Appendix A of the Responsible Investment Report

CLIMATE-RELATED DISCLOSURE 2022

Report prepared in alignment with the recommendations of the Taskforce on Climate-related Financial Disclosures

Report prepared in collaboration with LGPS Central Limited

West Midlands Pension Fund

DECEMBER 2022

INTRODUCTION AND OVERVIEW

The West Midlands Pension Fund ("the Fund/WMPF") is an open defined-benefit UK Local Government Pension Scheme with more than 800 employers.

With assets under management of £20.3 billion (as at 31 March 2022), the Fund invests for the long-term across a wide range of asset classes to deliver returns to pay pensions to approximately 340,000 members within the West Midlands.

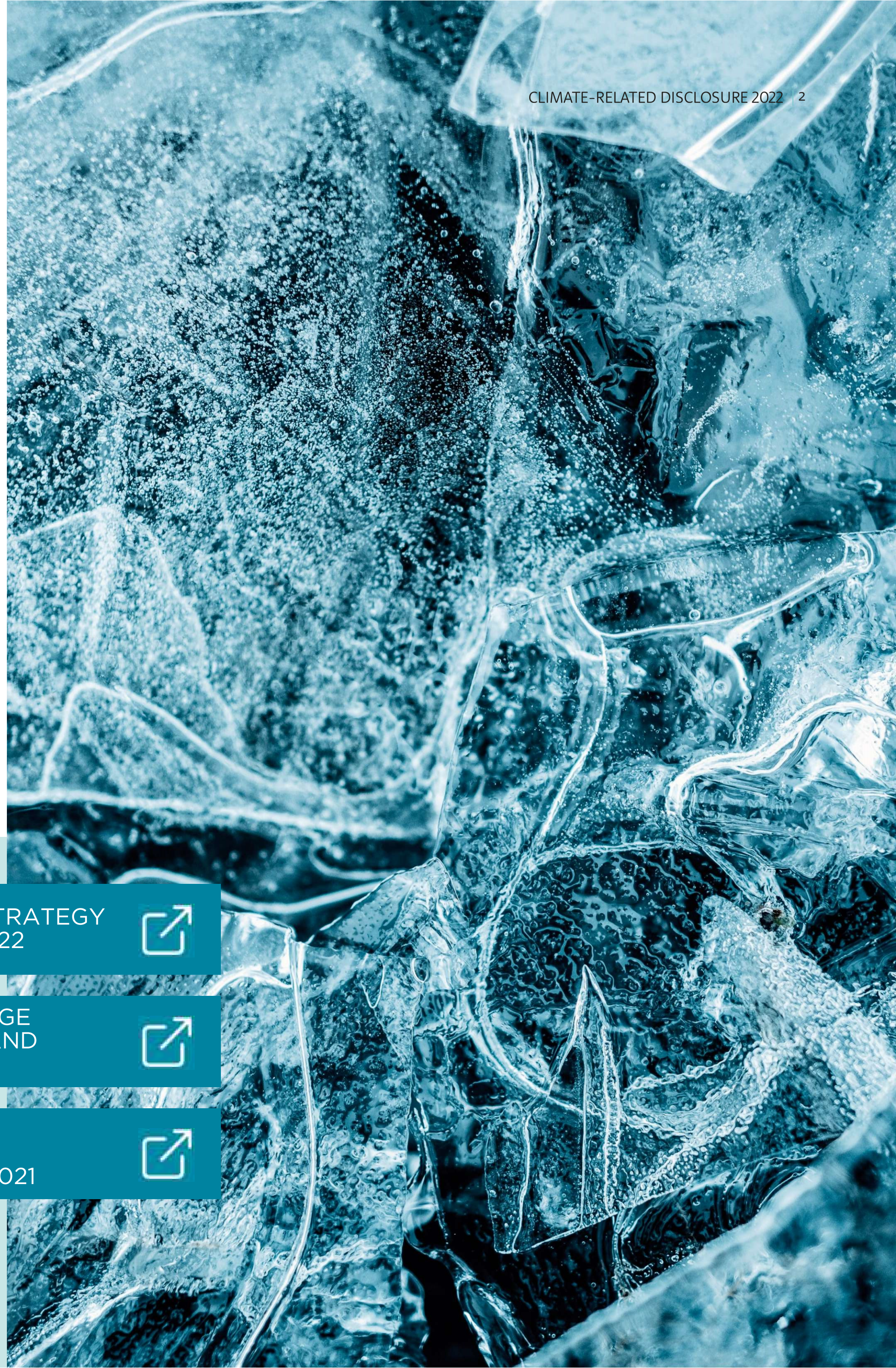
This stand-alone report marks the sixth year in which the Fund has disclosed its action and approach to assessing and managing the risks associated with climate change. The Fund's response to climate change is embedded within our *Investment Strategy Statement* and is supported by our *Climate Change Framework and Strategy* (2021-2026) and wider *Responsible Investment Framework*.

