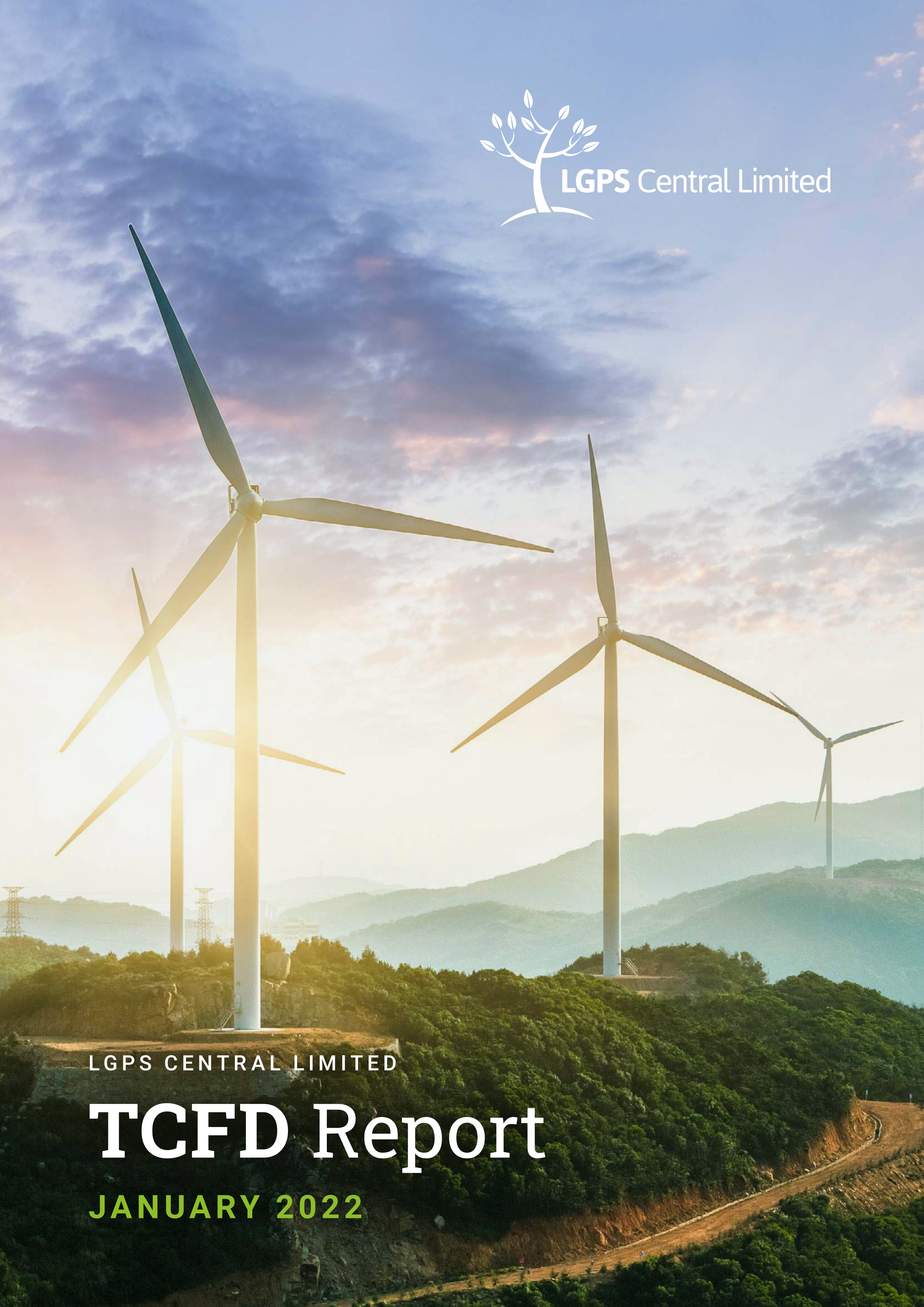


LGPS Central Limited

LGPS CENTRAL LIMITED

TCFD Report

JANUARY 2022

About LGPS Central Limited

LGPS Central Limited (LGPS Central) has been established to manage the pooled investment assets of eight Local Government Pension Scheme (LGPS) funds across the Midlands (our Partner Funds).

Our Partner Funds are Cheshire Pension Fund, Derbyshire Pension Fund, Leicestershire County Council Pension Fund, Nottinghamshire Pension Fund, Shropshire County Pension Fund, Staffordshire Pension Fund, West Midlands Pension Fund, and Worcestershire Pension Fund.

The Company is jointly owned on an equal-shares basis by the eight Partner Funds. The combined assets of these funds are approximately £55 billion, managed on behalf of around one million LGPS members and some 2,000 participating employers.

Executive Summary

We at LGPS Central are fully aware that Climate Change poses potentially catastrophic risks, both now and in the future.

The Task Force on Climate-Related Financial Disclosures (TCFD) was established with the goal of developing a set of voluntary, climate-related financial risk disclosures which help organisations better understand and control the risks and opportunities climate change means for them. This is LGPS Central's second comprehensive TCFD Report following our interim TCFD Report published in 2019. We provide updated disclosure under each of the four TCFD pillars: Governance, Strategy, Risk Management and Metrics & Targets. Between 2020 and 2021, the carbon risk metrics of LGPS Central's portfolios improved, with the carbon footprint of both the Total Equities and Total Active Equities portfolios experiencing carbon efficiency gains. In 2021, LGPS Central offered public support for the IIGCC's Net Zero Framework with the intention of publishing a Net Zero statement in early 2022.

Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total more than 2,600 organisations representing a market capitalisation of over $25 trillion.

The recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed to make TCFD-aligned disclosures comparable, but with enough flexibility to account for local circumstances.

Figure 1: Core Elements of Recommended Climate Related Financial Disclosures

Governance
The organisation's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

LGPS Central's support of TCFD Recommendations

LGPS Central supports the TCFD recommendations as the optimal framework to describe and communicate the steps the business is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a representative of eight LGPS pension schemes, we are long-term investors and are diversified across asset classes, regions and sectors, making us "universal owners". It is in our interest that the market can effectively price climate-related risks and that policy makers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our client LGPS pension schemes and their ultimate beneficiaries. We do not view TCFD reporting as an endpoint, but rather a tool and a point of departure for how we assess and act on the risk and opportunity spectrum that climate change represents to our investment management operations.

LGPS Central has been a public supporter of the recommendations of the TCFD since the inception of the business in 2018 and have called for its widespread adoption. This document is our annual disclosure against these recommendations, following our first comprehensive report released in January 2021.

Introduction: Climate-related risks

Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the Intergovernmental Panel on Climate Change's (IPCC) Sixth Assessment Report. Human activities have already caused approximately 1.0°C of global warming above pre-industrial levels and, with current levels of climate actions, the majority of climate scientists anticipate that by 2100 the world is estimated to be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

LGPS Central recognises that climate change poses financially material risks, and that due consideration of climate risk falls within the scope of our fiduciary duty. We believe that a Paris-aligned transition to a low-carbon economy would lead to lower economic damage and for long-term investors is preferable to alternative climate scenarios. LGPS Central strongly supports the Paris Agreement and has signed the Global Investor Statement on Climate Change calling for governments to implement the actions that are needed to achieve the goals of the Agreement. LGPS Central has co-signed letters to UK and EU leaders asking that they provide incentives/regulation for a green recovery from Covid and that all governments ahead of COP26 accelerate commitments and domestic policies to deliver Net Zero by 2050.

LGPS Central: Action to Date

LGPS Central has recognised the importance of climate change since our inception in 2018. Since then, we have continuously worked to enhance our approach to climate risk management by developing tools and services to support our Partner Funds, conducting targeted engagement, and supporting global initiatives.

2018

- Joined the Institutional Investors Group on Climate Change
- Joined Climate Action 100+
- Joined the Transition Pathway Initiative Steering Group
- Signed the Global Investor Statement on Climate Change

2019

- Launched a Climate Risk Monitoring Service (CRMS), a set of four services designed to assist LGPS Central Partner Funds with their strategic response to climate risk. The CRMS includes the production of a Climate Risk Report bespoke to each Partner Fund
- Included Climate Change as one of our four targeted Stewardship Themes
- Launched the Responsible Investment (RI) Integrated Status, ensuring RI (including climate change) is fully integrated into our investment process for each asset class and any fund ahead of launch
- Launched the LGPS Central All World Equity Climate Multi Factor Fund

2020

- Provided Climate Risk Reports to all eight Partner Funds
- Assisted six Partner Funds with the production of their first TCFD-compliant reports
- Developed LGPS Central's first comprehensive TCFD Report

2021

- Developed Climate Stewardship Plans for all Partner Funds
- Assisted several Partner Funds with the production of a Climate Risk Strategy
- Provided the second iteration of annual, bespoke Climate Risk Reports to all Partner Funds
- Enhanced expectations towards companies' TPI management quality score in our Voting Policy
- Became a founder and Director of the TPI Limited
- Offered public support for the IIGCC's Net Zero Framework

Next Steps

- Pursue the production of an LGPS Central Net Zero/ Climate Action Strategy
- Provide the third year of Climate Risk Reporting to Partner Funds
- Assist Partner Funds in achieving their climate targets and Net Zero ambitions
- Continue to engage with high emitting companies, both directly and through collaborative initatives such as Climate Action 100+

Governance

TCFD RECOMMENDED DISCLOSURE

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

The LGPS Central Board is responsible for approving and monitoring LGPS Central's approach to climate change, as part of its approval of the Responsible Investment & Engagement Policy (RI&EP). The RI&EP contains a specific Responsible Investment Belief on climate change, which is based on the investment beliefs of our Partner Funds. Board-level KPIs are in place for responsible investment and engagement (RI&E) and regular updates on progress are provided to the Board. The Board meets at least six times a year. RI&E, including climate change is included as a regular item on the Board's agenda.

RI&E, including climate change, is part of every LGPS Central investment product, and all product business cases are approved by the Board. Prior to publication, the Board reviewed and approved this TCFD Report.

TCFD RECOMMENDED DISCLOSURE

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

Day-to-day management of climate change strategy is delegated to the Investment Team, with oversight from the Investment Committee (IC) and the Chief Investment Officer (CIO). The Director of Responsible Investment & Engagement is accountable to the IC for the implementation of the RI&E Policy, which includes climate change. Portfolios are reviewed by the IC on a quarterly basis.

Strategy

TCFD RECOMMENDED DISCLOSURE

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

LGPS Central's investment managers consider climate-related risks across the short-, medium- and long-term as relevant for the investment time horizon included in their specific mandates. A subset of risk factors is presented in Table 1.

