

FOR PROFESSIONAL CLIENTS ONLY

LGPS Central

DRAFT Climate Risk Monitoring Platform

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Engagement

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PLATFORM SERVICE PROVIDERS & PARTNERSHIPS (EXAMPLE)



WHAT DO YOU GET?



Four Optional Deliverables:

- 1 Assistance drawing up a climate change framework & strategy
- 2 Per fund, an annual Climate Change Risk Report, tailored to your fund, comprising
 - Climate scenario analysis, fund-wide, all asset classes
 - Carbon metrics scorecard (carbon footprint, stranded assets analysis, etc)
 - Annual Climate Stewardship Plan
- 3 Per fund, annual training of Pensions Committee (or equivalent)
- 4 TCFD report for public disclosure within your Annual Report

BENEFITS TO YOU

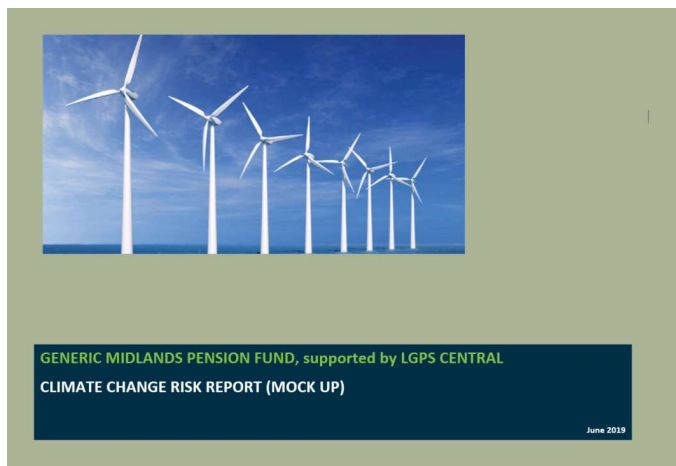


1. **Awareness** of climate-related risks and opportunities
 - No one can say you don't know what the risks are
2. **Action** to reduce climate-related financial risks
 - No one can say you're not considering all reasonable options
3. **Public communication** via annual TCFD report for inclusion in Annual Report
 - The government has asked a number of UK pension funds about this: it is the likely direction of travel
3. **Save time** procuring suppliers
 - All done through the LGPS Central climate platform. This saves costs too.
5. **Annual training** for elected members
6. **Centralised** reporting through the LGPS Central Climate Risk Monitoring Platform, synthesising the most pertinent information to your fund
 - No need to wade through numerous reports
7. **Stakeholder kudos**; greater immunity from challenge

CLIMATE CHANGE RISK REPORT



- Synthesised report covering climate risks, and an Annual Stewardship Plan



Scenario Analysis

- *What is the long-term estimated returns impact of climate risks for your asset allocation?*

Carbon Metrics Scorecard

- *Carbon footprints; Carbon tax risk; Exposure to coal and other fossil fuel reserves*

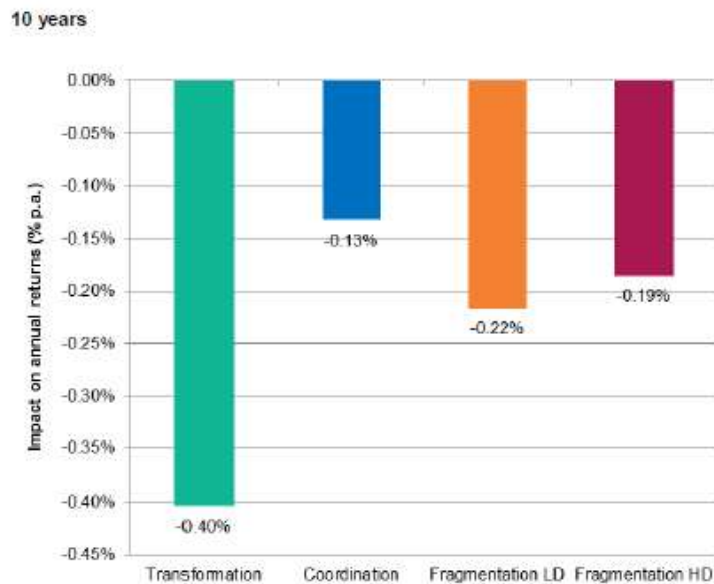
Annual Stewardship Plan

- *Priority companies for engagement; funds to monitor; policy engagement; key shareholder resolutions*

