Staffordshire Pension Fund
Local Government Pension Scheme

Staffordshire Pension Fund Climate-Related Disclosures

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

March 2022

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 and Appendix 1) are designed 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 the Environment Agency Pension Fund.

Figure 1: TCFD Disclosure Pillars

Staffordshire Pension Fund ('the Fund') supports the TCFD recommendations as the optimal framework to describe and communicate the steps taken to manage climate-related risks and incorporate climate risk management into the investment process. As a Pension Fund, the Fund is a long-term investor with investments diversified across asset classes, regions, and sectors, making it a "universal owner". It is in the best interests of the Fund that the market can effectively price climate-related risks and that policy makers are able to address market failure. The Fund believes that TCFD-aligned disclosure from asset owners, asset managers, and corporates, is also in the best interest of our beneficiaries.

About this report

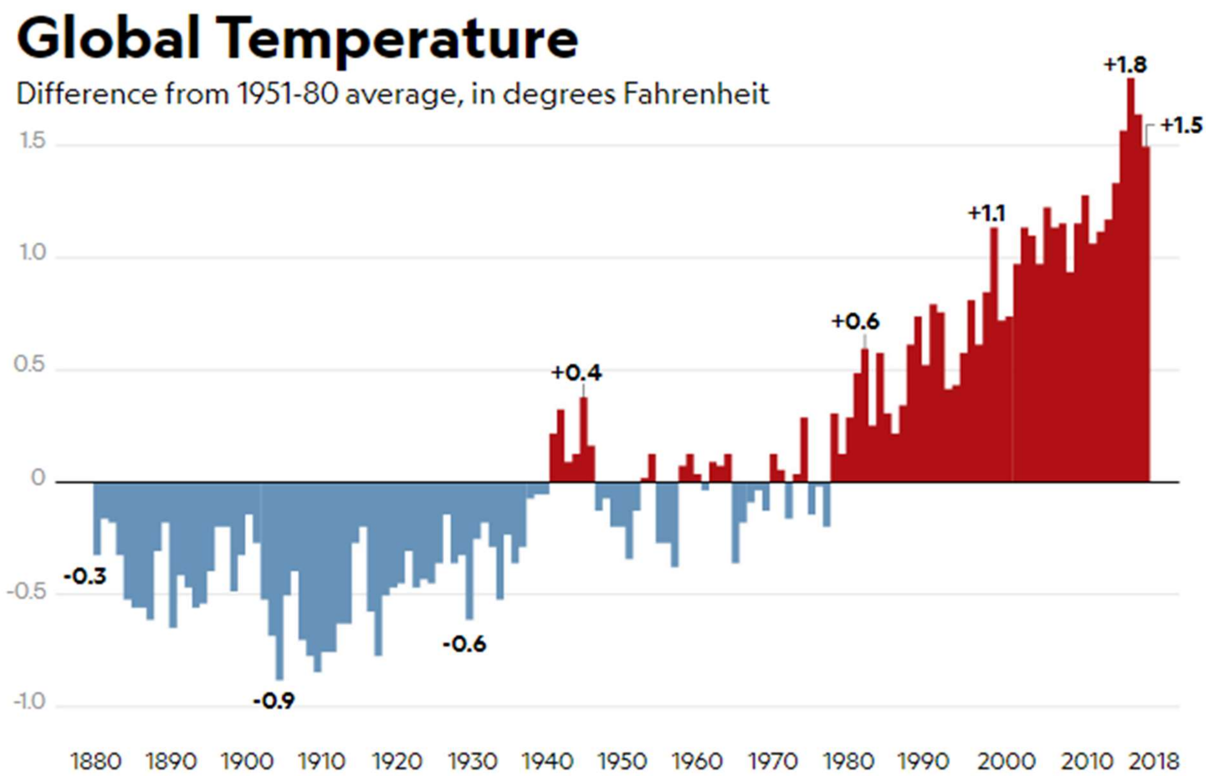
This report is the Fund's second Climate-Related Disclosures report and is published in conjunction with the Fund's new Climate Change Strategy (CCS). Both documents draw from the findings of the Fund's first Climate Risk Report in 2020; where an in-depth review of the Fund's climate risks under different climate change scenarios was undertaken by the Fund's pooling company, LGPS Central Ltd (LGPSC).

