North East Scotland Pension Fund

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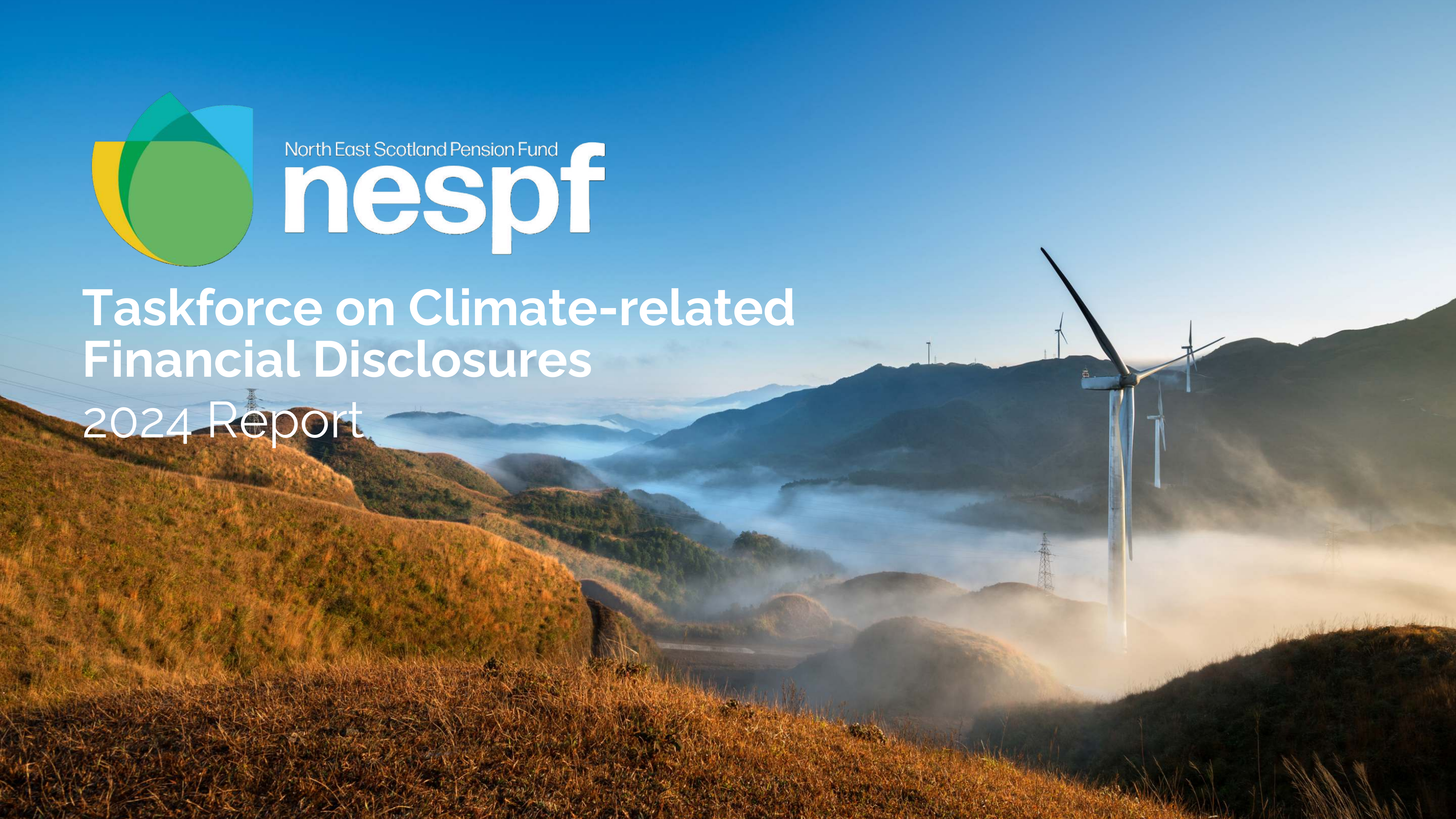
Taskforce on Climate-related Financial Disclosures

2024 Report



Committee Statement on Climate Risks and Opportunities

Convener statement on behalf of the Pensions Committee

The Pensions Committee ("the Committee") acknowledges that climate change poses a financial risk to the Fund, our planet and humanity as a whole. Climate change is anticipated to have significant impacts on our members, financial markets, and society for years to come, but it can also present new opportunities. Therefore, the Committee recognises that it is our fiduciary responsibility to manage these risks and seize opportunities. To fulfil this duty, we have implemented measures to ensure that climate considerations are thoroughly incorporated and embedded into our processes, procedures, and decision-making.

The Task Force on Climate-related Financial Disclosures ("TCFD") is an international institution that has developed a framework to improve and increase reporting of climate-related financial information. This report sets out our response and key actions across the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets. While there is no regulation yet in place for Local Government Pension Scheme (LGPS) Funds in Scotland, it has been produced with reference and in line with best practice and any expectations of potential regulation based on an ongoing consultation for LGPS on the recommendations of the TCFD. The Committee has an ambition to report as an early adopter and supporter of the TCFD recommendations as far as possible, ahead of confirmed regulatory guidance given the importance of climate risks to the Fund and will evolve this reporting going forward once guidance is confirmed.

In the past, we established policies and procedures to establish a framework for managing climate risk and capitalising on opportunities as the Fund progresses towards its long-term objectives. The primary focus regarding climate-related matters was to gain a comprehensive understanding of the Fund's current position and determine what can be accomplished in the future.

The Committee has prioritised reviewing the investment strategy of the Fund to ensure it remains robust. This has included implementing mandates with a focus on ESG (including climate) considerations and/or strong ESG and climate integration and stewardship credentials.

The Committee believes in a Just Transition. This ensures that as we shift away from industries and practices that harm the environment, the workers and communities affected by these changes are supported. Robust engagements and direct investment in responsible mandates are central to the Fund. The Committee continues to encourage investment managers to improve reporting on ESG metrics and increase their data coverage of underlying holdings. We are also pushing for more biodiversity implementation as we believe this is a key consideration alongside climate, as the two topics are inextricably connected and need to be thought about in conjunction.

The potential impact of climate change on the Fund's demographics, particularly life expectancy, and the resulting financial effects have also been considered by the Fund's Actuary, however the focus of this report is on investment and the assets the Fund holds.

In summary – the Committee is committed to ensuring the best outcomes for Fund members by addressing both the risks and opportunities associated with climate change, and by further developing the Fund's strategy for taking action on climate-related matters.

Councillor John Cooke

Councillor John Cooke
Pensions Committee Convenor

Overview

Executive Summary

This report sets out the Committee's response and key actions across the four Task Force on Climate-related Financial Disclosures ("TCFD") pillars noted below.

Governance

Governance around climate-related risks and opportunities

- **Statement of Investment Principles and Sustainable Investment Policy** – The Committee maintains a Sustainable Investment Policy which sets out the Committee's views and beliefs in respects to sustainable investing.
- **Climate Delegation Framework** – Established by the Committee. Defines roles and responsibilities in relation to climate-related risk.
- **Meetings** – The Committee meets regularly every quarter and receives Fund Officer/advisor support.
- **Training** – The Committee has received training on relevant climate risks and opportunities.