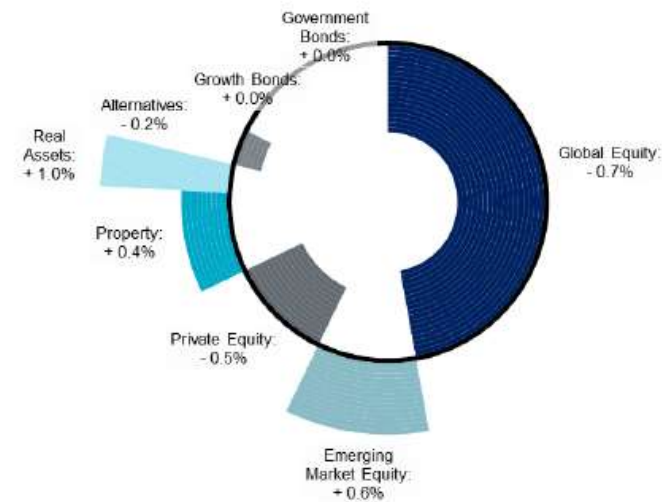
EXAMPLE OUTPUTS



- Climate scenario analysis, fund-wide, all asset classes



Transformation Scenario



- *What is the long-term estimated returns impact of climate risks for your asset allocation, for a given climate scenario (i.e. 1.5 degrees, 2 degrees, 3 degrees, etc)?*

EXAMPLE OUTPUTS



- Climate scenario analysis, fund-wide, all asset classes

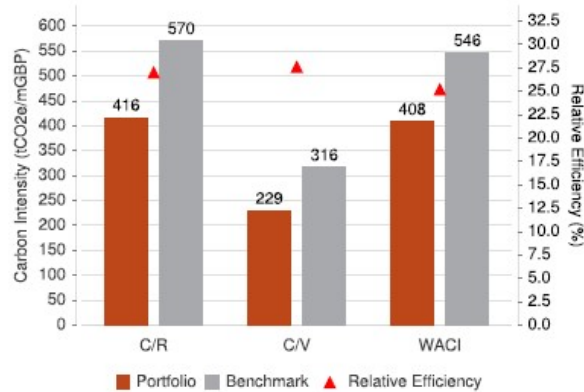
| | ACTIVE | | | | | PASSIVE | | | | | |
|--------------------------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|
| IT | 0.01% | -0.01% | 0.00% | -0.02% | -0.07% | -0.07% | -0.03% | -0.02% | -0.08% | 0.03% | -0.09% |
| HEALTH | -0.01% | -0.03% | -0.03% | 0.03% | -0.01% | 0.01% | -0.01% | -0.02% | -0.02% | 0.01% | 0.01% |
| REAL ESTATE | 0.00% | -0.01% | 0.02% | -0.02% | 0.00% | -0.01% | 0.00% | 0.03% | 0.00% | 0.00% | -0.01% |
| TELECOMS | 0.00% | 0.00% | -0.01% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| FINANCIALS | -0.01% | -0.07% | -0.02% | 0.03% | 0.02% | -0.01% | 0.02% | -0.05% | 0.02% | 0.02% | 0.04% |
| INDUSTRIALS | 0.05% | 0.14% | 0.09% | -0.03% | -0.22% | -0.02% | -0.06% | 0.03% | -0.03% | 0.01% | -0.06% |
| CONSUMER DISCRETIONARY | -0.01% | 0.05% | -0.02% | -0.04% | -0.14% | 0.01% | -0.07% | 0.04% | -0.01% | -0.01% | 0.01% |
| CONSUMER STAPLES | 0.03% | -0.27% | 0.05% | -0.06% | 0.09% | -0.03% | 0.01% | 0.04% | 0.00% | 0.00% | -0.18% |
| MATERIALS | -0.13% | 0.13% | 0.04% | -0.05% | 0.03% | -0.10% | -0.06% | -0.17% | -0.19% | 0.06% | -0.13% |
| UTILITIES | 0.09% | 0.13% | -0.16% | 0.13% | 0.04% | -0.07% | 0.05% | -0.01% | -0.17% | -0.06% | 0.02% |
| ENERGY | -0.05% | 0.08% | -0.01% | 0.18% | 0.22% | 0.07% | 0.19% | 0.13% | -0.30% | 0.00% | 0.10% |
| TOTAL EQUITIES (DM & EM) | -0.05% | 0.14% | -0.05% | 0.14% | -0.02% | -0.22% | 0.01% | -0.01% | -0.79% | 0.06% | -0.30% |

- Where in your fund are the hotspots of climate risk – measured in returns impact – split by fund and sector
- Which areas should I monitor more closely?