A second Climate Risk Report was received from LGPSC in 2021, which updated the Fund's carbon risk metrics from those detailed in the 2020 Climate Risk Report. This TCFD report incorporates elements of both Climate Risk Reports and takes account of the impact of the new CCS, to provide an up-to-date overview of the Fund's approach to managing climate risk.

Climate-related risks

Human activities are estimated to have caused approximately 1.0°C of global warming above pre-industrial levels. Most of this warming has occurred in the past 35 years, with the seven warmest years on record taking place since 2010. Between the years 2006-2015, the observed global mean surface temperature was 0.87°C higher than the average over the 1850-1990 period. The overwhelming scientific consensus is that the observed climactic changes are the result primarily of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

Figure 2 Graph showing global temperature difference from 1951-80 average.



Source: NASA

To mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, most climate scientists anticipate that even 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 of 2015, 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.

Figure 3: Selected extracts from the Paris Agreement on climate change.

Paris Agreement Article 2(1)a

Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.

Paris Agreement Article 2(1)c

Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Paris Agreement Article 4(1)

In order to achieve the long-term temperature goal set out in Article 2, Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country parties, and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century, on the basis of equity, and in the context of sustainable development and efforts to eradicate poverty.

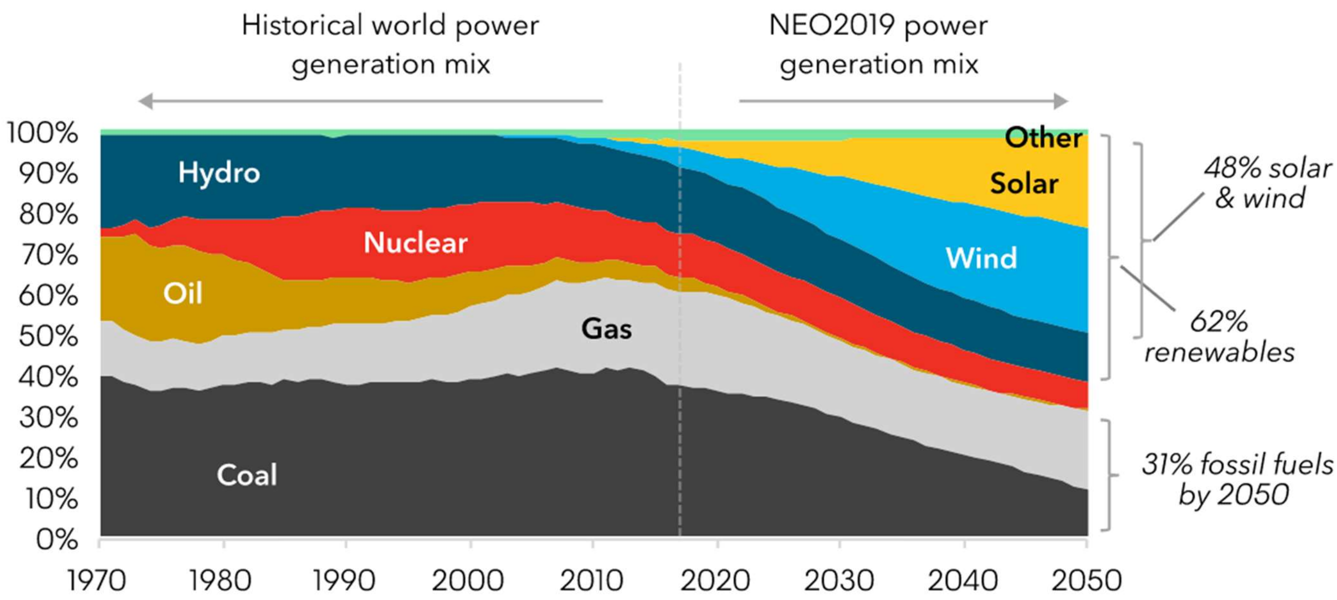
Source: United Nations Framework Convention on Climate Change.

