Climate-related Disclosures Report

Report prepared in alignment with the recommendations on the Taskforce on Climate-related Financial Disclosures

31 March 2021

NILGOSC

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Introduction to TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) was established in 2015 by the Financial Stability Board (FSB). The TCFD's purpose is to improve and increase reporting of climate-related financial information, and in 2017, the TCFD released its climate-related financial disclosure recommendations.

The eleven disclosure recommendations (Appendix 1) are structured around four thematic areas: governance; strategy; risk management; and metrics and targets. They are designed to make TCFD-aligned disclosures clear and comparable, but with sufficient flexibility to allow reporting entities to leverage existing processes.

The Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC/the Fund) considers the disclosure of climate risks and opportunities to be essential if shareholders are to determine whether the companies in which they invest are adequately addressing the changing climate. Improving the quality, consistency and transparency of climate-related financial disclosures will allow economies to have the necessary information to better assess the impact and effects of an organisation on climate change.

NILGOSC actively supports the TCFD recommendations and was named on the official list of supporters in June 2020. By publicly declaring support for the TCFD and its recommendations, NILGOSC is demonstrating that, alongside other supporters, it is taking action to help build a more transparent and resilient financial system through climate-related disclosure.

TCFD-aligned disclosure is currently voluntary for NILGOSC, however supporters are expected to encourage TCFD implementation, therefore NILGOSC has chosen to produce this Climate-related Disclosures Report, utilising the TCFD's framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into its investment process. Regulatory disclosure is expected to follow shortly, as TCFD-aligned climate risk disclosures have now been mandated in many jurisdictions, including the European Union, Singapore, Canada, Japan, South Africa, the United Kingdom and New Zealand. In the United Kingdom, the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 came into force on 1 October

2021, meaning that trustees of occupational pension schemes in Great Britain must produce and publish a TCFD report.

Trustees of schemes within scope are asked to undertake relevant activities to make disclosures “as far as they are able”. NILGOSC has used its inaugural year of voluntary reporting to identify gaps and to highlight areas to focus on in subsequent reporting periods.

Governance

NILGOSC's overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role, NILGOSC believes that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. Therefore, it makes the consideration of such matters part of its risk management and investment process.

Climate change, in particular, is a global challenge for governments, corporations and institutional investors alike. NILGOSC acknowledges that the changing climate will have a significant impact on the global economy, corporations and society, whether through direct physical impacts, tighter regulations or reputational damage suffered by those who fail to adequately address the issue of global warming.

NILGOSC's oversight

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

NILGOSC is the corporate body responsible for the administration of the Local Government Pension Scheme in Northern Ireland and is managed by a Management Committee (the Committee). The Committee is responsible for approving and monitoring NILGOSC's investment strategy (which is reviewed triennially). The Committee also regularly reviews: NILGOSC's Statement of Investment Principles; the Statement of Responsible Investment; and Climate Risk Statement.

The Statement of Investment Principles and Statement of Responsible Investment set out NILGOSC's approach to incorporating responsible investment considerations, including climate risk, into its investment strategy and decision-making process. The Climate Risk Statement acknowledges the individual importance of climate risk as an investment issue and sets out the steps which will be taken to address it, both at a policy and portfolio level. In addition to setting out how climate risk is taken into account across the range of assets in which it invests, the Statement also sets out how NILGOSC will consider the opportunities that the changing climate presents. All documents are publicly available via NILGOSC's website.

All external managers are appointed by the Committee and selection exercises incorporate mandatory criteria in respect of the ability to take climate risk into account

in the investment process. The Committee reviews performance on a quarterly basis by way of a balanced scorecard, which assesses investment managers against a range of qualitative criteria, one of which relates to the inclusion of ESG factors in the decision-making process. In addition, the Committee receives an annual briefing report on each individual investment manager which includes a dedicated section on ESG performance.

The Committee receives regular training on responsible investment, including climate risk, through a combination of in-house training and attendance at external conferences.

Furthermore, before making an investment decision, NILGOSC is required to obtain and consider proper advice, from an advisor with appropriate knowledge and experience (as defined by section 36(6) of the Pensions (Northern Ireland) Order 1995).

Management's role

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

Day to day implementation of NILGOSC's climate risk policy and responsible investment strategy is delegated to the Secretary and the Investment team, with primary responsibility sitting at a senior level with the Investment Services Manager.

NILGOSC's assets are externally managed. The Investment Team are responsible for monitoring the ESG performance of external managers, specifically managers' compliance with NILGOSC's Climate Risk Statement. NILGOSC also has a bespoke Proxy Voting Policy which sets out its expectations for good corporate governance, including how companies manage their impact on society and the environment. This policy sets out how NILGOSC addresses sustainability related resolutions, including specific reference to climate risk and climate related financial disclosures. Full disclosure of NILGOSC's voting policies and records is available on the website.

The Investment team are also responsible for liaising with the Investment Advisor to ensure that climate risks and opportunities are taken into account when setting the investment strategy, and when selecting individual funds and managers. NILGOSC

will only appoint fund managers and consultants who have demonstrated that they meet an acceptable threshold for ESG capabilities.

