Deloitte.

Task Force on Climate Related Financial Disclosures

City of Westminster Pension Fund – Risk Management Considerations

June 2022

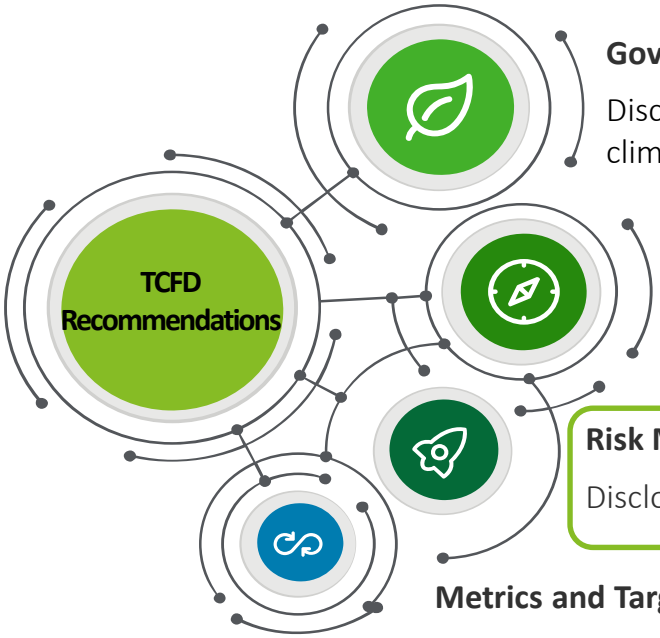
Introduction

Introduction

New Regulations

The Taskforce on Climate-related Financial Disclosures ("TCFD") recommendations aim at identifying, assessing, managing and disclosing climate-related financial risks and opportunities to increase transparency and improve decision making by ensuring that climate change is given due consideration by leading companies and investors.

The recommendations span four thematic areas and the focus of this pack is on the **Risk Management** pillar. These regulations will subsequently impact all stages of the investment decision making process including setting objectives, asset allocation, selecting managers, monitoring and trustee reporting & disclosure.



Governance

Disclose the Fund's governance framework for identifying, assessing and managing climate-related risks and opportunities

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the Fund's investment and funding strategy, including the results of scenario analysis.

Risk Management

Disclose how the Fund identifies, assesses and manages climate-related risks.

Metrics and Targets

Disclose the key metrics and targets used by the Committee to assess and monitor relevant climate-related risks and opportunities.

Risk Management

Identifying the risks

The risks associated with climate change are classed in two broad categories: **Physical** and **Transition** risks. Each asset class will have different considerations regarding the risks associated with it.

Physical risks

Flooding | **Drought** | **Sea level rise** | **Heat** | **Extreme weather**

Physical Capital

An organisation's and its supply chain's infrastructure, assets, equipment and transportation links

Organisational **infrastructure, assets and equipment can be disrupted and damaged** by hazards such as floods and chronic changes such as rising sea levels

Human Capital

The skills, knowledge, experience and productivity of the organisation's and supply chain's workforce

Increased heat and humidity, disease and impacted infrastructure can harm workforce health and productivity, as **the number of effective working hours reduces**

Natural Capital

The natural resources and ecosystem services used by an organisation and across its supply chain

All organisations are directly or indirectly dependent on natural capital, including forests and glaciers, which is deteriorating as a result of climate change

Transition risks

Policy and legal risk

Derived from policy changes, such as strict emissions limits

Domestic political and regulatory developments (such as national limits on emissions, carbon pricing, subsidies & tariffs, disclosure requirements) will continue to offer different risks and opportunities to companies.

Liability risk

Derived from changing perceptions

Climate change has been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy.

Technological risk

Derived from technological changes and development

Technological changes and uncertainty in technological development and deployment required to achieve decarbonisation can represent both opportunities and risks. For example, increased uptake of EVs will be a major risk for oil producers as will renewable energy.

Demand-side risk

Derived from market and behavioural changes.

Climate change might result in demand-side changes:

Evolving consumer preferences and behaviour

Pressure from civil society groups

Pressure from investors for greater accountability and clearer environmental reporting

Regulatory Requirements

Risk Management

Requirements

- Establish and maintain **processes** for the purpose of enabling them to identify, assess and manage effectively climate-related risks which are relevant to the scheme.
- **Integrate** climate-related risks into the **overall risk management** of the scheme.

