Scottish Borders Council Pension Fund

Setting ESG Objectives and Metrics Recommendation

March 2022

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Document Classification: Confidential

Introduction and background

Addressee

- This report is addressed to the Scottish Borders Council ("the Council") as the Administering Authority of the Scottish Borders Council Pension Fund ("the Fund").
- It summarises the recommendation to the Pension Committee ("the Committee") in relation to setting key ESG objectives for the Fund, and also recommends appropriate ESG metrics to monitor and report on which are aligned to these key objectives. Finally, the report considers a reporting framework to monitor the Fund's investment managers against.
- This is a developing area and the Fund's position should be reassessed and refreshed as data improves and evolves over time.

Why monitor ESG metrics?

- We believe it is important to monitor ESG metrics for the Fund as:
  - The Committee's ESG policy states that "The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments".
  - The introduction of TCFD for LGPS is likely to mean the Fund is required to monitor relevant metrics, including greenhouse gas emissions in due course.
  - It is aligned with market best practice and the requirements of the UK Stewardship Code 2020, which we understand the Fund is targeting.
  - It will provide data on key ESG risks and enable the Fund to engage with its investment managers more effectively to meaningfully drive positive change.

Governance process

- In order to arrive at the recommendation outlined in this report the Officers, the Committee, and members of the Local Pensions Board ("the Board") attended a workshop on 28 February hosted by the Fund's investment advisor, Isio. The topic of this workshop was " Setting ESG Objectives and Metrics".
- At the session relevant background material was presented and discussed, and the proposal set out in this report was debated. The material from this workshop is set out in the appendix to this report.
- In addition to this, the Fund's officers have also been considering the regulatory requirements for the Fund to align to TCFD and the desire to become a signatory to the UK Stewardship Code 2020. This has also shaped the recommendations outlined.
- At the workshop those present were able to reach firm agreement on the recommendation put forward. This paper outlines that recommendation.

How to develop an ESG monitoring framework

- The Committee should agree on the key focus areas - using the UN Sustainable Development Goals provides a useful starting point to identify key priorities.
- Specific metrics aligned with the Committee's beliefs can then be developed over time as reporting and data improves and evolves.
- The Committee should monitor the chosen ESG metrics over time and look for an improved position across the portfolio.
- The Committee should agree a timeframe to revisit the framework.

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Summary of the Committee’s SDG priorities

No current investment opportunities

Lower ranking

Higher ranking

- A SDG questionnaire was used to gather the Committee’s views around the priority and reputational risk of the SDGs to the Fund - scored from 1 (highest priority) – 10 (lowest priority)
- 11 responses were received (out of a possible 16) with 7 clear SDG priorities agreed on.
- Initial indications suggest #13 climate action is considered a high priority, alongside other environmental goals such as #6 clean water and sanitation and #7 affordable & clean energy.
- Alongside this, 4 socially focused goals were highlighted as high priority, these were, #1 no poverty, #2 zero hunger,#3 good health & well-being and #10 reduced inequalities.
- This provided a good insight ahead of the workshop and facilitated discussion ahead of drawing final conclusions.

UN SDG	Avg.	# of responses	Rank*
1. No Poverty	5.5	8	7
2. Zero Hunger	3.0	7	1
3. Good Health & Well-being	3.3	7	2
4. Quality Education	6.0	8	9
5. Gender Equality	8.0	3	15
6. Clean Water & Sanitation	4.4	9	3
7. Affordable & Clean Energy	4.6	10	5
8. Decent Work & Economic Growth	4.5	8	4
9. Industry Innovation & Infrastructure	6.1	7	10
10. Reduced Inequalities	5.7	3	8
11. Sustainable Cities & Communities	10	1	16
12. Responsible Consumption & Production	7.0	5	14
13. Climate Action	5.3	10	6
14. Life Below Water	6.6	7	12
15. Life on Land	6.9	8	13
16. Peace, Justice & Strong Jurisdictions	6.2	6	11
17. Partnership for the Goals	-	-	17

* Rank is based on average score

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Recommendation (1)