Based on the recommendations set by the Task Force on Climate-related Financial Disclosures (TCFD), our climate-related disclosure report provides an overview of the governance, strategy, risk management tools, metrics and targets employed to inform and continue to develop the Fund's response to climate change.

£20.3bn assets under management

338,951 members

805 employers



INVESTMENT STRATEGY STATEMENT 2022

CLIMATE CHANGE FRAMEWORK AND STRATEGY 2021

RESPONSIBLE INVESTMENT FRAMEWORK 2021

OUR APPROACH TO CLIMATE-RELATED DISCLOSURE

As long-term investors, climate change presents risks and opportunities that forms 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.

As a global investor, the Fund believes it plays a crucial role in leading change through a proactive and collaborative approach by engaging governments, companies, investors, and individuals. The Fund recognises that climate-related risks are financially material, and that their due consideration falls within the scope of the Fund's fiduciary duty and aligns with its wider beliefs, detailed in the Fund's *Investment Strategy Statement*. Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

Through a combination of bottom-up and top-down analysis, our 2022 *Climate Risk Report* provides a view of the climate risks across the major parts of the investment portfolio and review progress against the measurable baseline of data and recommendations established in 2020. Analysis to date has focused on our listed equity and fixed income portfolios and we will expand the coverage of analysis to include more asset classes as data availability improves.

Our *Climate Change Framework and Strategy* for 2021 captured our updated aspirations to halve the investment portfolio's carbon emissions by 2030, aiming to align to net zero by 2050. Based around short-term targets over five years, our objective was to ensure that our climate policy actions were set in context of progressive ambitions. In line with the Fund's approach to policy development and review, progress against the *2021 Climate Change Framework and Strategy* objectives will be reviewed annually, with full review and the next phase of the Framework due no later than 2026/27.

To assess progress towards a low carbon economy it is essential for WMPF to measure its climate risk exposure at regular intervals and to seek appropriate coverage. As part of the Fund's commitment to net zero, interim metrics and targets set for WMPF investments will be established throughout the Fund's participation in the IIGCC Net Zero Investment Framework and upcoming mandatory climate change risk reporting by the UK government. Such metrics and targets will be reported against annually with forward-looking scenario analysis expected to be undertaken every three years. We have undertaken climate scenario analysis this year alongside our triennial actuarial and investment strategy reviews and engagement with our employers. Our annual *Climate Risk Report* assesses our exposure and our progresses towards reduction targets and will be enhanced in future years in line with expected future reporting requirements.

This *Climate-related Disclosure Report* describes the way in which climate-related risks are managed by the Fund and covers our actions and alignment against each of the core TCFD recommendations' pillars in turn.

ANNUAL REPORT AND ACCOUNTS 2022

Figure 1: West Midland Pension Fund's Four Commitments

STRONG GOVERNANCE

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

CUSTOMER FOCUSED

Enabling, educating and supporting our customers on complex issues and 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.

TCFD RECOMMENDED DISCLOSURE:

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

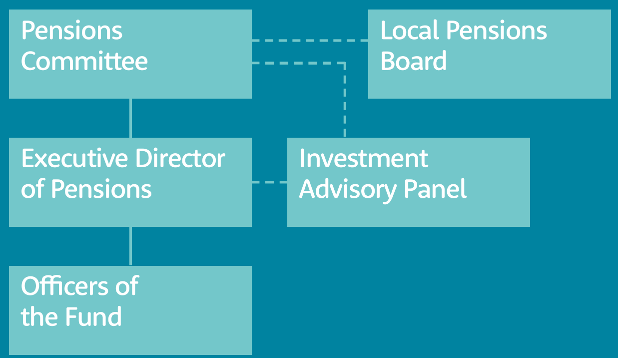


Figure 2: Core Elements of Recommended Climate-Related Financial Disclosures

GOVERNANCE

The City of Wolverhampton Council, the LGPS administering authority for the West Midlands Pension Fund, delegates its responsibility to the Pensions Committee.