TABLE 1: EXAMPLE SHORT, MEDIUM & LONG-TERM RISKS

	SHORT & MEDIUM TERM	LONG TERM
Risks	• Carbon prices • Technological change • Policy tightening • Consumer preferences	• Resource scarcity • Extreme weather events • Sea level rise
Asset class	• Listed equities • Growth assets • Energy-intensive industry • Oil-dependent sovereign issuers • Carbon-intensive corporate issuers	• Infrastructure • Property • Agriculture • Commodities • Insurance

Short- and medium-term risks typically include policy and technology risks; medium- and long-term risks include physical impact and resource availability. Risks, and risk management strategies, vary significantly by asset class. For example, policy risk could crystallise in the relatively short-term, and this could impact listed equity valuations. By contrast, resource availability could materialise over the medium and longer term and could impact real assets.

LGPS Central identifies material climate-related issues through research and collaboration (notably with the TPI, IIGCC, PRI, CA100+, and LAPFF). LGPS Central has made use of the TPI Toolkit to observe climate risk management in large, listed equity stocks.

TCFD RECOMMENDED DISCLOSURE

b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.

RI&E, which includes climate change, is included in all mandates managed by LGPS Central. For portfolios managed internally, material climate risks are factored into stock research, due diligence, and stewardship plans. For externally managed investments, our expectations are typically inserted into IMAs, LPAs, or side letters, and managers' approaches are considered before appointment and on an ongoing basis through regular monitoring. We would not appoint an external fund manager were we not assured of the appropriate management of financially material climate-related risks.

All LGPS Central investment products have achieved "RI Integrated Status". This is conferred upon a portfolio if a document explaining how RI will be integrated into the day-to-day management of the portfolio has been approved by the Investment Committee. This document is asset-class specific and includes Beliefs, Documentation, Process, Reporting and Review. RI Integrated Status provides assurance that RI, including climate change, is being appropriately integrated into the way we manage assets for our clients.

LGPS Central aims to offer investment products to support clients to manage climate risk as well as exploit climate change opportunities. Our All-World Climate Multi Factor Fund takes account of the risks and opportunities associated with climate change by design. While seeking exposure to five style factors, the fund tilts away from companies that are carbon intensive or own fossil fuel reserves, and tilts towards companies that generate green revenues. Our newly launched Global Sustainable Equity Fund is designed to go beyond ESG integration (which we expect from all our external managers) to capture ESG as an alpha source. Alongside generating investment returns, the Fund aims to invest in companies that will have a positive impact on the environment and society. In addition, we are currently undertaking a comprehensive review of the indices we use as benchmarks for our range of in-house passive funds, to ascertain whether there could be opportunities for us to launch new products or make changes to the existing benchmarks that would integrate ESG and climate considerations into the index construction.

TCFD RECOMMENDED DISCLOSURE

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

LGPS Central understand the value of climate scenario analysis, but also note the limitations with current methodologies and data sets. As a first step, LGPS Central used the Paris Agreement Capital Transition Assessment tool to analyse our listed equity portfolios transition risks over several scenarios. The analyses suggest that our portfolios align well to a 2°C scenario when considering gas production (we are more aligned than the broad equity market), but less well aligned when considering coal and oil production. It is partly in response to these results that we are (a) engaging heavily with oil producers and (b) part of a working group at the IIGCC to enhance methodologies for assessing 2°C alignment.

Risk Management

TCFD RECOMMENDED DISCLOSURE

a) Describe the organisation's process for identifying and assessing climate-related risks.

Depending on the asset class in question, risk identification is either a bottom-up or a top-down process. For index-tracking funds (other than climate-factor funds), a top-down process is employed to identify which sectors and constituents should be prioritised for engagement. For actively managed funds, including funds of funds, a bottom-up process is employed to understand the inherent risk and any mitigants in place at a stock or fund level. Either directly or through membership and participation in CA100+, TPI, and CDP, we engage companies to improve their climate-related disclosures, and thus make risk identification more efficacious.

The relevant investment team, alongside the RI&E team, monitor external managers on a quarterly basis. External fund managers are required to provide information on their ESG integration, stewardship activities and carbon risk metrics in quarterly monitoring forms.

TCFD RECOMMENDED DISCLOSURE

b) Describe the organisation's process for managing climate-related risks.

LGPS Central manages climate risk in different ways according to the nature, duration, magnitude and time horizon of the risk itself. As discussed above in actively managed investment portfolio's LGPS Central requires its external managers to have the people, processes and systems in place to integrate ESG risks, including climate change into the investment decision making process. Delivery against this requirement is monitored accordingly by the LGPS Central Investment Teams supported by the RI & Team. ESG integration is accompanied by a comprehensive approach to investment stewardship delivered through engagement and voting. This is an integral component of our management of climate risk management. A significant amount of the AuM LGPS Central manages for clients is invested in passive equity funds, which are managed on a regional basis. How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. Climate risk could also affect market-wide performance, for example through carbon pricing in the EU, or could affect particular sectors within a market, for example through changes in subsidies. In order to encourage a broad transition towards a low-carbon economy, LGPS Central pursue a stewardship strategy including multiple strands of engagement; engagement with companies, sector-level engagement, industry standard setter and policy engagement. With our long-term investment horizon, we take a whole-of-market outlook. LGPS Central actively engages both fossil fuel producers and all the companies on the demand side. We also engage the banks that provide finance and the accountants who audit companies' accounts. LGPS Central view this as the most viable and most impactful way of using our voice. Alongside LGPS Central's direct engagements, we have several partners that engage investee companies on climate risk.

