

Climate-related Disclosures

*Report prepared in alignment with the
recommendations of the Taskforce on Climate-
related Financial Disclosures (TCFD)*

December 2023

Introduction to the TCFD

The Taskforce on Climate-related Financial Disclosures (TCFD) was commissioned in 2015 by Mark Carney in his remit as Chair of the Financial Stability Board. In 2017 the TCFD released its recommendations for improved transparency by companies, asset managers, asset owners, banks, and insurance companies with respect to how climate-related risks and opportunities are being managed. Official supporters of the TCFD total 930 organisations representing a market capitalisation of over \$11 trillion. Disclosure that aligns with the TCFD recommendations currently represents best practice.

The recommendations are based on the financial materiality of climate change. The four elements of recommended disclosures (see Figure 1 below) are designed so as to make TCFD-aligned disclosures comparable, but with sufficient flexibility to account for local circumstances. Examples of pension funds that have been early adopters of the TCFD recommendations include AP2, NEST, PGGM, RPMI Railpen, The Pensions Trust, and Environment Agency Pension Fund.

In September 2022, the Department for Levelling Up, Housing and Communities (DLUHC) released a consultation document, seeking views on proposals for LGPS Administering Authorities (AAs) to manage and report on climate risks in line with TCFD. While this policy is still in the consultation stage, we expect these requirements to be formally adopted by DLHUC in 2024.

Figure 1: TCFD Disclosure Pillars



Cheshire Pension Fund (CPF, or 'the Fund') supports the TCFD recommendations as the optimal framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes. As a pension fund, we are long-term investors and are diversified across asset classes, regions and sectors, making us "universal owners". It is in our interest that the market is able to effectively price climate-related risks and that policymakers are able to address market failure. We believe TCFD-aligned disclosure from asset owners, asset managers, and corporates, is in the best interest of our beneficiaries.

About this report

This report is Cheshire Pension Fund's (CPF or 'the Fund') fourth climate-related disclosure report. It describes the way in which climate-related risks are currently managed within the Fund.

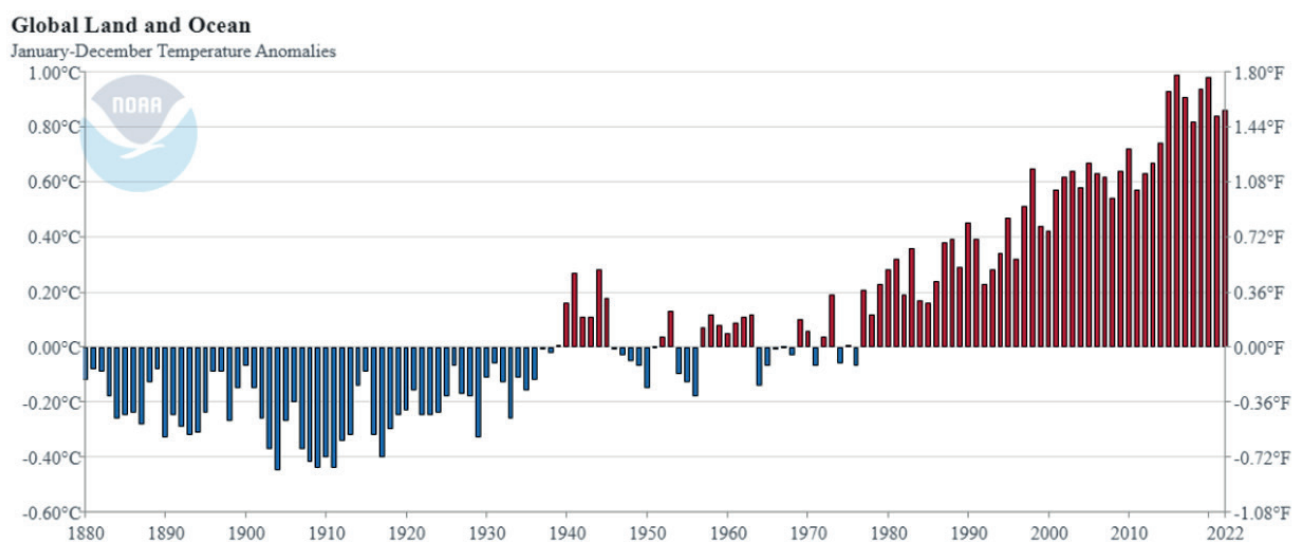
Since October 2020, CPF has received four Climate Risk Reports from the Fund's pooling company, LGPS Central Ltd. These reports provide an in-depth review of the Fund's approach to identifying, assessing, and managing climate risks and opportunities across its investments. The Fund is currently using the findings of these reports to update and revise its more detailed Climate Strategy.