UN SDG	Climate Action (#13)	Affordable & Clean Energy (#7)
Outcome/Objective	• Reduce climate risk in the portfolio • Net zero target by 2050	• Ensure access to affordable, reliable, and sustainable energy • Prepare portfolio for future transitions toward renewable energy sources
Metrics (TCFD regulation requires two greenhouse gas (GHG) metrics and one non GHG metric)	• Scope 1 and 2 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • Scope 3 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • % of portfolio companies with climate transition targets in place • Voting & engagement activities on climate change	• % of energy usage coming from renewable sources • % of portfolio involved in renewable infrastructure development
Desired direction of travel	• Reduce Scope 1, 2 CO_2 year on year and lower compared to broad index e.g. MSCI All Countries World index • Scope 3 emissions disclosed and reduced over time • Decarbonisation of all mandates compared to previous year • Increase of companies in the portfolio with transition plans in place and an increase in voting & engagement activities on climate change • Improvement in the disclosure and reporting of the above metrics	• Improvement in portfolio % total energy usage from renewable sources / total energy usage all sources • Improvement in portfolio % involved in renewable infrastructure development • Improvement in the disclosure and reporting of the above metrics

- It is recommended the Committee initially focus on SDGs #7 (Affordable & Clean Energy) and #13 (Climate Action) as key objectives for the Fund and to look to agree relevant metrics and targets in line with these objectives. These can then be used to meaningfully engage with the Fund's investment managers. The proposed framework and metrics to measure these objectives are outlined in detail in the table above.
- This recommendation is based on the Committee's indicated SDG priorities combined with initial alignment to TCFD requirements and anticipated data availability from investment managers across the Fund's currently portfolio. Data availability is currently poor for non-climate metrics and data coverage is currently highly dependant on asset class - there is typically lower coverage across illiquid/private asset classes and higher coverage in public asset classes.
- As noted in the "desired direction of travel" the proposal outlined a target of "relative improvement" as opposed to absolute or fixed targets i.e.. "reduce over time" rather than "7% p.a. reduction".

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Recommendation (2)

- Following the decision of which ESG objectives to target and metrics to monitor, an initial step is to perform a data feasibility exercise with the Fund's investment managers.
- As noted on the previous slide, in addition to the climate focused metrics set out on the previous page, four socially focused ESG goals were also highlighted as high priorities. Based on the Fund's current portfolio and anticipated data availability we recommend further investigation is undertaken in relation to these to ascertain what is possible. This can be done in conjunction with the data feasibility exercise noted above.
- It is understood the private sector regulator is looking at social issues now, and it is anticipated that this will be a big focus over the next 3-5 years with data availability rapidly improving. It is still unclear if this will be applied to LGPS. This is a developing area and should be reassessed and refreshed as data improves and evolves over time.
- We propose this recommendation and framework is revisited after 2 years in order to assess how the situation has developed and whether the recommended position remans appropriate.

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Suggested reporting framework (example numbers)

		Mgr A	Mgr B	Mgr C	Mgr D	Total portfolio	Target	Proposed Target Date
SDG 13 (Climate Action)	Scope 1,2 carbon emissions/footprint/WACI* (tonnes of CO_2e / £m revenue)	240	90	180	140	150	Improvement y.o.y*	Evolving
	Scope 3 carbon emissions/footprint/WACI (tonnes of CO_2e / £m revenue)	260	50	N/A	220	210	Improvement y.o.y*	Evolving
	% companies with climate transition plan	2%	55%	N/A	20%	15%	Improvement y.o.y*	Evolving
	No. of engagements on climate change in year	1	12	3	5	21	Improvement y.o.y*	Evolving
SDG 7 (Affordable & Clean Energy)	% of energy usage from renewable sources	20%	35%	10%	8%	22%	Improvement y.o.y*	Evolving
	% of portfolio involved in renewable infrastructure development	10%	20%	0%	2%	12%	Improvement y.o.y*	Evolving

Notes: Example numbers are for illustrative purposes only. * Improvement in the context of the Fund's objectives means both the reduction or improvement in the relevant metric (where available) as well as the improvement in disclosure and reporting of the metrics over time, given that the reporting of these metrics continue to develop and are currently inconsistent or unavailable.

- We propose the ESG metrics identified are measured on an ongoing basis using a framework similar to the above. This will enable the Committee to identify whether the Fund's managers are improving over time in line with the Committee's objectives and what, if any, action is required – improving disclosure or managing exposures.
- If there are managers that are laggards, and continue to be so, then remedial action can be taken.
- This is an evolving area and industry wide ESG reporting and data availability continues to develop. We expect upcoming TCFD regulations to drive improvements in data disclosure and reporting, however, at this stage some data may not be available for all of the Fund's mandates

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Next steps

- If the Committee are comfortable with the recommendation set out in this report, it is proposed they agree Climate Change (SDG #13) and Affordable & Clean Energy (SDG #7) as the primary and initial ESG objectives and the metrics to monitor.