Strategy

Actual and potential impacts of climate risks and opportunities

- **Time horizons** – The Committee has defined key time horizons for the Fund and considered how the Fund and its investment strategy may develop over these periods.
- **Risks & opportunities** – The Committee has identified relevant climate-related risks and opportunities for the Fund over the selected time horizons.
- **Scenario analysis** – The Committee has conducted scenario analysis to assess the impact of an increase in the global average temperature on assets and liabilities and therefore the funding position of the Fund.

Risk Management

Identification, assessment and management of climate-related risks

- **Investment managers** – The Fund monitors managers and reports to the Committee. This includes monitoring the risks and opportunities arising from climate change and how these are managed on an ongoing basis.
- **Materiality of risks** – The Committee assesses how material climate-related risks are to the Fund's investment strategy and consider relevant opportunities.

Metrics & Targets

Disclosure of key metrics and targets

- **Metrics** – The Committee have selected five metrics to report on and collated data against these from the Fund's investment managers.
- **Targets** – The Committee have set an appropriate target with an initial focus on a relative improvement across the chosen metrics, with a focus on improving data quality and coverage, and will be reviewed over time in line with regulations and best practice guidance. When appropriate for the Fund, the Committee may consider setting a formal science-based decarbonisation target.

Importance of Climate Change

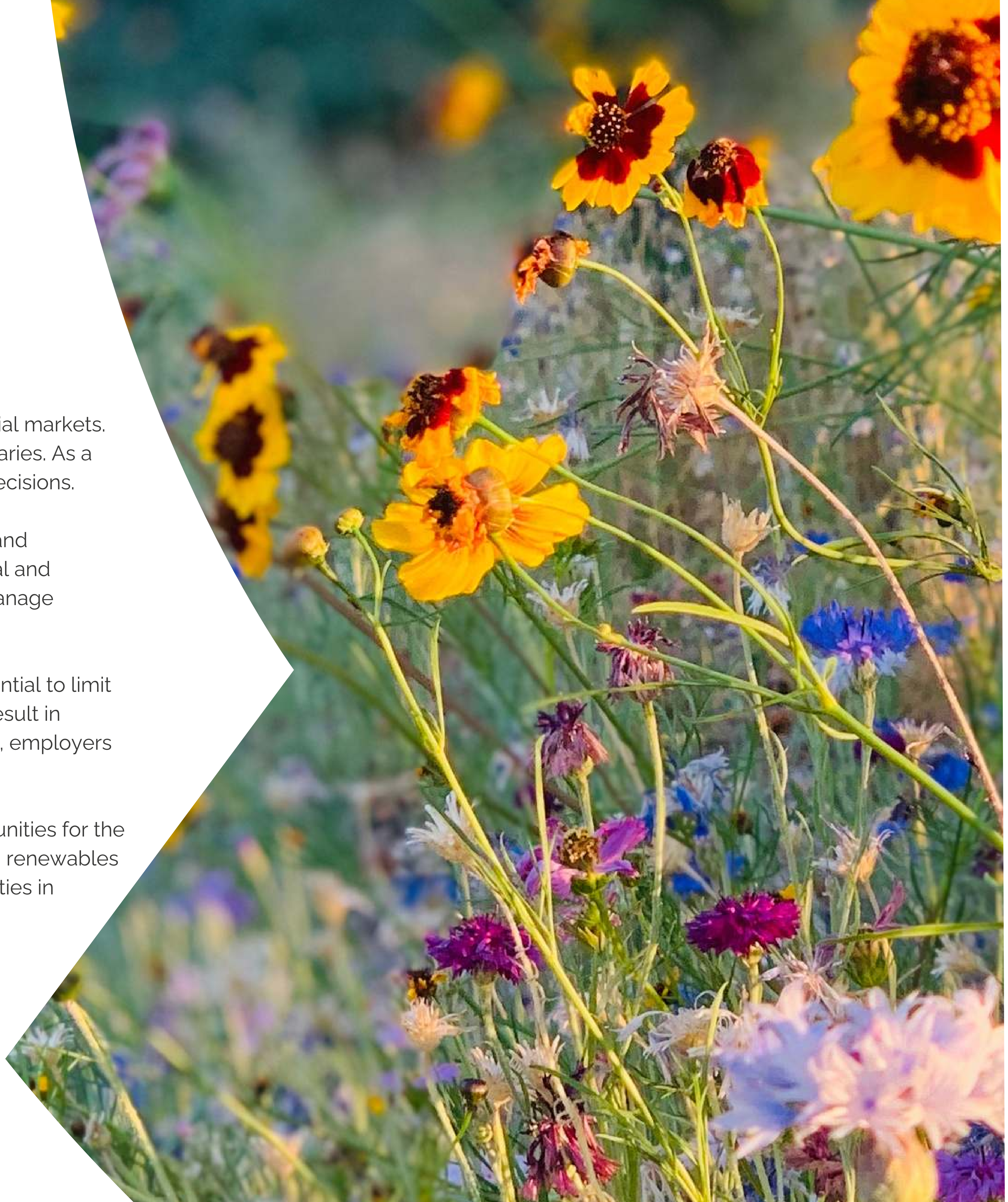
Why is climate change important for our members?

The ever-present risks linked to climate change are increasingly affecting the global economy and financial markets. Consequently, we acknowledge that the future will bring significant changes for the Fund and its beneficiaries. As a result, climate change considerations must be incorporated in our investment strategies and governing decisions.

The impact of global decarbonisation, which is necessary to combat climate change, presents both risks and opportunities for the Fund. Transition costs associated with decarbonisation are expected to be substantial and continued global temperature rises could lead to physical damages. Therefore, we must appropriately manage climate-related risks across the Fund.

Currently, the world is still grappling with rising emissions, and we recognise that global changes are essential to limit global average temperature increases within safe thresholds. If these thresholds are surpassed, it could result in unprecedented consequences for our global society, economy, and financial markets, including the Fund, employers and members.

The global decarbonisation efforts and the potential broader impacts of climate change also offer opportunities for the Fund. The demand for low carbon alternatives is expected to rise, and there is potential for investments in renewables and natural capital. When making investment decisions, we will evaluate the suitability of these opportunities in conjunction with other financially significant considerations.



Importance of Climate Change

Climate science

Greenhouse gas ("GHG") emissions arise from the burning of fossil fuels for purposes such as transport or power. Emissions released into the atmosphere cause warming due to a blanketing effect, impacting the entire climate system.

Current policies in place

Governments have agreed to the Paris Agreement to limit global average temperature rises to well below 2 °C, with ambitions towards 1.5 °C (versus pre-industrial levels). Significant further action is required in order to achieve the Paris Agreement goals.

Physical risks from climate change

Physical risks will arise due to the impacts of climate change, including both sudden onset of natural disasters and slower shifts in weather patterns. Such risks are expected to scale up in the long term due to rising global average temperatures.

The transition to a low-carbon economy

To decarbonise the global economy, policies, technologies and market preferences are expected to shift in favour of low-carbon solutions.