NILGOSC seeks to collaborate with like-minded investors and shares knowledge and resources on managing climate risk through its membership of industry initiatives including: the Principles for Responsible Investment (PRI); the Institutional Investors Group on Climate Change (IIGCC); the CDP (formerly the Carbon Disclosure Project); the Occupational Pensions Stewardship Council (OPSC); and Climate Action 100+.

Strategy

In setting the Fund's investment strategy, NILGOSC first considers the lowest risk strategy that it could adopt in relation to the Scheme's liabilities. The investment strategy is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

NILGOSC considers it to be in the long-term interests of its members to promote climate risk mitigation and adaption in the implementation of its investment strategy.

Climate related risks and opportunities

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.

In its Climate Risk Statement, NILGOSC classifies climate risk into three broad categories, which are applicable across the range of asset classes in which it invests: policy risk; technology risk; and physical risk, the first two of which fall under the bracket of 'transition risk', which is the risk to underlying assets in a portfolio resulting from changing policies, practices and technologies as countries move towards reducing their carbon reliance. The other primary climate-related risk is 'physical risk', which can be either acute or chronic in nature. Different asset classes will be susceptible to different risks, over different time frames, with some assets demonstrating more sensitivity than others, even within a particular asset type or sector. As a general rule, assets such as equities and bonds are likely to see a much quicker impact of policy change, than real assets such as property or infrastructure.

- Policy risk: the impact of policy decisions and regulatory change on global economies, companies and individual investments is considered to be both a short and medium-term risk as the exact timescales of necessary changes remains unclear. Current global policy is not aligned with the aims of the Paris Agreement, to limit global warming to 1.5°C above pre-industrial levels, and it is not clear how quickly, if at all, governments will act to meet their commitments.

- Technology risk: covers both the risk that key low or no carbon technologies do not deliver as planned, as well as the costs to transition to lower emissions technology. Technology risk is considered a short to medium term risk and is linked to the pace of policy change.

- Physical risk: the impact of extreme weather (acute risk), flooding, droughts and rising sea levels (chronic risk) on industry, physical assets, companies and infrastructure is considered a medium to longer term risk. Physical risks will have financial implications for schemes, such as direct damage to assets and indirect destabilising impacts from supply chain disruption. Other potential impacts of physical changes in the climate are wider economic and social disruption, including mass displacement, environmental-driven migration and social strife.

All of the above can impact changes in consumer behaviour and shifts in consumer preferences, which will affect the market value of assets within the portfolio.

Figure 1: Examples of Short, Medium and Long-term risks

	Short and Medium-term risks	Long-term risks
Risks	Policy changes Regulatory changes Technological changes Changes in consumer behaviour Reputational damage Carbon pricing Stock price movements	Extreme weather events Rising sea levels Stranded assets Resource availability Temperature extremes Water stress
Assets	Equities Index-linked gilts Absolute return bonds Multi-asset credit	Infrastructure Property

The changing climate also provides opportunities for investors and, like risks, these will vary across asset classes, sectors, and individual portfolio holdings. NILGOSC has instructed its Investment Advisor to consider opportunities arising from climate

change in the provision of advice, including the proactive consideration of opportunities to invest in low carbon assets. With respect to its real asset allocation, NILGOSC encourages its managers to consider investment opportunities in low carbon infrastructure and real estate where appropriate.

Impact

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

The primary risk to NILGOSC is that its investment strategy and individual portfolios are not properly positioned to avoid the risks, or to avail of the opportunities presented by the changing climate. As the investment strategy is intrinsically linked to the funding strategy, any material impact on investment returns will result in changes in the cost to scheme employers. As set out in the Climate Risk Statement, NILGOSC has developed a suite of procedures and policy documents which set out how climate risks and opportunities are incorporated into its investment processes and practice.

NILGOSC's corporate plan includes: the strategic objective to invest scheme funds in accordance with the Statement of Investment Principles and the Statement of Responsible Investment; as well as the operational action to implement both the Statement of Responsible Investment and Climate Risk Statement.

NILGOSC believes that diversification across asset classes, geographies and sectors is an important tool to manage risk, although the Fund recognises that climate risk is systematic and cannot be eliminated through diversification alone.

NILGOSC's assets are externally managed, and managers are required to incorporate ESG factors including climate risk, into their investment decision making processes, in line with NILGOSC's Statement of Investment Principles, Statement of Responsible Investment and Climate Risk Statement.

The Investment team works with its external managers to identify elements of individual portfolios which have a higher exposure to carbon. Managers report on ESG performance quarterly and present an annual briefing report to the Committee which includes a dedicated section on ESG performance. Managers are asked to

account for how climate risk is integrated into decision making, and managers are also asked to disclose all of their holdings in coal, oil and gas extraction companies, plus a rationale for the holdings (if any).

NILGOSC has invested in several low carbon opportunities and continues to actively seek out and assess others. For example, in February 2021, NILGOSC committed €50 million to an infrastructure fund specialising in renewable energy.