- Following this, the proposed next steps are:

  - Complete a data feasibility exercise with underlying managers to assess what they are able to currently provide for SDGs #7 and #13 and engage with them in areas where data is limited.
  - Use initial data to assess the current position on agreed metrics.
  - Engage with investment managers to investigate data feasibility for the four socially focused objectives highlighted in this presentation.
  - Implement a reporting framework and set appropriate targets, with a preference for relative improvement as opposed to absolute or fixed targets, in relation to each metric.
  - As data and reporting develops over time, reassess and refresh the Fund's objectives, metrics and targets. We propose the next review takes place after 2 years.

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Appendix

A1: Setting ESG Objectives and Metrics Workshop Presentation

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Scottish Borders Council Pension Fund

Setting ESG Objectives and Metrics Workshop

February 2022

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Contents and aim of today's session

Contents

- Why monitor ESG metrics?
- Regulatory outlook
- Mapping the UN SDGs to ESG metrics
- Targeting a specific or multiple UN SDGs?
- Committee views and our proposal
- Next steps

Aim

Committee to consider whether:

- They wish to set specific ESG objectives and metrics linked to their beliefs
- The focus should be on TCFD related objectives or include broader considerations
- How these can be monitored.

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Why monitor ESG metrics?

- Current Responsible Investment policy => The Fund will to pursue a “sustainable” investment approach where possible and where there is financial rationale in doing so
- Important to measure and quantify environmental and social impacts of the investment portfolio to enable this
- An ESG monitoring framework will:

1. **Provide data** on key ESG risks across investments
2. **Align more closely with the Fund’s Responsible Investment** policy
3. Fulfil requirements of the anticipated **TCFD regulation** and also **UK Stewardship Code 2020** requirements
4. Enable the Committee to set **ESG impact targets** for managers and tangible objectives at overall portfolio level
5. **Enhance ESG reporting to members**

- Monitoring ESG metrics is a journey that will evolve over time as data improves
- We recommend using the UN Sustainable Development Goals (UN SDGs) as a starting point to set specific metrics aligned with the Committee’s beliefs.

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Introduction to the UN SDGs

These 17 goals, intended to be achieved by 2030, encourage collective action towards a better and more sustainable future.

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Possible ESG framework using the UN SDGs

UN SDGs applied to the financial sector

- The UN SDGs were not designed specifically for investors so investment-focused goals are needed to translate the SDGs into a framework for financial decision making and managing risks in your investment portfolio.
- We recommend :
    - Setting objectives that can be achieved by your investment portfolio
    - Choosing suitable metrics to monitor progress towards achieving each objective
    - Agreeing targets for each metric
    - Considering the journey for achieving each objective – both in terms of data and investment decisions
- We see clients take two main approaches:

