CLIMATE-RELATED FINANCIAL DISCLOSURES 2023

Executive Summary

This report sets out Leicestershire County Council Pension Fund's (the Fund) approach to climate-related risks and opportunities. Climate change is already causing widespread impacts on people and infrastructure, affecting scheme members, employers, and the local communities they support. With scientists predicting that extreme events are becoming more common and severe it is important that the Fund manages climate risks and opportunities to its investments and liabilities.

The Fund manages £6 billion in assets (as of 31 December 2023) on behalf of over 200 employers and over 100,000 scheme members. Management of climate risk and opportunities is just one way of managing the scheme so it can continue to pay pension benefits to our retirees and their dependants.

This report sets out voluntary reporting in line with Taskforce for Climate Related Financial Disclosures (TCFD) recommendations. Within this report you can find examples and case studies that put into perspective the work we do in managing climate risks and opportunities.

Governance

The Local Pension Committee (the Committee) has overall responsibility for all issues relevant to the Fund, including regular engagement on the oversight and management of risks and opportunities related to climate change.

Fund Officers, Advisors, and Investment Managers support the Committee in development and delivery of the Fund's Net Zero Climate Strategy, investment decisions and stewardship activities.

Strategy

Climate risk and opportunities have impacted the Fund's approach to investment decision making. The Fund's Net Zero Climate Strategy defines the key climate related risks and opportunities across the Fund and how it is managed. This has led to over £1billion in climate related investments and a focus on real-world impact.

Risk Management

Climate change risk is embedded within day-to-day risk management processes and investment decisions. Committee considers the Fund risk register and stewardship activities on a quarterly basis and climate risk metrics on at least an annual basis. This supports identification of risks and supports decision making in management of them.

Metrics and Targets

The Fund reports progress annually against its nine targets, including to become net zero by 2050, with an ambition for sooner. As of 31st March 2023, the Fund is on track against each metric for its equity portfolio where baseline data as of 31st December 2019 is available.

Net Zero Climate Strategy Equity Targets	On Track
50% reduction in carbon intensity by 2030	✓
40% reduction in absolute carbon emissions by 2030	✓
Reduced exposure to fossil fuel reserves	✓
Increased exposure to climate solutions	✓
90% of material sector companies aligned or aligning by 2030	*Reported for the first time 2023*
90% of financed emissions aligned, aligning or subject to an engagement by 2030	

Introduction to the Taskforce for Climate-Related Financial Disclosures Reporting

The Taskforce for Climate-Related Financial Disclosures (TCFD) helps companies, asset managers, asset owners, banks and insurance companies, and their investors understand their financial exposure to climate risk against four key areas. In the context of Leicestershire County Council Pension Fund (the Fund) this means:

1. Governance: How the Fund, the Local Pension Committee and senior management are assessing managing and monitoring climate-related risks and opportunities.

2. Strategy: Actual and potential impacts of climate-related risks and opportunities on the Fund's strategy and financial planning where such information is material.

3. Risk Management: The process for identifying, assessing, and managing climate-related risks, and how these are integrated into the Fund's overall risk management processes.

4. Metrics and Targets: The metrics and targets the Fund uses to assess and manage relevant climate-related risks and opportunities.

It is expected that TCFD reporting will at some point become mandatory for LGPS funds. This report is the Fund's fourth climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund, building on the Climate Risk Management Report presented in December 2023 and measuring against its Net Zero Climate Strategy which was approved March 2023.

Figure 1: TCFD Disclosure Pillars

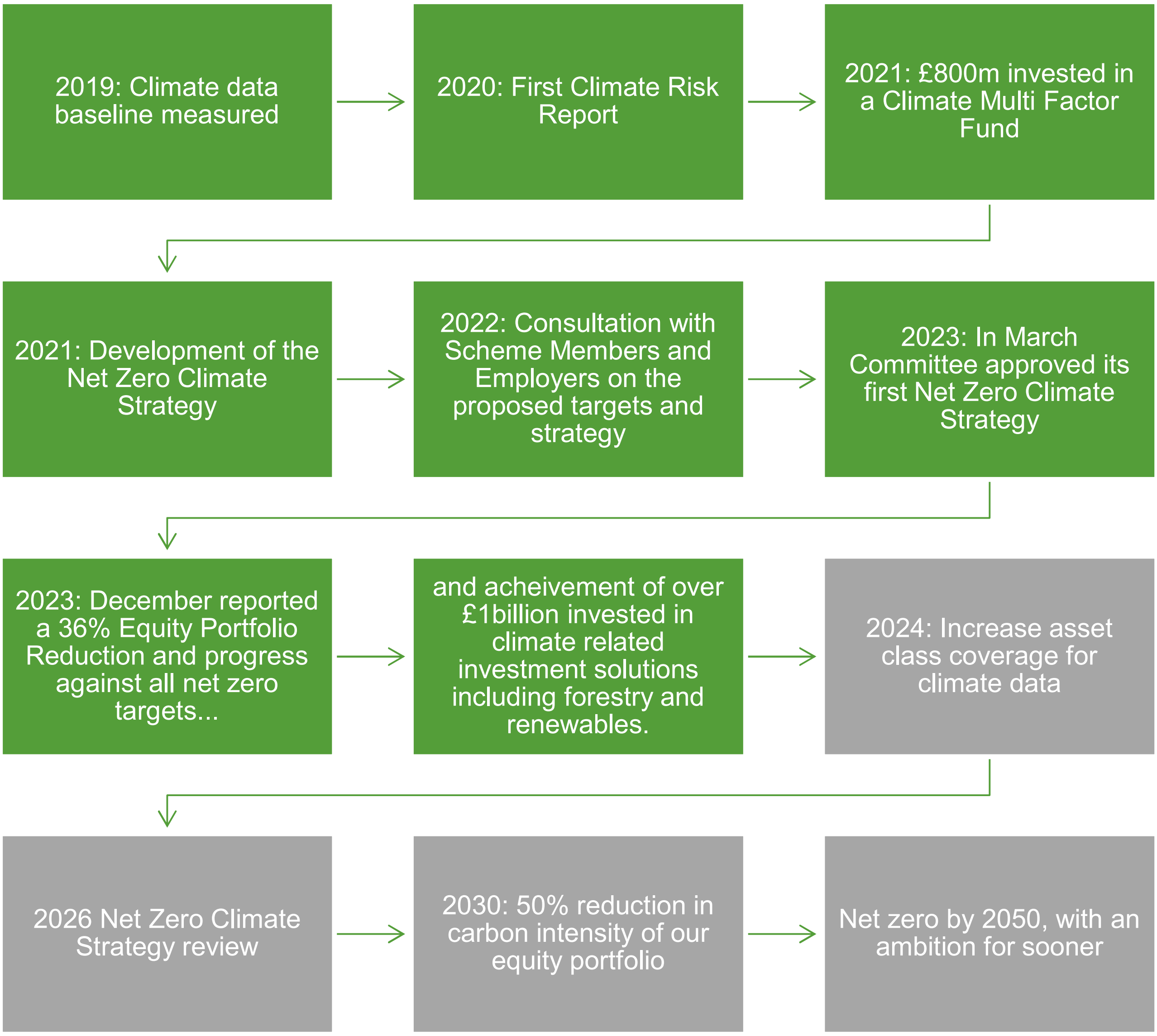
As a Fund, we are long-term investors and are diversified across asset classes, regions, and sectors, making us "universal owners." It is in our interest that the market is able to effectively price climate-related risks and that policymakers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of you, our beneficiaries.

In writing this report the Fund has taken note of the Pension Regulators guidance and review of climate-related disclosures by occupational schemes, recommendations from LGPS Central and best practice across the LGPS and financial sector.[1]

This report meets the requirements of TCFD reporting and includes case studies and examples that put in perspective and illustrate the work we do.

[1] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/review-of-climate-related-disclosures

A snapshot of our journey so far, and beyond…



Governance

The Committee's oversight of climate-related risks and opportunities.

