
# PUBLIC CLIMATE REPORT

## 2021 PILOT

## Active Super

Generated 2022-08-18

# About this report

Climate is a top priority for PRI signatories. More than 85% of asset owners report that they view climate change as a long-term trend resulting in investment risks. As a result, the PRI introduced climate-specific indicators to the Reporting Framework.

The climate-specific indicators are aligned to the FSB Task Force on Climate-Related Financial Disclosure's (TCFD) guidance, which aims to create a single framework for disclosure on assessment and management of climate-related risk.

This **Public Climate Report** is an export of the signatory's responses to the climate-related indicators from the 2021 Reporting Framework. It includes their responses to mandatory indicators, as well as responses to voluntary indicators that the signatory has agreed to make public. It is a climate-focused subset of the full **Public RI Report**, which is available here.

The information is presented exactly as it was reported. Where an indicator offered a multiple-choice response, all options that were available to select from are included for context. While presenting the information verbatim results in lengthy reports, the approach is informed by signatory feedback that signatories prefer that the PRI does not summarise the information.

# Context

In consultation with signatories, between 2018 and 2020 the PRI extensively reviewed the Reporting and Assessment processes and set the ambitious objective of launching in 2021 a completely new investor Reporting Framework, together with a new reporting tool.

We ran the new investor Reporting and Assessment process as a pilot in its first year, and such process included providing additional opportunities for signatories to provide feedback on the Reporting Framework, the online reporting tool and the resulting reports. The feedback from this pilot phase has been, and is continuing to be analysed, in order to identify any improvements that can be included in future reporting cycles.

# PRI disclaimer

This document presents information reported directly by signatories in the 2021 reporting cycle. This information has not been audited by the PRI or any other party acting on its behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented.

The PRI has taken reasonable action to ensure that data submitted by signatories in the reporting tool is reflected in their official PRI reports accurately. However, it is possible that small data inaccuracies and/or gaps remain, and the PRI shall not be responsible or liable for such inaccuracies and gaps.

# Table of Contents

# Climate change

## Public support

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 26 | CORE | N/A | N/A | PUBLIC | Public support | General |

**Does your organisation publicly support the Paris Agreement?**

◉ (A) Yes, we publicly support the Paris Agreement Add link(s) to webpage or other public document/text expressing support for the Paris Agreement:

> https://www.lgsuper.com.au/blog/how-we-at-lgs-are-supporting-the-transition-to-net-zero/ https://acsi.org.au/our-issues/climate-change/

○ (B) No, we currently do not publicly support the Paris Agreement

# Climate change

## Public support

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 27 | CORE | N/A | N/A | PUBLIC | Public support | General |

**Does your organisation publicly support the Task Force on Climate-Related Financial Disclosures (TCFD)?**

◉ (A) Yes, we publicly support the TCFD Add link(s) to webpage or other public document/text expressing support for the TCFD:

> https://www.lgsuper.com.au/investments/responsible-investment/active-ownership/ : https://acsi.org.au/our-issues/climate-change/

○ (B) No, we currently do not publicly support the TCFD

# Climate change

## Governance

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 28 | CORE | N/A | N/A | PUBLIC | Governance | General |

**How does the board or the equivalent function exercise oversight over climate-related risks and opportunities?**

☑ **(A) By establishing internal processes through which the board or the equivalent function are informed about climate-related risks and opportunities. Specify:**

> Climate change is considered by the Trustee as the most significant ESG risk facing our members'
> long term savings. The board-level LGS Investment Committee consists of six people, four from the LGS Board and two external independents. The Investment Committee meet every 6 weeks to review LGS' strategic asset allocation, investment mix and potential new investment opportunities.
> An RI report is prepared for each investment committee meeting. This report covers recent RI related activities and engagements that we have undertaken in addition to ESG reviews of potential new investment opportunities. The Investment Committee are responsible for overseeing the implementation of the LGS SRI Policy, including any changes to the policy (which is reviewed on at least an annual basis).The IC also reviews all ESG/RI asset class reviews.

☑ **(B) By articulating internal/external roles and responsibilities related to climate. Specify:**

> LGS senior level staff, CIO, head of responsible investment, portfolio managers, dedicated responsible investment staff and investment analyst have responsible investment KPIs included in performance appraisals. Responsible investment performance is not linked to variable pay as LGS staff does not currently have a variable remuneration component to our compensation.

☐ (C) By engaging with beneficiaries to understand how their preferences are evolving with regard to climate change. Specify:

☑ **(D) By incorporating climate change into investment beliefs and policies. Specify:**

> The Investment Committee are responsible for overseeing the implementation of the LGS SRI Policy, including any changes to the policy (which is reviewed on at least an annual basis).The IC also reviews all ESG/RI asset class reviews. The objectives to address climate change are contained within the LGS SRI Policy.