The Pensions Committee is the decision-making body that sets strategy and policy, and delegates the day-to-day running of the Fund to the Executive Director of Pensions, who, in turn, delegates to its Senior Management Team and Officers. The Pensions Committee oversees climate-related risks and opportunities through ongoing reporting and approval of key climate-related policies (such as *Climate Change Framework and Strategy* and *Climate-Related Financial Disclosures* report).

The Local Pensions Board, equally representative of members and employers, takes an advisory role to the Fund, overseeing the good governance of the scheme, including the development and changes of the Fund's *Responsible Investment Framework* and *Climate Change Framework and Strategy* and its ongoing stewardship activity. The Local Pensions Board communicates the Fund's responsible investment activity and action on climate to members and employers.

WMPF's Investment Committee is responsible for the day-to-day management and oversight of assets including implementation of the *Investment Strategy Statement*, *Strategic Asset Allocation*, and *Responsible Investment Framework*.

The Fund's Investment Advisory Panel and appointed independent advisers oversee implementation and advise the Executive Director of Pensions and the Fund's internal committees on the Fund's consideration and response to climate change. Attention is placed upon minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

In an evolving regulatory landscape, the Fund is committed to evaluating and building knowledge and skills appropriate for our officers and governing bodies and adopted a dedicated *Employee and Governing Body Training Policy,* as detailed in our *Governance Compliance Statement* and *Investment Strategy Statement*.

INVESTMENT STRATEGY STATEMENT 2022

CLIMATE CHANGE FRAMEWORK AND STRATEGY 2021

RESPONSIBLE INVESTMENT FRAMEWORK 2021

GOVERNANCE AND COMPLIANCE STATEMENT 2022

GOVERNING BODY TRAINING POLICY

TCFD RECOMMENDED DISCLOSURE:

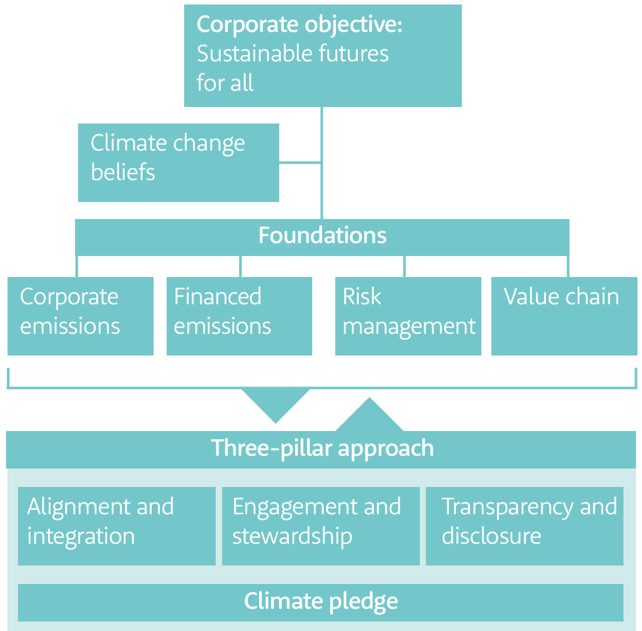
Describe management's role in assessing and managing climate-related risks and opportunities.

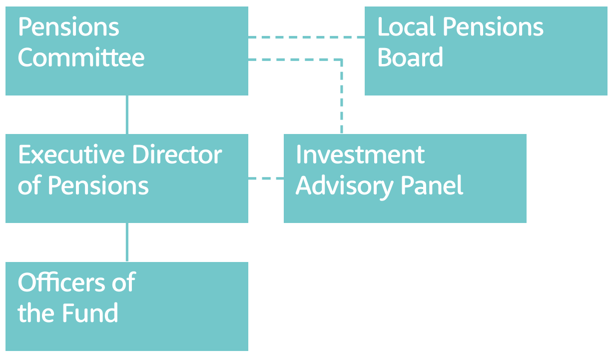
GOVERNANCE

Effective management of the Fund's climate change strategy is delegated to the Executive Director of Pensions and in turn to Senior Officers (Management Team) and the internal committees they lead (collectively "Fund Officers").