Given its contribution to global green-house gases (GHG) emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. Figure 4 suggests that in one climate scenario, the proportion of coal, oil, and gas in the global power generation mix will shrink to 31% of total by 2050. It is important to recognise however that not only is the supply of energy expected to be a factor in global decarbonisation, but the demand for energy plays a crucial role too. In addition, the behaviour of private and state-owned energy companies (not commonly invested in by UK pension funds) is as important as their publicly traded counterparts.

The issue faced by diversified investors (such as pension funds) is not limited to the oil & gas and power generation sectors, but also to downstream sectors. Investors focussing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors. Research suggests that the oil & gas sector is not homogeneous with regards to climate risk; were climate policies to affect the oil price, those companies with assets lower down the cost curve are less likely to be financially compromised by those companies with higher cost assets. Investors that assume each fossil fuel company bears an equal magnitude of climate-related risk could be led towards sub-optimal decision-making.

The Fund recognises that climate-related risks can be financially material, and that the due consideration of climate risk falls within the scope of the Fund's fiduciary duty. 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.

Figure 4: The Bloomberg New Energy Outlook global power generation mix. Source: Bloomberg NEF.



Taskforce on Climate-related Financial Disclosures (TCFD)

The following sections describe how the Staffordshire Pension Fund demonstrates its alignment with the four recommended disclosures (also detailed in Appendix 1) based on the TCFD framework.

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 Policy Statement. Overall responsibility for managing the Fund lies with the full Council of Staffordshire County Council, which has delegated the management and administration of the Fund to the Staffordshire Pensions Committee and Pensions Panel.

The Pensions Committee is responsible for approving the Investment Strategy Statement (ISS) and CCS. The ISS includes a formal investment belief on climate change, recognising it as a factor that could materially impact financial markets. The CCS is premised on 10 beliefs about climate change, which consider the science behind climate change, the energy transition and climate stewardship.

The Pensions Committee and the Pensions Panel each meet quarterly. The Pensions Panel receives quarterly engagement and voting reports from its stewardship providers, LGPSC, the Local Authority Pension Fund Forum (LAPFF) and external investment managers, as regular items on the meeting agenda. Reports from the Fund's investment adviser, which include advice on responsible investment, are also received regularly

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.

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

The Assistant Director for Treasury and Pensions has primary day-to-day responsibility for the way in which climate-related investment risks are currently managed and where appropriate, LGPSC, assists in assessing and managing climate-related risks. As detailed in the CCS, the Fund leverages partnerships and initiatives, including the Institutional Investors Group on Climate Change (IIGCC), to identify and manage climate risk. The Assistant Director for Treasury and Pensions and the Fund's Senior Officers are accountable to the Pensions Committee for delivery of the CCS.

As a predominantly externally managed fund, the implementation of much of the management of climate-related risk is delegated to a range of appointed investment managers. These external investment managers are monitored on a regular basis by the Pensions Panel.

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 varied and constantly evolving. A subset of risk factors is presented in Table 1.

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

	Short & Medium Term	Long Term
Risks	Carbon prices Technological change Policy tightening Consumer preferences	Resource scarcity Extreme weather events Sea level rise
Asset class	Listed equities Growth assets Energy-intensive industry Oil-dependent sovereign issuers Carbon-intensive corporate issuers	Infrastructure Property Agriculture Commodities Insurance

Short-term risks include stock price movements resulting from increased regulation to address climate change. Medium-term risks include policy and technology 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 rises for coastal infrastructure assets or supply chain impacts for companies because 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 CCS sets out the Fund's approach to managing the impact of climate-related risks. The main management techniques within the Fund's investment strategy are below:

1. Integrate climate change considerations into the complete investment process through the selection, due diligence, monitoring, and stewardship of assets, either directly or through the Fund's appointed investment managers. with the aim of decarbonising the entire investment portfolio.