Challenges continue to exist in respect of the limitations and backward-looking nature of carbon disclosures. However, NILGOSC undertook a portfolio-wide carbon analysis in the first half of 2021. The outcome of this exercise will help determine next steps in assessing and managing NILGOSC's exposure to various climate outcomes.

Resilience

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

NILGOSC is a diversified asset owner with investments over many asset classes in segregated mandates. Although, NILGOSC has not yet undertaken scenario analysis on the portfolio, it will seek to do so for the year ended 31 March 2022. In the meantime, a number of the segregated mandate managers have carried out scenario analysis on NILGOSC's behalf, including property fund managers LaSalle Investment Management (LaSalle) and CBRE Global Investment Partners (CBRE). LaSalle disclosed Climate Value at Risk for both a 2°C low-emissions and a 4°C high-emission scenario over short term (to 2030) and longer term (to 2050) timeframes, with the top five risks listed as: fluvial flooding; temperature extremes; drought; wildfire and coastal flooding.

CBRE engaged a provider to stress test the potential severity and frequency of six climate hazards (wildfires, water stress, sea level rises, hurricanes and typhoons, heat stress and flood) with the 2030-2040 outlook over three scenarios (1.5°C, 2°C and 4°C above pre-industrial levels).

For both managers, the analysis did not consider physical building attributes that may have mitigating effects, and the data is intended to be used by the managers to

prioritise engagement activities and identify further opportunities to mitigate exposure to climate hazards.

In the delivery of the triennial strategy review, detailed modelling is carried out by NILGOSC's Investment Advisor, quantifying the value at risk under various strategies and stressors. The Capital Market Assumptions (CMAs) used in setting the high-level investment strategy account for climate change indirectly with the view that the effects of climate change are captured in the economic outlook and market pricing that feeds into the return assumptions.

The use and methods of calculating scenarios to assess climate related issues and their financial implications are evolving. Although it is well documented that translating climate scenario analysis into an investment strategy is challenging, the Fund believes it will be worthwhile procuring climate-related research in order to support robust decision making.

Risk Management

NILGOSC's processes for identifying and assessing risks

Describe the organisation's processes for identifying and assessing climate-related risks

NILGOSC's Climate Risk Statement sets out how it will identify and classify climate risks together with the steps which it will take, both at a policy and portfolio level. Day-to-day, climate related factors and risks are managed on a delegated basis by individual investment managers. The Statement requires that, where climate change produces a financial risk for a particular investment, NILGOSC expects this to be a fundamental part of the investment decision making process and will monitor such decisions accordingly. Quarterly reporting requirements, including engagement activity, are set out in contractual arrangements and are subject to ongoing review by the Investment team.

NILGOSC has instructed its Investment Advisor to consider the impact and opportunities presented by climate change in the provision of advice, both at an overall strategy level and individual investment level.

NILGOSC's processes for managing risk

Describe the organisation's processes for managing climate-related risks

The processes for managing climate-related risks are set out in NILGOSC's Climate Risk Statement. Its approach is essentially a blend of top-down (asset allocation) and bottom-up stewardship (individual holdings). Climate risks and opportunities are taken into account at a strategic asset allocation level with specific advice sought from the Investment Advisor as part of the investment strategic review process.

The primary way in which NILGOSC manages its climate related risks is through its stewardship activities. NILGOSC has developed a bespoke Proxy Voting Policy which sets out its expectations for good corporate governance, including how companies manage their impact on society and the environment with specific reference to climate risk and climate related financial disclosures. NILGOSC uses its ownership rights to ensure that companies provide accurate and timely disclosure of

the material risks and opportunities associated with climate change. Through the exercise of its voting rights and targeted engagement, NILGOSC encourages companies to be transparent and accountable in respect of their impact on the environment, for example, through the setting of targets and timeframes for the reduction of greenhouse gas (GHG) emissions. Where such disclosure is lacking, or where there are shortcomings in the steps taken to address climate risks and opportunities, NILGOSC will engage with companies either directly or by joining together with likeminded investors in PRI facilitated or similar collaborative initiatives. For example, in 2018/19, the Fund co-filed a Climate Action 100+ shareholder resolution to BP Plc for consideration at the Company's Annual General Meeting in May 2019. The resolution called on the company to set out a business strategy that is consistent with the goals of the Paris Agreement on Climate Change. The resolution received the support of the board of BP and was passed overwhelmingly. Other more recent examples include, in March 2021, NILGOSC opted to be a signatory to the CDP's 2021 Non-Discloser Campaign, which allows investors to target specific companies that failed to respond to CDP's disclosure request in the previous year. NILGOSC was also a signatory to the 2020 Non-Discloser Campaign. In the 2020 campaign, 59% more companies were engaged with than during the previous year and CDP reported the highest response rate to date from that engagement. As a result, more than double the number of companies disclosed in 2020 compared to 2019. Companies engaged in the campaign were 2.2 times more likely to disclose than those that were not engaged by investors, and the new disclosures represented $2.7 trillion in market capitalisation, and over 670 million tons CO2e in Scope 1 and 2 emissions.

