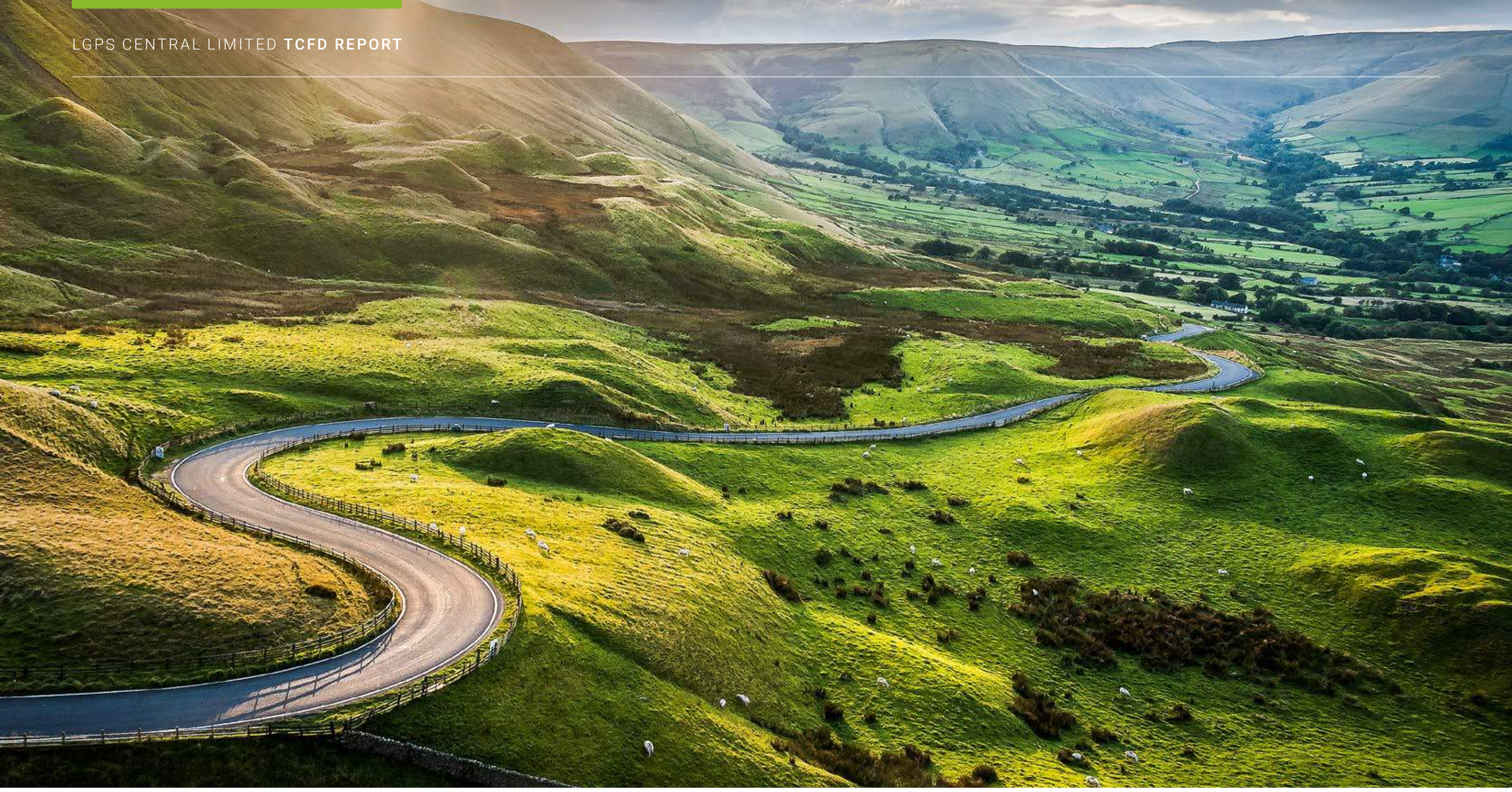
LGPS Central Limited

LGPS CENTRAL LIMITED

# TCFD Report

FEBRUARY 2023



# About LGPS Central Limited

LGPS Central Limited ("LGPSC") is one of eight Pool companies formed in response to HM Government's call in 2015 for LGPS funds across England and Wales to pool their investment assets with the aims of:

1. Reducing investment management costs through economies of scale.
2. Improving access to alternative asset classes.
3. Strengthening governance and decision-making across the scheme.

LGPS Central Limited was established to manage the pooled investment assets of eight Local Government Pension Schemes (LGPS) across the centre of England: Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands, and Worcestershire, together our "Partner Funds". The combined assets of these funds are approximately £55 billion, managed on behalf of almost one million LGPS members and some 2,000 participating employers.

LGPS Central Limited is jointly owned by its Partner Funds and is authorised and regulated by the Financial Conduct Authority (the FCA).

LGPSC have a dedicated RI team of 6 people. We endeavour to put Responsible Investment at the core of everything we do. We have been providing a climate risk monitoring service annually to our partner funds since 2020 which has helped them develop a climate strategy (including governance arrangements), stewardship plan and TCFD reports. We also support our partner funds with climate change training and presentations.

In 2022 LGPS Central set a Net Zero alignment target in line with the IIGCC Net Zero framework and many of our partner funds have made similar commitments others have set decarbonisation targets consistent with Paris goals. We are developing our implementation strategy.

