West Midlands Pension Fund

TCFD

CLIMATE-RELATED DISCLOSURE REPORT

2024

Prepared in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures.

Report prepared in collaboration with LGPS Central Limited.

DECEMBER 2024

Executive Summary

The Fund has undertaken climate risk analysis on its portfolio since 2017. Publication of results was formerly positioned within our Annual Report and Accounts before moving to a standalone TCFD report format from 2020.

We provide updated disclosures under each of the four TCFD pillars: governance, strategy, risk management and metrics & targets. We also report progress of exposure to fossil fuel, thermal coal and clean technology and provide an update on portfolio companies' alignment to the Transition Pathway Initiative Framework.

The management of climate-related risks falls within our fiduciary duty to our members.

WE HAVE REDUCED THE CARBON INTENSITY OF OUR LISTED EQUITIES PORTFOLIO BY 45% SINCE 2019[1] – ON TRACK TO MEET OUR 50% REDUCTION TARGET BY 2030.

THE CARBON INTENSITY OF OUR LISTED EQUITY PORTFOLIO IS 50% LOWER RELATIVE TO THE REFERENCE BENCHMARK[2]

OUR EXPOSURE TO FOSSIL FUELS[3] IS CONSISTENTLY LOWER THAN THE BENCHMARK[4].

38% OF OUR PORTFOLIO COMPANIES IN SCOPE[5] HAVE A TPI MANAGEMENT QUALITY SCORE OF 4 OR 4* (HIGHEST SCORES GIVEN)

Our Climate Change Framework and Strategy captures our aspiration to halve our investment portfolio's carbon emissions by 2030 (relative to a 2019 baseline), aiming to align to net zero by 2050 or sooner. Progress against our 2021 targets is reviewed annually.

At the time of writing, we are reviewing our 2021 targets to ensure they remain ambitious and fit for purpose. We expect to publish our updated climate strategy and targets in 2025.

[1] Data as at 31 March 2024 in reference to a baseline of 31 December 2019.
[2] The blended benchmark comprises the FTSE UK All Share, FTSE All-World, and FTSE Emerging indices.
[3] In line with the Exposure to Fossil Fuel Reserve metrics as defined in the Metrics & Targets section and Glossary.
[4] The blended benchmark comprises the FTSE UK All Share, FTSE All-World, and FTSE Emerging indices.
[5] Not all companies within our portfolio are assessed under the TPI Management Quality Score.

Contents

Our Commitment

STRONG GOVERNANCE

Providing assurance on the services we deliver with effective decision making.

CUSTOMER FOCUSED

Enabling, educating and supporting our customers on complex issues, flexing our services to our customer's evolving needs.

GLOBAL INFLUENCE

Shaping the industry in which we operate, leading by example on key issues, including regulatory change, investment cost management, and responsible investment.

DELIVERING FOR LOCAL PEOPLE

Enhancing our reach through developing our engagement model and supporting our communities through opportunity.

Our Fund

The West Midlands Pension Fund ("the Fund") works in partnership with over 800 participating employers to support pension saving and provide benefits to more than 340,000 members and employees who provide public services, which support communities across the West Midlands.

Our mission is to provide sustainable futures for all – engaging our customers in retirement planning, ensuring efficient pension administration and return on contributions through responsible investment and influence for positive environmental and social benefit, all of which deliver long-term benefit promises.

As long-term investors, climate change presents risks and opportunities that form a part of our critical thinking in the way we approach investment and our Fund's wider objectives and delivery themes including global influence and delivering for local people.

We recognise the need to address climate change on a global scale, our role in ensuring the shift to a low carbon economy and ensuring a "just transition" for workers and communities, with the potential for substantial economic and social benefits.

Our Climate Change Framework and Strategy sets out our ambition to be net zero by 2050 and our 2026 - 2030 climate targets.

Providing sustainable futures for all.

Assets under management

£21bn

Members

340,000+

Employers

800+

Information correct as at 31 March 2024

Introduction to the TCFD

In 2017, the TCFD[6] released recommendations designed to improve transparency by asset owners, asset managers, companies, banks and insurance companies with respect to how climate-related risks and opportunities are being managed.

The recommendations are based on the financial materiality of climate change and are structured around four thematic elements that represent key components of how companies operate: governance, strategy, risk management, and metrics and targets (Figure 1). The four elements are designed to make TCFD-aligned disclosures comparable, but with enough flexibility to account for stakeholder-specific circumstances.

Figure 1: Core elements of recommended climate-related financial disclosures

The organisation's governance around climate-related risks and opportunities.

The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning.

The processes used by the organisation to identify, assess, and manage climate-related risks.