☑ **(E) By monitoring progress on climate-related metrics and targets. Specify:**

> Every six months we assess our listed equity managers on the carbon performance of the companies in their portfolios and publish the results on our website. We monitor our exposure to fossil fuel intensive companies to better understand carbon risks and opportunities and determine future restriction thresholds and engagement priorities. These reports focus on our total carbon footprint based on ownership of companies (i.e. tonnes CO2e/$ million invested and total CO2e), but also provide intensity measures (i.e. tonnes CO2e/$ million sales) to enable us to compare companies within the same or similar sectors. A summary of the results of these audits is published on the LGS website at https://www.lgsuper.com.au/investments/sustainable-investment/sustainable-investment-reports-and-policies/.
> Every six months we assess our domestic and international listed equities portfolios on the ESG performance of the companies in their portfolios and publish the results on our website. We monitor our portfolio's ESG Quality Score which provides an indication of constituent companies' ability to manage risk and opportunities arising from ESG exposures as well as the score of each individual 'E','S','G' pillar to better understand opportunities and determine future restriction thresholds and engagement priorities.
> The latest Carbon Emissions report can be found at
> https://www.lgsuper.com.au/assets/esg/carbon-emissions-report-current.pdf
> The latest ESG Risk report can be found at
> https://www.lgsuper.com.au/assets/esg/ESG-Report-current.pdf

☑ **(F) By defining the link between fiduciary duty and climate risks and opportunities. Specify:**

LGS considers Climate Change Risk as one of the most important issues facing the fund. We address this in our Sustainable and Responsible Investment Policy, Sustainable and Responsible Investment Guidelines and the Active Ownership Policy.
LGS assesses and monitors this risk across our entire portfolio in all asset classes via Annual Reviews. We assess ESG integration and correlation with investment performance using proprietary methodology which has been developed in house. This method is utilised for on-boarding, monitoring & maintenance as well as the removal of fund managers. The results are contained within our Investment Committee Papers as well as in public reporting. Publicly we do this via our website in the form of i) ESG quality reports for all domestic and international equity fund managers ii) Carbon Emissions reports for all domestic and international equity managers. We are committed to reporting in line with the TCFD (Task Force for Climate related Financial Disclosure). We measure Weighted Average Carbon Intensity (a recommendation of the TCFD) and publicly report this data.
Another public document, the "LGS Responsible Investment Snapshot" outlines in detail how we address climate risk (amongst other ESG risks). This is implemented via the application of Negative Screens (or our Restrictions List), Positive Screens and the SRI Overlay. We actively address Climate Change via our Active Ownership Policy which includes i) Voting for specific climate related resolutions ii) Direct Engagement with corporates and iii) Industry Collaboration with the UN Principles for Responsible Investment, Australian Council of Superannuation Investors, Investor Group on Climate Change and the Responsible Investment Association of Australasia.

☑ (G) Other measures to exercise oversight, please specify:

LGS assesses and monitors ESG risk (including climate related risks) across our entire portfolio in all asset classes via Annual Reviews. We assess ESG integration and correlation with investment performance using proprietary methodology which has been developed in house. This method is utilised for on-boarding, monitoring & maintenance as well as the removal of fund managers. The results of this review is reported to the Investment Committee.

☐ (H) The board or the equivalent function does not exercise oversight over climate-related risks and opportunities

# Climate change

## Governance

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 29 | CORE | N/A | N/A | PUBLIC | Governance | General |

**What is the role of management in assessing and managing climate-related risks and opportunities?**

☑ (A) Management is responsible for identifying climate-related risks/opportunities and reporting them back to the board or the equivalent function. Specify:

The board-level LGS Investment Committee consists of six people, four from the LGS Board and two external independents. The Investment Committee meet every 6 weeks to review LGS' strategic asset allocation, investment mix and potential new investment opportunities.
An RI report is prepared for each investment committee meeting. This report covers recent RI related activities and engagements that we have undertaken in addition to ESG reviews of potential new investment opportunities. The Investment Committee are responsible for overseeing the implementation of the LGS SRI Policy, including any changes to the policy (which is reviewed on at least an annual basis).The IC also reviews all ESG/RI asset class reviews.

☑ (B) Management implements the agreed-upon risk management measures. Specify:

LGS' Responsible Investment approach uses negative screening (i.e. Restriction Lists) to limit our exposure to companies with a high ESG risk profile for our listed equities and fixed income portfolios. These restrictions involve companies in controversial industries and limit our exposure to activities which we view as long term investment risks such as the tobacco, controversial weapons, gambling, coal mining, coal fired electricity and oil tar sands industries. Addition or removals of companies from the Restrictions List is submitted to the LGS Board for approval.