TCFD Overview - Governance

Governance around climate-related risks and opportunities

We, the Committee, have agreed a climate delegation framework outlining the responsibilities to ensure climate-related risks and opportunities are well governed. The responsibilities across the Fund's stakeholders are summarised below:

<table>
<tr><th colspan="6">Aberdeen City Council ("the Council")</th></tr>
<tr><td colspan="6">In its capacity as administering authority, the Council has delegated strategic responsibility for administration of the Pension Fund to the Pensions Committee. The Council governs the actions of the Pensions Committee and its Officers.</td></tr>
<tr><th colspan="3">Pensions Board ("the Board")</th><th colspan="3">Pensions Committee ("the Committee")</th></tr>
<tr><td colspan="3">The Board has a role to assist the Council and the Committee in securing compliance with legislation to the governance and administration of the Fund. This translates into a scrutiny role of the Committee and the decisions they take.</td><td colspan="3">Strategic responsibility for the administration of the Pension Fund, including the ongoing management of its climate-related responsibilities, lies with the Committee. The Committee, working with the Board and the Investment Consultant, provides oversight and manages ESG related risks to help the Fund execute its strategy and enhance long-term, sustainable financial stability.</td></tr>
<tr><th colspan="2">Investment Consultant</th><th colspan="2">Fund Actuary</th><th colspan="2">Investment Managers</th></tr>
<tr><td colspan="2">Where needed, the Investment Consultant provides climate-related advice and implementation support.</td><td colspan="2">Assessing climate-related risks and opportunities in relation to the Fund's funding position over the short, medium and long term.</td><td colspan="2">The Committee has delegated responsibility to the Fund's investment managers for managing the Fund's assets in line with the agreed mandates. This includes identifying, assessing and managing climate-related risks and opportunities in relation to the Fund's investments and focus on increasing the quality and availability of climate-related metrics.</td></tr>
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Key (risk level):
Low
Medium
High

TCFD Overview - Strategy

Actual and potential impacts of climate risks and opportunities

Over 2024, the Committee has assessed and quantified the actual and potential impacts of climate risks and opportunities on the Fund's investment strategy by identifying key time horizons relevant to the Fund which are detailed later in this report. The Committee has evaluated the potential risks and opportunities over these timeframes, including an analysis of the Fund's position under four climate scenarios. These scenarios provide hypothetical possible outcomes - not projections of the future - and are based on asset class level and economic assumptions and show median outcomes. Given the strategic nature of these assumptions, this does not necessarily reflect the specific management of the Fund's assets and we believe given the climate positive manner in which the assets are managed with respect to climate risks, the Fund's outcome is expected to be better than the median outcome. The estimated magnitude of the potential impacts are illustrated using a colour coded rating across each timeframe and climate scenario. Further details on the potential impacts of risks and opportunities are found in later pages of the report.

Climate-related opportunities

The Committee have agreed to integrate ESG (including climate) factors where possible across the portfolio. The Committee has endeavoured to select investment managers who manage climate risks well and seek opportunities as a key component of investment decisions and risk management, as well as climate being a key stewardship priority, particularly in relation to Equities and Private Equity holdings, which is a large portion of the investment strategy. Over periods longer than 25 years, in a net zero scenario, all holdings are classified relatively low risk.

Risk (Long Term, 25Y)	Equities	Private Equity	Property	Infrastructure Equity	Private Credit	Diversified Credit	Corporate Bonds	Index-Linked Gilts
Transition risk (net zero scenario)								
Physical risk (current policies)								

TCFD Overview - Risk Management

The identification, assessment and management of climate-related risks

To ensure risks are managed holistically, the Committee has a framework in place which includes analysis of climate risks at Fund level and ensures the Fund's investment managers are taking into consideration ESG risks and opportunities in alignment with the Committee's ESG beliefs.

Fund

The Committee regularly reviews the risk register and meets to discuss potential issues and mitigating actions referring to:

- Investment strategy
- Asset and investment manager allocations
- Funding

Underlying investment mandates

The Committee regularly reviews the investment managers' ESG capabilities. The Fund meets with their fund managers on a quarterly basis to review the investments and monitor performance in line with our policies including climate related risks. ESG data is presented to the Pensions Committee & Board quarterly and includes our engagement activity and voting.

Stewardship

The Committee is dedicated to active stewardship and regularly evaluates investment managers on their stewardship activities to directly engage with the underlying assets in relation to climate-related risks and opportunities.

TCFD Overview - Metrics & Targets

Disclosure of key metrics and targets

The Committee has selected, gathered and assessed the five climate metrics (including data quality/coverage) in the table below. The results are used to assess the Fund's progress relative to the targets that have been determined by the Committee, guide decision making, and as an important consideration for future investment strategy discussion and considerations.

The Committee has currently adopted a "relative improvement" target for each metric, with a focus on improving data coverage and quality, as opposed to absolute or fixed targets. The Committee continue to monitor and review annually the Fund's progress in relation to the agreed climate metrics to assess whether the targets set are being met and assess the continued appropriateness of the metrics being monitored, and the target set.

The Committee engages with the investment managers to continue to drive improvements in data quality and coverage, and engage with the investment managers of the highest emitting mandates to assess their direction of travel and whether further action is needed. The target will be reviewed over time in line with regulations and best practice guidance.

Metrics Data as at 30 June 2024	Total GHG emissions (scope 1 & 2)		Carbon Footprint (scope 1 & 2)		Implied Temperature Rise		Science Based Targets Exposure	
	Metric tCO2e	Coverage	Metric tCO2e/£m	Coverage	Metric °C	Coverage	Metric (Committed)	Coverage
Total Portfolio	178,203.1	86%	33.9	80%	2.0°C	44%	51.0%	67%

Next Steps

Opportunities

The Committee believes in the importance of a Just Transition and integrating climate considerations into the Fund's investment strategy, while engaging and monitoring net zero plans. However, the Committee does not believe in selling carbon intensive businesses if these businesses are vital in the transition to a low carbon economy. The Fund has also invested in dedicated renewable energy investment mandates over the Fund's reporting year. We will continue to consider new opportunities in this space that can be integrated within our future investment strategy.

Data Improvements

TCFD reporting is not required by law for the Fund, and we recognise that high-quality data relating to climate metrics is important for feeding into our decision-making. By reporting on these metrics earlier than required and continuing our engagements with investment managers, our hope is that we can encourage improvements in quality and availability of climate data.

Target Evolution

The Committee has adopted "relative improvement" targets to monitor climate-related metrics against, with a focus on improvement of data quality. The appropriateness of these targets will continue to be assessed, at least annually, to consider whether any changes are required. We seek to have a long-term, forward-looking view on target setting that can feed into our strategic thinking. As part of this, we will also monitor when LGPS regulatory guidance in relation to TCFD becomes clear.

Risks and Opportunities

We recognise, in our position within Local Government, the importance of the Fund investing in opportunities which help drive a transition to a low carbon economy. The Committee will continue to work to better understand the potential risks and opportunities and the possible impact of these on the Fund's investment strategy. Further information on the Committee's actions and goals are provided later in the report.