2. Access the best possible climate change data available, to be able to assess climate risks and opportunities and facilitate informed decision making.

3. Work collaboratively with other investors and organisations to improve the quality, relevance and availability of climate-related data and encourage alignment with the 2015 Paris Agreement.

As most of the Fund's investments are managed externally, responsible investment and climate change considerations form part of the selection and appointment process and are regularly discussed with investment managers on an ongoing basis.

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, the Fund engaged the expertise of an external contractor, Mercer LLC, to understand the extent to which the Fund's risk and return characteristics may be affected by a set of plausible climate scenarios. This included an estimation of the annual climate-related impact on returns (at both Fund and asset-class level). All asset classes were included in this analysis and the climate scenarios considered were temperature increases of 2°C, 3°C and 4°C. It is planned to carry out this analysis every 2 to 3 years and the results of the 2020 analysis are provided in the following table.

Table 2: Annualised climate change impact on portfolio returns – 2030 and 2050[1].

Scenario	Timeline	Estimated climate impact on returns
2ºC	2030	-0.01%
	2050	-0.10%
3ºC	2030	-0.02%
	2050	-0.06%
4ºC	2030	-0.10%
	2050	-0.12%

According to the analysis summarised in Table 2, a 2°C scenario would not have a significant impact on the Fund's returns considering a timeline to 2030. On a longer timeline to 2050, the model suggests that in a 2°C scenario the current asset allocation is sensitive to transition risks. The driver of this result is primarily the Fund's high allocation to global equities, an asset class less well-aligned with the opportunity side of the low-carbon transition.

A 4°C scenario is the worst of the three considered, detracting 0.12% annually on a timeline to 2050. Given the Fund is a supporter of the 2015 Paris Agreement on climate change, Table 2 demonstrates that the model used suggests a Paris-aligned climate scenario would be financially superior to a 4°C scenario.

Translating Climate Scenario Analysis into an investment strategy is a challenge because there is a wide range of plausible climate scenarios; the probability of any given scenario is hard to determine, and the best performing sectors and asset classes in a 2°C scenario tend to be the worst performers in a 4°C and vice versa. Despite the challenges, the Fund believes in seeking out the best available climate-related research to make its portfolio as robust as possible.

[1] Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 30 October 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Staffordshire 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.

Risk Management

TCFD Recommended Disclosure
a) Describe the organisation’s process for identifying and assessing climate-related risks.

The Fund seeks to identify and assess climate-related risks at the total fund level and at an individual asset level. The Fund’s 2020 and 2021 Climate Risk Reports include a combination of both top-down and bottom-up analysis[2]. 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.

As far as possible, climate risks are assessed in units of investment return to enable them to be compared to other investment risk factors (see ‘Carbon footprint/weighted average carbon intensity (WACI)’ explanation in the Glossary for further detail).

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

Engagement activity is conducted with investee companies through selected stewardship partners including LGPSC, EOS at Federated Hermes, and LAPFF, in addition to that carried out by external investment managers. Based on the most recent Climate Risk Report received, the Fund has updated its Climate Stewardship Plan to ensure that engagement resources are focused on the most relevant investments in terms of 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 CCS, the main management techniques are integrating climate change considerations, accessing the best possible climate change data available, and working collaboratively with other investors.

Engagement and shareholder voting are important aspects of the Fund’s approach to managing climate risk. The Fund expects all investee companies to manage

[2] Climate Scenario Analysis is only included in the 2020 Climate Risk Report

material risks, including climate change, and 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+ (CA100+) initiative, which aims to ensure that companies adopt the appropriate governance structures to effectively manage climate risk; decarbonise in line with the Paris Agreement and disclose effectively using the TCFD recommendations. In September 2020, CA100+ introduced a benchmark framework which identifies ten key indicators of success for business alignment with a net zero carbon emissions future and goals of the Paris Agreement.