TABLE 2: LGPS CENTRAL'S ENGAGEMENT PARTNERS

ORGANISATION	REMIT
Federated Hermes	EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies. In 2020, EOS conducted engagements on 258 climate change issues across its company universe.
IIGCC The Institutional Investors Group on Climate Change	LGPS Central is an active member of IIGCC. IIGCC is a leading global investor membership body and with over 360 investor members with €49 trillion in assets is the largest one focusing specifically on climate change. Its corporate programme focuses specifically on working with investee companies and helping them to align their business strategies with the goals of the Paris Agreement. IIGCC also engages policy makers in key markets on behalf of investor members, asking for Paris-aligned climate policy action.
Climate Action 100+ Global Investors Driving Business Transition	LGPS Central regularly engages through Climate Action 100+. CA100+ has over 600 members with USD $60 trillion in assets under management. This is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The companies include 167 'systemically important emitters' who currently are responsible for more than 80% of industrial carbon emissions.
Transition Pathway Initiative	LGPS Central has been a sponsor of the Transition Pathway Initiative (TPI) since its inception and is now a founder and Director of the newly established TPI Limited. TPI is a global initiative led by asset owners and supported by asset managers. Aimed at investors and free to use, it assesses companies' preparedness for the transition to a low-carbon economy, supporting efforts to address climate change. TPI collaborates closely with CA100+ in the roll-out of a Benchmark Framework which will allow evaluation of company progress on short-medium-and long-term trajectories in line with the Paris Accord, as well as scoring of companies within and across sectors.
Occupational Pensions Stewardship Council	LGPS Central joined the recently launched Occupational Pensions Stewardship Council (OPSC) in 2021. The OPSC was set up with the aim of sharing best practice and research, as well as providing practical support, among participating UK occupational pension schemes.

The instruction of shareholder voting opportunities is an important part of climate stewardship. LGPS Central have a proactive shareholder voting programme, and votes are instructed according to LGPS Central's Voting Principles. These principles incorporate climate change, for example by voting against companies that do not meet certain thresholds in the TPI scoring system.

LGPS Central and 'Say on Climate Resolutions' 2021

More than twenty companies, mostly European, have put a transition plan to the vote during 2021. All have passed with some opposition. We welcome this trend but view it as critical that companies report on progress against transition plans and that this progress is assessed against credible benchmarks, such as the newly established Climate Action 100+ Benchmark. Public assessments of companies' progress against the benchmark were disclosed in March 2021 and this helps set a bar for what a good transition plan should cover. The reality right now is that no company within CA100+ is fully compliant with the benchmark. By upholding this standard, we believe we can see more and better efforts from companies to contribute to real-world decarbonisation. Discussions are ongoing between investors and companies within specific sectors, e.g., oil & gas and mining companies, on the detail of Net-Zero alignment and what that entails.

TCFD RECOMMENDED DISCLOSURE

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

RI&E risks, a subset of investment risks, are defined as including climate-related risks. Investment risks fall within the scope of our Investment Risk Framework & Policy, which employs a 'three lines of defence' model. Climate risk is primarily managed in the first line of defence.

Climate risk is included in LGPS Central's Risk Register.

Metrics & Targets

TCFD RECOMMENDED DISCLOSURE

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

LGPS Central utilise several different tools and metrics to assess climate-related risks and opportunities. A carbon risk metrics analysis has been carried out on the LGPS Central's equity investment funds, which represents 73% of the Company's total assets under management. The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time. The scope of the analysis comprises the total equities portfolios as at 30th September 2021.

The carbon risk metrics analysis include:

- portfolio carbon footprints[1]
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- metrics assessing the management of climate risk by portfolio companies

Carbon risk metrics aid LGPS Central in assessing the potential climate-related risks to which the sub Funds are exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. LGPS Central additionally monitors stewardship data (see above).

Analysis from the TPI is used to assess the climate risk of individual portfolio companies and supports formulating engagement activities.