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

[6] About the Task Force on Climate-Related Financial Disclosures (TCFD)

Our Climate Journey to Date

2017

- First climate risk analysis
- First voluntary TCFD reporting

2019 – 2023

- Published Climate Change Framework and Strategy 2019 – 2023

2020

- Published first standalone TCFD report
- Committed £2.4 billion to low carbon and sustainable equity strategies

2021

- Met our 2019 targets two years ahead of schedule
- New Climate Change Framework and Strategy for 2021
- Set medium-term targets for 2026 and 2030

2022

- Made public commitment to Paris Aligned Asset Owner Initiative

2024

- 45% decrease in carbon footprint of listed equities since 2019
- Carbon footprint for listed equities was 50% lower than reference benchmark

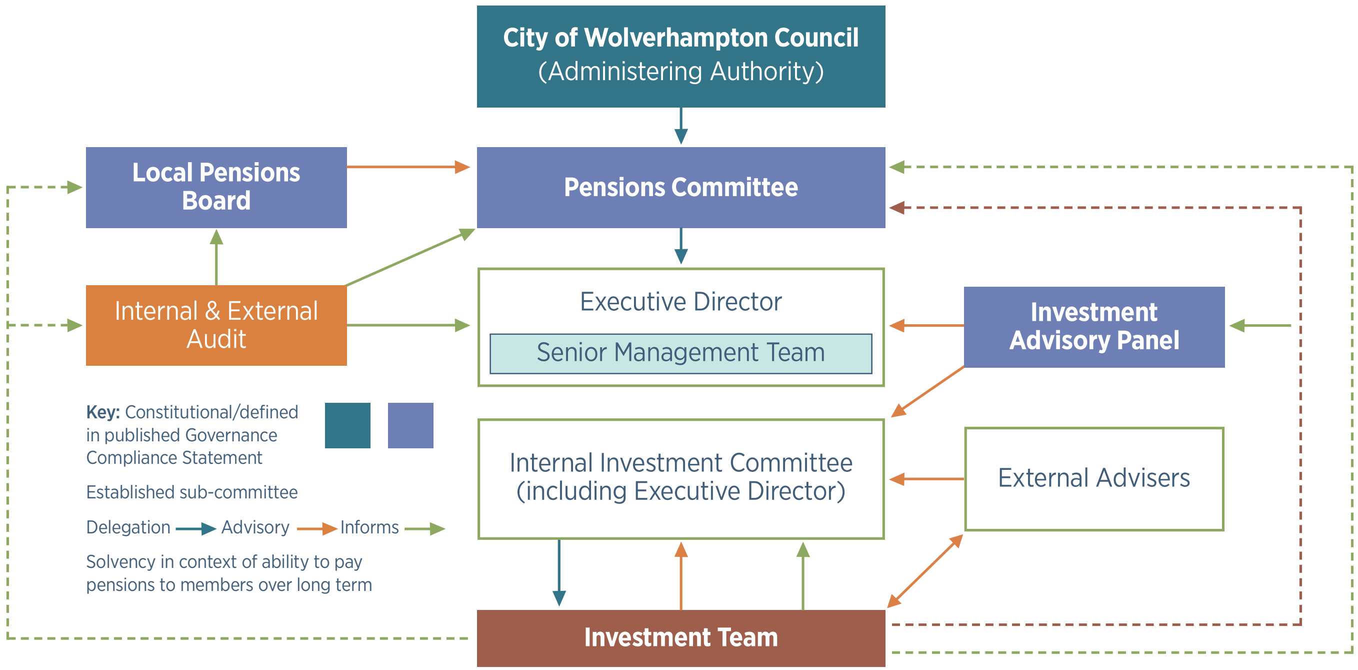
All figures are based on Scope 1 + 2 emissions of the Fund's listed equity portfolio.

TCFD RECOMMENDED DISCLOSURE:

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

Governance

Figure 2: The regulatory and governance framework in place to manage the investment strategy.



The roles and responsibilities of the different bodies in our governance structure are outlined in our Governance Compliance Statement and summarised overleaf.

Governing body	Roles and responsibilities (relating to climate)	Process and frequency
City of Wolverhampton Council	The LGPS administering authority for the Fund. Delegates its responsibility to the Pensions Committee.	
Pensions Committee	Oversees the management and administration of the Fund including approval of climate-related reports.	• Meets quarterly to review Fund activities over the quarter which includes climate-related activity. • Approves climate-related reports such as the Climate Change Framework and Strategy and Climate-related Disclosure Report. • Attends governing body training three times a year.
Local Pensions Board[7]	Reviews the process of effective decision making including the approach taken to the management of climate-related risks and opportunities.	• Meets quarterly. Attends governing body training three times a year.
Investment Advisory Panel (IAP)	Supports the Internal Investment Committee with strategic advice, challenge, market commentary and oversight of portfolio management.	• Meets quarterly.
Internal Investment Committee (IIC)	Day-to-day asset allocation and investment strategy decision-making and implementation of investment strategy, together with climate-risk oversight and monitoring of investment management arrangements.	• Meets monthly.

Governing Body Training
The Fund is committed to building the knowledge and skills appropriate for our Governing Bodies in an evolving regulatory landscape[8]. The Fund firmly believes that the benefits over the long-term are essential to the effective governance and management of the Fund.

Climate change, the transition to net zero, and the associated financial risks and opportunities are covered within our annual governing body training. Training on the Fund's approach to climate risk analysis and climate-related financial disclosure was delivered to our Governing Bodies by Fund Officers and members of the LGPS Central Limited ("LGPS Central") Responsible Investment and Engagement team.