☑ (C) Management monitors and reports on climate-related risks and opportunities. Specify:

We monitor our investment portfolios to measure ESG and carbon performance and to ensure that our managers are adhering to the LGS SRI Policy. LGS monitors compliance of the Restriction Lists (negative screening) through our custodian, JPM. LGS developed proprietary methodology to monitor managers and portfolios across all asset classes. This ratings system refers to ESG integration which we correlate with investment return overtime. The compliance of our managers to the Restriction List and ESG ratings for our asset managers are reported to the board.

☑ (D) Management ensures adequate resources, including staff, training and budget, are available to assess, implement and monitor climate-related risks/opportunities and measures. Specify:

RI staff members regularly attended various RI related conferences including those organised by industry bodies such as ACSI, IGCC, Glass Lewis, Climate Action 100+. RI Staff members also participated in various RI related collaborative engagements which include listed companies such as Woolworths, Rio Tinto, and Westpac. The Responsible Investment Analyst has also completed the Getting Started in Responsible Investment and Advanced RI Analysis courses by UNRPI.

☐ (E) Other roles management takes on to assess and manage climate-related risks/opportunities, please specify:
☐ (F) Our management does not have responsibility for assessing and managing climate-related risks and opportunities

# Climate change

## Strategy

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 30 | CORE | N/A | Multiple, see guidance | PUBLIC | Strategy | General |

**Which climate-related risks and opportunities has your organisation identified within its investment time horizon(s)?**

☑ (A) Specific financial risks in different asset classes. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
The climate modelling also calculates long term risk premia asset class returns and assumed return variations by scenario for LGS's different asset classes. The return variations incorporate underlying building block assumptions including equity risk premia, inflation, real cash rates, real asset, illiquidity premia and an assumed green/brown asset mix. The results of which be considered to inform SAA decisions. We also apply latest research both from Mercer and UNPRI in looking at valuation effects for example. in 'high' risk sectors such as oil and gas.
LGS is also committed to achieving net-zero operating carbon emissions by 2030. LGS has achieved carbon neutral certification for all NABERS-rated buildings in its direct property portfolio and we are advocating for all building stock to achieve net-zero emissions by 2050.
LGS has also commenced the Net Zero emissions project to map carbon emissions of its Australian and International portfolios based on carbon emissions reduction pledges by companies to determine LGS' total equities portfolio emissions, leader/laggard sectors, leader/laggard individuals and yearly shortfalls towards Net Zero emissions by 2050.

☑ (B) Specific sectors and/or assets that are at risk of being stranded. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☑ (C) Assets with exposure to direct physical climate risk. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☑ (D) Assets with exposure to indirect physical climate risk. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☑ (E) Specific sectors and/or assets that are likely to benefit under a range of climate scenarios. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☑ **(F) Specific sectors and/or assets that contribute significantly to achieving our climate goals. Specify:**

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☐ (G) Other climate-related risks and opportunities identified. Specify:
☐ (H) We have not identified specific climate-related risks and opportunities within our organisation's investment time horizon

# Climate change

## Strategy

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 30.1 | CORE | ISP 30 | N/A | PUBLIC | Strategy | General |

**For each of the identified climate-related risks and opportunities, indicate within which investment time-horizon they were identified.**

| | (1) 3–5 months | (2) 6 months to 2 years | (3) 2–4 years | (4) 5–10 years |
|---|---|---|---|---|
| (A) Specific financial risks in different asset classes [as specified] | ☑ | ☑ | ☑ | ☑ |
| (B) Specific sectors and/or assets that are at risk of being stranded [as specified] | ☑ | ☑ | ☑ | ☑ |
| (C) Assets with exposure to direct physical climate risk [as specified] | ☑ | ☑ | ☑ | ☑ |
| (D) Assets with exposure to indirect physical climate risk [as specified] | ☑ | ☑ | ☑ | ☑ |
| (E) Specific sectors and/or assets that are likely to benefit under a range of climate scenarios [as specified] | ☑ | ☑ | ☑ | ☑ |
| (F) Specific sectors and/or assets that contribute significantly to achieving our climate goals [as specified] | ☑ | ☑ | ☑ | ☑ |

| | (5) 11–20 years | (6) 21–30 years | (7) >30 years |
|---|---|---|---|
| (A) Specific financial risks in different asset classes [as specified] | ☑ | ☐ | ☐ |
| (B) Specific sectors and/or assets that are at risk of being stranded [as specified] | ☑ | ☑ | ☑ |
| (C) Assets with exposure to direct physical climate risk [as specified] | ☑ | ☐ | ☐ |
| (D) Assets with exposure to indirect physical climate risk [as specified] | ☑ | ☐ | ☐ |
| (E) Specific sectors and/or assets that are likely to benefit under a range of climate scenarios [as specified] | ☑ | ☐ | ☐ |
| (F) Specific sectors and/or assets that contribute significantly to achieving our climate goals [as specified] | ☑ | ☐ | ☐ |