Either through its own membership or indirectly through LGPSC, the Fund has several engagement partners that engage investee companies on climate risk.

Table 3: The Fund's Stewardship Partners

Organisation	Remit
LGPS Central Limited	The Fund is a 1/8th owner of LGPSC Climate change is one of LGPSC's stewardship themes, with quarterly progress reporting available on the website. The Responsible Investment Team at LGPSC engages with companies on the Fund's behalf, including via the Climate Action 100+ initiative.
Federated Hermes	EOS at Federated Hermes is appointed by LGPSC to expand the scope of the engagement programme, especially to reach non-UK companies.
Local Authority Pension Fund Forum	The Fund is a long-standing member of the Local Authority Pension Fund Forum (LAPFF). LAPFF conducts engagements with companies on behalf of 80+ local authority pension funds.

The instruction of shareholder voting opportunities is an important part of climate stewardship. The Fund delegates responsibility for voting to LGPSC or the Fund's directly appointed external investment managers. For Fund assets managed by LGPSC, votes are cast in accordance with LGPSC's Voting Principles, to which the Fund contributes during the annual review process. LGPSC'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. LGPSC has also co-filed shareholder resolutions that relate to climate change. For Fund assets managed by appointed external investment managers, votes will be cast in line with their own voting and responsible investment policies and in-line with industry best practice as set out in accepted governance codes.

The results of engagement and voting activities by all the Fund’s external investment managers are reported to the Fund and reviewed quarterly by the Pensions Panel through a specific Responsible Investment and Engagement Report. LGPSC’s activities are reported in Quarterly Stewardship Updates, which are available on the LGPSC website.

Based on the Climate Risk Reports received, the Fund has also developed a Climate Stewardship Plan which, alongside the widescale engagement activity undertaken by LGPSC, EOS at Federated Hermes, and LAPFF, includes targeted engagement with nine investee companies of particular significance to the Fund’s portfolio. 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	Country
British Petroleum (BP)	Energy	UK
CRH plc	Materials	Ireland
Glencore	Mining	UK
Holcim	Cement	Switzerland
Linde	Chemicals	Ireland
NextEra Energy	Utilities	USA
Rio Tinto	Mining	Australia
Royal Dutch Shell	Energy	Netherlands
The Southern Company	Energy	USA

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 Pensions Committee and Pensions Panel. The Fund recognises “failure to follow responsible investment principles” as a key risk in the Funding Strategy Statement, and while specific macro-economic risks are not usually included in isolation, the Fund has included climate risk in its Risk Register.

Climate risk is further managed through the Fund’s CCS and 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 has recently received its second Climate Risk Report from LGPSC, setting out the carbon risk metrics for its listed equities portfolios. The poor availability of data in other asset classes currently prevents a more complete analysis.

The carbon risk metrics analysis include;

- portfolio carbon footprints[3]
- the weight of portfolios invested in companies with fossil fuel reserves
- the weight of portfolios invested in companies with thermal coal reserves
- the weight of portfolios invested in companies who derive power from coal
- The weight of portfolios invested in companies whose products and services include clean technology
- 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 identify areas for further risk management, including company engagement and fund manager monitoring.

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 is 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 LGPSC the following table provides the carbon footprints of the Fund's equity portfolio as at 30 September 2021[4]:

[3] Following TCFD guidance, weighted average portfolio carbon footprints are used.
[4] Analysis undertaken on the listed equities portfolios with holdings data as of 30 September 2021 unless otherwise stated. The information in Table 4 was provided to the Fund in a report authored by LGPS Central Ltd in which the total equities portfolio comprises two passive portfolios managed for the Fund by Legal & general Investment Management, one factor-based portfolio managed for the Fund by LGPS Central Ltd, and four active portfolios managed for the Fund by LGPS Central Ltd, JP Morgan Asset Management, Longview Partners, and Impax Asset Management. The seven portfolios are weighted according to their size in GBP.