CHESHIRE PENSION FUND

Derbyshire Pension Fund

Shropshire County Pension Fund

Staffordshire Pension Fund Local Government Pension Scheme

Leicestershire County Council PENSION FUND

NOTTINGHAMSHIRE PENSION FUND

West Midlands Pension Fund

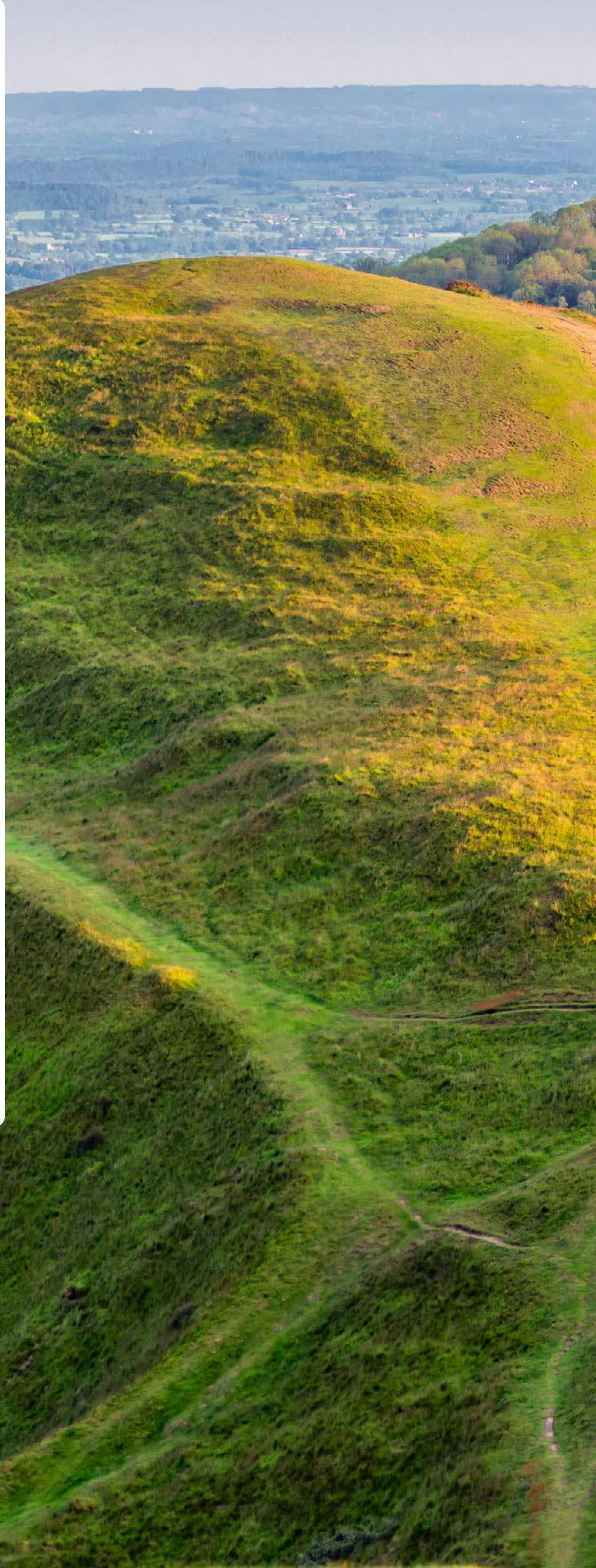
Worcestershire Pension Fund

# 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 third 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 2019 and 2022, the carbon risk metrics of LGPS Central's portfolios improved by 12%, with the carbon footprint of both the Total Equities and Total Active Equities portfolios experiencing carbon efficiency gains. In 2022, LGPS Central also published its Net Zero Statement, outlining its commitment to achieve net zero emissions across its portfolios by 2050 or sooner.

In light of the updated guidance from TCFD, this year we have included a "financed emissions" metric in our report. We have also included this figure apportioned by £m AUM, in order to provide context to the absolute figure. We have also detailed our updated net zero target, in which we aim to achieve net zero across our internally and externally managed portfolios by 2050 or sooner.



# 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 4,000 organisations representing a market capitalisation of over $27 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 which enables us to assess and act on the risks and opportunities 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 currently faces, according to the Intergovernmental Panel on Climate Change's (IPCC) Sixth Assessment Report. Human activities have already caused approximately 1.1°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 also published its Net Zero Statement in 2022, outlining our commitment to achieve net zero by 2050 and a 50% reduction in emissions across our equity and fixed income portfolios by 2030.