Fund Officers have engaged with market actors, including proxy advisers, investment consultants, and data service providers, to collate data and analysis to test and inform climate-related risks, both from a "top-down" and "bottom-up" perspective. This aids the identification, quantitative and qualitative assessment of climate risk and informs actions aligned to our *Climate Change Framework and Strategy*, which frames the governance of our response to climate change by defining our corporate sustainability objectives across four foundations. Grounded in our beliefs, these define our approach across three RI pillars and the tangible commitments and actions within our Climate Pledge. Accordingly, Fund officers give due consideration and assessment of climate-related risks and opportunities when discussing both existing and prospective investments.

LGPS Central, our investment pool company, provides investment products, analysis and advice, such as the annual internal *Climate Risk Report*, to support implementation of the Fund's *Climate Change Framework and Strategy*. The Fund leverages on partners and initiatives to strengthen its engagement and stewardship ambitions towards mitigating the effects of climate change.





TCFD RECOMMENDED DISCLOSURE:

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

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.

We identify short-term risk as stock market movements, medium-term risk as changes in consumer behaviour, driven by policy and technological change, and long-term risk as physical damages to real assets and resource availability.

The Fund identifies climate-related issues through research and collaboration (notably with the PRI, IIGCC, LAPFF, TPI and CA100+). The Fund has made use of the TPI Toolkit to observe climate risk management in large, listed equity stocks. A subset of risk and opportunity factors considered is outlined in the table below:

	Short & Medium-Term	Long-Term
Risks	• Carbon prices • Technological change • Regulatory & policy tightening • Consumer preferences • Asset valuations under a range of climate scenarios • Biodiversity	• Resource scarcity • Extreme weather events • Sea level rise • Fund employers • Asset valuations under a range of climate scenarios • Just transition & employment
Opportunities	• Engagement to support transition • Ability to influence • Resource efficiency • Technological change	• Engagement to support transition • Improvements to long-term health • Resource efficiency • Training and upskilling
Asset class	• Listed equities • Growth assets • Energy-intensive industry • Oil-dependent sovereign issuers • Carbon-intensive corporate issues • Currencies	• Infrastructure • Property • Agriculture • Commodities • Insurance • Private assets

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 inherently, our ability to pay our members their pension benefits.

As part of our fiduciary duty, we incorporate these considerations into all areas of our investment strategy, from selection and stewardship of assets, which we look to develop in forthcoming years in line with the Net Zero Investment Framework[1].

Responsible investment, including climate change, is included in all new mandates managed for WMPF. We expect our appointed investment managers to identify, assess and report emerging and evolving climate-related risks. Our expectations are typically inserted into IMAs, LPAs, or side letters, and managers' approaches are considered before appointment and on an ongoing basis through regular monitoring, including through our stewardship programme. Engagement activity is conducted with investee companies through selected stewardship partners such as LGPS Central Ltd, EOS at Federated Hermes, the Local Authority Pension Fund Forum (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.

[1]https://www.iigcc.org/download/net-zero-investment-framework-implementation guide/?wpdmdl=4425&refresh=613e33e07cf191631466464

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

Climate scientists currently anticipate that the world will be between 2°C and 4°C warmer by 2100[2], substantially higher than the ambition set by the Paris Climate Change Agreement[3], aiming to keep global surface temperature rise to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

In 2020, scenario analysis was carried out by an external provider to inform the 2020 Strategic Asset Allocation. All asset classes were reviewed in within 2°C, 3°C, and 4°C scenarios with the intention to include 1.5°C scenario in the forthcoming assessment in 2022. This year we assessed the Fund's current exposure to climate-related risks a range of forward-looking climate scenario, 1.5°C, 1.6°C, and 4°C scenarios as per the table below. This analysis will help inform the Fund's 2023 Strategic Asset Allocation Benchmark review.

