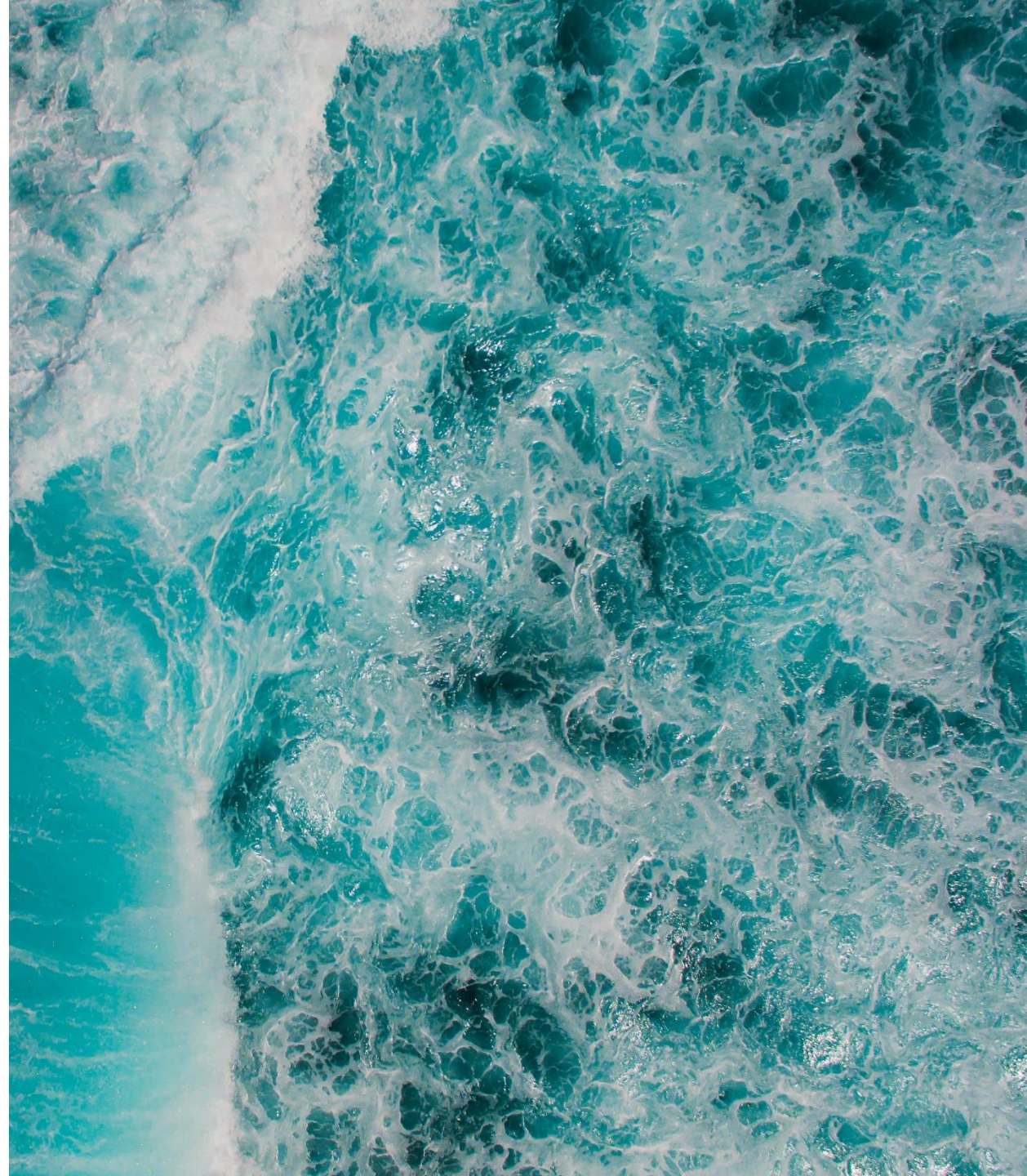


# ESG Impact Assessment 2023 Annual Report

Scottish Borders Council Pension Fund  
February 2024



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# Introduction



# Introduction

The purpose of this paper is to evaluate the Fund's investment managers' approach to integrating ESG factors against the Committee's agreed ESG Policy, as well as suggest actions that the investment managers should take in order to drive ESG improvements in their approach and position of the wider industry. These actions have been raised as part of our ESG monitoring process.

As the Committee has delegated the day-to-day management of the Fund's investments to the fund managers, it is important that they understand how they consider financial material considerations, such as ESG and climate-related risks and opportunities.

Every year, we raise the bar in terms of our expectations of managers in this space, taking into account any ESG and climate-related landscape developments, from regulatory guidance to best practice approaches.

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This report provides an **ESG score** and **Climate score** for each manager and, where managers fall short, identifies **actions** to engage with the investment managers on.

This year's report also provides a comparison to the 2022 annual review.

# ESG Assessment Process

To develop the **ESG Score**, we have assessed the fund managers' ESG capabilities against each of the five following criteria.

1. **Investment Approach** – There is a clear approach/framework for integrating ESG factors.
2. **Risk Management** – ESG factors are integrated holistically in the manager's risk management framework.
3. **Voting & Engagement** – There is evidence of ongoing engagement with companies on ESG issues to help initiate change.
4. **Reporting** – The manager provides meaningful and regular reporting on ESG issues, including voting and engagement activities.
5. **Collaboration** – There is evidence of engagement with other stakeholders and market participants to encourage best practice on various ESG issues.

We also separately develop a **Climate Score**, which assesses the managers for their climate-related capabilities across these five pillars.



# ESG Manager Review Framework

Score > 4	<b>Meets additional impact criteria:</b> The fund qualifies as a specialist ESG/climate fund with specific environmental or social impact objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional impact evaluation criteria.
Score > 3	<b>Meets additional sustainability criteria:</b> The fund qualifies as a specialist ESG/climate fund with ESG and/or climate-focused objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional sustainability evaluation criteria.
Score = 2-3	<b>Meets traditional criteria:</b> The manager scores highly on our ESG and/or climate scorecard and is in line with best practice in terms of ESG and/or climate integration.
Score = 1-2	<b>Partially meets criteria:</b> The manager has scored strongly on some (but not all) of the ESG/climate assessed criteria and ESG and/or climate integration is on par with the majority of investors.
Score = 0-1	<b>Significantly fails to meet criteria:</b> The manager fails to meet most of the criteria on our ESG and/or climate scorecard and is significantly behind best practice in terms of ESG and/or climate integration.

# Overview & Scores

# Overview



	2022	2023
ESG Score	2.1	2.3
Investment Approach	2.4	2.5
Risk Management	2.2	2.5
Stewardship	1.8	2.3
Reporting	1.7	1.5
Collaboration	2.8	2.8
Climate Score	2.2	2.6

The Fund continues to **meet traditional ESG criteria on both ESG and Climate grounds** at an overall level, meaning that it has scored strongly on most of the ESG/climate assessed criteria and is in line with best practice in terms of ESG and climate integration.

The Fund continues to improve its scores across all five categories with the exception of Collaboration (which was already towards the top end of the category range) meaning good practice approaches in all of these areas. The Fund has also improved its score materially in **Stewardship** (formerly voting & engagement). The key reasons for these scores are set out below:

The climate score has improved more and is higher than the overall ESG score driven by market wide improvements we have seen in this area.

