Risk Management

-related risks.

individual asset level. The Fund’s

-related risks.

time horizon of the risk itself. As set out in the Fund’s Climate Strategy, the main management

Engagement and shareholder voting are an important aspect of the Fund’s approach to managing

Either through its own membership or through LGPS Central's membership, the Fund has several engagement partners that engage investee companies on climate risk which are described in the following table.

Table 3: The Fund's Stewardship Partners

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPS Central. Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPS Central engages companies on CPF's behalf, including via the Climate Action 100+ initiative.
Federated Hermes	EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies.
Local Authority Pension Fund Forum	CPF is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of local authority pension funds.

The instruction of shareholder voting opportunities is an important part of climate stewardship. The Fund's votes are executed by its asset pool (LGPS Central) according to a set of Voting Principles, to which the Fund contributes during the annual review process. LGPS Central's Voting Principles incorporate climate change, for example by voting against companies that do not meet certain thresholds in the Transition Pathway Initiative (TPI) scoring system. LGPS Central has co-filed shareholder resolutions that relate to climate change. LGPS Central co-filed climate-related shareholder resolutions at the meetings of BP Plc, Barclays Plc, and Credit Suisse.

The results of engagement and voting activities are reviewed by the Pension Fund Committee and Investment Sub-Committee. LGPS Central's activities are reported in Quarterly Stewardship Reports which are available on the LGPS Central website.

Based on its first Climate Risk Report, the Fund has developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPS Central, investment managers, EOS at Federated Hermes, and LAPFF, includes targeted engagement with eight investee companies of particular significance to the Fund's portfolio. Wherever feasible, the engagement objectives are designed to be SMART (Specific, Measurable, Actionable, Relevant and Time-bound) to enable the Fund to adequately assess a company's progress. The Fund believes that all companies should align their business activities with the Paris Agreement on climate change.

Table 4: Companies included in the Climate Stewardship Plan

Company	Sector
BP	Energy
CRH	Materials
ExxonMobil	Energy
Glencore	Materials
Holcim	Materials
NextEra	Utilities
Ryanair	Airlines
Shell	Energy
The Southern Company	Utilities
Exxon Mobil	Energy

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

Both 'mainstream' risks and climate-related risks are discussed by the Pension Committee and Investment Sub-Committee. While specific macro-economic risks are not usually included in isolation, the Fund has deemed climate risk to be sufficiently significant and therefore included it on the Fund's Risk Register. Climate risk is further managed through the Fund's Climate Stewardship Plan.

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Metrics and Targets

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

The Fund receives annual reports from LGPS Central Ltd which set out the carbon risk metrics for its listed equities and fixed income portfolios. The poor availability of data in unlisted asset classes prevents a more complete analysis at this time.

The carbon risk metrics analysis includes:

- portfolio carbon footprints[3]
- financed emissions of the portfolio[4]
- weight of portfolios invested in companies with fossil fuel reserves
- weight of portfolios invested in companies with thermal coal reserves
- weight of portfolios invested in companies whose products and services include clean technology
- weight of the portfolio invested in companies that have set net zero targets
- metrics assessing the management of climate risk by portfolio companies

Carbon risk metrics aid the Fund in assessing the potential climate-related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and fund manager monitoring. The Fund additionally monitors stewardship data (see above).

In considering its carbon risk metrics, the Fund remains aware of the limitations of the available metrics and the underlying datasets. There are certain data gaps caused by companies failing to report GHG data, or by companies reporting unreliable GHG data. In such cases the GHG data must be estimated, and different suppliers of GHG datasets might have different methodologies for making such estimations, leading to potentially different values for the same company or portfolio of companies. The results should, therefore, be treated with some degree of caution. Despite the potential pitfalls, the Fund has resolved to integrate the consideration of carbon risk metrics within the Fund's overall framework of risk management, whilst remaining conscious that the results are primarily useful in enabling the Fund to reach broad conclusions, to enable risk management measures to be prioritised and to enable broad direction of travel and progress to be assessed.

TCFD Recommended Disclosure
b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. TCFD Guidance: *Asset owners should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each fund or investment strategy.*

[3] Following TCFD guidance we use weighted average portfolio carbon footprints.
[4] Calculated by multiplying the attribution factor by a company's emissions, giving a figure of the absolute tons of CO2 for which an investor is responsible.

In line with the TCFD guidance and following receipt of a report from LGPS Central Limited we provide below the carbon footprints of the applicable portfolios[5]:

Table 5: Carbon risk metrics for the equity portfolio as of 31st January 2022 [6]

		Financed Emissions (tCo2e)	Carbon Footprint (tCO2e/$M revenue)			Weight in Fossil Fuel Reserves %			Weight in Thermal Coal Reserves %			Weight in Clean Technology %		
Portfolio Name	Benchmark	PF	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff
Quoted Equities Asset Class	Quoted Equity Blended Benchmark	81,936	90.7	121.8	-25.6%	4.3%	6.1%	-1.8%	1.9%	2.5%	-0.6%	37.0%	40.5%	-3.5%

The Fund's total Equities portfolio is 25.6% more carbon efficient than the blended benchmark. This means that, on average, for every $m of economic output companies produce, the Fund's investee companies emit 25.6% fewer GHG emissions than the companies in the blended benchmark. The Total Equities portfolio has a lower exposure to both fossil fuel reserves and thermal coal reserves than its blended benchmark.