TCFD Pillars

Governance

Governance

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

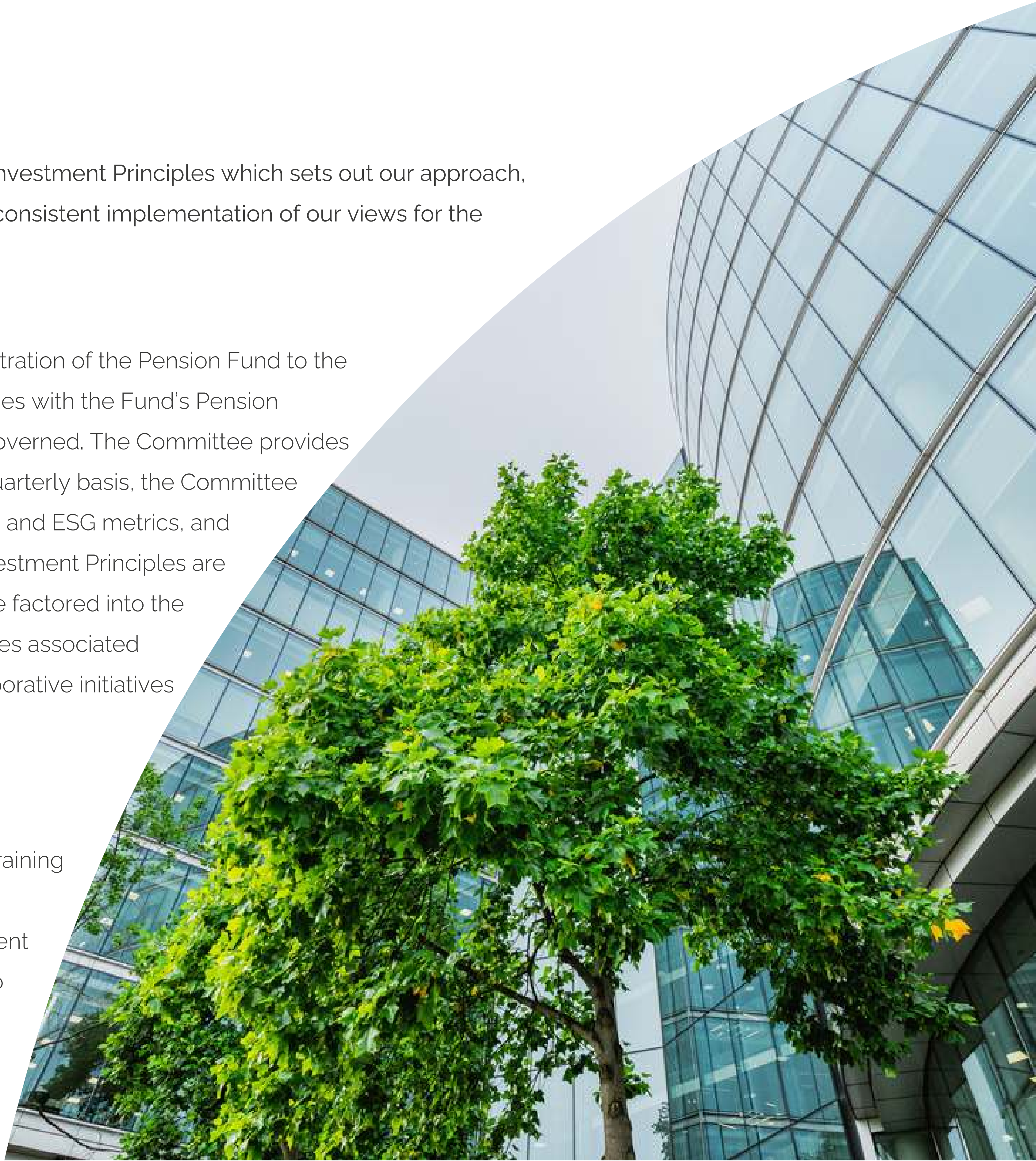
The Committee maintains a Corporate Governance & Corporate Social Responsibility Policy and a Statement of Investment Principles which sets out our approach, views and beliefs in respect to responsible investing and provides a framework to the Fund's advisors to ensure consistent implementation of our views for the Fund.

Oversight responsibilities of the Fund's Pension Committee

Aberdeen City Council, in its capacity as administering authority, has delegated strategic responsibility for administration of the Pension Fund to the Pensions Committee, therefore overall responsibility and the general ongoing management of the Fund's assets lies with the Fund's Pension Committee, along with the responsibility of ensuring Fund-level climate related risks and opportunities are well governed. The Committee provides oversight and manage ESG and climate-related risks to help ensure regulatory requirements are satisfied. On a quarterly basis, the Committee and Board receives updates on the Fund's investments, including voting and engagement activity, carbon scoring and ESG metrics, and progress. The Fund's Corporate Governance & Corporate Social Responsibility ('CSR') Policy and Statement of Investment Principles are reviewed annually, to ensure it remains appropriate for the Fund. Climate related risk management capabilities are factored into the selection, review and monitoring of investment managers including ensuring climate-related risks and opportunities associated with the Fund's investments are properly managed. The Fund is also a member or signatory to a number of collaborative initiatives related to climate, including a supporter of Climate Action 100+ and a member of the Carbon Disclosure Project.

Climate-related training

The Fund provides climate-related training to the Committee and Board. The Committee also regularly receives training from the Officers and Governance Team on climate-related legal matters, ensuring the Committee is aware of its climate-related statutory and fiduciary obligations. Furthermore, the Committee receives ongoing training on current ESG concerns and climate science developments. The goal of this training is to increase the Committee's ability to make informed decisions.



Governance

Key Beliefs of the CSR Policy and Statement of Investment Principles	
Approach/Framework	The Committee will monitor key ESG metrics against our targets to assess the impacts on investments and will continue to enhance our ESG knowledge as factors evolve.
Voting	The Committee votes where possible at all AGMs and EGMs for invested companies, considering ESG factors throughout as this is likely to achieve better risk-adjusted outcomes.
Stewardship	The Committee believes engaging on ESG issues is more effective for initiating change than divesting and that investment managers have a responsibility to engage with companies on ESG factors.
Collaboration	Investment managers should actively engage and collaborate with other market participants to raise ESG investment standards and facilitate best practices. The Fund also directly participates in initiatives to drive change.
Reporting and Monitoring	The Committee monitors key ESG metrics within the portfolio against our targets to understand the impact of our investments and will continue to develop our knowledge as ESG factors evolve.

Governance

Pensions Committee and Board roles regarding climate-related risks and opportunities

Climate Delegation Framework

Our ESG Policy is reviewed on an annual basis. The governance of Fund-level climate-related risks and opportunities lies with the Committee. The table below summarises the detail of how the Fund is governed by its various stakeholders and how these stakeholders collaborate in a comprehensive manner.

Roles and Responsibilities

Aberdeen City Council	• The Council, in its capacity as administering authority, has delegated strategic responsibility for administration of the Pension Fund to the Pensions Committee. The Council governs the actions of the Pensions Committee and its Officers.
Pensions Committee	• Sets and implements the Climate Governance Policy. • Incorporating climate-related considerations into the Fund's Responsible Investment policy, ongoing risk management and monitoring, as well as strategic investment decisions relating to the Fund's investments. • Identifying climate-related risks and opportunities for the Fund and setting monitoring metrics to conduct assessment and management.
Pensions Board	• The Pensions Board has a role to assist the Council and the Committee in securing compliance with legislation relating to the governance and administration of the Fund. This translates to a scrutiny role of the Committee and the decisions they take.
Legal Advisor	• The Pensions Board oversees compliance with legal and regulatory requirements.

Investment Consultant	• Advising on the inclusion of climate considerations in the Fund's governance arrangements, investment strategy, risk management and monitoring by working with the Committee and its other advisors. • Assisting the Committee in the selection and monitoring of appropriate climate-related metrics and targets in relation to the Fund's investments, including engaging with the Fund's investment managers regarding the provision of the agreed metrics.
Fund Actuary	• Assessing climate-related risks and opportunities in relation to the Fund's funding position over the short, medium and long term and the implications for the Fund's funding and long-term objective.
Investment Managers	• Identifying, assessing and managing climate-related risks and opportunities in relation to the Fund's investments. • Exercising voting rights (whereby this is not done in-house by Fund Officers) and engaging with portfolio companies in relation to climate-related risks and opportunities. • Providing climate-related metrics to the Fund's Investment Consultant in relation to the Fund's investments with a focus on quality and availability.