- Investment Approach** – a number of the Fund’s managers have ESG policies in place and have shown examples of buy/sell decisions based on ESG factors. Additionally, several of the Fund’s managers have established a net zero commitment and interim decarbonisation targets.
- Risk management** – a number of the Fund’s managers have established dedicated ESG teams and utilise an ESG scorecard.
- Stewardship** – a number of the Fund’s managers have set both firm-wide and fund-level stewardship priorities.
- Collaboration** – the majority of managers are party to several ESG and climate-related collaborative initiatives.

No individual manager achieved less than “partially meets criteria” at an overall level.

Note: Weights of the individual assessment criteria will vary across asset class.  
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# Scores – Equity, and Alternatives

Meets Additional Impact Criteria  
Score = 4-5

Meets Additional Sustainable Criteria  
Score = 3-4

Meets Traditional Criteria  
Score= 2-3

Partially Meets Criteria  
Score = 1-2

Significantly Fails to Meet Criteria  
Score = 0-1

↑ Category rating has improved

↓ Category rating has deteriorated

	ESG Score 2023	Investment Approach	Risk Management	Stewardship	Reporting	Collaboration	Climate Score 2023
Baillie Gifford UK Equity	2.4	2.4	2.6	2.7	1.7 ↓	2.5	2.1
Baillie Gifford Global Alpha Paris Aligned	2.6	3.3 ↑	2.6	2.7	1.7 ↓	2.5	3.6
Morgan Stanley Global Sustain Equity	2.4	2.2	3.0	2.3	1.8 ↓	2.8	2.5
LGIM Global Equity	3.2	3.6	2.7	3.5 ↑	2.3	3.5	4.6 ↑
LGT Alternatives	2.7 ↑	2.9	3.8 ↑	2.2 ↑	1.1 ↑	3.3 ↑	2.0
BlackRock Long Lease Property	2.0	2.0 ↓	2.6 ↑	1.5	1.3	2.8	2.1 ↑
IFM Infrastructure Equity	2.5	2.9	3.2 ↑	2.4 ↑	1.5	2.4	2.2 ↓
Nuveen Global Timberland Fund	3.1	3.6	3.3	3.6	1.9	2.4	3.3
Quinbrook Renewable Infrastructure Fund	3.4	4.2	3.2	2.1	3.9	3.5	4.4

# Scores – Credit

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score= 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

	ESG Score 2023	Investment Approach	Risk Management	Stewardship	Reporting	Collaboration	Climate Score 2023
M&G – Alpha Opportunities Fund	2.3	2.3	2.4	2.8	1.4	3.0 ↓	2.3
M&G – UK Index- Linked Gilts Fund	1.4	0.8 ↓	0.7 ↓	2.0	0.4	2.8 ↓	1.4
Partners Group – Direct Lending	1.7	2.8	1.4	1.2	0.8 ↓	2.3	1.3
Permira – PCS III	1.3	1.3	1.7	0.7 ↓	1.0 ↓	2.0	0.9
Permira – PCS V	1.7	1.8	2.3 ↑	1.3	1.3	2.0	1.7
Macquarie – Senior and Junior Infrastructure Debt	1.2	1.0	1.1	1.6 ↑	0.3	2.5	1.1

# ESG Manager Summaries

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score= 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

# Baillie Gifford – UK Equity Fund

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 2.4

Climate Score: 2.1

Baillie Gifford ("BG") has established comprehensive firm-wide stewardship priorities. The Fund is committed to investing in line with the firm-wide commitment to the Net Zero Asset Managers initiative ("NZAMi").

The Fund has two dedicated ESG analysts who work collaboratively to integrate ESG into the Fund. At a firm level, Baillie Gifford have over 40 people within their ESG team, which work collaboratively.

## Proposed Actions

**Investment Approach** - Consider the use of fund-specific ESG objectives and an ESG scorecard

**Stewardship** – Consider running engagement through a centralised team.

**Reporting** – Consider the inclusion of wider ESG scoring in client reporting, as well as the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.

Assessment Criteria	Score	Overview
Investment Approach	2.4	<ul style="list-style-type: none"><li>The Fund is managed in line with its commitment to meet the delivery of net zero emissions by 2050 or sooner. The Fund has committed to least 90% of the portfolio's direct holdings having a net zero pathway which aligns with a 1.5°C temperature rise by 2030.</li><li>BG are committed to managing the Fund in a way which complies with the United Nations Global Compact.</li></ul>
Risk Management	2.6	<ul style="list-style-type: none"><li>The Fund is supported by two dedicated UK ESG analysts who works hand-in-hand with the UK Equity Portfolio Managers to ensure ESG is fully integrated in the Fund from the bottom up.</li><li>BG utilises a range of external ESG data sources to supplement their in-house analysis.</li></ul>
Stewardship	2.7	<ul style="list-style-type: none"><li>BG has a list of stewardship principles which frame the way it interacts with portfolio firms. Interactions are carried out by both the investment and ESG teams.</li><li>BG can provide detailed examples of engagements with firms on a range of risks, including climate and social related issues.</li></ul>
Reporting	1.7 ↓	<ul style="list-style-type: none"><li>BG's annual sustainability report is thorough; however, the manager does not report on detailed ESG metrics in quarterly reports on a fund level basis.</li></ul>
Collaboration	2.5	<ul style="list-style-type: none"><li>BG is a member of several ESG related initiatives, including UNPRI, TCFD, IIGCC and the Net Zero Asset Managers Initiative.</li></ul>
Climate	2.1	<ul style="list-style-type: none"><li>All the Fund's holdings are assessed on their alignment to net zero, with the highest emitting stocks being subject to further analysis using their Climate Transition Research Framework.</li></ul>

Note: View expressed by Isio are based solely on information provided by the investment managers.  
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# Baillie Gifford – Global Alpha Paris Aligned

 Category rating has improved     Category rating has deteriorated

## Overview

ESG Score: 2.6                      Climate Score: 3.6



The Fund is a variation of the Baillie Gifford ('BG') Global Alpha strategy. The parent fund is adjusted in order to screen out carbon intensive companies from the portfolio.

The Fund has a commitment to lowering carbon intensity and this is assessed by having a lower greenhouse gas intensity than the MSCI ACWI EU Paris Aligned Requirements Index (which itself has an intensity 50% lower than the MSCI ACWI, with a 7% year-on-year decarbonisation pathway).

## Proposed Actions

**Investment Approach** - Consider the use of social / nature objectives within the investment process, as well as an ESG scorecard.

**Reporting** – Consider the inclusion of wider ESG scoring in client reporting, as well as the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.

Assessment Criteria	Score	Overview
Investment Approach	3.3 	<ul style="list-style-type: none"><li>- The Fund utilises a four-stage process is applied to help navigate towards a lower carbon environment. This includes (1) excluding high emission companies; (2) a qualitative questionnaire; (3) assessing firms' strategies for achieving Net Zero; (4) maintaining a weighted average greenhouse gas intensity lower than the MSCI ACWI EU Paris Aligned Requirement Index.</li></ul>
Risk Management	2.6	<ul style="list-style-type: none"><li>- The Fund is supported by a dedicated ESG analyst who is responsible for ESG coordination and stewardship activities.</li><li>- BG utilises a range of external ESG data sources to supplement their in-house analysis; this includes the use of platforms such as Bloomberg, Sustainalytics and MSCI.</li></ul>
Stewardship	2.7	<ul style="list-style-type: none"><li>- BG has a set of firmwide Stewardship principles which are used to engage with portfolio companies.</li><li>- BG can provide detailed examples of engagements with firms on a range of risks, most notably covering climate and social related issues.</li></ul>
Reporting	1.7 	<ul style="list-style-type: none"><li>- BG's annual sustainability report is thorough; however, the manager could provide more detailed and granular data as part of regular standard reporting.</li></ul>
Collaboration	2.5	<ul style="list-style-type: none"><li>- BG is a member of several ESG related initiatives, including UNPRI, TCFD, IIGCC and the Net Zero Asset Managers Initiative</li></ul>
Climate	3.6	<ul style="list-style-type: none"><li>- The Fund has a commitment to have greenhouse gas intensity which is 50% less than the MSCI ACWI, decarbonising year-on-year by 7%.</li></ul>

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score= 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

# Morgan Stanley – Global Sustain Equity Fund

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 2.4

Climate Score: 2.5

While investment teams are ultimately responsible for defining their approach to ESG integration within their funds, Morgan Stanley continue to grow their dedicated Sustainability Team which provides support and training to enhance ESG integration.

