THE GLOBAL CITY

Climate Action

Managing Climate Risk for our Financial Investments

Covering reporting year ending 31 March 2023

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Executive Summary

The City of London Corporation’s core purpose is to promote the long-term interests of the City, and thereby support the UK’s economy. We have long been champions of sustainability. We were the first local government body to introduce a smokeless zone, in 1954, two years ahead of the Clean Air Act. Also having developed a climate change adaptation strategy in 2010.

We have long recognised the need to follow the science on climate change and to build greater awareness of climate risk and risk management. The inevitable risks of climate change and the inexorable logic of climate science led us to develop an ambitious Climate Action Strategy in 2020. The Climate Action Strategy commits the City Corporation to achieve net-zero carbon for its own operations by 2027, and across its financial investments and supply chain by 2040; Climate Resilience in its buildings, public spaces and infrastructure; and commits to support the achievement of net-zero for the Square Mile by 2040.

Like many of the financial and professional services firms who inhabit the City, our single largest contribution to climate change comes via our financial investments. It is unequivocal that climate change represents a significant risk to the future value of the City Corporation's financial investments. Which is why the City Corporation, under the Climate Action Strategy, have a project solely dedicated to financial investments. This is headed by the Responsible Investment & Engagement Manager appointed to manage this key area of risk.

For the purposes of this report, the City Corporation's financial investments refers to our local government pension fund (the London CIV is the asset pool operator for London LGPS (Local Government Pension Scheme) funds), our endowment fund - City's Estate (previously known as City's Cash), and those financial investments of our historic endowment - City Bridge Foundation (Charity Reg No. 1035628), (previously known as Bridge House Estates), and two small charitable funds – Hampstead Heath Trust and the Charities Pool, for which the City Corporation is charity trustee.

As an asset owner, we support the objective of the Paris Agreement to keep global warming well below 2°C and preferably 1.5°C, the level considered safe by the Intergovernmental Panel on Climate Change (IPCC). We are alarmed by the IPCC's recent AR6 report[1] which highlights the significant and accelerating impacts of climate change, and which notes that 1.5°C might be exceeded by 2040 without urgent action.

That is why we have committed our financial investments to net-zero emissions by 2040, with interim targets of a 24% reduction in emissions (tonnes CO_2e) by 2025, and 55% by 2030 across our portfolios. The City Corporation have made this commitment because leadership on climate is critical, and our fiduciary duty demands it.

To achieve our climate targets, we will:

1

Achieve:

Achieve full compliance from investment managers to achieve our interim, and net-zero, targets.

2

Implement:

Implement a transparent escalation process for engagement with investment managers.

3

Adopt and consider:

Adopt and consider investment strategies incorporating climate solutions and negative carbon assets that offer competitive risk and return characteristics.

1 https://www.ipcc.ch/report/ar6/wg1/

Foreword

Each day, incredible volumes of capital move unseen across the City, through the City across the world. This is the finance that has built and sustained much of the world's infrastructure and companies. But in enabling the growth and prosperity many of us have come to expect, finance has also enabled emissions to grow unchecked for far too long.

Michael Mainelli
Rt Hon Lord Mayor of the City of London

The climate science is unambiguous and unequivocal. The world must reach net-zero emissions by 2050 if we are to have any hope of limiting climate change to 1.5°C. Above this threshold, the risks to individuals, capital, and our way of life are systemic and irreversible.

The Intergovernmental Panel on Climate Change's most recent warning is urgent and alarming. Time is clearly running out.

Confronting climate change demands urgent, sustained, and comprehensive action. It requires nothing less than the rewiring of the global economy. Finance directly impacts the entirety of the global economy. It is uniquely exposed to the impacts of climate risk, and the best positioned sector to make a decisive change.

In our view, the City has a moral and fiduciary obligation to lead the race to zero. City firms can only continue to manage risk and deliver commercial returns if they tackle environmental and wider sustainability challenges. The City Corporation is taking its own steps to manage those risk as outlined in this report – and indeed opportunities – and supporting others in the UK and across the globe to do the same.

Ambition and rhetoric on climate action must result in action. That is why, we, City of London Corporation – the governing body of the Square Mile – have committed to support the delivery of a net-zero Square Mile by 2040 and published a detailed action plan for our own decarbonisation plan as well as our support for others to do the same across the City.

Chris Hayward
Chair of Policy & Resources Committee, City of London Corporation

And it is why we must name our risks and work to address them. A key pillar of our own Climate Action Strategy involves addressing the climate risk within our own investment portfolios. These financed emissions are our single largest contribution to climate change, and as we have found, a significant risk to the value of our investments. We are determined to manage these risks promptly and to ensure the resilience of our portfolios as the transition to net-zero accelerates. That is why we are delighted to publish our second report and look forward to continuing to publish biennial climate risk disclosures.

Our investments represent the largest levers to drive behavioural change among financial services firms. We are committed to supporting but also challenging our fund managers to accelerate progress on the market's race to zero and out specific goal to be net-zero across our financial investments by 2040. Our Investment Statement on Climate Change: Expectations for Fund Managers details the 12 expectations in place for investment managers to follow, in order to demonstrate they are appropriately managing climate risk.

Our Investments in Context

Our Climate Commitments – Financial Investments

1.5° C

Support the Paris Agreement's goal to limit global temperature increase to 1.5 °C

24%

Reduction in absolute emissions (tonnes CO_2e) by 2025

55%

Reduction in absolute emissions (tonnes CO_2e) by 2030

2040

Net-zero absolute emissions (tonnes CO_2e) by 2040

Our Plan – 2025 Interim Target

Engage

As long-term investors with significant mandates, we believe that focused engagement is our greatest leverage in terms of driving climate action.