1. Targeting **individual** specific SDGs (e.g. focus on climate change)

or

2. Using the SDGs as a **broad framework**, targeting SDGs across E, S and G

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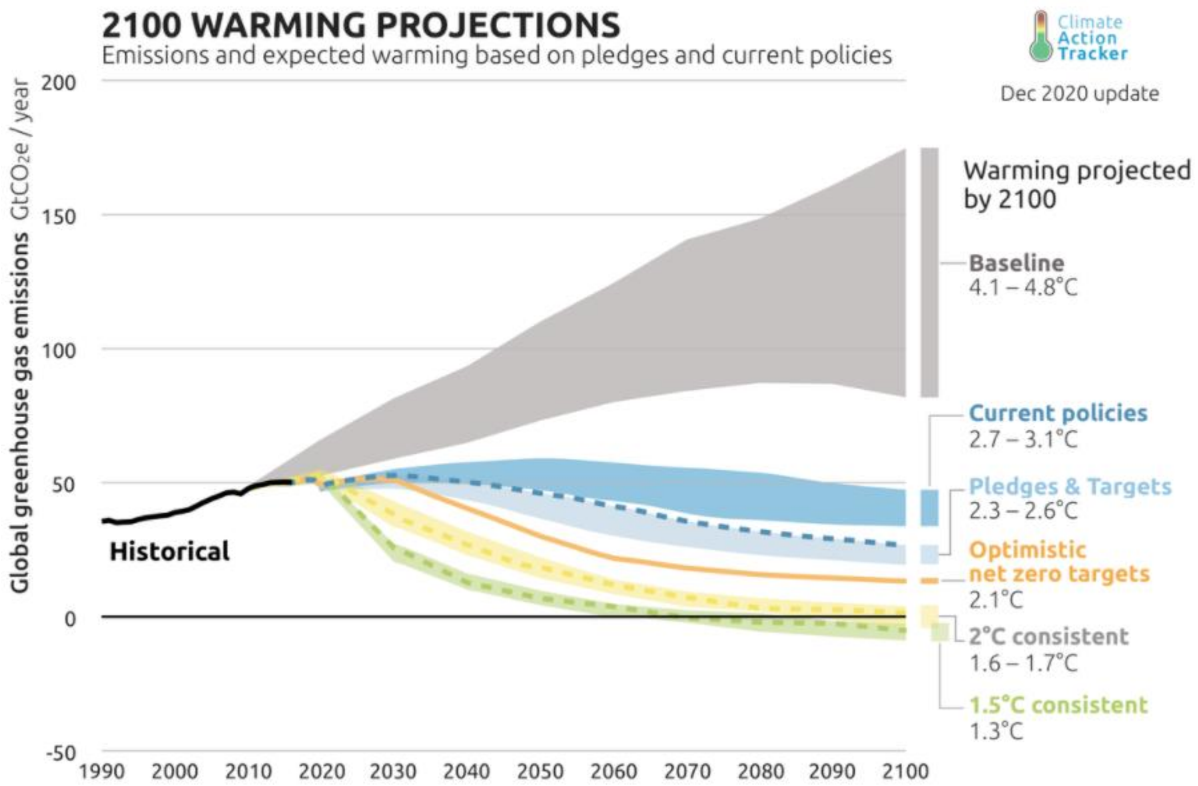
UN SDG #13 – Climate action (& the focus of TCFD regulation)

Paris Aligned Investment Initiative (PAII) launched in May 2019 recommends all asset owners should have the objective of achieving a net zero emissions portfolio by 2050 or sooner

What does net zero mean ?

- Target global **net zero emissions by 2050** or earlier, consistent with 1.5°C increase above pre-industrial levels
- **Decarbonisation pathway** of c.7% carbon reduction p.a.
- Alignment of investment objectives with **Paris Agreement**
- **Communication of targets** to investment managers
- **Stewardship activities** focused on climate action



Source : climateactiontracker.org

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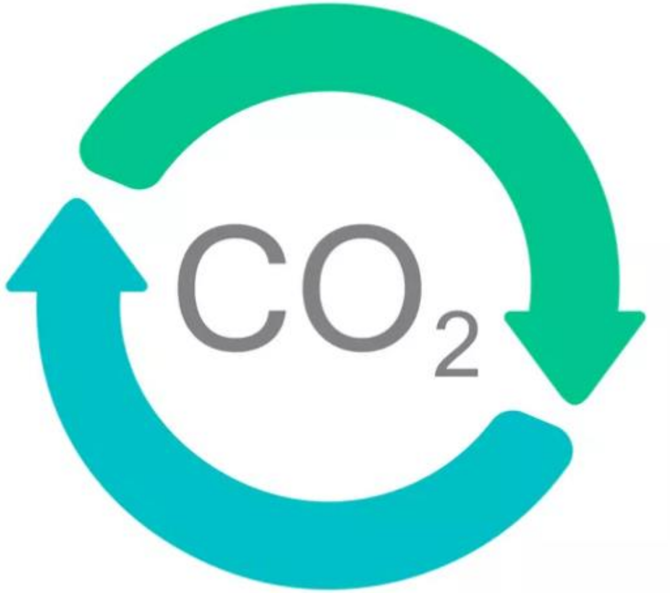
UN SDG #13 – Climate action – Implementation for the Fund

Measuring and reducing emissions

- Collecting **scope* 1, 2, 3 emissions data**
- Reducing **carbon emissions** today where possible
- Investing with managers and companies with credible **climate transition plans**



Pursuing climate transition opportunities

- Increasing investments in assets aligned with, or contributing to, the **net zero goal**
- Exploring assets that **offset emissions** such as forestry
- Maximise "avoided" or scope* 4 emissions to increase impact
- Using **active ownership** to encourage climate transition

Note: *Scope 1 covers direct emissions from owned or controlled sources.
Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
Scope 3 includes all other indirect emissions that occur in a company's value chain
Scope 4 the emissions reduced/avoided through business activities

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Example ESG reporting framework for UN SDG #13