"Whatever climate-related risks are financially material to the pension scheme, trustees must embed management of these into the scheme's wider risk monitoring and management processes."

— Statutory Guidance

Risk Management

Actions

Create processes to identify, assess and monitor climate-related risks and opportunities.

- Create a risk register – either as part of current register or as a separate risk register - considering the likelihood and impact of different climate risks and opportunities.
- The assessment of these risks should be over different time horizons and should be at the asset-class or key sector level at least, if not more granular.

- The traditional "likelihood and impact" approach can be used. May consider "vulnerability" and "speed of onset" as additional measures.
- Incorporate these risks into the Fund's risk management approach using 4 principles:
  1. Interconnections: which climate risks are stand-alone and which are linked to or drive other risks? The Committee should seek support from their asset managers and advisors.
  2. Time horizons: consider short medium and long time horizons.
  3. Proportionality: the materiality of the climate risks should be considered proportionately to the other risks that impact the Fund.
  4. Consistency: methodology should be consistent across Fund to monitor developments and change over time.

Asset Classes

Risk Management

Equities (Listed)

Listed equities are amongst the most sensitive assets to climate risks, but also a source of opportunities.

Risks

Transition

- Carbon taxes or other regulation increasing the cost of doing business
- Reputational damage
- Large shifts in changing (or reducing) consumer demand.

Physical

- Disruption of supply chains and availability of materials.
- Changes in climate or weather events could disrupt business activity.

Opportunities

- Identifying well governed companies. Those with an effective transition plan and robust risk management are likely to outperform.
- Identifying successful innovators. The transition will provide entrepreneurial opportunities from carbon-capture technology to anticipating changes in consumer preferences.

Risk Management

Corporate Bonds

Idiosyncratic default risk, highly dependent on credit quality.

Risks

Transition

- Similar risks to equities, but returns primarily dependent on solvency rather than (expected) profitability.
- High-yield bonds in some sectors (e.g. US shale oil companies) are particularly at risk of a disorderly or swift transition.

Physical

- Disruption in supply chains or unavailability of materials could cause liquidity problems for otherwise profitable companies.
- Extreme weather events could cause companies to default, particularly if insurance (or government support) becomes unavailable or too expensive.

Opportunities

- Because we only need companies to remain solvent and repay their bonds, avoiding the most-at-risk should lead to better risk-adjusted returns.
- A long-term investment approach will be key.
- There may be opportunities in buying bonds that become 'oversold'.
- The level of government support available could significantly affect default rates.

Risk Management

Overseas Sovereign Debt

Wide range of risk exposures depending on government, geopolitics and geography.

Risks

Transition

There is a huge variety of risk exposures within the asset class. US Treasuries are much less at risk than Brazilian sovereign bonds.

- Governments that manage the transition poorly will see poorer economic growth, poorer tax revenue and therefore greater risk of default.
- Much depends on the pre-existing creditworthiness.

Physical

- Damage to (or loss of) infrastructure will ultimately fall to governments.
- Support for citizens could be unaffordable for some nations (e.g. sea level rises leading to a humanitarian crisis).

Opportunities

- Effective analysis of the risks has always been crucial when investing in lower quality sovereign debt. Taking into account climate risks will be another important factor.
- Identifying countries well positioned to benefit from the transition could lead to outperformance.

Risk Management

Gilts & Index-Linked Gilts

Dependent on the actions of the UK Government.

Risks

Transition

- Stranded asset risk arising from the UK's exposure and reliance on fossil fuels for example a re-pricing of assets such as fossil fuel reserves.
- Risk that UK Government's forward-looking climate policies are not aligned to international targets.

Physical

- Climate shocks can inflict significant damage to infrastructure assets and increase expenditure (e.g. through reconstruction).
- Chronic risk arising from longer-term shifts in climate patterns could increase social costs, create population displacement and disrupt labour markets.

Opportunities

- Opportunities in raising foreign investment -> economic growth.
- Energy source opportunities through reduced exposure to fossil fuels and investment in renewable infrastructure.
- Potential for increased diversification of financial assets through governments green financing strategy.

Risk Management

UK Property

Transition risk is significant as demand for energy efficient buildings increases.