Strategy

Strategy

Introduction to climate scenarios chosen

Climate scenarios are hypothetical futures, which can apply different levels of climate action and produce a unique combination of physical and transition risk.

Transition risks – risks arising from the transition to a low-carbon economy, which are expected to be strongest in the short term given climate-related regulatory developments, market trends and decarbonisation action. The timing and the speed of the transition are important in determining the extent of costs.

Physical risks – risks arising from the physical impacts of climate change (including both sudden natural disasters and slower shifts in weather patterns), which are expected to scale up in the long term as global average temperatures increase.

The Committee has assessed the potential impacts on the Fund's assets under four different climate scenarios defined by the Network for Greening the Financial System ("NGFS"), interpreted and modelled by Moody's Analytics and Isio, our Investment Consultant. The Committee, in conjunction with its Investment Consultant, chose these scenarios to provide a balanced set of hypothetical constructs to analyse the potential risks and opportunities across the Fund's portfolio. Forward looking analysis always involves uncertainty, however these scenarios help to examine different possible outcomes in terms of emissions, global average temperatures, and associated transition and physical risks for example, although do not reflect the specifics of the Fund's investments, but rather economic and asset class level assumptions.

Net Zero 2050

- Aligns with the most ambitious target of the Paris Agreement, a <1.5˚C scenario this century, resulting from immediate policy action.
- Achieving net zero carbon by 2050, with developed regions reaching net zero across all GHGs by this time.
- Minimised physical risks, however very high short-term transition risks.

Delayed Transition

- Aligns with the Paris Agreement's less ambitious target of well below 2˚C this century.
- Emissions do not peak until 2030, requiring strong climate policies to then meet the Paris Agreement.
- Climate ambition varies regionally.
- Physical risks are lower than high-carbon scenarios, but transition risks occur later than in Net Zero 2050.

Fragmented World

- Failure to meet Paris Agreement goals, leading to a >2˚C scenario.
- Global climate policies are delayed and inconsistent.
- Some net zero targets are met, while others follow current policies (business as usual) pathway.
- Transition risks are high in some countries (i.e. those achieving net zero targets), while physical risks rise overall due to the ineffectiveness of the transition.

Current Policies

- Fails to achieve the Paris Agreement, leading to a >3˚C scenario this century.
- Current policies persist with no further global climate ambition, with very little variation in climate ambition globally.
- Extremely high physical risks, with irreversible changes in the climate system. Meanwhile, transition risks remain low.

The Committee accepts there are limitations involved within investment strategy modelling given the potential uncertainty and assumptions underlying the modelling. The Committee therefore uses the scenario analysis for comparative and directional purposes rather than analysing the absolute magnitude of the results. Further detail in relation to this can be found in the appendix.

Strategy

Introduction to timeframe horizons chosen

Agreed timeframes

Climate considerations differ depending on the timeframe in question; we have identified timeframes that are relevant to the Fund and considered material climate-related risks and opportunities under each of these. We have identified the following timeframes via a blended view of the climate outlook, membership demographics, the funding position, the long-term objective, and the ability to pay benefits. Transition risks are expected to be greater in the shorter term, however in the longer term we would expect physical risks to become more apparent.

<table>
<tr><th>Timeframe</th><th colspan="4">Investment Horizon</th><th colspan="4">Climate Horizon</th><th>Risks to Assets</th></tr>
<tr><td>Short term
3 years</td><td colspan="2">Actuarial review cycle</td><td colspan="2">Review of target asset allocation</td><td>Improvement in data quality</td><td colspan="2">Government responses to COP27</td><td>Setting and measurement of decarbonisation targets</td><td rowspan="2">Transitional risks such as the costs associated with global decarbonisation anticipated</td></tr>
<tr><td>Medium term
10 years</td><td>Review of long-term objectives</td><td colspan="2">Possible de-risking of the asset allocation</td><td>Review of illiquid mandates</td><td colspan="2">Companies monitor progress towards 2050 Net Zero</td><td colspan="2">World measures outcomes against the 2030 Sustainable Development Goals and 2030 biodiversity goals</td></tr>
<tr><td>Long term
25 years</td><td colspan="4">Approximate duration of the Fund's liabilities</td><td colspan="2">Physical damages from climate change starts to scale up, towards mid-century, most severe under current policies</td><td colspan="2">Continue to measure against 2050 Net Zero targets</td><td rowspan="2">Physical risks such as damage to assets caused by extreme weather events anticipated</td></tr>
<tr><td>Very Long term
50 years</td><td colspan="2">Fund is open to new members and accrual</td><td colspan="2">Longest term liabilities are 50yrs +</td><td colspan="2">Long term physical damages incurred, most severe under current policies</td><td colspan="2">Impact of Net Zero by 2050 targets</td></tr>
</table>

Strategy

Describe the climate-related actions and opportunities the Committee has identified over the short, medium and long term

Investment Strategy & Climate Opportunities

- As at 31 December 2023, the Fund's asset portfolio is well diversified, comprising of 6 high level asset classes and 20 underlying investment mandates, with exposures across both public and private markets.

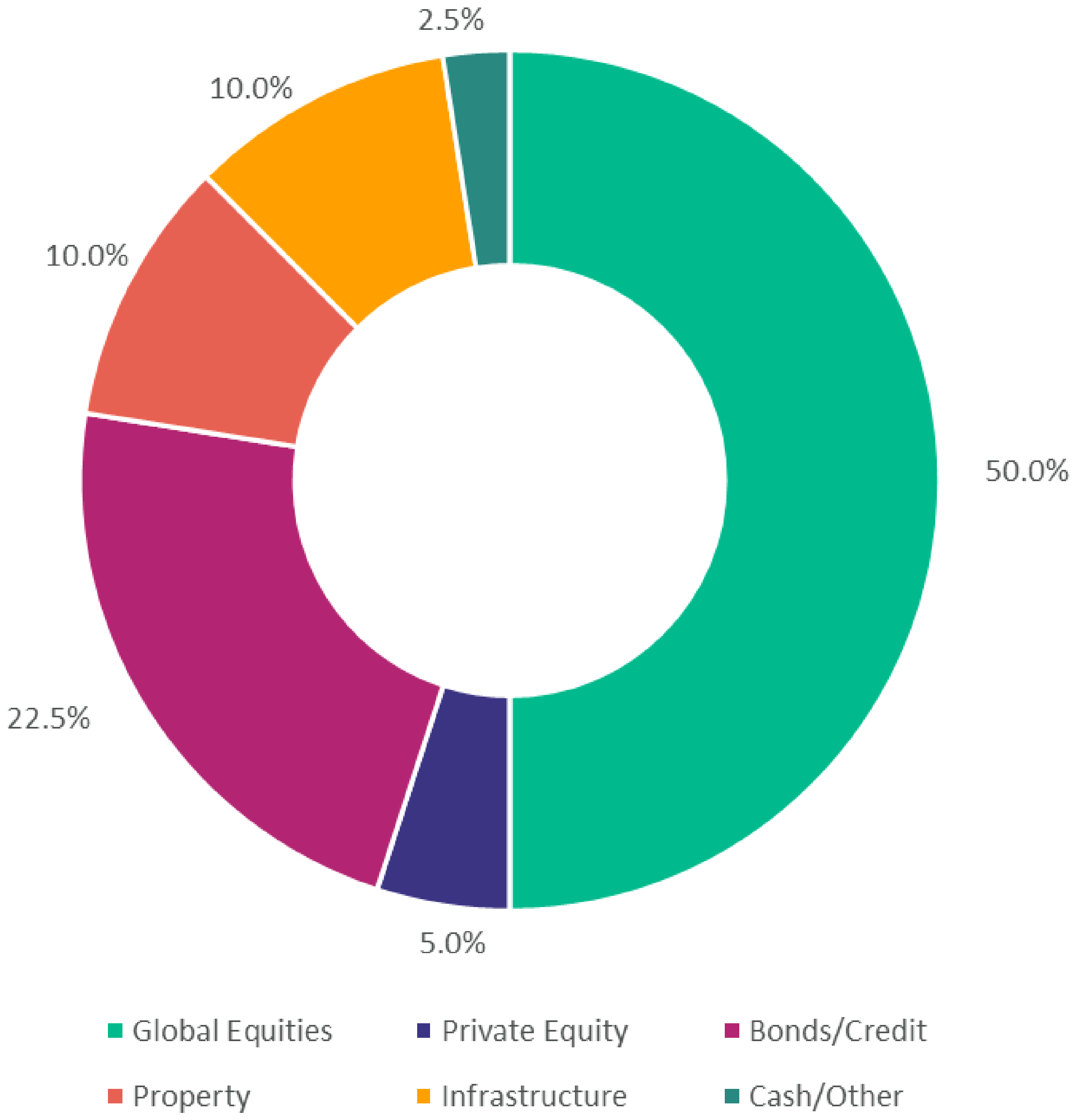
- The Committee believes in a Just Transition and favour active engagement, therefore the Committee will consider owning currently carbon-intensive assets if they will significantly contribute to the climate transition. Despite this approach, the Fund has a lower carbon footprint compared to its comparator benchmark.