NILGOSC believes that active engagement is the most effective way to bring about change, both at a policy level and in respect of individual investments. NILGOSC considers divestment to be a blunt instrument which removes the ability to engage effectively with a company or government. NILGOSC does not therefore exclude investment or divest solely on ESG grounds.

NILGOSC publishes both an annual voting report detailing the Fund's voting activity for assets held by its active managers, as well as detailed quarterly voting reports. In 2021, NILGOSC commenced publishing rationale for votes against management recommendations. In these circumstances, when NILGOSC has voted against a

management recommendation, NILGOSC issues letters to UK and European listed companies explaining the reason and initiating engagement.

A large portion of the Fund's equity is passively managed by Legal and General Investment Management (LGIM). The votes in respect of these assets are cast by LGIM, who has a robust approach to incorporating climate change factors in its voting decisions, including on specific climate related shareholder resolutions.

NILGOSC also encourages its real asset managers to adopt sustainable asset management practices with respect to its infrastructure and property holdings, and monitors progress and performance.

NILGOSC will only appoint fund managers and consultants who have demonstrated the necessary expertise in assessing climate risk. NILGOSC assesses these capabilities at the selection and appointment stage, through the application of mandatory ESG criteria in the tender process.

How processes are integrated

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

NILGOSC's Strategic Risk Register includes a number of investment related risks, one of which is the risk that responsible investment considerations are not taken into account in the implementation of the investment strategy. The primary consequences of this risk materialising are documented as: reduced investment returns; reputational risk resulting in loss of confidence in the Scheme; and potential for adverse publicity. Following the year end, an additional climate-specific risk was added to the Strategic Risk Register for 2021/22, being that inaction to address and limit exposure to climate change risk will adversely affect investment returns. The main consequences are recognised as: sub-optimal returns; reduced investment returns; an increasing deficit; and insufficient funds to pay retirement benefits and pensions. As well as compliance with NILGOSC's regularly reviewed and updated statements and policies (Statement of Responsible Investment, Climate Risk Statement, Proxy Voting Policy, Statement of Investment Principles and Investment Monitoring Guidelines), control measures include: engagement with managers; quarterly monitoring; advice of the

Investment Advisor; support of industry initiatives; and disclosing in line with TCFD recommendations.

Ownership of the Strategic Risk Register sits with the Committee, with quarterly assurance provided by the Head of Investment Services and team.

Metrics and Targets

Overview

NILGOSC procured the services of MSCI ESG Research LLC (MSCI) to carry out analysis on the portfolio's assets as at 31 March 2021. At that date, assets under ownership totalled £9.8 billion, of which approximately 52% could be assessed (part-portfolio referred to as 'NILGOSC portfolio'). The poor availability of data for asset classes other than listed equities prevents a more complete overview at this time. For example, the analysis takes no account of the Fund's property or infrastructure investments (which equated to approximately 12.7% of the fund value at 31 March 2021), and it was not possible to provide complete portfolio analytics on the passive index-linked gilt fund (which also equated to approximately 12.7% of the fund value at year end).

As expected, availability of carbon emissions data was greatest for the listed equities (>90% coverage in all mandates), but coverage of the fixed income assets, particularly the Absolute Return Bond (ARB) mandates, was much lower, as indicated in Figure 2.

Figure 2: Carbon Emissions Data Availability (% Market Value)

Active Equities - Baillie Gifford	94.2%
Active Equities - Unigestion	99.1%
Passive Equities - UK - LGIM	90.4%
Passive Equities - N. America - LGIM	98.3%
Passive Equities - Europe (ex UK) - LGIM	95.3%
Passive Equities - Japan - LGIM	98.4%
Passive Equities - Asia Pacific (ex Japan) - LGIM	97.4%
Passive Equities - World Emerging Markets - LGIM	95.9%
ARB - T Rowe Price	5.2%
ARB – RLAM	20.1%
Index Linked Gilts - LGIM	-
MAC – BlueBay	43.5%
MAC – PIMCO	57.2%

Metrics

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

Drawing upon the guidance laid out in the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, which mandates that occupational pension schemes in Great Britain must produce and publish a TCFD report, NILGOSC requested the following metrics were undertaken:

Absolute emissions metric

- Total GHG emissions (*tons CO2e*)

Emissions intensity metrics

- Carbon Footprint (*tons CO2e/$m invested*)
- Weighted Average Carbon Intensity (*tons CO2e/$m sales*)

Additional climate change metric

- Data Quality (%)

Different metrics may be selected for different parts of the portfolio, and metric selection should be reviewed and replaced if necessary.

The analysis does not include NILGOSC's carbon footprint as a standalone corporate entity. The analysis is undertaken for the assets in which it invests, which are managed by external fund managers and located all over the world. Carbon risk metrics aid the assessment of potential climate-related risks to which the Fund is exposed and help identify areas for further risk management, including company engagement and fund manager monitoring.

Additionally, the assessment included other analysis such as: carbon Intensity; weight of holdings owning fossil fuel reserves; and weight of holdings whose products and services include clean technology.