Risks

Transition

- Stranded assets – reduced demand for properties where emissions not aligned to international climate targets leading to a fall in capital value and rental income.
- Carbon taxes/tariffs on excess emissions.
- Policy changes for building regulations and costs of retrofitting buildings.
- Abrupt and unexpected shifts in energy costs.

Physical

- Acute risk arising from the increased severity of extreme weather events leading to increased capital costs from damage to property and increased insurance premiums.

Opportunities

- To invest in refurbishing properties to improve energy efficiency and reduce carbon intensity - for example, through highly rated energy-efficient buildings and sourcing renewable energy where possible.

Ground Rents

The risks associated with ground leases is lower. Ground lease typically 3-5x collateralised by value of property so would take a significant fall in property valuations for ground lease holder to be at risk.

Risk Management

Private Markets

The risk associated with different private markets assets is very investment specific. The sector and seniority/security of debt positions will influence risk exposure.

Risks

Private Debt & Private Equity

- Same risks as those from larger, publicly traded companies.
- Higher risk due to lack of regulations. Less pressure to improve emissions given lack of reporting requirements.
- Seniority of debt in capital structure will determine the risk exposure.

Infrastructure Equity/Debt

- Physical risk of damage to assets including potential write-offs, asset impairments and early retirement of existing assets *(Physical)*
- Increased production costs due to changing input prices *(Transition)*

Commercial Real Estate Debt

- Debt backed by property means that risks associated with property do apply. However, much less exposed to property and risk determined by where debt sits in capital structure and size of equity buffer

Opportunities

- Potential for increased revenues through access to new markets and new products and services to support the transition to carbon neutral economy.
- Increase renewable energy infrastructure investment opportunities.
- Increased market valuations through resilience planning. E.g. focus on companies adapting revenue streams to focus on new products/services relating to resilience or adapting physical real estate assets.

Risk Management

Derivatives

The climate risks associated with derivatives are not yet expected to be quantified or comprehensively reported as the methodologies for calculating metrics are not yet established.

Guidance suggests:

- “looking through” to the emissions of the underlying assets (where identifiable such as equities/bonds).
- Using the notional exposure to calculated the GHG emissions and risk exposure – allowing for any leverage.

The risks and opportunities associated will then depend on the underlying equities/bonds, the leveraged size of the exposure and whether the positions are short or long.

It should be borne in mind that these positions are relatively short term in nature, only being held until the expected value has been realised, typically over a three-year period but sometimes more tactical short-term positions are taken.

Draft Climate Risk Register Entries (for discussion)

Draft Climate Risks (to discuss)

Introduction

The draft risk register entries are summarised on the following pages. These have been included based on a qualitative assessment of the climate-related risks faced by the Fund over different time horizons. The foundation of our analysis is that climate-related risks are most likely to be present in areas of the Fund's investment portfolio with high carbon exposure and where the respective investment manager is not paying sufficient attention to climate risk.

It would be appropriate for the Committee to consider whether these risks are appropriate for inclusion within the risk register, and whether any additional risks should be included.

Additional considerations

Please note that the draft risk register overleaf has been designed cognisant of the risk register in place in respect of the Committee's current investment risk assessment. The purpose of the TCFD framework is to ensure that the Committee and other parties gain a stronger understanding of the risks and opportunities relating to climate change and the purpose of this risk management exercise is to ensure that climate risk considerations are incorporated within, and in addition to, the Committee's current processes, rather than encouraging material changes to the Fund's risk management processes.

The draft risk register uses the traditional "likelihood and impact" approach. However, as referred to on slide 7, **the Committee may wish to consider adopting a more complex approach whereby "vulnerability" and/or "speed of onset" are included as additional measures**. In which case, the Committee should decide upon a scoring system which takes these additional factors into account.

In addition, as discussed on slide 7, the Committee may also wish to consider how **interconnections** and **time horizons** can be incorporated into the risk management process. For example, considering time horizons, the risk register could be separated between short, medium and long term risks, based on a specified definition of each time period.

Ultimately, the uptake and extent of any additional measures will reflect how diligently the Committee wishes to act in respect of the implementation of the TCFD recommendations, which should be balanced against the level of complexity and therefore governance and cost the Committee is willing to commit to this approach.

Draft Climate Risks (to discuss) (1/6)

City of Westminster Pension Fund

Climate-related risks have been considered as a key factor throughout the construction of the Fund's investment portfolio and these risks continue to be monitored as part of the Fund's regular risk monitoring procedures.