## 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.

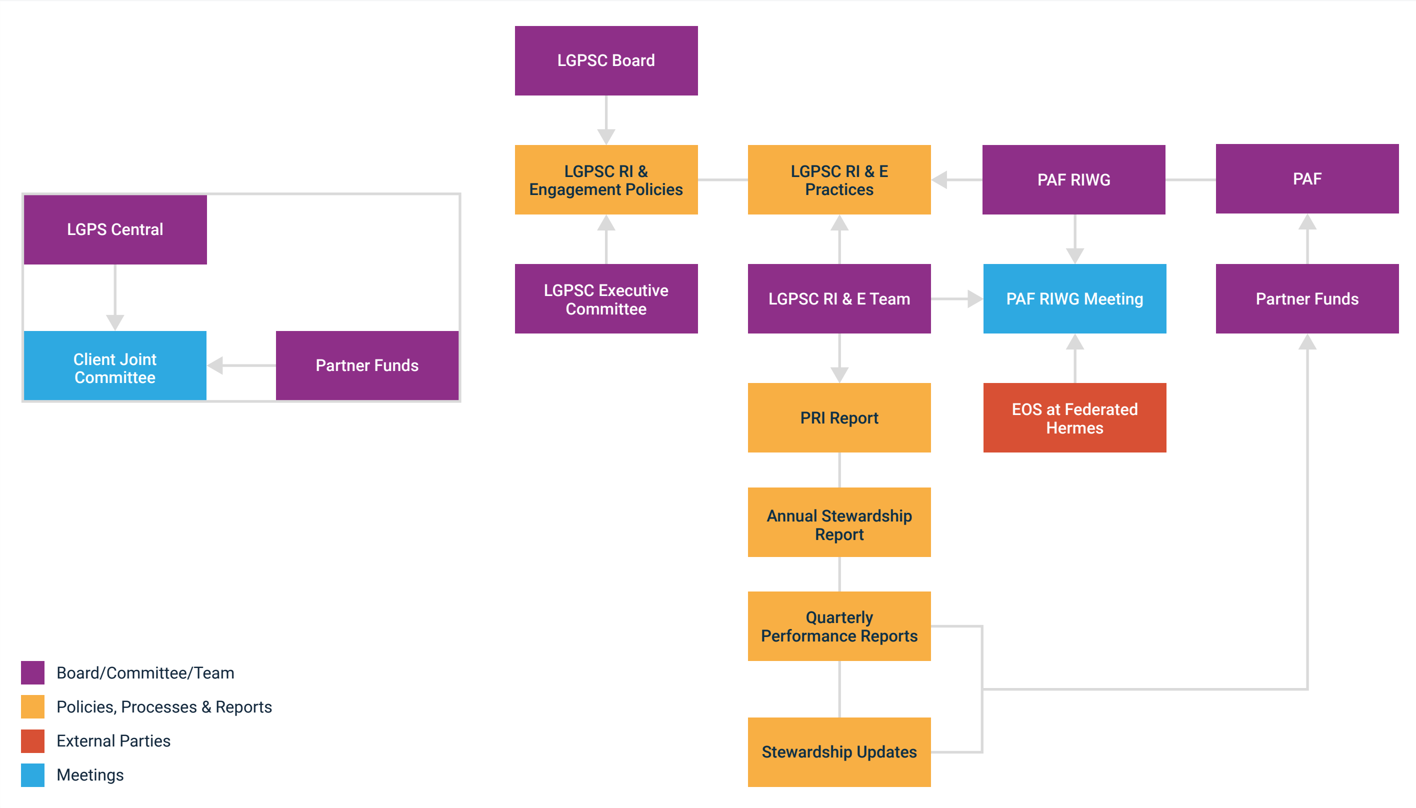
| | |
|---|---|
| 2018 | • Joined the Institutional Investors Group on Climate Change<br>• Joined Climate Action 100+<br>• Joined the Transition Pathway Initiative Steering Group<br>• Signed the Global Investor Statement on Climate Change |
| 2019 | • Launched a Climate Risk Monitoring Service (CRMS), 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<br>• Included Climate Change as one of our four targeted Stewardship Themes<br>• 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<br>• Launched the LGPS Central All World Equity Climate Multi Factor Fund |
| 2020 | • Provided Climate Risk Reports to all eight Partner Funds<br>• Assisted six Partner Funds with the production of their first TCFD-compliant reports<br>• Developed LGPS Central's first comprehensive TCFD Report |
| 2021 | • Developed Climate Stewardship Plans for all Partner Funds<br>• Assisted several Partner Funds with the production of a Climate Risk Strategy<br>• Provided the second iteration of annual, bespoke Climate Risk Reports to all Partner Funds<br>• Enhanced expectations towards companies' TPI management quality score in our Voting Policy<br>• Became a founder and Director of the TPI Limited<br>• Offered public support for the IIGCC's Net Zero Framework<br>• Acheived sigantory status to the Stewardship Code |
| 2022 | • Released our Net Zero Statement, committing the company to acheive net zero across internally and externally managed portfolios by 2050 or sooner. The statement also includes an interim target of 50% reduction by 2030 across our equity and fixed income portfolios.<br>• LGPS Central secures the top spot in Responsible Asset Allocator Initative awards, receiving a perfect score of 100%<br>• Launch of Global Sustainable Equities Active Fund<br>• Retained Stewardship Code signatory status |
| Next Steps | • Pursue the production of an LGPS Central Net Zero/ Climate Action Strategy<br>• Provide the third year of Climate Risk Reporting to Partner Funds<br>• Conduct review of Climate Risk Monitoring Service, incorporating acquisition of additional data<br>• Assist Partner Funds in achieving their climate targets and Net Zero ambitions<br>• 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**

Figure 2: LGPSC Organisational Structure and Communication on RI-related matters




As depicted in Figure 2 above, the LGPS Central Board is responsible for approving and monitoring LGPS Central's approach to climate change, as part of its oversight of our policies including the Responsible Investment & Engagement Framework ("the Framework"). The Framework is the overarching governing document for all responsible investment activities at LGPSC. Apart from the Framework, the Board also reviews and approves our Voting Principles, Annual Stewardship Report and this TCFD Report.

We have also established a Board-level KPI that 100% of relevant products integrate responsible investment, 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 a regular item on the Board's agenda.

Throughout the year, the RI&E Team provides the Board with an overview of the Company's latest RI&E efforts including stewardship activities and the Climate Risk Monitoring Service. Alongside on-going oversight and knowledge building, Board members sometimes get involved in our broader RI effort e.g., through speaker assignments or in ongoing engagements.

## TCFD RECOMMENDED DISCLOSURE

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

The Framework is overseen operationally by LGPSC's Executive Committee. 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 Framework, which includes climate change. Portfolios are reviewed by the IC on a quarterly basis. Products/portfolios are monitored by using an internal Responsible Investment Integrated Status (RIIS) certification.

LGPSC's RI Integrated Status (RIIS) approach inherently requires and allows detailed dialogue between the RI&E Team and the relevant Asset Class Team from inception of a fund and throughout its lifespan. This approach also ensures that the RI approach taken for a given fund or asset is co-sponsored by the Director of RI&E and the relevant Investment Director, reinforcing a shared ownership to RI integration. RIIS could be viewed as an in-house form of "RI certification" which covers the following key elements: Beliefs, Documentation, Process, Reporting and Review.