The Fund also monitors Stewardship Data, publicly disclosing quarterly voting reports, in addition to an annual review of all proxy voting activities alongside an annual shareholder resolution report.

GHG emissions

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

GHG emissions are classified per the Greenhouse Gas Protocol and are grouped in three categories:

- Scope 1 are ‘direct’ emissions, “occurring from sources that are owned or controlled by the institution”;
- Scope 2 are ‘indirect’ emissions, “generated in the production of electricity consumed by the institution”; and
- Scope 3 emissions are composed of all the other ‘indirect’ emissions that are “a consequence of the activities of the institution but occur from sources not owned or controlled by the institution". Scope 3 emissions can be described in value chain terms as ‘upstream’ and ‘downstream’ activities. Examples of upstream Scope 3 emissions sources include commuting, waste disposal, and suppliers’ emissions in production. Examples of downstream Scope 3 emissions sources include processing of sold products, use of sold products by customers, and the end-of-life treatment of sold products.

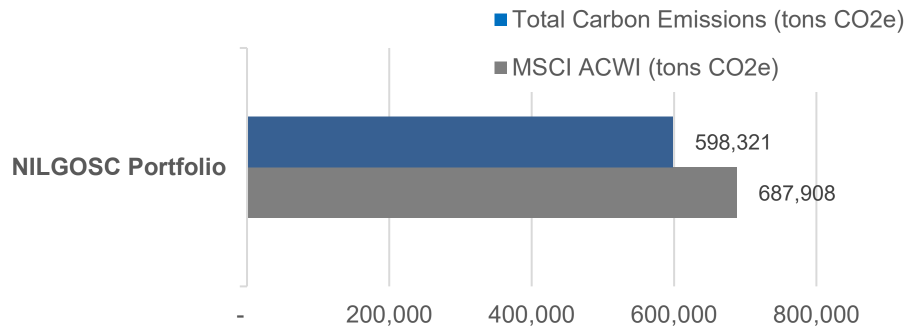
The greenhouse gases included in the GHG emissions are the seven gases mandated by the Kyoto Protocol: Carbon dioxide (CO_2); Methane (CH_4); Nitrous oxide (N_2O); Hydrofluorcarbons (HFCs); Perfluorcarbons (PFCs); Sulphur hexafluoride (SF_6); and Nitrogen trifluoride (NF_3).

The following analysis includes only Scope 1 and Scope 2 GHG emissions. Where information is unavailable or not reported, the service provider (MSCI) is able to estimate Scope 1 and Scope 2 emissions. Although analysis of available Scope 3 emissions was provided for review, MSCI do not estimate Scope 3 data because the definitions of which emissions should and should not be included are not well defined or consistently calculated by companies. As a result, the analysis of Scope 3 emissions is less reliable and NILGOSC chose not to include them within the analysis for this reporting cycle.

Total GHG emissions

Total Scope 1 and Scope 2 GHG emissions associated with the NILGOSC portfolio (ie. the portion of the portfolio that could be analysed) as at 31 March 2021 are converted and expressed as Carbon dioxide equivalents in 'tons CO2e'. Emissions are apportioned based on equity ownership.

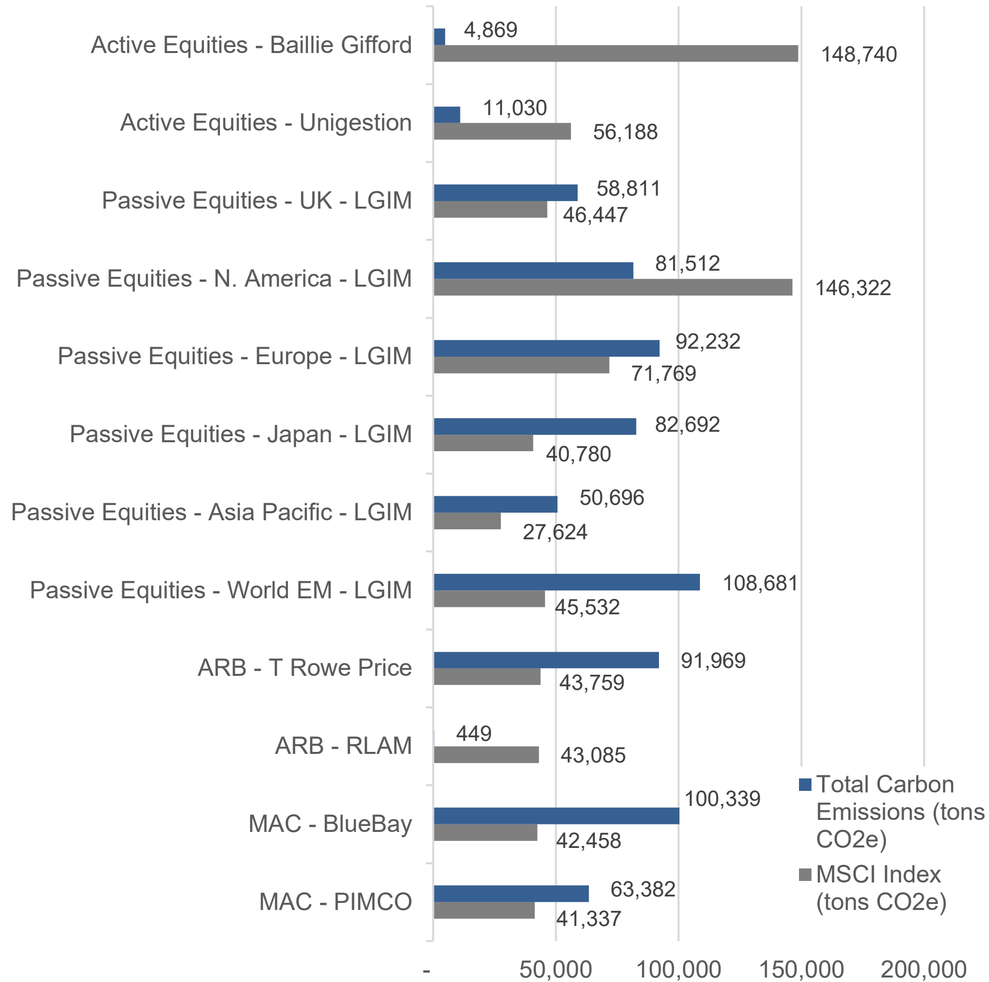
Figure 3: Total Carbon Emissions across NILGOSC portfolio (*tons CO2e*)