# Climate change

## Strategy

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 31 | CORE | N/A | N/A | PUBLIC | Strategy | General |

**Which climate-related risks and opportunities has your organisation identified beyond its investment time horizon(s)?**

☑ (A) Specific financial risks in different asset classes. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
The Sustainable Development Scenario (SDS) – models for a more aggressive and nearer term globally coordinated policy response which limits the long-term global average temperature increase to 1.7-1.8 °C above pre-industrial levels by 2100. This scenario assumes an ambitious path for policy and emissions technology development and anticipates a material increase in global carbon prices by 2025;
The New Policies Scenario (NPS) – anticipates limited global policy co-ordination over the period to 2040. This scenario represents currently announced (but not fully implemented) policies that are anticipated to equate to a more than 3-degree global temperature increase relative to pre-industrial levels that is not aligned with the 2015 Paris Agreement on climate change
The climate modelling also calculates long term risk premia asset class returns and assumed return variations by scenario for LGS's different asset classes. The return variations incorporate underlying building block assumptions including equity risk premia, inflation, real cash rates, real asset, illiquidity premia and an assumed green/brown asset mix.

☑ (B) Specific sectors and/or assets that are at risk of being stranded. Specify:

LGS received regular ESG and Carbon Risk reporting from MSCI which includes analysis and holding breakdowns of standard assets positions relating to fossil fuel reserves for our Australian and international equity portfolios.

☑ (C) Assets with exposure to direct physical climate risk. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☑ (D) Assets with exposure to indirect physical climate risk. Specify:

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☑ **(E) Specific sectors and/or assets that are likely to benefit under a range of climate scenarios. Specify:**

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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☑ **(F) Specific sectors and/or assets that contribute significantly to achieving our climate goals. Specify:**

LGS has commenced internal proprietary research on projecting our carbon emissions to 2050 based on existing emission reduction pledges by companies for our Australian and International equities portfolio to identify trends, laggard sectors and companies.

☐ (G) Other climate-related risks and opportunities identified, please specify:
☐ (H) We have not identified specific climate-related risks and opportunities beyond our organisation's investment time horizon

# Climate change

## Strategy

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 32 | PLUS | N/A | N/A | PUBLIC | Strategy | General |

**Describe the impact of climate-related risks and opportunities on your organization's investment strategy, products (where relevant) and financial planning.**

> LGS' negative screens exclude investments that are not aligned with our values in approximately 265 companies globally involved in tobacco, controversial weapons, gambling services, coal mining, coal fired electricity generators and oil tar sand companies.
> As a result, LGS' share portfolios successfully achieved Weighted Average Carbon Intensities (exposure to carbon-intensive companies) below their market benchmark – by 18% on Australian equities and 30% on international equities.
> LGS actively seeks out investment opportunities that have positive environmental and social impacts with over $4bn (~30%) of our entire fund invested in low carbon assets which include renewable energy infrastructure and green bonds. Additionally, 17% of our Australian Equities and 37% of our international equities portfolio is made up of companies involved in Clean Technology Solutions.

# Climate change

## Strategy: Scenario analysis

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 33 | CORE | N/A | ISP 33.1 | PUBLIC | Strategy: Scenario analysis | General |

**Does your organisation use scenario analysis to assess climate-related investment risks and opportunities? Select the range of scenarios used.**

☑ (A) An orderly transition to a 2°C or lower scenario
☑ (B) An abrupt transition consistent with the Inevitable Policy Response
☐ (C) A failure to transition, based on a 4°C or higher scenario
☐ (D) Other climate scenario, specify:
☐ (E) We do not use scenario analysis to assess climate-related investment risks and opportunities

# Climate change

## Strategy: Scenario analysis

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 33.1 | PLUS | ISP 33 | N/A | PUBLIC | Strategy: Scenario analysis | General |

**Describe how climate scenario analysis is used to test the resilience of your organisation's investment strategy and inform investments in specific asset classes.**