Training Hours
730.5

Pensions Committee
471.5

Local Pensions Board
259.0

[7] Together we refer to Pensions Committee and Local Pensions Board as our 'Governing Bodies'.
[8] The Fund's Governing Body Training Policy is reviewed and approved annually and reflects the requirements of CIPFA's LGPS Knowledge and Skills Framework.

TCFD RECOMMENDED DISCLOSURE:

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

Governance

Pensions Committee delegates the day-to-day running of the Fund to the Executive Director, who in turn delegates to their Senior Leadership Team and Fund Officers. The Fund's investment team is led by the Assistant Director for Investment Strategy and Assistant Director for Investment Management and Stewardship.

Fund Officers engage with industry players, market actors, investment consultants and data service providers to collate data and analysis to best inform climate-related risks aligning and developing industry best practices. The Fund adopts both "top-down" and "bottom-up" analytical approaches to target the most material climate-related financial risks within the portfolio recognising that there is no singular methodology to best identify and manage climate-related risks.

Assessment
LGPS Central, our investment pool company, provides investment products, analysis, and advice, such as delivery of the Fund's internal Climate Risk Report, to support implementation of the Fund's Climate Change Framework and Strategy. This provides identification and quantitative and qualitative assessment of climate risks and informs actions in the management of climate-related risks. This is reviewed internally by Fund Officers and the Internal Investment Committee.

Through quarterly monitoring and due diligence of investment managers, Fund Officers challenge investment managers on their management of climate-related risks. Investment managers are expected to identify and manage climate-related risks in investee companies as part of their risk management processes and integration of ESG, aligning with the Fund's approach as set out in our Responsible Investment Framework. Fund Officers report back quarterly to the Internal Investment Committee which provides a forum to highlight where action needs to be taken.

Management
The Fund holds the conviction that real-world decarbonisation is essential to reducing climate-related risks, not just in the investment portfolio, but emission reduction in our economy and society. An engagement over divestment approach is favoured where, as an investor, there is leverage to drive positive change whilst addressing financial risks. Not only is this achieved through Investment Managers (and monitored by Fund Officers), but the Fund collaborates with partners and through initiatives to strengthen its engagement and stewardship ambitions towards mitigating the effects of climate change. Where applicable, the Fund also maximises its shareholder rights to send signals and drive changes to the companies and their management of climate-related risks. Fund Officers report on the engagement and voting activities on a quarterly basis to both the Internal Investment Committee and Pensions Committee.

TCFD RECOMMENDED DISCLOSURE:

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

Strategy

As a large asset owner with long-term liabilities, the Fund considers climate-related risks and opportunities across multiple timeframes and across a diversified asset-base and employer-base, as well as broader potential impacts across the Fund. The Fund remains as an active open scheme and therefore defines its time horizons as the following:

- Short-term – 1-5 years
- Medium-term – 5-15 years
- Long-term – 15+ years

Our approach on identifying, assessing and managing climate-related risks are highlighted in the Risk Management section on page 15. We adopt a risk-based approach taking into account materiality of such risks. Some key risks have been highlighted in the table on page 12.

Table 1: The climate-related risks and opportunities the Fund has identified over the short, medium and long term.

Source of risk and opportunities	Category	Risk or opportunity	Time horizon	Impact area	Description of potential impacts
Policy changes (including carbon pricing)	Transition	Risk and opportunity	Short Medium Long	Across investments and funding Investments in carbon-intensive and low-carbon industries Operational	• Positively or negatively affect the operations of companies which we invest affecting investment value. • Increases to carbon pricing can mean businesses associated with high emissions may become stranded in the medium to long-term. • Tax incentives for low-carbon technologies may provide more favourable investment opportunities and increased demands from cost savings opportunities.
Technological change	Transition	Risk and opportunity	Short Medium Long	Across asset classes	• Deployment of new clean technologies can help businesses mitigate or reduce their climate risks. • Can disrupt high-carbon industries. • Providing new investment opportunities facilitated by the need to transition to a low carbon economy in the long-term, develop climate adaptation solutions in the near-term.
Changing weather systems and climate adaptation	Physical	Risk and opportunity	Short Medium Long	Physical assets Corporate holdings	• Disruptions to business-as-usual operations which impacts profits and investment value. • Long-term changes to weather can impact food production and agriculture. • Change to weather can indirectly affect worker productivity and public health providing opportunities for climate adaption solutions.
Resource scarcity	Physical	Risk	Medium Long	Physical assets	• Growing demand for raw materials and critical minerals with creates supply chain bottlenecks and increased prices. • Water scarcity from prolonged drought and unpredictable rainfall can affect crop yields.

TCFD RECOMMENDED DISCLOSURE:

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

Strategy

The Fund recognises that climate change poses risks and opportunities to our investments and our liabilities, and inherently, our ability to pay our members their pension benefits. Some examples of the climate-related effects on our investments have been described in the Strategy and Risk Management sections. Climate-related risks may impact in liabilities through impacts on life expectancies and inflation.

As part of our fiduciary duty, we incorporate climate risk and opportunities into all areas of our investment strategy, from the selection and stewardship of assets, which we look to develop in forthcoming years and in line with the IIGCC's Net Zero Investment Framework (NZIF 2.0)[9].