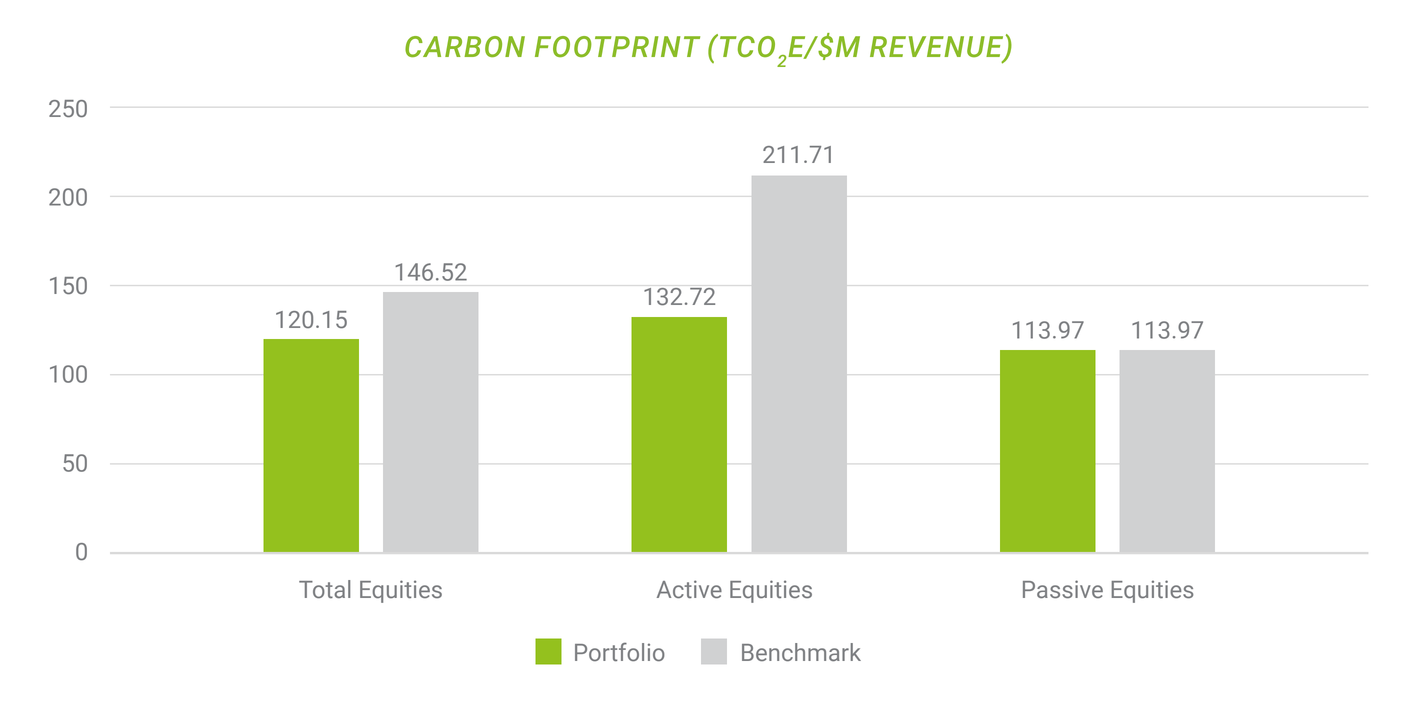
TCFD RECOMMENDED DISCLOSURE

b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance: *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

In line with TCFD guidance, we provide here the carbon footprints of the LGPS Central equity ACS Funds:

[1] Following TCFD guidance the weighted average portfolio carbon footprints is used.

Figure 2: Carbon Footprint for the LGPS Central Equity Portfolios[2]:



The Total Equities and Total Active Equities portfolios are both more carbon efficient than their respective blended benchmarks.

The Total Equities portfolio is made up of the Active Equities portfolio and the Passive Equities portfolio. The Active Equities portfolio comprises the LGPS Central Global Equity Active Multi-Manager Fund and the LGPS Central Emerging Market Equity Active Multi-Manager Fund weighted according to their size in GBP. The Passive Equities portfolio comprises the LGPS Central UK Passive Equity Fund, LGPS Central Global Ex-UK Equity Fund, LGPS Central Equity Dividend Growth Factor Fund, LGPS Central All World Equity Climate Multi Factor Fund, and LGPS Central Global Multi Factor Equity Index Fund weighted according to their size in GBP. These passive funds track an index, so the carbon footprint of the benchmark is in each case the same as that of the fund.

LGPS Central's Total Equities portfolio is 18% more carbon efficient than the total equities blended benchmark. This means that, on average, for every $m of economic output companies produce, LGPS Central's investee companies emit 18% fewer GHG emissions than the companies in the blended benchmark. Similarly, the Active Equities portfolio has a lower carbon footprint when compared to its blended benchmark.

As per Figures 3 and 4 below, both the Total Equities and Active Equities portfolio have a lower exposure to fossil fuel reserves and thermal coal compared to their respective blended benchmarks.

[2] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

Figure 3: Weight in Fossil Fuel Reserves for the LGPS Central Equity Portfolios[3]

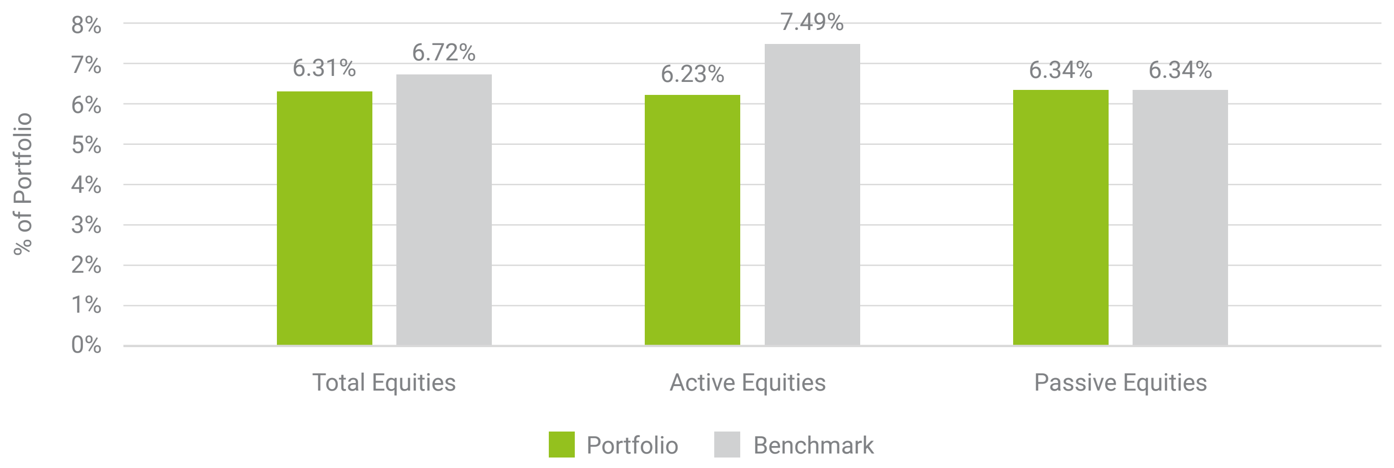


Figure 4: Weight in Thermal Coal Reserves for the LGPS Central Equity Portfolios[4]

