CLIMATE-RELATED FINANCIAL DISCLOSURES 2022

Introduction to the TCFD

The Financial Stability Board (FCB) created the Taskforce on Climate-related financial disclosures (TCFD) in 2015. The TCFD is an industry-led group that helps companies, asset managers, asset owners, banks and insurance companies, and their investors understand their financial exposure to climate risk. In 2017 recommendations were released that were designed to allow the aforementioned groups disclose how they are managing climate risks and opportunities in a clear and consistent way.

These recommendations are structured around four key sections:

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.

Figure 1: TCFD Disclosure Pillars

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

The Fund has voluntarily reported in line with TCFD recommendations since 2020. In late 2022 the Department for Levelling Up, Housing and Communities consulted on proposals to mandate LGPS schemes to assess, manage and report on climate-related risks in line with the TCFD recommendations. The Fund awaits the outcome of the consultation on potential enhancements to what the Fund already reports against.

The Fund supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. 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 our beneficiaries.

In writing this report Fund has taken note of the Pension Regulators guidance and review of climate-related disclosures by occupational schemes to report in line with best practice.[1]

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

About this report

This report is Leicestershire County Council Pension Fund's ('the Fund') third climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund. These reports provide an in-depth review of the Fund's climate risks under different climate change scenarios across all asset classes. The Fund has used the findings of these reports to develop its Net Zero Climate Strategy which has taken place throughout 2022.

In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report discloses the most recent carbon risk metrics analysis and climate scenario analysis undertaken on the Fund's assets as at 31 March 2022 and reported to the Local Pension Committee in November 2022.

Currently the carbon metrics are limited to the listed equity portfolio at this time, while the climate scenario analysis has been applied to the wider asset allocation. It is expected that climate data is subject to change as further data becomes available and the situation evolves.

Governance

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

Leicestershire County Council is Leicestershire County Council Pension Fund's Administering Authority. The Council has delegated overall responsibility for management of the Fund to the Local Pension Committee. This includes oversight of climate-related risks and opportunities through the following roles and responsibilities:

- Overall responsibility for all issues relevant to the Fund, including the oversight and management of risks and opportunities related to climate change.
- A high-level approach to management of climate change through key documents such as the Investment Strategy Statement which includes formal investment beliefs on climate change and responsible investment, as well as the Fund's risk register. The annual Responsible Investment plan and development of the Fund's Net Zero Climate Strategy also sits within the Committee's remit.
- Decision making in relation to the Strategic Asset Allocation and consideration of climate-related risks and opportunities.

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.

Quarterly reports include manager voting, stewardship reports from LGPS Central, LGIM and the Local Authority Pension Fund Forum. The Committee also receive integrated responsible investing reports, including climate change reporting within investment manager presentations.

Climate metrics are reported annually through the Fund's Climate Risk Report which feed into the annual Strategic Asset Allocation considerations. Key reports considered by the Committee during the year are set out below:

- Responsible Investment plan 2022
- Annual Strategic Asset Allocation review
- Responsible investing reports – Q1, Q2, Q3, Q4
- Presentations from IFM, LGIM, LGPS Central and Aegon
- Report on engagement and divestment from Hymans Robertson
- Draft net zero targets and metrics, and proposed engagement with scheme members and employers
- 2021 Taskforce on Climate Related Financial Disclosure report
- Draft Net Zero Climate Strategy and outcome of engagement with scheme members and employers
- A report on the fiduciary duty and the LGPS
- Annual Climate Risk Report and Climate Scenario Analysis 2022

Throughout the year the Committee also received representations from members of the public in relation to the case to divest fully from fossil fuel producers which were considered as part of the development, engagement, and consultation on the Fund's draft Net Zero Climate Strategy.

The Fund supports the continuous improvement of Committee member knowledge and provides an annual training needs assessment questionaire to Committee members to identify areas where training is required.

The Committee is supported by Hymans Robertson, its 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:

The 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 a Responsible Investing update in May 2022 and have been kept updated on the progress of the development of the Fund's Net Zero Climate Strategy, the Board will have an opportunity to comment on the Net Zero Climate Strategy before it is considered by the Local Pension Committee for approval.

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 environmental, social and governance factors.

The Subcommittee is also supported by Hymans Robertson. Hymans recommendations in 2022, included two investments potentially benefitting from opportunities arising from climate change, Stafford Capital Partners Carbon Offset Opportunities Fund (an afforestation and reforestation timberland fund) and the Net Zero Power Fund managed by Quinbrook Infrastructure Partners.