Responsible investment, including climate change, is included in all new mandates managed for the Fund. We expect our appointed investment managers to identify, assess and report emerging and evolving climate-related risks. Managers' approaches are considered before appointment and on an ongoing basis through regular monitoring, including through our stewardship programme. We will often look to work with investment managers to help develop best practice and greater transparency in relation to climate-related disclosures. Engagement activity is conducted with investee companies through selected stewardship partners such as LGPS Central, LAPFF and Climate Action 100+.

All investment products through our investment pool, LGPS Central, have achieved "RI Integrated Status", which is further explained under the Risk Management section. Continuous monitoring provides assurance that climate change risks and opportunities are being appropriately integrated into the day-to-day management of the portfolio.

Coordination and collaborative action are required by multiple stakeholders (governments, regulators, companies, investors, and consumers) to manage the financial risks and realise the opportunities associated with the transition to a lower carbon economy. We continue to work with industry initiatives and partnerships to drive policy actions and develop 'best-in-practice' ideas to facilitate and mitigate the worst-effects of climate change.

With multidecadal time horizons, long-term investment beliefs and evolving liability profiles to take into consideration, significant uncertainty remains, and no single tool can provide an accurate and complete observation of the Fund's overall climate risk. To proactively manage such risk, a combination of metrics and methodologies represents the best possible tools currently available.

[9] Net_Zero_Investment_Framework_Implementation Guide_Final.pdf

TCFD RECOMMENDED DISCLOSURE:

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

Strategy

The Fund undertakes climate scenario analysis to test its long-term investment strategy against forward-looking temperature increase scenarios, to understand and inform action required to develop resilience. Last carried out in 2022, climate scenario analysis is implemented every three years, aiming to align with the Fund's triennial actuarial valuation date where practicable.

Although scenario analysis can provide forward-looking insight to the portfolio against controlled scenarios, there are limitations associated with the analysis, including the number of assumptions utilised, hence it is important to take a holistic approach across a suite of forward and backward-looking metrics when assessing climate risk.

As outlined in our Climate Change Framework and Strategy 2021, we commit to continuing to review and revise forward-looking scenario analysis every three years to reflect changes in portfolio exposure and developing climate scenarios as data and best practice continues to emerge and evolve.

TCFD RECOMMENDED DISCLOSURE:

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

Risk Management

As long-term investors, climate change presents risks and opportunities that form a part of our critical thinking in the way we approach investment.

We seek to identify and assess top-down and bottom-up climate-related risks at the total Fund level, asset class and at the individual asset level. Climate-related risks are assessed through a suite of backward and forward-looking risk metrics and compared with other investment risk factors. Currently, tools for assessing climate metrics have some limitations but coverage over and across asset classes is expanding, and we look forward to seeing improvements to reporting tools.

To date we have predominantly reported on backward-looking climate risk metrics to assess the progress that we have made against our 2021 decarbonisation targets, supplemented by forward-looking climate scenarios, and a thematic review of asset classes with the greatest exposures to this risk factor.

Our 2021 Climate Change Framework and Strategy outlined our approach for identifying and assessing climate-related risks, how we will measure our progress and continue to adapt to the changing policy and regulatory environment. Quantification of the further material reduction in exposure to the inherent physical and transition risks associated with the shift to a net zero economy and further investment in climate solutions is expected, aligning with the IIGCC's Net Zero Investment Framework.

Over the next few years, we expect to expand the scope and quality of measurement and data collection, to continue to ensure meaningful change and alignment across our investments and our own operations.

TCFD RECOMMENDED DISCLOSURE:

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

Risk Management

The Fund manages climate related-risks in different ways according to the nature, duration, magnitude, and time-horizon of the risk itself.

The Fund identifies climate change as a systemic and materially financial risk to the investment portfolio and utilises controls and management practices to mitigate these risks both before (the selection of investments) and after (the stewardship of investments) the investment decision.

These include but are not limited to:

- Integrating climate risk monitoring and management into external manager mandates.
- Identifying physical and transitional climate risks within our portfolio.
- Undertaking annual carbon risk analysis at portfolio level, with metrics including absolute carbon emissions and weight in fossil fuels and clean technology.
- Striving to increase asset class and data coverage each year.
- Regularly disclosing and reporting on progress.
- Collaborating with industry groups and peers to influence change on a global scale and enable the transition to a lower carbon economy.

The Fund expects asset managers to be aligned with our climate performance targets and contribute to the decline of climate risks over time. External fund managers are monitored to ensure ongoing application and efficacy of their approaches to responsible investment and stewardship. Regular meetings and continued coordination assist in developing meaningful analysis and reporting on climate risks.

Our pooling company, LGPS Central, develops and monitors all their pooled funds to meet an internal standard of "Responsible Investment Integrated Status" (RIIS) certification. The RIIS approach inherently requires and allows detailed dialogue between LGPS Central's Responsible Investment & Stewardship Team (RI&S) and the relevant LGPS Central Asset Class Team from inception of a fund and throughout its lifespan. This approach also ensures that the RI approach taken for a given fund or asset is co-sponsored by the Director of RI&S and the relevant Investment Director, reinforcing a shared ownership to RI integration.

