portfolio.</p> <p>This is a forward-looking measure assessing future emission trajectories and climate alignment. A fund may have higher emissions but a lower implied temperature score if they have a robust plan to decarbonise.</p>	$\left((\Sigma(\text{weight} \times \text{GHG emissions gap } \%)) \times \text{global emissions budget} \times \text{transient climate response to cumulative carbon emissions factor} \right) + 1.5^{\circ}\text{C}$ <p>This rating is calculated by our appointed third-party data provider, Morningstar Sustainalytics. The rating is built on top of two core components, exposure and management. The exposure component assesses the potential inherent misalignment of each issuer's future emissions with their issuer specific budget. The management component evaluates the issuers potential to reduce their exposure, by scoring the equality of their policies and programmes, strategy, governance and financial position. This provides a rating at the stock level; we aggregate these scores to the portfolio level following Morningstar Sustainalytics' methodology.</p>
Total Loss Ratio	<p>The Loss Ratio serves to assess a company's financial capacity to manage the costs associated with physical direct and indirect climate risks. The Loss Ratio serves to assess a company's financial capacity to manage the costs associated with physical direct and indirect climate risks.</p>	<p>The Loss Ratio is calculated as the ratio of expected cumulative damage against the company's global financial position up to 2050. This data point is calculated by our appointed third-party data provider, Morningstar Sustainalytics. We apply a weighted average to the holdings data to aggregate the output to the portfolio level.</p>

Climate-related metrics	Scenario analysis	How the metrics should be interpreted
Metric	Definition	Calculation methodology
Climate Value-at-Risk	This is the potential absolute loss in value the portfolio may experience based on its expected misalignment to a net zero pathway.	<div><div>Policy risk The risk that regulatory action will increase costs to an organisation through carbon pricing mechanisms.</div><div>+</div><div>Market risk The risk that market behaviour evolves such that there is less demand for a fossil fuel-based products.</div><div>=</div><div>VaR The potential absolute loss in value the company may experience from a transition to a low carbon economy.</div></div> <p>This metric is calculated by our appointed third-party data provider, Morningstar Sustainalytics. Value at Risk (VaR) is measured based on the policy costs of expected emissions and the impact of reduced market demand, where applicable (market VaR is currently only assessed for the oil & gas sector). It is a cumulative value based on a discounted cash flow model for the years from now until 2050, expressed as a percentage. This provides a VaR at the stock level; we aggregate these scores to the portfolio level following Morningstar Sustainalytics’ methodology.</p>
Productive Capacity Loss	The percentage of annual productivity disruption due to component failure, damage, repairs, and non-physical damage related loss (e.g., disruptive heat stress) of own operations.	The total disruption/outage for each issuer is based on the individual asset failure probability for each of their assets. This failure probability includes both the average annual probabilities of event occurrence as well as the vulnerability of the asset and its components. It is calculated by our appointed third-party data provider, Morningstar Sustainalytics. We apply a weighted average to the holdings data to aggregate the output to the portfolio level.

Metric	Definition	Calculation methodology
Asset Damage Risk	The degree to which an asset is susceptible to direct damage from physical hazards, such as wildfires, floods, extreme winds, etc.	It is measured as the ratio of expected loss to asset's replacement cost, and is calculated by our appointed third-party data provider, Morningstar Sustainalytics. We apply a weighted average to the holdings data to aggregate the output to the portfolio level.
Fossil fuel exposure	The exposure of the assets to thermal coal extraction and generation, oil & gas generation and production, and oil sands.	An aggregation of the companies that have a greater than 0% revenue exposure to thermal coal extraction and generation, oil & gas generation and production, and oil sands.
Carbon intense sectors	<p>Certain material sectors are deemed high impact based on GHG emissions in their value chain. Transition of high impact material sectors are critical to achieving net zero and are those linked to the company focus lists of Climate Action 100+ and the Transition Pathway Initiative, plus banks, real estate, agriculture, forestry, and fishing. Currently these sectors equate to:</p> <ul style="list-style-type: none"> • Agriculture, forestry, and fishing • Airlines • Aluminium • Automobiles • Banking • Cement • Chemicals • Consumer goods & services • Coal and diversified mining • Electric utilities • Food producers • Industrials • Oil and gas (plus distribution) • Paper • Real estate • Shipping • Steel • Transportation 	We have followed the Institutional Investors Group on Climate Change's Net Zero Investment Framework 2.0 definition of high impact material sectors.

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