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 and Engagement factors as set out in the 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.

b) Describe management's 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 Local Pension 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:

- Development of the Fund's Net Zero Climate Strategy and support of improvements in how the Fund assessed and managed climate related risks and opportunities.
- Progressing the 2022 Responsible Investment plan.
- Seeking scheme member and employers' views on draft net zero targets. The Fund received 1025 responses to the initial engagement, the majority of which supported the proposed targets and metrics for the Fund's Net Zero Climate Strategy. Officers will continue to work on improving members understanding of the Pension Fund, and ensuring the approach to climate risk and opportunities is managed in line with the Fund's fiduciary duty.

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 in November 2022 which set out the advice received throughout the year such as: proposed net zero targets, offsetting, timberland, engagement and divestment, and support in the development of the Fund's Net Zero Climate Strategy.

Hymans produced various documents linked to the Fund's oversight of climate risk considered by the Local Pension Committee and ISC discussed in the earlier section. These objectives are assessed regularly to ensure they remain appropriate.

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. This is discussed in more detail elsewhere in the report.

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. LGPS Central also conduct extensive assessment and reporting of responsible investment factors in line with the Responsible Investment and Engagement Framework. The Local Pension 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

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

As a Pension Fund and diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. It is important that the Fund looks to understand potential impacts on assets and liabilities, the resilience of the Fund's investment and funding strategies and key assumptions and limitations. As highlighted previously climate change poses physical and transitional risks, as well as opportunities. These risks will evolve over time and be dependent on the particular asset class.

A subset of risk factors to Fund investments is presented in Table 1.

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.

Climate risks and opportunities may be identified, assessed, and monitored in various ways. For example, the Fund developed a Stewardship Plan targeted at some of the Fund's biggest carbon emitters, given the potential for transition risks to impact these assets more significantly. The climate scenario analysis undertaken also allows the Fund to see which asset classes may be materially more at risk in certain scenarios.

Alongside other financial considerations climate related risks and opportunities are assessed when setting the Investment Strategy Statement and Funding Strategy Statement, to ensure a holistic approach.

The Fund's latest triennial analysis (as at 31 March 2022), considered climate risk in line with the Government Actuary Department's latest Section 13 review of the LGPS. It is recognised that pension liabilities are 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 the changes in climate. 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.

Table 1: Example Short, Medium & Long-Term Risks and opportunities to Fund Investments

	Short & Medium Term	Long Term
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
Opportunities	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

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

The Fund takes a holistic approach to assessing the impact of climate-related risks and opportunities to its assets and liabilities. Although 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. The Fund is developing the approach to its investment strategy through development of the Net Zero Climate Strategy to:

i. Further support diversification of the Fund through integration of climate risk and opportunities into investment processes

ii. Stewardship and engagement to support decarbonisation of the Fund's portfolio and real-world economy

iii. Work with investment managers to understand their view of climate related risks and opportunities

This has been informed and shaped by the annual Climate Risk Report from LGPS Central, 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 considers these factors through the annual review of the Strategic Asset Allocation which feed into investment decision making throughout the year. The impact of considering these factors in mitigating risk as well as taking advantage of opportunities presented, alongside appropriate financial considerations, has related to a number of investments in recent years, for example:

Listed Equity

- The Fund has invested in a multi-factor climate fund in 2021. As at 31 March 2022 this accounts for £872million of the Fund. While seeking exposure to five style factors, the fund tilts away from companies that are carbon intensive or own fossil fuel reserves and tilts towards companies that generate green revenues.
- The Fund is looking to review the listed equity portfolio following approval of the Fund's Net Zero Climate Strategy to further embed climate-related risks and opportunities into its investment strategy.

Infrastructure

- £55 million committed to the Quinbrook Net Zero Power Fund. That invests in 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 with Stafford Capital. 65% of which is invested in planting new forests (afforestation), 15% reforestation and 20% improved forest management. This will provide a source of sustainable low carbon timberland materials and generates verified carbon offsets. This new investment is in addition to the £139 million (as at 31 March 2022) already held in timberland funds.
- The Investment Subcommittee agreed to sell the carbon credits generated at this point in line with advice on the best approach to managing financial risks to the Fund from climate change. It is able to revisit this decision in future if needed.