The Fund targets a significantly lower greenhouse gas emissions intensity than that of the benchmark, as well as requiring a minimum of 20% of the portfolio be in sustainable investments.

## Proposed Actions

**Risk Management** – Look to model the impact of physical risk on companies and work to improve coverage of GHG emissions.

**Reporting** – Look to produce a dedicated sustainability report for the Fund and consider having ESG metrics independently verified by a third party.

**Climate** – Morgan Stanley should consider setting a firm-level net-zero commitment with agreed interim decarbonisation targets.

Assessment Criteria	Score	Overview
Investment Approach	2.2	<ul style="list-style-type: none"><li>The manager has firm-level and fund-level ESG policies, and has established specific ESG and climate related objectives, with a significant focus on lowering Greenhouse Gas emissions.</li><li>The Fund has a range of exclusions, including companies with links to fossil fuels, tobacco firms, brewers, energy firms, and controversial weapons manufacturers.</li></ul>
Risk Management	3.0	<ul style="list-style-type: none"><li>The investment team makes use of its proprietary ESG scorecard to assess ESG risks and opportunities within the Fund; this team is responsible for defining the fund's approach to ESG considerations. The team is supported by a dedicated Sustainable Investment specialist who helps drive ESG integration in the strategy.</li></ul>
Stewardship	2.3	<ul style="list-style-type: none"><li>Morgan Stanley have four company level engagement priorities and have, identified three fund-level stewardship priorities: planetary boundaries, people welfare, and trust and integrity. Over 2023, the manager launched phase two of their carbon transition engagement programme.</li><li>The investment team are responsible for all voting decisions but collaborate with the Sustainability Team and proxy research providers for additional support.</li></ul>
Reporting	1.8 ↓	<ul style="list-style-type: none"><li>ESG metrics are reported in the Fund's quarterly "ESG Fact Card" and engagement and voting activities are bi-annually disclosed; however Morgan Stanley does not currently publish a dedicated sustainability report for the Fund.</li><li>The Fund reports on scope 1, 2 and 3 emissions; however, portfolio coverage is currently lower than what we would expect to see.</li></ul>
Collaboration	2.8	<ul style="list-style-type: none"><li>Morgan Stanley increased their collaborative efforts over 2023 and worked with wider initiatives to complement their engagement activities for the Fund.</li><li>The manager is a signatory of a range of bodies, including: the 2020 UK Stewardship Code, and TCFD.</li></ul>
Climate	2.5	<ul style="list-style-type: none"><li>The Fund currently has no forward looking ESG objectives; however, aims to achieve a significantly lower GHG emissions intensity than that of the benchmark.</li></ul>



# LGIM Future World Equity Fund

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score= 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 3.2

Climate Score: 4.6

LGIM continues to grow their dedicated and experienced ESG team that drive engagement with portfolio companies on key ESG issues. Within LGIM's Future World Index, a set of exclusions are applied, alongside enhancements based on the comprehensive evaluation of ESG factors.

Climate considerations are a key priority for the Fund, and LGIM are continually improving their capabilities in the space. In 2023, LGIM introduced Scope 3 and GHG emissions data in regular reporting for the Fund.

We view LGIM as being leaders in promoting ESG through collaboration with the broader industry and clients, specifically on climate-related topics.

## Proposed Actions

**Stewardship** – The manager should aim to increase the percentage of portfolio companies they engage with (currently 48%)

**Reporting** – LGIM should strive to have their ESG metrics and data independently verified to ensure accuracy of key metrics and data.

Assessment Criteria	Score	Overview
Investment Approach	3.6	<ul style="list-style-type: none"><li>The Fund has clear forward looking ESG objectives and excludes companies that are violators of the UN Global Company and controversial weapons.</li><li>The Fund tilts towards to companies with favourable ESG credentials, as determined by LGIM's ESG scorecard. This allows the Fund to identify, engage and escalate key ESG issues.</li></ul>
Risk Management	2.7	<ul style="list-style-type: none"><li>LGIM employ a team of 88 individuals that are dedicated to ESG. The team is spread across The Investment Stewardship Team and Responsible Investing Strategy Team, who collectively ensure robust ESG integration and adherence across the Firms' strategies.</li><li>LGIM model climate-related risks and opportunities across asset classes that are considered under three various climate scenarios.</li></ul>
Stewardship	3.5↑	<ul style="list-style-type: none"><li>LGIM's stewardship activity is guided by their Global Stewardship themes. This is implemented at fund level through constant engagement with underlying portfolio companies and the wider industry.</li></ul>
Reporting	2.3	<ul style="list-style-type: none"><li>Scope 1,2, and 3 metrics are provided in the Fund's regular reporting, which is completed on a quarterly basis. The Fund has &gt;70% coverage of GHG emissions data.</li></ul>
Collaboration	3.5	<ul style="list-style-type: none"><li>LGIM are currently members of 50+ initiatives and networks, covering climate change, net zero transition, health, diversity and inclusion and corporate governance around the world.</li></ul>
Climate	4.6↑	<ul style="list-style-type: none"><li>LGIM can clearly demonstrate where engagement is undertaken to strengthen climate risk reduction in the Fund.</li></ul>

Meets Additional Impact Criteria  
Score = 4-5

Meets Additional Sustainable Criteria  
Score = 3-4

Meets Traditional Criteria  
Score = 2-3

Partially Meets Criteria  
Score = 1-2

Significantly Fails to Meet Criteria  
Score = 0-1

↑ Category rating has improved

↓ Category rating has deteriorated

# LGT – Crown Multi Alternatives Fund

## Overview

ESG Score: 2.7 ↑

Climate Score: 2.0

LGT have made strides to improve overall ESG integration at a firm and fund level. Over 2023, LGT established ESG objectives for the Fund and have made improvements to their ESG tool to incorporate additional analysis within their due diligence process.

Stewardship and ESG integration is limited at a fund-level due to the nature of the Fund as it invests in private assets. LGT focus their ESG analysis on the Fund around disciplined due diligence on the underlying managers' integration of ESG into their investment processes.