Annualised Climate Change Impact on Portfolio Returns – to 5, 15 and 40 Years[4]

Scenario	Timeline (years)	Current Asset Allocation[5]	Target Asset Allocation[6]
1.5°C	5	-1.7%	-1.5%
	15	-0.5%	-0.4%
	40	-0.2%	-0.2%
1.6°C	5	-0.2%	-0.1%
	15	0.0%	0.0%
	40	0.0%	0.0%
4°C	5	0.2%	0.1%
	15	-0.7%	-0.6%
	40	-1.1%	-1.0%

[2] https://www.ipcc.ch/sr15/chapter/spm/

[3] https://ec.europa.eu/clima/policies/international/negotiations/paris_en

[4] Extract below from Mercer Limited's (Mercer) report "Climate Risk Report" dated November 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for West Midlands Pension Fund.

[5] Current Asset Allocation refers to Fund's portfolio as of 31 March 2022.

[6] Target Asset Allocation is reflective of the strategic asset allocation stated in the Investment Strategy Statement 2022.

- 1.5°C scenario reflects on a sudden re-pricing on multiple securities around 2025 due to potential policy changes that encourage drastic divestments.
- 1.6°C scenario reflects on an early but smooth transition, with political and social organisations working in conjunction to meet the goals of the Paris Agreement.
- 4°C scenario assumes no changes have been made or the transition to a low-carbon economy has not been achieved.

The impact on portfolio returns will varying depending on the three different scenarios shown above, subject to physical impacts and transition costs, and the timeframes over which the impact is assessed.

Although scenario analysis can provide forward-looking insight to the portfolio against controlled scenarios, there are limitations associated with the tool, including the number of assumptions utilised, hence it is important to take a holistic approach across a variety of metrics when assessing climate risk. We expect climate scenario analysis will develop and evolve over time and be a more informative decision-making tool going forward.

As outlined in our *Climate Change Framework and Strategy 2021*, we will continue to scenario test our long-term funding and investment strategies against forward-looking temperature increase scenarios to understand and inform action required to develop resilience.

TCFD RECOMMENDED DISCLOSURE:

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

RISK MANAGEMENT

The Fund seeks 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.

As far as possible, climate risks are assessed in units of investment return, to compare 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. Our preferred metrics to date have been evidenced-based impact returns, informed 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* outlines 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 through our commitment to the IIGCC 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.

Either directly or through delegated management, WMPF puts its responsible investment and climate change beliefs into practice through actions taken both before (the selection of investments) and after (the stewardship of investments) the investment decision.

WMPF 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.

Table 1: A Summary of WMPF's Responsible Investment and Climate Change Beliefs

Responsible Investment (RI)

- RI ensures the long-term value of assets are protected and where possible, enhanced.
- RI should be integrated throughout the entire investment process.
- Investing responsibly reduces risk over time.
- There is investment opportunity to be realised in environmental and social challenges.
- Robust governance structures protect investee companies.
- Strong RI practises advocate engagement over exclusion.
- Collaborative engagement delivers improvements to the way in which companies are managed.
- Working in tandem with other investors can positively influence wider policy.

Climate Change

- Science-based evidence demonstrates that climate change poses both risk and opportunities for investors.
- If climate change is not managed it will have long-term consequences for funding levels and financial returns.
- National policy changes must align with the Paris Agreement target of limiting warming to 1.5°C above pre-industrial levels.
- Climate risk exposure should be measured at regular intervals.
- A “just transition” to a low carbon economy with careful society considerations is essential.
- Collaborative investor engagement is essential in informing government and policy change.

Regular meetings and continued coordination assist in developing meaningful analysis and reporting on climate risks.

Our pooling company, LGPS Central Ltd, develops and monitors all their pooled funds to meet a set standard of "Responsible Investment Integrated Status" (RIIS), across the lifespan of WMPF investments.

RIIS criteria, of which climate change is a crucial component, will typically include:

- RI and climate change beliefs relevant to the asset class or mandate.
- Relevant RI and climate change risk- or opportunity-related documentation, such as policies or procedures, supporting the decision to invest.
- RI, ESG and climate change factoring into managers' selection of portfolio assets.
- Transparency in reporting to clients and the wider public.
- RI reviews by WMPF managers at regular intervals (usually quarterly).
- Stewardship responsibilities are carried out thoroughly (engaging with companies, shareholder voting, manager monitoring, industry participation).