In the interests of being transparent with the Fund's beneficiaries and broader stakeholder base, this report discloses the most recent Carbon Risk Metrics Analysis and includes a gap analysis of the Fund's policies and disclosures relating to the four pillars of the TCFD. We expect to update our Carbon Risk Metrics on an annual basis.

Climate-related risks

Human activities are estimated to have caused approximately 1.1°C of global warming above pre-industrial levels,¹ while the UN anticipates approximately 2.9°C of warming by the end of the century.² Most of this warming has occurred in the past 35 years, with each of the ten warmest years between 1880 and 2022 taking place over the last 12 years.³ The overwhelming scientific consensus is that the observed climatic changes are the result primarily of human activities including electricity and heat production, agriculture and land-use change, industry, and transport.

Figure 2: Global Land and Ocean Annual Temperature Anomalies (1880-2022)⁴



In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world will be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

¹ [IPCC_AR6_SYR_SPM.pdf](#)

² [EGR2023.pdf \(unep.org\)](#)

³ [Annual 2022 Global Climate Report | National Centers for Environmental Information \(NCEI\) \(noaa.gov\)](#)

⁴ [Annual 2022 Global Climate Report | National Centers for Environmental Information \(NCEI\) \(noaa.gov\)](#)

Governance

TCFD Recommended Disclosure

a) Describe the board's oversight of climate-related risks and opportunities

Roles and responsibilities at the Fund are set out clearly in the Fund's *Governance Compliance Statement*. Overall responsibility for managing the Fund lies with the full Council of Cheshire West and Chester Council (the Council), which has delegated the management and administration of the Fund to the Section 151 Officer. The Full Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee. The Section 151 Officer is advised by the Pension Fund Committee and also takes appropriate advice from the Council's Head of Governance, the Fund Actuary and from the strategic Investment Advisor.

The Pension Fund Committee ("the Committee") is responsible for reviewing the Fund's *Investment Strategy Statement (ISS)* and the *Responsible Investment Policy and Climate Change Strategy*. The ISS recognises climate change as a financially material factor that could affect the Fund's level of funding risk. The Climate Change Strategy is premised on 10 foundational evidence-based beliefs about climate risk, considering climate science, the energy transition, and climate stewardship. Both the Responsible Investment Policy and Climate Change Strategy are reviewed by the Pension Fund Committee on an annual basis.

The Pension Fund Committee and the Investment Sub-Committee each meet quarterly, or otherwise as necessary. The Investment Sub-Committee includes responsible investment (which includes climate change) as a standing item on the Investment Sub-Committee agendas, and investment managers' quarterly performance reports are required to include a specific briefing on responsible investment (including climate change as relevant).

The Local Pensions Board has an oversight role in ensuring the effective and efficient governance and administration of the Fund, including securing compliance with LGPS Regulations and any other legislation relating to the governance and administration of the Scheme.

In order to support good decision-making, the Fund applies the Myners Principles. Disclosure against the Myners Principles is made annually (please see Appendix A of the Fund's *Investment Strategy Statement*). In addition, the Fund utilises the CIPFA/ Solace "Delivering Good Governance Framework" (please see p. 65-67 of the Fund's Annual Report for 2022-23).

