LGPS CENTRAL LIMITED

Climate Report

YEAR ENDED 31 DECEMBER 2023

About LGPS Central Limited

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



The combined assets of our Partner Funds are approximately £56 billion, managed on behalf of over one million LGPS members and over 3,000 participating employers. The Company is jointly owned on an equal-shares basis by eight administering local authorities.

Why pooling?

Pooling assets helps reduce costs, improve investment returns, strengthen governance and widen the range of available asset classes for investment, all for the benefit of our Partner Funds and their pension scheme members.

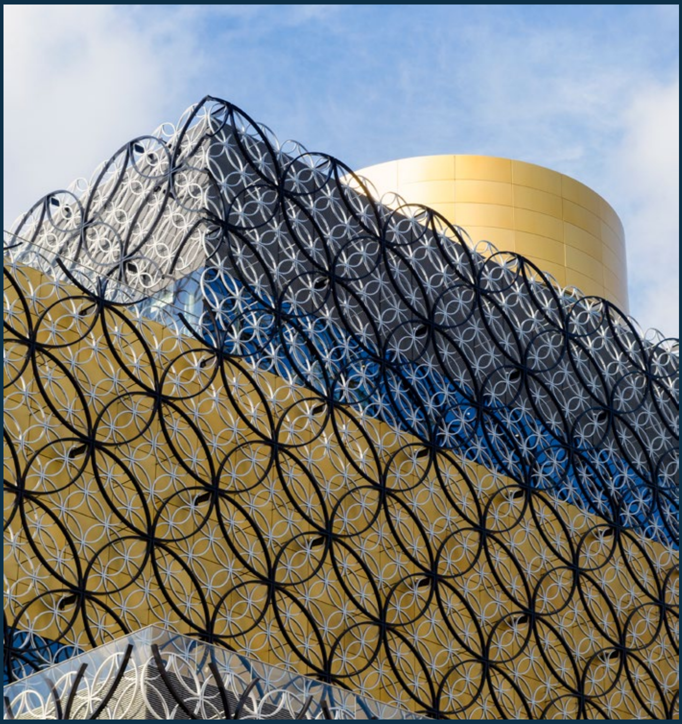
The Company creates the investment vehicles our Partner Funds require. Through professional investment management and external fund manager selection, we deliver the investment returns Partner Funds need to secure pension payments to their scheme members and dependents for the long-term.

At the heart of our work is a commitment to responsible investment. We believe that the integration of responsible investment factors supports long-term risk-adjusted returns and we have made responsible investment a core part of our investment process in every asset class and in every investment mandate we hold. The scale of combined assets in the Pool helps to make our responsible investment practices and interventions more effective.

The Company is authorised and regulated by the Financial Conduct Authority (the FCA) to operate as an Alternative Investment Fund Manager (AIFM). In this capacity the Company acts as the operator of a collective investment vehicle called an Authorised Contractual Scheme (ACS). We also manage other collective investment vehicles and provide discretionary and advisory services under our Markets in Financial Instruments Directive (MiFID) II authorisation.

Funds are managed through a combination of our in-house management team (for passive equities) and delegated managers. We are responsible for the selection and ongoing oversight of the delegated managers.

We are supported by our external partners for the provision of administration services: for the ACSs, Northern Trust provide depositary, administration and middle-office services. Northern Trust is also the depositary for the limited partnerships, while State Street provide administration services.



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Shugborough, Staffordshire

Foreword

Statement from Chair and Interim Chief Executive Officer

FOREWORD BY:

Joanne Segars
Chair

John Burns
Interim CEO

As we reflect on the evident and the emerging impacts of climate change, it becomes increasingly clear that urgent and drastic action is required. Record-breaking temperatures and severe weather events are becoming part of normal life and serve as stark reminders of both the impact that industrial activity is having on our planet and the implications of this for current and future generations. Businesses are compelled to adapt rapidly to the evolving environmental realities or face the risk of falling behind their more innovative competitors in the race towards a low carbon economy. While certain sectors like agriculture and insurance bear the brunt of these changes directly, climate change poses a systemic risk across all industries.

Governments worldwide are responding to these challenges, with varying levels of urgency, through the development and implementation of new regulatory frameworks and reporting requirements. Against this backdrop, LGPS Central is proud to present its fourth climate report; a testament to our commitment to fulfilling our obligations as a responsible investor and steward of capital and our determination to report to stakeholders on these efforts in a transparent way. In this refreshed report we reaffirm our approach to managing climate risks and to identifying the investment opportunities that will arise as a result of the transition.

We recognise the responsibility we have to our Partner Funds and to the planet. We consider these responsibilities to be aligned. Our fiduciary duty compels us to safeguard the financial interests of our Partner Funds by integrating Environmental, Social and Governance (ESG) considerations, including climate change, into investment processes. This report underscores our dedication to delivering on this imperative.

We believe that some of the insights and analysis provided in this report extend beyond mere compliance with reporting standards. They represent a strategic approach guiding our efforts to protect and enhance the long-term value of our Partner Funds' investments. Collaboration lies at the heart of our approach to addressing climate risks. This report highlights examples of how we engage with external managers, companies, and governments to mitigate risks and drive positive change. Our colleagues' robust efforts in challenging external managers and engaging directly with stakeholders highlight our dedication to safeguarding investments and fostering sustainability.

The report offers an insight into the innovative work happening at LGPS Central and underscores our readiness to confront the challenges and embrace the opportunities presented by a changing climate. As the global response to climate change and other ESG challenges evolves we are enthused by the opportunities presented to long-term responsible investors and are committed to remaining an exemplar in terms of how we identify, monitor, and manage these risks and opportunities across our portfolios.

About the Report

As a regulated Alternative Investment Fund Manager (AIFM) under the oversight of the Financial Conduct Authority (FCA), we are obligated to publish both entity and product level climate disclosures. This document serves as the entity report, while product specific reports can be accessed separately on our website.

This report follows the recommended disclosures outlined by the Task Force on Climate-related Financial Disclosures (TCFD). Additionally, it incorporates the TCFD's Supplemental Guidance for the Financial Sector. We also considered FCA's ESG Sourcebook requirements in preparing this report.

Due to the nature of our activities, our financed emissions (scope 3, Category 15: Investment)[1] represent the largest contributor to our carbon footprint. Therefore, this report will primarily focus on our scope 3 emissions, which in this case relate to the emissions associated with our investment activities (in other words, the scope 1 and scope 2 emissions of the companies in which we invest). This report also offers us the opportunity to start measuring progress against our Net Zero Strategy[2] pathway. We acknowledge that our carbon footprint extends beyond financed emissions, hence this report also outlines our efforts related to our own operational emissions.

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.

[1] GHG Protocol, Corporate Value Chain (Scope 3) Accounting and Reporting Standard. Available on GHG Protocol website.
[2] LGPS Central, Portfolio & Real-World Decarbonisation in Public and Private Markets: Net Zero Strategy for Financed Emissions. Report can be accessed on our website.

Executive Summary

LGPS Central's 2023 Climate Report marks the fourth edition of our entity level climate disclosure and the first year it is a mandatory requirement under the FCA. Our approach to climate risks and opportunities is summarised below.

Governance

We have a robust governance structure underpinned by the Board's oversight of all the Company's Responsible Investment & Engagement (RI&E) activities. Operationally, these activities are delegated to the Executive Committee (ExCo) and the Investment Committee (IC). Comprehensive policies and frameworks are in place which undergo regular board reviews and outline what we adhere to in our day-to-day operations.

Strategy

We identify climate-related risks and opportunities that affect our business and investments, including policy changes, technological changes, changing weather systems, climate adaptation, and resource scarcity. We have developed specific ambitions, products and services on climate, such as the Net Zero Strategy, Climate Risk Monitoring Service (CRMS) and our climate funds. Analysis of climate (as well as other ESG factors) is also integrated into all of our investment decision-making, as required by our Responsible Investment Integrated Status (RIIS) procedures. Furthermore, we continue to assess the outputs from tools, such as climate scenario analysis and utilise the outputs accordingly.

Risk Management

The management of climate risk is aligned with the organisation's Risk Framework and managed in a similar manner to other investment risks. These risks are managed within the three lines of defence model: business units > risk & compliance > internal audit. Identification, assessment and management of climate risk is primarily done through ESG integration and supported through stewardship.

Metrics and Targets

We utilise a range of metrics to align with FCA requirements and Department for Levelling Up, Housing & Communities (DLUHC) guidance including reporting absolute emissions, emissions intensity, and Paris alignment. Our GHG emissions (scope 1&2) are as follows:

Financed Emissions:	Normalised Financed Emissions:	Weighted Average Carbon Intensity:
771,381 tCO_2e[3]	50.6 tCO_2e/£m Invested	83.2 tCO_2e/$m Sales

Our normalised financed emissions have declined by 40.9% since our 2019 baseline year and we are on track to meet our interim target of 50% reduction by 2030. However, there is plenty of work still to be done – cumulatively, the companies we currently hold have only reduced total emissions by 10.4% since 2019. Other targets that we report on include our engagement and portfolio coverage targets, and footprinting targets, which are on track.

[3] tCO_2e refers to tonnes of Carbon Dioxide equivalent.

Governance

FIGURE 2: LGPS CENTRAL GOVERNANCE STRUCTURE

Board Oversight

The purpose of the Board is to promote the success of the Company by collectively directing and supervising the Company's affairs, whilst meeting the appropriate interests of its shareholders and other relevant stakeholders. The Board invests significant time and effort to ensure our governance framework operates effectively throughout the Company.