Engagement and shareholder voting are integral aspects of the Fund's RI approach to managing climate-related risk. Engagement with investee companies is conducted 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. 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 report.

LGPS VENTRAL VOTING PRINCIPLES 2021

WMPF VOTING PRINCIPLES 2020

THE FUND'S COLLABORATIVE AND ENGAGEMENT PARTNERSHIPS

LGPS Central Ltd delivers benefits of scale in responsible investment and engagement and analysis of climate change risks. Climate change is one of WMPF's and LGPS Central's stewardship themes. With quarterly reporting, WMPF tracks progress against stewardship themes including climate change, which is available on our website. LGPS Central engages companies on WMPF's behalf.

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

The Local Authority Pension Fund Forum (LAPFF) conducts engagements with companies on behalf of local authority pension funds.

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. In the 2020 assessment WMPF achieved A+/A across all modules.

The IIGCC, 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. WMPF is a member of the IIGCC and actively participates to IIGCC Working Groups when possible.

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, 700 investors, responsible for over $68trn AUM, are engaging with companies on improving climate change governance, cutting emissions, and strengthening climate-related financial disclosures.

The Transition Pathway Initiative (TPI) is a global, asset-owner led initiative representing 131 investors and $50trn AUM, which assesses companies' preparedness for the transition to a low carbon economy.

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

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.

Identifying:
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 Risk 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 intends to integrate climate change into its broader strategy and asset management. It is holistic in that it incorporates climate change and risk considerations across Fund's operations and the investment and funding strategies. We consider potential financial risks by changing economic and demographic risks as well as changing employer covenant. The Fund has set targets and will monitor and manage delivery of those targets and report back to Pensions Committee on progress.

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 an essential tool 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, one of four key engagement themes identified in our *Responsible Investment Framework* for 2019-2023, has been an area for targeted engagement for many years. Mitigation of climate risk include the inclusion of climate-related risk factors in employer covenant indicators.

Annual training sessions on climate change are held for our officers and governing bodies to diffuse 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

A climate risk metrics analysis of our listed equities and corporate fixed income portfolios is undertaken through LGPS Central every year-end.

The analysis, based on MSCI ESG dataset, assesses the evolution of the portfolio carbon risk metrics, and contributes to our *Climate Risk Report*.

We will look to expand the asset classes coverage of this analysis as data availability improves. Carbon risk metrics are instrumental to evaluating our sub-Funds' potential exposure to climate-related risks and identifying areas for further risk management, including company engagement and fund manager monitoring. So far, our analysis included:

- Portfolio carbon footprint (weighted average carbon intensity);
- Exposure to fossil fuel and thermal coal reserves;
- Exposure to clean technology;
- Net zero target coverage; and
- Carbon risk management via the TPI.

Through our commitment with the IIGCC Net Zero Investment Framework, we are further fine-tuning our carbon risk metrics and translating our net zero ambitions into interim reduction targets for portfolio absolute financed carbon emissions and our target exposure to climate solutions. We also anticipate adapting the metrics that we disclose as best practice and new UK pensions climate risk disclosure regulations (including those directly applicable to the Local Government Pension Scheme) come into force.

TCFD RECOMMENDED DISCLOSURE:

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

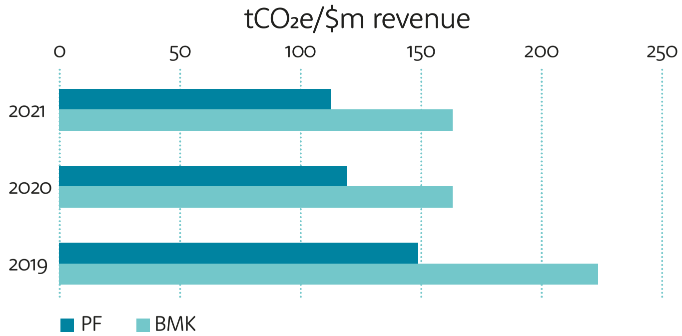
METRICS AND TARGETS

In line with TCFD guidance, tables below detail the carbon risk metrics (Scope 1 and 2 for carbon footprint) for the total listed equities with the reduction against a 2019 baseline, relative to the benchmarks at year-end 2021.