☑ (A) An orderly transition to a 2°C or lower scenario

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
The Sustainable Development Scenario (SDS) – models for a more aggressive and nearer term globally coordinated policy response which limits the long-term global average temperature increase to 1.7-1.8 °C above pre-industrial levels by 2100. This scenario assumes an ambitious path for policy and emissions technology development and anticipates a material increase in global carbon prices by 2025;
The New Policies Scenario (NPS) – anticipates limited global policy co-ordination over the period to 2040. This scenario represents currently announced (but not fully implemented) policies that are anticipated to equate to a more than 3-degree global temperature increase relative to pre-industrial levels that is not aligned with the 2015 Paris Agreement on climate change
The climate modelling also calculates long term risk premia asset class returns and assumed return variations by scenario for LGS's different asset classes. The return variations incorporate underlying building block assumptions including equity risk premia, inflation, real cash rates, real asset, illiquidity premia and an assumed green/brown asset mix. The results of which be considered to inform SAA decisions.

☑ (B) An abrupt transition consistent with the Inevitable Policy Response

In 2020, the fund performed climate modelling analysis with our asset consultant Jana which utilizes the Sustainable Development Scenario (SDS) and New Policies Scenario (NPS) scenarios of the International Energy Agency (IEA) analysis. The modelling is used to assess the potential economic and financial impacts in both scenarios which are considered two broad categories of climate-related impacts that will deliver risks (which include transition, physical and indirect impacts) as well as opportunities.
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The climate modelling also calculates long term risk premia asset class returns and assumed return variations by scenario for LGS's different asset classes. The return variations incorporate underlying building block assumptions including equity risk premia, inflation, real cash rates, real asset, illiquidity premia and an assumed green/brown asset mix. The results of which be considered to inform SAA decisions.

# Climate change

## Risk management

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 34 | PLUS | ISP 30 | N/A | PUBLIC | Risk management | General |

**Which risk management processes do you have in place to identify and assess climate-related risks?**

☐ (A) Internal carbon pricing. Describe:
☐ (B) Hot spot analysis. Describe:
☐ (C) Sensitivity analysis. Describe:
☑ **(D) TCFD reporting requirements on external investment managers where we have externally managed assets. Describe:**

We engage with the listed companies in which we invest through a variety of channels, including direct engagement with company board members and senior executives, via fund managers and through our involvement in industry groups and associations such as ACSI and the IGCC.
As part of annual reviews of all our assets classes, we engage with external managers about TCFD disclosure and adoption. We follow ACSI recommendations and ask clients to address direct engagement and direct active ownership work. We generally vote for all annual general meeting resolutions in favour of TCFD reporting and climate change related disclosure.
LGS' half yearly Carbon Emissions Report is reported broadly inline with TCFD guidelines and assesses LGS' Portfolio Carbon Footprint for our listed equities using the (WACI) Weighted Average Carbon Intensity (t CO2e / $M Revenue) measure recommended by the TCFD. We believe adopting TCFD within our Carbon Emissions Report will promote awareness and encourage industry peers to follow suit.
Our external ESG provider, ACSI, uses company engagement and proxy voting advice for ASX-listed companies as tools for managing climate change risks and opportunities.
ACSI has been engaging with ASX companies for years on the disclosure and integration of climate-related risks and opportunities.
ACSI engages with a broad range of companies on climate risk and also prioritises particular companies given their materiality and exposure
ACSI is also actively supporting members' efforts in the Climate Action 100+ initiative, directly engaging companies alongside members who are lead investors and providing other insights like briefing members on discussions to date. LGS is the lead investor for WOW as part of Climate Action 100+.
ACSI also uses proxy voting advice as a mechanism to create engagement on climate-related resolutions and as a tool for signalling where improvement on climate-related issues can be made.

☑ **(E) TCFD reporting requirements on companies. Describe:**

We engage with the listed companies in which we invest through a variety of channels, including direct engagement with company board members and senior executives, via fund managers and through our involvement in industry groups and associations such as ACSI and the IGCC.
As part of annual reviews of all our assets classes, we engage with external managers about TCFD disclosure and adoption. We follow ACSI recommendations and ask clients to address direct engagement and direct active ownership work. We generally vote for all annual general meeting resolutions in favour of TCFD reporting and climate change related disclosure.
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ACSI also uses proxy voting advice as a mechanism to create engagement on climate-related resolutions and as a tool for signalling

☑ (F) Other risk management processes in place, please describe:

LGS assesses and monitors ESG risk (including climate related risks) across our entire portfolio in all asset classes via Annual Reviews. We assess ESG integration and correlation with investment performance using proprietary methodology which has been developed in house. This method is utilised for on-boarding, monitoring & maintenance as well as the removal of fund managers. The results of this review is reported to the Investment Committee.