Integrate

Integrate climate risk into upcoming asset reallocation, alongside the integration of impact considerations including measurable societal and environmental impacts.

Monitor

Monitor investment managers' emissions through regular climate data requests.

Improve

Continue to improve the quality of emissions data, in line with latest methodologies and industry best practice.

Our position as of 31 March 2023

203,500

Investments responsible for **203,500 tonnes CO_2e** in 2022/2023

5

Investment portfolios have been analysed against **5** future climate scenarios

146.4 t

Weighted Average Carbon Intensity WACI: **146.4 (tonnes CO_2e/£m Sales)**

3.9%

Estimated **3.9%** of investments exposed to stranded asset risk

25.4%

Holdings in our equity portfolios have Science Based Target Initiative (SBTi) Verified Net-Zero commitments in place

Our Investments

£3.2bn

Assets under management

5

Investment portfolios

23

Investment managers

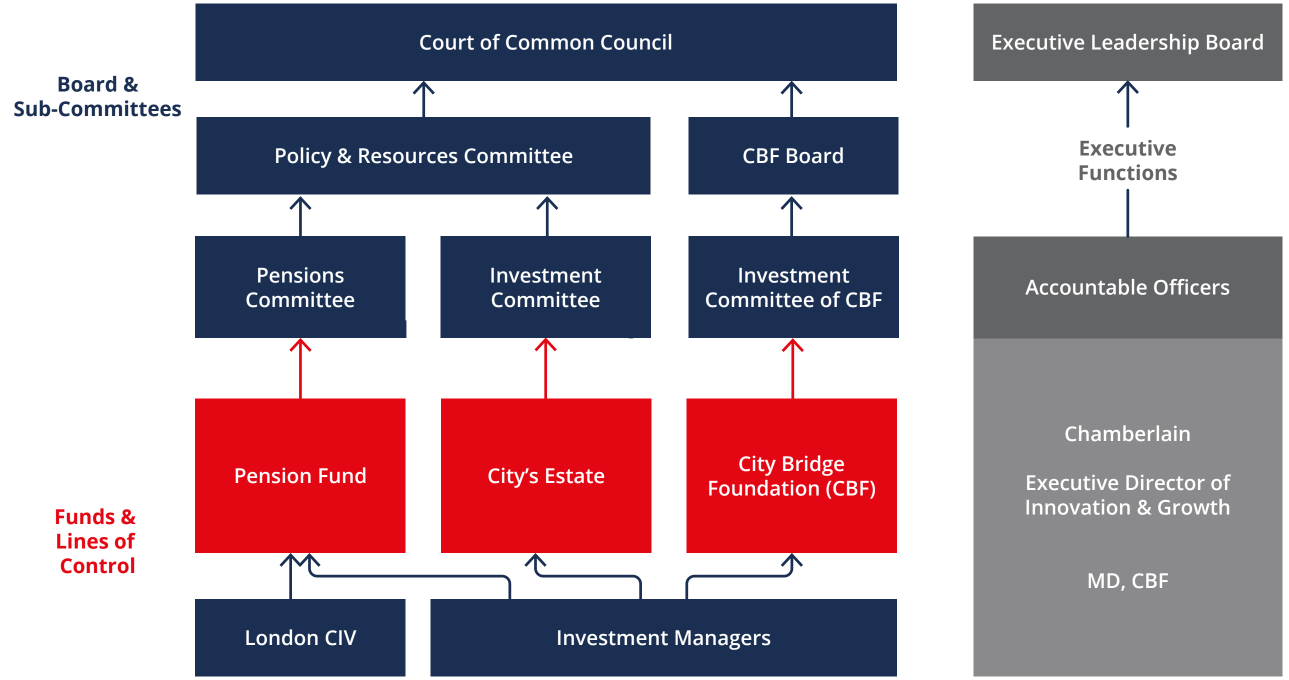
Governance

1a&1b. Governance

The Court of Common Council is the City Corporation's primary decision-making body. The Policy & Resources Committee is responsible for governance, strategic priorities, agreeing policy, and allocating resources other than for City Bridge Foundation (CBF). This Committee, and the CBF Board, is accountable for the Climate Action Strategy. The Policy & Resources Committee receive quarterly updates on implementation and climate risk, and regular updates are provided to the CBF Board, and other Committees of the Court which is key to delivering on the Strategy. The Investment Committee is responsible for the strategic oversight and monitoring of the performance of City's Estate's financial investments; the Pensions Committee for those of the Pension Fund; and responsibility for CBF's funds lies with the CBF Board.

Resource allocation is a joint responsibility of the Finance and Policy & Resources Committees who are responsible for City's Estate, City Fund and other funds held by the City Corporation with the exception of the City Bridge Foundation (CBF) funds, which are governed by the CBF Board. The named Committees and the CBF Board must ensure that climate risk is integrated into the medium- and long-term financial plans which drive the return requirements for investments.

Governance and oversight of climate-related financial risk



1 Pensions Committee (PC):

The **Pensions Committee (PC)** is responsible for the financial investments of the City of London Pension Fund which is part of the national Local Government Pension Scheme (LGPS).

2 Investment Committee (IC):

The **Investment Committee (IC)** is responsible for the financial investments of City's Estate (an endowment used to finance activities mainly for the benefit of London as a whole but also of relevance nationwide), the Hampstead Heath Trust Fund (Charity Reg. No 803392-1), and the City of London Charities Pool (Charity Reg No. 1021138).[2]

3 City Bridge Foundation Board (CBFB):

The **City Bridge Foundation Board (CBFB)** is responsible for the investments of the City Bridge Foundation, an historic endowed charity. The City is trustee to CBF, and the Court of Common Council is responsible for CBF's investment strategy. Investments are managed in a way which is most beneficial to its charitable objectives and most likely to support its overall vision. In 2024 CBF will be undergoing a strategic asset reallocation, with the aim of integrating impact considerations with measurable societal and environmental impacts.

