CHESHIRE PENSION FUND

CLIMATE RISK REPORT – KEY POINTS

The Task Force on Climate-related Financial Disclosures (TCFD), set up in 2017, provides a blueprint for climate reporting which represents best practise in the investment industry. Adopting the TCFD recommendations enables both companies and investors to disclose their climate related information in a consistent and standardised format. The Cheshire Pension Fund is publishing its first Climate Risk report and in doing so, will become one of the first LGPS funds to issue a TCFD compliant report.

The publication of the Cheshire Fund's TCFD report follows an independent, in depth review of the climate risks of the Fund's investment portfolio. It will be followed by the publication of a climate strategy and a climate stewardship plan.

The review of the Cheshire Fund's publicly listed investment assets revealed that the carbon footprint (CO2 emissions per $m of revenue generated) of the Fund's equity portfolio is 30% below the general market as represented by the FTSE All World Index. This index covers the world's largest 3,000+ companies across 47 countries. In addition, the Fund has less exposure to companies with fossil fuel reserves and to those exploiting coal reserves than the general index. The survey also revealed the Fund has more investments with companies who use clean technology than the general market.

The Cheshire Pension Fund currently invests in five different equity funds and all except one have a lower carbon footprint than the general market index. The one fund with a higher carbon footprint will now be reviewed to identify potential alternative investment funds.

The review also concluded that the Fund's carbon footprint and other carbon metrics had improved since the Fund took the decision to invest over £500 million in a new climate factor fund in October 2019.

The review could not draw any firm conclusions regarding the carbon footprint of the Fund's bonds portfolio as the general poor availability of carbon metrics in this asset class hampered efforts to benchmark the fund in this sector. However, the Fund, along with other like-minded investors is encouraging investment managers and companies to improve their carbon reporting and will challenge companies who don't comply with the TCFD.

The TCFD report also considers the risk and return characteristics of the Cheshire Fund's investment portfolio under various climate scenarios including an increase in global temperatures of 2, 3 and 4 degrees centigrade. Under all scenarios the review found there would be a minimal impact on the expected annual investment returns for the Fund projected to 2050. This is because the Fund has an extremely well diversified investment portfolio with a large allocation to government debt and fixed income, the asset classes which are the most resilient and which are least affected by climate related risks.

Although the Fund is pleased that its first TCFD report has revealed a low level of climate risk, the Fund wishes to reduce its level of climate exposure further and will review its investment portfolio to examine how this can be achieved. The next steps will involve the production of a Climate Strategy and a Climate Stewardship Plan which will set out particular sector and company level climate risks that the Fund wishes to address.