

Climate risk reporting

Introduction

Climate risk is a systemic risk that can have a material financial impact on a pension fund's assets and liabilities. As such the Pensions Committee of the Norfolk Pension Fund is committed to understanding and monitoring its exposure to climate related risks. The Committee will monitor and report on the climate related exposures within the Fund on a regular basis across a number of key metrics and review how the exposure to these risk factors evolves and develops.

Climate risk metrics

The key climate risk metrics the Fund will monitor are as follows:

Weighted Average Carbon Intensity ("WACI")

This is a measure of a portfolio's exposure to carbon-intense companies. This is expressed in terms of tons of CO₂ equivalent emitted per million dollars of revenue, weighted by the size of the allocation to each company. It is measured primarily using scope 1 and scope 2 emissions.

Scope 1 emissions are those from sources owned or controlled by the company, typically direct combustion of fuel. Scope 2 emissions are those caused by the generation of electricity purchased by the company. The Baillie Gifford Global Alpha Paris-Aligned strategy, into which the Fund invested in late 2022, is the Fund's first strategy with an explicit net-zero target, and is supporting a reduction in the Fund's investment emissions over time.

Total carbon emissions per \$m invested

This represents a portfolio's estimated scope 1 and scope 2 greenhouse gas emissions per \$m of invested capital. This is expressed in terms of tons of CO₂ equivalent emitted by the companies invested in by a portfolio, weighted by the size of each company as a proportion of the portfolio's (or the Fund's) assets.

Historically for the Fund's climate risk reporting, this metric has been based upon a market cap basis for each holding, as this was the prevailing methodology at the time the metric was chosen, given data availability. However, from the December 2024 report onward, this metric has been altered to base the size of each company instead on an EVIC (enterprise value including cash) basis.

This brings the Fund's reporting on this metric in line with industry best practice as this methodology allows the full capital structure of underlying companies to be accounted for, allowing ownership of emissions to be shared among investors in both debt and equity of a company. The change in currency used in this metric from £ to \$ is reflective of the fact MSCI report this metric in \$ terms. We have also updated the Fund's historic Carbon Intensity monitoring to reflect the EVIC basis, to ensure the Fund's progress over time can be captured and monitored accordingly.

% of portfolio with ties to fossil fuels

The percentage of a portfolio invested in companies with an industry tie to fossil fuels (thermal coal, oil and gas), in particular reserve ownership, related revenues and power generation. It does not include companies providing evidence of owning metallurgical coal reserves.

Pension Fund portfolio analysis – December 2024

Historically, the Committee has carried out analysis of the Fund's listed equity portfolios against the metrics outlined above. The Fund's credit assets had been excluded from such analysis previously as data coverage for these assets across the chosen climate metrics was far lower than for its listed equity mandates. As data coverage has improved significantly in recent times, it was agreed to include the Fund's liquid credit mandates in this analysis from December 2024 going forward.

For comparison purposes the Committee has also included the corresponding metrics for representative benchmarks. The analysis indicates that the Fund, in aggregate, continues to exhibit lower exposures to carbon intensive companies and companies with ties to fossil fuels than the global index.

The carbon intensity metric further reinforces the strong performance of the Fund's analysed assets from a climate perspective, as the Fund also leads the global index. The climate related exposures of the Fund as at 31 December 2023 (latest data available) are set out in the table below.

	Weighted Average Carbon Intensity (tCO ₂ e/\$m Sales)	Carbon Intensity (tCO ₂ e)/\$m EVIC	% Of Portfolio With Ties to Fossil Fuels
Norfolk Pension Fund	61.9	28.1	7.2
Benchmark (MSCI ACWI)	113.5	41.7	12.1
<i>Relative</i>	-51.6	-13.6	-4.9

Source: Hymans Robertson using data provided and owned by MSCI ESG Research LLC and its affiliates. Reproduced with permission. MSCI ACWI is the MSCI All Countries World Index.

Total Fund AUM included in analysis

As the Fund's reporting framework continues to develop, an increasing portion of the total Assets Under Management (AUM) will be incorporated into the analysis. The table below provides a summary of the total AUM, and the percentage of the Fund's holdings included in this analysis throughout 2024.

	30 June 2024	% of Fund AUM	31 December 2024	% of Fund AUM
AUM analysed	£2,222m	41.0%	£2,666m	48.3%

The significant increase in proportion of assets included in the analysis for the latest iteration is due to the inclusion of liquid credit.

The Committee will update the analysis on a regular basis and review the potential to further expand the analysis beyond the Fund's listed equity and selected credit holdings.