As part of its Terms of Reference, the Board holds ultimate oversight responsibilities over all of the Company's RI&E policies and activities. This oversight encompasses approving policies, e.g. RI&E Policy and the RI&E Framework,[4] and approving RI&E public disclosures, i.e. our Climate Report and Annual Stewardship Report.

Throughout the year the Board routinely receives updates on RI-related issues such as our Net Zero Strategy, regulatory horizon scanning, company watchlist,[5] and services delivered to Partner Funds. These updates may be then integrated into the Board's other activities, including:

- Business plan and budget discussions, where responsible investment features prominently.
- The Audit, Risk, and Compliance Committee (ARCC) commissioned a review of this report and accompanying processes by our internal auditor, in anticipation of upcoming obligations on climate reporting by the FCA.

[4] LGPS Central, Responsible Investment and Engagement Framework. Accessible through our website.

[5] LGPS Central maintains and monitors a company watchlist compromising of portfolio companies and more general themes which may pose significant reputational risk.

Our RI&E Governing Documents

These policies and frameworks provide guidance on how we invest responsibly to achieve positive long-term outcomes for our stakeholders. The documents consider the requirements of all our internal and external stakeholders and are regularly reviewed to stay up to date with latest industry developments.

RI&E Policy and Framework

The Policy sets out the Company's approach to RI&E and is supplemented by the Company's overarching framework for identifying, assessing and managing ESG-related risks and opportunities across our investments. In the Framework, we explicitly outline our approach to climate change.

In 2023, the Board endorsed a review of our Investment Risk Policy and Framework, prompting a similar exercise for RI&E policies. The revision of our RI&E Policy and Framework was conducted collaboratively with colleagues across the Company. Subsequently, IC and then ExCo reviewed these changes before they were approved by the Board in April 2024.

The Board approves the Policy and the Framework annually. The Framework can be found on our website.

Voting Principles

The annual review of our Voting Principles reflects voting trends and reinforces our expectations of companies regarding core stewardship priorities as they evolve. It aligns with current best practices[6] and disclosure policies for investors concerning voting and is in line with approved stewardship objectives. We expect companies to incorporate material ESG risks and opportunities into their long-term strategic business planning, and we form our voting opinions holistically. This includes the incorporation of specific voting frameworks on material climate-related matters. Our Voting Principles are available on our website.

Responsible Investment Integrated Status (RIIS)

RIIS refers to a set of customised procedures bespoke to the specific asset class and/or strategies in which the Company invests on behalf of Partner Funds. Adherence to these specific procedures serves as the foundation for IC to approve the launch of an investment product, appoint delegated managers, and/or approve ongoing reviews of such products and delegated managers.

Net Zero Strategy for Financed Emissions

The strategy, launched in 2023 and approved by the Board, builds upon our commitment made in early 2022 to achieve net zero financed emissions by 2050 or sooner. It includes a series of interim milestones across a range of assets classes, detailing our current position and the milestones that we aim to achieve. The strategy will be discussed further throughout the report. The full text of the strategy can be found on our website. Progress towards the achievement of this strategy is monitored by the Board, ExCo, and IC through their annual review of LGPS Central's climate reports.

[6] We consider best practices as those which are recognised by the industry as aligned with the highest standards.

Management's Roles and Responsibilities

Responsibility for implementing the Framework lies with ExCo. ExCo delegates the day-to-day management of the RI&E considerations associated with our investment products to the Investment teams, with oversight from IC and the CIO. Among ExCo's current responsibilities is the oversight of our Net Zero Strategy for Operational Emissions (refer to Strategy and Risk Management section).

IC reports directly to ExCo. The Director of RI&E, who leads the RI&E team, holds responsibility within IC for the activities covered by the Framework. This includes reviewing and proposing changes to the Framework. The Director of RI&E is a member of IC and the Private Markets Investment Committee (PMIC).

To encourage ownership of outcomes, each business unit within LGPS Central is encouraged to manage its own RI&E activities. The business units receive support from the RI&E team, which regularly coordinates with colleagues across the Company. This includes regular interactions with colleagues in each asset class across the broader Investment team, as well as colleagues across other functions including Client Services, Operations, Legal, People, and Compliance.

LGPS Central RI&E Champions Network

The RI&E Champions Network (the Network) is an inter-departmental working group focused on enhancing RI&E integration across all investment functions. It includes delegates from asset class teams within the broader Investment team and the RI&E team, fostering collaboration and shared responsibility. The Network empowers investment teams to actively contribute to RI&E integration throughout the investment lifecycle and to take ownership of responsible investment processes within their asset class. It facilitates regular updates to RI&E policies and processes ensuring input from asset class experts to achieve compliance with best practice. The Network was approved by IC in November 2023, and the first meeting of the Network was held in April 2024. External training was provided soon afterwards to members of the Network on the use of our suite of internal and third-party ESG analysis tools.

Ongoing Education and Training

Numerous methods are implemented to maintain a high level of RI&E knowledge among all colleagues. RI&E training is included in the induction training for new hires. This meeting serves to familiarise the new starter with the essential roles and responsibilities of the RI&E team. Refresher RI training was also provided to the investment teams in November 2023. Further ongoing training initiatives are extended to current colleagues through diverse channels, including optional in-person "Lunch and Learn" sessions. Topics covered in recent sessions include Net Zero, Natural Capital, and Stewardship & Engagement.

Senior management also receive dedicated RI training. RI updates are a recurring item on meeting agendas at Board level, and address various topics such as achieving net zero, stewardship, and regulatory compliance. Plans for 2024 include a proposal for formal training sessions conducted by external partners for the Board members.

The RI&E team also hosts an annual RI Summit, in which industry leaders are invited to speak on a range of RI topics in an all-day event. Attendance at this summit is strongly encouraged for all Partner Funds and colleagues, including Board members. This event serves as a valuable opportunity for attendees to enhance their technical understanding of emerging risks and opportunities within RI.

Equal attention is dedicated to ensuring that our Partner Funds receive consistent and high-quality training on RI topics. As well as the RI Summit, members of the RI&E team frequently conduct training sessions with our Partner Funds either in-person or virtually. An example of these regular sessions is the presentation that accompanies the publication of the Partner Funds' Climate Risk Management Reports; a comprehensive explanation and discussion of the findings contained in the report is presented and discussed, questions on the content and broader climate considerations are encouraged. Further training sessions also take place relating to stewardship and net zero. The frequency of these sessions is typically determined in collaboration with the Partner Fund to ensure that they align with the Partner Funds' specific needs and preferences.

Strategy

Nottingham University, Nottinghamshire

Shaping a Climate Resilient Strategy

To deliver value and positive outcomes to our stakeholders, we prioritise the needs of our Partner Funds in all our activities and maintain regular communication with them. At the heart of our work is a commitment to responsible investment. This commitment reflects our belief, which is in alignment with our Partner Funds, that responsible investing supports long-term risk-adjusted returns.

Across our investments, climate considerations are integrated across short-, medium-, and long-term horizons, aligning with the investment time horizons specified in investment mandates. This is demonstrated by the time horizons we selected for our Net Zero Strategy, where we have scheduled a short-term review after three years, an interim target at six years, and a long-term ambition for 2050. Broadly, the time horizons we use are:

TABLE 1: CLIMATE CONSIDERATIONS TIME HORIZONS

Short-term	Medium-term	Long-term
0-3 years	3-10 years	Up to 2050

The factors we considered in determining these horizons include:

- Our mandate review cycle, which is typically at the 3-year anniversary.
- Partner Funds' investment and funding strategies.
- Risk/economic models used by our ESG solutions providers.
- Regulatory requirements.


Grand Union Canal, Leicestershire

LGPS Central Net Zero Strategy for Financed Emissions[7]

We launched our Net Zero Strategy in 2023 following consultation with internal and external stakeholders. The design of LGPS Central's Net Zero Strategy is based on a twin-track target and implementation framework that covers all public market and private market pooled assets. It has two objectives:

- To decarbonise our pooled assets to net zero by 2050 or sooner, while achieving interim climate targets for each asset class.
- To contribute towards the global effort to reduce global emissions and achieve the goals of the Paris Agreement.

We have summarised our climate targets in the following table.

TABLE 2: LGPS CENTRAL CLIMATE TARGETS

Pooled Assets

Portfolio Target: Net zero (scope 1 & 2 CO_2e) financed emissions by 2050 or sooner

Listed Equities & Corporate Bonds

Asset-class Targets

Emission-reduction Targets

50% reduction in (scope 1 & 2 CO_2e) financed emissions in 2030

Reduction of (scope 1 & 2 CO_2e) financed emissions per £m invested:

50% in 2030	60% in 2035	80% in 2040	90% in 2045	100% by 2050 sooner

Footprinting Targets

Track relevant scope-3-category emissions of top 20 companies by scope 3 financed emissions in 2024

Alignment and Engagement Targets

Engagement with external managers on LGPS Central's net zero strategy and stewardship programme: 100% in 2023

Engagement threshold targets for companies from "material sectors":

	Listed equities & corporate bonds	Active equities	Passive equities	Corporate bonds
2025	80%	85%	75%	85%
2030	90%	90%	90%	90%

Portfolio coverage targets for companies from material sectors:

	Active equities	Passive equities	Corporate bonds
2030	50%	60%	50%
2035	75%	80%	75%
2040	100%	100%	100%

Sovereign Debt & Private Markets

Asset-class Targets

Emission-reduction Targets

Net zero (scope 1, 2 & Scope 3, category 13 CO_2e) financed emissions by 2050 or sooner for direct property investments based on a "whole-building and operational approach"

Footprinting Targets

Carbon footprints for all assets in 2024 using:

estimated scope 1 & 2 CO_2e emissions data for sovereign debt	estimated scope 1 & 2 CO_2e emissions for private market assets

Carbon footprints for all assets in 2025 using:

estimated scope 1 & 2 CO_2e emissions data for sovereign debt	estimated and actual scope 1 & 2 CO_2e emissions for private market assets

Alignment and Engagement Targets

Engagement with external managers on climate targets and data: 100% in 2023

[7] LGPS Central, Portfolio & Real-World Decarbonisation in Public and Private Markets: Net Zero Strategy for Financed Emissions. Report can be accessed on our website.