## Proposed Actions

**Stewardship** – Consider setting explicit stewardship priorities at a Fund-level.

**Reporting** – Improve the level of coverage of emissions data within the Fund.

**Reporting** – Consider producing a dedicated sustainability or impact report for the Fund.

Assessment Criteria	Score	Overview
Investment Approach	2.9	<ul style="list-style-type: none"> <li>LGT have a firm-level net zero commitment and have set interim decarbonisation targets.</li> <li>LGT continue to improve their approach to ESG integration, and over 2023 have set ESG objectives for the Fund, including climate, social and nature-related objectives.</li> </ul>
Risk Management	3.8 ↑	<ul style="list-style-type: none"> <li>LGT regularly update their ESG tool which is used by the investment team during the due diligence process. Over 2023, LGT updated the tool to incorporate climate-related risk considerations.</li> <li>At a firm-level, LGT have published an Equity, Diversity &amp; Inclusion (“ED&amp;I”) policy and have incorporated ED&amp;I improvement targets within their strategic 5-year plan.</li> </ul>
Stewardship	2.2 ↑	<ul style="list-style-type: none"> <li>LGT have set climate action as an overall engagement topic for the firm, with climate action related issues triggering around 70% of all engagements with underlying managers.</li> <li>Given its nature, stewardship within the Fund is limited, with LGT carrying out engagements with managers rather than with individual portfolio companies.</li> </ul>
Reporting	1.1 ↑	<ul style="list-style-type: none"> <li>LGT have started to increase the scope of their reporting, however, the coverage of emissions data within the Fund remains below 50% of the total portfolio.</li> <li>LGT do not currently produce a dedicated sustainability report for the Fund.</li> </ul>
Collaboration	3.3 ↑	<ul style="list-style-type: none"> <li>LGT work collaboratively with other investors where engagement objectives are aligned and are actively engaging in four collaborative engagement initiatives.</li> <li>LGT are a member of a number of collaborative bodies, and over 2023, became a member of the Nature Action 100 initiative.</li> </ul>
Climate	2.0	<ul style="list-style-type: none"> <li>The Fund have climate-related exclusions which apply to the Fund and have developed climate scenario analysis modelling as part of their ESG tool updates.</li> </ul>

Note: View expressed by Isio are based solely on information provided by the investment managers.

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Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score = 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

# BlackRock Long Lease Property Fund

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 2.0

Climate Score: 2.1

BlackRock has a robust firm wide ESG process that is well integrated within its Real Assets platform. Each asset within the portfolio is reviewed from an ESG standpoint and is monitored throughout the lifecycle of an investment. Despite their limited control over properties, they expect to place a greater emphasis on engaging with tenants going forward.

BlackRock has committed to improving their ESG framework on an ongoing basis to identify the ESG risk and rewards associated with each underlying asset. BlackRock currently report on some ESG metrics for the Fund however are actively looking to improve their reporting once data quality is improved.

## Proposed Actions

**Stewardship** - Report and monitor engagement effectiveness overtime

**Reporting** – Provide evidence of detailed ESG metrics within their regular reporting cycle.

**Climate** - To establish a firm level net zero target.

Assessment Criteria	Score	Overview
Investment Approach	2.0 ↓	<ul style="list-style-type: none"><li>BlackRock have a well-integrated sustainable investment policy to ensure ESG considerations are incorporated across all stages of a property assets life cycle.</li><li>Isio's rating of BlackRock's investment approach has fallen from previous years due to a change in our methodology which reflects Isio's year-on-year increases in ESG standards and expectations.</li></ul>
Risk Management	2.6 ↑	<ul style="list-style-type: none"><li>BlackRock's Risk and Quantitative Analysis (RQA) group and Sustainable Investment teamwork alongside one another to evaluate and manage ESG risks for each investment within the portfolio.</li><li>Regardless of whether a fund has a sustainable objective, if ESG risks are financially material the data is incorporated into firmwide risk adjustment processes.</li></ul>
Stewardship	1.5	<ul style="list-style-type: none"><li>BlackRock carries out stewardship reporting at a firm level , engaging with 879 companies out of 2600 on multiple occasions, however, the fund is unable to report stewardship priorities at a fund level, which have been set at a firm level,</li><li>The Fund currently takes the stance that it has limited control over properties and as such BlackRock cannot provide examples of Fund-level engagement.</li></ul>
Reporting	1.3	<ul style="list-style-type: none"><li>As all properties within the fund are controlled by the tenant, BlackRock are unable to generate any Scope 1 and Scope 2 emissions. The fund is able to report Scope 3 greenhouse gas emissions.</li><li>BlackRock currently provide high-level ESG reports to investors with GRESB reports available on requests.</li></ul>
Collaboration	2.8	<ul style="list-style-type: none"><li>BlackRock are ahead of their peers and have identified ESG collaboration as a priority. They are a member of several coalitions and shareholder groups such as UNPRI, GRESB, Net Zero Assets Managers Initiative and more.</li></ul>
Climate	2.1 ↑	<ul style="list-style-type: none"><li>BlackRock pursues an environmental sustainability strategy that is focused on reducing GHG emissions and increasing the efficiency of BlackRock's operations, During 2022, BlackRock made enhancements to the measurement of GHG emissions from its operations by onboarding Watershed, an enterprise climate platform, to improve carbon footprint accuracy, understand emissions drivers, and track the impact of emission reductions against BlackRock's operational science-aligned emission reduction goals.</li></ul>

# IFM Global Infrastructure Fund

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score = 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: **2.5**

Climate Score: **2.2**

IFM comprehensively integrate the firm's Responsible Investment Charter throughout the Fund's investment process and have a clear process for ESG integration through the investment process.

They have specifically included climate concerns throughout their assessment approach, with quantifiable metrics and targets at Fund level. GIF should complete its emission reduction plans at the asset level at the earliest opportunity to assess alignment with its net zero targets.

Reporting is now TCFD and SFDR aligned but there is potential for more detail in fund-level ESG metrics scoring and reporting, especially for social scoring.

## Proposed Actions

**Investment Approach** - Develop an ESG scorecard approach to quantify ESG risks.

**Stewardship** - To make climate and social factors a stewardship priority

**Risk Management** - Improve climate scenario testing and impact on Fund value

**Reporting** - Continue to improve overall Fund level reporting on ESG metrics, particularly social metrics.

Assessment Criteria	Score	Overview
Investment Approach	2.9	<ul style="list-style-type: none"> <li>The Firm is focussed on ensuring new investments are aligned with the Fund's net zero by 2050 commitment. The Fund has set an interim target of a 2.02 million tonnes reduction in CO2 emissions by 2030.</li> <li>The Infrastructure team integrates the Firm's RI policy in their due-diligence checklist, which is reviewed and updated on a regular basis.</li> </ul>
Risk Management	3.2 ↑	<ul style="list-style-type: none"> <li>IFM use external providers (such as Arup, ERM, 427 and Pollination.) to derive climate change research and feed it into the Funds investment process.</li> <li>IFM continue to ensure that key areas of ESG risk such as climate change and modern slavery are embedded into their enterprise risk management (ERM) framework.</li> </ul>
Stewardship	2.4 ↑	<ul style="list-style-type: none"> <li>IFM actively engages with management of portfolio companies, governments and stakeholders. They seek to identify projects and implement initiatives that build resilience to the impacts of climate change and create wider social and economic value.</li> </ul>
Reporting	1.5	<ul style="list-style-type: none"> <li>IFM have published disclosures to comply with SFDR's level 1 requirements and more detailed and quantitative level 2 requirements are to come into effect in 2023. IFM also publish an inaugural TCFD framework-aligned report.</li> <li>There still remains room for improvement on fund level reporting, particularly social metrics.</li> </ul>
Collaboration	2.4	<ul style="list-style-type: none"> <li>IFM actively participate in collaborative initiatives including PCAF, IIGCC (including the PAII and NZIF) and modern slavery engagement with ASX100 companies.</li> <li>In FY22 IFM collaborated with other private debt investors to develop an ESG Covenant Package, aiming to improve reporting of ESG and climate data</li> </ul>
Climate	2.2 ↓	<ul style="list-style-type: none"> <li>IFM will not invest in any new assets that derive revenue from thermal coal (defined as greater than 20% revenue at time of investment).</li> <li>In addition to the net zero by 2050 target, IFM have an interim reduction by 2030 target, which has increased to 2.02 million tonnes due to additions to the portfolio.</li> </ul>

# Nuveen – Global Timberland Fund

Overview

ESG Score: 3.1

Climate Score: 3.3

Nuveen has a firmwide Responsible Investment (“RI”) policy which sets out their approach to ESG and supports stewardship efforts across their funds. They have a dedicated RI team who drives their RI programme and works collaboratively with the different fund management teams.

