

# Scottish Borders Council Pension Fund

## Responsible Investment Metrics and Targets Report

November 2023

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# Introduction

- This report provides the annual update on the Responsible investment metrics and targets which the Committee agreed to in 2022.
- We consider monitoring this information as best practice and it is also required for ongoing alignment to the 2020 UK Stewardship Code. It is also expected to be required to comply with upcoming TCFD regulation for LGPS Funds.
- The metrics outlined in this report were selected with TCFD in mind and so have a climate focus.
- The report documents each investment manager's ability to report on the Committee's agreed metrics and the current portfolio position as at 30 June 2023, compared to the position as at 30 June 2022.
- These results should be used to assess the Fund's progress relative to target, guide decision making, and is expected to feed into investment strategy discussion and considerations going forward
- This is the second 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 2022, 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?

Although LGPS are not yet in scope for TCFD, we believe, in line with occupational pension scheme regulations, 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 second 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.

# Responsible Investment Metrics - Recap

## Total greenhouse gas emissions (Scope 1 & 2)

Total amount of greenhouse gas emissions emitted by the underlying portfolio companies, attributed to the investor based on the total investment in each company.

## Carbon footprint (Scope 1 & 2)

An intensity measure of emissions that assesses the level of greenhouse gas emissions arising from a £1 million investment in a company.

## Implied Temperature Rise (ITR)

The temperature pathway the mandate aligns to, expressed as a projected increase in global average temperatures by the end of the century.

A Paris-aligned strategy should have an ITR of 1.5°C.

## Climate Related Engagement

The number of companies within the portfolio for which engagement or voting on climate-related risk and opportunities has been a substantive topic over the course of the previous 12 months.

- The Committee agreed to adopt a target of “relative improvement” as opposed to absolute or fixed targets – with this to be reviewed over time.

# Scope 1 & 2 Emissions (1)

**Green:** Improvement in metrics  
**Orange:** Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Total GHG Emissions (Scope 1 & 2)				Carbon Footprint (Scope 1 & 2)				Data Quality (Scope 1 & 2)				
		30 June 2022		30 June 2023		30 June 2022		30 June 2023		30 June 2023				
		tCO <sub>2</sub> e	Coverage	tCO <sub>2</sub> e	Coverage	tCO <sub>2</sub> e/ £1m of EVIC	Coverage	tCO <sub>2</sub> e/ £1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Progress vs 2022
BG GAPA	13%	1,502.1	98%	1,117.2	99%	26.0	98%	10.2	99%	-	81%	17%	1%	
BG UK	4%	820.7	94%	1,242.6	96%	12.3	94%	40.1	96%	-	91%	5%	4%	
MS Global Sustain	11%	514.6	98%	365.8	100%	4.9	98%	3.7	100%	-	70%	30%	-	
LGIM FW	11%	- <sup>1</sup>	-	3,170.7	99%	31.2	96%	33.0	99%	-	95%	3%	1%	
LGT Crown Multi Alternatives	5%	3,088.1	80%	1,361.8	67%	46.0	80%	34.7	67%	-	36%	32%	33%	
Blackrock LLP <sup>3 5</sup>	12%	-	-	-	-	-	-	-	-	-	-	-	100%	Can't report Scope 1 & 2
M&G AOF	14%	8,277.7 <sup>2</sup>	52%	5,587.3 <sup>2</sup>	60%	60.5	52%	157.5	60%	-	53%	7%	40%	
M&G UK ILG <sup>6</sup>	5%	-	-	94.3 <sup>2</sup>	3%	-	-	62.8	3%	-	3%	-	97%	
Macquarie MIDF2 <sup>5</sup>	3%	-	-	7,910.5 <sup>2</sup>	100%	-	-	242.0	100%	-	-	100%	-	
Macquarie MSIG <sup>5</sup>	2%	-	-	28,905.4 <sup>2</sup>	100%	-	-	1729.3	100%	-	-	100%	-	
IFM GIF <sup>5</sup>	4%	-	-	3,757.9 <sup>2</sup>	100%	-	-	101.0 <sup>4</sup>	100%	-	100%	-	-	New mandate

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered. The managers are not scaling up emissions where coverage is not 100%.

<sup>1</sup> As of December 2022, LGIM are now able to provide this metric, but were unable to provide as at 30 June 2022. <sup>2</sup> IFM, Macquarie and M&G total carbon emissions are estimated from total fund emissions, based on the Scottish Borders Pension Fund's investment proportion of the overall funds.