Net Zero Operational Emissions

While significantly smaller than the emissions associated with our investments, we believe our remit as a responsible investor extends to the emissions produced through the daily operations of LGPS Central. In order to reduce our operational emissions, we are committed to identifying and measuring these operational emissions.

We believe the majority of our operational emissions come from our energy consumption in our office building, the emissions associated with our business travel, and the scope 3 value chain emissions. As such, we plan to reduce our operational emissions with a two-phased approach:

- **Phase one: Near term actions** to be completed by the end of 2025: switching to a 100% renewable energy contract, the annual purchasing of high-quality carbon credits to account for business travel, amending expense forms to capture GHG emissions, circulating staff questionnaires on commuting and working from home, and holding internal sessions on energy saving measures at home.
- **Phase two: Mid-term actions** to be completed by the end of 2030: conducting a full value chain assessment of emissions (including embodied carbon in IT equipment, office furniture, waste disposal, fugitive emissions from air conditioning and refrigeration units), and assessing emissions related to employee commuting and working from home.

We will provide biannual updates to Partner Funds, the Board, and ExCo, and in addition, we will report publicly on progress in LGPS Central's annual climate report.

Our progress to date

Scope 1 and 2 emissions (electricity and gas consumption)

During 2023 we began measuring our scope 1 and 2 emissions associated with the electricity and heating in LGPS Central's past and current offices. We have calculated these emissions dating back to 2019.

A baseline of 2019 was chosen to align with our net zero investment portfolio target. Emissions in 2019 were also relatively unimpacted by COVID-19. The move in 2022 to a new office has resulted in a 65.9% decrease in measured scope 1 and 2 emissions.

Business travel estimated emissions

We have also estimated business travel-related emissions including cars/taxis and air travel.

FIGURE 3: BREAKDOWN OF OUR OPERATIONAL EMISSIONS

LGPS Central's Operational Emissions from Gas and Electricity Usage by Office

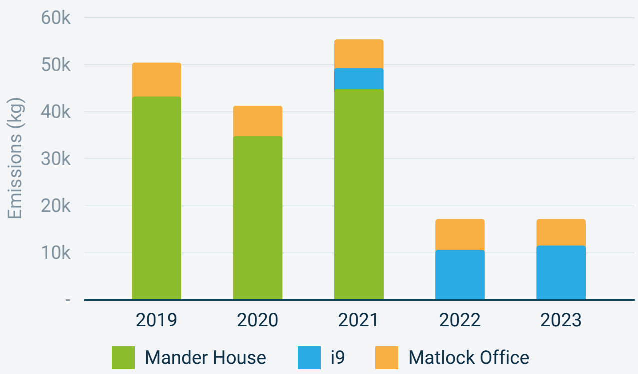


TABLE 3: ESTIMATED OPERATIONAL EMISSIONS OVER TIME

Category	Unit	2019	2020	2021	2022	2023
Scope 1 & 2 operational emissions	kg CO_2	50,550	41,464	55,506	17,285	17,238
Business travel	kg/CO_2	-	-	-	-	10,342

Material Climate-Related Risks and Opportunities

As a diversified asset manager, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk and opportunity factors are presented in the tables below.

TABLE 4: EXAMPLE OF SHORT-, MEDIUM- AND LONG-TERM CLIMATE-RELATED RISKS AND OPPORTUNITIES

Source of Risk and Opportunities	Category	Risk or Opportunity	Time Horizon	Impact Area	Mitigation / Management Strategy
Policy Changes (Including Carbon Pricing)	Transition	Risk and Opportunity	Short Medium Long	Across investments and funding Investments in carbon-intensive and low-carbon industries Operational	• Monitor potential regulatory changes (domestic and international) and consider impact of these changes on the Fund's approach to investments and its internal operations. • The achievement of LGPS Central's Net Zero Strategy will mitigate the impact of increasing carbon prices. • Monitor manager preparedness and awareness of changing carbon prices across relevant markets, alongside their awareness of low-carbon alternatives which may benefit from rising carbon prices. • Consider impact of likely policy changes in strategic decisions.
Technological Change	Transition	Risk and Opportunity	Short Medium Long	Across Asset Classes	• Monitor potential technology disruptors. • Monitor manager awareness of emerging and disruptive technologies. • Consider impact of these changes in strategic decisions.
Changing Weather Systems and Climate Adaptation	Physical	Risk and Opportunity	Short Medium Long	Physical Assets Corporate Holdings	• Carry out scenario analyses on various climate scenarios to assess impact. • Ensure adequate consideration of both acute risks (floods, storms, etc) and chronic risks (damages associated with rising sea levels, global temperature increases, etc). • Monitor the market for investment opportunities in climate adaptation projects. These could include large-scale infrastructure projects such as floodwalls, alongside technological products such as AC units and other cooling systems. • Monitor portfolio company's assessments of extreme weather impacts on their operations.
Resource Scarcity	Physical	Risk	Medium Long	Physical Assets	• Monitor manager awareness of resource scarcity. • Special consideration to agricultural holdings.

Impact of Climate on Our Planning

We aim to offer products and services that help Partner Funds manage the risks and opportunities associated with the climate transition. In addition to our CRMS, we have launched several climate-focused funds. Our All World Climate Multi Factor Fund and Global Low Carbon Multi Factor Fund are designed to reduce the exposure to the risks associated with climate change. These funds seek exposure to five style factors while tilting away from carbon intensive companies or those owning fossil fuel reserves and tilting towards companies generating green revenues. Our Global Sustainable Equity Funds go beyond ESG integration (which we expect from all our external managers) to capture sustainability factors as sources of alpha.

All our investment products adhere to their specific RIIS guidelines, which dictate that ESG considerations, including climate change, must be integrated in all investment processes. We consider and monitor external managers' approaches before appointment and on an ongoing basis. We would not appoint an external fund manager if we were not confident that financially material climate-related risks were being managed appropriately. Our expectations are typically included in investment management agreements, limited partnership agreements, or side letters. For passive strategies, material climate risks are factored into stewardship plans. For co-investments, these risks are factored into stock research, due diligence, and stewardship plans.

Our Actions to Date

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 CMRS
- Climate Change is included in our inaugural Stewardship Priorities
- Initiated the RIIS as a product-specific guide to ESG-integration
- Launched the LGPS Central All World Equity Climate Multi Factor Fund

2020

- Delivered first Climate Risk Monitoring Report to Partner Funds, incorporating analyses from Mercer, MSCI, EOS at Federated Hermes and LGPS Central
- Produced LGPS Central's first comprehensive climate report

2021

- Provided further assistance to Partner Funds through development of Climate Stewardship Plans and Climate Risk Strategies
- Became a founder of TPI Limited. Director of RI&E appointed as Board member
- Financial Reporting Council Stewardship Code signatory status

2022

- Communicated our net zero ambition
- Secured top spot in Responsible Asset Allocator Initiative awards
- Launched Global Sustainable Equities Active Funds