The in-development Net Zero Climate Strategy includes targets and metrics that will help inform the Fund's short to long term considerations of climate risk. These targets were engaged upon with scheme members, which included 70% support for the Fund to target Net Zero by 2050, with an ambition for sooner.

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.

While the Fund could divest from carbon intensive industries, the view is that would do little to impact real world carbon emissions, and thus not protect the Fund's 'universal' portfolio.

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

Resilience of the Fund's Asset Allocation

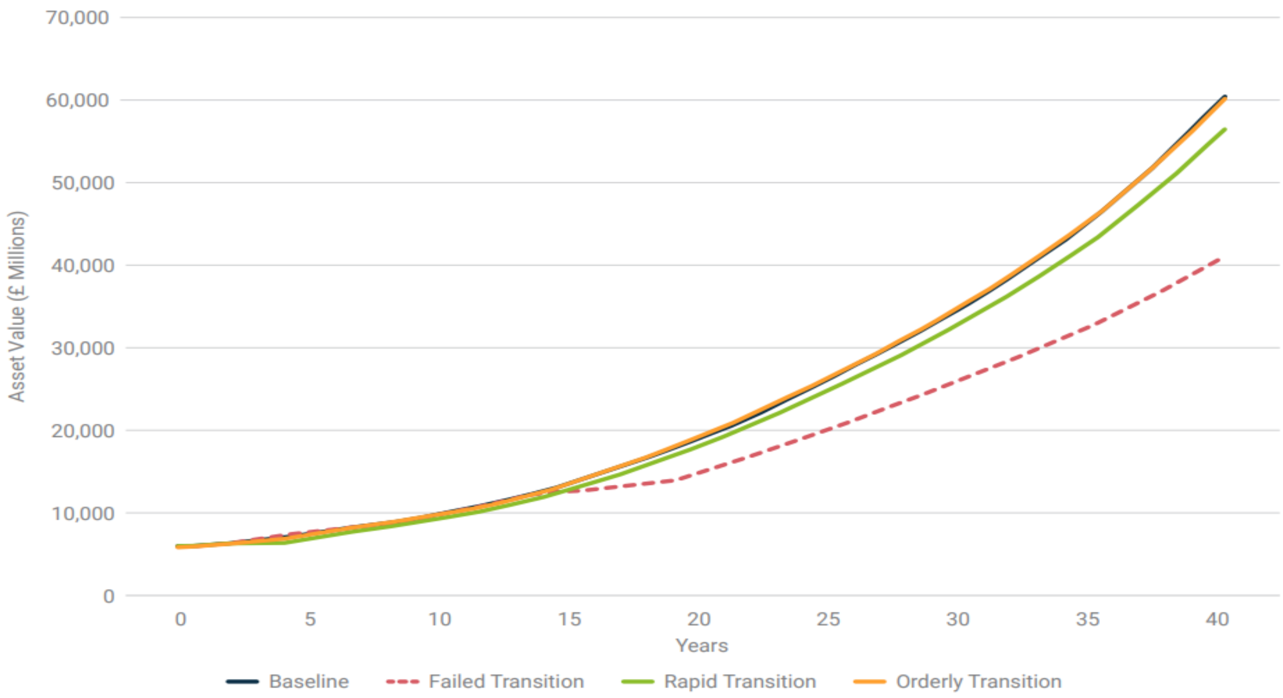
Analysis of the Fund's Strategic Asset Allocation and actual asset allocation as at 31 March 2022 has been carried out by Mercer for LGPS Central to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of climate scenarios, including an estimation of the annual climate-related impact on returns. All asset classes are included in this analysis. The climate scenarios used are:

Rapid Transition: average temperature increase of 1.5°C by 2100 in line with the Paris Agreement. This scenario assumes sudden large-scale downward re-pricing across multiple securities in 2025. This could be driven by a change of policy or realisation that policy change is inevitable, consideration of stranded assets or expected cost. To a degree, the shock is sentiment driven and is, therefore, followed by a partial recovery across markets. The physical damages are most limited under this scenario.

Orderly Transition: average temperature increase of 1.6°C by 2100. This scenario assumes political and social organisations act in a co-ordinated way to implement the recommendations of the Paris Agreement to limit global warming well below 2°C. Transition impacts do occur but are relatively muted across the broad market. Climate-related Financial Disclosures

Failed Transition: average temperature increase above 4°C by 2100. This scenario assumes the world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasingly negative impacts from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s.