2 This excludes directly held property for City's Estate and City Bridge Foundation.

These Committees and the CBF Board are responsible for ensuring the integration of climate risk into strategic asset allocation, portfolio construction, implementation and overall investment decision-making.

They have discussed and agreed climate-related beliefs and overarching approach to managing climate change risk. These are expressed in detail in the City Corporation's Responsible Investment Policy; the Investor Statement on Climate Change; and the first 'Managing Climate Risk for our Financial Investments- 2021' Report (TCFD).

In summary, the Committees and CBF Board believe that:

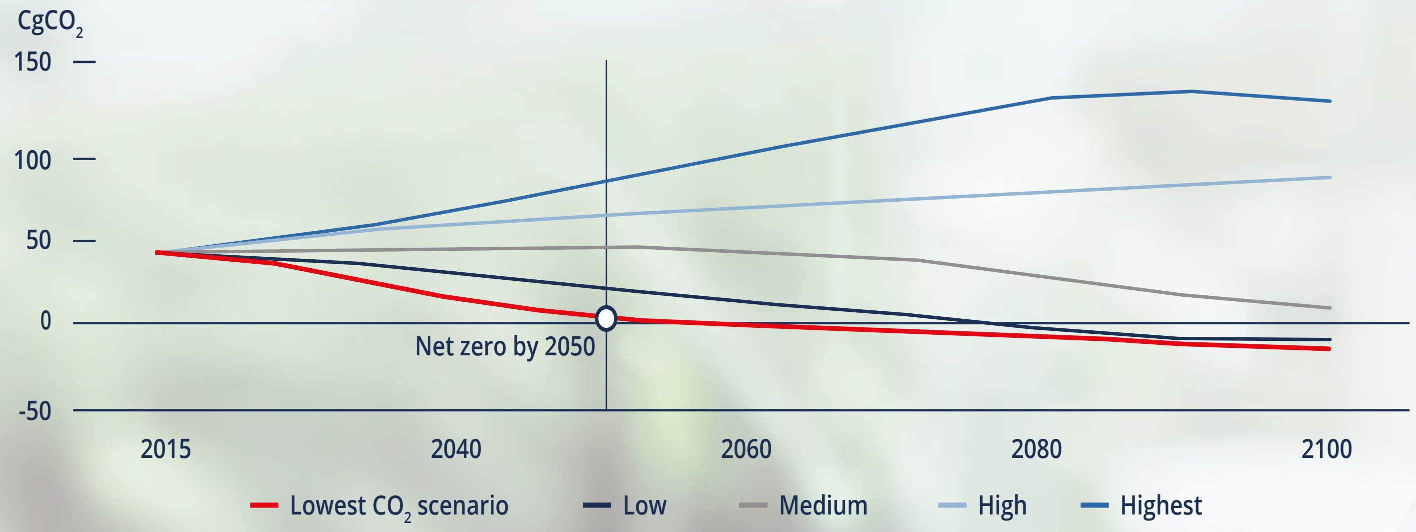
- The risks associated with climate change can have a materially detrimental impact on the portfolios' investment returns within the timeframe that the Committees and CBF Board are concerned about.
- Climate-related factors may create investment opportunities. Where possible, and where appropriately aligned with strategic investment objectives, the City Corporation will seek to capture such opportunities through its investment portfolio.
- The most appropriate time horizons for the portfolios are as follows:
  - short term: 1-3 years
  - medium term: 4-10 years
  - long term: 11+ years
- Climate-related risks and opportunities are assessed over the above time horizons. Where appropriate, the Committees/ Board consider transition and physical risks separately.
- The City Corporation's exposure to climate risk and ability to control these risks stem from our investment managers. In the case of the Pension Fund, there is an asset pooling regime, and the Pension Fund is a shareholder of, and investor in, the London LGPS CIV Limited (Co. reg No. 9136445) (London CIV). For all other funds, the respective Committees and CBF Board appoint investment managers directly. The Committees and CBF Board rely on the advice of a retained investment consultant in making these decisions.
- The City Corporation's Investment Consultant is Mercer Ltd who provide support to the Committees and CBF Board with strategic and practical advice. This includes monitoring portfolio-level climate risk, integrating our climate objectives into strategic asset allocation reviews, and actively drawing attention to underperforming and best-in-class managers in terms of financial and climate performance.
- The City Corporation has appointed a dedicated Responsible Investment and Engagement Manager.

Strategy

The final instalment of the International Panel on Climate Change's (IPCC) Sixth Assessment Report (AR6) was released in March 2023. One of the most alarming conclusions from this instalment was that adverse climate impacts are already more extreme and far-reaching than initially anticipated, with every fraction of a degree of global warming further intensifying these threats. The report also discusses findings that indicate more than a 50% chance that the global temperature rise will reach or surpass 1.5°C before 2040 - highlighting the need for immediate action.

A Path to safety

An emission scenario that can keep global warming below 1.5°C reaches zero emissions around 2050.



IPCC_AR6_SYR_LongerReport.pdf

2a. Identified Climate-Related Risks

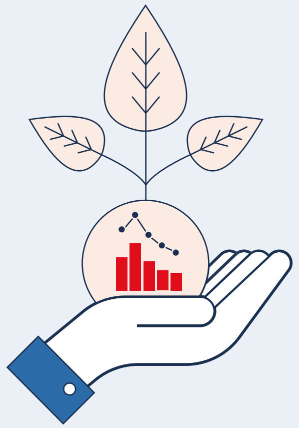
The following insights are clear from our climate risk analysis:

There are four strategic risks arising from climate change across the investment portfolios that are within the City Corporation's sphere of influence:

1. Failure to manage climate risk through poor awareness and responsiveness over how climate risks will impact on markets, managers and portfolios.
2. Failure to anticipate and effectively manage changes in the market in terms of regulation, disruption, best practice, innovation and demand - both top-down in terms of asset allocation and bottom-up in terms of the impact on individual asset managers and investments.
3. Failure to adapt investment strategy that effectively respond to climate risk in the context of return objectives.
4. Failure to positively impact industry behaviour, due to mismanagement of all the above risks.