Single UN SDG Framework Example	
UN SDG	Climate Action (#13)
Outcome/Objective	Reduce climate risk in the portfolio today; promote developments in renewable energy Net zero target by 2050
Metrics (TCFD regulation require two greenhouse gas (GHG) metrics and one non GHG metric)	Scope 1, 2, 3, 4 green house gas tonnes CO_2e % of portfolio companies with climate transition targets in place Voting & engagement activities on climate change
Targets/KPIs	Scope 1, 2 CO_2 reduction of 25% compared to e.g. MSCI All Countries World index Scope 3 emissions disclosed Scope 4 (avoided emissions) maximised across investments to offset scope 1, 2 and 3 Decarbonisation of all mandates by 7% p.a. or more (7% is Paris aligned decarbonisation pathway) 50% of companies in the portfolio with transition plans in place
Journey	• Agree timeframes for achieving the KPIs • Consider availability of data • Engagement on climate change topics with milestones for escalation / divestment • Use frameworks e.g. Transition Pathway Initiative, Science Based Target Initiative to enhance decision making

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Example – Multiple social diversity UN SDGs

Investment framework objectives

- Creating a healthier, happier and more productive workforce and society
- Diverse gender and ethnic representation and targets to reduce wage disparities in portfolio companies
- Companies and suppliers have strong labour practices and enhanced ESG reporting

Possible Metrics

- **Good Health & well-being:** % fund allocation in healthcare industries or employee satisfaction scores & access to healthcare;
- **Ethical production:** No instances of child labour in portfolio including suppliers
- **Gender diversity:** % females in senior positions
- **Gender pay:** Pay gap analysis (M:F) across portfolio
- **Ethnic diversity:** BAME statistics and targets across portfolio

Proposed metric to monitor

Good Health & well-being: % fund allocation in healthcare industries; Employee satisfaction scores & access to healthcare.

Portfolio target

- Exposure to healthcare sector at least in proportion (12%) to MSCI ACWI (for equity funds).
- Target improvements in portfolio company employee satisfaction scores / above industry medians.
- Improvement in diversity metrics over time.

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Example - Governance UN SDG #16

Investment framework objectives

- The investment portfolio consists of well governed companies with transparent reporting
- Business practices are ethical

Possible Metrics

- **Board makeup :** % CEO / Chairperson role separated in portfolio companies
- **Audit flags:** % of holdings with qualifications in last audit
- **Malpractice:** Number of fines for regulatory breaches across portfolio

Proposed metric to monitor

Board makeup : % CEO / Chairperson role separated in portfolio companies

Portfolio target

- At least 50% of companies have a separate CEO and chair

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Multiple SDG summary

UN SDG theme	Metric	Target*
Environmental	**Emissions:** tonnes of CO_2e / £m revenue **Climate pathways:** °C temperature increase associated with portfolio	• Under 150 tonnes of CO_2e /£m • Managers to report scope 3 data • Portfolio is Paris Aligned i.e. reduces CO_2e by 7% p.a. and targets a 2°C or less global warming scenario • 75% of portfolio companies align with TCFD
Social Diversity	**Good Health & well-being:** % fund allocation in healthcare industries; Employee satisfaction scores	• Exposure to healthcare sector at least in proportion (12.3%) to MSCI ACWI (for equity)
Human Development	**Equal opportunities:** Number of internships offered to black students (non university) per company in portfolio	• Each portfolio company takes on at least 4 black interns from disadvantaged backgrounds
Governance	**Board makeup:** % CEO / Chairperson role separated in portfolio companies	• At least 50% of companies have a separate CEO and chair
Responsible ownership	**Stewardship:** How many engagements were supportive of UN SDG (Sustainable Development Goals) per company in portfolio	• 50% of companies have been engaged with on ESG factors p.a.

Note: * We recommend reviewing these targets after receiving data from each manager to check they are achievable within a realistic timeframe across your portfolio

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Summary of the Committee's SDG priorities

	No current investment opportunities
	Lower ranking
	Higher ranking

- A SDG questionnaire was used to gather the Committee's views around the priority and reputational risk of the SDGs to the Fund - scored from 1 (highest priority) – 10 (lowest priority)
- 11 responses were received (out of a possible 16) with 7 clear SDG priorities agreed on.
- Initial indications suggest #13 climate action is considered a high priority, alongside other environmental goals such as #6 clean water and sanitation and #7 affordable & clean energy.
- Alongside this, 4 socially focused goals were highlighted as high priority, these were, #1 no poverty, #2 zero hunger,#3 good health & well-being and #10 reduced inequalities.
- While this provides a good insight and provides points for discussion, ideally we would have received a full array of responses from the Committee ahead of drawing final conclusions.