Table 5: Carbon risk metrics for the total equity portfolio at 30 September 2021[5]

	Fund	Benchmark	+/-
Total portfolio carbon footprint (tCO_2e/$m revenue)	124.83	159.77	-21.87%
Weight in fossil fuel reserves (%)	5.91%	7.12%	-1.21%
Weight in thermal coal reserves (%)	2.24%	2.86%	-0.62%
Weight in coal power (%)	1.04%	1.64%	-0.60%
Weight in clean tech (%)	33.65%	36.53%	-2.88%

The Fund's total equity portfolio is almost 22% 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 22% fewer carbon emissions than the companies in the index. All four of the Fund's active equity portfolios are significantly more carbon efficient than their respective benchmarks. The total equity portfolio has 1.21% less weight in fossil fuel reserves, 0.62% less weight in thermal coal reserves, and 0.60% less weight in coal power than the benchmark.

Figures 5 and 6 demonstrate how the Fund's carbon risk metrics have improved between 31 March 2020 and 30 September 2021. Within this timeframe, the carbon footprint of the total equity portfolio decreased by 29.3%. This is a significant improvement from 31 March 2020, where the Fund's total equity portfolio was more carbon intensive than the benchmark. The Fund's exposure to fossil fuel reserves has also decreased.

Figure 7 demonstrates that the Fund's exposure to companies with clean technologies has remained constant although the benchmark has increased slightly.

[5] Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

Figure 5: Total Equity portfolio carbon footprint, March 2020 vs September 2021[6]