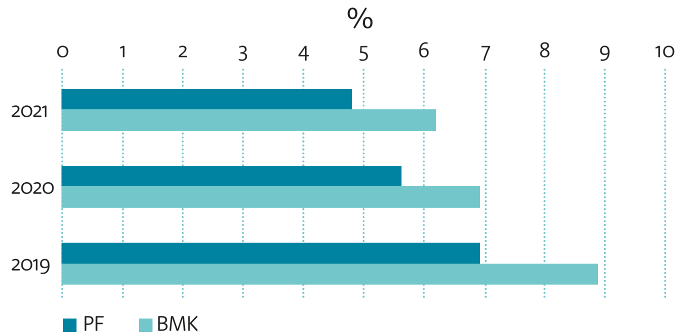
A lack of sufficiently complete and comparable data at this time prevents the analysis of carbon risk metrics for unlisted asset classes.

The carbon footprint of the total equities portfolio has decreased by 24.7% between the 31 December 2019 baseline and 31 December 2021. The absolute emissions of the total equity portfolio have decreased by 26.7% between December 2019 and December 2021.

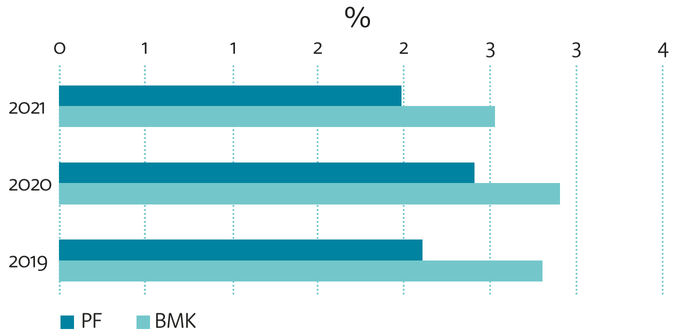
Carbon Footprint, Total Equities Portfolio



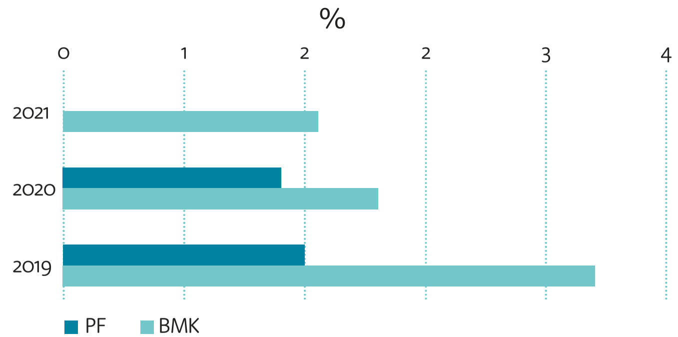
Weight in Fossil Fuel Reserves, Total Equities Portfolio



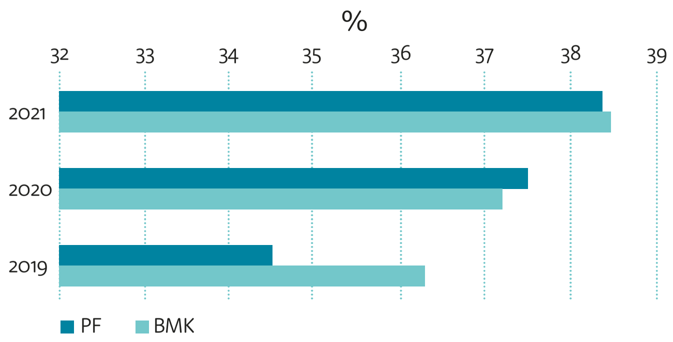
Weight in Thermal Coal Reserves, Total Equities Portfolio



Weight in Coal Power, Total Equities Portfolio



Weight in Clean Technology, Total Equities Portfolio



The Fund has raised its ambitions to reach net zero by 2050 or sooner and halve its absolute carbon emissions by 2030 as set out in the latest update of its *Climate Change Framework and Strategy*. To reach this ambition, the Fund aligned with the IIGCC Net Zero Investment Framework and is working on implementing this framework.