We believe it is critical that RI is owned and practiced across LGPSC. As such, the RI&E Team performs a coordinating function relying on regular interaction with colleagues in asset class teams, in the broader Investment Team and across back-office functions including Operations, Legal, HR and Compliance. The RI&E Team reports to the Chief Investment Officer (CIO). The Director of RI&E is a member of the Investment Committee, the Private Markets Investment Committee and the Senior Management Team. RI&E related matters are regularly brought to the LGPSC Executive Committee for discussion and approval. During 2021 this has included for example review of LGPSC RI&E related policies, becoming a Board member of TPI Ltd (established October 2021), and ongoing discussions on LGPSC's net zero commitment (see Section 2.1.4 below).

Our organisational structure reflects a collaborative approach whereby LGPSC Partner Funds have direct influence and dialogue with LGPSC on the overall stewardship effort through a Practitioners' Advisory Forum (PAF) at the high level, and through a Responsible Investment Working Group (RIWG) which assesses RI matters in more detail. The RIWG feeds into the PAF which is made up of Client Fund Officers and meets monthly. At quarterly PAF RIWG meetings, Partner Funds are given updates and can scrutinise LGPSC's implementation of engagement and voting activities, integration of ESG across funds, as well as Client-specific services such as the Climate Risk Monitoring Service.

Excerpt From LGPS Central Responsible Investment & Engagement Framework

## Our Approach To Climate Change

The Company believes that financial markets are likely to be materially impacted by climate change and by the response of climate policymakers. As such, responsible investors should proactively manage this risk factor through integrated analysis and stewardship activities, using partnerships of like-minded investors where feasible.

### Our net zero ambition

LGPS Central Ltd has formally committed to transitioning our investment portfolios to Net Zero greenhouse gas emissions (GHG). As part of the commitment, we have developed a strategy utilising Institutional Investor Group on Climate Change's ('IIGCC') Net Zero Investment Framework to achieve Net Zero emissions across our internally and externally managed portfolios by 2050 (or sooner).

### Identifying and managing climate change risks and opportunities

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.

The Company manages climate risk in different ways according to the nature, duration, magnitude and time horizon of the risk itself. External managers are required 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. 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.

### Climate change disclosure

The Company reports annually using the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). This complements the Company's broader support for the TCFD and its work to encourage other participants in the corporate and investment value chains to adopt the TCFD recommendations.

# 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 and opportunities across the short-, medium- and long-term as relevant for the investment time horizon included in their specific mandates. A subset of these factors is presented in Table 1. Our managers are also tasked with identifying investment opportunities arising out of the transition to a lower carbon economy. ESG integration is the approach we favour for the management of these risks and identification of these opportunities.

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

| | SHORT & MEDIUM TERM | LONG TERM |
|---|---|---|
| **Risks** | • Carbon prices<br>• Technological change<br>• Policy tightening<br>• Consumer preferences<br>• Legal Risk | • Resource scarcity<br>• Extreme weather events<br>• Sea level rise |
| **Opportunities** | • Government subsidies and tax breaks for transition technologies<br>• Changing consumer demand<br>• Investment opportunities for clean energy sources<br>• Resource efficiency | • Investments for climate adaptation<br>• New and changing markets |
| **Asset class** | • Listed equities<br>• Growth assets<br>• Energy-intensive industry<br>• Oil-dependent sovereign issuers<br>• Carbon-intensive corporate issuers | • Infrastructure<br>• Property<br>• Agriculture<br>• Commodities<br>• 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 Transition Pathway Initiative (TPI), Institutional Investors Group on Climate Change (IIGCC), Principles for Responsible Investment (PRI), Climate Action 100+ (CA100+), and Local Authority Pension Fund Forum (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. As all portfolios managed internally are passive, material climate risks are factored into stewardship plans. For co-investments, 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 review of our climate multi-factor fund to ascertain the changes that would need to be made to make it net zero aligned. 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 actively participating in climate related engagements through partnerships listed on page 11.

LGPS Central Climate Risk Monitoring Service (CRMS) is a set of four services designed to assist LGPS Central Partner Funds with their strategic responses to climate-related risks. One of these services is a Climate Risk Report, which is designed to assist LGPS Central Partner Funds address two questions using three modes of analysis. We have procured three service providers to assist with the delivery of Climate Risk Reports:

| QUESTIONS | ANALYSES | |
|---|---|---|
| What are the climate-related risks and opportunities faced by the Fund? | Carbon Risk Metrics | MSCI |
| | Climate Scenario Analysis | Mercer |
| What options are available to manage risks and opportunities? | Climate Stewardship Plan | Federated Hermes |

Climate Risk Report

# 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 our own funds of funds, a bottom-up process is employed by our managers 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 EOS, 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. We are also in the process of acquiring new ESG data and research in order to be able to assess the ESG risk management of investee companies on a more holistic basis.

## 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, who are in turn supported by the RI&E 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. A significant amount of LGPS Central's AUM 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, 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 pursues a stewardship strategy with multiple strands of engagement; engagement with companies, sector-level engagement, industry standard setting, 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 companies on the demand side. We also engage the banks that provide finance and in collaboration with other investors, the accountants who audit companies' accounts. LGPS Central views this as the most viable and most impactful way of managing climate risk within its portfolio. Alongside LGPS Central's direct engagements, we have several partners that also 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.<br>In the first three quarters of 2022, EOS had conducted engagements on 731 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 375 investor members with over €51 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 700 members with USD $68 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 166 'systemically important emitters' with a total market capitalisation of $10.3 trillion. |
| 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.

## 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, which relates to second line Enterprise risk assessment. In this way, we are able to distinguish between First Line Investment Risk and the second line framework.

# 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 83% of the Company's total public 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 of 31st December 2022.

The carbon risk metrics analysis include:

- portfolios' Weighted Average Carbon Intensity (WACI)[1]
- the portfolios' financed emissions
- the portfolios' carbon footprint, measured by the financed emissions normalised by the market value of the portfolios
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- 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 each portfolio is 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 organisations including TPI and CA100+ is used to assess the climate risk exposure of individual portfolio companies and supports formulating engagement activities.