TCFD Recommended Disclosure

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

The Head of the Cheshire Pension Fund and the Finance and Investments Manager have primary day-to-day responsibility for the way in which climate-related investment risks are currently managed. Where appropriate, the Fund's pooling company, LGPS Central Ltd, assists in assessing and managing climate-related risks. As detailed in the *Climate Change Strategy*, the Fund leverages partnerships and initiatives – including the Institutional Investors Group on Climate Change (IIGCC) – to identify and manage climate risk. The Head of the Cheshire Pension Fund is accountable to the Pensions Committee for delivery of the *Climate Change Strategy*.

As a primarily externally managed fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers. External portfolio managers are monitored on a regular basis by the Investment Sub-Committee.

Since 2020 the Fund Officers have received an annual Climate Risk Report, which allows a view of climate risk throughout its total equities and fixed income portfolios, and the identification of further means for the Fund to manage its material climate risks.

Strategy

TCFD Recommended Disclosure

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

As a diversified asset owner, the range of climate-related risks and opportunities are multifarious and constantly evolving. A subset of risk factors is presented in Table 1.

Table 1: Example Short, Medium & Long-Term Risks

Risk	Transition / Physical	Time Horizon	Impact Area	Mitigation / Management Strategy
Policy Changes (Including Carbon Pricing)	Transition	Short Medium Long	Across investments and funding Investments in carbon-intensive industries Operational	<ul style="list-style-type: none"> Monitor potential regulatory changes (domestic and international) and consider impact of these changes on Fund's investments and operations Monitor managers' preparedness and awareness of changing carbon prices across relevant markets Consider impact of likely policy changes in strategic decisions
Technological Change	Transition	Short Medium Long	Across Asset Classes	<ul style="list-style-type: none"> Monitor potential technology disruptors Monitor manager awareness of emerging and disruptive technologies Consider impact of these changes in strategic decisions
Extreme Weather Events	Physical	Short Medium Long	Physical Assets Corporate Holdings	<ul style="list-style-type: none"> Carry out scenario analyses on various climate scenarios to assess impact Monitor portfolio company's assessments of extreme weather impacts on their operations
Resource Scarcity	Physical	Medium Long	Physical Assets	<ul style="list-style-type: none"> Monitor manager awareness of resource scarcity Special consideration to agricultural holdings

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology changes leading to changes in consumer behaviour and therefore purchasing decisions – the uptake in electric vehicles is an example of this. Long-term risks include physical damages to real assets and resource availability. Examples would include increased sea level rise for coastal infrastructure assets or supply chain impacts for companies as a result of severe weather events.

TCFD Recommended Disclosure

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

Although the Fund is diversified across asset classes, regions, and sectors, it is recognised that climate risk is systemic and is unlikely to be eliminated through diversification alone.

The Fund's Climate Change Strategy sets out the Fund's approach to managing the impact of climate-related risks. The main management techniques within investment strategy are:

- Regular measurements and observations on the climate-related risks and opportunities relating to investment performance, including annual carbon risk metrics and at a minimum a triennial climate scenario analysis;
- Integration of climate change factors into asset allocation reviews;
- Integration of climate-related risks into the selection, due diligence and monitoring of investment managers; and
- The use of stewardship techniques to manage the risks and opportunities within the Fund's investment portfolio.

The Fund has reviewed several climate opportunities with the aim of investing where positive environmental outcomes are expected to correlate with positive financial performance. While seeking exposure to five style factors, the Fund tilts away from companies that are carbon intensive or own fossil fuel reserves, and tilts towards companies that generate green revenues. The Fund has also committed to invest an increasing proportion of its total Fund assets in low carbon and sustainable assets, and to enable delivery of this target, has started to invest in infrastructure assets, with a significant degree of exposure to renewables.

TCFD 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.