The Fund is administered by Leicestershire County Council which has delegated its functions to the Local Pension Committee (the Committee). The Committee holds overall responsibility for all issues relevant to the Fund, including the oversight and management of risks and opportunities related to climate change. This responsibility is set out within the Fund's Investment Strategy Statement:

> *"Climate change presents a material risk to financial markets. The Fund supports a transition to a low carbon economy, in line with its ambitions to become Net Zero by 2050, or sooner. The Fund will consider the impact of climate change in both its asset allocation and individual investment decisions".*

The Committee receives regular reporting on climate related issues integrated into responsible investing reports. This supports ongoing training on Responsible Investment (RI) and climate related risks and opportunities. Highlights from 2023 are summarised below.

2023	Committee Activities Snapshot
20 Jan	• Committee set out the importance to LGPS Central of a result driven climate strategy, highlighting the need for escalation actions. • The Responsible Investment Plan 2023 approved, with a focus on managing climate-related risks. • Investment Advisors reviewed the Fund's draft Net Zero Climate Strategy during the Strategic Asset Allocation review.
3 Mar	• Approval of the Fund's first Net Zero Climate Strategy, following engagement and consultation with Committee, the Local Pension Board scheme members and employers. • The Fund's Investment Manager Partners Group presented on the Multi Asset Credit portfolio including sustainability linked loans and environmental, social and governance (ESG) factors. • Members called for greater stranded asset risk recognition, which was included within the Fund's Risk Register.
16 Jun	• The Fund's Investment Manager Stafford Capital presented on sustainable forestry. A number of questions were fielded on the use of land, carbon credits, shipping emissions, natural biodiversity and risks to forestry. • LGPS Central provided training on Climate Risk Reporting and ESG tools.
8 Sep	• The Fund's Investment Manager DTZ discussed their approach to ESG. Questions were raised on additional costs to reach net zero in the property market in line with DTZ's targets. Members were assured by their approach to asset improvement plans and pricing.
1 Dec	• Discussion on the merits of a fossil free fund was held. It was agreed it would be considered as part of the January 2024 Strategic Asset Allocation Review. • The Climate Risk Management Report included a high-level view of LGPS Central's Net Zero Strategy, and progress against the Fund's net zero targets. Committee challenged officers to present more information on stewardship activities in future reporting. • Committee received and continued to engage with external representations received on climate matters.

The Committee is supported by Hymans Robertson whose objectives are set out in the Fund's Investment Advisor Objectives. Hymans look to support the Committee's own policies and beliefs, including those in relation to responsible investment and climate risk. These considerations are included within investment recommendations and the Strategic Asset Allocation where appropriate.

The roles and responsibilities of other bodies related to the management of the Pension Fund are outlined below:

Local Pension Board

Oversight in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with LGPS Regulations and any other legislation relating to the governance and administration of the Scheme. The Board received the draft Net Zero Climate Strategy before it was considered by the Local Pension Committee for approval. Board comments were fed in as part of the consultation process.

The Investment Subcommittee

The Subcommittee supports the Committee by making decisions in line with the Strategic Asset Allocation and Investment Strategy Statement. When making any investment decisions there is always careful regard to ESG factors.

The Subcommittee is also supported by Hymans Robertson. As part of the recommended equity review in 2023 Subcommittee agreed to transition £200m to a Low Carbon Transition Fund alongside the existing investment in the Climate Multi Factor Fund.

LGPS Central

LGPS Central is a Financial Conduct Authority regulated investment pooling company with its own governance structure in which the Fund seeks to integrate its own governance arrangements. The Fund has dual relationships as both shareholder and client. Central regularly consider responsible investment factors as set out in the Responsible Investment and Engagement Framework. Central engage with partner funds through a quarterly Responsible Investment (RI) Working Group.

As well as support the Fund through preparation of the annual Climate Risk Report and other RI matters. LGPS Central announced their Net Zero Strategy in October 2023. Central's own TCFD reporting can be found here.

Training

The Fund supports the continuous improvement of knowledge and skills appropriate for governing bodies in line with the Chartered Institute of Public Finance and Accountancy's LGPS Knowledge and Skills 2021.This is supported by:

- Induction training: All newly appointed Committee members receive training on responsible investment and climate matters from Fund officers.
- Training in September 2023 on Responsible Investment and Engagement, including climate risk monitoring and climate metrics from LGPS Central.
- Fund officers showcased the net zero strategy as part of the December AGM with scheme members and employers.
- Online Aspire Training which includes briefing on TCFD and climate matters for members provided by Hymans Robertson.

The Fund undertakes annual training needs assessment of Committee members. In respect of climate factors members reported that they were either fully conversant or reasonably familiar for the Fund's management of climate risk and opportunities within 2023.

More detail on the Fund's training approach and records are set out within the Fund's Annual Report.

Officers, Advisors and Investment Managers role in assessing and managing climate-related risks and opportunities.

Fund Officers

The scheme of delegations sets out the responsibility of the Director of Corporate Resources (S151 officer) and the day-to-day responsibility for management of the Fund and climate related risks.

Management maintains a risk register that is presented quarterly to the Local Pension Board and Committee as well as progresses agreed actions between meetings and liaising with various parties.

Some highlights of work undertaken in assessing and managing climate related risks and opportunities relate to:

- Gathered and considered scheme member and employer feedback on draft net zero targets and strategy.
- Advanced the 2023 RI Plan.
- Monitored investment managers consideration of climate matters.
- Communicated to scheme members on net zero and climate matters.
- Participation in quarterly Responsible Investment Working Group with LGPS Central and partner funds. Over 2023 these meetings provided exposure to expert guest speakers on new and emerging ESG topics, updates on RI integration and engagement practices within equity funds from Central and EOS their stewardship partner. This provided a collaborative approach to engaging with Central and partner funds supporting a progressive approach to RI integration.
- Attendance at the Local Authority Pension Fund Forum meetings and conferences.

Investment Advisor

The Fund's investment advisor Hymans Robertson are responsible for supporting the Committee's policies and beliefs, including those in relation to responsible investment and climate risk. These considerations are included within investment recommendations and the Strategic Asset Allocation where appropriate.

The Committee has set objectives for its Investment Advisor and reassesses them on an annual basis in line with the regulatory requirements set by the Competition and Markets Authority. These were reviewed and approved by Committee in December 2023 which strengthened the strategic objectives of the Fund in relation to its Net Zero Climate Strategy and ensured its approach to responsible investment is reflected in advice provided.

Performance against objectives was also reported reflecting Hymans's support of the development of the climate strategy, and consideration of net zero as part of investment recommendations where possible.

Actuarial Advisor

The Fund's actuarial advisor Hymans Robertson included analysis on the potential impact of climate related risks on the Fund's assumptions as part of the March 2022 valuation, to help assess the potential impact of the Fund's funding position in line with the Government Actuary's Department (GAD) Section 13 recommendations. A mid-point valuation was reported in December 2023 to Committee. It was noted ahead of the 2025 valuation the Fund would look at balancing longer-term security and stability with employer affordability while considering the impact of risks such as inflation and climate change and look at where it may be prudent to provide security against future risks that may be more difficult to quantify.

Investment Managers and LGPS Central

As an externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. External portfolio managers are monitored on a regular basis by Fund officers and the Committee. As set out above LGPS Central also conduct extensive assessment and reporting of responsible investment factors in line with the Responsible Investment and Engagement Framework and report under the TCFD Framework. The Committee monitor their activities with the support of officers on a regular basis. As set out above RI reports are received quarterly, alongside presentations from managers and consideration of the Fund's risk register.

On the appointment of any new manager the RI capabilities are assessed by the Fund's investment advisor or LGPS Central to determine if that managers approach is aligned with the Fund. Once appointed the Fund monitors all managers regularly, and they are assessed and invited to Committee on an alternating basis.

Strategy

Climate-related risks and opportunities to the Pension Fund over the short, medium, and long term.