UN SDG	Avg.	# of responses	Rank*
1. No Poverty	5.5	8	7
2. Zero Hunger	3.0	7	1
3. Good Health & Well-being	3.3	7	2
4. Quality Education	6.0	8	9
5. Gender Equality	8.0	3	15
6. Clean Water & Sanitation	4.4	9	3
7. Affordable & Clean Energy	4.6	10	5
8. Decent Work & Economic Growth	4.5	8	4
9. Industry Innovation & Infrastructure	6.1	7	10
10. Reduced Inequalities	5.7	3	8
11. Sustainable Cities & Communities	10	1	16
12. Responsible Consumption & Production	7.0	5	14
13. Climate Action	5.3	10	6
14. Life Below Water	6.6	7	12
15. Life on Land	6.9	8	13
16. Peace, Justice & Strong Jurisdictions	6.2	6	11
17. Partnership for the Goals	-	-	17

* Rank is based on average score

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Recommendation (1)

- At least initially, we recommend the Committee focus on SDGs #7 (Affordable & Clean Energy) and #13 (Climate Action) as key objectives for the Fund and to look to agree relevant metrics and targets in line with these objectives. These can then be used to meaningfully engage with the Fund's investment managers. The proposed framework and metrics to measure these objectives is outlined on the next page.
- This recommendation is based on the Committee's indicated SDG priorities combined with initial alignment to TCFD requirements and anticipated data availability from investment managers across the Fund's currently portfolio.
- Data availability is currently poor for non-climate metrics.
- As noted on the previous slide, 4 socially focused goals were also highlighted as high priorities. Based on the Fund's current portfolio and anticipated data availability we recommend further investigation is undertaken in relation to these to ascertain what is possible.
- We understand the private sector regulator is looking at social issues now, we think this is going to be a big focus over the next 3-5 years with data availability rapidly improving. It is still unclear if this will be applied to LGPs in due course.
- #1 no poverty was highlighted as one of the socially focused high priority SDGs. The anticipated affordable housing allocation would demonstrate measurable progress here. The Committee may want to consider adding this as a third objective alongside #7 and #13.
- This is a developing area and should be reassessed and refreshed as data improves and evolves over time.
- Data coverage is currently highly dependant on asset class, currently there is typically lower coverage across illiquid/private asset classes and higher coverage in public asset classes.

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Recommendation (2)

UN SDG	Climate Action (#13)	Affordable & Clean Energy (#7)
Outcome/Objective	• Reduce climate risk in the portfolio • Net zero target by 2050	• Ensure access to affordable, reliable, and sustainable energy • Prepare portfolio for future transitions toward renewable energy sources
Metrics (TCFD regulation requires two greenhouse gas (GHG) metrics and one non GHG metric)	• Scope 1 and 2 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • Scope 3 Carbon emissions, footprint and/or weighted average carbon intensity (WACI) (tonnes of CO_2e / £m revenue) • % of portfolio companies with climate transition targets in place • Voting & engagement activities on climate change	• % of energy usage coming from renewable sources • % of portfolio involved in renewable infrastructure development
Desired direction of travel	• Reduce Scope 1, 2 CO_2 year on year and lower compared to broad index e.g. MSCI All Countries World index • Scope 3 emissions disclosed and reduced over time • Decarbonisation of all mandates compared to previous year (7% p.a decarbonisation is Paris aligned) • Increase of companies in the portfolio with transition plans in place and an increase in voting & engagement activities on climate change • Improvement in the disclosure and reporting of the above metrics	• Improvement in portfolio % total energy usage from renewable sources / total energy usage all sources • Improvement in portfolio % involved in renewable infrastructure development • Improvement in the disclosure and reporting of the above metrics

- The Committee should consider their views on implementing the specific objectives and metrics outlined above
- In addition the Committee should consider how they wish to measure progress against these with a preference for relative improvement as opposed to absolute or fixed targets e.g. "reduce over time" or "7% p.a. reduction"
- An initial step is to perform a data feasibility exercise with the Fund's investment managers.