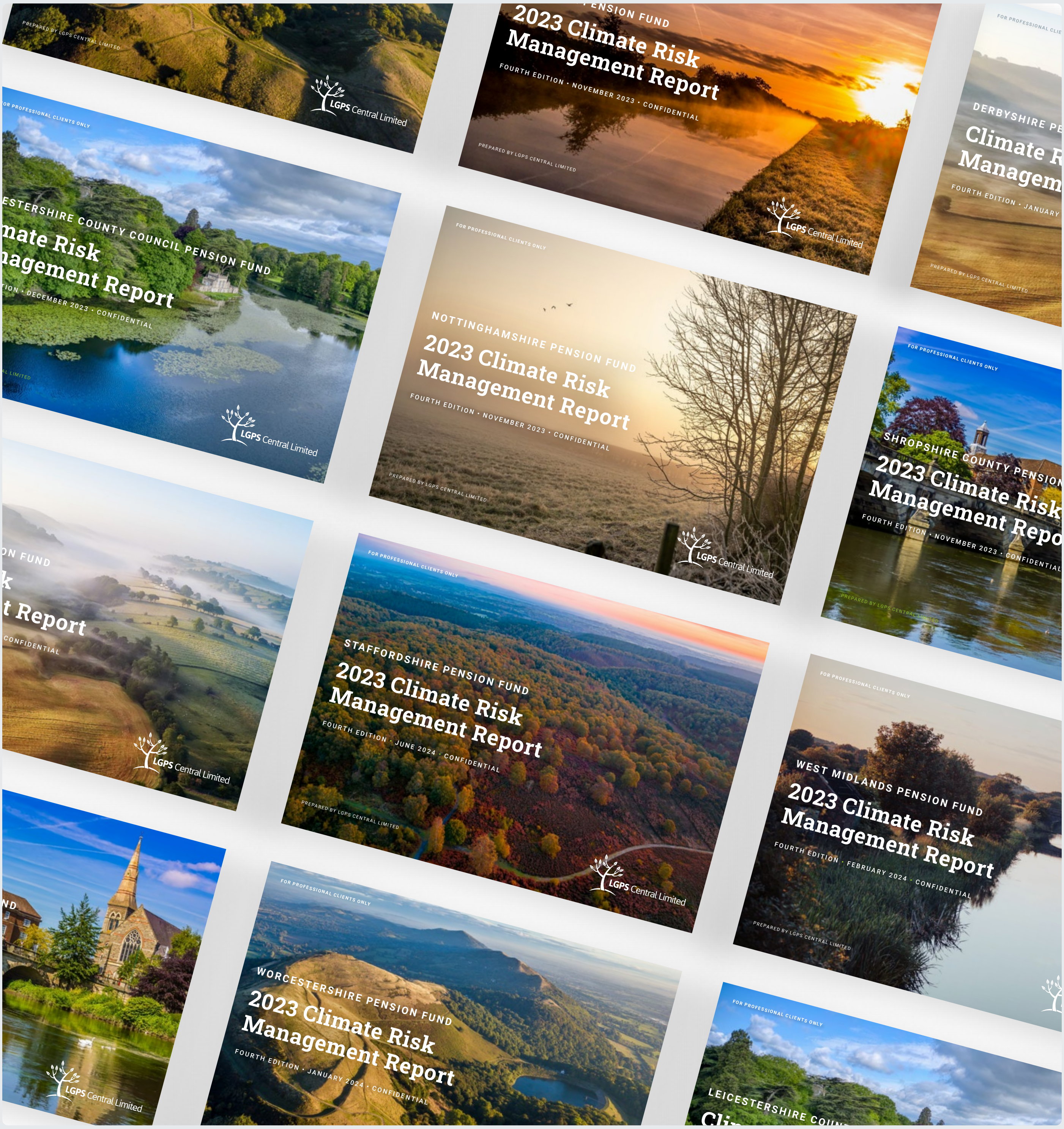
2023

- Development of integrated climate dashboard
- Launch of Net Zero Strategy for Financed Emissions

Next Steps

- Finalise Net Zero Strategy for Operational Emissions
- Further enhancement to the Climate Risk Monitoring Service
- Refinement of engagement programmes

FIGURE 4: 2023 CLIMATE RISK MANAGEMENT REPORTS



LGPS Central Climate Risk Monitoring Service

As a component of our products and services strategy, we have developed the CRMS, a suite of services intended to aid our Partner Funds in formulating strategic responses to climate-related risks and opportunities. The centrepiece of the CRMS is our Climate Risk Management Report, crafted to assess their approach to climate-related risks and opportunities in comparison to a set of best practices.

In its fourth iteration, the most recent report analysed Partner Funds' risk management and disclosure practices against the proposed requirements set out in the recent DLUHC climate disclosure consultation. It is also the first report to utilise our climate dashboard[8] and introduces several new metrics. Past reports have also included climate scenario analyses by Mercer and climate stewardship plans. We continue to monitor the available tools as improvements in methodology may cause us to reconsider.

[8] Refer to: Risk Management

Climate Scenario Analysis

Our approach to climate scenario analysis is characterised by a commitment to sourcing solutions with a sound and rigorous methodology, yielding results that are insightful and ensuring wide data coverage.

In the past, we have employed various models to enhance our understanding of climate scenario analysis. This includes utilising the Paris Agreement Capital Transition Assessment (PACTA) model in our earlier climate reports, aimed at testing scenarios and gaining insights into the workings of climate scenario analysis. Additionally, we have utilised Mercer's climate scenario analyses to assess Partner Funds' strategic asset allocations. Mercer's analyses were utilised in the 2020 and 2022 versions of our Climate Risk Management Reports produced for Partner Funds.

We do not currently conduct entity level climate scenario analysis because our Partner Funds invest in our products selectively, and we believe the model we use for our Partner Funds, which focuses on asset allocation, is not suitable for our own use. Therefore, at present, we do not incorporate climate scenario analysis into our investment decision-making process. We continue to monitor the available tools as improvements in methodology may cause us to reconsider.

Risk Management

Climate in the Context of Our Risk Framework

Our Risk Framework aligns with the Board's risk appetite and is embedded in each department, allowing specific control processes for mitigating individual risks. This fosters ownership and accountability across the business. The Framework includes a three lines of defence model, ensuring separation of potentially conflicted functions (e.g., Compliance and Investment Management) and independent oversight from Risk, Compliance, and Internal Audit.

Each business unit acts as the first line of defence for its own risks. ESG risks, considered a subset of investment risks, fall under our RI&E Policy & Framework. The Investment and RI&E teams identify, assess, and manage these risks, with oversight from IC. These teams ensure controls are effective and escalate issues to IC for timely resolution.

Our Risk and Compliance functions form the second line of defence. Supported by departments like Legal and Finance, they provide policy direction and supervise the risk framework to ensure alignment with the company's risk appetite and regulatory requirements. The Director of RI&E is the Risk Owner for ESG-related risks escalated to this level.

Internal Audit provides the third line of defence, assessing the adequacy and effectiveness of the first two lines and offering periodic assurance on the control environment. The internal audit plan is reviewed and approved annually by ARCC and reassessed mid-year. Under ARCC's direction, Internal Audit periodically assesses our RI&E activities to ensure the Framework's adequacy and effectiveness.

FIGURE 5: LGPS CENTRAL THREE LINES OF DEFENCE RISK MANAGEMENT MODEL

Internal Audit Review of Our Climate Reporting

In early 2023, ARCC approved the annual internal audit plan which included a review of our approach to disclosures around climate risks and opportunities. Our internal audit provider commenced an in-flight advisory review to assess the design of controls and processes related to the production of this report. The scope of the review includes the governance framework, processes and controls on climate data, and alignment with regulatory requirements. Any recommendations made by the auditors to enhance our processes are expected to be implemented in the next iteration of our climate report.

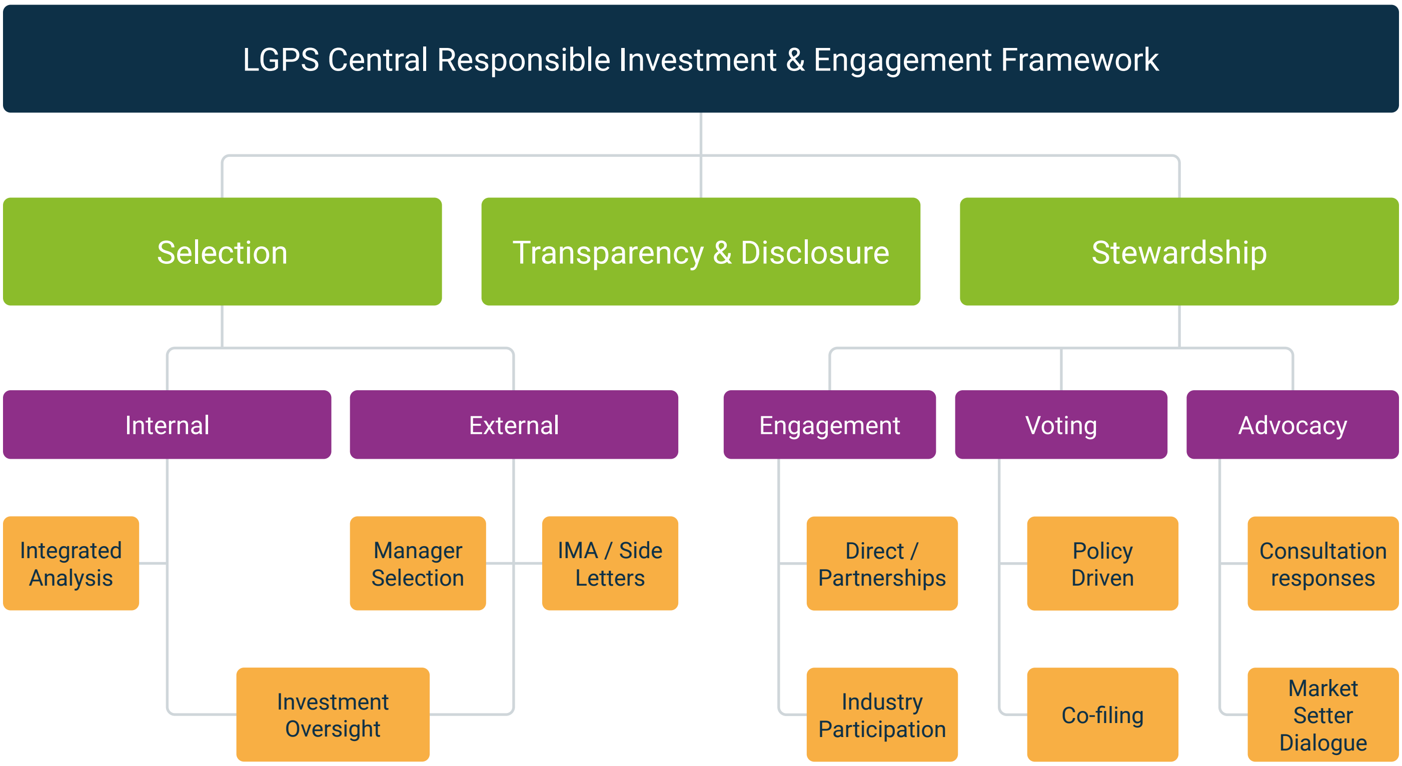

Long Mynd, Shropshire

Our Responsible Investment & Engagement Framework

The RI&E Framework outlines our process to identify, assess and manage ESG-related (including climate) risks and opportunities. Within the context of our Risk Framework, the RI&E Framework describes the roles and responsibilities of our first line of defence, i.e. the Investment and RI&E teams.