As set out in the Investment Strategy Statement the Pension Fund holds investments in various asset classes, which includes the world's biggest companies, in sectors including manufacturing, technology and transport. Climate change presents a systematic risk where the climate actions, or inaction, of companies can positively or negatively affect another company as well as the overall economy.

The magnitude and speed required to limit global temperature increase to 1.5C leads to climate-related risks and opportunities for the Fund as an investor. These risks can be divided into two categories, transitional risk from moving to a low-carbon economy, and physical risk that will occur as the natural world is affected. As a long-term institutional investor, the Fund is particularly exposed to these risks due to its investment horizon and diversified international portfolio.

In order to make informed decisions the Fund must manage these risks alongside the other financial environmental, social and governance considerations. The Fund looks to manage climate risk to preserve value in the portfolio and capitalise on investment opportunities. In doing this the Fund looks to understand how climate-related risks and opportunities are likely to impact the Fund's future financial position as reflected in its income statement, cash flow statement and balance sheet. This is set out in more detail within the Fund's Net Zero Climate Strategy.

In the short-term transition risks tend to dominate, while over longer time frames physical risk is expected to be the key driver of climate impact. These impacts and the opportunities they currently offer vary as set out below.

Table 1: Climate-related risks and opportunities over short, medium and long term.

	Short & Medium Term (5 to 15 years)	Long Term (+40 years)
Risks	Carbon prices Technological change Changing consumer preferences. Taxation Stock selection Geopolitical shocks Policy change	Resource scarcity Extreme weather events Sea level rise Geopolitical shocks
Opportuniti	Government subsidies and tax breaks for transition technologies Engagement to support the transition. Ability to influence. Resource efficiency Technological change	Engagement to support transition Improvements to long-term health Resource efficiency Training and upskilling New Markets
Asset Class	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers Currencies	Infrastructure Property Agriculture Commodities Private Assets Insurance

Table 2: Climate risk considerations by asset class

Exposure to:	Transition risk	Physical risk	Climate opportunities
Gilts (Protection)	Low: financing the transition may require more borrowing from the UK government, but we would expect some of this to be priced into markets already.	Low: there would be no direct impact, although serious damage to e.g. infrastructure may lead to additional borrowing being required, possibly pushing down gilt prices to some extent.	Low: green gilts available, although limited ability to influence government through gilts purchase. Opportunity to engage on climate risks/opportunities through ASCOR project.
Investment Grade Credit (Protection)	Medium: companies who do not prepare adequately for the transition may suffer more than others, albeit the risks are less than with owning the equity due to position in the capital structure, fixed (often short to medium term) lending terms and re-pricing in of risks upon reinvestment (companies not aligned or aligning to the transition risk facing increased cost of capital/borrowing costs).	Medium: possible direct impact in terms of disruption to business operations (e.g. through supply chains); companies in certain sectors or geographies may be more exposed. Bonds of a company expected to suffer less than equity.	Medium: green bonds (use of proceeds to fund projects that have positive environmental and/or climate benefits) and Sustainability Linked Bonds (linked to climate KPIs) offer some ability for investors to gain exposure to decarbonisation opportunities and/or influence companies. Opportunity to influence/engage for positive environmental outcomes at point of reissuance.
Infrastructure / Property (Income)	Medium: property which does not meet evolving standards may find itself obsolete, although we would expect most managers are preparing for this. Some assets in this class may see improvements in value e.g. renewable energy infrastructure.	Medium: possibility of direct damage to assets depending on geographical location, though may be mitigated through insurance / avoiding assets in areas exposed to the worst physical impacts.	High: ability to participate in the low carbon transition e.g. through building renewable infrastructure, retrofitting existing properties to highest standards etc.
Global Equities (Growth)	High: companies who do not prepare adequately for the transition may suffer greater falls than others, though some may already be reflected in the current share price.	High: possible direct impact in terms of disruption to business operations (e.g. through supply chains); companies in certain sectors or geographies may be more exposed. Equity of a company expected to suffer more than bonds.	High: high scope for investment in climate opportunities. Ability to engage where investing for impact or in private markets.

In relation to pension liabilities, these can be affected by climate change through factors such as interest rates, inflation, and mortality rates. Interest rates and inflation are driven by climate change policy impacts on countries' economic growth, energy mix, and so on. Life expectancy is also important; it has improved in recent decades thanks to better access to medicine, and healthier lifestyles, but the future trajectory might change depending on climate change.

On the one hand, temperature swings, heatwaves, or poor air quality could materially increase mortality rates; on the other hand, if the climate catastrophe is avoided, then mortality rates could continue to fall. These risks are monitored through qualitative and quantitative analysis of the Fund.

What is the impact of climate-related risks and opportunities on the Fund, its strategy, and financial planning.

Recognition of climate-related risks and opportunities have been impacting decisions the Committee has made for a number of years. In building on the Fund's approach extensive consultation and engagement was undertaken with scheme members, employers, investment managers and the Committee and Board on proposed net zero targets and strategy. The Fund's Net Zero Climate Strategy (NZCS) was formally approved in March 2023. The NZCS sets out how the Fund considers climate-related risks and opportunities as part of its targets, decision making and stewardship activities, and the point at which it considers divestment appropriate.

Given the Fund is diversified across asset classes, regions, and sectors, it is recognised that climate risk is systemic and is unlikely to be eliminated through diversification alone. While the Fund has considered divestment from carbon intensive sectors, it would do little to impact real world carbon emissions alone, and thus not protect the Fund's 'universal' portfolio. Instead, the Fund expects managers to view climate risk as a material factor, and all else being equal managers should choose a company better aligned to decarbonisation within high emitting sectors.

Where Investment Managers refuse to engage, do not provide credible evidence or reasoning if they are failing financially on ESG factors the Fund has the power to replace an investment manager.

In managing impacts to the Fund Committee agreed to invest in climate aware solutions, these have included:

- £800m in a climate multi-factor fund since 2021. This tilts away from companies that are carbon intensive or own fossil fuel reserves and tilts towards companies that generate green revenues.

- A decision to invest in a Low Carbon Transition fund which aims to reduce carbon intensity by 70% relative to the starting universe, while delivering further decarbonisation year on year.

- £55 million committed to solar power with battery systems, both as part of the decarbonisation of the energy system, and as part of demand from data centres.

- £55 million committed to global sustainably managed timberland 65% of which is invested in planting new forests, 15% reforestation and 20% improved forest management. This will provide a source of sustainable low carbon timberland materials and generates verified carbon offsets. Further to the £132m forestry portfolio.

Even with managers that do not have net zero aims within their mandate it is clear many are taking the impact of climate-related risks and opportunities into account as part of day-to-day decision making. For context, the Fund has 19 investment managers outside of LGPS Central and as of 31 March 2023 this accounted for £3.3bn of Fund assets.

- 12 investment managers are members of the Net Zero Asset Manager Initiative, a group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050, or sooner.

- 10 investment managers have firm level operational net zero commitments. Two additional carbon neutrality from their operations having utilised mitigation strategies and/or offset projects.

- 10 investment managers have some form of long, or medium-term target (or both) which apply to the Fund's investments as of March 2023. In some cases, these targets may only apply to specific investments or asset classes they hold due to challenges they report from ownership structures, or their ability to influence underlying investments, or ability to set targets on certain asset classes.

- The active equity portfolios have lower carbon metrics compare to their market index, suggesting that they are managing climate risk exposure in their respective portfolios.

The Fund will continue to monitor its managers and how this may further impact strategic and financial planning for the Fund. This sits alongside annual consideration of the Climate Risk Management Report, the findings of which help inform and support development of the Fund's identification of short, medium- and long-term risks and opportunities from climate change.

The Fund then considers these factors through the annual review of the Strategic Asset Allocation which feed into investment decision making throughout the year. These decisions consider mitigating risk and potential opportunities alongside appropriate financial considerations.