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Suggested reporting framework (example numbers)

		Mgr A	Mgr B	Mgr C	Mgr D	Total portfolio	Target	Proposed Target Date
SDG 13 (Climate Action)	Scope 1,2 carbon emissions/footprint/WACI* (tonnes of CO_2e / £m revenue)	240	90	180	140	150	Improvement y.o.y*	Evolving
	Scope 3 carbon emissions/footprint/WACI (tonnes of CO_2e / £m revenue)	260	50	N/A	220	210	Improvement y.o.y*	Evolving
	% companies with climate transition plan	2%	55%	N/A	20%	15%	Improvement y.o.y*	Evolving
	No. of engagements on climate change in year	1	12	3	5	21	Improvement y.o.y*	Evolving
SDG 7 (Affordable & Clean Energy)	% of energy usage from renewable sources	20%	35%	10%	8%	22%	Improvement y.o.y*	Evolving
	% of portfolio involved in renewable infrastructure development	10%	20%	0%	2%	12%	Improvement y.o.y*	Evolving

Notes: Example numbers are for illustrative purposes only. * Improvement in the context of the Fund's objectives means both the reduction or improvement in the relevant metric (where available) as well as the improvement in disclosure and reporting of the metrics over time, given that the reporting of these metrics continue to develop and are currently inconsistent or unavailable.

- This is an evolving areas and industry wide ESG reporting and data availability continues to develop.
- We expect upcoming TCFD regulations to drive improvements in data disclosure and reporting, however, at this stage some data may not be available for all the Fund's mandates
- This framework will enable the Committee to identify whether the Fund's managers are improving over time in line with the Committee's objectives and what action is required – improving disclosure or managing exposures.
- If there are managers that are laggards, and continue to be so, then remedial action can be taken.

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Next steps

- Based on the output of this workshop the Committee should determine whether there are any specific objectives the Fund wishes to address - initial analysis suggests that #13 Climate Change and #7 Affordable & Clean Energy are priorities for the Committee, along side 4 broader socially focused objectives.
- Based on the initial analysis, we believe the Fund should consider the following:
  - The Committee to agree Climate Change (SDG #13) and Affordable & Clean Energy (SDG #7) as the primary and initial ESG objectives and the metrics to monitor.
  - Complete a data feasibility exercise with underlying managers to assess what they are able to currently provide for SDGs #7 and 13 and engage with them in areas where data is limited
  - Use initial data to assess the current position on agreed metrics.
  - Engage with investment managers to investigate data feasibility for the 4 socially focused objectives highlighted in this presentation
  - Implement a reporting framework and set appropriate targets, with a preference for relative improvement as opposed to absolute or fixed targets, in relation to each metric.
  - As data and reporting develops over time, reassess and refresh the Fund's objectives, metrics and targets on an annual basis.

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Appendices

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A1: Requirements of TCFD

Governance

- Responsibilities agreed
- Governance frameworks updated
- Training received
- ESG policies / beliefs reviewed

Strategy

- Climate risks / opportunities considered
- Scenario analysis undertaken
- Review funding plan and covenant

Risk Management

- Incorporate climate risk into risk frameworks
- Review your investment managers
- Consider materiality of risks across asset classes

Metrics & Targets

- Disclose metrics
- Set targets against metrics
- Review and improve

- Annual TCFD Report to be published on a public website
- Annual disclosure - actions taken on all 4 areas of TCFD recommendations
- Link to website provided in annual accounts on ongoing basis

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A2: The principles of the UK Stewardship Code 2020

PURPOSE & GOVERNANCE

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance, resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.

INVESTMENT APPROACH

6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.
8. Signatories monitor and hold to account managers and/or service providers.

ENGAGEMENT

9. Signatories engage with issuers to maintain or enhance the value of assets
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence issuers.

EXCERCISING RIGHTS & RESPONSIBILITIES

12. Signatories actively exercise their rights and responsibilities.

- Setting ESG objectives and targets and measuring these using appropriate metrics helps address requirements under 3 of the 12 principles

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A3: Climate metrics – TCFD regulatory requirements

It is expected there will be a requirement in the first year the Fund is captured by the TCFD regulations, to select a set of climate-related metrics, monitor these on an annual basis, and review the selection of metrics from time to time.