At a fund level, in line with its Global Sustainability Policy, the Global Timberland Fund encourages asset operators to comply with industry best practices for responsible forest management.

Proposed Actions

Risk Management

– Consider the use of an ESG scorecard as part of the Fund’s due diligence process and ongoing monitoring of investments.

Stewardship

- Consider setting individual objectives or key performance indicators (KPIs) for the fund’s asset operators.

Reporting

– Finalise the production of their fund-specific Sustainability Report and ensure it demonstrates how the assets have made a positive environmental impact.

Collaboration

- Nuveen should continue to progress its application for the UK Stewardship Code for 2024.

Assessment Criteria	Score	Overview
Investment Approach	3.6	<ul style="list-style-type: none"> <li>Nuveen have a firm-level ESG policy and at a fund level, have established ESG objectives for the Global Timberland Fund, as set out in the fund’s Global Sustainability Policy.</li> <li>Nuveen have a commitment to be net zero by 2040 and are working closely with their parent company to develop interim decarbonisation targets. Nuveen continue to follow industry best practices until firm-specific targets have been agreed.</li> </ul>
Risk Management	3.3	<ul style="list-style-type: none"> <li>Nuveen have a dedicated RI team who administer the firm’s RI programme and support the investment team in integrating ESG considerations within the portfolio.</li> <li>The Fund utilises third party ESG data to assess climate risk and wider ESG risks as part of the due diligence process for prospective investments.</li> </ul>
Stewardship	3.6	<ul style="list-style-type: none"> <li>At a fund level, Nuveen has adopted 4 key stewardship priorities which revolve around the responsible management of certified Timberland assets.</li> <li>The manager works closely with its asset operators to establish long-term management plans that align with their stewardship priorities for the Fund..</li> </ul>
Reporting	1.9	<ul style="list-style-type: none"> <li>Nuveen provide annual reporting on scope 1 and 2 emissions and have informed estimates on Scope 3 emissions. Data is verified internally and is subject to Nuveen’s compliance review prior to publication.</li> <li>The Fund will publish its first fund-specific sustainability report in 2024, following the publication of the annual firmwide report in June.</li> </ul>
Collaboration	2.4	<ul style="list-style-type: none"> <li>Nuveen engage with a variety of groups to shape industry best practices and standards and are a signatory to a number of key organisations including the UN PRI. Nuveen are in the process of applying for the 2024 UK Stewardship Code.</li> </ul>
Climate	3.3	<ul style="list-style-type: none"> <li>The Fund has climate adaptations in place which build on existing forest management strategies.</li> <li>In line with industry best practice, the Fund contributes to climate change mitigation through its responsible forestry practices and environmental stewardship</li> </ul>



Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score= 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

# Quinbrook – Renewable Infrastructure Fund ('RIF')

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

**ESG Score: 3.4**

**Climate Score: 4.4**

Quinbrook's fundamental investment strategy is to build energy infrastructure and related businesses that support the transition to net zero. Quinbrook have a firmwide Responsible Investment and ESG policy which covers their approach to ESG and a Stewardship policy which supports their engagement with portfolio companies.

At a Fund level, RIF integrates ESG throughout the investment process. Each investment completed by the Fund supports the UK's net zero energy transition, providing solutions to ensure a more reliable and accessible carbon-free power supply for the UK.

## Proposed Actions

**Investment Approach** - Consider the use of an ESG scorecard as part of the Fund's due diligence process and ongoing monitoring of investments.

**Risk Management** – The manager could consider tracking and setting specific targets for Equality, Diversity and Inclusion ("ED&I") metrics.

**Reporting** – Provide reporting on ESG ratings for underlying portfolio companies within the Fund. Consider the use of a third party or impact/thematic specialist to verify reporting data.

Assessment Criteria	Score	Overview
Investment Approach	4.2	<ul style="list-style-type: none"><li>The Fund focuses on investments that directly support the UK's "Net Zero" energy transition and provide solutions for decarbonisation and clean energy.</li><li>The Fund supports broader sustainability goals within its portfolio companies, aligned with protocols such as the UN Sustainable Development Goals ("UN SDG") and TCFD.</li></ul>
Risk Management	3.2	<ul style="list-style-type: none"><li>Quinbrook has established a structured internal framework for identifying ESG risks, opportunities and UN SDG alignment during the due diligence of new investments and ongoing asset management.</li><li>All team members are expected to drive Impact within the RIF and are supported by Quinbrook's dedicated sustainable investment team who feed into the investment decision making.</li></ul>
Stewardship	2.1	<ul style="list-style-type: none"><li>Quinbrook has a publicly available Stewardship policy which is reviewed at least every 2 years. As the sole or majority owner of invested assets, Quinbrook has strong levels of engagement and influence over portfolio companies within the RIF.</li></ul>
Reporting	3.9	<ul style="list-style-type: none"><li>Quinbrook provides quarterly reporting on scope 1, 2 and 3 carbon emission data, along with broader ESG metrics. Data is verified internally in line with GHG Protocol.</li><li>A sustainability report is included within the RIF's quarterly report. A firm-wide Climate Opportunity and Impact report is also published annually.</li></ul>
Collaboration	3.5	<ul style="list-style-type: none"><li>Quinbrook is a member or signatory to a number of key organisations such as the 2021 UK Stewardship Code and have published a Stewardship Outcomes report to provide greater transparency into their commitment to ESG-related issues.</li><li>Their UN PRI score in 2023 was 5 stars out of 5, achieving 100% in 2 of the 3 assessed categories and 98% in the other.</li></ul>
Climate	4.4	<ul style="list-style-type: none"><li>Quinbrook has a firm-level net zero commitment covering all AUM, and 100% of investments in the RIF support the UK's net zero energy transition.</li></ul>



# M&G Alpha Opportunities Fund

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score = 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 2.3

Climate Score: 2.3

M&G boasts a robust company-wide ESG strategy, illustrating their competency in managing ESG risks within the Fund. However, the ESG reporting lags vs peers in the market as M&G do not produce detailed ESG metrics and tracking for the assets contained within the portfolio.

M&G have launched a 'sustainable' version of the fund with a greater focus on impact investments to cater for clients with stronger ESG objectives.

## Proposed Actions

**Investment Approach** – Consider implementing a fund-level ESG policy.

**Stewardship** – Look to formalise stewardship priorities at the fund level and increase proportion of underlying portfolio assets that are engaged with.