In 2020 and 2022 the Fund engaged the expertise of an external contractor, Mercer LLC, to understand the extent to which the Fund's risk and return characteristics could come to be affected by a set of plausible climate scenarios. In the 2022 iteration, this included an estimation of the annual climate-related impact on returns (at the fund and asset-class level). All asset classes were included in this analysis. The climate scenarios considered were Rapid Transition, Orderly Transition and Failed Transition. This analysis is carried out every 2 to 3 years and the results of the 2022 analysis are provided below.

The scenarios are defined according to the change since pre-industrial times in mean global surface temperatures. A Rapid Transition scenario is characterised by sudden divestments and large-scale policy changes in 2025 which encourage rapid decarbonisation of the energy mix. An Orderly Transition scenario represents an early and smooth transition, with the markets pricing-in dynamics occurring gradually over four years. A Failed Transition scenario represents a scenario in which society makes no attempt to limit global warming, with severe physical and extreme weather events and the markets pricing in these risks.

The analysis showed that over medium- to long-term, a successful transition is imperative for the Fund as its asset allocation fares better under Rapid and Orderly transition scenarios versus the Failed transition. Over the long term, for nearly all investors, a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.

The analysis concluded with several key recommendations, including: That the Fund continues with the development of its net zero strategy; that the portfolio continues to increase its weighting of sustainable equity; and that the Fund works with fund managers to understand how they monitor climate risk.

It should be noted here that translating Climate Scenario Analysis into an investment strategy is a challenge for several reasons. Firstly, there is a wide range of plausible climate scenarios with significantly different and far-reaching consequences. Secondly, the probability of any given scenario is hard to determine, and especially so when considering longer time horizons. Finally, the best performing sectors and asset classes in an orderly scenario tend to be the worst performers in a failed scenario and vice versa. This makes categoric strategic recommendations particularly challenging. Despite the challenges, the Fund believes in seeking out the best available climate-related research in order to make its portfolio as robust as possible.

Risk Management

TCFD Recommended Disclosure

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

The Fund seeks to identify and assesses climate-related risks at the total Fund level and the individual asset level. The Fund's recent Climate Risk Reports all include a combination of both top-down and bottom-up analyses.⁵ The Fund recognises that the tools and techniques for assessing climate-related risks in investment portfolios are an imperfect but evolving discipline. The Fund aims to use the best available information to assess climate-related threats to investment performance.

⁵ Climate Scenario Analysis only included in the 2020 and 2022 Climate Risk Reports.

As far as possible, climate risks are assessed in units of investment return in order to compare with other investment risk factors.

As a primarily externally managed pension fund, the identification and assessment of climate-related risks is also the responsibility of individual fund managers appointed by the Fund. Existing fund managers are monitored on a regular basis.

Engagement activity is conducted with investee companies through selected stewardship partners including LGPS Central, EOS at Federated Hermes, and the Local Authority Pension Fund Forum (LAPFF)(see below). Based on the findings of its Climate Risk Report, the Fund has devised a Climate Stewardship Plan in order to focus engagement resources on the investments most relevant to the Fund's climate risk.

TCFD Recommended Disclosure




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

The Fund manages climate risk in different ways according to the nature, duration, magnitude and time horizon of the risk itself. As set out in the Fund's Climate Strategy, the main management techniques are: measurement and observation; policy review; asset allocation; selection and due diligence; purposeful stewardship; and transparency and disclosure.

Engagement and shareholder voting are an important aspect of the Fund's approach to managing climate risk. The Fund expects all investee companies to manage material risks, including climate change, and the Fund believes that climate risk management can be meaningfully improved through focussed stewardship activities by investors.

The Fund supports the engagement objectives of the Climate Action 100+ initiative, which state that companies should: adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with the Paris Agreement; and disclose effectively using the TCFD recommendations.

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.

Organisation	Remit
	<p>The Fund is a 1/8th owner of LGPS Central Ltd.</p> <p>Climate change is one of LGPS Central's stewardship themes, with quarterly progress reporting available on the website.</p> <p>The Responsible Investment Team at LGPS Central engages companies on CPF's behalf, including via the Climate Action 100+ initiative.</p>
	<p>EOS at Federated Hermes is engaged by LGPS Central to expand the scope of the engagement programme, especially to reach non-UK companies.</p>
	<p>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.</p>

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 also co-filed shareholder resolutions that relate to climate change.