For TCFD purposes, the Committee must select and report on a minimum of:

- **one absolute emissions metric**
  - recommended absolute emissions metric being **Total Greenhouse Gas emissions**
- **one emissions intensity metric**
  - recommended intensity based emissions metric being **Carbon Footprint**
  - the **Weighted Average Carbon Intensity** could be used in place of Carbon Footprint, but trustees should explain their reasoning
- **one additional climate change metric**
  - there is flexibility on the additional climate change metric reported, examples include a Portfolio Alignment metric, Climate Value-at-Risk and Data quality

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A4: Detailed results the Committee's SDG priorities

	No current investment opportunities
	Lower ranking
	Higher ranking

UN SDG	Cllr. A	Cllr. B	Cllr. C	Cllr. D	Cllr. E	Cllr. F	Cllr. G	Cllr. H	Cllr. I	Cllr. J	Cllr. K	Avg.	No. of responses	Rank*
1. No Poverty	2	2	1	-	-	-	7	10	2	10	10	5.5	8	7
2. Zero Hunger	3	1	-	8	-	-	6	1	1	-	1	3.0	7	1
3. Good Health & Well-being	-	3	-	9	1	1	5	-	3	1	-	3.3	7	2
4. Quality Education	-	10	2	10	2	2	10	8	-	4	-	6.0	8	9
5. Gender Equality	-	8	-	-	-	10	-	6	-	-	-	8.0	3	15
6. Clean Water & Sanitation	-	4	3	6	4	4	-	2	4	5	8	4.4	9	3
7. Affordable & Clean Energy	5	5	-	3	6	6	1	7	5	6	2	4.6	10	5
8. Decent Work & Economic Growth	1	6	-	1	5	5	8	-	8	2	-	4.5	8	4
9. Industry Innovation & Infrastructure	7	-	4	5	10	-	2	9	-	-	6	6.1	7	10
10. Reduced Inequalities	-	7	-	-	-	-	-	-	-	7	3	5.7	3	8
11. Sustainable Cities & Communities	-	-	-	-	-	-	-	-	10	-	-	10	1	16
12. Responsible Consumption & Production	6	-	7	-	-	-	9	-	-	9	4	7.0	5	14
13. Climate Action	8	9	5	2	3	3	3	5	-	8	7	5.3	10	6
14. Life Below Water	10	-	6	4	8	8	-	4	6	-	-	6.6	7	12
15. Life on Land	9	-	-	7	7	7	4	3	9	-	9	6.9	8	13
16. Peace, Justice & Strong Jurisdictions	4	-	-	-	9	9	-	-	7	3	5	6.2	6	11
17. Partnership for the Goals	-	-	-	-	-	-	-	-	-	-	-	-	-	17

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* Rank is based on average score

A5: The Committee's ESG Beliefs

Risk Management	1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee. 2. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, is likely to lead to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy where it is believed they can add value. 3. The Committee will consider Council and other employer policies and values in the Fund's ESG policy
Approach/ Framework	4. The Committee seeks to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities. 5. The Committee believes that certain sectors that provide a positive impact, such as funds that support the climate transition, will outperform as countries transition onto more sustainable development paths. The Committee also requires all investment managers to declare and explain any holdings in companies which violate the UN Global Compact.
Voting & Engagement	6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have a responsibility to engage with companies on ESG factors. 7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates. 8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.
Reporting	9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge. 10. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments. 11. The Committee will set ESG targets based on their views and how key ESG metrics evolve over time.
Collaboration	12. Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI, GRESB, TCFD and Stewardship Code. 13. The Fund should sign up to a recognised ESG framework/s to collaborate with other investors on key issues.

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A6: Example environmental UN SDGs

Investment framework objectives

- Portfolio targeting a temperature increase of 2°C or less
- Net zero portfolio
- Providing capital to renewable energy production and electricity network improvements
- Engaging on resource usage
- Water efficiency
- Waste reduction and innovative recycling

Possible metrics

- **Emissions**: tonnes of CO2e / £m revenue
- **Water usage**: m3/£m revenue
- **Waste and recycling**: % products and packaging using reclaimed materials
- **Climate pathways**: °C temperature increase associated with portfolio

Proposed metrics to monitor

Emissions: tonnes of CO_2e / £m revenue

Climate pathways: °C temperature increase associated with portfolio

Environmental alignment: % of portfolio companies aligned to TCFD

Portfolio targets

- Under 150 tonnes of CO_2e /£m
- Managers to report scope 3 data
- Portfolio is Paris Aligned i.e. reduces CO_2e by 7% p.a. and targets a 2°C or less global warming scenario

Note: *This means full alignment and reporting in line with the 7 principles for effective disclosure

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A7: Example responsible ownership UN SDGs

Investment framework objectives

- Investment portfolio promotes the UN SDGs and your capital is used to encourage responsible business practices

Possible metrics

Stewardship: How many engagements were supportive of UN SDGs

Proposed metrics to monitor

Stewardship: How many engagements were supportive of UN SDGs per company in portfolio

Portfolio target

- 50% of companies have been engaged with on ESG factors p.a.

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