**Reporting** – Continue to improve data coverage and reporting metrics.

**Reporting** – Disclose the ESG ratings for assets held in the Fund in quarterly reporting.

Assessment Criteria	Score	Overview
Investment Approach	2.3	<ul style="list-style-type: none"> <li>M&amp;G have a comprehensive firm-level ESG policy which includes a firm-level net zero commitment for all M&amp;G portfolios. They also have an ambition for all investments to have board gender equality by 2027.</li> <li>There is no additional emphasis on ESG components at the fund level beyond the company policy.</li> </ul>
Risk Management	2.4	<ul style="list-style-type: none"> <li>M&amp;G utilises data from MSCI to inform ESG evaluations for the Fund, as they consider MSCI's coverage to be the most comprehensive among providers.</li> <li>The Stewardship and Sustainability team at M&amp;G serve as an essential ESG hub working with portfolio managers to ensure optimal sustainability outcomes for the Fund.</li> </ul>
Stewardship	2.8	<ul style="list-style-type: none"> <li>Despite overall engagement as a proportion of the portfolio being modest, M&amp;G have highlighted examples where engagement was employed to improve climate and social outcomes within the scope of the mandate.</li> </ul>
Reporting	1.4	<ul style="list-style-type: none"> <li>M&amp;G continue to lag vs peers in terms of ongoing ESG data reporting. In addition, M&amp;G do not produce a dedicated sustainability impact report where ESG metrics are clearly outlined and illustrated through case studies.</li> </ul>
Collaboration	3.0	<ul style="list-style-type: none"> <li>M&amp;G are a signatory to the 2020 UK stewardship code and the NAZMI. The manager can clearly evidence engagements with the wider industry in line with the firm level ESG policy.</li> </ul>
Climate	2.3	<ul style="list-style-type: none"> <li>The Fund is captured by M&amp;G's firm-wide net-zero commitment by 2050, with agreed interim decarbonisation targets.</li> <li>M&amp;G report on scope 1, 2 and 3 emissions on an ad hoc basis.</li> </ul>

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score = 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

# M&G Index-Linked Gilts ('ILG') Fund

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 1.4

Climate Score: 1.4

M&G showcase a comprehensive firm-wide ESG approach with a commitment to net-zero emissions across all portfolios by 2050, with a dedicated stewardship team also in place.

Isio continue to engage with M&G to support ESG improvements at a fund-level where possible. However, M&G have limited scope to integrate ESG into the Fund's investment process due its focus on index-linked gilt investments only.

## Proposed Actions

**Investment Approach** – Once more widely available for index-linked gilts, M&G should look to include Green Gilts in the portfolio.

**Risk Management** – Look to establish a more formal ESG training programme for investment teams.

**Stewardship** – Provide examples of fund-level engagement with the UK government on ESG-related issues.

**Reporting** – Look to improve coverage of emissions data for the Fund

Assessment Criteria	Score	Overview
Investment Approach	0.8 ↓	<ul style="list-style-type: none"><li>– M&amp;G have a comprehensive firm-wide ESG policy and net zero commitment in place, which covers this fund.</li><li>– However, there is limited evidence of ESG enhancement at the fund level, as Green Gilt issuance, particularly in the index-linked bond space, remains low.</li></ul>
Risk Management	0.7 ↓	<ul style="list-style-type: none"><li>– M&amp;G has a dedicated Sustainable Investment team and offers optional ESG training to all staff.</li><li>– M&amp;G have set ESG objectives and investment exclusions at the firm level, although there is limited scope to apply these at the fund level given the only applicable issuer is the UK government.</li></ul>
Stewardship	2.0	<ul style="list-style-type: none"><li>– M&amp;G have explicit firm-wide climate and social stewardship priorities which are listed in their annual Stewardship Report, however, there is no evidence of how these are adopted by the Fund.</li><li>– M&amp;G were unable to provide any examples of engagement with the UK government on climate or social issues.</li></ul>
Reporting	0.4	<ul style="list-style-type: none"><li>– M&amp;G can report on carbon emission and implied temperature rise data for the Fund and report in line with the Carbon Emission Template (CET). However, this currently does not require reporting of data on UK sovereigns, therefore the data coverage of the Fund is very low.</li></ul>
Collaboration	2.8 ↓	<ul style="list-style-type: none"><li>– M&amp;G actively engage with several initiatives focused on ESG, e.g. NZAMI, TCFD, TNFD, Climate Action 100+ and the UK 2020 Stewardship code.</li></ul>
Climate	1.4	<ul style="list-style-type: none"><li>– The Fund is captured by M&amp;G's firm-wide net-zero commitment by 2050, with agreed interim decarbonisation targets.</li><li>– M&amp;G report on scope 1 and 2 emissions on an ad hoc basis.</li></ul>

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score= 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

# Partners Group ('PG') – Private Credit

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 1.7

Climate Score: 1.3

PG continue to demonstrate a strong firm-wide approach to ESG and have strong ESG teams and practices.

They have a strong screening process in their investment approach, using industry recognised guidance, such as the TCFD and UN Global Impact. However, PG lag peers in reporting and therefore seen their score downgraded in this area.

## Proposed Actions

**Risk Management** – Review and update the ESG scorecard on an annual basis. Include climate and social risks within ESG assessments.

**Stewardship** - Provide examples of engagements where they have enhanced ESG specific factors within the mandate.

**Reporting** – Introduce ESG reporting in regular fund reporting, including ESG metrics.

Assessment Criteria	Score	Overview
Investment Approach	2.8	<ul style="list-style-type: none"><li>PG have a firmwide ESG policy, which includes ESG targets focusing on climate change, diversity and inclusion and corporate governance, and have a firmwide net zero commitment covering all AUM. However, the private credit funds do not currently have fund-level ESG objectives.</li><li>ESG factors are integrated throughout the investment process with PG utilising an ESG scorecard as part of the due diligence process.</li></ul>
Risk Management	1.4	<ul style="list-style-type: none"><li>PG have a dedicated ESG and Sustainability team, with the Board of Directors responsible for the firm's sustainability strategy.</li><li>However, PG do not explicitly capture climate, physical, nature or social risks in their ESG assessments, and cannot provide climate modelling.</li></ul>
Stewardship	1.2	<ul style="list-style-type: none"><li>PG do not list explicit climate, social or biodiversity factors as stewardship policies, which lags peers.</li><li>PG have a central process for engaging with the underlying portfolio companies, however, they are not able to provide evidence of engagement in line with any stewardship priorities for each fund.</li></ul>
Reporting	0.8 ↓	<ul style="list-style-type: none"><li>PG report on ESG metrics on an annual basis, however they do not currently report on their temperature pathway alignment or provide fund-level coverage of emissions data.</li></ul>
Collaboration	2.3	<ul style="list-style-type: none"><li>PG collaborate regularly with other industry participants and are signatories to the UK Stewardship Code.</li></ul>
Climate	1.3	<ul style="list-style-type: none"><li>The Fund does not have any climate specific objectives, but PG have a Climate Change Strategy and a commitment to Net Zero.</li></ul>

# Permira – PCS III

## Overview

**ESG Score: 1.3**

**Climate Score: 0.9**

Given this fund vintage is fully deployed, the scope for fund-level improvements is limited. Future improvements are therefore likely to focus on enhancing engagement and reporting capabilities.

Permira has a dedicated ESG team which supports engagement actions and aids training across the credit business. Permira have sought to improve data collection through primary data collection to feed into reporting quality, however these areas have been downgraded from last year due to the standards improving across newer vintages within the direct lending space.