- The portfolio has a dedicated direct renewable investment mandate as well as broader mandates that can invest in renewable energy. Apart from the portfolio's passive holdings, the majority of the investment managers and underlying mandates have Net Zero targets in place, which are central to how the managers run their investment strategies.

- Within the portfolio's private markets investments, the Committee have been actively engaging and are now receiving carbon data from Private Equity mandates, whilst Direct Lending mandates offer loan discounts of between 5-15 bps for the provision of ESG data.

- Although earlier stage than climate, the Committee also encourages and is making progress in implementing biodiversity, as they believe that it is an important topic which needs to be thought about in conjunction with climate change.

Current Target Investment Strategy



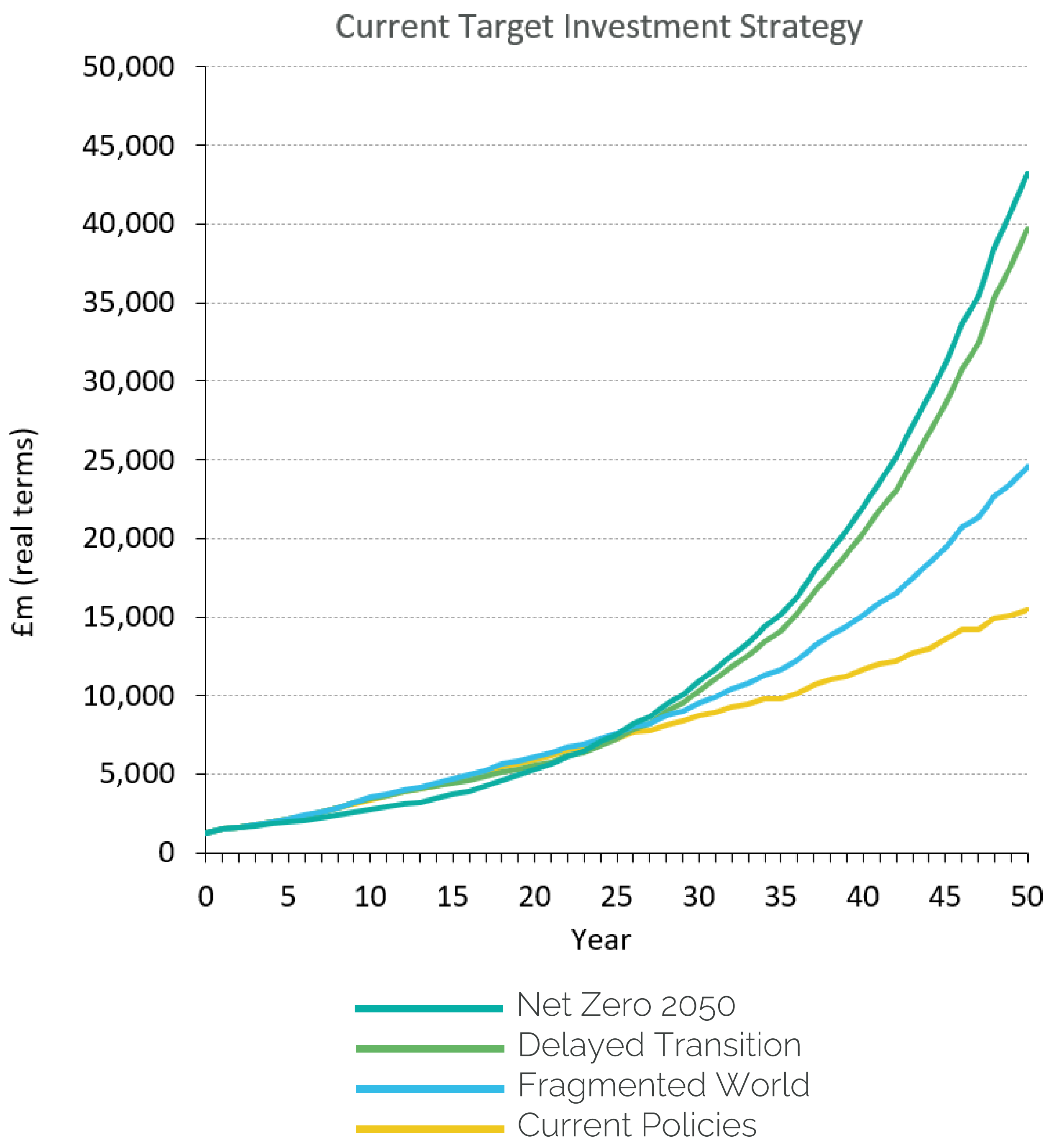
Strategy

Describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios

Climate scenario analysis: total portfolio – impact on funding position relative to baseline scenario

While, relative to baseline, the Fund's surplus is expected to decline as a result of physical and/or transitional costs, it is expected to improve on an absolute basis going forward under all scenarios, reflecting the Fund's funding strength and resilience (see chart to right). Over the shorter and medium term, the costs associated with the transition to a lower carbon economy are pronounced within the Net Zero 2050 scenario. This reinforces the focus on investing in companies that are prepared for the transition to Net Zero.
If the world fails to transition to a low carbon economy, the Current Policies scenario depicts the start of significant physical impacts.