Engagement and shareholder voting are integral aspects of the Fund's RI approach to managing climate-related risk. Climate risk will not dissipate through the screening and divestment of investments with high-risk exposures, but through the action taken to implement real-world decarbonisation of the economy. Engagement with investee companies is conducted by external managers and through key partnerships detailed below.

Our Voting Principles, aligned with LGPS Central's, reflect the Fund's strategy to engage with its investee companies and other key stakeholders with a strategy focused on climate change issues. The majority of the Fund's votes are now transacted through LGPS Central, who will consider co-filing shareholder resolutions that relate to climate change when escalation is deemed appropriate.

The Fund reports quarterly to Pensions Committee on its voting and engagement activities through its Responsible Investment Activities report.

The Fund's Collaborative and Engagement Partnerships

LGPS Central
LGPS Central delivers benefits of scale in responsible investment & stewardship and analysis of climate change risks. Climate change is one of The Fund's and LGPS Central's stewardship themes. With quarterly reporting, we track progress against stewardship themes including Climate Change, which is available on our website. LGPS Central engages companies on our behalf.

LGPS Central Limited

EOS at Federated Hermes
EOS at Federated Hermes is a specialist engagement provider which is contracted by LGPS Central to expand the scope of our engagement programme, especially to reach non-UK companies.

Federated Hermes EOS

Local Authority Pension Fund Forum (LAPFF)
The Local Authority Pension Fund Forum conducts engagements with companies on behalf of local authority pension funds. LAPFF leads collaborative engagements to maximise the influence of its member funds, promoting high standards of corporate governance and climate change risk.

Local Authority Pension Fund Forum

Principles for Responsible Investment (PRI)
The UN PRI seeks to set out investment principles and actions that investors can take across a range of responsible investment activities including climate change. Their Collaboration Platform provides opportunities to participate in collaborative engagements and policy advocacy to strengthen action on the climate crisis. In the 2023 assessment we achieved at least 4 or 5 stars out of five across all assessed modules.

PRI Principles for Responsible Investment

Institutional Investor Group on Climate Change (IIGCC)
The Institutional Investor Group on Climate Change, the leading European investor membership body focusing specifically on climate change, helps define the investment practices, policies and corporate behaviours required to address climate change. We are a member of the IIGCC and actively participate in several IIGCC working groups.

IIGCC The Institutional Investors Group on Climate Change

Climate Action 100+
Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Collectively, 600+investors, are engaging with companies on improving climate change governance, cutting emissions, and strengthening climate-related financial disclosures.

Climate Action 100+ Global Investors Driving Business Transition

Transition Pathway Initiative (TPI)
The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative representing 143 investors and $80trn+ AUM, which assesses companies' preparedness for the transition to a low carbon economy.

Transition Pathway Initiative

TCFD RECOMMENDED DISCLOSURE:

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

Risk Management

Identifying
The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate change poses both risks and opportunities to the Fund's investments.

Climate change can potentially materialise by impacting employer covenant, asset pricing, longer- term inflation, interest rates and life expectancy, thus impacting the Fund's funding level. Climate change is recognised within the Fund's Investment Strategy Statement, Responsible Investment Framework, Employer Risk Management Framework and assessed in the Climate Change Framework & Strategy and Climate-related Disclosure Report. These documents are reviewed at least annually and formally approved by the Pensions Committee.

Assessing
Our 2021 Climate Change Framework and Strategy sets out how the Fund intends to manage the risks and opportunities of climate change and how it expects to integrate climate change into its broader strategy and asset management. It is holistic in that it incorporates climate change and risk considerations across the Fund's operations and the investment and funding strategies. The Fund set targets in 2021 and monitors and reports progress against these targets to Pensions Committee via its Climate-related Disclosure Report.

We strive to access the latest relevant information on the risks and opportunities presented by a changing climate, including the impacts of transition and physical risks and opportunities on investment returns and contribution requirements. Forward-looking temperature increase scenario analysis remains one of a number of tools which continue to evolve to test our long-term funding and investment strategies and inform action required to develop fund resilience.

Managing
The Fund's exposure to climate risk is managed through the continued development of an integrated selection and monitoring framework for Fund assets. Climate Change and the Net Zero Transition is one of the Fund's four engagement themes for the period. 2023-2027 and is included within the Fund's Responsible Investment Framework 2024.

Annual training sessions on climate change are held for our Officers and Governing Bodies to enhance knowledge and skills to assess climate risks and ensure they are integrated into the Fund's overall risk management.

TCFD RECOMMENDED DISCLOSURE:

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

Metrics and Targets

The Fund utilises a suite of backward-looking climate risk metrics to assess the progress that we have made against our 2019 decarbonisation baseline and 2021 climate targets[10].

These metrics help evaluate the portfolio's potential exposure to climate-related risks and identifies areas for further risk management, including company engagement and fund manager monitoring. Metrics to date have comprised:

- Carbon Footprint (Weighted Average Carbon Intensity [WACI])
- Exposure to Fossil Fuel Reserves
- Weight in Thermal Coal Reserves
- Exposure to Clean Technology
- TPI Management Quality

Through our public commitment to the Paris Aligned Asset Owner Initiative and our ongoing review of our climate strategy, we will continue to assess and develop the climate risk metrics that we disclose as best practice, and incorporate new UK pensions climate risk disclosure regulation measures (including those directly applicable to the Local Government Pension Scheme) come into force.