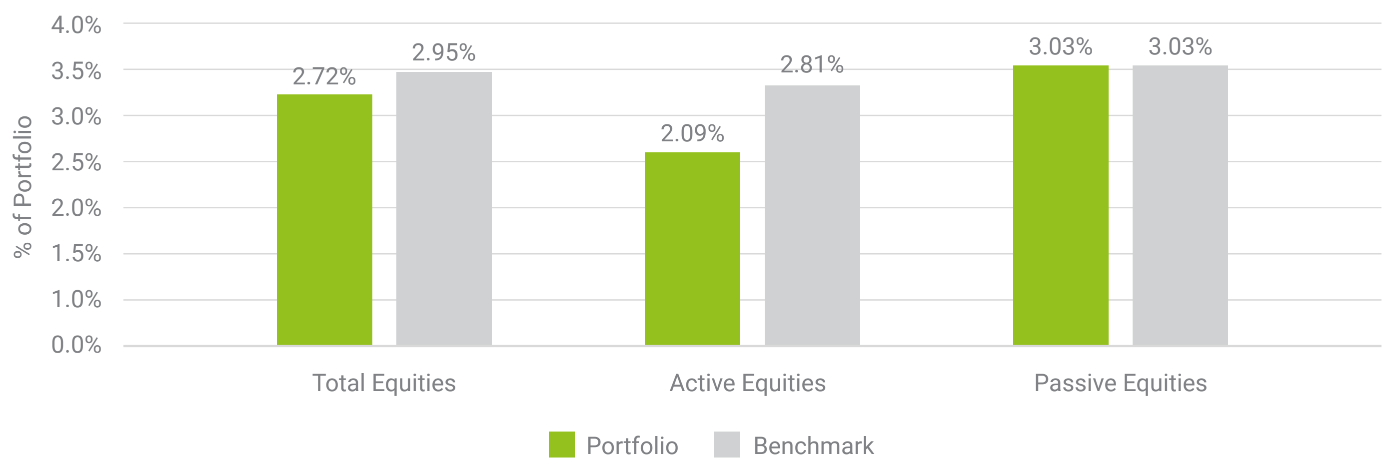
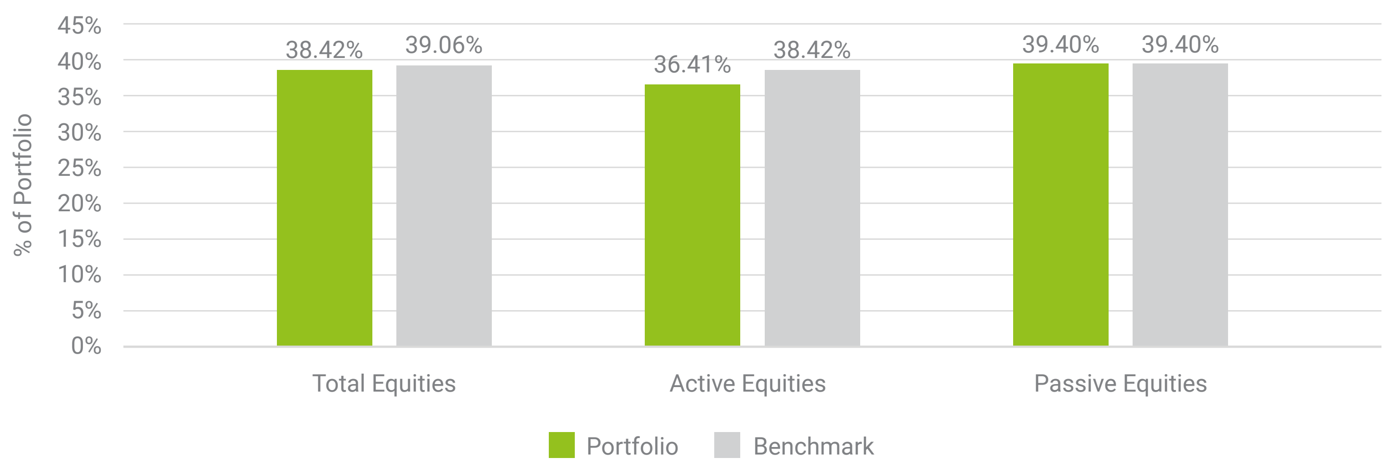


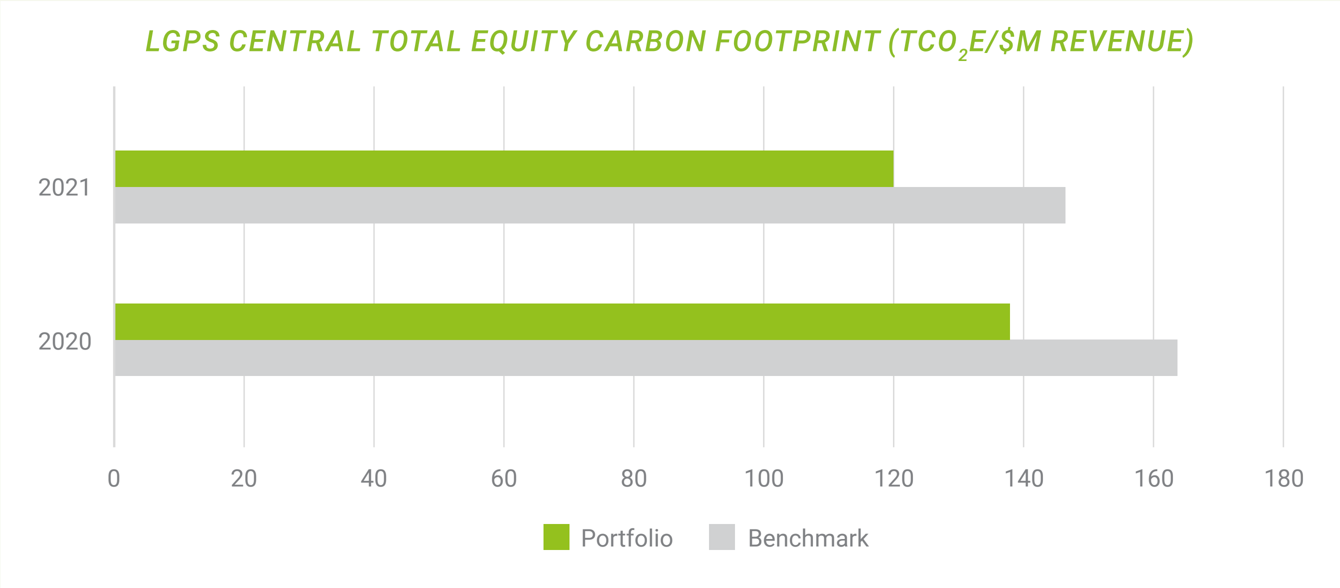
Figure 5: Weight in Clean Technology for the LGPS Central Equity Portfolios[5]