	Expected change in surplus compared with the Baseline scenario (%)			
Scenario	3 years	10 years	25 years	50 years
Baseline	-	-	-	-
Net Zero 2050	-4.0%	-24.1%	-29.6%	-15.5%
Delayed Transition	-0.3%	-6.6%	-32.0%	-22.5%
Fragmented World	+0.2%	-4.9%	-29.0%	-52.1%
Current Policies	-0.9%	-7.7%	-31.9%	-69.8%



The Baseline scenario assumes no transition or physical impacts of climate change i.e. a climate neutral scenario.
Source: Isio, Moody's. This is based on stochastic modelling, with the median outcome shown. Liabilities are modelled on a gilts +3.1% basis.
Whilst we have modelled the potential physical and abatement costs over the next 50 years, in theory, markets may price these in sooner.
The model's projections are sensitive to the underlying methodology and assumptions. No guarantee can be offered that actual outcomes will fall within the range of simulated results. Due to the long projection period, the model's outcomes are particularly reliant upon the underlying assumptions. Therefore, more attention should be paid to the relative comparisons between different projections than to the absolute magnitude of the results.

Low Impact
Average Impact
High Impact

Strategy

The impact of climate-related risks and opportunities on the Fund's assets

Materiality of climate-related risks and opportunities

The Committee, in conjunction with its Investment Consultant, has used a Red, Amber, Green rating scale to illustrate the likely magnitude of the potential impacts at an asset class level of climate-related risks and opportunities across the different time horizons considered, however this does not reflect how the specific Fund's assets are managed within specific mandate, and how this could already mitigate some of this risk. However, it does provide an indication of the possible risks faced within the individual asset classes held by the Fund.

The Fund's assets are well diversified and are expected to react differently to various climate scenarios. Equity and Private Equity present as the stand-out risks over the longer-term horizons, particularly under current policies as physical risks have a strong impact, although the Fund actively engages and votes (where possible) on equity holdings in relation to climate issues in order to mitigate this risk. As noted previously, lower risk asset classes including diversified credit, corporate bonds and index-linked gilts are expected to be least impacted.

Risk	Time frame	Assets							
		Equity		Property	Infrastructure	Credit			
		Equity	Private Equity	Property	Infrastructure	Private Credit	Diversified Credit	Corporate Bonds	Index-Linked Gilts
Transitional (net zero scenario*)	Short term (3 years)								
	Medium term (10 years)								
	Long term (25 years)								
	Very Long term (50 years)								
Physical (current policies scenario)	Short term (3 years)								
	Medium term (10 years)								
	Long term (25 years)								
	Very Long term (50 years)								

Risk Management

Risk Management

Describe the Committee's process for identifying, assessing and managing climate-related risks

Climate-related risk management process

The Committee's climate-related risk management process is depicted below. The process is designed to allow identification of the most material/significant risks for the Fund and the development of controls and processes to manage these. This is an iterative process which is designed to be evolved over time.

Risk identification and prioritisation

Roles & responsibilities: The Committee has agreed with the various roles and responsibilities, documented in the Climate Delegation Framework. This includes their advice covering the identification, assessment and managements of climate-related risks across investment, actuarial, and legal matters.

Training: The Committee receives annual training to understand potential impacts of climate-related risks, climate science and their fiduciary duty.

Investment strategy impact

Climate scenario analysis: The Committee seeks to quantify the potential impact of climate change on the Fund's investment and funding position.

ESG integration: Where possible, the Committee ensures ESG considerations are integrated within the Fund's investment strategy. For example, the Fund has invested in renewables and infrastructure mandates with a climate focus which improves the Fund's overall climate ratings.

Climate risk monitoring

Assessing investment managers: The Committee assesses the ESG capabilities of the investment managers on an annual basis.

Assessing climate metrics: In line with TCFD recommendations, the Committee will monitor the Fund's investments against pre-agreed climate-related metrics on an annual basis.

Stewardship

Assessing investment managers: The Committee assesses the stewardship activities and capabilities of the investment managers, as well as directly engaging with their managers in relation to climate-related risks and opportunities.

Risk Management

Process for identifying, assessing, and managing climate-related risks are integrated into the Committee's overall risk management

Risk Register

The Committee maintains and monitors a risk register. This risk register is reviewed and updated quarterly, with reporting to the Pensions Committee. The Pensions Committee is responsible for receiving assurance on the effectiveness of the Fund's risk management arrangements.

Risk Mitigation	Mitigating Controls
Failure to implement ESG policy **Causes:** Lack of skills/knowledge, lack of transparency on practices or clear policy	• Member training on roles and fiduciary duties • Policy incorporated within SIP • PRI membership, annual signatory assessment • Monitor impact of climate change • Adoption of TCFD • Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work • Risk assessments with Fund Managers and Investment Consultant including Climate Scenario Analysis • In compliance with TPR code on managing Scheme risks from climate change

Assessing Investment Managers

Whilst the Committee retains overall responsibility, the Committee delegates day-to-day management of the investments to investment managers, and the Committee expects the managers to be identifying, assessing and managing climate-related risks on an ongoing basis on the Committee's behalf.

The Fund believes that stewardship and engagement are more effective than disinvestment. However the Fund does have a policy of screening out any investment in companies which are deemed to have controversial weapons or are violators of UN Global Compact Principles. As a responsible investor the Fund engages with our fund managers on our holdings to drive change in the companies held. Information on the Fund as a responsible investor is on the NESPF website:

https://www.nespf.org.uk/about/investment/responsible-investment

Metrics and Targets

Metrics and Targets

Disclosure of the metrics used by the Committee to assess climate-related risks and opportunities in line with its strategy and risk management process

<u>Opportunities Climate metrics selection</u>

The Committee selected and monitored five climate metrics during 2023/2024 for the Fund:

1. Absolute emissions metric: Total greenhouse gas emissions (scope 1 & 2 and scope 3)
2. Emissions intensity-based metric: Carbon footprint (scope 1 & 2 and scope 3)
3. Portfolio alignment metric: Science Based Targets initiative (SBTi) exposure breakdown
4. Additional portfolio alignment metric: Implied temperature rise ("ITR")
5. Additional climate change metric: Data Quality

Monitoring

The Committee will assess these metrics annually to monitor climate-related risks, and as a tool to engage with the investment managers.

More detail on how the metrics are defined can be found in the appendix of this report.

The process of selecting these metrics for monitoring focused on two key aspects: 1) level of impact and 2) availability of data.

<u>Level of impact</u>

The metrics were chosen based on their potential value to the Committee's decision making. Greenhouse gas ("GHG") emissions are a key driver of climate change. These result from a number of economic activities, primarily as a result of burning fossil fuels. The gases contribute to the increased retention of the sun's energy, resulting in a "greenhouse effect". Slowing and reducing the release of GHGs into the atmosphere is therefore important. Whilst it's important to consider emissions to date, it's also important to assess how these could evolve into the future. We have chosen SBTi exposure, in order to evaluate the underlying exposures of our portfolio to companies with alignment to Science Based Targets, as well as the ITR of each manager. This ensures we have a longer term focus for our climate-related decision making.

<u>Availability of data</u>

The Investment Consultant gathered this data from the investment managers on behalf of the Committee. The quality of this information is important to allow robust decision-making and target setting. Whilst data quality is broadly satisfactory, the Fund's investment strategy invests in a relatively high proportion of illiquid and alternative asset classes, which explains relatively low coverage as these asset classes tend to lag public market equivalents in terms of data coverage. Fund Officers will engage with investment managers to seek future improvements in data quality and coverage, and we also expect natural improvement as illiquid investments roll off. The Committee acknowledges that data gathering is reliant on the investment manager's processes and reporting standards may vary. Therefore, any decisions taken should be based on directional movements rather than exact numbers.