## Proposed Actions

**Investment Approach** - Set specific ESG objectives relating to areas such as climate, social and nature.

**Voting & Engagement** - Enhance tracking and monitoring of engagements.

**Reporting** – Improve reporting and the gathering of data on ESG characteristics of the portfolio.

**Climate** – Set a target to achieve Net Zero.

Meets Additional Impact Criteria  
Score = 4-5

Meets Additional Sustainable Criteria  
Score = 3-4

Meets Traditional Criteria  
Score= 2-3

Partially Meets Criteria  
Score = 1-2

Significantly Fails to Meet Criteria  
Score = 0-1

↑ Category rating has improved

↓ Category rating has deteriorated

Assessment Criteria	Score	Overview
Investment Approach	1.3	<ul style="list-style-type: none"> <li>Permira have a firm-wide ESG policy but there are no explicit ESG-related objectives at the fund level. Unlike the latest vintage, these funds made little/no use of ESG ratchets given these are a recent development.</li> <li>An ESG scorecard was used during the initial due diligence process and is used for ongoing monitoring.</li> </ul>
Risk Management	1.7	<ul style="list-style-type: none"> <li>Permira has a dedicated ESG team and the ESG Lead has oversight over all ESG matters across the Permira's Credit funds. In addition, all Permira Credit employees receive regular training sessions on ESG integration.</li> <li>However, Permira is unable to model the impact of physical risks or different climate change scenarios on the value of their funds.</li> </ul>
Stewardship	0.7 ↓	<ul style="list-style-type: none"> <li>Permira request ESG data from issuers annually to assess them against ESG-related KPIs. However, evidence of meaningful engagement with a significant proportion of the portfolios is more limited.</li> </ul>
Reporting	1.0 ↓	<ul style="list-style-type: none"> <li>Permira provide annual firm and fund-level ESG reports to update investors on ESG matters. While climate reporting is provided, Permira do not report on the individual ESG ratings of individual portfolio companies.</li> </ul>
Collaboration	2.0	<ul style="list-style-type: none"> <li>Permira are signatories of several organisations including Principles for Responsible Investment and the ILPA ESG Data Convergence Initiative. However, Permira are not signatories to the UK 2020 UK Stewardship code.</li> </ul>
Climate	0.9	<ul style="list-style-type: none"> <li>Permira are dedicated to setting Science-Based Targets at the firm level with a proposed target of a 70% reduction in scope 1 and 2 emissions by 2030. However, they currently do not have a Net Zero commitment.</li> </ul>

Note: View expressed by Isio are based solely on information provided by the investment managers.

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# Permira – PCS V

## Overview

**ESG Score: 1.7**

**Climate Score: 1.7**

As an SFDR Article 8 rated fund, Permira have enhanced ESG integration in PCS V compared to their previous fund vintages. The main improvements related to this are an enhanced ESG scorecard used in the due diligence process and the use of ratchets to incentivise borrowers to meet ESG-related KPIs.

Permira has a dedicated ESG team which supports investment decisions and aids training across the credit business. Permira utilise an ESG scorecard in their due diligence process and enhanced their risk management by adding in additional parameters to assess environmental and societal impacts.

## Proposed Actions

**Investment Approach** – Increase the use of ratchets across new deals made.

**Stewardship** – Enhance level of engagements and provide evidence of the impact of these.

**Reporting** – Improve fund-level reporting and the gathering of data on fund ESG characteristics.

**Climate** – Set a firmwide commitment to Net Zero.

Meets Additional Impact Criteria  
Score = 4-5

Meets Additional Sustainable Criteria  
Score = 3-4

Meets Traditional Criteria  
Score = 2-3

Partially Meets Criteria  
Score = 1-2

Significantly Fails to Meet Criteria  
Score = 0-1

↑ Category rating has improved

↓ Category rating has deteriorated

Assessment Criteria	Score	Overview
Investment Approach	1.8	<ul style="list-style-type: none"> <li>Permira have a firm-wide ESG policy but there are no explicit ESG-related objectives at the fund level. However, PCS V does have an exclusion list which includes thermal coal mining and extraction of oil and gas.</li> <li>Permira utilise ratchets to financially incentivise issuers to achieve ESG KPIs. However, these have only been enacted for a small portion of the portfolio.</li> </ul>
Risk Management	2.3 ↑	<ul style="list-style-type: none"> <li>Permira has a dedicated ESG team and the ESG Lead has oversight over all ESG matters across Permira's credit funds.</li> <li>Additional parameters have been implemented in PCS V to help assess the environmental and social impacts of a potential issuer. If significant ESG risks are identified as part of this, the opportunity is not progressed.</li> </ul>
Stewardship	1.3	<ul style="list-style-type: none"> <li>Permira request ESG data from issuers annually to assess them against ESG-related KPIs. Evidence of engagement in line with key priorities is more prevalent in PCS V than older PCS vintages.</li> </ul>
Reporting	1.3	<ul style="list-style-type: none"> <li>Permira provide annual firm and fund-level ESG reports to update investors on ESG matters, including climate reporting. Specifically for PCS V, data is verified by a third party.</li> </ul>
Collaboration	2.0	<ul style="list-style-type: none"> <li>Permira are signatories of several organisations, including Principles for Responsible Investment and the ILPA ESG Data Convergence Initiative. However, Permira are not signatories to the UK 2020 UK Stewardship code.</li> </ul>
Climate	1.7	<ul style="list-style-type: none"> <li>Permira are dedicated to setting Science-Based Targets at the firm level with a proposed target of a 70% reduction in scope 1 and 2 emissions by 2030. However, Permira currently does not have a Net Zero commitment.</li> </ul>

Meets Additional  
Impact Criteria  
Score = 4-5

Meets Additional  
Sustainable Criteria  
Score = 3-4

Meets Traditional  
Criteria  
Score = 2-3

Partially Meets  
Criteria  
Score = 1-2

Significantly Fails to  
Meet Criteria  
Score = 0-1

# Macquarie – Senior / Junior Infrastructure Debt

↑ Category rating  
has improved

↓ Category rating  
has deteriorated

## Overview

ESG Score: 1.2

Climate Score: 1.1 ↑

Macquarie has made improvements to its implementation of ESG policies, stewardship and risk analysis at the firm level, however, this strategy lacks specific ESG objectives, reporting is both lacking in terms of detail and frequency.

Due to the limitation of publicly available data on carbon emissions, Macquarie has excluded its Private Credit strategies from its firm level net zero target.

## Proposed Actions

**Investment Approach** – Set up strategy specific ESG objectives.

**Risk Management** – Develop an ESG scorecard that can be used as part of asset due diligence.

**Stewardship** – Set up a central process and escalation policy for engagement of portfolio assets.

**Reporting** – Provide regular reporting (ideally quarterly) of ESG metrics at the strategy level and ESG ratings of individual portfolio assets.

Assessment Criteria	Score	Overview
Investment Approach	1.0	<ul style="list-style-type: none"><li>At the firm level, Macquarie has an ESG policy and a commitment to net-zero by 2040, albeit this does not cover this strategy.</li><li>Macquarie does not utilise an ESG scorecard however, it uses tools such as RepRisk to screen for ESG risks during the due diligence process.</li></ul>
Risk Management	1.1	<ul style="list-style-type: none"><li>Macquarie has a dedicated Sustainability Team (28 individuals).</li><li>There is insufficient evidence that ESG risks are captured during the investment due diligence process – evidenced by the lack of a scorecard.</li></ul>
Stewardship	1.6 ↑	<ul style="list-style-type: none"><li>Macquarie has no central process for engaging with portfolio companies.</li><li>Macquarie are commended from a stewardship perspective mainly due to its activities carried out at a firm level.</li><li>This includes providing an annual Stewardship Report covering its firm-level ESG policies, engagement activities and outcomes.</li></ul>
Reporting	0.3	<ul style="list-style-type: none"><li>Macquarie provides a firm-level annual Sustainability Report outlining its approach to sustainability including examples.</li><li>At a strategy level, carbon footprint data can be provided on an adhoc basis, however, no emissions or ESG metrics within regular reporting are available.</li></ul>
Collaboration	2.5	<ul style="list-style-type: none"><li>Macquarie is part of industry working groups (e.g. GRESB) that promote sustainability issues, in addition to being a signatory to the 2020 UK Stewardship Code and UNPRI.</li></ul>
Climate	1.1 ↑	<ul style="list-style-type: none"><li>Macquarie monitors climate factors in its portfolios however, this strategy does not have formal climate objectives, nor are regular TCFD metrics available.</li></ul>