The full portfolio was compared to the performance of a portfolio replicating a global market index: the MSCI ACWI benchmark, which is a global equity index designed to represent performance of the full opportunity set of large and mid-cap stocks across 23 developed and 27 emerging markets. NILGOSC's portfolio is emitting 13% less carbon than the benchmark comparison.

In order to aid comparability of performance of the individual mandates that make up the portfolio (as portrayed in Figure 4 and in the additional metrics undertaken), all equity mandates were individually reviewed against the MSCI ACWI benchmark. Both of NILGOSC's active equity mandates compare well against the global benchmark, but, with the exception of the North American passive equities, the passive mandates demonstrate larger GHG emissions than the index. For more specific or geographically-confined mandates (as in the case of the passive equity mandates), future analysis could be carried out against indices that are more representative of those mandates and the holdings within them.

Figure 4: Total Carbon Emissions in each mandate (*tons CO2e*)



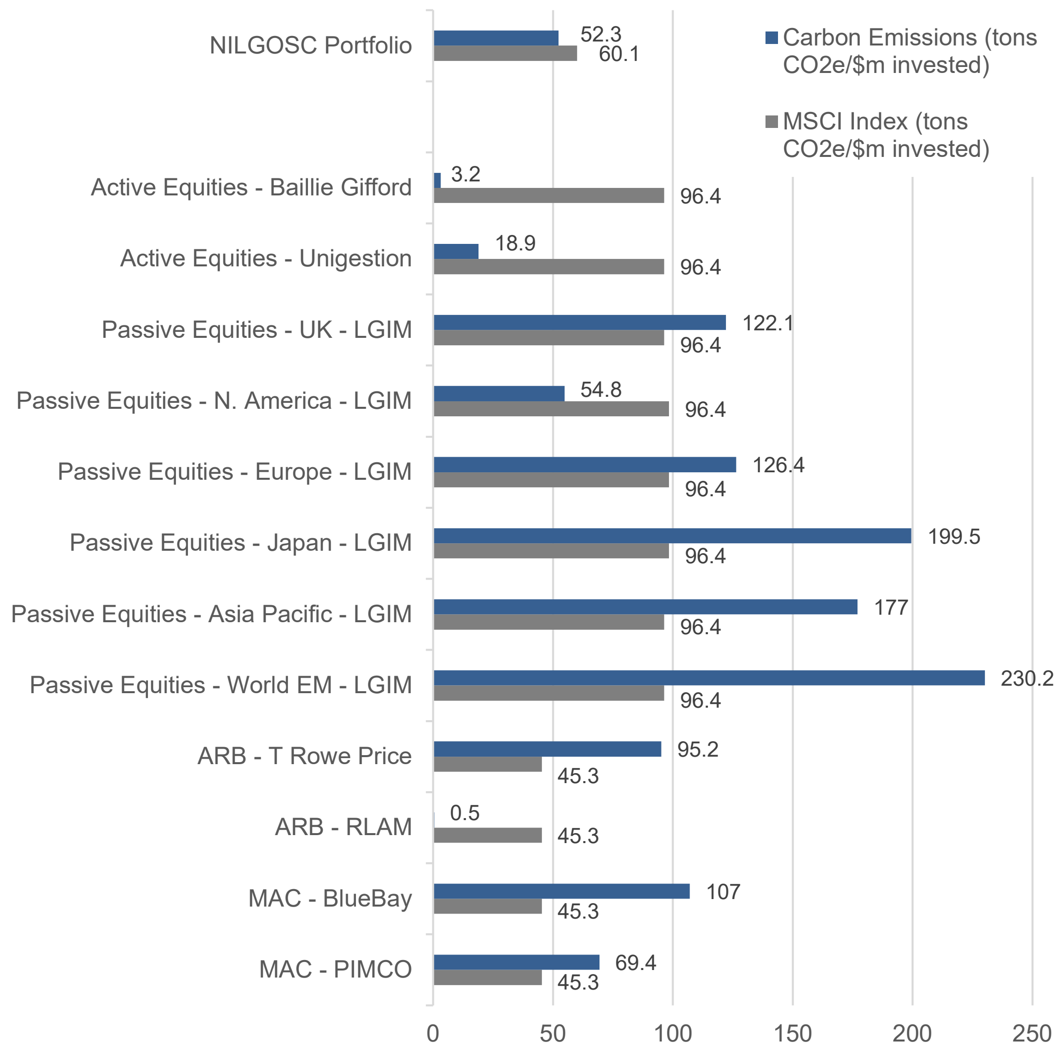
All four fixed income mandates were compared to the MSCI USD IG Corporate Bond index, which is designed to measure performance of the global credit market. Coverage of fixed income assets, in particular derivatives and sovereign bonds, is very poor, and challenges regarding meaningfulness of the data are well documented. For example, data at a mandate level can be skewed depending on the sectors within which data can be assessed. In the case of T Rowe Price, only 5% of the mandate’s corporate constituents could be analysed, but those holdings were primarily in the utilities and industrial sectors, which are high carbon emitters. Despite such challenges, NILGOSC is of the view that it is preferable to seek data for non-equity asset classes, with the hope that engagement and disclosure will encourage improvements.

