

LGPS Central Limited 2023 Climate Report

Glossary

The calculation, reporting, and monitoring of these climate metrics forms a crucial part of our management of climate risk. This analysis is central to our internal manager monitoring processes, which is in turn fundamental to the achievement of our Net Zero Strategy. While most of the sub-funds below do not have climate targets specified within the investment mandates, we expect each of our managers to integrate climate considerations into their investment decisions, as outlined within our RI&E Framework. Our action on each of the above points is reflective of our belief that climate considerations are material to long-term investment performance.

It should be noted that some data challenges remain within the field of climate reporting. We have disclosed data availability metrics for each sub-fund, but some of these metrics will be reliant on estimation or unverified data. We continually engage with data providers and assess emerging methodologies in order to ensure that our climate reporting remains at the leading edge of our peer group. Related to this point, we are currently investigating the use and practicality of Climate Value at Risk (CVaR). However, given concerns regarding current methodologies and potential data inaccuracies, we do not currently deem it informative or appropriate to disclose this data.

The following tables describe each of the metrics present in our climate reports. In our view, no single metric can entirely capture the nuance of an issuer’s ability to manage climate risks and opportunities. For this reason, we use a combination of forward- and backward- looking metrics to provide a holistic insight into climate performance.

The analysis in this report is based on a dataset provided by MSCI ESG Research LLC (MSCI). We used data that was downloaded from MSCI on 30th April 2024. We gain comfort from the quality of MSCI’s data through our own assessment of MSCI’s methodology and continuous data validation process. Data is sense-checked internally, and any anomalies are investigated in the underlying data to ensure any inaccuracies are promptly identified and amended.

Type of Emissions	Unit	Definition	Use Case	Limitations
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Scope 1 Emissions	tCO ₂ e (tons of CO ₂ equivalent)	These are the Greenhouse Gas (GHG) emissions that a company is directly responsible for through its generation of energy.	The emissions generated through the company's direct operations, such as fuel combustion, company vehicles, etc.	These metrics must be considered together to gain a full understanding of a company's carbon profile. They do not consider a company's size and they do not capture the impact of the company's business model on the climate. Scope 3 emissions can also be counted multiple times by companies at different stages of the same supply chain.
Scope 2 Emissions	tCO ₂ e	GHG emissions that a company produces indirectly through its operations via the consumption of purchased energy.	The emissions generated through the energy purchased by the company during its operations, such as energy consumption used to heat buildings.	
Scope 3 Emissions	tCO ₂ e	All indirect GHG emissions resulting from the company's wider business practice.	Capturing emissions up and down the company's supply chain, including the emissions produced by customers' consumption of its products.	
Production Emissions (country)	tCO ₂ e	A sovereign's direct GHG emissions attributable to emissions generated within its national territory. It includes emissions resulting from production of exported goods and services (exported emissions).	Production emissions can be considered to be the scope 1 emissions of a sovereign.	There is a divergence of views on the impact of land use, considering the various accounting methodologies and the potential for carbon offsetting
Consumption Emissions (country)	tCO ₂ e	GHG emissions associated with the demand side and account for consumption patterns and trade effects. This metric provides a broader view of a sovereign's	Consumption emissions can be considered the scope 1, 2 and 3 emissions of a sovereign. excluding exported emissions.	As with traditional scope 3 emissions, it can be difficult to accurately allocate emissions along the value chain.

		GHG emissions and tackles the issue of carbon leakage that arises due to production shifts from countries where goods and services are actually consumed later.		
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Carbon Emissions Metrics	Unit	Definition	Use Case	Limitations
Listed Equity / Corporate Bonds				
Financed Emissions	tCO ₂ e	This figure represents the amount of emissions attributed to the investor based on the proportion of the company that the investor owns.	Measures the absolute tons of (scope 1 and 2) CO ₂ emissions for which an investor is responsible.	Limited usefulness for benchmarking and comparison to other portfolios due to the link to portfolio size (benchmarks are assumed to have equal AUM to the respective portfolio to overcome this challenge). ¹
Normalised Financed Emissions	tCO ₂ e/£m Invested	Financed Emissions are normalised by the portfolio's AUM to provide a measure of carbon intensity.	This measure converts the absolute measure of Financed Emissions into a relative measure of carbon intensity, to facilitate benchmarking and comparisons with other portfolios.	This measure will complement Financed Emissions, as alone it cannot provide an absolute measure of portfolio emissions.