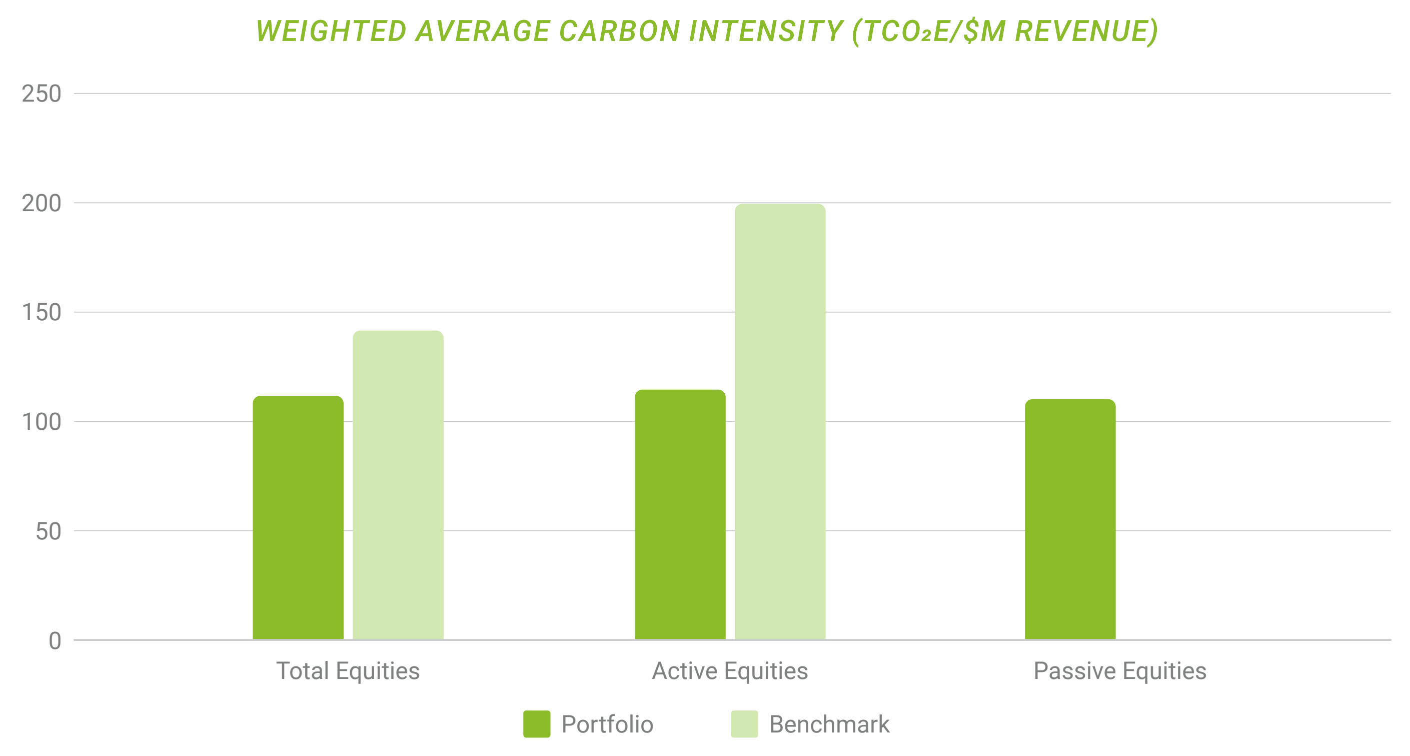
[1] Following TCFD guidance the weighted average portfolio carbon footprints is used. This is expressed in $tCO_2e$/$m revenue.

## 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 disclose GHG emissions for assets they own and the weighted average carbon intensity (WACI) for each fund or investment strategy, where data and methodologies allow.

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

Figure 2: WACI for the LGPS Central Equity Portfolios[2]