<sup>3</sup> We uncovered an issue with Blackrock with the carbon emission metrics reported in 2022. Given the fund is solely investing in properties that are 100% indirectly managed, the nature of the tenants' operational control and the Full Repairing and Insuring (FRI) lease agreements in place, greatly limits Blackrock's ability to directly collate environmental performance information across the Fund. As such, BlackRock are unable to provide Scope 1 & 2 carbon emissions metrics. Blackrock reported Scope 3 GHG absolute emissions of 13,479.5 tCO<sub>2</sub>e at the overall fund level, which based on the Fund's proportion of the overall mandate, equates to c. 1,357.4 tCO<sub>2</sub>e at investor-level and Scope 3 carbon footprint of 13.4 tCO<sub>2</sub>e per £1m investment. <sup>4</sup> IFM report carbon footprint based in USD. <sup>5</sup> Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates. <sup>6</sup> M&G report in line with the Carbon Emission Template (CET) which currently does not require reporting of data on UK sovereigns, therefore the coverage of the M&G UK ILG gilt fund is very low, they are looking to enhance this in due course.

# Scope 1 & 2 Emissions (2)

**Green:** Improvement in metrics  
**Orange:** Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Total GHG Emissions (Scope 1 & 2)				Carbon Footprint (Scope 1 & 2)				Data Quality (Scope 1 & 2)				
		30 June 2022		30 June 2023		30 June 2022		30 June 2023		30 June 2023				
		tCO <sub>2</sub> e	Coverage	tCO <sub>2</sub> e	Coverage	tCO <sub>2</sub> e/£1m of EVIC	Coverage	tCO <sub>2</sub> e/£1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Progress vs 2022
Partners Group DL (2016) <sup>2</sup>	0%	-	-	42.8 <sup>1</sup>	32%	-	-	26.9	32%	-	32%	-	68%	
Partners Group DL (2018) <sup>2</sup>	1%	-	-	13.5 <sup>1</sup>	15%	-	-	4.0	15%	-	15%	-	85%	
Partners Group DL (2020) <sup>2</sup>	4%	-	-	1.9 <sup>1</sup>	4%	-	-	0.3	4%	-	4%	-	96%	
Permira Fund III <sup>2</sup>	1%	504.9 <sup>1</sup>	100%	308.5 <sup>1</sup>	100%	40.0	100%	27.4	100%	-	49%	51%	-	Started drawing
Permira Fund V <sup>2</sup>	2%	-	-	582.7 <sup>1</sup>	100%	-	-	34.4	100%	-	29%	71%	-	
Not covered	9%	-	-	-	-	-	-	-	-	-	-	-	100%	-
<b>Total Portfolio</b>	<b>100%</b>	<b>14,708.1</b>	<b>40%</b>	<b>54,462.8</b>	<b>62%</b>	<b>29.8</b>	<b>50%</b>	<b>99.6</b>	<b>62%</b>	<b>0%</b>	<b>46%</b>	<b>16%</b>	<b>38%</b>	

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered. The managers are not scaling up emissions where coverage is not 100%.

<sup>1</sup>Partners Group and Permira total carbon emissions are estimated from total fund emissions, based on the Scottish Borders Pension Fund's investment proportion of the overall funds. <sup>2</sup>Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates.

# Additional climate metrics (1)

**Green:** Improvement in metrics  
**Orange:** Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Implied Temperature Rise				Climate-related Engagements			
		30 June 2022		30 June 2023		30 June 2022		30 June 2023	
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage
BG GAPA	13%	-	-	1.8°C	96%	15	100%	25	100%
BG UK	4%	-	-	2.2°C	83%	4	100%	7	100%
MS Global Sustain	11%	1.8°C	98%	1.6°C	99%	18	100%	16	100%
LGIM FW	11%	2.7°C	96%	2.7°C	98%	241	100%	335	100%
LGT Crown Multi Alternatives	5%	-	-	-	-	-	-	-	-
Blackrock LLP <sup>3</sup>	12%	-	-	-	-	-	-	-	-
M&G AOF	14%	3.2°C <sup>1</sup>	51%	2.6°C <sup>1</sup>	65%	11	100%	2	100%
M&G UK ILG	5%	-	-	2.1°C <sup>1</sup>	6% <sup>2</sup>	-	-	-	-
Macquarie MIDF2 <sup>3</sup>	3%	-	-	-	-	-	-	-	-
Macquarie MSIG <sup>3</sup>	2%	-	-	-	-	-	-	-	-
IFM GIF <sup>3</sup>	4%	-	-	1.5°C	100%	-	-	24	100%

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered.