The systemic nature of climate risk implies we must catalyse change in the financial system at scale. This suggests we need to change the behaviour of our investment managers – encouraging them to internalise climate risk management into their investment process.

Throughout our assessment of climate risks and opportunities we learned that our invested portfolios are exposed to transition risks across all asset classes, and to physical risks predominantly though property and infrastructure mandates. We have started our journey on working closely with our underlying asset managers to better understand the key risk drivers in each asset class and will address these in the most efficient manner to manage our risk. This report provides a good insight into our efforts of making our portfolios more sustainable and accounting for climate related risks.



Stranded assets

Are calculated as the weighted exposure to fossil fuel, oil, gas and mining assets based on the portfolio allocations to each of the fund managers' mandates.

Physical risk

The risks associated with the physical impacts of climate change on companies' operations. The portfolios are most directly exposed to these risks through its property and infrastructure holdings, but they are also expected to indirectly impact other asset classes too. Physical risks are expected to have the largest long-term impacts for all asset classes and economies in general.

Transition risk

The risks associated with the transition towards a low-carbon economy. For example, shifts in policy, technology or supply and demand in certain sectors. These are expected to have a larger short- to medium-term impact. These risks are likely to impact all asset classes over short to medium term horizons.

2b. Impact of climate change risks and opportunities

We recognise that climate related risks can have a meaningful impact on our organisation's business, strategy, and financial planning. As such, we have assessed our portfolios' capability to align with a net-zero emission target by 2040, whilst retaining existing financial objectives.

As well as carrying out scenario analysis modelling with current portfolio compositions, we also modelled alternative asset allocation strategies to better understand the varying impact of potential downside risks while retaining existing financial objectives. This modelling has evidenced that climate change is likely to lead to additional financial stress on City Corporation's investment portfolios. Throughout our assessment we also learned that our invested portfolios are exposed to transition risks across all asset classes, and to physical risks predominantly though property and infrastructure mandates.

We recognise that our financial investments are not sufficiently exposed to climate related opportunities and aim to integrate appropriate levels of opportunity with the help our of consultant, Mercer. The Investment Committee and CBF Board will be evaluating a number of changes to the portfolios' strategy and strategic asset allocation which broadly falls into two areas:

Strategy area 1

Changes to the asset allocation including explicit consideration of climate opportunities

Strategy area 2

Reducing the exposure of the underlying portfolios to emissions

2c. Portfolio Resilience and Scenario Analysis

We strongly recognise the importance of assessing our portfolios' resilience against climate-related stresses that have the potential to occur over the short, medium and long-term.

Climate-related scenario analysis provides insight to understand how climate-related events and their associated risks and opportunities may impact strategy and financial performance over time. To better quantify these climate-related risks, we conducted scenario analysis, in 2021, using five different climate change scenarios: no transition, disorderly, abrupt, orderly and smooth transitions. Whilst each scenario was modelled relative to 2050, the City Corporation has since brought forward its net-zero commitment to 2040.

These scenarios were chosen because we believe that they provide a reasonable range of plausible climate change pathways over the time horizons that concern us. These scenarios have been developed by our consultant, Aon, and are based on a detailed series of assumptions. However, they remain projections and are subject to uncertainty.

Scenario Analysis & Portfolio Performance Relative to Base Case to 2050

To begin with, we established a "base case" scenario, which is based on current long-term return views of what is currently priced into the market. This is judged to be consistent with a temperature rise of 2ºC to 2.5ºC. This and the other scenarios considered are outlined in Annex 1 - Scenario Analysis & Portfolio Performance to 2050.

Three of the scenarios considered are expected to deliver warming of 2ºC or less.

We modelled the then current strategic asset allocations, which consist of well-diversified portfolios exposed to major asset classes. The scenario analysis considered the potential impact of climate change on the Funds' assets and liabilities and, therefore, their funding position. The analysis also considers how the Funds' asset portfolios may perform against the base case in each scenario over the short, medium, and long-term. Of the scenarios, we believe the Abrupt Transition scenario to be the most likely. This scenario has been used to inform the Funds' climate-related strategy.

Under the most severe downside scenario, "disorderly transition", the Funds are expected to experience a significant deficit shock in the early 2030s. Ways to mitigate these shocks to provide further downside protection are being considered. Three of the five scenarios suggest deficits approaching or exceeding £500m within the next 15 years (i.e. by 2035).

The tables below summarise our portfolios' base case performance results and the subsequent percentage changes in the performance under each climate scenario in relation to the base case.

The second climate scenario analysis will be carried out in 2024, to evaluate the latest risks and opportunities associated with the City Corporation's financial investments, and re-model how the financial investments may perform against different climate scenarios.