The Framework is structured around three RI pillars: Selection, Stewardship, and Transparency & Disclosure. The three pillars give an overview of the process that we will take to integrate ESG considerations before the investment decision (which we refer to as the selection of investments), and after the investment decisions (the stewardship of investments). These actions will be communicated to stakeholders to ensure accountability for our actions, using best practice frameworks where applicable (transparency and disclosure of RI activities). We believe that the three pillars create a holistic approach to identifying, assessing, managing, and reporting potential ESG risks and opportunities across all of our investments.

FIGURE 6: LGPS CENTRAL RI&E FRAMEWORK'S THREE PILLARS



Identifying and Assessing Climate-Related Risks and Opportunities

Climate-related risks and opportunities are predominantly identified at product level, using the guidelines contained in our RIIS documents. We have separate procedures for internally and externally managed funds. These may include how RI is integrated in manager selection, appointment and monitoring; selection of indices for passive strategies; and issuer specific climate analysis. This approach fits into how we manage the identified risks and opportunities discussed later and fosters a culture of ownership and accountability.

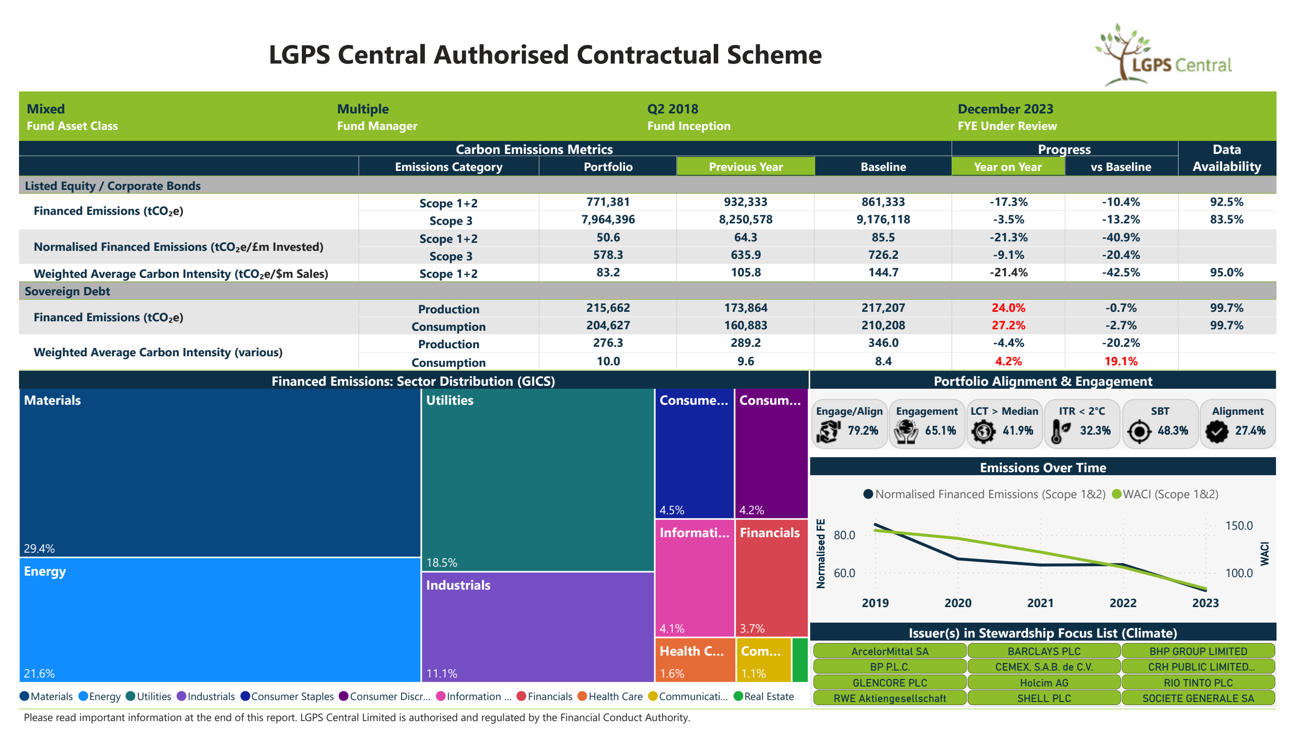
Furthermore, we organise multiple forums to address overarching topics such as our suite of products and services, including the CRMS, regulatory updates, our climate toolkit, and other pertinent issues. These forums serve as platforms for comprehensive dialogue, fostering collaboration and ensuring alignment across our organisation's strategic initiatives.

Our Climate Toolkit

We use a range of tools, both internally developed and externally sourced, to integrate climate change into our investment decisions. These tools assist with the selection and monitoring of managers, tracking engagements, identifying high-risk issuers, and more. The underlying data for these tools are sourced from various channels, with MSCI[9] being the predominant source. Our approach to climate data management is explained in more detail in the Metrics and Targets section.

Our central tool is the climate dashboard developed in-house in 2023. The dashboard provides us with a snapshot of metrics used to track climate-related risks and opportunities at various levels of granularity, ranging from aggregated entity level data to product specific details.

FIGURE 7: LGPS CENTRAL CLIMATE DASHBOARD



LGPS Central Authorised Contractual Scheme

Mixed Fund Asset Class	Multiple Fund Manager	Q2 2018 Fund Inception	December 2023 FYE Under Review

Carbon Emissions Metrics					Progress		Data Availability
	Emissions Category	Portfolio	Previous Year	Baseline	Year on Year	vs Baseline	
Listed Equity / Corporate Bonds							
Financed Emissions (tCO_2e)	Scope 1+2	771,381	932,333	861,333	-17.3%	-10.4%	92.5%
	Scope 3	7,964,396	8,250,578	9,176,118	-3.5%	-13.2%	83.5%
Normalised Financed Emissions (tCO_2e/£m Invested)	Scope 1+2	50.6	64.3	85.5	-21.3%	-40.9%	
	Scope 3	578.3	635.9	726.2	-9.1%	-20.4%	
Weighted Average Carbon Intensity (tCO_2e/$m Sales)	Scope 1+2	83.2	105.8	144.7	-21.4%	-42.5%	95.0%
Sovereign Debt							
Financed Emissions (tCO_2e)	Production	215,662	173,864	217,207	24.0%	-0.7%	99.7%
	Consumption	204,627	160,883	210,208	27.2%	-2.7%	99.7%
Weighted Average Carbon Intensity (various)	Production	276.3	289.2	346.0	-4.4%	-20.2%	
	Consumption	10.0	9.6	8.4	4.2%	19.1%	

[9] MSCI ESG Research (UK) Limited.

Chester, Cheshire

Climate-Related Discussion Forums

Climate-related risks and opportunities are discussed in internal meetings (see the table below for examples), as well as engagements with external managers and various external platforms detailed later in the report. Most discussions related to the subject will be attended by at least one member of the RI&E team.

TABLE 5: INTERNAL DISCUSSIONS OF CLIMATE RISKS AND OPPORTUNITIES

Forum/Meeting Name	Frequency	Participants	Description
Board meeting	Min six-times p.a.	Board, others (by invitation).	Regular update from the Director of RI&E.
ExCo meeting	Quarterly	ExCo, others (by invitation).	Regular update from the RI&E team.
IC meeting	Monthly	IC Members, others (by invitation).	Quarterly oversight meeting, regular discussion on high priority issues identified in Watchlist meeting.
Risk	Quarterly	Director of RI&E, Enterprise Risk Manager, others (by invitation).	Quarterly departmental risk reviews.
RI Champions Network meeting	Quarterly	RI Champions Network members.	Discussion on tools, asset class specific issues.
Watchlist meeting	Monthly	CIO, colleagues from asset class teams.	Monthly discussion led by CIO. Topics include controversy scanning, escalation, stewardship.
Staff Huddle and Weekly Investment Meeting	Twice per month	All colleagues.	High level update on activities and news flow.
RI Working Group	Quarterly	Partner Funds Representatives.	Products and services, internal policy updates, stewardship update.
Partner Fund Committee	Ad-hoc	Partner Funds Committee and Representatives.	Presentation of Climate Risk Management Report, climate training, stewardship update.
RI Summit	Annual	All colleagues, Partner Funds Committee and Representatives.	Flagship RI conference with external speakers invited to discuss ESG topics.

Managing Climate-Related Risks and Opportunities

We manage each identified risk and opportunity according to its nature, duration, magnitude, and time horizon. In most cases, business units will take responsibility for climate-related risks affecting them, supported by the RI&E team.