[3] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.
[4] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.
[5] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

LGPS Central Carbon Footprint through time[6]

As per LGPS Central's commitment to annual TCFD reporting, we provide yearly updates on our carbon risk metrics. We disclose below the movement in our Total Equity carbon footprint between 30th November 2020 and 30th September 2021. Between the two dates, LGPS Central's Total Equity carbon footprint decreased by 12.87%. The LGPS Central Total Equity carbon footprint also continues to be more carbon efficient than the benchmark, moving from a relative efficiency of 16% in 2020 to 18% in 2021.



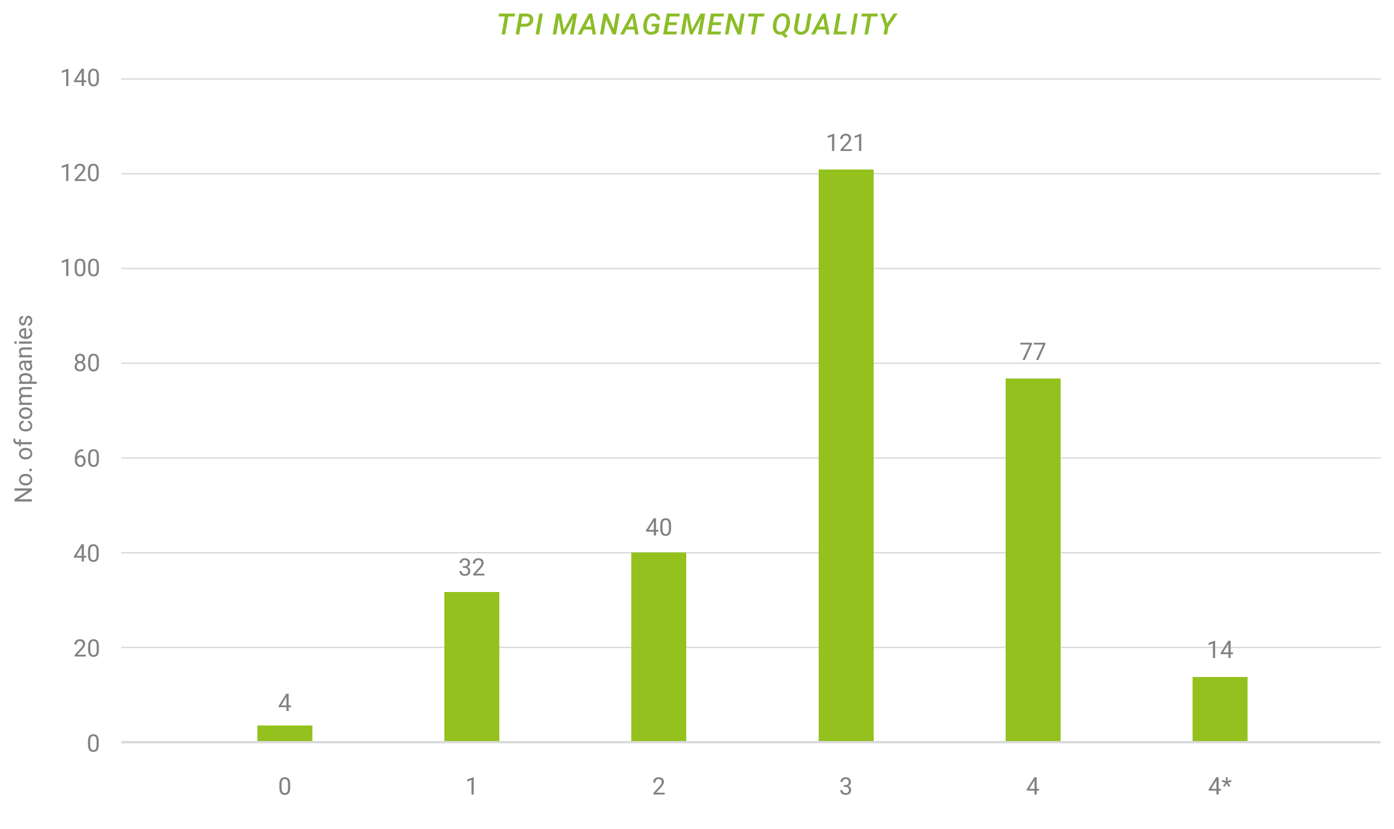
[6] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

LGPS Central utilises the TPI framework to assess the carbon risk of individual portfolio companies. TPI framework evaluates companies based on their climate risk management quality and their carbon performance. The former includes an assessment of policies, strategy, risk management and targets. There are six management quality levels a company can be assigned to:

- Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue
- Level 1 – Acknowledging Climate Change as a Business Issue
- Level 2 – Building Capacity
- Level 3 – Integrated into Operational Decision-making
- Level 4 – Strategic Assessment
- Level 4* – Satisfies all management quality criteria

Within the Total Equity portfolio, 288 companies are ranked by the TPI. As shown in Figure 6, the proportion of companies ranked by the TPI as having a management quality of Level 3, 4 or 4* is 74% (212 companies). As per LGPS Central's Voting Principles 2021, we will consider voting against the company Chair, and other relevant directors or resolutions if a company is assessed by TPI's management quality framework to be at a Level 2 or lower.