TABLE 1: Short-term (3 year performance) Scenario Analysis & Portfolio Performance Relative to Base Case to 2050[3]

	City Bridge Foundation	City's Estate	Pension Fund	Charities Pool and Hampstead Heath Trust Fund
Base Case 3-year absolute return (% p.a.)	5.40%	6.40%	6.10%	7.20%
Orderly Transition Return Relative to Base Case	-7.20%	-8.80%	-7.90%	-9.70%
Disorderly Transition Return Relative to Base Case	0.10%	0.00%	0.00%	0.00%
Abrupt Transition Return Relative to Base Case	-0.20%	-0.40%	-0.30%	-0.40%
Smooth Transition Return Relative to Base Case	2.30%	2.80%	2.40%	3.20%
No Transition Return Relative to Base Case	0.10%	0.00%	0.00%	0.00%

TABLE 2: Medium-term (10 year performance) Scenario Analysis & Portfolio Performance Relative to Base Case to 2050[3]

	City Bridge Foundation	City's Estate	Pension Fund	Charities Pool and Hampstead Heath Trust Fund
Base Case 10-year absolute return (% p.a.)	5.70%	6.50%	6.30%	7.20%
Orderly Transition Return – Base Case	0.10%	0.00%	0.00%	-0.10%
Disorderly Transition Return – Base Case	0.00%	-0.10%	-0.10%	-0.20%
Abrupt Transition Return – Base Case	-2.00%	-2.60%	-2.30%	-2.90%
Smooth Transition Return - Base Case	1.00%	1.20%	1.10%	1.40%
No Transition Return - Base Case	-0.10%	-0.20%	-0.20%	-0.20%

TABLE 3: Long-term (30 year performance) Scenario Analysis & Portfolio Performance Relative to Base Case to 2050[3]

	City Bridge Foundation	City's Estate	Pension Fund	Charities Pool and Hampstead Heath Trust Fund
Base Case 30-year absolute return (% p.a.)	5.80%	6.60%	6.40%	7.20%
Orderly Transition Return – Base Case	0.40%	0.30%	0.30%	0.30%
Disorderly Transition Return – Base Case	-2.00%	-2.50%	-2.30%	-2.80%
Abrupt Transition Return – Base Case	-0.50%	-0.70%	-0.60%	-0.80%
Smooth Transition Return - Base Case	0.80%	0.90%	0.80%	1.00%
No Transition Return - Base Case	-0.60%	-0.80%	-0.80%	-0.90%

3 Based on analysis performed by AON based on 31 March 2023 position.

Risk Management

3a. Identifying and assessing climate-related risks

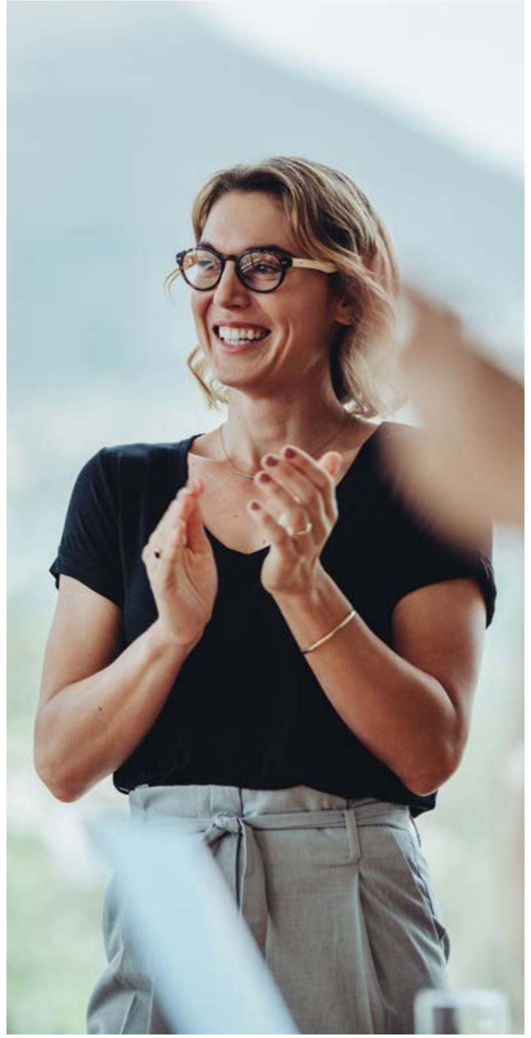
Our approach to identifying and assessing climate-related risks and opportunities is comprised of two elements.

Element 1 - Qualitative Analysis

The first element is a qualitative assessment of climate-related risks and opportunities, which was conducted in 2021 as part of the transition pathway work prepared by Aon. The underlying premise was that climate-related risks were most likely to impact the funds in those portfolios with high carbon exposure and where the asset manager is not paying sufficient attention to climate risk. The assessment included engagement with all investment managers to gather and evaluate climate related metrics, managers' Responsible Investment ("RI") policies, engagement with underlying companies, and proxy voting. The City Corporation continues to maintain consistent in-depth engagement with all managers.

1 Direct manager relationships:

ESG focused engagement meetings are carried out with each investment manager on a regular basis, with additional meetings carried out with highest emitters within our portfolio. These meetings entail discussions around net-zero commitments, performance, changes in the level of emissions, details of engagement meetings held between the investment manager and companies they invest in, and future plans in terms of climate change. Information received in the quarterly climate data questionnaires provide a basis for discussions.



Element 2 - Quantitative Analysis

The second element is quantitative in nature and delivered by means of climate change scenario analysis, which was also provided by our climate investment adviser at the time, Aon. This analysis was designed to help assess the potential impact of climate-related risks on the Funds. We intend to carry a similar climate scenario exercise every 2-3 years, with the next due in 2024, in order to correctly monitor the Funds' latest climate related risks. The scenario analysis is complemented by monitoring of climate risk data via climate data requests which are sent to each manager on a quarterly basis.

1 Portfolio-level monitoring:

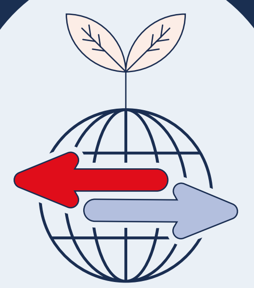
Every quarter managers are required to submit data on emissions and coverage.