Across our investments, we pursue a strategy of integration and stewardship to manage such risks and opportunities. We believe that an exclusionary approach can detract from the full benefit of diversification and the real-world impact that responsible investing can have on society and the economy. Therefore, a strategy of integration alongside stewardship is more compatible with the fiduciary duties owed to both internal and external stakeholders.

Our approach to stewardship is focused on outcomes, and as such we will seek to escalate an engagement where escalation is deemed to improve the chances of engagement success. A decision to escalate, and the form or sequence of subsequent escalation is particular to the engagement in question. The most effective means of escalation varies from one engagement to another (see further detail below). It is also important to consider that escalation is rarely a linear process, hence the use of one engagement method does not preclude the use of others.

FIGURE 8: LGPS CENTRAL STEWARDSHIP ESCALATION PROCESS

Level 1
- Bilateral Dialogue
- Investor Collaboration

Level 2
- Voting against management recommendations including support shareholders resolutions
- Raising concerns with managers

Level 3
- Public Statements
- AGM Attendance
- Extended voting dissent to the appointments of committee members and approval of the Annual Report and Accounts

Level 4a
- Filing Shareholder Resolutions

Level 4b
- Litigation
- Threat of divestment — Formal dialogue with managers about stock level divestment

Engagement with Issuers

We may engage directly with issuers, participate in engagement partnerships and appoint a stewardship provider to engage on our behalf. Delegated managers are also expected to engage with issuers – we monitor their engagement activities on a regular basis.

The prioritisation of engagement themes or companies depends on economic significance, resourcing significance to stakeholders, ESG risk exposure and controversy. We evaluate the appropriateness of the engagement themes on a triennial basis and shall propose amendments to our partner funds from time to time.

Shareholder and Bondholder Voting

We aim to vote all eligible ballots in accordance with our agreed Voting Principles. This includes the voting shares of portfolios managed externally where those funds are held in segregated accounts.

Our Voting Principles are subject to annual review by the Board. The Voting Principles is owned by the Director of RI&E and is implemented by the RI&E team, with ultimate responsibility resting with ExCo.

Advocacy

Joining working groups, responding to consultations, dialogue with regulators and presenting at conferences are important features of our stewardship approach. Industry participation allows us to represent the interests of our Partner Funds to a broad audience and, through joint action, support investment outcomes over the long term. We will seek participation where this serves the long-term interests of the Company's Partner Funds.

For further information on our stewardship approach, please refer to our 2023 Annual Stewardship Report.[10]

[10] LGPS Central, 2023 Annual Stewardship Report. Accessible on our website.

River Severn, Worcestershire

How We Prioritise Engagements

Across our investments, we compile and maintain two stewardship lists: an Engagement Priority List and Voting Watch List. These lists are reviewed annually and are based on our Stewardship Priorities.[11] The two lists are approved by IC, ExCo and ultimately the Board.

We also compile similar lists for each Partner Fund, based on the analysis conducted through the CRMS.

Engagement Priority List

The team prioritise issuers for engagement when the following conditions apply:

- Material exposure in the LGPS Central investment portfolio, and
- Companies identified as having significant exposure to one or more stewardship priority issues and assessed as having inadequate company management responses to address the risks associated with the stewardship issue under scrutiny.

Voting Watch List

Our annual Voting Watchlist consists of around 50 issuers. We aim to attend AGMs when this is considered to be effective, for example when we have filed a shareholder resolution. The selection criteria for the Voting Watch List are:

- Top Ten holdings (per market value) from across all Authorised Contractual Scheme (ACS) equity funds
- Top Ten holdings per Active Risk contribution in the Global Equity Active Multi Manager Fund[12]
- Companies identified by LGPS Central Stewardship Priorities
- Companies highlighted in the Climate Stewardship Plan for Partner Funds if held in the ACS funds[13]

[11] LGPS Central 2024-2027 Stewardship Priorities are climate, natural capital, human rights and sensitive/topical activities. The stewardship priorities and stewardship methodology were approved by the Partner Funds, IC, Exco, and the Board.

[12] Fund was chosen due to its Net Asset Value. We are mindful that other funds may have companies with higher risk exposure. We will consider a more comprehensive risk-based approach next year.

[13] The list of companies identified in the Climate Stewardship Plan for each Partner Fund are communicated to the Partner Funds via the CRMS.

Metrics and Targets

What We Measure

We started measuring and tracking climate metrics in 2019 as part of the launch of our CRMS. Over time, the scope of our analysis and the metrics that we employ has expanded and evolved to keep abreast of the latest methodologies and available data. As of 31 December 2023, we measure the carbon footprints of our equities, corporate bonds, sovereign debt, and private equity investments.

Our dashboard of metrics for assessing climate risks and opportunities in our investments is chosen based on several criteria:

1) Usefulness: The selected metrics are tailored to fit into our framework for managing climate risks and opportunities.
2) Regulatory requirements: The metrics align with the DLUHC's consultation,[14] which governs our Partner Funds. They also align with the FCA's requirements on climate reporting, as set out in the December 2021 policy statement.[15] These requirements are largely in line with the TCFD's recommendations.
3) Data and methodology availability: We prioritise sourcing appropriate data from reputable sources and adhere to the methodology prescribed by the Partnership for Carbon Accounting Financials (PCAF).[16]

We utilise a selection of headline metrics and other metrics to measure our climate risks and opportunities. We don't believe any single metric is sufficiently insightful (when considered in isolation) to highlight a fund's climate risks and opportunities. Because of this, we have constructed a comprehensive suite of climate metrics, including emissions, engagement, and alignment metrics. However, this is dynamic and will be updated as data availability and analytical techniques evolve.

Further detail of these metrics can be found on our website.

Our headline metrics include:

Absolute emissions metric – financed emissions

Emissions intensity metric – normalised financed emissions and weighted average carbon intensity (WACI)

Paris alignment metric

The analysis in this report is based on a dataset provided by MSCI ESG Research LLC (MSCI). We utilised data that was downloaded from MSCI on 1 April 2024. We gain comfort from the quality of MSCI's data through our own assessment of MSCI's methodology and our data validation processes. Data is sense-checked internally, and any anomalies are investigated in the underlying data to ensure inaccuracies are promptly identified and amended.

These metrics illustrate the funds aggregated climate risks, which we supplement with in-depth, holistic analysis of individual portfolio companies, used to drive our engagement activity.

[14] DLUHC, Local Government Pension Scheme (England and Wales): Governance and reporting of climate change risks. Consultation can be accessed on DLUHC's website.
[15] FCA, Enhancing climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers. Policy Statement can be accessed on FCA's website.
[16] PCAF, The Global GHG Accounting and Reporting Standard for the Financial Industry. The report can be accessed on PCAF's website.

Peak District, Derbyshire

Headline Metrics

The below headline metrics detail the absolute emissions and carbon intensity metrics we utilise to analyse the climate risks and opportunities associated with our funds. WACI has been a staple of our carbon footprint metrics, and we introduced financed emissions and normalised financed emissions more recently as data improved and methodologies were introduced. The introduction of the former provides us with an insight into the absolute emissions we are responsible for through our investments. The latter normalises these emissions by £m invested.

TABLE 6: OUR HEADLINE METRICS

Metrics	Financed Emissions	Normalised Financed Emissions	Weighted Average Carbon Intensity (WACI)
Absolute / Intensity	Absolute	Intensity	Intensity
Definition	Financed emissions calculates the absolute tonnes of CO_2 equivalent for which an investor is responsible.	This metric measures the Financed Emissions for every £1 million invested.	WACI measures a fund's exposure to carbon-intensive companies.
Question answered	What is my fund's total carbon footprint?	What is my fund's normalised carbon footprint per million GBP invested?	What is my fund's exposure to carbon-intensive companies?
Unit	tCO_2e	tCO_2e / £m invested	tCO_2e / $m revenue
Comparability	No; does not take size into account	Yes; adjusts for fund size	Yes

Paris Alignment Metric

LGPS Central's Paris Alignment Metric is a proprietary metric constructed using several MSCI data points. This metric was introduced in our Net Zero Strategy for Financed Emissions report which was launched in 2023. It provides an insight into how our portfolio companies are currently managing their climate risks, as well as incorporating forward looking metrics.

A company will be considered aligned/aligning to the Paris Agreement by LGPS Central if:

The Company score above **Median** in **Low Carbon Transition score**

+ and it meets **one** of the following criteria: +

The company has a **science-based target**

or

The company has an **implied temperature rise** rating of 2.0°C or lower

Scope 3 Emissions

In addition to reporting scope 1 and 2 emissions, we also included scope 3 financed emissions. Scope 3 represents the emissions released through the value chain of the company, both upstream and downstream, which are not otherwise captured in scope 1 and 2. Scope 3 emissions are important to account for, as without this metric many companies' emissions would be significantly understated. The addition of scope 3 data gives a better indication of a company's climate risk exposure.

Due to the nature of this measurement, for many industries and assets the associated scope 3 emissions of the company will often be significantly greater than those of the scope 1 and 2. When aggregated at portfolio level, scope 3 emissions will also be subject to double counting. We do not combine scope 3 emissions with scopes 1 and 2 so as to mitigate this issue.