EXAMPLE OUTPUTS



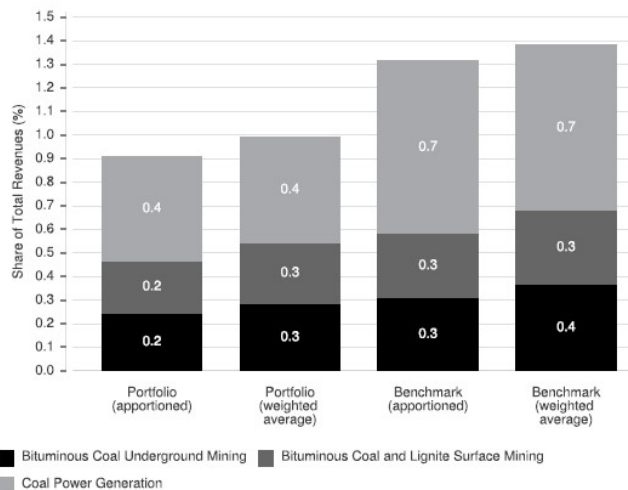
- Carbon Footprint vs benchmark



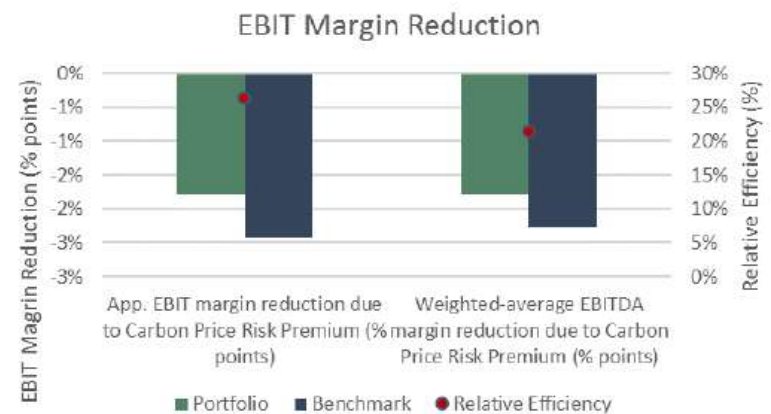
- Stocks to prioritise for engagement

| Description | Provided Identifier | Holding (mGBP) | Sector | Carbon AppORTioned (% of total) |
|-----------------------------|---------------------|----------------|-----------|---------------------------------|
| China Shenhua Energy Co Ltd | CNE1000002R0 | 3.967 | Energy | 19.01 |
| Veolia Environnement | FR0000124141 | 0.982 | Utilities | 2.97 |
| Exxon Mobil Corp | US30231G1022 | 5.477 | Energy | 3.05 |
| AGL Energy Ltd | AU000000AGK9 | 0.469 | Utilities | 1.81 |
| Entergy Corp | US29364G1031 | 0.787 | Utilities | 1.80 |
| Ube Industries | JP3158800007 | 0.356 | Materials | 1.76 |
| FirstEnergy Corp | US3379321074 | 0.387 | Utilities | 1.58 |
| Origin Energy Ltd | AU000000ORG5 | 1.109 | Energy | 1.62 |
| Royal Dutch Shell PLC | GB00B03MLX29 | 4.825 | Energy | 2.29 |
| Air Liquide | FR0000120073 | 3.487 | Materials | 1.54 |

- Coal exposure & fossil fuels



- Carbon tax/ carbon price risk



EXAMPLE OUTPUTS



| Climate change | # of companies engaged | # of issues & objectives engaged | # of objectives engaged | % of objectives with progress | # of objectives completed |
|--------------------------------|------------------------|----------------------------------|-------------------------|-------------------------------|---------------------------|
| Engagement programme companies | 107 | 143 | 92 | 41% | 6 |

Objectives for 2018-20

- **Climate change risk management** – (i) adoption of short to medium-term GHG reduction targets, aligned to executive remuneration; (ii) appraisal of asset portfolio risks from low-carbon scenarios; (iii) appraisal of the physical risks arising from climate change and implementation of an appropriate mitigation plan.
- **Low carbon alignment** – (i) development and publication of long-term science-based greenhouse gas emissions reductions targets in line with 2°C; (ii) development of a long-term strategy by which the company can survive and thrive in the transition to a low carbon economy; (iii) demonstration of support for the public policy ambition of the Paris Agreement, accompanied by leadership to develop appropriate public policy frameworks.
- **Disclosure** – (i) disclosure to the CDP initiative; (ii) disclosure in financial reporting of the company’s approach to climate change risks and opportunities using the guidelines to be published by the TCFD.
- **Public policy & market best practice** – (i) support the Climate Action 100+ collaborative engagement initiative by acting as engagement lead for a range of companies in different regions and supporting development of an engagement impact measurement tool; (ii) improve the quality of wider investor engagement on climate change by contributing to collaborative engagements through the Institutional Investors Group on Climate Change in Europe, Ceres in the US and the Principles for Responsible Investment.

TIMELINE (DRAFT, EXAMPLE)



| Period | Action | Persons |
|--------------|---|-----------------------------------|
| 26 Feb 2019 | RI Working Group discussion | Central, PFs |
| 7 Mar 2019 | PAF discussion | Central, PFs |
| Mar 2019 | Obtain quotes, select suppliers | Central, PFs |
| Apr-May 2019 | Gather holdings data from custodians Clean data, QA, pass to suppliers | Custodians<->Central<-> Suppliers |
| June-July | Receive scenario analysis, carbon metrics QA | Suppliers -> Central |
| Sept | Issue Climate Change Risk Reports | Central -> Partner Funds |
| Sept | Issue TCFD reports | Central -> Partner Funds |
| Q4 | Pensions Committees Training | Central, PFs |
| Feb 2020 | Annual Stewardship Plan: Six-Monthly Report on Progress | Central -> Partner Funds |
| Etc | Etc | Etc |

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