¹ LGPSC uses EVIC as the attribution factor to calculate financed emissions. EVIC is the Enterprise Value Including Cash. In other words, this refers to the company's total value.

Weighted Average Carbon Intensity (WACI)	tCO ₂ e/\$m revenue	Is calculated by working out the carbon intensity (scope 1+2 Emissions / \$M revenue) for each portfolio company and calculating the weighted average using portfolio weight.	A proxy for carbon price risk. Were a global carbon price to be introduced in the form of a carbon tax, this would (ceteris paribus) be more financially detrimental to carbon intensive companies than to carbon efficient companies.	This metric includes scope 1 and 2 emissions but not scope 3 emissions. This means that for some companies the assessment of their carbon footprint could be considered an 'understatement'. As this metric is a product of revenue, the figure may fluctuate independently of the company's carbon emissions.
Sovereign Debt				
Financed Emissions (Production)	tCO ₂ e	This figure represents the amount of emissions attributed to the investor based on the proportion of the sovereign debt that the investor owns. This is calculated as a share of total production emissions.	Measures the absolute tons of (scope 1 and 2) CO ₂ emissions for which an investor is responsible through their sovereign holding.	Financed emissions associated with production may understate the emissions of countries which are major importers and overstate the emissions of countries which are major exporters.
Financed Emissions (Consumption)	tCO ₂ e	This figure represents the amount of emissions attributed to the investor based on the proportion of the sovereign debt that the investor owns. This is calculated as a share of total consumption emissions.	Measures the absolute tons of (scope 1 and 2) CO ₂ emissions for which an investor is responsible through their sovereign holding. Consumption is separated from production to limit double counting.	As this metric is based on a sovereign's consumption, there is significant uncertainty relating to the true value of consumed emissions.
Weighted Average Carbon Intensity (Production)	tCO ₂ e/\$m PPP-adjusted GDP	Is calculated by working out the carbon intensity (scope 1+2 Emissions / \$m PPP-adjusted GDP) for each sovereign holding	Using the country's output (GDP) as the denominator allows for a fair comparison between sovereigns of different sized economies.	Measuring financed emissions attributed by production favours countries with larger GDPs. For example, countries with larger GDPs but the same emissions will

		and calculating the weighted average by portfolio weight.		report a lower number than their counterparts with low GDPs. This metric should therefore be considered alongside the Consumption WACI to gain a more accurate insight.
Weighted Average Carbon Intensity (Consumption)	tCO ₂ e/Capita	Is calculated by working out the carbon intensity (scope 1+2 Emissions / population) for each sovereign holding and calculating the weighted average by portfolio weight.	This intensity metric reflects the demand side of the economy, providing a more accurate insight into the carbon intensity of high consumption but low production countries.	Apportioning by population provides an insight into overall consumption, but may not accurately reflect the true figure. This metric should therefore be considered alongside the Production WACI to gain a more accurate insight.
All Asset Class				
Progress	%	We measure our progress year-on-year and against our Baseline. As per our net zero strategy, our baseline year is 2019.	Reporting progress provides an insight into the trajectory of the portfolio's emissions and an assessment of progress towards net zero.	As emissions can fluctuate significantly over time in response to macro factors and data availability, decarbonisation progress is unlikely to be linear.
Data Availability	%	This figure refers to the percentage of the NAV for which we have data.	A high data availability will provide confidence in the accuracy of the data, while low data availability indicates that the metrics provided may not be fully reliable.	If data availability trips below 60%, we will not report the data. This is indicated on the dashboard by red text.