Rutland, Leicestershire

LGPS Central Climate Metrics

TABLE 7: LGPS CENTRAL'S CLIMATE METRICS FOR YEAR ENDED 31 DECEMBER 2023

Absolute Emissions				
Listed Equity and Corporate bonds	Financed Emissions	Scope 1 + 2	771,381	tCO_2e
		Scope 3	7,964,396	tCO_2e
Sovereign Debt	Financed Emissions	Production	215,662	tCO_2e
		Consumption	204,627	tCO_2e
Private Equity	Financed Emissions	Scope 1 + 2	7,124	tCO_2e
		Scope 3	56,112	tCO_2e
Emissions Intensity				
Listed Equity and Corporate bonds	Normalised Financed Emissions	Scope 1 + 2	50.6	tCO_2e/£M invested
		Scope 3	578.3	tCO_2e/£M invested
	Weighted Average Carbon Intensity	Scope 1 + 2	83.2	tCO_2e/$M Sales
Sovereign Debt	Weighted Average Carbon Intensity	Production	276.3	tCO_2e/$M PPP-Adjusted GDP
		Consumption	10.0	tCO_2e/Capita
Private Equity	Normalised Financed Emissions	Scope 1 + 2	23.0	tCO_2e/£M invested
		Scope 3	180.9	tCO_2e/£M invested
Portfolio Alignment and Engagement				
Listed Equity and Corporate bonds	Engagement	Proportion of financed emissions covered by an engagement program	65.1%	
	Paris Alignment	Proportion of financed emissions aligned/aligning to the Paris Agreement	27.4%	
	Engagement / Alignment	Proportion of financed emissions aligned/aligning to the Paris Agreement or covered by an engagement program	79.2%	

Bestwood, Nottinghamshire

Our Approach to Climate Data

We recognise that climate data is an evolving field, and methodologies are continuously updated by governments, data providers, and companies. The data accessible through our data provider (MSCI) undergoes frequent revisions as estimated data gets replaced by reported data, estimations are refined for greater precision, and as data coverage expands. We welcome these revisions, as they provide more accurate estimates of our carbon emissions.

We recalculate our emissions annually and may revise previously reported greenhouse gas (GHG) data to incorporate the most current information. When possible, we align our holding period with the period in which emissions from the underlying issuer occurred. Consequently, there may be variations between data reported in previous documents and the figures presented in this report due to these restatements. Our metrics employ methodologies aligned with those used by the Partnership for Carbon Accounting Financials (PCAF) and MSCI.

For illustration, please see below the restatements made for our investments.[17]

TABLE 8: LGPS CENTRAL'S CLIMATE METRICS RESTATEMENTS

Data	Data as of	Previously Reported Value	Restated Value	Change from Restatement
WACI	31-Dec-19	127.1	144.7	13.9%
	31-Dec-20	110.5	136.3	23.3%
	31-Dec-21	120.1	121.8	1.4%
	31-Dec-22	111.8	105.8	-5.4%
Financed Emissions	31-Dec-19	748,018	691,625	-7.5%
	31-Dec-20	660,744	731,996	10.8%
	31-Dec-21	734,494	897,332	22.2%
	31-Dec-22	742,924	932,333	25.5%

[17] Our previous climate reports focused on the climate metrics of our equity investments only, while restated values also include our fixed income assets. The change between restated and previously reported values can be attributed to this inclusion.

Progress Towards Our Net Zero Strategy

As mentioned in the Strategy section of this report, we have set interim targets as part of our overarching commitment to achieving net zero by 2050. We aim to publish our progress towards achieving these targets annually. This report is the inaugural progress update.

TABLE 9: LGPS CENTRAL PROGRESS AGAINST CLIMATE TARGETS

Target	Progress as of Q4 2023
Emission Reduction Targets	
50% reduction in (scope 1 & 2 CO_2e) financed emissions in 2030. Reduction of (scope 1 & 2 CO_2e) financed emissions per £m invested: 1) 50% by 2030 2) 60% by 2035 3) 80% by 2040 4) 90% by 2045 5) 100% by 2050	Financed emissions decreased by 10.4% from the 2019 baseline. While financed emissions normalised by £M invested has decreased by 40.9%.

	2019 baseline	2023
Financed Emissions	861,333[18]	771,381
Normalised Financed Emissions	85.5	50.6

Target	Progress as of Q4 2023
Alignment and Engagement Targets	
Engagement / Alignment Target for companies from material sectors.[19]	The Engagement / Alignment Target accounts for the proportion of financed emissions from material sectors which are aligned/aligning to the Paris Agreement or covered by an engagement program.[20]

	2023
Listed Equities and Corporate Bonds	79.5%
Active Equities	89.0%
Passive Equities	80.5%
Corporate Bonds	66.5%

Target	Progress as of Q4 2023
Alignment Target for companies from material sectors.	The Alignment Target accounts for the proportion of financed emissions from material sectors which are aligned/aligning to the Paris Agreement.[21]

	2023
Listed Equities and Corporate Bonds	27.0%
Active Equities	29.4%
Passive Equities	26.9%
Corporate Bonds	24.9%

Target	Progress as of Q4 2023
Footprinting Targets	
Track relevant scope-3-category emissions of top 20 companies by 2024 within listed equities and corporate bond portfolios. Carbon footprinting for all assets using estimated data by 2024. Carbon footprinting for all assets using estimated and actual data by 2025.	

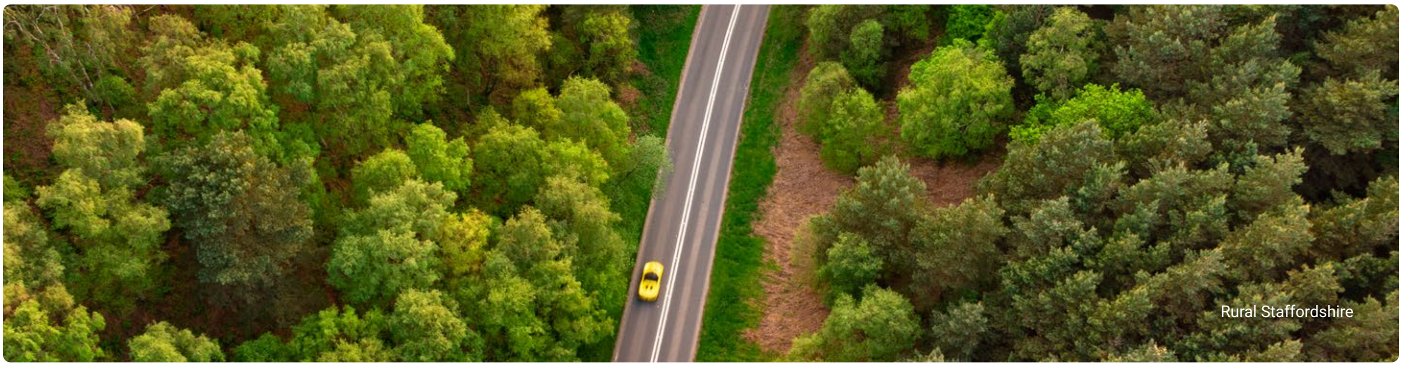
	2023
Scope 3 emissions	Completed (for equity and corporate bonds)
Sovereign Debt	Completed
Private Markets	Estimated data for private equity

[18] The 2019 baseline in table 9 differs to the 2019 value in table 8. This is due to the calculation method of our baseline which considers how our current holdings have decarbonised rather than the financed emissions our of 2019 holdings. This is further discussed in the Emissions Reduction Targets section on the following page.

[19] Material sectors refer to the groups of companies with business activities classified under NACE codes A to H and J to L, as defined by the European Commission (EUROPA - Competition - List of NACE codes).

[20] The Engagement / Alignment values in table 9 differ to values displayed in table 7 as the target considers the proportion of financed emissions from material sectors. The value displayed in table 7 includes the proportion of financed emissions in all sectors.

[21] The Alignment values in table 4 differ to values displayed in table 7, as the target considers the proportion of financed emissions from material sectors. The value displayed in table 7 includes the proportion of financed emissions in all sectors.



Emissions Reduction Targets

Our emissions reduction targets focus on bringing real-world decarbonisation. To do so, we need to understand how the companies we invest in have decarbonised. Our absolute financed emissions target does this by comparing the current emissions of the companies we currently hold against what these companies emitted in our baseline year of 2019.