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



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.

Over the medium- to long-term, a successful global transition is imperative for LPF as asset allocations fare better under rapid and orderly transition scenarios versus the failed transition. Over the 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.

Under a failed transition scenario however, the asset allocation is affected by a greater degree of physical impact which drive underperformance in the long-term. Cumulative losses under the failed transition scenario over 40 years could amount to c.32% of the portfolio's value relative to the baseline.

The analysis shows asset class returns vary significantly by scenario depending on their respective exposure to transition and 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.

It is also key that the Fund continue to monitor exposure to:

> **Sector:** 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.

Regional: 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.

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.

Resilience of the Fund's Funding Strategy

As part of the triennial valuation the Fund's Actuary undertook sensitivity and risk analysis on the resilience of the Fund's funding strategy to future potential climate change outcomes.[2]

The Funding Strategy 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) the 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.[3]

Table 2 Impact on funding strategy of climate transition scenarios

Scenario	**Qualitative scenario descriptions**	**Likelihood of success**	**Downside risk**
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%

[2] LCCPF Triennial Valuation Report 222
https://politics.leics.gov.uk/documents/s175116/App%20C%20Report%20on%20the%20actuarial%20valuation.pdf

[3] Fund Triennial Valuation Report 2022

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%

Risk Management

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

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 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 best 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 will include the following:

- Annual climate risk report and biennial 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.
- Consideration of new asset classes
- Selection of 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.
- Awaiting emerging regulatory guidance.

The Committee during the year looked to better understand disclosure and practices related to climate-related risks, for example:

- Aegon presented to the Local Pension Committee. Members wanted to know in more depth about the impact of the change of the invested funds name to the "Global Transition Fund." Aegon informed the Committee that it followed a piece of work to factor in a climate transition framework into the portfolio to reflect a new investment philosophy. The fund sought to invest in companies with robust and credible transition plans towards a net zero future. It was noted the fund looked to focus on companies regarded as leaders, and those that failed to transition would be unlikely to be reinvested in. The fund also now included an additional target of weighted average carbon intensity. The Committee were interested in understanding whether this resulted in trigger points for divestment. Aegon emphasised that the approach was not an exclusionary approach to the transition, but an approach that invested in companies best positioned for the transition. The assessment of companies was based on a holistic approach rather than focusing on one quantitative metric.

- The Fund has invested in timberland for many years. The opportunity arose to invest further in Stafford's Carbon Offset Opportunity Fund. The Investment Subcommittee debated the risk related to investment in timberland, and carbon markets that the offsets relied on. The Subcommittee agreed to sell the carbon credits generated at this point in line with advice on the best approach to managing financial risks to the Fund from climate change. The Subcommittee or Committee may reconsider this decision in future if needed.

Throughout the year LGPS Central on behalf of the Fund has also undertaken engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability. Further detail is set out below.

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

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 3 The Fund's stewardship 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 LPF'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.

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.

The Local Pension Committee receives the results of engagement and voting activities on a quarterly basis, via voting reports and quarterly LAPFF, LGIM and LGPS Central updates, as well as an annual update as part of the Fund's Climate Risk Report.

In order 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, the accountants who audit companies' accounts.

The Fund and LGPS Central views this approach as the most viable and most 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	Mining
BP	Energy
Cemex	Mining
Glencore	Materials
Holcim	Cement
NextEra	Utilities
Shell	Energy
Taiwan Semiconductor Manufacturing Company	Info Tech

c) Describe how processes 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 investing and climate change factors. This is due to take place early 2023.

Metrics and Targets

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

The Fund has recently received its third annual report from LGPS Central Ltd, setting out the carbon risk metrics for its listed equities portfolios, which represent 45% of the Fund's total assets as at 31 March 2022. The poor availability of data in asset classes other than listed equities prevents a more complete analysis at this time.

The carbon risk metrics analysis includes:

- portfolio financed emission and weighted average carbon intensity[4]
- weight of portfolios invested in companies with fossil fuel reserves
- **NEW**: weight of portfolios invested in companies with fossil fuel reserves, by revenue

[4] Following TCFD guidance we use weighted average portfolio carbon footprints.

- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- **NEW**: weight of portfolios invested in companies whose products and services include clean technology, by revenue
- metrics assessing the management of climate risk by portfolio companies through organisations including TPI and CA100+

Carbon risk 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.