Climate data requests:

- Carbon Metrics (complete list of definitions in section 4 'metrics and targets')
  - Absolute emissions (tonnes CO_2e)
  - Carbon Footprint (tonnes CO_2e /£m Invested)
  - Carbon Intensity (tonnes CO_2e /£m Sales)
- Net-zero ambitions
- Proportion of portfolio for which Scope 1 and Scope 2 emissions data is available.
- SBTi commitments
- Financial Investments Risk Reporting
- Engagement log
- Proxy voting log
- Portfolio level Stranded Asset Risk

2 Asset-level scenario testing:

The first scenario analysis, based on five climate considerations, was carried out in 2021 with the help of Aon. The next asset-level scenario testing will be carried out in 2024, and every 2-3 years after that, to ensure that the latest information is fed into asset allocation decisions.

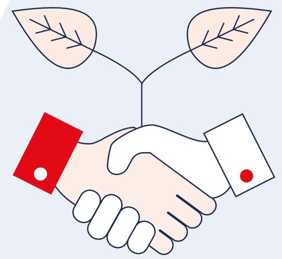


We recognise that there are two dimensions of climate-related risk in the assets: strategic risk (through the asset allocation) and holdings risk (through the holdings in the various portfolios).

3b. Managing Climate-Related Risks

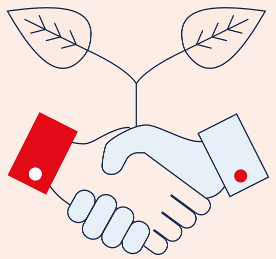
Managing climate risk exposure across the investment portfolios hinges on our ability to drive our managers to accelerate the integration of climate risk into their investment process. Whilst our approach is to prioritise engagement over divestment, we expect managers' portfolios to be fit for a net-zero future. We recognise that significant mandates with many of our managers is our greatest point of leverage to drive climate action across our portfolio.

When prioritising our engagement activity, we consider the overall significance of each mandate within the overall portfolio. Factors that go into this include:



Contribution towards overall carbon emissions

We focus on investment manager portfolio's which are the largest contributors to the overall emissions (tonnes CO_2e) of the City's financial investments, as this is where climate-related risks are likely to have the greatest impact.



Climate-related risks associated with different asset classes

Certain asset classes carry a higher climate-related risk exposure than others and are of particular engagement focus. The appointed Responsible Investment and Engagement manager will continue to engage with these investment managers in order to monitor their progress and to manage their climate-risk exposure.

Following a careful discussion of the results of the scenario analysis, in particular the projected funding stresses and the associated impact on the City Corporation, the Investment Committee (IC), City Bridge Foundation Board (CBFB) and Pension Fund are evaluating a number of changes to the portfolios' strategy, which broadly fall into the following areas:

- Changes to the asset allocation to include consideration of climate opportunities;
- Reducing the exposure of the underlying portfolios to emissions; and
- Integration of impact considerations associated with measurable societal and environmental impacts for our endowment (City Bridge Foundation).

Activity During 2023

This year, our efforts have been centred around data improvements and in-depth direct engagement with investment managers, whilst exploring opportunities within impact investments (societal and climate) and climate solutions.

- Direct engagement – ESG-focused engagement meetings were held with all managers, with the exception of some private equity managers. These meetings explored each manager's approach to climate-risk management, with discussions around movements in portfolio emissions, mid- and long-term ambitions in relation to climate change, along with their approach to Social and Governance factors where relevant.
- Data improvements – Aon have been commissioned to undertake carbon benchmarking and risk analysis on an annual basis since 2018/2019. In 2023, Aon trained City Corporation staff on emissions calculations, enabling us to carry out this exercise in-house going forward.

In 2023, it was identified that our multi-asset managers were excluding the emissions associated with Government and Sovereign Bonds from their analysis. Firstly, the expectation to include all emissions so that the City Corporation is comprehensively identifying risk has been redrawn with managers. Secondly, emissions have now been recalculated following the Partnership for Carbon Accounting Financials (PCAF) methodology. This has resulted in a required restatement of the annual emissions starting from the baseline (2018/2019).

- Climate Action Dashboard – the Organisation launched a publicly available dashboard.
- Impact Integration – City Bridge Foundation, a historic endowed charity, has started taking steps towards the ambition to deliver required financial returns whilst integrating impact considerations with measurable societal and environmental impacts.

3c. How the process for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

Whilst we do not require immediate divestment from high emission assets or sectors, we expect our investment managers to make these judgements. However, where managers continue to hold high emission assets, we will require information around engagement outcomes, expected upside, and steps the manager is taking to manage the associated downside risk.

Our 'time-bound' expectations, detailed in the 2021 TCFD report and 'Investment Strategy on Climate Change', have largely been achieved. We continue to focus on our greatest point of leverage, engagement.

Our approach to manager engagement entails a review of both climate and financial performance, as often as necessary. Managers are expected to share a fixed set of climate data on a quarterly basis (as detailed in the next section of this report, 4a Metrics & Targets). This enables us to monitor, identify and immediately raise any concerns with managers. Our ability to regularly communicate with managers has been enhanced following the appointment of a dedicated Responsible Investment and Engagement Manager in June 2022, enabling us to ensure that managers are managing climate risks appropriately and are on track to achieve the targets set out by the City Corporation.

We ensure that our portfolios are well diversified, and that our managers have a deep understanding of both the companies and assets in which they invest and the risks to which they are exposed. If investment managers are not able to robustly and credibly explain their investment strategies and how they have integrated climate risk, we aim to deepen engagement before looking to replace the investment manager.

Metrics & Targets

4a. Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

We use a number of metrics to assess climate related risks and opportunities and expect this to continue increasing over time, as the availability and quality of data provided improves.