[10] Climate Change Framework and Strategy 2021 (wmpfonline.com)

Metrics and Targets

TCFD RECOMMENDED DISCLOSURE:

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

The data presented on the following pages is in relation to the Fund's listed equity portfolio as there is sufficient data coverage for the analysis to be meaningful. While data has been collected in relation to the Fund's fixed income portfolio, at this moment in time, the level of coverage is not deemed to be sufficient to include in the analysis. Going forward, we plan to work with our providers to increase data coverage and expand the range of asset classes to be included in the analysis.

The data shown for the years 2019-2021 are as at 31 December. The decision was made to amend the reporting date to 31 March from 2023 onwards hence why there is no data shown for 2022.
The data reported here reflects Scope 1 and 2 greenhouse gas emissions only and where relevant historic numbers for the Fund's portfolio and the reference benchmark have been restated to reflect updated data.

Figure 3: Carbon footprint - WACI, listed equities

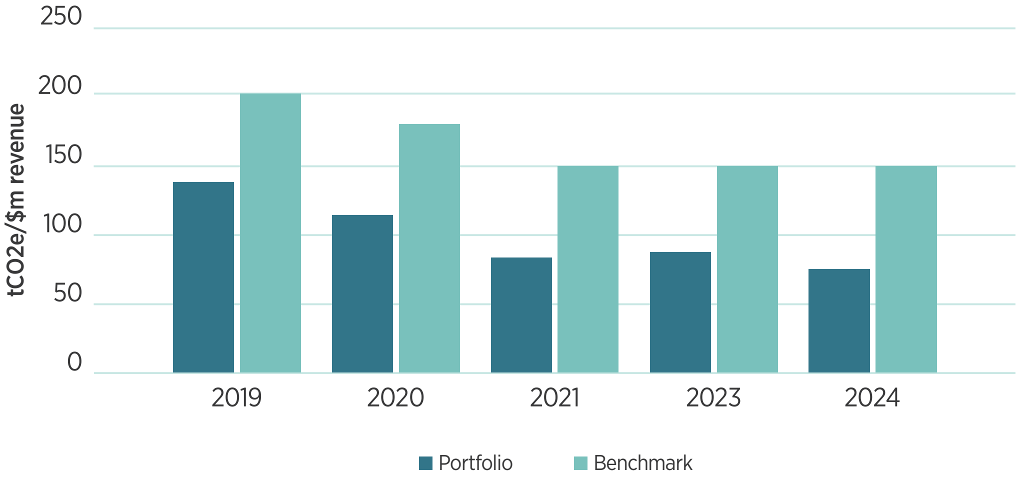


Figure 4: Weight in fossil fuel reserves, listed equities

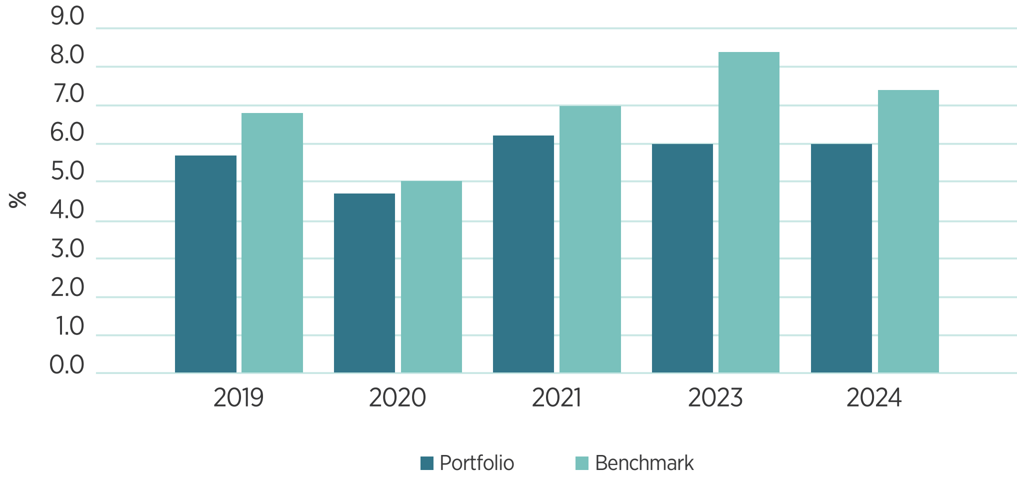
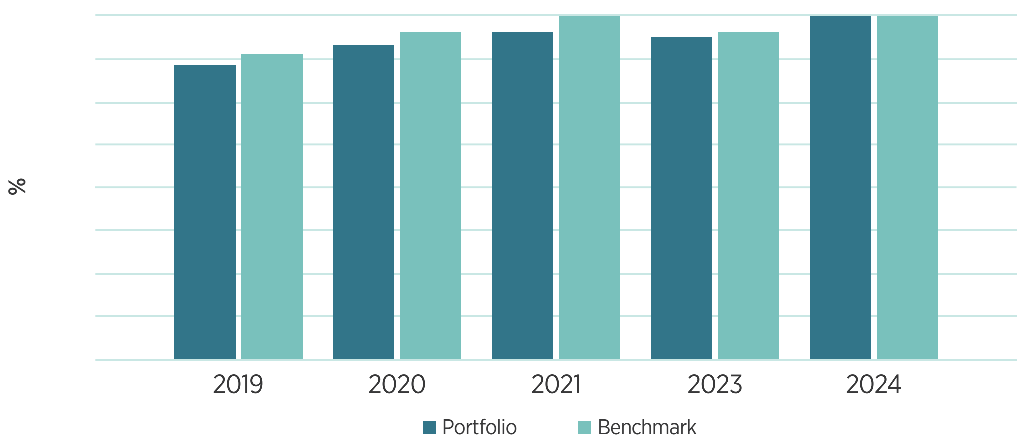