New metrics have been used to measure exposure by revenue for clean technology and fossil fuel exposure. This is in order to overcome the limitations of the exposure to fossil fuel reserves/clean technology, which includes all companies which had any exposure, regardless of how small.

The poor availability of data in asset classes other than listed equities 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. 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.

The Fund notes that some of the Fund’s underlying asset managers have made net zero commitments and are working towards reduced carbon emissions in line with the Paris Agreement, the Fund is planning to better understand the coverage of Fund assets under these underlying commitments.

Table 5 Asset Class coverage plan

Asset Class	Action	Year	% as at 31 December 2022
Listed Equity	Included within CRR	2020	45%
Corporate Bonds	Mapping of intensity metrics.	2023	11%
Sovereign Bonds	Mapping of intensity metrics.	2023	
Corporate Bonds	Include within CRR	2024	
Sovereign Bonds	Include within CRR	2024	
Private Equity	Include within CRR	2025	8%
Legacy Private Equity	Work on the Fund's legacy assets outside of LGPS Central.	TBC	
Real Estate	Include within CRR subject to first set of data available.	2025	9%
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.		TBC	Circa 20%

Carbon risk 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.

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

In line with the TCFD guidance and following receipt of a report from LGPS Central we provide below the carbon intensity of the Fund's listed equity portfolio[5] alongside the other metrics used. At this point these are only the scope 1 and 2 for the listed equity portfolio. The data included below is a snapshot of what is included within the Fund's Climate Risk Report 2022 against the baseline data as at 31 December 2019.[6]

Table 6 Extract from 2022 Climate Risk Report climate metrics for listed equity

	2019			2022			% Difference Between 2019 and 2022	
	PF	BM	% Diff	PF	BM	% Diff	PF*	BM
Financed emissions	203k	n/a	n/a	162k	n/a	n/a	-20.14%	n/a
Portfolio Carbon Intensity (tCO2e/ $m)	160.20	193.22	-17.09%	117.83	145.14	-18.82%	-26.45%	-24.88%
Weight in fossil fuel reserves (%)	8.57%	9.32%	-0.75%	6.79%	6.81%	-0.02%	-1.78%	-2.51%
NEW Weight in fossil fuel reserves by revenue	n/a	n/a	n/a	1%	n/a	n/a	n/a	n/a
Weight in thermal coal reserves (%)	2.87%	3.02%	-0.16%	2.50%	2.50%	0.00%	-0.37%	-0.53%
Weight in coal power (%)	1.40%	1.79%	-0.39%	1.15%	1.15%	0.00%	-0.25%	-0.64%

[5] Analysis undertaken on the listed equities portfolios with holdings data as of 31st March 2022. The information in Table 6 was provided to the Fund in a report authored by LGPS Central Limited.
In LGPS Central Limited's report, the Total Equities portfolio comprises the Total Active Equities and the Total Passive Equities portfolios weighted according to their size in GBP. The Total Active Equities portfolio contains two underlying portfolios managed for the Fund by LGPS Central. The Total Passive Equities portfolio contains six underlying portfolios managed for the Fund by LGIM and one underlying portfolio managed by LGPS Central.
[6] https://politics.leics.gov.uk/documents/s172321/Appendix%20-%20Public%20Leicestershire%20PF%20ClimateRiskReport.pdf

Weight in clean tech (%)	34.16%	33.92%	0.24%	38.2%	32.8%	5.39%	4.08%	-1.07%
NEW Weight in clean tech by Revenue	n/a	n/a	n/a	4.21%	n/a	n/a	n/a	n/a

* Portfolio column is colour coded against benchmark, whereby Green = Performing ahead of benchmark; Amber = In line with benchmark; Red = Behind benchmark.

While the risk metrics that can be compared show the Fund generally outperforms its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in investment decision making.

This data is updated on an annual basis. Further information is available within the Fund's Climate Risk Report 2022, which included recommendations at a total fund level and portfolio level.

The Fund has chosen not to include Scope 3 emissions in the carbon footprint metrics for two reasons:

(1) the rate of Scope 3 disclosure remains insufficient to use reliably in carbon metric analysis, and

(2) issues related to double counting. To overcome the risk of 'understating' carbon risk, the Fund additionally assesses its exposure to fossil fuel reserves

The Fund will look to increase its analysis of assets as data becomes more readily available and reliable.