The following risks are in relation to the potential market impact and change in asset valuations that could take place as a result of either transition or physical climate risks for the Fund's assets.

Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation Actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Transition risk	1	TBC	Significant fall in equity valuations as a result of climate-related transition risks. (60% strategic benchmark split equally between LGIM Future World Global Equity Fund – GBP Currency Hedged, LCIV Global Equity Core Fund and LCIV Global Alpha Growth Fund.)	TBC	TBC	TBC	TBC	TBC	TBC	• Well diversified equity portfolio across different sectors, geographies, equity style and manager. *LGIM Future World Global Equity Fund – GBP Currency Hedged* • LGIM Future World Global Equity Fund – GBP Currency Hedged is passively managed – investment manager incorporates an ESG tilt, reducing the investment's exposure to companies with "poor" ESG practices and to provide greater exposure to those that have stronger ESG credentials. • Manager actively engages on climate matters using voting rights. *LCIV Global Equity Core Fund* • LCIV Global Equity Core Fund is actively managed – the investment manager considers climate risk when selecting investments. • LCIV Global Equity Core Fund portfolio includes a large number of restrictions, citing the fund's focus on sustainability. • Manager actively engages on climate matters using voting rights. *LCIV Global Alpha Growth Fund* • LCIV Global Equity Core Fund is actively managed – the investment manager considers climate risk when selecting investments. • LCIV Global Equity Core Fund portfolio includes a large number of restrictions, citing the fund's focus on sustainability. • Manager actively engages on climate matters using voting rights.	TBC	TBC

Draft Climate Risks (to discuss) (2/6)

City of Westminster Pension Fund

Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation Actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Transition risk	2	TBC	Significant fall in credit valuations as a result of climate-related transition risks. (19% strategic benchmark allocation to credit across Insight Buy and Maintain Fund, LCIV Multi Asset Credit Fund and CVC European Direct Lending III Fund.)	TBC	TBC	TBC	TBC	TBC	TBC	• Well diversified fixed income portfolio across different sectors, manager and asset types. *Insight Buy and Maintain Fund* • Insight Buy and Maintain Fund is actively managed and invests primarily in investment grade credit that the manager assesses as "money good" and expects to hold until maturity. • Insight considers climate risk when selecting investments. • The manager actively engages on climate matters with boards of investee companies. *LCIV Multi Asset Credit Fund* • The LCIV Multi Asset Credit Fund mandate is actively managed and invests in a diversified portfolio across the credit risk spectrum, including a significant proportion of its assets in high quality credit. • The underlying investment managers, CQS and PIMCO, consider climate risk when selecting investments. • The manager actively engages on climate matters with boards of investee companies. *CVC European Direct Lending III Fund* • Following a manager exercise on 10 March 2022, the Committee agreed to make an allocation to the CVC European Direct Lending III Fund. Please note that at the time of writing, the Fund is yet to invest capital into the fund. • The CVC European Direct Lending III Fund is an actively managed private credit fund. The manager employs a rigorous security selection programme. • CVC considers climate risk when selecting investments and incorporates margin ratchets based on the achievement of ESG-linked performance goals. • The manager actively engages on climate matters with boards of investee companies.	TBC	TBC

Draft Climate Risks (to discuss) (3/6)

City of Westminster Pension Fund

Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation Actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Transition risk	3	TBC	Significant fall in alternative asset valuations. (10% strategic allocation to property across Standard Life Long Lease Property Fund, Man GPM Community Housing Fund and Triple Point Impact Housing Fund.) (11% strategic allocation to infrastructure and renewable infrastructure across Pantheon Global Infrastructure III Fund, Quinbrook Renewables Impact Fund and Macquarie Renewable Energy Fund 2.)	TBC	TBC	TBC	TBC	TBC	TBC	Property • Diversified property portfolio across asset classes, geographies, manager and sectors. *Standard Life Long Lease Property Fund* • The Long Lease Property Fund invests in a diversified portfolio of assets let to strong financial covenants, maintaining a characteristically long average portfolio lease length. • The manager, abrdn, considers climate risks and adapting portfolios accordingly using abrdn's climate toolkit. *Man GPM Community Housing Fund* • The Man GPM Community Housing Fund invests in affordable housing assets across the UK. • Man GPM considers climate risks throughout its investment process. The fund invests predominantly in new homes, which are constructed in line with latest guidance to ensure energy efficiency is of key importance. *Triple Point Impact Housing Fund* • Following a manager selection exercise on 29 November 2021, the Committee agreed to make an allocation to the Triple Point Impact Housing Fund at the 16 December 2021 Committee Meeting. Please note that at the time of writing, the Fund is yet to invest capital into the fund. • The Triple Point Impact Housing Fund invests in a diversified portfolio of social supported housing. • Triple Point considers climate risks throughout its investment process. The fund invests predominantly in new homes, which are constructed in line with latest guidance to ensure energy efficiency is of key importance.	TBC	TBC