<sup>1</sup> In 2022, M&G provided a chart without data points, so this figure is estimated. Latest data is provided by the manager using Aladdin Climate, including issuer targets via SBTi and CDP. <sup>2</sup> The ITR is based off the corporate part of the fund, which makes up 5.83%. The coverage therefore for corporates is 100% although as this is only based on two issuers the ITR is subject to high volatility and therefore should be ingested with caution. <sup>3</sup> Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates.

# Additional climate metrics (2)

**Green:** Improvement in metrics  
**Orange:** Broadly the same **Red:** Deterioration in metrics

Manager	Asset Allocation (30 June 2023)	Implied Temperature Rise				Climate-related Engagements			
		30 June 2022		30 June 2023		30 June 2022		30 June 2023	
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage
Partners Group DL (2016) <sup>1</sup>	0%	-	-	-	-	-	-	-	-
Partners Group DL (2018) <sup>1</sup>	1%	-	-	-	-	-	-	-	-
Partners Group DL (2020) <sup>1</sup>	4%	-	-	-	-	-	-	-	-
Permira Fund III <sup>1</sup>	1%	-	-	-	-	-	-	-	-
Permira Fund V <sup>1</sup>	2%	-	-	-	-	-	-	-	-
Not covered	9%	-	-	-	-	-	-	-	-
<b>Total Portfolio</b>	<b>100%</b>	<b>2.6%</b>	<b>29%</b>	<b>2.1°C</b>	<b>50%</b>	<b>290</b>	<b>50%</b>	<b>409</b>	<b>56%</b>

Source: Investment managers.

Notes: Totals may not sum due to rounding. UBS Property (due to the fund being in wind down), direct infrastructure investments (held in conjunction with the Lothian Pension Fund) and the cash allocation is not covered.

<sup>1</sup> Data is provided as at 31 December 2022 and 2021 respectively, given more illiquid nature of the mandates.



# Conclusions

**1** Total Greenhouse Gas emissions for the Portfolio is **54,463 metric tonnes (tCO<sub>2</sub>e)**.

This is an increase of 39,755 tCO<sub>2</sub>e from the 2022 analysis, with an adjusted reported figure of 14,708 metric tonnes (tCO<sub>2</sub>e). This is largely the result of increased coverage and data reporting across the portfolio, with improvement seen across individual funds.

**2** Weighted average Carbon Footprint for the portfolio is **99.6 metric tonnes per £1 million investment<sup>1</sup>**.

Similarly, as a result of improved coverage across the portfolio, this has increased from the 2022 analysis of 29.8 metric tonnes per £1 million investment<sup>1</sup> (adjusted), with improvements seen at individual mandate level.

**3** Implied Temperature Rise figures provided by managers ranged from alignment to a **1.5°C to 2.7°C** temperature rise by the end of the century (compared to a range of **1.8°C to 3.2°C** in 2022).

The portfolio level figure calculated for 2023 was **2.1°C**. The Implied Temperature Rise at portfolio level as at June 2023 reduced by **0.5°C**, from **2.6°C** which was reported in 2022.

**4** There were **409** individual **Climate-related Engagements** with companies within the portfolio, where managers were able to report.

This is an increase of 119 from the 2022 figure of 290 climate engagements.

## Highest Emitters

From an absolute emissions perspective, the **biggest emitters** in the portfolio are **Macquarie (particularly sub-investment grade), M&G AOF, and IFM**. These three most high emitting funds also report the highest **carbon footprint**. Followed by **LGIM** and **LGT** on an absolute basis only.

We recommend that we continue to engage and monitor these managers.

## Targets

As previously noted, the Committee agreed to adopt a target of "**relative improvement**" as opposed to absolute or fixed targets.

The analysis shows that the data coverage and reporting across the portfolio has improved significantly over the last year, and we expect recent investments to have improved the metrics shown.

## Data availability

All managers are now able to report carbon emissions metrics, although there are still clear **gaps in the data**, for example **Partners Group and M&G UK Index Linked Gilt Fund low coverage levels** and a number of managers unable to report on some of the requested metrics (e.g. ITR).

We recommend continuing to engage with them on data availability and quality.