☐ (G) We do not have any risk management processes in place to identify and assess climate-related risks

# Climate change

## Risk management

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 35 | PLUS | Multiple, see guidance | N/A | PUBLIC | Risk management | General |

**In which investment processes do you track and manage climate-related risks?**

☑ (A) In our engagements with investee entities, and/or in engagements conducted on our behalf by service providers and/or external managers. Describe:

LGS actively addresses Climate Change via our Active Ownership Policy which includes i) Voting for specific climate related resolutions ii) Direct Engagement with corporations and iii) Industry Collaboration with the UN Principles for Responsible Investment, Australian Council of Superannuation Investors, Investor Group on Climate Change and the Responsible Investment Association of Australasia.
LGS is the lead investor for WOW as part of Climate Action 100+.
Our external ESG provider, ACSI, uses company engagement and proxy voting advice for ASX-listed companies as tools for managing climate change risks and opportunities.
ACSI has been engaging with ASX companies for years on the disclosure and integration of climate-related risks and opportunities.
ACSI engages with a broad range of companies on climate risk and also prioritises particular companies given their materiality and exposure.
ACSI is also actively supporting members' efforts in the Climate Action 100+ initiative, directly engaging companies alongside members who are lead investors and providing other insights like briefing members on discussions to date.
ACSI also uses proxy voting advice as a mechanism to create engagement on climate-related resolutions and as a tool for signalling where improvement on climate-related issues can be made.
Through ACSI, we engage with high risk and emissions-intensive companies in the ASX300.

☑ (B) In (proxy) voting conducted by us, and/or on our behalf by service providers and/or external managers. Describe:

LGS sources research and proxy voting recommendations from ACSI for our ASX holdings and ACSI and CGI Glass Lewis for our international holdings. ACSI's recommendations are based on its Corporate Governance Guidelines which outline superannuation funds' expectations in terms of corporate governance and ESG issues. As a broad rule LGS will vote in accordance with ACSI recommendations/Corporate Governance Guidelines for company annual meetings. However, from time to time we will consider voting against these when we believe there is a significant environmental (including climate-related risks), social or governance risk which has or could lead to a loss of shareholder value.
In addition we take into account the recommendations of our fund managers holding the stock in making informed decisions on behalf of our members.

ACSI considers progress for managing and disclosing climate change risks and opportunities as a part of their proxy voting recommendations for high risk and emissions-intensive companies in the ASX300

☑ (C) In our external investment manager selection process. Describe:

> We employ external fund managers to manage the majority of our investments. To ensure that external managers are fulfilling our fiduciary duty, we integrate responsible investment parameters into the selection, appointment and monitoring processes including:
> • Selection – When looking to appoint new external fund managers, we assess their approach to Responsible Investment (RI) to ensure that they incorporate ESG risks into their systematic investment decision making process.
> • Appointment – ESG reporting requirements are included in new investment management agreements with external fund managers.
> • Monitoring – We monitor our investment portfolios to measure ESG and carbon performance and to ensure that our managers are adhering to the LGS SRI Policy. LGS monitors compliance of the Restriction Lists (negative screening) through our custodian, JPM. LGS developed proprietary methodology to monitor managers and portfolios across all asset classes. This ratings system refers to ESG integration which we correlate with investment return over time. This method is utilised for on-boarding, monitoring & maintenance as well as the removal of fund managers

☑ (D) In our external investment manager monitoring process. Describe:

> We employ external fund managers to manage the majority of our investments. To ensure that external managers are fulfilling our fiduciary duty, we integrate responsible investment parameters into the selection, appointment and monitoring processes including:
> • Selection – When looking to appoint new external fund managers, we assess their approach to Responsible Investment (RI) to ensure that they incorporate ESG risks into their systematic investment decision making process.
> • Appointment – ESG reporting requirements are included in new investment management agreements with external fund managers.
> • Monitoring – We monitor our investment portfolios to measure ESG and carbon performance and to ensure that our managers are adhering to the LGS SRI Policy. LGS monitors compliance of the Restriction Lists (negative screening) through our custodian, JPM. LGS developed proprietary methodology to monitor managers and portfolios across all asset classes. This ratings system refers to ESG integration which we correlate with investment return over time. This method is utilised for on-boarding, monitoring & maintenance as well as the removal of fund managers

☐ (E) In the asset class benchmark selection process. Describe:
☐ (F) In our financial analysis process. Describe:
☐ (G) Other investment process(es). Describe:
☐ (H) We are not tracking and managing climate-related risks in specific investment processes

# Climate change

## Risk management

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 36 | PLUS | N/A | N/A | PUBLIC | Risk management | General |