Draft Climate Risks (to discuss) (4/6)

City of Westminster Pension Fund

Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation Actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Transition risk	3	TBC	Significant fall in alternative asset valuations. (10% strategic allocation to property across Standard Life Long Lease Property Fund, Man GPM Community Housing Fund and Triple Point Impact Housing Fund.) (11% strategic allocation to infrastructure and renewable infrastructure across Pantheon Global Infrastructure III Fund, Quinbrook Renewables Impact Fund and Macquarie Renewable Energy Fund 2.)	TBC	TBC	TBC	TBC	TBC	TBC	(continued) Infrastructure • Well Diversified across asset classes, geographies and sectors. *Pantheon Global Infrastructure Fund III* • The Global Infrastructure Fund invests in a globally diversified portfolio of core infrastructure assets. • While Pantheon does not specialise in renewable energy, the manager considers climate risks throughout its investment process and invests in a diversified portfolio which includes energy and digital infrastructure. *Macquarie Renewable Energy Fund 2* • The manager invests in a globally diversified portfolio of renewable infrastructure assets. • The Renewable Energy Fund invests primarily in assets that generate renewable energy, such as wind and solar, which support the transition to a carbon neutral economy. *Quinbrook Renewables Impact Fund* • The manager invests in a diversified portfolio of UK-based renewable infrastructure assets. • The Renewables Impact Fund invests primarily in assets that generate renewable energy, such as wind and solar, which support the transition to a carbon neutral economy.	TBC	TBC

Draft Climate Risks (to discuss) (5/6)

City of Westminster Pension Fund

Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation Actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Transition risk	3	TBC	Significant fall in alternative asset valuations. (10% strategic allocation to property across Standard Life Long Lease Property Fund, Man GPM Community Housing Fund and Triple Point Impact Housing Fund.) (11% strategic allocation to infrastructure and renewable infrastructure across Pantheon Global Infrastructure III Fund, Quinbrook Renewables Impact Fund and Macquarie Renewable Energy Fund 2.)	TBC	TBC	TBC	TBC	TBC	TBC	(continued) **Cash management** • In addition to the Fund's cash holdings held in its underlying bank account, the Fund also invests in the LCIV Absolute Return Fund as a means of cash management. *LCIV Absolute Return Fund* • The LCIV Absolute Return Fund's investment objective is to achieve low volatility and positive returns in all market conditions, from an actively managed multi-asset portfolio with a primary focus on capital preservation. • The underlying manager, Ruffer, considers climate risk when selecting investments. • The fund invests in derivates as part of its investment strategy. Where possible, the Ruffer "looks through" to the emissions of the assets underlying any derivative positions. It should be borne in mind that any derivative positions are relatively short term in nature.	TBC	TBC
Transition risk	4	TBC	Additional reporting obligations and associated costs.	TBC	TBC	TBC	TBC	TBC	TBC	• Costs of third parties to perform scenario analysis can be limited through negotiation and relationships gained. • Costs relative to Fund size for support with training, monitoring and disclosure are relatively small. • In some cases, scenario analysis will be undertaken by the underlying investment managers.	TBC	TBC
Transition risk	5	TBC	Risk of rise in value of liabilities from changes in financial and/or demographic assumptions.	TBC	TBC	TBC	TBC	TBC	TBC	• Movements due to financial factors are hedged to an extent by the asset portfolio. • The Fund's inflation protection portfolio will become more prominent once the illiquid products have been fully invested and in recent times the Fund's expected income from the investment portfolio has increased to help meet the Fund's cashflow requirements.	TBC	TBC

Draft Climate Risks (to discuss) (6/6)