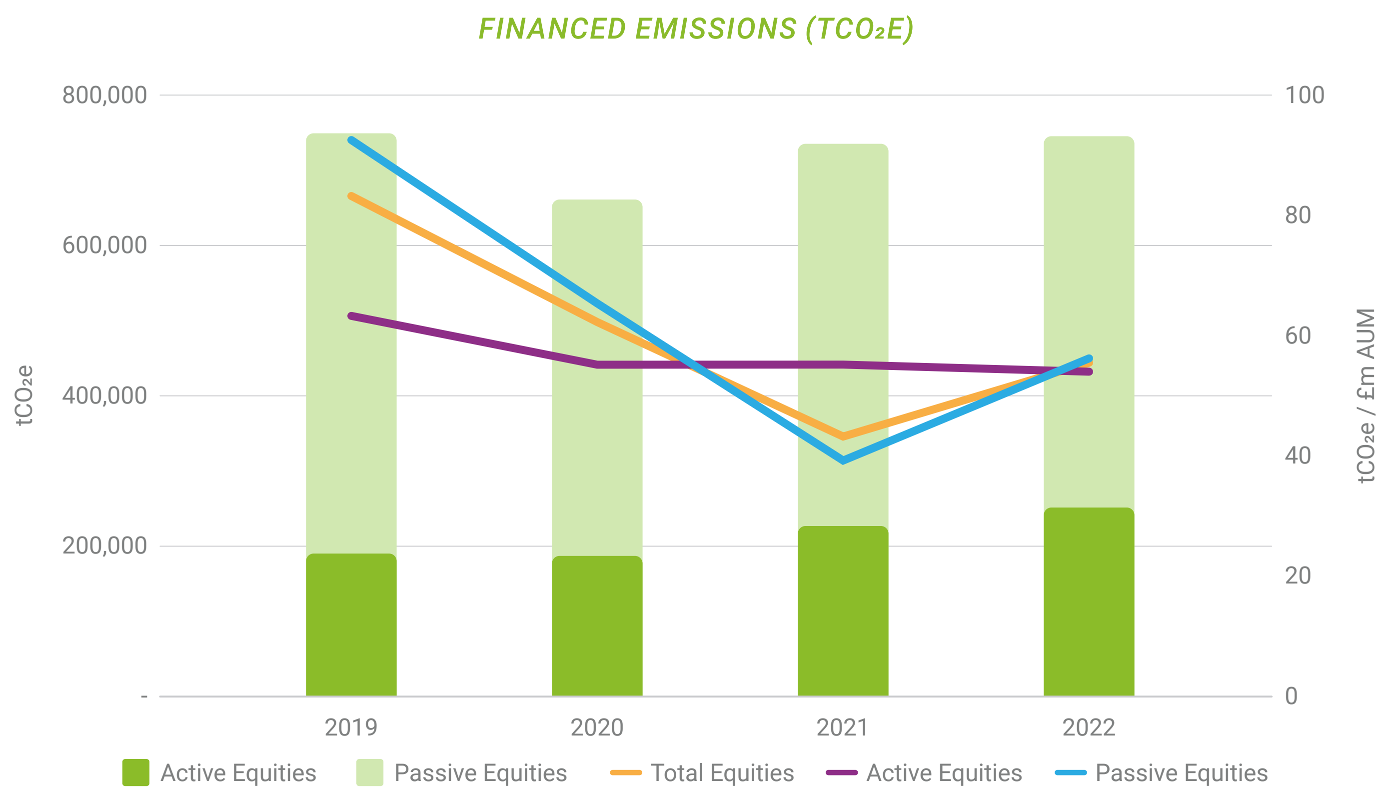

**The Total Equities and Total Active Equities portfolios are both more carbon efficient than their respective blended benchmarks.**

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; the LGPS Central Emerging Market Equity Active Multi-Manager Fund; and the LGPSC Global Sustainable Equities fund; each weighted according to their size in GBP. The Passive Equities portfolio is comprised of the LGPS Central UK Passive Equity Fund; the LGPS Central Global Ex-UK Equity Fund; the LGPS Central Equity Dividend Growth Factor Fund; the LGPS Central All World Equity Climate Multi Factor Fund; and the LGPS Central Global Multi Factor Equity Index Fund; also weighted according to their size in GBP. As the passive funds are designed to track their respective indexes, a benchmark comparison is not provided as performance will be nearly identical to that of the index.

LGPS Central's Total Equities portfolio is 21% more carbon efficient than the total equities blended benchmark. Similarly, the Active Equities portfolio is 42% more efficient than the blended benchmark. As per Figures 4 and 5 below, both the Total Equities and Active Equities portfolio also have a lower exposure to fossil fuel reserves and thermal coal than their respective blended benchmarks.

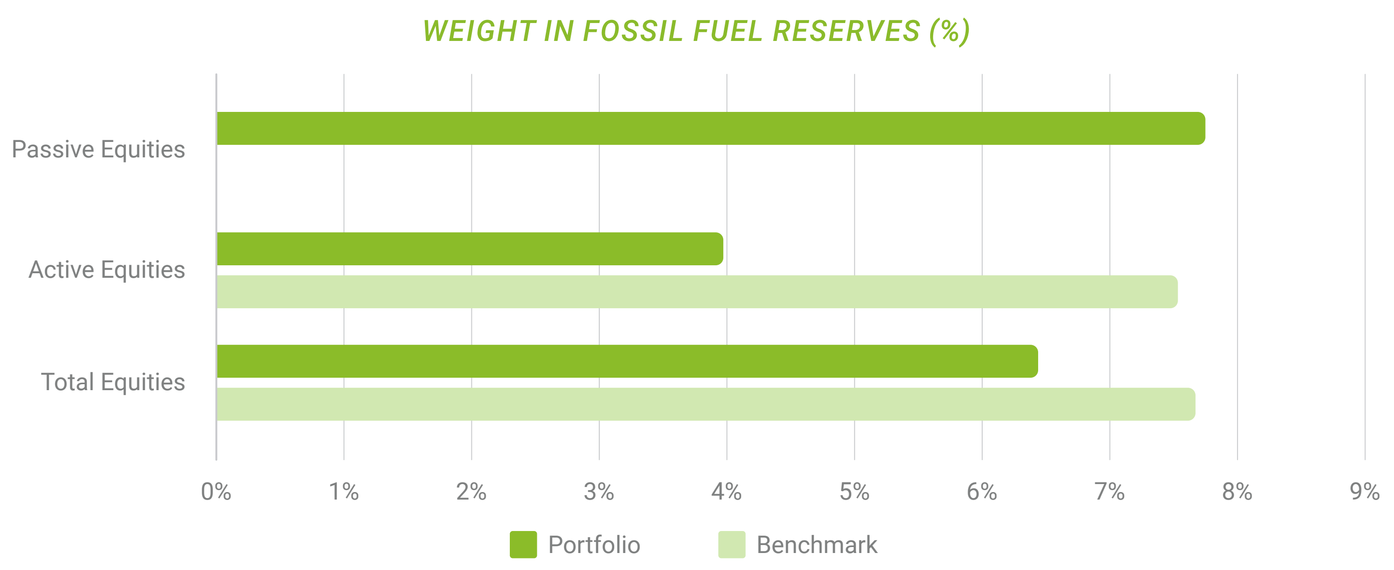
[2] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

Figure 3: Financed Emissions[3] for the LGPS Central Equity Portfolios[4]



