

# Scottish Borders Council Pension Fund

## Responsible Investment Metrics and Targets Report

September 2022

**isio.**



# Introduction

- This report follows the “Responsible Investment Training - Climate Risks, TCFD, and Metrics” session in August
- The monitoring information shown is also required for alignment for the 2020 UK Stewardship Code and expected to be required to comply with upcoming TCFD regulation
- The report documents each investment manager’s ability to report on the Committee’s agreed metrics and the current portfolio position
- These results should be used to guide decision making and is expected to feed into investment strategy discussion and considerations going forward
- This is the first time this report has been produced for the Fund and it is expected to be updated annually going forward.
- We expect the metrics monitored and the position shown in the report to evolve over time

# Background

## The Committee has received training on RI & TCFD metrics



In August, the Committee received training including:

- A recap on Responsible Investment considerations, climate science and TCFD regulations
- The importance of monitoring ESG metrics
- The various environmental and climate related metrics that can be monitored

## What is likely to be required?



Though not yet in scope for TCFD, we believe best practice would be to monitor:

- Two greenhouse gas metrics,
- One portfolio temperature alignment metric
- An additional climate change metric

These should be collected and monitored annually, with at least one target set for one of the metrics.

## Purpose of this report



This report details the results of the Fund's first annual Responsible Investment Metrics and Targets assessment

It documents each investment manager's ability to report on the required metrics and their current position

These results should be used to guide decision making and any action taken as a result should be documented

# Agreed Responsible Investment/TCFD Metrics

Metrics	RI metrics agreed as part of previous objectives setting	RI metrics expected to be required by TCFD	RI metrics agreed to take forward for monitoring
Carbon emissions (Scope 1 & 2)	Y	Y	Y
Carbon footprint (Scope 1 & 2)	Y	Intensity: 1 of 2 (Isio preferred)	Y (Selected)
WACI (Scope 1 & 2)	Y	Intensity: 1 of 2	N
Implied Temperature Rise (ITR)	N	Y	Y
Climate-related engagements	Y	Additional: Select 1	Y (Selected)
Fossil Fuel extraction exposure	N	Additional: Select 1	N
Science based target exposure / % of portfolio companies with climate transition targets in place	Y	Additional: Select 1	N
Climate value at risk	N	Additional: Select 1	N
Extent of 'green' revenue exposure	N	Additional: Select 1	N

# Summary of Metric Coverage



Metrics	RI metrics agreed to take forward for monitoring over the next year	Predicted coverage in current portfolio
Carbon emissions (Scope 1 & 2)	Y	70%
Carbon footprint (Scope 1 & 2)	Y	70%
Implied Temperature Rise (ITR)	Y	31%
Climate-related engagements	Y	57%

Notes: Coverage based on asset values as at 31 March 2022.

# Summary of 2022 Results

Manager Data Key  
(based on SBPF  
total portfolio)

33<sup>rd</sup> percentile

33<sup>rd</sup> - 66<sup>th</sup> percentile

66<sup>th</sup> percentile

No data coverage

Metric (SDG 13 Focus - Climate Action)		Alternatives	Credit						Equity				Real Estate
	Metric	LGT Crown Multi Alternatives	Partners Group	Permira	Macquarie Sub-Investment Grade	Macquarie Infrastructure Debt	M&G Alpha Opps	M&G UK Index Linked	Baillie Gifford UK Equity	Baillie Gifford Paris Aligned	LGIM Future World Equity	Morgan Stanley Global Equity	BlackRock LLP
ESG	Isio ESG Rating	●	●	●	●	●	●	●	●	●	●	●	●
Absolute emissions	Carbon emissions (Scope 1 & 2)	3088.1	-	22,726.0	-	-	769,006.0	-	820.7	1502.1	- <sup>2</sup>	514.6	1555.0
Emissions intensity	Carbon footprint (Scope 1 & 2)	46.0	-	40.0	-	-	60.5	-	26.0	12.3	31.2	4.9	0.4
Portfolio Alignment	Implied Temperature Rise	-	-	-	-	-	3.2°C <sup>1</sup>	-	-	-	2.7°C	1.8°C	-
Additional Metric	Climate-Related Engagements	-	-	1	-	-	11	-	4	15	241	18	-

Source: Investment managers.

Notes: UBS Property has been removed from reporting due to the fund being in wind down. The direct infrastructure investments held in conjunction with the Lothian Pension Fund have also been removed. 1 M&G provided a chart without data points, so this figure is estimated. 2 LGIM have stated they will be able to provide from December 2022 onwards.

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Isio ESG  
Ratings Key

● Meets traditional criteria

● Partially meets criteria

● Significantly fails to meet criteria

● Not rated

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# Conclusions

**1** **Total Greenhouse Gas emissions** for the Portfolio is **799,213.0 metric tonnes**.  
**Normalised total GHG emissions** across the managers that were able to report is **114,179.3 metrics tonnes**.

**2** Weighted average **Carbon Footprint** for the portfolio is **17 metric tonnes per \$1million investment<sup>1</sup>**.  
**Normalised Carbon Footprint** across the managers that were able to report is the same at **17 metric tonnes per \$1million investment**, given that this metric is a normalised metric already.

**3** **Implied Temperature Rise** figures provided by managers ranged from alignment to a **1.8°C to 3.2°C** temperature rise by the end of the century.

**Normalised Implied Temperature Rise** across the managers that were able to report is **2.5°C**

**4** There were **290** individual **Climate Engagements** with companies within the portfolio, where managers were able to report

**Normalised** engagements across the managers that were able to report is **48 engagements**.

## Highest Emitters

The **biggest emitter** in the portfolio is **M&G Alpha Opportunities Fund** from an absolute emissions perspective.

Despite having **lower absolute emissions** than **Permira, LGT** report a higher **carbon footprint**.

We recommend that all three are engaged with and monitoring continues.

## Targets

As previously discussed, the Committee desires to adopt a target of “**relative improvement**” as opposed to absolute or fixed targets, and this can be reviewed over time.

We proposed this is done primarily via reductions in **absolute emissions** and **carbon footprint** metrics at the overall Fund level.

## Data availability

There are clear **gaps in the data**, largely as a result of **Partners, Macquarie and M&G UK Index Linked Gilt Fund** being unable to report on the requested metrics.

We recommend that each of these are engaged with for improvements in data availability and reporting quality.

# Next Steps

We recommend the Committee:

- Engage with the managers of the highest emitting mandates to assess their direction of travel and what is possible
- Engage with managers to continue to drive improvements in data availability and reporting quality
- Consider whether there is appetite for any wider strategy changes off the back of this information
- Continue to assess the position on a regular basis, we purpose annually, both in terms of continued appropriateness of metrics monitored and if the targets set are being met
- Await further guidance from TCFD regulation

December 2022 Committee meeting Responsible Investment items:

- TCFD Governance Policy
- ESG/Climate Impact Assessment



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