City of Westminster Pension Fund

Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation Actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Physical risk	6	TBC	Risk of significant fall in investment portfolio valuations as a result of physical risks including: • Flooding; • Drought; • Rising sea level; • Heat; and • Extreme weather.	TBC	TBC	TBC	TBC	TBC	TBC	• Each of the underlying investment mandates in each asset class in which the Fund invests contain diversified exposures across different geographies, sectors and income streams. • The Fund's real assets investment managers (property and infrastructure), take physical risks into account throughout the investment process and in constructing new assets, alongside when analysing the portfolio as a whole. • **We would wish to investigate further how the Fund's equity and credit investment managers consider physical risks within the design and management of the underlying portfolios. However, given the diversified nature of these portfolios, we would not expect the strategies to be overly exposed to a specific physical risk.**	TBC	TBC
Transition risk and physical risk	7	TBC	Poor awareness and responsiveness to climate risks and how they will impact investment markets and portfolios.	TBC	TBC	TBC	TBC	TBC	TBC	• Annual monitoring of investment portfolio carbon emissions and ownership. • Regularly monitoring investment portfolio managers to ensure their approach to climate risks remains sufficient and consistent with latest guidance. • Selecting investment managers and products that actively take climate risks into account throughout their processes.	TBC	TBC
Transition risk and physical risk	8	TBC	Investment portfolio not well positioned to capture climate opportunities.	TBC	TBC	TBC	TBC	TBC	TBC	• The Fund holds a 6% strategic allocation to renewable infrastructure and a 40% strategic allocation to equity mandates that are biased towards stocks that are considered to be non-harmful from an ESG perspective. • Articulate how the other investment strategies are positioned to benefit from sustainable tailwinds, and work with the investment managers to ensure they are in a position to profit from climate risk-related opportunities. • Continually explore new investment opportunities and funds with support from the investment consultant and London CIV.	TBC	TBC

Draft Climate Risks (to discuss) - Appendix

Scoring

Please note that the draft risk register overleaf and the scoring system below and on the following page has been designed to be consistent with the risk register in place in respect of the Committee's current investment risk assessment. However, once the Committee is in a position to finalise the risk factors to be included in the register based on a qualitative assessment, and once the Committee has had chance to further understand the quantitative measures available, the scoring system may be altered to better reflect the information and metrics that are available.

Appendix 1 - Tri Borough Risk Management Scoring Matrix		
Scoring (Impact)		
Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long term effect to local ecology or community
	Reputation	Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Draft Climate Risks (to discuss) - Appendix

Scoring

Scoring (Likelihood)	
Descriptor	Likelihood Guide
1. Improbable, extremely unlikely.	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Likely	Almost certain to occur 81% to 100% chance of occurrence

Control		Details required
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring.	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.

Symbol Key		
Trending upwards		Risk is assessed to be generally trending upwards
Trending downwards		Risk is assessed to be generally trending downwards
No change		Risk is assessed to be generally staying the same

Draft Climate Risks (to discuss)

Next steps

The Committee should consider the TCFD regulatory requirements and recommendations, alongside the summary set out throughout these slides and determine whether the draft approach is consistent with the Committee's implementation view.

As a reminder, the draft register has been pulled together on a first principles basis based on the Fund's current risk register and a qualitative assessment of the climate risks that the Fund faces. We believe the best method to adjust and improve the design is to ensure that all parties work together to determine the desired outcome and process, as such we recommend to hold a discussion between the Committee, the Pension Fund Officers and Deloitte to consider the approach taken to the risk management process and determine what aspects should and should not be included.

Following finalisation of the risk categories to be included within the risk register, the next step will be to complete a quantitative assessment. It will be necessary to investigate the availability of initial metrics and scenario analysis output for the Fund, potentially via a third party or through Deloitte's in-house scenario analysis, to apply initial bespoke risk scores to each of the risk entries. This will help the Committee in assessing the potential impact to the Fund of climate related risks and, once the analysis is available, the Committee will be better placed to decide on the prioritisation of these risks in the context of the other risks faced by the Fund.

While broader quantitative models may provide a reasonably accurate assessment of the climate risks facing the investment portfolio's traditional asset class investments (equity and credit), the Fund's alternative investment funds may prove difficult to assess. However, we understand that some of the underlying investment managers complete their own scenario analysis and modelling, which we would be able to gain access to.

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