**How are the processes for identifying, assessing and managing climate-related risks incorporated into your organisation's overall risk management?**

☑ (A) The risk committee or the equivalent function is formally responsible for identifying, assessing and managing climate risks. Describe:

Board - The LGS Board has ultimate responsibility for the oversight of the LGS RI program. The Board meet on a monthly basis and provide final review and approval for the LGS SRI Policy and participation in RI related activities (this follows review and approval by the CIO and Investment Committee). Details of Board members including their qualifications and experience are available on the LGS website at https://www.lgsuper.com.au/about-us/board-and-executive-team/board-of-directors/.
Investment Committee - The board-level LGS Investment Committee consists of six people, four from the LGS Board and two external independents. The Investment Committee meet every 6 weeks to review LGS' strategic asset allocation, investment mix and potential new investment opportunities. An RI report is prepared for each investment committee meeting. This report covers recent RI related activities and engagements that we have undertaken in addition to ESG reviews of potential new investment opportunities. The Investment Committee are responsible for overseeing the implementation of the LGS SRI Policy, including any changes to the policy (which is reviewed on at least an annual basis).The IC also reviews all ESG/RI asset class reviews.
CIO - The LGS CIO oversees the Investments Team which includes the RI team. The Head of RI reports to the CIO and seeks their feedback and approval for RI policy reviews and related implementation activities.
Head of Responsible Investment - The LGS Head of RI has the main responsibility for overseeing the RI program for LGS. They are responsible for the development and review of all RI related policies, including the LGS SRI Policy and the LGS Proxy Voting Policy as well as overseeing all RI related activities, including memberships in bodies such as the PRI. The head of RI also produces all annual asset class reviews and provides thought leadership for example adopting global best practice and research to the LGS Investment Portfolio.
Portfolio managers - The LGS Portfolio Manager utilises ESG data provided by the RI team members for the internally managed SRI Overlay.
Investment analysts - The LGS Investment Analysts provide support to the RI team when required, including holdings analysis, manager engagement, due diligence and internal process building.
Dedicated RI staff - The LGS Responsible Investment Analyst and Administrator are responsible for implementing all RI related policies and activities including proxy voting, company engagement, negative screens, reporting, participation in collaborative initiatives and manager reviews.
External managers or service providers - Depending on the asset class and type of investment (trust vs. active mandate), RI parameters are usually included in the investment management or service agreement for external managers and service providers. In the majority of cases, the external manager is required to provide a level of oversight and accountability for RI performance and is also responsible for implementation across their portfolio, with some input from LGS.

☐ (B) Climate risks are incorporated into traditional risks (e.g. credit risk, market risk, liquidity risk or operational risk). Describe:

☑ **(C) Climate risks are prioritised based on their relative materiality, as defined by our organisation's materiality analysis. Describe:**

At our Asset Class Annual reviews, we access the management of climate related risks contained within the mandates managed by our external managers and within all other asset classes where applicable.

☑ **(D) Executive remuneration is linked to climate-related KPIs. Describe:**

LGS' commitment to Responsible Investment includes incorporating climate related risks within the investment decision making process. KPIs are assessed while considering incorporation, progress, and successful mitigation of ESG risks within our portfolio. These considerations may have an impact on employees' future remuneration. LGS employees do not have a variable component to our remuneration structure.

☑ **(E) Management remuneration is linked to climate-related KPIs. Describe:**

LGS' commitment to Responsible Investment includes incorporating climate related risks within the investment decision making process. KPIs are assessed while considering incorporation, progress, and successful mitigation of ESG risks within our portfolio. These considerations may have an impact on employees' future remuneration. LGS employees do not have a variable component to our remuneration structure.

☐ (F) Climate risks are included in the enterprise risk management system. Describe:
☐ (G) Other methods for incorporating climate risks into overall risk management, please describe:
☐ (H) Processes for identifying, assessing and managing climate-related risks are not integrated into our overall risk management

# Climate change

## Metrics and targets

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 37 | PLUS | N/A | ISP 37.1 | PUBLIC | Metrics and targets | General |

**Have you set any organisation-wide targets on climate change?**

☐ (A) Reducing carbon intensity of portfolios
☐ (B) Reducing exposure to assets with significant climate transition risks
☐ (C) Investing in low-carbon, energy-efficient climate adaptation opportunities in different asset classes
☑ (D) Aligning entire group-wide portfolio with net zero
☑ (E) Other target, please specify:

> The LGS Board is committed to the transition to net zero by 2050. To this end, we have built a net zero carbon emissions model which allows us to pinpoint specific sectors for engagement, divestment or otherwise to achieve our goals at any point in time.
>
> We are committed to achieving net-zero operating carbon emissions across our direct property portfolio by 2030. LGS has achieved carbon neutral certification for all NABERS-rated buildings in its direct property portfolio and we are advocating for all building stock to achieve net-zero emissions by 2050.