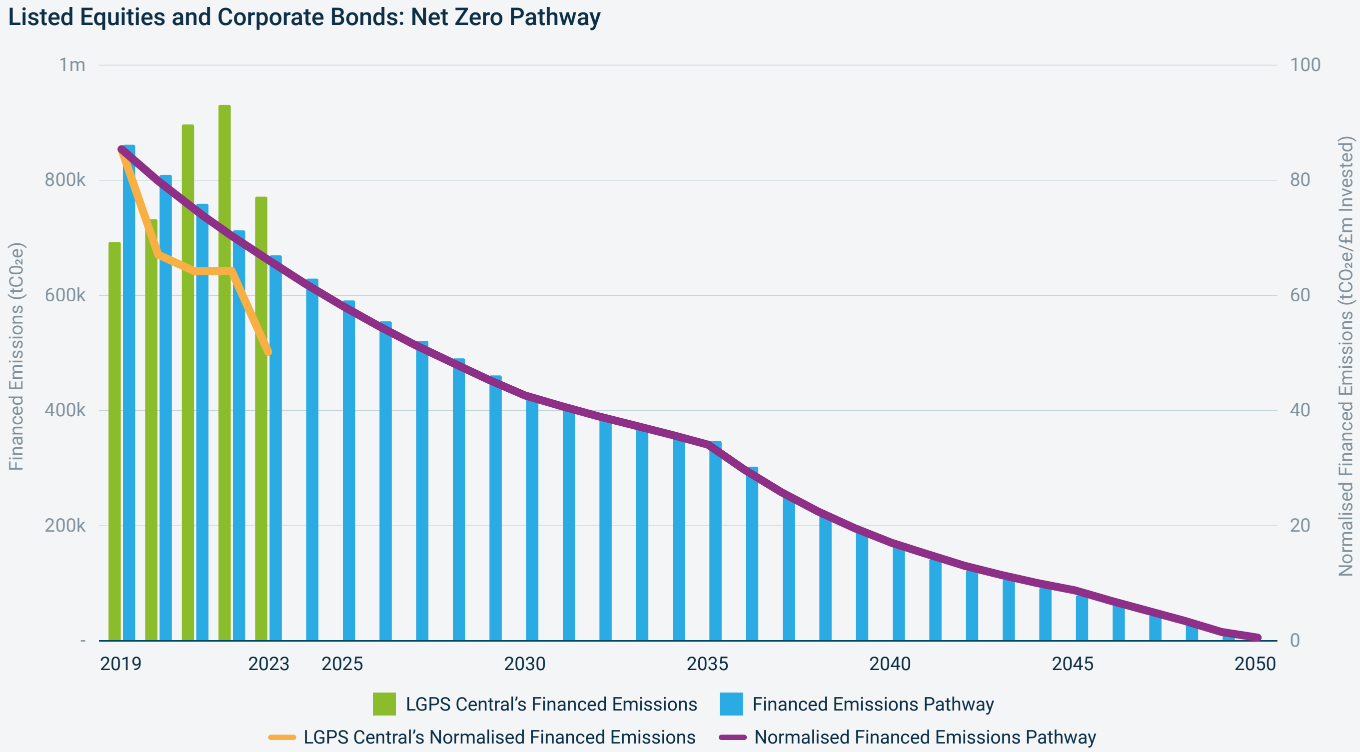
Between 2019 and 2023, these companies have collectively reduced their emissions by 10.4%. However, this isn't fast enough to meet the global goal of reaching net zero emissions by 2050. This shows that there is still a lot of work to do, and we are actively working with these companies to achieve greater reductions.

In contrast, progress against our baseline normalised financed emissions reflects how we have evolved as an investor. This target measures the effectiveness of our Net Zero Strategy, taking into account changes in how we allocate our investments as well as decarbonisation by our investee companies.

As of 31 December 2023, our normalised financed emissions have declined by 40.9% since the baseline year, keeping us on track to meet our interim target of a 50% reduction by 2030.

Progress against these two targets signals that, whilst our investment allocations are more carbon efficient, our portfolio companies are not yet decarbonising at the rate required to meet our 2050 net zero ambition. This is demonstrated in figure 9, which illustrates the required trajectory of our portfolio's normalised and absolute financed emissions from our 2019 baseline to meet our interim targets and 2050 net zero ambition. The state and progress of our Net Zero Strategy will be the subject of an expanded section in our 2025 climate report.

FIGURE 9: NET ZERO PATHWAY FOR LISTED EQUITIES AND CORPORATE BONDS



Old Dee Bridge, Cheshire

Engagement and Alignment Targets

We are making good progress towards the achievement of our Engagement / Alignment Target, primarily driven by high levels of engagement with major emitters.

Our Paris Alignment Metric evaluates both the forward-looking commitments and current climate risk management practices of our portfolio companies. While focusing solely on either current practices or future commitments would increase the proportion of financed emissions deemed to be aligned or aligning, we believe it is essential to assess companies based on both their present management of climate risks and their future commitments.

As a result of this high threshold, as of 2023 only 27.0% of the financed emissions associated with our portfolio companies operating in material sectors are deemed to be aligned or aligning to the Paris Agreement. We are engaging with other major emitters to influence them towards aligning with the goals of the Paris Agreement. In 2023, 65.9% of the financed emissions associated with portfolio companies operating in material sectors are covered by an engagement program.

Footprinting Targets

We are on track to meet our carbon footprinting targets.

Our target to report scope 3 emissions across listed equity and corporate bonds is largely completed as we have incorporated portfolio companies' reported data in our model. Nonetheless, data coverage for scope 3 emissions is relatively lower than that of scope 1 and 2. We are currently exploring the use of estimated data to close this gap.

We have also started calculating financed emissions from our sovereign bond holdings, using both production and consumption emissions data.

For private markets, this report includes estimated financed emissions from our private equity holdings. We continue to work on expanding coverage to all private markets asset classes and collecting actual data where available.

Next Steps

Vale of Evesham, Worcestershire

Governance

- Continue to update our climate-related training strategy across the Company, including at Board level. This will include providing additional formal training on a regular basis or increasing the scope of training already provided.
- Continue to develop the breadth of our climate-related training for our Partner Funds.
- Continue to ensure that climate-related considerations are factored into management systems in all areas of the Company, where appropriate.

Strategy

- Procure a new provider for an updated climate scenario analysis for our next round of climate reporting.
- Work towards the achievement of our Net Zero Strategy and associated reporting, as published in 2023.
- Continue to develop our CRMS in line with best practice, to ensure that climate risks and opportunities are identified and managed as effectively as possible.

Risk Management

- Integrate the findings of the ongoing audit on our climate reporting.
- Continue to update the RIIS where appropriate, to ensure that climate risks are identified and managed as effectively as possible.
- Continue to work with portfolio companies to understand and encourage their own management of climate risk, utilising our escalation strategy as appropriate. Setting targets and expectations and communicating them clearly.
- Continue to expand the scope of our climate reporting, such as including an increasing proportion of private markets investments within our analyses.

Metrics and Targets

- Continue to update our climate metrics in line with best practice.
- Continue to monitor and report on our climate metrics, with reference to the achievement of our climate targets as set out in our 2023 Net Zero Strategy.

Summary of TCFD Recommendations

	TCFD Recommended Disclosure	Page	Summary
GOVERNANCE	Describe the board's oversight of climate-related risks and opportunities.	7	Through its Terms of Reference, the Board has ultimate oversight over all the Company's policies and activities, including our Net Zero Strategy. The Board also receives regular updates on climate related issues.
	Describe management's role in assessing and managing climate-related risks and opportunities.	9	Responsibility for implementing our RI&E Framework, which details the Company's approach to assessing and managing climate risk, lies with ExCo which delegates to IC.
STRATEGY	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term.	13	As a diversified asset manager, LGPS Central has identified a wide range of climate-related risks and opportunities across various time scales, including policy changes (such as the adoption of carbon taxes); technological changes (such as the emergence of electric vehicles); and extreme weather events (such as floods, heatwaves, etc).
	Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.	14	Climate risks and opportunities have led LGPS Central to expand the range of products and services it offers to Partner Funds. Beyond the development of the CRMS, we have launched a Climate Multi Factor Fund, a Low Carbon Multi Factor Fund, and the Global Sustainable Equity fund. In response to the materiality of climate risks and opportunities, all investment products must also adhere to asset-class specific RIIS guidelines, which includes climate considerations.
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	16	Climate scenario analyses were integrated into the climate reporting that we carried out for our Partner Funds in 2020 and 2022. While we have experimented with various climate scenario analysis tools, we have not incorporated the tool into our investment decision making. In our view, ESG integration remains the most effective way to identify, analyse, and manage the risks associated with climate change.
RISK MANAGEMENT	Describe the organisation's process for identifying and assessing climate-related risks.	19	Climate-related risks and opportunities are predominantly identified at product level, using the guidelines documented in our Responsible Investment Integrated Status. We utilise a range of tools to identify climate risks and integrate climate change considerations into our investment decisions. These tools assist with the selection and monitoring of manager, tracking engagements and identifying high-risk issuers. Our primary tool is the climate dashboard developed in 2023.
	Describe the organisation's process for managing climate-related risks.	21	LGPS Central's RI&E Framework sets out how we approach ESG risks such as climate. These risks are primarily managed through the selection and monitoring of our external managers, who are required to integrate ESG considerations, including climate, into their investment decisions. Stewardship of assets is also central to the management of climate risk within our investments, and our escalation approach dictates how this approach changes over time.
	Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	17	Climate risks are integrated into the organisation's Risk Framework. This allows climate risk considerations to be embedded within each department of the Company, in turn allowing unique control processes to mitigate the relevant risks.
METRICS AND TARGETS	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	23	We utilise a range of metrics, including absolute emissions; emissions intensity; and Paris alignment to comply with FCA and DLUHC requirements.
	Disclose scope 1, scope 2, and if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks.	25	LGPS Central's headline GHG emission metrics for the Listed Equity and Corporate Bond portfolios are as follows: • Financed Emissions: 771,381 tCO_2e. • Normalised Financed Emissions: 50.6 tCO_2e /£m invested. • Weighted Average Carbon Intensity: 83.2 tCO_2e /$m sales. Additional metrics, including the scope 3 emissions of our investments are also explored.
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	27	We report on our progress against our Net Zero Strategy for Financed Emissions that was published in 2023. To support our commitment to reach net zero by 2050 or sooner, we use a two-track approach with emissions, engagement and footprinting targets that cover different asset classes.

Important Information

Sources

Holdings data from ©2024 Northern Trust Corporation and LGPS Central Limited.

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All information is prepared as of 30 April 2024.

MSCI

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