To aid more meaningful analysis going forward, disclosure will be presented at: a mandate level; an aggregate asset-type level; and a total portfolio figure.

Carbon Footprint

The Carbon footprint reflects the total carbon emissions for which the investor is responsible, apportioned by equity ownership, and therefore normalised by the market value of the portfolio. The normalised measure, expressed in ‘tons CO2e/$m invested’, allows for comparisons between multiple portfolios, irrespective of portfolio size.

Figure 5: Carbon Footprint (*tons CO2e/$m invested*)

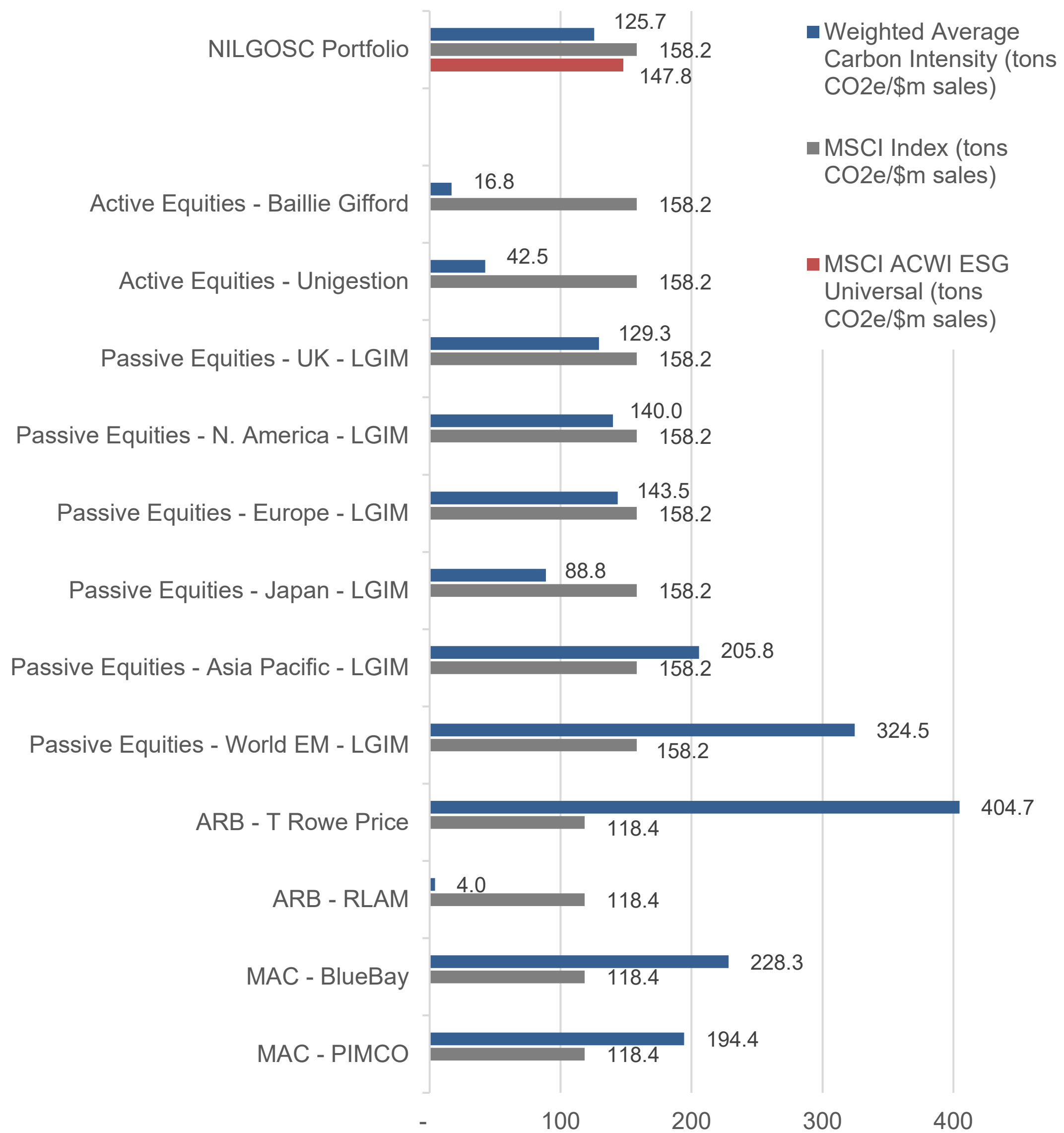


As with the GHG emissions, even when the carbon emissions are normalised, the commentary remains the same. At a high level, the portfolio compares favourably (13% lower than the MSCI ACWI benchmark), but the performance of the underlying mandates, particularly under passive management, highlights areas for NILGOSC to take future action.

Weighted Average Carbon Intensity (WACI)

Weighted Average Carbon Intensity is a popular measure of a portfolio's exposure to carbon-intensive companies, expressed in 'tons CO2e/$m sales'. WACI is indicative of a portfolio's exposure to potential carbon-related market and regulatory risks, since companies with a higher carbon intensity are more likely to face more exposure to potential climate change-related risks relative to other portfolios or a benchmark. The measure is agnostic to ownership share and facilitates comparison with non-equity asset classes.

Figure 6: Weighted Average Carbon Intensity (*tons CO2e/$m sales*)



The ‘NILGOSC Portfolio’ WACI is 20.6% lower than the MSCI ACWI benchmark and 15% lower than the MSCI ACWI ESG Universal benchmark. This means that, on average, for every USD of economic output companies produce, the Fund’s investee companies emit 20.6% fewer GHG emissions that the companies in the benchmark.

As noted previously, this data may be skewed by inclusion of the fixed income mandates. To aid more meaningful analysis, future disclosure is expected to be presented at: a mandate level; an aggregate asset-type level; and a total portfolio figure.

Data Quality

Data quality demonstrates at a very high level the proportion of the portfolio for which each of Scope 1 and 2 emissions are reported, estimated or unavailable.

For the purposes of the data provided, the NILGOSC portfolio represents the market value of the Fund at 31 March 2021, excluding property and infrastructure, which accounted for approximately 12.7% of the fund value.

Figure 7: Data availability as a percentage of market value

	Reported	Estimated	No Data
NILGOSC Portfolio	47.3%	13.2%	39.5%

MSCI ESG CarbonMetrics evaluates approximately 8,500 companies. When reported data is not available, Scope 1 and 2 carbon emissions are estimated using MSCI’s proprietary carbon estimation model. The high proportion of “no data” reported is made up primarily of non-security positions, which were considered “Out of Scope”, but their weights still have bearing relative to their portfolios.