In light of the risk and opportunities the Fund recognises it is important that it use its power to exert positive influence via stewardship activity. The Fund is supported in this approach by Federated Hermes EOS via LGPS Central, that provide engagement and voting services together with active reporting. As well as Legal and General Investment Management (LGIM) that hold a sizeable proportion of the Fund's assets on a passive basis, with a robust approach to incorporating climate change factors in its voting decisions. This is discussed in more detail elsewhere in this report.

Where the Fund recognises a need to escalate actions taken, for example a failure of a manager to integrate climate factors effectively the Fund may consider reducing or eliminating the allocation in line with its Stewardship, Engagement and Divestment approach.

Resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

As part of monitoring climate risk and opportunities the Fund has undertaken two separate modelling exercises on its Strategic Asset Allocation and on its funding strategy as part of the triennial valuation exercise. A high-level summary of these exercises can be found below.

Strategic Asset Allocation Analysis

Analysis of the Fund's Strategic Asset Allocation and actual asset allocation as of 31 March 2022[2] was carried out by Mercer working with Ortec Finance for LGPS Central as part of the Funds 2022 Climate Risk Report. This approach was chosen to help the Fund understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of climate scenarios, including an estimation of the annual climate-related impact on returns. All asset classes are included in this analysis.

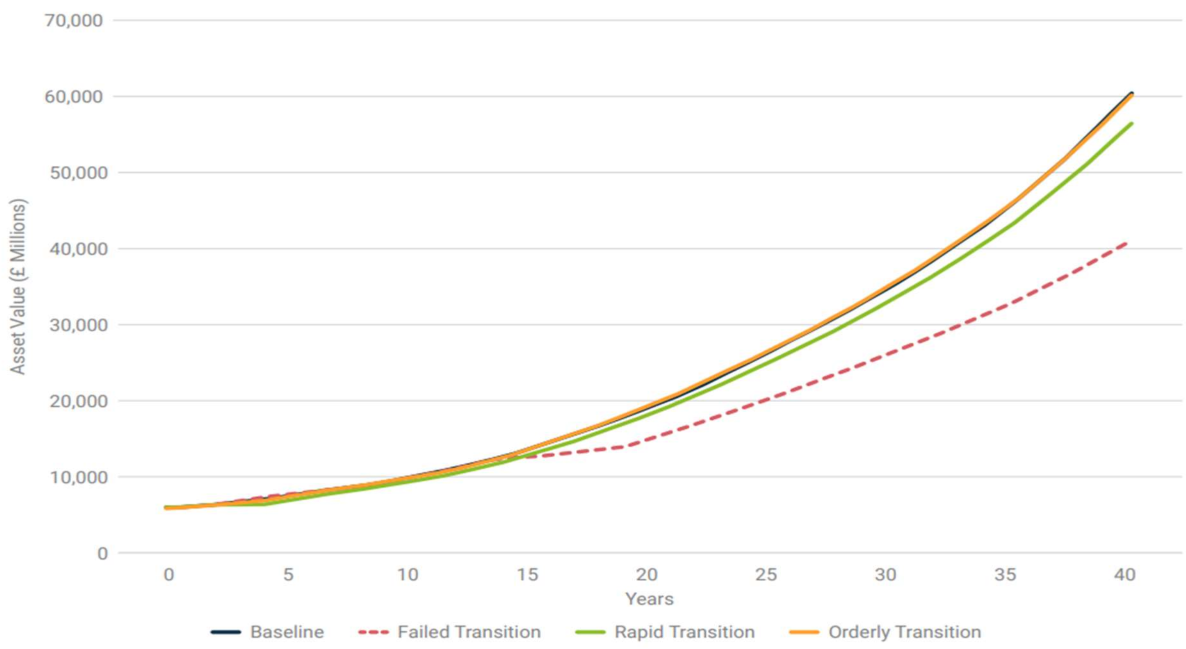
Mercer's climate scenarios were constructed to explore three climate scenarios (Rapid Transition, Orderly Transition and Failed Transition) and were constructed to explore a range of plausible futures over 5 to 40 years, rather than exploring tail risks, reflecting different climate change policy ambitions that result in varying emission pathways. Mercer's analysis considers two risk factors: transition risk and physical risk.

Rapid Transition: average temperature increase of 1.5°C by 2100 in line with the Paris Agreement.

Orderly Transition: average temperature increase of 1.6°C by 2100.

Failed Transition: average temperature increase above 4°C by 2100.

Figure 2 - Cumulative Return Projections by Climate Change Scenario Current Asset Allocation



[2] 2022 Leicestershire County Council Pension Fund Climate Risk Report

The climate scenario analysis forecasts the estimated climate related impact on returns, and does not take account of any other factors which may have an impact on investment returns including economic and market conditions; political and geopolitical events; monetary policy conditions, etc. It is also important to note that the asset allocation required to capture the upside under one scenario, may have a negative impact under an alternative scenario. In summary key findings were:

A successful transition is an imperative: Over the medium- to long-term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

Sustainable allocations protect against transition risk, growth assets are highly vulnerable to physical risks: Given the Fund has a large allocation of growth assets, which are generally more exposed to transition and physical risks the analysis highlighted increased allocations to sustainable equity would provide additional protection from transition and physical risks in the event of a rapid transition.

Monitor sector and regional exposures: Differences in return impact are most visible at an industry sector level, with significant divergence between scenarios. Oil and Gas, Fossil Fuel Based Utilities and Renewables are most impacted by the transition.

The portfolio is overweight to UK equities which are less impacted under different scenarios than most other regions. The portfolio is also overweight to Developed Asia (excluding Japan) and China, which are both exposed to physical risk under a failed transition.

Investors should be aware of future pricing shocks: As markets react to latest information as a result of changing physical and policy/transition risks, investors will be vulnerable to rapid repricing shocks.

As part of the analysis the Fund recognises translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and the best performing sectors and asset classes in an orderly scenario tend to be the worst performers in a failed transition and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research to make its portfolio as robust as possible.

Since undertaking the analysis and as part of a review of listed equity in April 2023 the Investment Subcommittee agreed to reduce the 42% of total assets being held in listed equity assets to 37.5% and added exposure to a Low Carbon Transition fund and divested from an emerging market multi manager fund.

The Fund continues to monitor its exposure to fossil fuels and clean tech and supports this analysis through bottom-up emissions analysis and further alignment metrics to better understand the transition capacity of the portfolio.

A review of the Fund’s protection assets will be considered in 2024/25 with consideration of climate risks and opportunities.

Resilience of the Fund’s Funding Strategy

As part of the 31 March 2022 triennial valuation the Fund’s Actuary undertook sensitivity and risk analysis in order to consider the resilience of the Fund’s funding strategy to future potential climate change outcomes.[3] This considered climate risk in line with the Government Actuary Department's latest Section 13 review of the LGPS.

The Fund's Funding Strategy Statement was developed using asset-liability modelling and consideration of two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time.
- Downside risk – the average worst 5% of funding levels in 20 years' time

The Fund has compared how these risk metrics change under each climate change scenario (against the Core model when setting the Strategy). These stress tests for the Fund are shown in Table 3.

It is worth noting that climate change risk is already implicitly built into the 'core' model used when setting the funding strategy.

While the risk metrics under certain scenarios are weaker, this is to be expected given that the scenarios are purposeful stress tests by Hymans, and all the scenarios are bad outcomes.