# Next Steps

We recommend the Committee:

- Continue to assess the position on a regular basis, we propose annually, both in terms of continued appropriateness of metrics monitored and if the targets set are being met.
- Engage with the managers of the highest emitting mandates to assess their direction of travel and consider whether any further action is needed.
- Engage with managers to continue to drive improvements in data availability and reporting quality.
- Consider whether the current targets remain appropriate or if any changes are required. Review when LGPS regulatory guidance becomes clear and once data quality and coverage improves sufficiently.
- Use the information contained within this report for the 2020 UK Stewardship Code and TCFD compliance. While not yet a requirement, the Fund could publish a TCFD report ahead of legislation, which would be considered best practice and a further positive step for the UK Stewardship Code.

Q1 2024 Committee meeting Responsible Investment item:

- ESG/Climate Impact Assessment

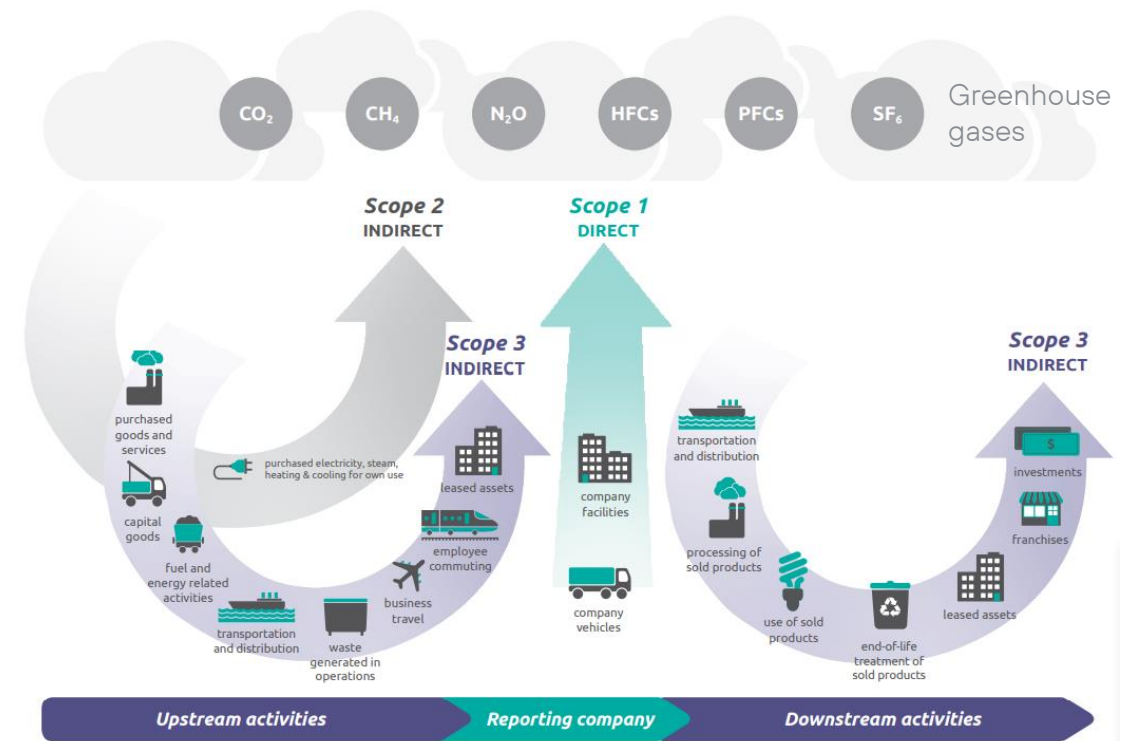
# Additional Information

# Emission Metrics – Further Information

There are a number of economic activities that result in the release of **greenhouse gases** ('GHGs') into the atmosphere, this primarily happens as a result of burning fossil fuels for energy, travel and manufacturing. Reducing the amount of GHG within the atmosphere is a key factor for controlling **global warming** and the corresponding physical impacts of climate change.

The GHG emissions from the activities of a particular company can be split across three levels (illustrated right).

- **Scope 1** - direct emissions from company owned or controlled sources – e.g. fuel used in company vehicles.
- **Scope 2** - indirect emissions from the generation of purchased energy – e.g. purchasing electricity to run factory.
- **Scope 3** - all indirect emissions that occur in the value chain – this includes emissions generated from the production of purchased goods and services and the use of sold products.
- There are currently industry-wide issues with reporting Scope 3.



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