Figure 5: Weight in thermal coal reserves, listed equities

Figure 6: Weight in clean technology, listed equities



Carbon Footprint
The Weighted Average Carbon Intensity (WACI) of the listed equities portfolio is 45% lower at 31 March 2024 compared with the baseline date of 31 December 2019 (Figure 3).

As at 31 March 2024 the listed equities portfolio is 50% more carbon efficient than the blended equities reference benchmark[11] (Figure 3) highlighting that delegated managers are managing climate risk exposure in their respective portfolios.

Over the year to 31 March 2024 the listed equities portfolio's emissions reduced by 15% whereas the reference benchmark remained broadly the same.

Fossil Fuels
The portfolio's exposure to fossil fuel reserves increased from 5.7% to 6.0% (Figure 4) between 2019 and 2024 reflecting a 5% increase.
In comparison the reference benchmark exposure to fossil fuel reserves increased by 9% over the same period (from 6.8% to 7.4%).

The listed equities portfolio has a lower exposure to fossil fuels compared to the benchmark, which can be attributed to an underweight exposure to the energy sector.

Thermal Coal
Since 2019 the portfolio's weight in thermal coal reserves increased from 2.3% to 2.9%. As at 31 March 2024 the portfolio's exposure to thermal coal reserves was broadly in line with the reference benchmark (2.9% vs 2.8% for the reference benchmark).

Clean Technology
The listed equities portfolio's exposure to clean technology has increased from 34.3% to 41.5% (Figure 6) between 2019 and 2024 representing an increase of 21%. While the listed equities portfolio's exposure to clean technology is broadly in line with the benchmark (41.5% vs 41.7% for the benchmark) it has seen a larger percentage increase in clean technology over the reporting period since 2019 (21% vs 17%) when compared to the benchmark.

Transition Pathway Initiative (TPI) Management Quality[12]
The Fund uses the TPI's Management Quality Score as an additional indicator of climate risk management. The TPI Management Quality Score evaluates and tracks the quality of companies' governance and management of their greenhouse gas (GHG) emissions.

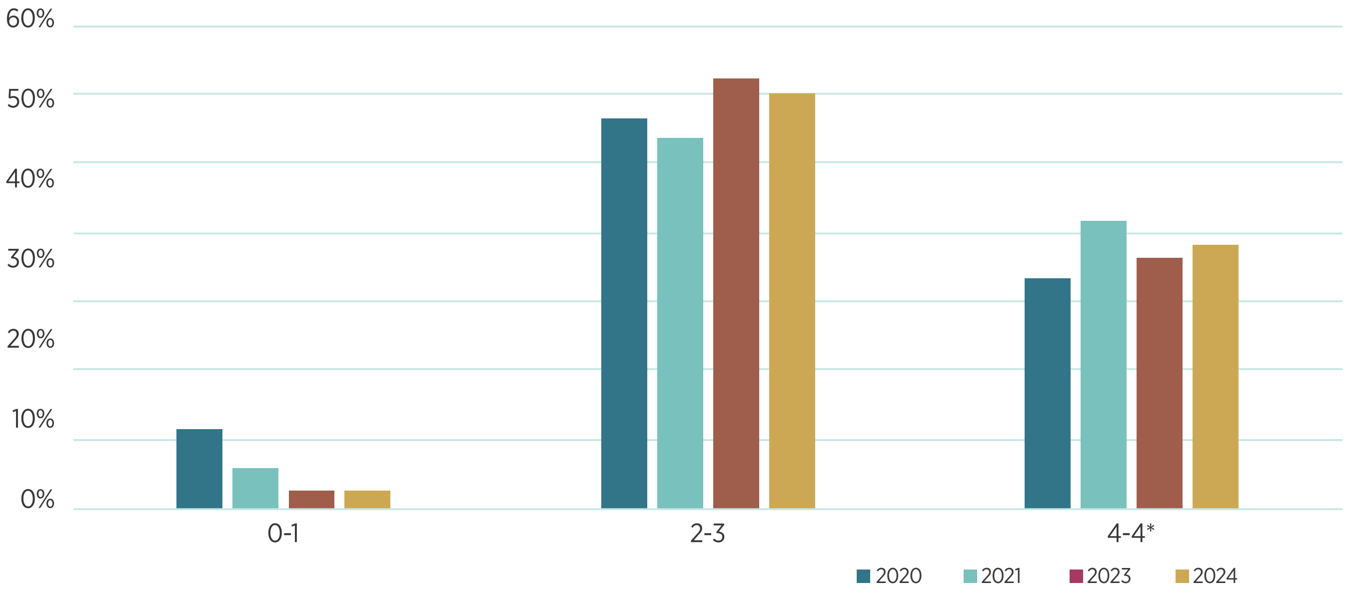
The TPI Management Quality Framework tracks the progress of companies through the following five levels:

- **Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue**
- **Level 1 – Acknowledging Climate Change as a Business Issue:** the company acknowledges that climate change presents business risks and/or opportunities, and that the company has a responsibility to manage its greenhouse gas emissions. This is often the point where companies adopt a climate change policy.
- **Level 2 – Building Capacity:** the company develops its basic capacity, its management systems and processes, and starts to report on practice and performance.
- **Level 3 – Integrating into Operational Decision-Making:** the company improves its operational practices, assigns senior management or board responsibility for climate change and provides comprehensive disclosures.
- **Level 4 – Strategic Assessment:** the company develops a more strategic and holistic understanding of risks and opportunities related to the low-carbon transition and integrates this into its business strategy and capital expenditure decisions.
- The TPI also recognise companies that meet all of the TPI indicators – i.e., that return a 'perfect' Management Quality Score – as 'Four Star' companies.

[11] The blended benchmark comprises the FTSE UK All Share, FTSE All-World, and FTSE Emerging indices.

[12] Source: Transition Pathway Initiative, hUps://www.transitionpathwayinitiative.org/. Management Quality methodology used is V4.0. Further information on the methodology can be found on this link: hUps://www.transitionpathwayinitiative.org/publications/uploads/2021-methodology-report-management-quality-and-carbon-performance-version-4-0.

Figure 7: TPI Management Quality Score



The total number of companies in the TPI's Management Quality score database increased to 1,058[13] in 2024, with plans to increase this further over 2025. The number of companies in scope for analysis within the Fund's Listed Equity portfolio has increased from 287 in December 2020 to 578 as at 31 March 2024. As at 31 March 2024, none of the Fund's portfolio companies have a score of 0 – unaware of (or not acknowledging) climate change as a business issue.

2% of the Fund's companies covered by TPI's analysis are still at an early stage of establishing carbon management and reporting processes, with 12 companies acknowledging climate change as a business issue (level 1) and 22 building capacity to begin to report on progress (level 2). 56% (326 companies) are currently integrating climate change into its operational decision making (level 3).

The percentage of companies with a Management Quality Score of 4 or 4* has increased from 33% in 2020 to 38% in 2024, indicating progress in the number of companies that are evidencing a strategic and holistic understanding of the risks and opportunities related to the low-carbon transition.

[13] Compared to 480 as at 31 December 2021.

TCFD RECOMMENDED DISCLOSURE:

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

Metrics and Targets

The Fund is fully committed to aligning with the goals of the Paris Agreement and net zero ambition by 2050 or sooner.

The Fund's 2021 Climate Change Framework and Strategy reviewed the targets and metrics used by our organisation to manage climate-related risks and opportunities and performance against targets.

Our 2021 Climate Change Framework and Strategy outlines our climate-related targets:

- 50% reduction in investment portfolio carbon emissions by 2030 (vs 2019 baseline)
- 60% asset coverage by 2026 – expanding our measurement tools and methods of analysis across our property and infrastructure investments
- Increase the awareness and measurement of our corporate emissions, aligning to net zero with a 50% reduction targeted by 2030.

As the suite of both backward and forward-looking climate risk metrics available to investors has evolved since we set our 2021 targets, the Fund will review the metrics it uses to measure progress against its targets. This will be done in conjunction with the Fund's review of its climate strategy and targets which is expected to be finalised in 2025. The Fund will continue to use the IIGCC's Net Zero Investment Framework to shape its climate-related financial disclosure moving forward.

Glossary

Carbon Footprint/Portfolio 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.

Clean Technology/Weight in Clean Technology
The weight of a portfolio invested in companies whose products and services include clean technology. Following the MSCI classification, products, and services eligible for inclusion include alternative energy, energy efficiency, green building, pollution prevention, sustainable water.

Engagement
Dialogue with a company concerning aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable timeframe.

ESG Factors
Determinants of an investment's likely risk or return that relate to issues associated with the environment, society or corporate governance.

Fossil Fuel Reserves/Weight in Fossil Fuel Reserves
The weight of a portfolio invested in companies that own fossil fuel reserves.

Just Transition
A framework developed to encompass a range of social interventions needed to secure workers' rights and livelihoods when economies are shifting to sustainable production, primarily combating climate change and protecting biodiversity.

Net Zero Emissions
A state in which the greenhouse gas emissions created by an organisation are counterbalanced by the greenhouse gases sequestered by an organisation over a given timeframe.

Net Zero Target Coverage
The weight of the portfolio invested in companies that have set a "net-zero" emissions target, as defined by the company.

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/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.

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

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 those 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.

Thermal Coal Reserves/Weight in Thermal Coal Reserves
The weight of a portfolio invested in companies that own thermal coal reserves.

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.