Even though the other scenarios are weaker, they are not materially so, and not enough to suggest that the funding strategy is unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate modelling techniques evolve.[4]

Table 3 Impact on funding strategy of climate transition scenarios

Scenario	**Qualitative scenario descriptions**	**Likelihood of success**	**Downside risk funding level?**
Core		82%	56%
Green Revolution – High expectation of achieving <2C warming	Concerted policy action starting now. Public and private spending on green solutions. Improved disclosures encourage market prices to shift quicky. Transition risk in short term, physical risk in long term.	80%	50%
Delayed Transition – High expectation of achieving <2C warming	No significant action in short term, meaning the response must be stronger when it does happen. Shorter and sharper period of transition. Greater but delated transition risks but similar physical risks in long term.	80%	57%
Head in the Sand – Low/no expectation of achieving <2C warming	No or little policy action for many years. Growing fear over ultimate consequences leads to market uncertainty and price adjustments. Ineffective and piecemeal action increased uncertainty. Transition risks exceeded by physical risks.	81%	55%

[3] LCCPF Triennial Valuation Report 2022

Limitations

These analyses have been considered with their limitations in mind. Clearly modelling climate change involves understanding and estimating future physical climate risk impacts; transitional costs; and how macro-financial variables are affected. The uncertainty in any climate change scenario analysis in part comes from the uncertainty in existing climate models. In particular, a number of known shortcomings are listed below:

- Tipping points
- Speed of realising climate impacts
- Geographical spread of impacts
- Potential future climate policies

Next Steps

The Fund recognises there are a number of ongoing industry initiatives aimed at improving climate scenario analysis. The Fund will explore how it can integrate funding and investment climate scenario analysis to provide the best overall view of climate risks to the Fund.

The Fund will continue to work with LGPS Central and the actuarial and investment advisors during 2024 and 2025 to consider qualitative and quantitative considerations of climate risk within investment decisions and future valuations.

Risk Management

How the Fund identifies and assesses climate change-related risks.

The Fund has an active risk management programme in place which addresses areas such as investment, liability, employer, governance, operational and regulatory risks. Risks are viewed by impact and likelihood which provides a current risk score. This is then considered alongside future actions and additional controls and then rescored which provides a residual risk score.

In managing risk, officers consider the risk register on a rolling basis with quarterly meetings, the results of these discussions are fed into Board and Committee on a quarterly basis.

As well as the strategic level the Fund seeks to identify and assesses climate-related risks at the total Fund level and the individual asset level.

The Fund's annual Climate Risk Management Reports include a combination of both top-down and bottom-up analyses. The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the latest available information to assess climate-related threats to investment performance.

Climate related risks can be identified and assessed by various parties including the Committee, Board, officers, investment managers or the Fund's advisors. This includes the following:

- Annual climate risk report and climate scenario analysis.
- Consideration as part of the Strategic Asset Allocation review and positioning in relation to climate risk, including geographical and sector exposure.
- Impact on funding through the triennial valuation by the Fund's Actuary.
- Selection of specialist assets or investment managers. The Fund's investment advisor provides information and their view on each manager ESG capabilities. Each

manager is also asked to provide information regarding their own ESG risk management processes as part of the selection process.

- Investment mandates and investments: As a primarily externally managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis through mechanisms previously discussed.

Discussions throughout 2023 included:

- Members called for greater stranded asset risk recognition, which was subsequently included as part of the risk register review. This risk is monitored through the Fund's fossil fuel reserve measures and managed through its target to reduce exposure. Further discussion was held in December 2023, following which it was agreed to ask Hymans Robertson to consider a fossil free alternative fund as part of the 2024 Strategic Asset Review.
- Consideration given to concern over age-related discrimination and the possibility of litigation. This was considered by Leicestershire County Council's Head of Law. While it is recognised there are European Court cases over intergenerational inequality, it is yet to be formally recognised in human rights legislation. The Fund would monitor any future developments and any UK cases brought.

- The Committee also sought assurance that the climate reporting tool provided by LGPS Central would show high-carbon emitting companies that were not pivoting to renewables as quickly as they should be posed a long-term risk for the Fund from an environmental perspective. Central recognised these concerns and would focus on a company's operational emissions as well as additional metrics that provided a comprehensive view of transition and business risk. This would be supported through engagement and stewardship activities as set out below.

How the Fund manages climate-related risk

The prioritisation of risks is determined based on the level of perceived threat to the Fund. These risks can be managed twofold through asset allocation, as discussed elsewhere, and stewardship of underlying companies.

Stewardship activities are an important aspect of the Fund's approach to managing climate risk. The Fund expects all investment managers to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors. The Fund also has a number of Stewardship Partners.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, viz. that companies: adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with the Paris Agreement and disclose effectively using the TCFD recommendations. Either through its own membership or through LGPS Central's membership, the Fund has several engagement partners that engage investee companies on climate risk.

Table 4 The Fund's Partners

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPS Central. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on the Fund's behalf, including via the Climate Action 100+ initiative.
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.
Local Authority Pension Fund Forum	The Fund is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds. LAPFF reports quarterly which can be found here.

Shareholder voting is an important part of climate stewardship. The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The instruction of shareholder voting opportunities is an important part of responsible investment.

The Fund delegates responsibility for voting to LGPS Central and the Fund's directly appointed investment managers. For Fund assets managed by the former, votes are cast in accordance with LGPS Central's Voting Principles, to which the Fund contributes during the annual review process.

Legal and General Investment Management (LGIM) currently manage a sizeable proportion of the Fund's assets on a passive basis. The votes in respect of these assets are cast by LGIM. LGIM has a robust approach to incorporating climate change factors in its voting decisions, including on specific climate-related shareholder resolutions.

Over 2023 75,596 votes were cast on our behalf at 6241 meetings. At 4148 of these meetings, we opposed one or more resolutions. The Committee receives the results of engagement and voting activities on a quarterly basis, via voting reports and quarterly LAPFF, LGIM and LGPS Central updates.

In order to support real-world carbon emissions, the Fund supports a stewardship approach with multiple strands. For example, LGPS Central pursue a stewardship strategy of engagement; engagement with companies, sector-level engagement, industry standard setting, and policy engagement. With the Fund's long-term investment horizon, it is important to take a whole-of-market outlook. LGPS Central actively engages both fossil fuel producers and companies on the demand side. As well as banks that provide finance and in collaboration with other investors, and the accountants who audit companies' accounts.

The Fund and LGPS Central views this approach as a viable and impactful way of managing climate risk within its portfolio.

Alongside LGPS Central's direct engagements, they also have several partners that also engage investee companies on climate risk.

Based on its Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund's portfolio. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

Table 4 Companies included in the Climate Stewardship Plan

Company	Sector
Anhui Conch Cement	Cement
BP	Energy
Cemex	Cement
Glencore	Materials
Holcim	Cement
NextEra	Utilities
Shell	Energy
Taiwan Semiconductor Manufacturing Company	Info Tech
CRH	Materials
Linde PLC	Energy

Over 2023 some examples of engagements with our Stewardship Plan Companies by LGPS Central are set out below. These engagements are based Central's expectations on companies to set clear, reasonable, and measurable climate action targets aligned with the Paris Agreement.

Central also compare those targets with the company's industry peers, as well as Paris-aligned sector pathways, and engage with the company in case of any major deviations.

The Fund also works with LGPS Central throughout the year in order to understand how key transition and physical risks are assessed. LGPS Central analyse and manage climate risk in underlying managers, metrics are monitored as part as the annual Climate Risk Management Report. The Fund has also queried its investment managers strategy and tools in meeting climate targets and decarbonisation and approach to investments in companies that have fossil fuel reserves.

Some examples of engagements are set out below.

BP

ENGAGEMENT: In 2023 BP pared back its industry-leading commitment to cut its oil and gas output by 40% by 2030, compared with 2019 levels. Following this revision to BP's climate targets, Central co-signed a letter in Q1 2023 and attended a follow up call with the company voicing our concerns with the rollback of its climate targets. Central escalated their concerns by publicising the intention to vote against the chair of BP due to the revision of climate targets in articles published by the Financial Times, Responsible Investor, and ESG Investor.

OUTCOMES: Central attended a call alongside other investors to discuss the company's capital expenditure alignment with net zero and low carbon energy solutions. BP provided a summary of recent planned future capital expenditure in transition growth engines (bioenergy, convenience, EV charging, hydrogen and renewables and power) reaching $6 - 8bn in 2025 and are aiming to reach $7 - 9bn in 2030. In 2022, group capital expenditure was $16.3bn, of which $4.9bn was attributed to low carbon energy solutions. The investor group has sent an email in request for further clarification on how these elements are aligned with BP's 2030 target and longer-term aim of net zero.