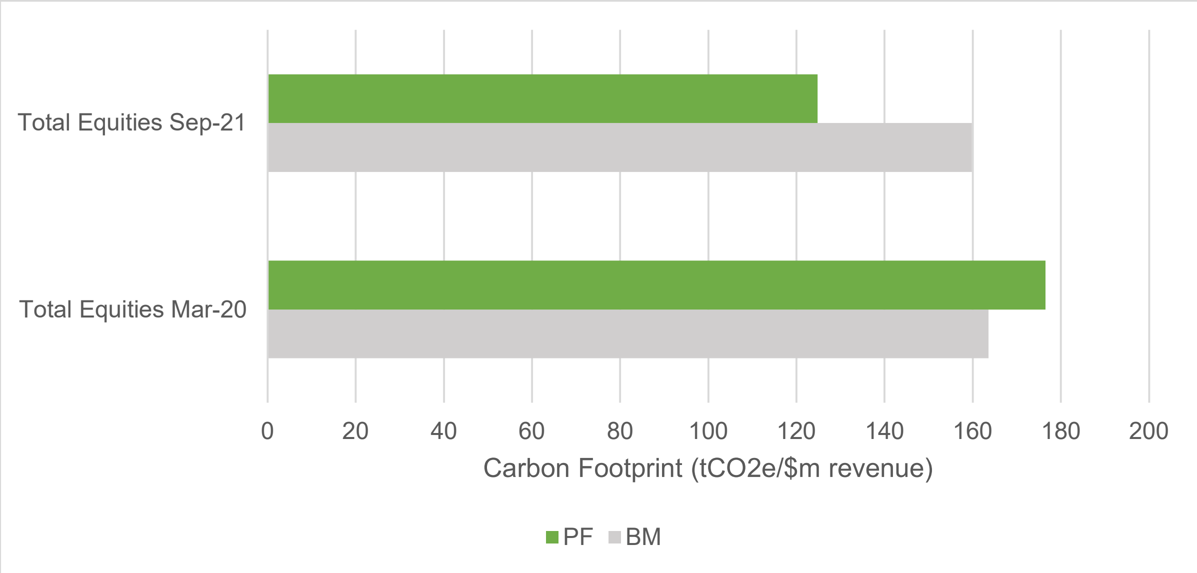
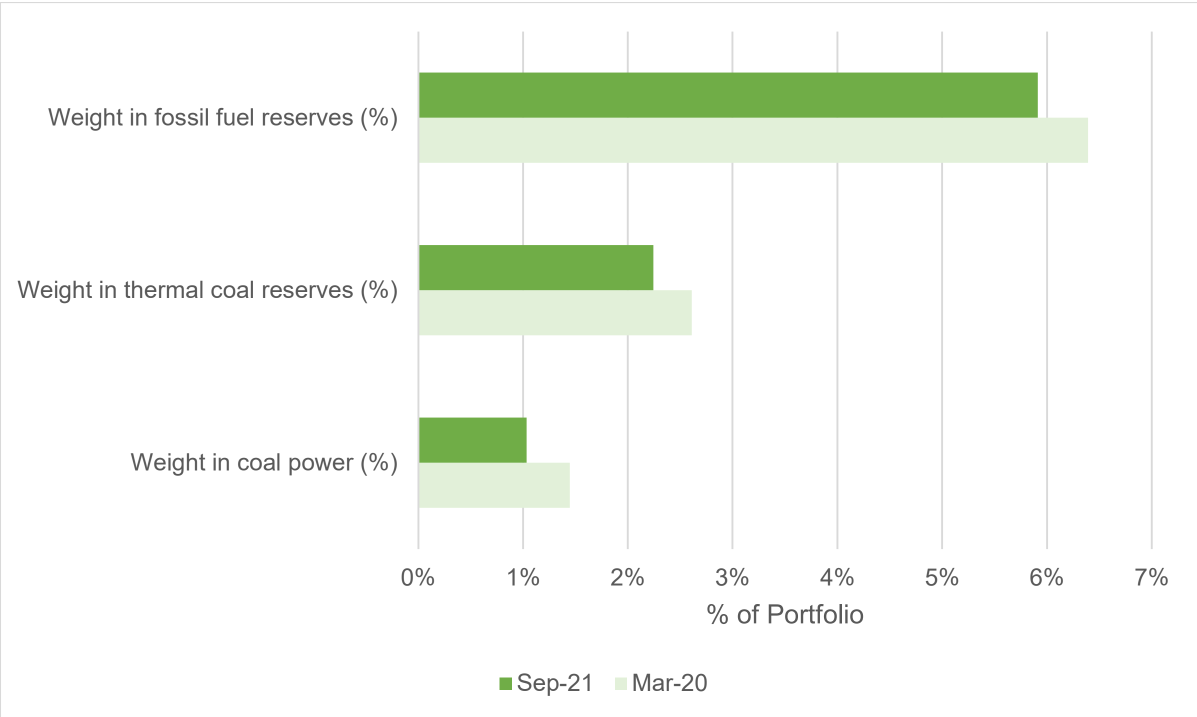
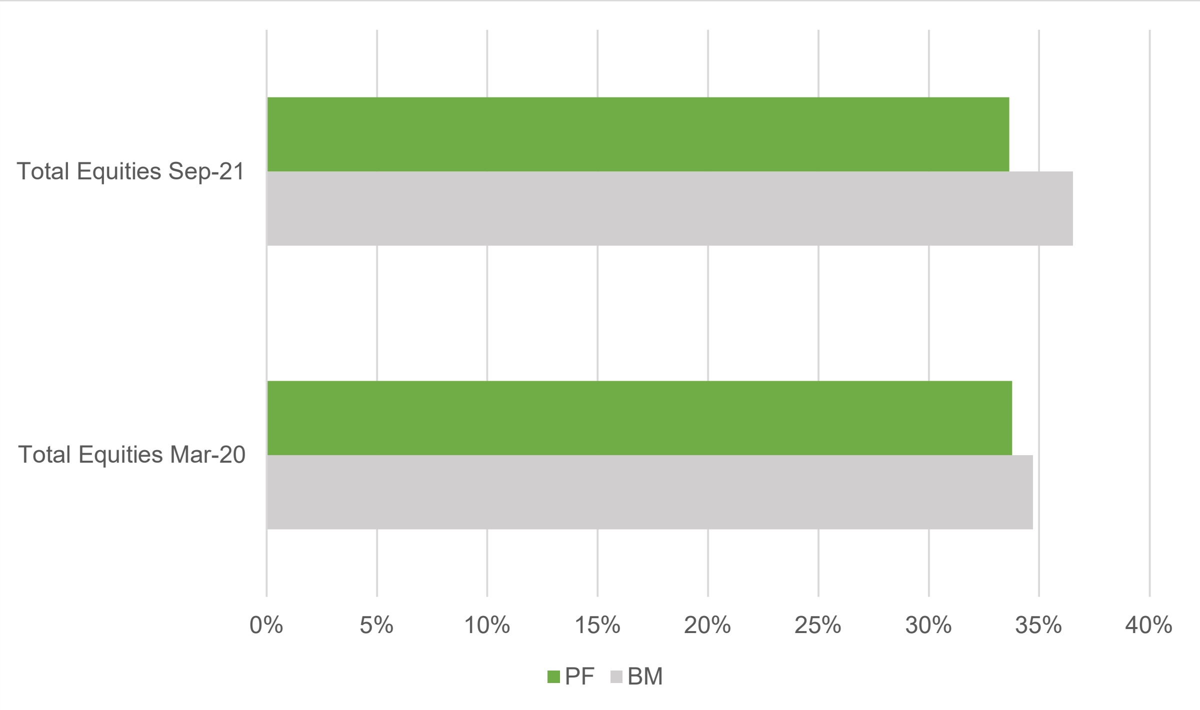