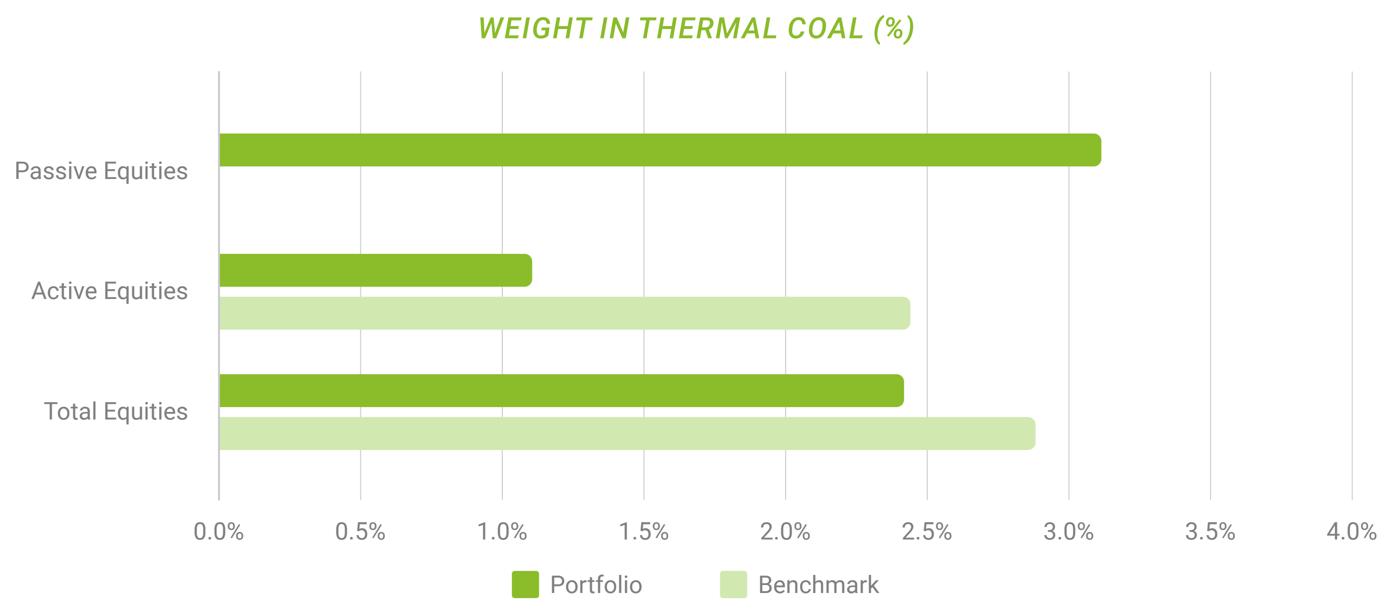

The financed emissions of the Total Equities portfolio have experienced a decrease of 1% from 2019 to 2022. Normalising this metric by million-pound sterling of AUM ($tCO_2e$ / £m AUM), this figure has decreased by a more significant 39% between 2019 to 2022. This trend is observable in both active and passive equity portfolios where normalised financed emissions decreased by 22% and 45% respectively.

Figure 4: Weight in Fossil Fuel Reserves for the LGPS Central Equity Portfolios[5]