Glencore

ENGAGEMENT: Central engaged with the Head of Sustainable Development at Glencore in March 2023 requesting to see a comparison between Glencore's short/medium term decarbonisation. LGPS Central co-signed a letter outlining their "red flags'' and the assurances we needed regarding the Company's climate transition efforts in advance of the 2023 AGM.

In March 2023, a 1:1 meeting between LGPS Central and the Head of Sustainable Development was scheduled. Central expressed a desire for Glencore to disclose short and medium-term decarbonisation targets and to set a specific 2030 target. Following some turnover within the CA100+ group Central wrote to the company in October 2023 to reconnect with the firm and set out several elements of its draft Climate Transition Plan the investor group would like to discuss in advance of the 2024 AGM. In addition to the engagement conducted via CA100+, Central also sent a letter to the company requesting they set 1.5C Science-Based emission reduction targets through the CDP.

OUTCOME: Central are continuing to build bilateral dialogue with the Company to encourage them to present a strong revised climate transition plan in 2024 that addresses the concerns. Central also look forward to the firm's response regarding the Science-based targets letter.

Shell

ENGAGEMENT: Following Shell's 2023 AGM Central wrote to the Chair outlining their rationale for those resolutions where Central dissented from management. Central voted against the election of the CEO and re-election of the Chairs of Remuneration Committee, Audit Committee, Safety, Environment and Sustainability Committee, and Nomination Committee due to the mismanagement of climate-related risks. Central voted against the Shell Energy Transition Progress due to concerns over the lack of an absolute Scope 3 target and the heavy reliance on carbon capture and storage and carbon offsets in the transition plan. Central also supported a shareholder resolution requesting the company align its existing 2030 reduction target covering the greenhouse gas emissions of the use of its energy products with the goal of the Paris Agreement. Following their letter to the Chair, Central engaged with the VP ESG Investor Relations and Senior Investor Relations Officer in December 2023. Central discussed various elements of the Climate Transition Plan including, carbon capture, capital expenditure on renewable energy solutions, Scope 3 emissions, and oil production.

OUTCOME: Central very much appreciate Shell's desire to have a meaningful and open dialogue with its shareholders. Overall emission reduction targets remain under discussion. Central expect upcoming targets to likely focus on oil production. Central also requested to provide feedback on the draft transition update in advance of the 2024 AGM.

What is the process for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

The Fund identifies, reports against, and manages the risk through:

- Regular reviews of the risk register prior to quarterly consideration by the Local Pension Committee and Local Pension Board

- The summary of risks noted in the Funding Strategy Statement and Investment Strategy Statement

Both 'mainstream' risks and climate-related risks are discussed by the Local Pension Committee. While specific macro-economic risks are not usually included in isolation, the Fund has recognised climate risk within its Risk Register.

Hymans Robertson consider the Fund's Climate Risk Report as part of the Strategic Asset Allocation. As part of that review, it was recommended the Fund review its listed equity due to a number of factors which included responsible investment and climate change factors. This was completed in April 2023 and the transition of assets will continue over 2024.

Metrics and Targets

Net Zero Climate Strategy "*Action is required immediately, and we commit to achieve Net Zero by 2050, with an ambition for sooner, in line with the Paris Agreement. This will be achieved by driving down emissions and investing in solutions that directly contribute to, and financially benefit from the transition to a Net Zero future. We believe this approach is a realistic, action orientated strategy that will achieve the required rate of decarbonisation of the assets we hold".*

Disclosure of metrics used to assess climate-related risks and opportunities in line with our Strategy and Risk Management processes.

The Fund has been monitoring climate metrics since December 2019, the latest metrics are disclosed within the December 2023 Climate Risk Management Report. This represents 47% of the Fund's total assets. The Fund publically reports on asset class level analysis, while Committee receive an additional exempt paper providing mandate level analysis.

Currently the analysis is limited to listed equity and a proportion of the Fund's fixed income portfolio. The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time, however as part of the Fund's Net Zero Climate Strategy Implementation Plan the Fund has a timeline of increasing asset coverage to 90% by 2030. The timeline for this is set out in Table 5.

In December 2023 Committee considered the Climate Risk Management Report and how it could be used by the Fund to direct action. From this Committee set out the importance of escalating action against companies that fail to engage with regards to decarbonisation and net zero. Recognising that ultimatley where companies are not transparent it could impact confidence in companies, resulting in those companies no longer being attractive for investment.

Arising from the discussion it was agreed more information would be provided on the outcome of collaborative engagement in future reporting cycles.

A summary of the key metrics, use case and limitations of metrics used by the Fund within the Climate Risk Management Report are apprended. The Fund recognises there is no one perfect metric and instead it is important to have a range of backward and forward looking metrics, It is hoped through regular monitoring the Fund can support climate risk management, and ensure it is supporting real world carbon emissions.

For example, these metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data for underlying companies.

The poor availability of data in asset classes other than listed equities and some areas of fixed income prevents a more complete analysis at the present time. Notwithstanding the lack of carbon metrics in respect of these other asset classes (i.e., Infrastructure; Property, Sovereign Bonds, Private Equity, etc).The Fund notes that several of these asset classes are naturally tilted towards lower carbon industries (e.g., Infrastructure and Private Equity) or supported by national net zero commitments (e.g., Sovereign Bonds), albeit similar to other assets, they are not immune to climate risk, particularly those with a growth tilt. The Fund's timberland holdings are also likely to be negative carbon emitters.

The Fund is working with managers to better understand any asset class limitations and alongside LGPS Central has developed a timeline to improve data and is looking at including private markets and sovereign bonds as part of the next iteration of the Climate Risk Report.

Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

In line with the proposed DLUHC requirements the Fund discloses the metrics as set out in Table 6 for its measurable portfolio. Further metrics are included within the Fund's Climate Risk Management Report and the following section. This data is on 31st March 2023. The plan for remaining asset classes is set out within Table 5.

This data is updated on an annual basis. Further information is available within the Fund's Climate Risk Report 2023, which included recommendations at a total fund level and portfolio level.

Table 5 Asset Class coverage plan

Asset Class	Action	Year	% 31 March 2023
Listed Equity	Included within report	2020	45%
Corporate Bonds	Mapping of intensity metrics.	2023	8%
Sovereign Bonds	Mapping of intensity metrics.	2023	
Corporate Bonds	Include within report	2024	
Sovereign Bonds	Include within report	2024	
Private Equity	Include within report	2025	8%
Legacy Private Equity	Work on the Fund's legacy assets outside of LGPS Central.	TBC	
Real Estate	Include within report subject to first set of data available.	2025	7.3%

Remaining Asset Classes: The Fund will look to target other asset classes as data becomes available. Currently the IIGCC have not developed frameworks for the remaining asset classes such as Infrastructure (including timber), multi asset credit, targeted return, and private debt.