Figure 6: Total Equity portfolio weight in fossil fuel reserves, March 2020 vs September 2021[7]



[6] Certain information @ 2021 MSCI ESG Research LLC. Reproduced by permission.
[7] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

Figure 7: Total Equity portfolio weight in companies with clean technology, March 2020 vs September 2021[8]



Whilst the Fund's carbon risk metrics results show it is performing better than its benchmarks, the Fund is proactively exploring ways to further embed climate risk management in its investment decision making processes. 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.

In preparing its CCS, the Fund has reviewed the use of climate related targets. To ensure that the Fund remains on track to achieve its long-term net zero climate objective in 2050, a series of interim climate related targets for 2030 have also been developed. The Fund's targets are measured against a baseline of data as of 31 March 2020, as reported in the Fund's 2021 TCFD Report.

A progress update against the Fund's targets as of 30 September 2021 is provided in Table 6.

[8] Certain Information @ 2021 MSCI ESG Research LLC. Reproduced by permission.

Table 6: 2030 Climate Change Strategy targets - September 2021 update

2030 Climate Target	September 2021 level	Change from March 2020 (absolute/relative)
Reduce the Weighted Average Carbon Intensity (WACI) of the Fund by 50-60% by 2030.	124.83 WACI	-51.68 WACI / (-29.28%)
Reduce the proportion of the Fund invested in Fossil Fuels reserves to less than 4% by 2030.	5.91%	-0.48% / (-7.51%)
Reduce the proportion of the Fund invested in thermal coal to below 1% by 2030.	2.24%	-0.37% / (-14.18%)
Increase the proportion of investments where carbon metrics are reported to over 95% by 2030*.	69.2%	3.53% (5.11%)

*Where climate data is captured, calculated, and provided by the investee companies/manager, rather than estimated by the Fund/data provider.

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

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, and 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 aspects of its strategy, governance, policies and practices. 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.

Carbon footprint/weighted average carbon intensity (WACI): A proxy for a portfolio's exposure to potential climate-related risks. It is calculated by the addition of each portfolio companies carbon intensity (tCO_2e/USDm revenue), weighted by its size (%) in a portfolio.

Scope 1 greenhouse gas emissions: Direct emissions from an 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 because of that institution's 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.

Appendix 3: Important Information

Extract above from Mercer Limited's (Mercer) report "Climate Change Scenario Analysis" dated 30 October 2020 prepared for and issued to LGPS Central Limited for the sole purpose of undertaking climate change scenario analysis for Staffordshire 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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