☐ (F) No, we have not set any climate-related targets

# Climate change

## Metrics and targets

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 37.1 | PLUS | ISP 37 | N/A | PUBLIC | Metrics and targets | General |

**Provide more details about your climate change target(s).**

| | (1) Absolute- or intensity-based | (2) The timeframe over which the target applies: Years [Enter a value between 1 and 100] |
|---|---|---|
| (D) Aligning entire group-wide portfolio with net zero | (1) Absolute-Based | 30 |
| (E) Other target [as specified] | (1) Absolute-Based | 10 |

| | (3) Baseline year [between 1900–2020] | (4) Baseline amount |
|---|---|---|
| (D) Aligning entire group-wide portfolio with net zero | 2019 | AEQ : 235K tcoe. IEQ: 94K tcoe |
| (E) Other target [as specified] | | |

| | (5) Target date dd/mm/yyyy | (6) Target value/amount |
|---|---|---|
| (D) Aligning entire group-wide portfolio with net zero | 31/12/2050 | Net Zero |
| (E) Other target [as specified] | 31/12/2030 | Net Zero |

# Climate change

## Metrics and targets: Transition risk

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 38 | PLUS | N/A | ISP 38.1 | PUBLIC | Metrics and targets: Transition risk | General |

**What climate-related metric(s) has your organisation identified for transition risk monitoring and management?**

☑ (A) Total carbon emissions
☑ (B) Carbon footprint
☑ (C) Carbon intensity
☑ (D) Weighted average carbon intensity
☐ (E) Implied temperature warming
☐ (F) Percentage of assets aligned with the EU Taxonomy (or similar taxonomy)
☑ (G) Avoided emissions metrics (real assets)
☐ (H) Other metrics, please specify:
☐ (I) No, we have not identified any climate-related metrics for transition risk monitoring

# Climate change

## Metrics and targets: Transition risk

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 38.1 | PLUS | ISP 38 | N/A | PUBLIC | Metrics and targets: Transition risk | General |

**Provide details about the metric(s) you have identified for transition risk monitoring and management.**

| | (1) Coverage of AUM | (2) Purpose |
|---|---|---|
| (A) Total carbon emissions | (2) for the majority of our assets | Monitoring and for identifying opportunities and risks |
| (B) Carbon footprint | (2) for the majority of our assets | Monitoring and for identifying opportunities and risks |
| (C) Carbon intensity | (2) for the majority of our assets | Monitoring and for identifying opportunities and risks |
| (D) Weighted average carbon intensity | (2) for the majority of our assets | Monitoring and for identifying opportunities and risks |
| (G) Avoided emissions metrics (real assets) | (3) for a minority of our assets | Monitoring and for identifying opportunities and risks |

| | (3) Metric unit | (4) Methodology |
|---|---|---|
| (A) Total carbon emissions | t CO2e | MSCI |
| (B) Carbon footprint | t CO2e / $M Invested | MSCI |
| (C) Carbon intensity | t CO2e / $M Sales | MSCI |
| (D) Weighted average carbon intensity | t CO2e / $M Sales | MSCI |
| (G) Avoided emissions metrics (real assets) | t CO2e / $M Sales | |

| | (5) Disclosed value |
|---|---|
| (A) Total carbon emissions | AEQ : 230,168 IEQ: 410,372 |
| (B) Carbon footprint | AEQ : 137.7 IEQ:112.7 |
| (C) Carbon intensity | AEQ :257.2 IEQ:173.2 |
| (D) Weighted average carbon intensity | AEQ : 197.7 IEQ:130.3 |
| (G) Avoided emissions metrics (real assets) | Actis :13.19 |

# Climate change

## Metrics and targets: Physical risk

| Indicator | Type of indicator | Dependent on | Gateway to | Disclosure | Subsection | PRI Principle |
|---|---|---|---|---|---|---|
| ISP 39 | PLUS | N/A | ISP 39.1 | PUBLIC | Metrics and targets: Physical risk | General |

**What climate-related metric(s) has your organisation identified for physical risk monitoring and management?**

☐ (A) Weather-related operational losses for real assets or the insurance business unit
☑ **(B) Proportion of our property, infrastructure or other alternative asset portfolios in an area subject to flooding, heat stress or water stress**
☐ (C) Other metrics, please specify:
☐ (D) Other metrics, please specify:
☐ (E) We have not identified any metrics for physical risk monitoring