Table 6 Extract from 2023 Climate Risk Report climate metrics for listed equity and fixed income

	Use and Limitations	Equities	Fixed Income
NAV in scope		£2.5bn	£200m
Financed Emissions (Scope 1+2) tco2e	Measure of absolute tons of emissions for which the Fund is responsible by scope. Limited in its usefulness for benchmarking due to	158,353	26,418
Financed Emissions (Scope 3) tco2e		1,911,409	205,522
Data Availability (Financed Emissions Scope 1+2)	The percentage of underlying assets with data. Where data availability is limited in fixed income there is a higher chance that the data will be skewed towards high emitters.	97.0%	71.8%
Normalised financed emissions scope 1+2 (tco2e/$m invested)	Covering absolute financed emissions into a relative measure to allow benchmarking and comparison with other portfolios.	53.8	53.1
Normalised financed emissions scope 3 (tco2e/$m invested)		638	612.5
Weighted Carbon Intensity scope 1+2 (tco2e/$m revenue)	A proxy for carbon price risk. This does not yet include scope 3 so could be considered to be an understatement.	102	145.2
MSCI Data Quality (1-5, 1 represents the highest quality of data)	This provides an insight into the data quality of other metrics. An aggregation of data quality scores. Does not provide more detailed understanding of data availability or reliability.	2.1	2.2
MSCI Low Carbon Transition Score	This assesses how well a company manages risk and opportunities related to the low carbon transition. This represents the % of financed emissions with above a median score (1 to 5, with 1 being highest quality).	39.5%	30%
Science Based Target	Provides an insight into the % of financed emissions covered by official science-based targets. A company with robust and ambitious targets, which have not been verified are omitted.	39.8%	51.9%
MSCI Implied Temperature Rating	A forward looking metric, designed to show the % of financed emissions with an implied temperature rating of 2C of below. This metric is heavily reliant on the model's parameters and assumptions.	25.1%	44.2%
Paris Alignment	This is a combination of the previous three metrics, designed by LGPS Central to give an insight into the overall Paris alignment of the portfolio. To be considered aligned the company must score above median in LCT and have either a SBT or an ITR rating of 2C or lower.	21.6%	28.3%

Targets used by the Fund to manage climate-related risks and opportunities and performance against targets.

In March 2023, the Local Pension Committee agreed a Net Zero Climate Strategy (NZCS). This set out 9 targets made up of three primary targets and six secondary targets. This followed an extensive engagement and consultation process which culminated in 1700 responses. At a high level 70% of respondents supported net zero by 2050, with an ambition for sooner. The outcome of the engagement exercises was presented to the November 2022 and March 2023 Local Pension Committee meetings.

The targets were based on the Institutional Investors Group for Climate Change Net Zero Investor Framework and included other top-down and bottom-up targets, recognising the Fund cannot support the Paris Agreement by only shifting its investments away from carbon intensive sectors. The Fund must support carbon intensive company's transition and driving real-world carbon reductions, alongside investment in climate solutions.

The data set out below is 31 March 2023. Progress according to the NZCS targets is set out at a high level below as of 31 March 2023 against a 31st December baseline and is data available through MSCI. LGPS Central metrics are calculated using methodologies that are utilised by Partnership for Carbon Accounting Financials (PCAF) and MSCI.

In some cases, the Fund's baseline data as of 31 December 2019 has been restated within the report due to improved data available through LGPS Central's data provider. Any targets will be compared against the most up to date data available. More information on restated values is set out within page 32 of the Climate Risk Management Report.

These targets all contribute to the Fund's high-level target primary target of net zero by 2050, with an ambition for sooner. Each target is important as no single metric can supply a perfect picture as set out by the appendix of use case and limitations for the different metrics the Fund can currently measure., especially in regard to achieving 50% carbon intensity reduction by 2030. However, it is important to note that the Fund's performance against these metrics is unlikely to be linear due to the nature of the markets, and the influence of asset allocation year on year on the Fund's underlying figures.

40% absolute carbon emissions reduction for the Equity Portfolio by 2030 (tco2e).

2019 (restated)	2023	Progress
196k	158k	✓

This interim target is calculated using an attribution factor and a company's scope 1 and 2 emissions. The attribution factor is determined by the Fund's outstanding amount in a company, and the value of the financed company. This measures the absolute ton of scope 1 and 2 emissions for which the Fund is responsible and allows us to measure real world carbon reductions associated with our investments.

The 19.4% reduction is between 2019 and 2023 and has been achieved despite a 19.8% increase in assets undermanagement over the same time period which all else being equal would otherwise result in emissions also increasing. This is as a result of absolute emissions from the hardest to abate sectors (energy, materials, utilities and industrials) declining since 2019.

50% carbon intensity reduction by 2030 for the Equity Portfolio (tCO2e/$m)

2019 (restated)	2023	On Track
164.4	102.0	✔

This interim target is calculated by dividing a company's scope 1 and 2 emissions by their million dollars in sales, for each portfolio company and calculating the weighted average by portfolio weight. This acts as a proxy for carbon price. Were a global carbon price to be introduced in the form of a carbon tax this would be more financially detrimental to carbon intensive companies, than to carbon efficient companies.

This measure has decreased by 38%. This is largely led by a decline in asset allocation by active managers in hard-to-abate sectors such as energy and materials, as well as a backdrop of declining carbon intensities of companies within these sectors, partially driven by revenue growth outstripping emissions growth.

This also outperforms the reference benchmark (209.7 tco2e/$m), with all actively managed portfolios having lower carbon metrics compared to their market index. This is largely attributed to underweight exposure to materials, energy and utilities.

Reduce exposure to fossil fuel reserves within the Equity Portfolio

2019 (restated)	2023	On Track
5.7%	5.2%	✔

This metric includes any company that own fossil fuel reserves. The Fund considers this a measure of its exposure to the risk of stranded assets. However, this does not account for the amount of revenue a company generates from fossil fuel activities. This may mean this includes companies who in reality may not bear as much stranded asset risk, as those that generate a high proportion of revenue from fossil fuels. The Fund's exposure is also below the reference benchmark portfolio of 7.7%.

Given the relatively basic form of this metric since 2022 Central have also provided another measure to work around limitations of the above metric based on fossil fuel revenue which identifies the maximum percentage of revenue, either reported or estimated, derived from conventional oil and gas, unconventional oil and gas as well as thermal coal. These values by companies are summed and weighted by the portfolio weights to produce a weighted exposure.

For the first time the Fund can report a 2019 baseline for this measure of 2.3%, this has reduced to 1.9% in 2023. It is worth noting this measurement estimates where reported values are not available and may overestimate exposure.

Increase exposure to climate solutions within the Equity Portfolio

2019 (restated)	2023	On Track
36.6%	39.4%	✔

This metric shows the weight of the Fund's equity portfolio in companies whose productions include climate solutions such as alternative energy, energy efficiency, green buildings, pollution prevention and sustainable water. It is worth noting that this metric is compiled from a wide range of the data providers data points and there is no universal standard definitive list for climate solutions.

When considering this metric by revenue, as in paragraph 15, we can see an increase from 4.3% to 5.4%. This allows for a comparison of the portfolio exposure to clean technology adjusted according to a proportion of the underlying companies size. This measure is also using maximised estimated where data is not available, meaning there is a potential to overestimate exposure.

In practice the Fund has been investing in low-carbon solutions such as low carbon indexes. This is alongside investments not yet captured in the Fund's climate metrics such as sustainable forestry, sustainability linked bonds and investments in renewables through infrastructure and others,

Increase Asset Coverage to 90% by 2030

2019	2023	On Track
45%	47%	✓

The current data able to be analysed as part of the Climate Risk Management report is 47% of the Fund's assets under management. While additional underlying funds have been included in this year's climate report, data coverage has remained limited. LGPS Central's next focus will be to improve data availability for fixed income and adding sovereign emissions data which will further improve these measures. This is in line with the schedule for further asset class integration set out elsewhere.

Forward Looking Alignment Metrics

	2023
90% of the Fund's assets under management in material sectors are classified as achieving Net Zero, aligned or aligning by 2030.	68.3%
90% of the Fund's financed emissions have net zero targets, alignment pathway or subject to engagement by 2030.	80.7%

These targets provide the Fund with a forward-looking measure to understand the extent to which the underlying portfolio is aligning to net zero. The Fund's Net Zero Climate Strategy set out the intention to work with LGPS Central to set alignment targets.

The Fund will be able to check progress against these targets in future years, as well as looking at how the Fund can consider appropriate targets.

The last of the Fund's secondary targets relate to Leicestershire County Council and LGPS Central becoming net zero operationally by 2030. Leicestershire County Council has set a net zero operational target. LGPS Central are looking to set an operational target during 2024.