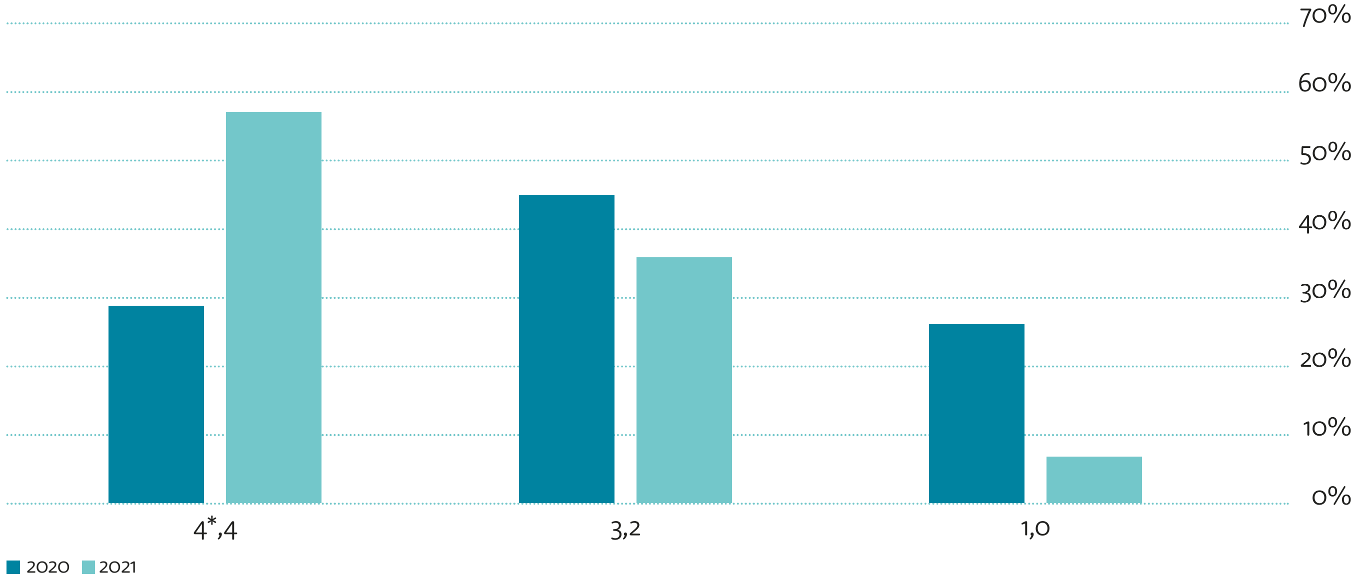
TPI Framework

The Transition Pathway Initiative (TPI) framework evaluates companies based on their carbon performance and their climate risk management quality, including an assessment of policies, strategy, risk management and targets.

Between 31 December 2020 and 2021, the companies in the listed equity portfolio with a TPI high management quality score (4 or 4*) has increased by 28%, whilst the number of companies with a low management quality score (0 or 1) has reduced by 19%. This advocates that the Fund's appointed portfolio managers are, on average, investing in above average to 'best in class' companies in terms of climate risk management.

The number of companies aligned with the Paris Agreement, however, is significantly lower than the proportion with good management quality. Only 8% of companies have committed to a target aligned with a Paris-aligned 1.5 scenario, indicating that more engagement work is needed on encouraging companies to commit to more ambitious decarbonisation targets. As per its *Voting Principles 2021*, LGPS Central will consider voting on our behalf against the company Chair, and other relevant directors or resolutions if a company is assessed by TPI's management quality framework to be lower than Level 4.

TPI Management Quality, Total Equities Portfolio



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'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.

Building on the progress to date and consistent with the Fund's Climate Pledge (detailed in the *Climate Change Framework and Strategy 2021*), we have set interim targets:

- A 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.

The targets outlined here are subject to change as the landscape and industry develop and are reliant on the developing global governmental commitments and policies. In particular, the Government's consultation on Climate Risk Reporting for the LGPS and the Fund's commitment to the IIGCC Net Zero Investment Framework is driving further work to accompany the decarbonisation of the portfolio throughout time and the definition of relevant metrics and targets.

CLIMATE CHANGE FRAMEWORK AND STRATEGY 2021

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.

Climate Solutions
We note here that there is currently no standard definition for investments which classify as climate solutions but this is an area the Fund is advocating development.

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 time frame.

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.