Fossil Fuels

Exposure to fossil fuel reserves, thermal coal reserves and coal power in total equities has decreased by 1.78%, 0.37% and 0.25% respectively. Both total active and total passive equity funds experienced a decrease in exposure to all three aspects between 2019 to 2022. Most notably, the passive equity funds decreased exposure to fossil fuel reserves by 2.26%, while active equity funds decreased exposure by 0.49%. resulting in a decrease of 1.78% in total equities exposure.

Clean Tech

The exposure of the total equites to clean technology has increased by 4.08% between 2019 and 2022. Although 38.24% of total equities AUM is invested in companies with clean technology exposure, only 4.21% of the total revenue generated by portfolio companies is derived from clean technology solutions (as defined by MSCI) suggesting the majority of companies are not pure-play clean technology companies (i.e., they do not derive a significant proportion of their revenue from clean tech).

Climate Governance

The Fund utilised the TPI framework to assess the carbon risk of individual portfolio companies.

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

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

Table 7 Total Equities Transition Pathway Initiative Assessment

	Ranking	2022
Management Quality	4*, 4	50.96%
	3, 2	38.66%
	1, 0	10.38%
Paris Alignment	1.5 Degrees	16.23%
	2 Degrees or below	28.98%
	International/ National/ Paris Pledges	10.87%
	Not Aligned	43.92%

404 companies within total equity funds (covering 15.12% of total holdings) were assessed and ranked by the Transition Pathway Initiative. About half of these assessed companies (50.96%) of the companies assessed achieved a management quality rating of 4-4*.

The results for Paris Alignment exhibit, 45.21% of companies within total equity funds are aligned to 2 degrees or less, while 43.92% of companies are not aligned or there is no or unsuitable disclosure. It should be noted only 7.89% of companies within this portfolio were assessed. This suggests the majority of companies are yet to release targets aligned to the goals of the Paris Agreement.

Table 8 Total Equities % of companies with a net zero target

% of Total Portfolio	47.22%
% of Companies in Material Sectors	50.43%
% Financed Emissions	62.48%

Just under half (47.22%) of the companies within equity funds are committed to achieving Net Zero emissions by 2050. 62.48% of the portfolio's financed emissions are generated by companies which have set Net Zero targets. Whilst this does suggest commitments are being made by the right companies, there are still a significant proportion yet to set a Net Zero Target, thus emphasising the need for engagement within this next critical decade.

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

Throughout 2022 the Fund progressed development of a Net Zero Climate Strategy. This included engagement on draft targets and measures to help the Fund manage climate related risks and opportunities and performance against targets.

The Fund received 1025 responses. At a high level 70% supported net zero by 2050, with an ambition for sooner. The outcome of the engagement was presented to the November 2022 Local Pension Committee meeting.

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 targets and metrics were subsequently agreed as part of the Fund’s Net Zero Climate Strategy in March 2023 which looks to build on the improvement on baseline information year on year. While out of scope for this report, further information can be found here: https://leicsmss.pensiondetails.co.uk/home/all-news

The Fund is committed to extending its focus and expanding its asset class coverage as previously set out as reliable data becomes available.

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

Clean Technology/ Weight in Clean Technology: the weight of a portfolio invested in companies whose products and services include clean technology. Products and services eligible for inclusion include Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, Sustainable Water.

Coal Reserves/ Portfolio exposure to thermal coal reserves: the weight of a portfolio invested in companies that own thermal coal reserves.

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

Fossil Fuel Reserves/ Portfolio exposure to fossil fuel reserves: the weight of a portfolio invested in companies that own fossil fuel reserves.

Physical risk/ climate 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.

Portfolio Carbon Footprint/ Carbon Footprint: A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It 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.

Scope 1 Greenhouse Gas Emissions: Direct emissions from owner or sources controlled by the owner, including: on-campus combustion of fossil fuels; and mobile combustion of fossil fuels by institution-controlled vehicles.

Scope 2 Greenhouse Gas Emissions: Indirect emissions from the generation of purchased energy**.**

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.

Transition risk/ climate 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.

Appendix 3: Important Information

The following notices relate to information from the Climate Risk Report 2022 by LGPS Central-based on a product licensed by MSCI ESG Research LLC. This report confers no suggestion or representation of any affiliation, endorsement, or sponsorship between LGPS Central and MSCI ESG Research LLC. Additionally:

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