Table 5 – Carbon risks metrics for the equity portfolio vs FTSE All World Index

		Financed Emissions (tCo2e)	Carbon Footprint (tCO2e/$M revenue)			Weight in Fossil Fuel Reserves %			Weight in Thermal Coal Reserves %			Weight in Clean Technology %		
Portfolio Name	Benchmark	PF	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff	PF	BM	% Diff
Quoted Equities Asset Class	FTSE All World	81,936	90.7	161.2	-43.8%	4.3%	6.7%	-2.4%	1.9%	2.5%	-0.6%	37.0%	38.5%	-1.5%

[5] Analysis undertaken on the listed equities portfolios with holdings data as of 31st January 2022. The information in Table 5 was provided to the Fund in a report authored by LGPS Central Limited. In LGPS Central Limited's report, the Total Equities portfolio comprises the Total Active Equities and the Total Passive Equities portfolios weighted according to their size in GBP. The Total Active Equities portfolio contains three underlying portfolios managed for the Fund by LGPS Central and two underlying portfolios managed by Baillie Gifford. The Total Passive Equities portfolio contains one underlying portfolio managed for the Fund by LGIM and one managed by LGPS Central.

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The Fund has set a target to reduce the carbon footprint of its equity portfolio to 50% below that of the FTSE All World index by the end of 2023. Table 5 shows that as at 31 January 2022, the Fund was on course to meet its target, with the equity portfolio being 43.75% below the FTSE All World

Whilst the Fund's carbon risk metrics results show the Fund already 'outperforms' its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in its investment decision making. The Fund expects to update its carbon risk metrics data on an annual basis.

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

The Fund has reviewed the use of targets. As per the *Climate Change Strategy* the Fund has articulated a number of Strategic Actions within the following areas: (a) Measurement & Observation (b) Asset Allocation (c) Selection, Due Diligence and Monitoring (d) Purposeful Stewardship (e) Transparency and Disclosure.

Within (b) Asset Allocation, the Fund has set three targets. The Fund's progress against these targets is shown below.

Table 6: Performance against the Fund's Climate Targets as of 31st January 2022

Target	Status
Reduce the carbon footprint of the Fund's equity portfolio by 7.6% per year.	Between 31st December 2020 and 31st January 2022, the Fund's Total Equities carbon footprint decreased by 6.6%. However, since 31st December 2019 the Fund has achieved a carbon reduction of 29.8%, which equates to an average annual reduction of 14.9%.
Reduce the carbon footprint of the Fund's equity portfolio to 50% below the equity market by the end of 2023.	As of 31st January 2022, the carbon footprint of the Fund's Total Equities portfolio is 43.8% lower than the FTSE All World. This is both an improvement from 2020 and 2019 where it was 38.6% and 30.3% lower, respectively.
Invest an increasing proportion of the total Fund assets in low carbon and sustainable assets.	In 2021 CPF exited its investments in the LGIM FTSE RAFI 3000 fund and transitioned into the LGIM RAFI Carbon Neutral Fund, increasing its total investments in low carbon and sustainable assets. The Fund's investments in infrastructure projects, including renewables increased significantly during the year.

Appendix 1

TCFD Recommendations for Asset Owners (source: TCFD)

Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.

Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.

Strategy

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

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

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

Risk Management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.

Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.

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

Metrics and Targets

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

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

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

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Appendix 2: Glossary

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

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

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

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

Physical risk/ climate physical risk: the financial risks and opportunities associated with the anticipated increase in frequency and severity of extreme weather events and other phenomena, including storms, flooding, sea level rise and changing seasonal extremities.

Portfolio Carbon Footprint/ Carbon Footprint: A proxy for a portfolio's exposure to potential climate-related risks (especially the cost of carbon), often compared to a performance benchmark. It is calculated by working out the carbon intensity (Scope 1+2 Emissions / $M sales) for each portfolio company and calculating the weighted average by portfolio weight.

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

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

Scope 3 Greenhouse Gas Emissions: Indirect emissions that are not controlled by the institution but occur as a result of that institutions activities. Examples include commuting, waste disposal and embodied emissions from extraction.

Stewardship: the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Transition risk/ climate transition risk: the financial risks and opportunities associated with the anticipated transition to a lower carbon economy. This can include technological progress, shifts in subsidies and taxes, and changes to consumer preferences or market sentiment.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

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Appendix 3: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated October 2022 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Cheshire Pension Fund. Other third parties may not rely on this information without Mercer's prior written permission. The findings and opinions expressed are the intellectual property of Mercer and are not intended to convey any guarantees as to the future performance of the investment strategy. Information contained herein has been obtained from a range of third party sources. Mercer makes no representations or warranties as to the accuracy of the information and is not responsible for the data supplied by any third party.

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