Figure 6: TPI Management Quality of Companies in the Total Equity Portfolio



TCFD RECOMMENDED DISCLOSURE

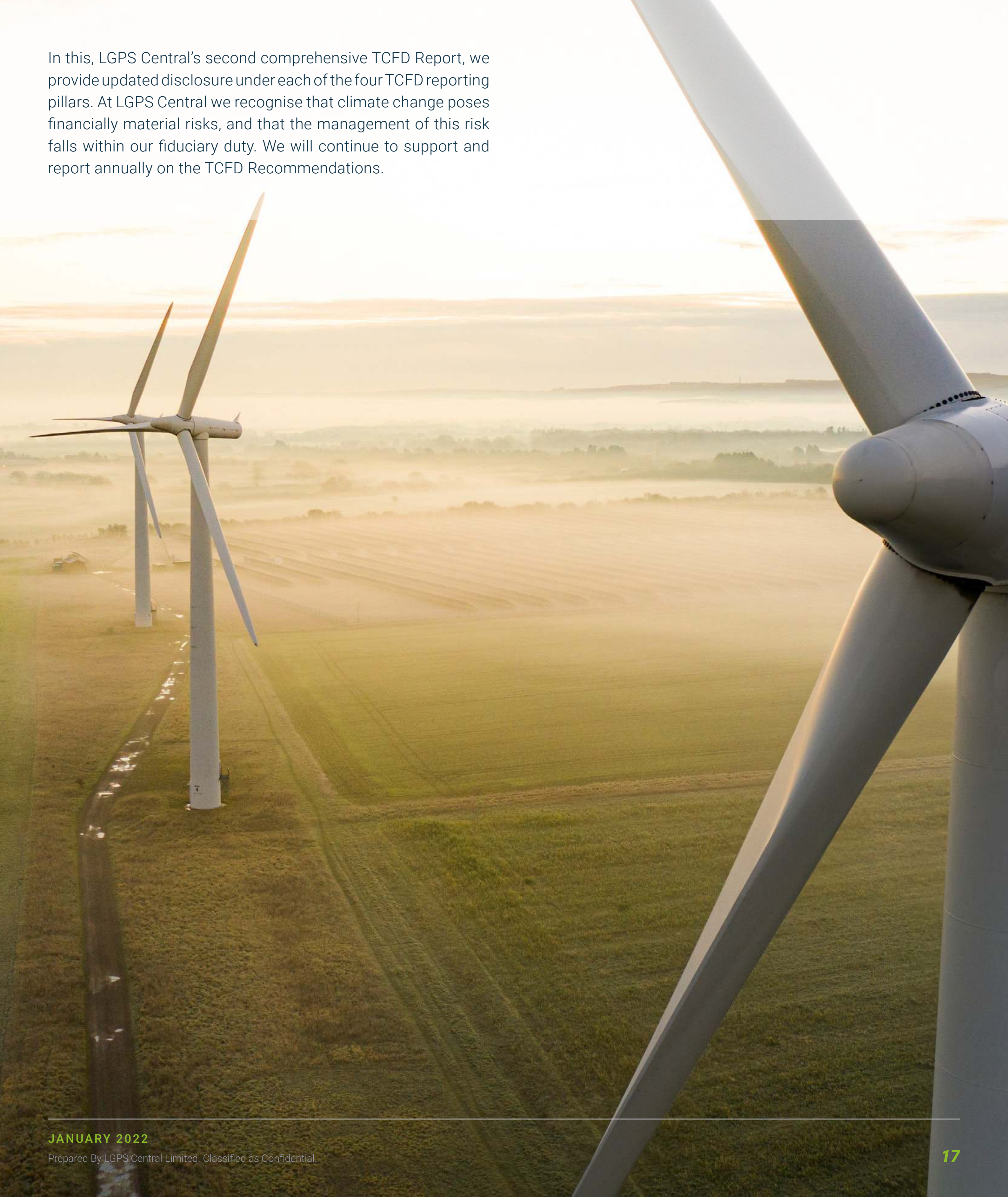
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The use of quantified metrics is under review. In undertaking this review, LGPS Central value the usefulness of numerical targets but are conscious of the nascence and complexity of climate risk models and share some concern that focussing on one particular metric or target could be overly simplistic or give a false impression of accuracy.

LGPS Central offered public support for the IIGCC's Net Zero Framework. In addition, we are currently working with Partner Funds on a Pool-level Climate Strategy/ Net Zero Strategy, which may include specific climate-related targets once finalised.

Conclusion

In this, LGPS Central's second comprehensive TCFD Report, we provide updated disclosure under each of the four TCFD reporting pillars. At LGPS Central we recognise that climate change poses financially material risks, and that the management of this risk falls within our fiduciary duty. We will continue to support and report annually on the TCFD Recommendations.



Appendix 1: Important Information

The following notices relate to Figure 2-5 (above) by LGPS Central based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

Although LGPS Central's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced, or re-disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.