The information to the right is requested from fund managers in relation to Scope 1 and 2 emissions only, enabling us to identify potential concerns. As data availability improves, Scope 3 emissions will be requested at the appropriate time.

Scope 1 and 2

Quarterly Climate Data Requests

- Absolute Emissions (tonnes CO_2e)
- Carbon Footprint (tonnes CO_2e/£m Invested)
- Weighted Average Carbon Intensity) (Issuer's Scope 1+2 emissions / issuer sales) x issuer's weight in portfolio).

Annual Climate Data Request

Engagement log – detailing engagement with underlying investment companies.

Proxy Voting log – detailing all proxy votes over the last year

Stranded Asset Risk - based on holdings in oil, gas, mining, and associated fossil fuels

Science-Based Targets Initiative (SBTi) Commitments

List of investee companies that have SBTi net-zero commitments in place.

Portfolio emissions data coverage vs estimated data

Proportion of holdings for which scope 1 and 2 data is available.

EU Taxonomy Alignment

Proportion of holdings invested in assets that make a positive contribution to mitigating climate change/ accelerating the transition to a low carbon economy.

4b. **Emissions**

We have recently improved our emissions accounting methodology, following the Partnership for Carbon Accounting Financials' (PCAF) guidance in order to include Government and Sovereign Bond emissions, which were previously excluded from our multi-asset fund analysis. This required a restatement of annual emissions back to the baseline year of 2019.

As at the 31 March 2023, the total carbon footprint across all investment portfolios is 203,500 tonnes CO_2e. A full breakdown of all assessed carbon metrics is provided below in Table 4, along with an estimate of stranded asset risk based on holdings in oil, gas, mining, and associated fossil fuels. It should be noted that these numbers are estimates and should not be mistaken for a precise quantification of risk.

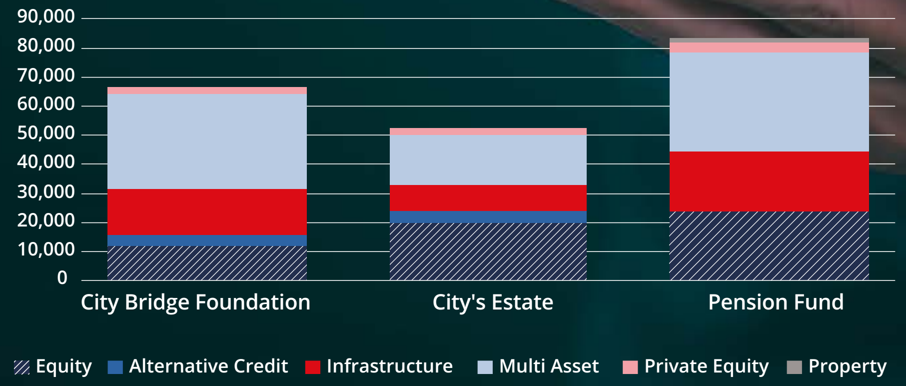
Understanding our sector exposure allows us to gain insight into the underlying sectors our investments are most exposed to. Global Equity holdings are the major contributors towards our total emissions (tonnes CO_2e) across all our investments.

TABLE 4: Carbon Footprint and Stranded Asset Risk by Portfolio (31 March 2023)[4]

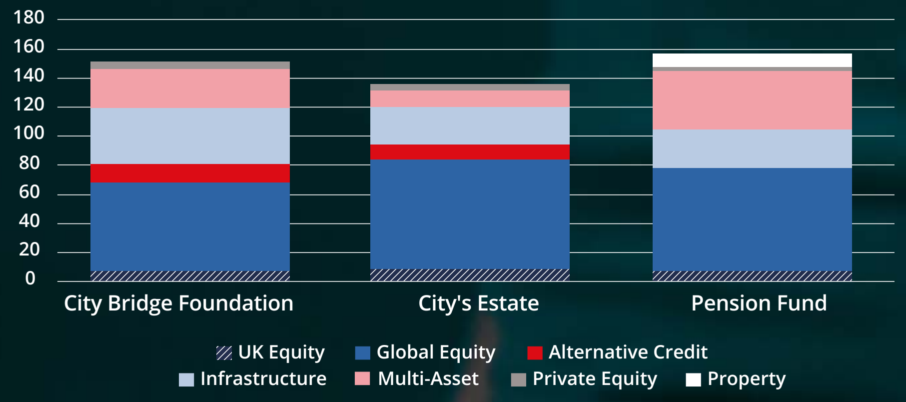
	City Bridge Foundation	City's Estate	Pension Fund	Charities Pool and Hampstead Heath Trust Fund
Absolute Emissions (tonnes CO_2e)	66,457	52,551	83,278	476
Carbon Footprint (tonnes CO_2e/£ Invested)	78.52	52.41	60.18	20.97
Weighted Average Carbon Intensity (WACI)	150.9	135.1	156.9	42.1
Verified SBTi Net-Zero Commitments	25%	27%	24%	24%
Stranded Asset Risk (as % of portfolio)	3.80%	3.60%	3.20%	8.30%
Share of mandates with stranded asset exposure	17/23	17/21	18/23	01/01

Source: Investment Managers.
Note 1: Absolute emissions, Carbon footprint, intensity and stranded asset risks were obtained directly from the Managers or estimated by Aon when not available from managers. Where the data was denominated in foreign currency (predominantly USD) Aon converted it to GBP using the appropriate FX rate.
Note 2: Stranded assets were calculated as a weighted exposure to fossil fuel, oil, gas and mining assets based on the portfolio allocations to each of the managers' mandates.
Note 3: The Charities Pool and Hampstead Heath Trust Fund have been grouped together as they are smaller portfolios which are invested in the same fund.