Portfolio Alignment & Engagement	Unit	Definition	Use Case	Limitations
Engagement / Alignment	%	<p>This percentage refers to the proportion of financed emissions which arise from companies in material sectors that are: 1) indirectly or directly engaged by LGPS Central; or 2) aligned or aligning with a net zero pathway, as per the methodology for “Paris Alignment” below.</p>	<p>This metric aims to illustrate the extent to which the portfolio is moving towards net zero, in line with LGPS Central’s own net zero strategy and expectations.</p>	<p>This metric is constructed by combining the “Engagement” and “Paris Alignment” metrics below. The limitations associated with those metrics are therefore also inherent to this metric.</p>
Engagement	%	<p>Is calculated by the proportion of financed emissions which are accounted for under an engagement program either directly, in partnership and/or through stewardship provider.</p>	<p>This allows us to understand how much of the portfolio’s financed emissions are accounted for under engagement programs.</p>	<p>This figure does not demonstrate the degree of progress made with the portfolio company as a result of the engagement.</p>
Low Carbon Transition (LCT > Median)	%	<p>Low Carbon Transition scores are assigned from 1 to 10, whereby a score of 10 indicates exceptional management of climate risks and opportunities, while a score of 1 indicates poor management.</p> <p>This metric shows the proportion of financed emissions associated with a portfolio with a manager score above 5.</p>	<p>This views how well a company manages risk and opportunities related to the low carbon transition.</p> <p>The overall figure for this metric is apportioned by financed emissions, highlighting the proportion of emissions within the portfolio which arise from companies with effective carbon management policies.</p>	<p>While this considers the ability of a company’s management to incorporate low carbon transition risks and opportunities, it is not an overall indicator of the company’s low carbon transition performance.</p>

<p>Implied Temperature Rise (ITR < 2C)</p>	<p>%</p>	<p>ITR is typically expressed in degrees centigrade, and is based on the implied global temperature rise if the entire economy adopted the same decarbonisation policy as the company in question. The reported figure is expressed in a percentage and relates to the share of financed emissions within the portfolio with an ITR of 2°C or less.</p>	<p>Implied temperature rise is an intuitive, forward-looking metric, expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios and funds with global temperature goals.</p>	<p>Implied temperature rise is heavily reliant on the model's parameters and assumptions.</p>
<p>Science-Based Targets (SBT)</p>	<p>%</p>	<p>This is calculated as the proportion of financed emissions which are accounted for by a portfolio company with science-based climate target.</p>	<p>Provides an insight into the proportion of companies which have implemented science-based targets. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.</p>	<p>This metric only measures the proportion of companies with official science-based targets which have been verified by an independent body. A company with robust and ambitious targets which have not been verified may be omitted.</p>
<p>Paris Alignment</p>	<p>%</p>	<p>This metric is constructed in-house. A company is considered to be aligned if they have a Low Carbon Transition score greater than 5, as well as either an ITR of 2 degrees Celsius or lower, or a science-based target.</p>	<p>This figure is designed to provide an insight into the overall Paris alignment of the portfolio. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.</p>	<p>The limitations of the figure will be carried over from the limitations of the underlying metrics. There is currently no consensus opinion on what it means for a company to be aligned.</p>

Issuers in Stewardship Focus List (Climate)

In early 2024, LGPS Central approved its four updated stewardship themes: Climate Change; Natural Capital; Human Rights; and Sensitive/Topical Activities. The companies within this theme were chosen based on their weight in the LGPSC investment portfolio and the company's exposure to climate risk. There are 14 companies that are currently in the Climate Change theme, and LGPS Central aims to work with each of these companies on a regular basis. Those companies within the Climate Change stewardship theme are listed in each Fund's dashboard.

Financed Emissions: Sector Distribution (GICS)

While it is important to identify the emissions that the Company is responsible for through our holdings (as measured through our scope 1 and 2 financed emissions), we also need to understand the driving factors behind this headline metric. By distributing our financed emissions by sector, we can pinpoint the key contributors to our overall emissions profile. This sectoral analysis enables us to identify which sectors are responsible for the greatest proportion of our financed emissions. With this understanding, we can construct targeted strategies and engage with high-emitting sectors and underlying companies more effectively, ensuring our efforts are focused on areas where they can have the most significant impact.