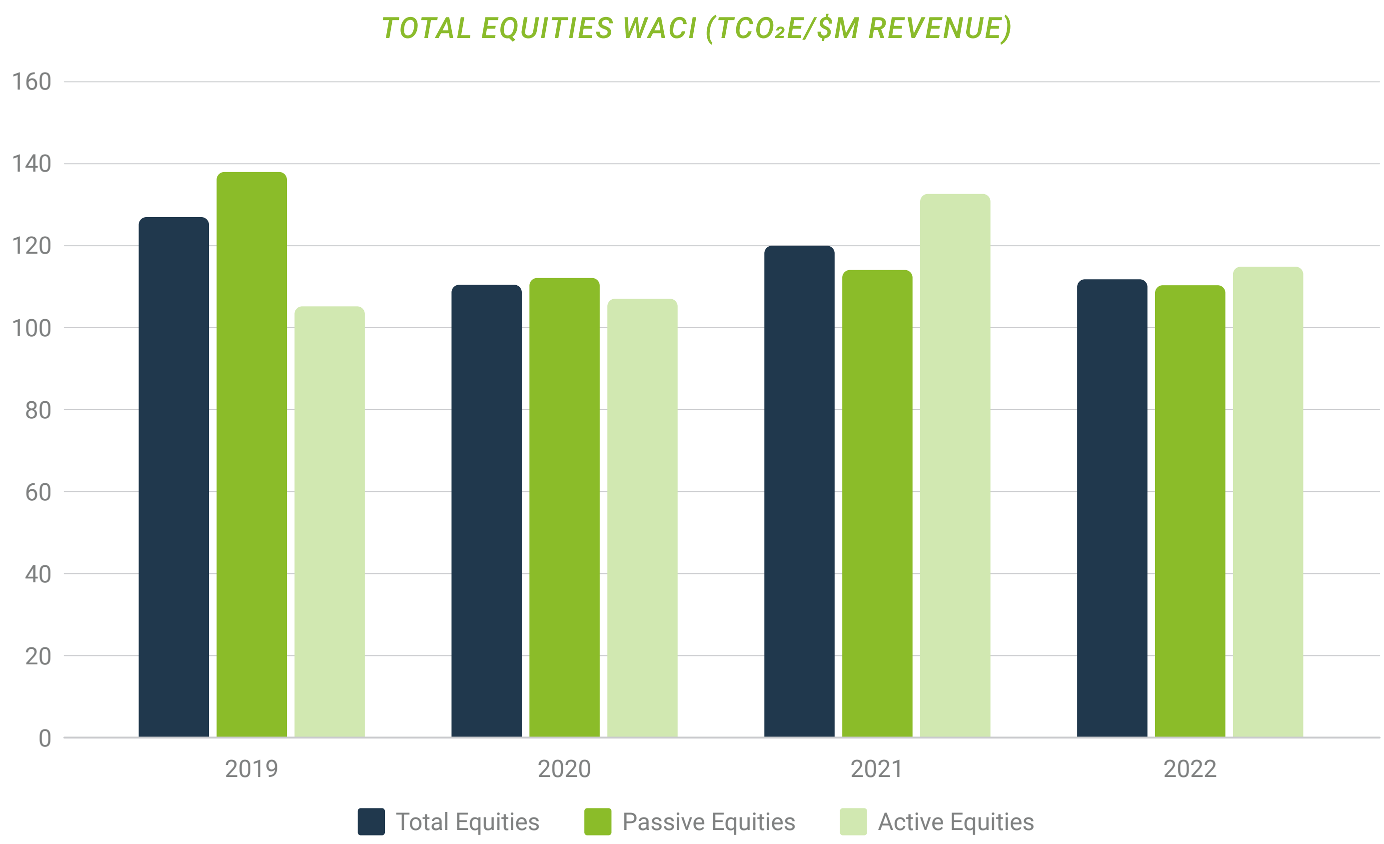

[3] Financed Emissions measures the absolute tons of $CO_2$ for which an investor is responsible.
[4] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.
[5] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

### Figure 5: Weight in Thermal Coal Reserves for the LGPS Central Equity Portfolios[6]




### LGPS Central Weighted Average Carbon Intensity (WACI) 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 WACI between 30th December 2019 and 30th December 2022. Between the two dates, LGPS Central's Total Equity WACI decreased by 12.01%.



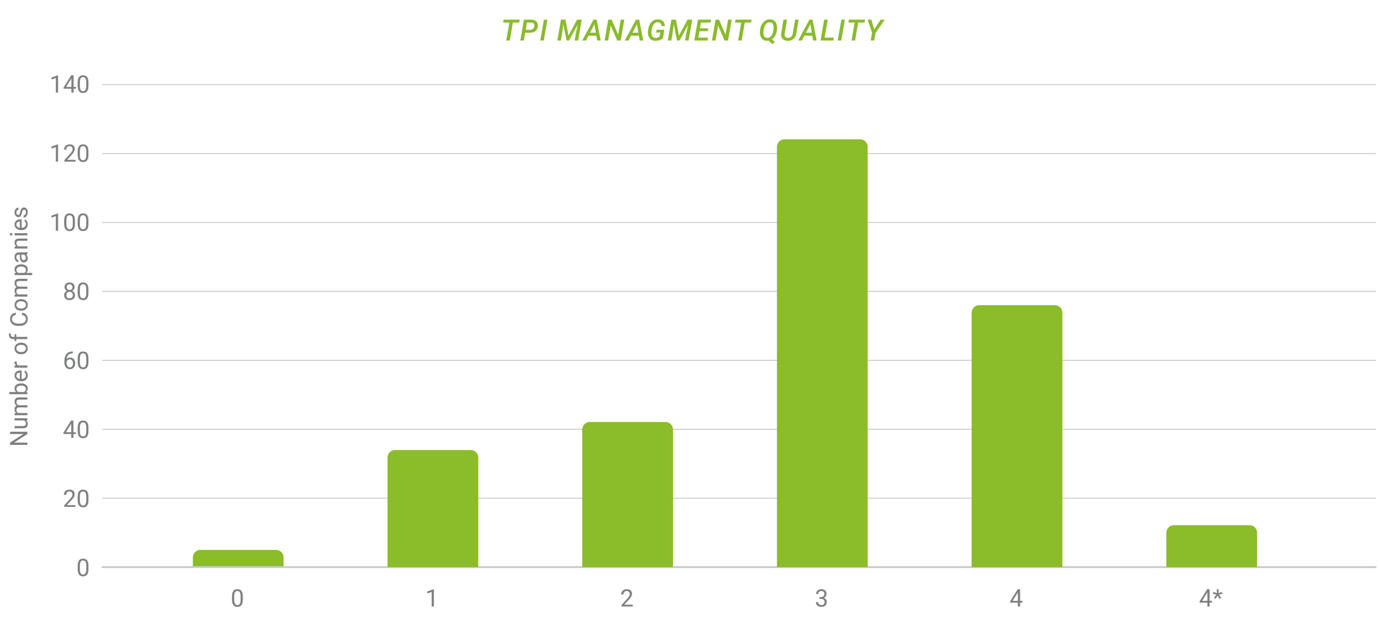

[6] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

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, 293 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 72% (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 per-formance against targets.**

In 2022 LGPS Central broadened its use of metrics to include financed emissions and exposure to fossil fuels and clean tech apportioned by revenue. However, the use of quantified metrics is consistently under review. While LGPS Central values the usefulness of numerical targets, we 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. 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.

2022 also saw LGPS Central publish its Net Zero Statement. This Statement outlines LGPS Central's commitment to achieve net zero emissions across our internally and externally managed portfolios by 2050 or sooner. This will initially focus on Listed Equities, Corporate Bonds, Sovereign Bonds, and Real Estate. In addition, we also aim to achieve a 50% reduction in GHG emissions by 2030 across our equity and fixed income portfolios. We are committed to extending our focus to include other asset classes as reliable data becomes available.

# Conclusion

In this, LGPS Central's third 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.

We are encouraged to see that the weighted average carbon intensity of the Total Equities Portfolio has decreased by 12% since 2019. Furthermore, the active equities portfolio has a significantly lower weighted average carbon intensity than the associated blended benchmark. However, the annual rate of reduction since 2019 is 4.2%, meaning there is still work to be done to ensure we reach our target of net zero by 2050, and our interim target of a 50% reduction by 2030. The implementation and utilisation of updated metrics, increases in industry collaboration, and increased engagement with portfolio companies in 2023 will be instrumental in furthering our progress towards the achievement of these goals.

2023 is a crucial year in the critical decade for climate change mitigation. LGPS Central will continue to act upon our commitment to integrating climate change considerations into our investment processes. This is done in line with our conviction that doing so is fundamental to the delivery of our fiduciary responsibilities.

## Appendix 1:

# Important Information

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