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 seven 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 3: Companies included in the Climate Stewardship Plan

Company	Sector
CRH	Materials
ExxonMobil	Energy
Glencore	Materials
Holcim	Materials
NextEra	Utilities
Shell	Energy
The Southern Company	Utilities

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.

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:⁶

- Absolute Emissions (measured by 'Financed Emissions')
- Emissions Intensity (measured by 'Normalised Financed Emissions' and 'Weighted Average Carbon Intensity', or WACI)
- Data Quality
- Paris Alignment

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 greenhouse gas (GHG) emissions 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.

⁶ Definitions for these metrics can be found in the Glossary at the end of this report.

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.*

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.⁷ The table compares portfolio figures (PF) to those of the benchmark (BM). The chosen benchmark for the Total Equities portfolio is the FTSE All World Index.

Table 4: Carbon risk metrics for the Total Equities portfolio as of 31 March 2023⁸.

Portfolio	Financed Emissions		Sector		Sector		Data Quality	Alignment
	PF	BM	PF	BM	PF	BM		
Total Equities	75,538	124,174	43.3	70.6	69.2	142.0	2.1	29.0%

The Financed Emissions (Scope 1&2) associated with the Fund's Total Equities portfolio are approximately 39% lower than the benchmark, having decreased by approximately 10% since 2022. When this figure is normalised per £m invested, the year-on-year decrease is 8%. Finally, the Fund's WACI is 51% lower than the benchmark, and has decreased by 10.5% since 2022. These figures all suggest that the Fund is making good progress towards decarbonisation.

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.

⁷ Analysis undertaken on the listed equities portfolios with holdings data as of 31st March 2023. The information in Table 4 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 one underlying portfolio 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.

⁸ Certain information ©2023 MSCI ESG Research LLC. Reproduced by permission.

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 5: Performance against the Fund's Climate Targets as of 31st March 2023.

Target	Status
Reduce the carbon footprint of the Fund's equity portfolio by 7.6% per year.	The WACI of the Fund's Total Equity portfolio decreased by 10.5% over the previous year. Furthermore, the WACI has decreased by 37.8% since 2019, representing an average annual decrease of 11.2%. This target is therefore being achieved.
Reduce the carbon footprint of the Fund's equity portfolio to 50% below the equity market by the end of 2023.	The Fund's Total Equity portfolio currently has a WACI of 69.2, which is 51% lower than that of the benchmark figure of 142.0. This target has therefore been achieved.
Invest an increasing proportion of the total Fund assets in low carbon and sustainable assets.	The Fund continues to make good progress towards the achievement of this target, following investments in the Broad and Targeted portfolios within LGPS Central's Global Sustainable Equity fund. This shift resulted in the Fund's allocation to sustainable equities rising from 13.4% in 2022 to 20.7% in 2023, as a proportion of total Fund assets. This target is therefore being achieved.

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.

Appendix 2: Glossary

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.

Financed Emissions: the absolute amount of greenhouse gas emissions associated with a particular holding or portfolio. This is calculated by assuming the investor is responsible for their share of the company's total emissions. For example, if an investor owns 10% of a company which emits 1000 tonnes of CO₂, the investor's financed emissions will be 100 tonnes.

(Normalised) Financed Emissions: the portfolio's financed emissions divided by £1m invested. This intensity figure allows investors to track changes in financed emissions over time, irrespective of changes in the value of assets under management (AUM).

Paris Alignment: This score, expressed as a percentage, shows the proportion of financed emissions within the portfolio that are aligned to LGPSC's 'alignment' metric. In order to classify as aligned, the company must meet several threshold criteria across a variety of climate metrics.

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.

Weighted Average Carbon Intensity (WACI): 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 revenue) for each portfolio company and calculating the weighted average by portfolio weight.

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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