NILGOSC expects to update its carbon risk metrics data on an annual basis and will review the availability of data, with a view to increasing disclosure, on an ongoing basis.

Targets

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

NILGOSC has not yet set climate targets. NILGOSC is a diversified asset owner with investment over many asset classes and geographies, a significant proportion of which cannot yet be analysed. NILGOSC is supportive of the increased coverage of carbon datasets and the continued development of target-setting methodologies. Whilst methodologies mature, the adoption of quantifiable and meaningful climate targets therefore remains under review.

Next Steps

- NILGOSC joined the Investment Association and PLSA's working group on asset manager data for TCFD disclosures. The working group's intention is to formulate a template for asset managers to provide emissions data and metrics, that pension schemes can then use in compiling TCFD disclosures. NILGOSC will continue to work with other asset owners and the Fund's asset managers to help improve the quality and scope of the data available.
- NILGOSC will utilise the outputs of this initial portfolio analysis to highlight areas for further risk management and monitoring.
- NILGOSC will continue to seek out climate change opportunities, in compliance with its overriding obligation to act in the best interests of the scheme beneficiaries. For example, NILGOSC is currently considering moving a portion of its passive equity allocation to a Low Carbon Transition fund.
- NILGOSC will seek to carry out scenario analysis for the year ended 31 March 2022.
- NILGOSC will continue to support increased coverage of carbon datasets and the continued development of target-setting methodologies, keeping the development of appropriate climate targets under review.

Appendix 1: TCFD Disclosures

Governance

- Describe the board's oversight of climate-related risks and opportunities
- Describe management's role in assessing and managing climate-related risks and opportunities

Strategy

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term
- Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Risk Management

- Describe the organisation's processes for identifying and assessing climate-related risks
- Describe the organisation's processes for managing climate-related risks
- Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

Metrics and Targets

- Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
- Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks
- Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

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