The Fund's portfolio is decarbonising in line with what was set out within the Net Zero Climate Strategy not only in relation to progress against the Fund's baseline, but in comparison to reference indexes. The Fund's investment advisor considered progress achieved as part of the Strategic Asset Allocation review and believes the Fund is on track to achieve its targets and did not recommend any strategic changes as a result. Hymans did recommend the following which was supported by Committee and would be undertaken over 2024.

1) Strengthen engagement with underlying managers appointed directly by the Fund.
2) Encourage managers to improve stewardship reporting to provide greater insights on actions taken and outcomes achieves.

The Fund will continue to monitor and report on progress against these targets, with a view to the review of the Net Zero Climate Strategy due in 2026.

Appendix 1

TCFD Recommendations for Asset Owners (source: TCFD)

Governance

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

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

Strategy

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

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

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.

Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

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

Metrics and Targets

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.

Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

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

Appendix 2: Glossary

Climate Solutions: Defined as set out within the MSCI, companies whose products and services that may include alternative energy, energy efficiency, green buildings, sustainable water and pollution prevention.

Decarbonisation: The process by which the Pension Fund will look to encourage countries companies and other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry, and transport.

Fossil Fuel Reserves The weight of the Pension Fund's portfolio invested in companies that own fossil fuel reserves. Greenhouse gases Atmospheric gas emitted from all activities that involve burning of fossil fuels. These accumulate in the atmosphere and trap heat from the Earth's surface, increasing warming (known as the greenhouse effect)

Investment Manager: An organisation to whom the responsibility for the day-to-day management of some of the scheme's assets is delegated. The Investment Manager acts on the basis of the mandate, as agreed with them and their client (Leicestershire Pension Fund). The mandate may contain performance targets by reference to a benchmark.

MSCI: A global provider of investment analysis tools, ESG and climate related data and product.

Paris Agreement: The Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

Physical Risk: The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Responsible Investment: The integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes both before and after the investment decision.

Physical Risk The financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Scope Emissions Carbon emissions refers to the amount of carbon dioxide equivalent emissions that are released into the atmosphere. For the purpose of measurement, they are divided into 3 types:

> **Scope 1** Greenhouse Gas Emissions Direct emissions from owner or sources controlled by the owner, for example, from burning fuel in a fleet of vehicles.

> **Scope 2** Greenhouse Gas Emissions Indirect emissions when the energy a company purchases and uses is produced. For example, the generation of electricity would fall into this category.

Scope 3 Greenhouse Gas Emissions Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship The promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Taskforce for Climate Financial Disclosures (TCFD) Guidance produced by The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system to improve and increase reporting of climate-related financial information.

tCO2e: Unit representing the amount of greenhouse gases emitted during a given period. Measured in tonnes of carbon dioxide equivalent. Paris Agreement the Paris Agreement is a legally binding international treaty on climate change. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

Transition Risk The financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment. Voting The act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

Appendix 3: Key metrics used are set out below:

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Scope 1 Emissions	tCO2e (Tons of CO2 equivalent)	These are the Greenhouse Gas (GHG) emissions that a company is directly responsible for.	The emissions generate 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	tCO2e	GHG emissions that a company causes indirectly through its operations.	The emissions generated through the energy purchased by the company during its operations, such as energy consumption used to heat buildings.	
Scope 3 Emissions	tCO2e	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.	
Financed Emissions	tCO2e	Is calculated by multiplying an attribution factor by a company's scope 1 and 2 emissions. The attribution factor is the ratio between an investor's outstanding amount in a company and the value of the financed company.	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). Attribution factor (Enterprise Value including Cash (EVIC))
Normalised Financed Emissions	tCO2e/$m Invested	Financed Emissions are apportioned by the portfolio's AUM as to provide a measure of carbon intensity.	This measure converts the absolute measure of Financed Emissions into a relative measure of carbon intensity, creating greater ease when benchmarking and comparing to other portfolios.	This measure will complement Financed Emissions, as alone it cannot provide an absolute measure of portfolio emissions.
Weighted Average Carbon Intensity (WACI)	tCO2e/$m revenue	Is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by 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'.

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Exposure to Fossil Fuel Reserves	%	The weight of a portfolio invested in companies that (i) own fossil fuel reserves (ii) thermal coal reserves (iii) utilities deriving more than 30% of their energy mix from coal power	A higher exposure to fossil fuel reserves is an indicator of higher exposure to stranded asset risk.	It does not consider the amount of revenue a company generates from fossil fuel activities. Consequently, diversified businesses (e.g., those that own a range of underlying companies, one of which owns reserves) would be included when calculating this metric. In reality, these companies may not bear as much stranded asset risk as companies that do generate a high proportion of revenue from fossil fuels.
Exposure to Fossil Fuel Reserves by Revenue	%	This identifies the maximum percentage of revenue either reported or estimated derived from conventional oil and gas, unconventional oil, and gas, as well as thermal coal. These values by companies are summed and weighted by the portfolio weights to produce a weighted exposure.	This has been included to overcome the limitations of the metric of Exposure to Fossil Fuel Reserves, which includes all companies which have any exposure regardless of how small.	This measurement uses maximised estimates where reported values are not available. Therefore, there is a potential to overestimate exposure.
Exposure to Clean Technology	%	The weight of a portfolio invested in companies whose products and services include clean technology (Alternative Energy, Energy Efficiency, Green Buildings, Pollution Prevention, and Sustainable Water). The final figure comes from the percentage of each company's revenue derived from clean technology.	Provides an assessment of climate-related opportunities so that an organisation can review its preparedness for anticipated shifts in demand.	While MSCI has been used for this report due to its wide range of listed companies and data points, there is no universal standard or definitive list of green revenues. This is due to the inherent difficulty in compiling a complete and exhaustive list of technologies relevant for a lower-carbon economy.
Exposure to Clean Technology by Revenue	%	This identifies the maximum percentage of revenue, either reported or estimated, derived from companies involved in clean technology (see above).	Allows for a comparison of company's exposure to clean technology, adjusted according to a proportion of that company's size.	This measurement uses maximised estimates where reported values are not available. Therefore, there is potential to overestimate exposure.

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Engagement	%	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.	This allows us to understand how much of the portfolio's financed emissions are accounted for under engagement programs.	This figure does not demonstrate the degree of progress made with the portfolio company as a result of the engagement. This will also include engagement on issues outside of environmental topics.
Data Quality	Numerical (1-5)	This metric is represented as a score between 1 and 5, with 1 representing the highest quality of reported emissions. A score of 1 would represent independently verified emissions data, whereas a higher score may represent estimated emissions based on sector averages.	Understanding data quality provides an insight into the accuracy of other climate metrics.	Simple quantification of the quality of data, does not provide in-depth understanding of data availability/reliability.
Low Carbon Transition	Numerical (1-10)	Low Carbon Transition scores are assigned from 1 to 10. For this metric, the proportion of financed emissions associated with a portfolio with a manager score above 5 is aggregated.	This views how well a company manages risk and opportunities related to the low carbon transition. Apportioning by financed emissions places a greater weight on companies where emissions are more substantial.	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.
Implied Temperature Rise (ITR)	%	This introduces the concept of a carbon budget, how much the world can emit such that global temperatures do not exceed 2 degrees Celsius. Implied temperature rise considers if the entire economy had the same over/undershoot of (scope 1, 2 and 3) their respective carbon budgets as the respective portfolio company, what would be the temperature rise during 2100 from preindustrial levels. The portfolio's Implied Temperature Rise aggregates the portion of financed emissions associated with portfolio companies with an Implied Temperature Rise of 2 degrees Celsius or less.	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.	Implied temperature rise is heavily reliant on the model's parameters and assumptions.

Carbon Risk Metric	Unit	Definition	Use Case	Limitations
Science-Based Targets	%	This is calculated as the proportion of financed emissions which are accounted for by a portfolio company with science-based climate target.	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.	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.
Paris Alignment	%	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.	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.	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.

Appendix 4: Important Information

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