Absolute Emissions (tonnes CO_2e) (31 March 2023)



Weighted Average Carbon Intesnity (WACI) (31 March 2023)



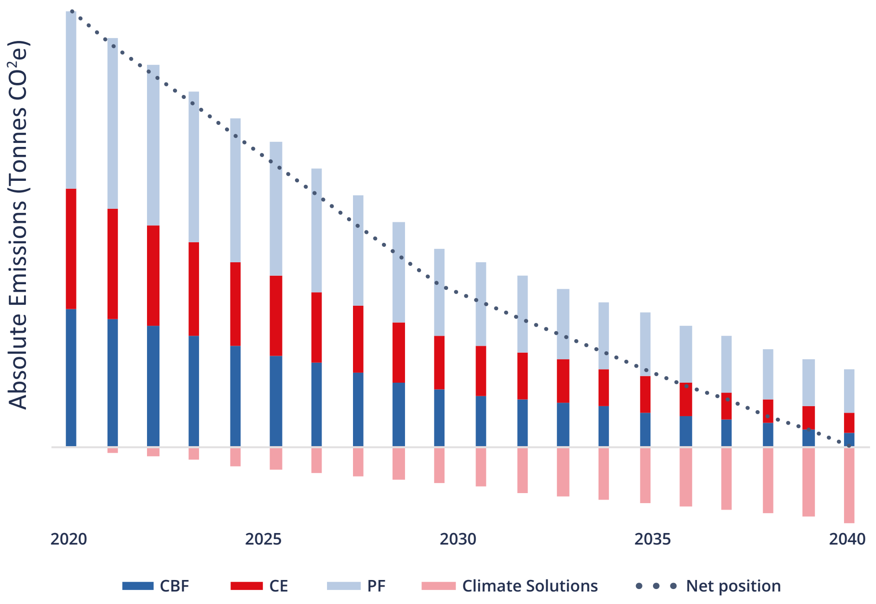
4 Based on analysis performed by AON. The emissions associated with each portfolio is constructed from reported figures from each manager based on 31 March 2023 position. For private equity managers a proxy constructed by Aon was used. In the future this exercise will be carried out in-house and we will continue to use the methodology provided by Aon, making appropriate revisions as best practice evolves.

4c. Targets used by the organisation to manage climate-related risks and opportunities and performance against targets

The City Corporation seeks to align investments with a pathway towards net-zero carbon emissions and ensure consistency with the 1.5°C ambition of the Paris Agreement.

We target a reduction in the emissions (tonnes CO_2e) of our investments by 24% by 2025 and by 55% by 2030, and we aim to transition all assets to Net-zero by 2040. We are closely examining potential investments into climate solutions before 2025. In figure 1, below, we set out the City Corporation's pathway to meet net-zero.

Figure 1: Net Zero Trajectory for Financed Emissions (Tonnes CO^2e)



Consistent with best practice set by the Glasgow Finance Alliance for Net-zero, our interim targets frontend decarbonisation in the next decade recognising that progress from 2030 will be slower due to hard-to-abate emissions. The trajectory beyond 2030 is dependent on the IPCC's climate scenarios and the structure of the City Corporation's investment portfolio. We intend to assess and ensure that the progress towards our net-zero ambitions is on track.

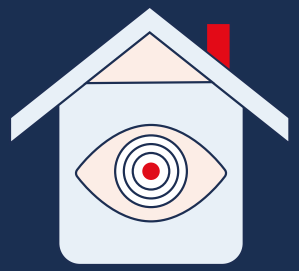
The ambitious 2040 Net-Zero target across the portfolio, alongside the proposed interim targets will continue to require three significant shifts in the way the City Corporation approaches financial investments.

1

We will continue with a comprehensive engagement strategy and intensively work with managers to accelerate their integration of climate risk into the investment process.

We are anticipating changes to asset allocations in 2024. This opportunity will be used, with the assistance of Mercer, to gain exposure to climate solutions within our investment portfolio, and impact investments with measurable societal and environmental outcomes.

2



3

We continue to further build in-house capability to implement the strategy and ensure adequate monitoring of targets.

Annex 1: Modelled Climate Scenarios

Scenario	Degree warming	Scenario description
Base case	2ºC to 2.5ºC	Emission reductions start now and continue in a measured way in line with the objectives of the Paris Agreement and the UK government's legally binding commitment to reduce emissions in the UK to net-zero by 2050. Current pricing suggests that the market does not expect a bad climate change outcome – that is, the effects are not as damaging as first thought, and some progress is made to limit greenhouse gas emissions and global warming.
No transition	>4ºC	The world economy remains oriented towards improving near-term economic prospects, with companies and governments taking a "business as usual" approach. While some climate change policies are implemented, global efforts are insufficient to halt significant global warming. Impacts from physical risks gradually become more severe over time and some become irreversible by 2100 as tipping points are crossed.
Disorderly Transition	<4ºC	The world economy continues taking a "business as usual" approach. Eventually, market participants begin to fully grasp the implications of climate change and there is a growing realisation that current levels of action are inadequate. Market values price in high levels of economic damage and the irreversible loss.
Orderly Transition	<2ºC	Increased public awareness of climate change risks galvanises opinion and leads to governments undertaking widespread action globally to aggressively mitigate and adapt to climate change. A high global greenhouse gas tax and carbon cap is introduced.
Abrupt Transition	<2ºC	The effects from increasingly extreme weather events in the next five years lead to widespread public concern over climate change. This leads to governments introducing policies to drive a rapid reduction in greenhouse gas. Delayed action on reducing emissions mean that the costs of tackling the problem are higher.
Smooth Transition	<1.5ºC	Private sector innovation and a green technology revolution, combined with government coordination, help drive progress towards tackling climate change.

About the City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

www.cityofondon.gov.uk

THE GLOBAL CITY

About the Global City campaign:

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

www.theglobalcity.uk