Metrics and Targets

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

The Committee last gathered climate metrics for the Fund as at 30 June 2024 (or the data at the best-available date) and the results are set out below. Results presented in the next page display reporting results for all five metrics as at 30 June 2024, compared to the position as at 30 September 2022.

As the Fund transitions to a more climate-aware strategy, it would be helpful to use the below carbon emissions to further monitor progress against a decarbonisation target. Similarly, the Committee will measure the carbon efficiency of our portfolios using the Fund's carbon footprint metric, which is currently 33.9 tCO_2e/£1m (compared to 35.9 as at 30 September 2022).

The Fund's equity investments have a preference towards companies with science-based targets. Whilst the ITR is 2.0˚C (compared to 2.4˚C as at 30 September 2022), we are comfortable with this figure in the context of a well-diversified portfolio and will monitor this as coverage improves across the portfolio.

Data coverage is currently 80% for Carbon Footprint (Scope 1 & 2), compared to 65% as at 30 September 2022. This is an important issue, particularly in private market allocations. The Committee are pleased with the improvement in data coverage to date, particularly in reported data, but remain driven to improve data quality further across the portfolio, and Officers and via our Investment Consultant, will continue to engage with the investment managers to improve data coverage.

Metrics and Targets

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

	Total GHG emissions (scope 1 & 2)				Carbon footprint (scope 1 & 2)			
	30 September 2022		30 June 2024		30 September 2022		30 June 2024	
	Metric, tCO_2e	Coverage	Metric, tCO_2e	Coverage	Metric, tCO_2e/\$1m of EVIC	Coverage	Metric, tCO_2e/\$1m of EVIC	Coverage
Total Portfolio	151,401.1	74%	178,203.1	86%	35.9	65%	33.9	80%

	SBTi Target				Implied Temperature Rise			
	30 September 2022		30 June 2024		30 September 2022		30 June 2024	
	Metric	Coverage	Metric	Coverage	Committed	Coverage	Committed	Coverage
Total Portfolio	53.3%	63%	51.0%	67%	2.4˚C	40%	2.0˚C	44%

	Data Quality							
	30 September 2022				30 June 2024			
	Verified	Reported	Estimated	Unavailable	Verified	Reported	Estimated	Unavailable
Total Portfolio	1%	52%	21%	26%	1%	73%	12%	14%

From the tables above, we can observe significant improvements in data coverage as at 30 June 2024 compared to the previous reporting date, as well as improvements in the Carbon Footprint and the portfolio's Implied Temperature Rise (forward-looking metric). Although Total GHG emissions have increased, this is largely driven by the increase in data coverage, while SBTi commitments have fallen with slightly higher coverage.

Source: Investment managers, Investment consultant's calculations. Numbers may not sum due to rounding.
Further caveats and detail can be found in the Appendix.

Metrics and Targets

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

Target setting

The Committee has set an initial relative improvement target across the chosen metrics, with a focus on data coverage and quality improvement.

We believe the target can be achieved through:

1. Consideration of the implications for TCFD metrics, when selecting future investments.
2. Targeted engagement with the Fund's investment managers with the support of our Investment Consultant.

The Committee will monitor the Fund's progress against the target annually via our Investment Consultant.

As part of the targets evolution, we will monitor when LGPS regulatory guidance becomes clear and once data quality and coverage improves sufficiently, we will consider adopting a formal science-backed decarbonisation target if appropriate.

	Baseline 30/09/2022	30/06/2024 Update	Target
Carbon Footprint (Scope 1 & 2)	35.9	33.9	Year on year improvement
Data coverage (Scope 1 & 2)	65%	80%	Year on year improvement

Appendix

Strategy Modelling Principles and Limitations

Modelling principles

Modelling was undertaken by the Fund's Investment Consultant using a stochastic model that simulates a large number of possible future economic outcomes, in which financial conditions develop in a number of different ways, defined by assumptions for average outcomes, range of variability, and inter-dependency between different markets. The results shown in this report are based on the median results.

The high-level market scenarios are generated by a third-party Economic Scenario Generator ("ESG") provided by Moody's Analytics. The ESG is an industry-standard tool that is widely used by financial institutions (e.g. insurers, asset managers, and investment banks). Both the climate scenarios and the underlying economic impacts are provided by Moody's Analytics.
Based on the scenarios generated by the ESG, the model simulates asset class returns calibrated to the asset class assumptions.

The model takes the initial starting position of the assets, and projects these values forward under the simulated scenarios, taking into account any relevant inflows and outflows.
Different investment strategies are modelled in order to illustrate the effects of different allocations. In each case, the model assumes that the strategy remains constant over the full projection period, and assets are annually rebalanced back to the original allocations. We can model alternative future strategic asset allocations being explored.

Modelling limitations

The models are based on assumptions and simplifications across both the climate-related impacts and the investment implications, they are not intended to be a perfect prediction of the future but rather provide the Committee with hypothetical constructs.

No guarantee can be offered that actual outcomes will fall within the range of simulated results.

The only risk factors considered in the modelling are those that affect the values of Pension Fund assets. The modelling results should be viewed alongside other qualitative considerations including portfolio complexity, governance burden, and liquidity risk.

The model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output. There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions. Newer asset classes can be harder to calibrate due to the lack of a long-term history.

Glossary

Metric	Description	
Absolute Emissions Metric: Total GHG emissions (scope 1 & 2)	Total amount of greenhouse gas emissions (as mandated by the Kyoto Protocol) emitted by the underlying portfolio companies, attributed to the investor based on the total investment in each company.	$\sum_{n}^{i}\left(\frac{\text{Current value of investment}_i}{\text{Investee company enterprise value}_i}\right) \text{X investee company's scope 1 and 2 emissions}_i$
Emissions Intensity Metric: Carbon footprint (scope 1 & 2)	An intensity measure of emissions that assesses the level of greenhouse gas emissions (as mandated by the Kyoto Protocol) arising from £1 million investment (based on Enterprise Value Including Cash) in a company.	$\frac{\sum_{n}^{i}\left(\frac{\text{Current value of investment}_i}{\text{Investee company enterprise value}_i} \text{X investee company's scope 1 and 2 emissions}_i\right)}{\text{Current value of all investments (£ millions)}}$
Science Based Targets	Science-based targets provide a clearly-defined pathway for companies to reduce greenhouse gas (GHG) emissions, helping prevent the worst impacts of climate change and future-proof business growth.	
Implied temperature alignment	A forward-looking view of carbon exposure that can be translated into a projected increase in global average temperature (°C) above pre-industrial levels that would occur if all companies had the same carbon intensity.	
Data quality	Verified	% of the emissions data that is verified (audited or independently verified)
	Reported	% of the emissions data that is sourced from actual company reported data
	Estimated	% of the emissions data that is estimated, either by the manager or a third party data provider

Glossary

GHG emissions from the activities of a particular company can be sp across three levels, as shown in the diagram.

- **Scope 1** are direct emissions from company owned or controlled sources – this includes heating/cooling of offices/factories and fleet vehicles.
- **Scope 2** are indirect emissions from purchased energy – emissior are created during the production of the energy which is eventual used by the company.
- **Scope 3** are all indirect emissions that occur in the value chain – this includes emissions from the production of purchased goods and services and the use of sold products. There are currently industry-wide issues with reporting scope 3 emissions.