# Proposed Actions

# Proposed Actions (1)

- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started




Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Baillie Gifford – UK Equity	Investment Approach	🕒	<p>Consider the use of fund-specific ESG objectives and an ESG scorecard.</p> <p><i>BG manage Scottish Border's UK Equity Portfolio in line with the following ESG commitments: by 2030, at least 90% of the portfolio's direct holdings will have a net zero pathway which aligns with a 1.5°C temperature rise. However, they did not provide details of any other specific ESG objectives or mention the implementation of an ESG scorecard for the Fund.</i></p>
	Risk Management	🕒	<p>Consider the use of ESG scoring of assets held within the portfolio</p> <p><i>BG utilise their own 4 question Climate Transition Framework to carry out climate analysis on the highest emitting stocks within the portfolio, but did not provide details on the implementation of an ESG scorecard.</i></p> <p>Consider the introduction of climate scenario analysis</p> <p><i>BG include climate-related risks and opportunities facing the Fund under different climates, over the short to long term as part of their annual TCFD report.</i></p>
	Stewardship	🕒	<p>Consider running engagement through a centralised team</p> <p><i>There is a dedicated ESG Services team but it is currently unclear how this team manages the overall engagements.</i></p>
	Reporting	🕒	<p>Consider the inclusion of wider ESG metrics in client quarterly reporting.</p> <p><i>There is an overview of key ESG developments included within the quarterly reports at present, however, wider ESG metrics have yet to be incorporated. BG should consider the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.</i></p>


# Proposed Actions (2)

- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started




Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Baillie Gifford – Global Alpha Paris Aligned	Investment Approach	✗	Consider introducing social objectives and using an ESG scorecard
	Risk Management	🕒	Consider the use of ESG scoring of assets held within the portfolio
			<i>BG utilise their own 4 question Climate Transition Framework to carry out climate analysis on the highest emitting stocks within the portfolio, but did not provide details on the implementation of an ESG scorecard.</i>
	Stewardship	✗	Consider the introduction of climate scenario analysis
			<i>BG include climate-related risks and opportunities facing the Fund under different climates, over the short to long term as part of their annual TCFD report.</i>
	Reporting	✗	Consider the inclusion of wider ESG metrics in client quarterly reporting
			<i>There is an overview of key ESG developments included within the quarterly reports at present, however, wider ESG metrics have yet to be incorporated. BG should consider the inclusion of carbon footprint and implied temperature pathway data as part of regular standard reports.</i>

# Proposed Actions (3)

-  Action completed
-  Action in progress
-  Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Morgan Stanley – Global Sustain Equity Fund	Investment Approach		<p>Morgan Stanley should consider implementing a firm-level net zero target.</p> <p><i>The firm is carbon neutral, and the parent company, Morgan Stanley, has a target of being net zero by 2050; however, Morgan Stanley Investment Management does not yet have a specific commitment.</i></p>
	Stewardship		<p>Morgan Stanley should consider having engagement managed by a central team.</p> <p><i>The Global Stewardship team co-ordinates stewardship and engagement activities, working closely with the investment teams.</i></p>
	Reporting		<p>Morgan Stanley should consider tracking social metrics as part of their ESG regular reporting.</p> <p><i>While these are provided as part of ad hoc reporting, they are not yet available as part of regular reporting.</i></p>
	Climate		<p>Morgan Stanley should consider aligning with a temperature pathway.</p>

# Proposed Actions (4)

-  Action completed
-  Action in progress
-  Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
LGIM – Future World Equity	Risk management	✓	LGIM have considered mandating ESG training across its investment divisions, by providing training for investment professionals regarding the development of sustainability and governance changes.
		✓	LGIM is now producing Scope 3 emissions data for the fund.
	Stewardship	✗	The manager should aim to increase the percentage of portfolio companies they engage with (currently 48%)
	Reporting	✗	LGIM should considered incorporating social metrics outside of the typical ICSWG band.
		✗	LGIM should strive to have their ESG metrics and data independently verified to ensure accuracy of key metrics and data.




# Proposed Actions (5)





- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
LGT – Crown Multi Alternatives	Stewardship	✗	LGT could consider setting explicit stewardship priorities at a Fund-level.
	Reporting	🕒	The level of coverage of emissions data within the Fund could be improved. <i>LGT are currently considering this and which data to show.</i>
		✗	LGT could consider producing a dedicated sustainability or impact report for the Fund.
BlackRock – Long Lease Property	Reporting	🕒	Provide evidence they are providing detailed ESG metrics within their regular reporting cycle. <i>BlackRock continue to provide limited ESG metrics in Q3 2023 – GHG emissions only</i>
	Stewardship	🕒	Report and monitor engagement effectiveness overtime. <i>BlackRock are working on providing more data in 2024. Quarterly reports now include carbon data.</i>
	Climate	✗	To establish a firm level net zero target.



# Proposed Actions (6)

-  Action completed
-  Action in progress
-  Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
IFM – Global Infrastructure Fund	Investment Approach		Develop ESG scorecard approach to quantify ESG risks at asset level. <i>The Fund has not developed a scorecard to report on quantifiable ESG risks.</i>
	Risk Management		Improve climate scenario testing and impact on Fund value. <i>IFM provide carbon emissions data as specified by the Partnership for Carbon Accounting Financials (PCAF) but could continue to improve the reported carbon metrics for the Fund.</i>
	Reporting		Continue to improve Fund level reporting on ESG metrics, particularly social metrics <i>Social areas of ESG risk are embedded into ERM framework. However, further action needs to be taken so that the Fund is reporting on social metrics.</i>
	Stewardship		To make climate and social factors a stewardship priority

# Proposed Actions (7)

- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Nuveen – Global Timberland Fund	Risk Management	✗	Nuveen should consider the use of an ESG scorecard as part of the Fund’s due diligence process and ongoing monitoring of investments.
	Stewardship	✗	Consider setting individual objectives or key performance indicators (KPIs) for the fund’s asset operators.
	Reporting	🕒	Finalise the production of their fund-specific Sustainability Report and ensure it demonstrates how the assets have made a positive environmental impact.  <i>This is in the pipeline following the publication of the annual firmwide report in June.</i>
	Collaboration	🕒	Nuveen should continue to progress its application for the UK Stewardship Code for 2024.  <i>This is in progress.</i>
Quinbrook – Renewable Infrastructure Fund	Investment Approach	🕒	Quinbrook could consider the use of an ESG scorecard as part of the Fund’s due diligence process and ongoing monitoring of investments.  <i>Quinbrook have confirmed that this is being updated and intended to be rolled out over Q1 2024.</i>
	Risk Management	✗	The manager could consider setting Equality, Diversity and Inclusion (“ED&I”) metrics and targets and measure improvements against these.
	Reporting	✗	Quinbrook could provide reporting on ESG ratings for underlying portfolio companies within the Fund.
		✗	Quinbrook could consider using a third party or impact/thematic specialist to verify their reporting data.

# Proposed Actions (8)

- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started




Mandate	Proposed Action Category	Progress	Manager Progress Against Action
M&G – Alpha Opportunities Fund	Investment Approach	✗	Consider implementing a fund level ESG policy.
	Stewardship	✗	Look to quantify engagements on stewardship priorities at a fund level
	Reporting	🕒	M&G should continue to improve reporting metrics and in particular focus on social and engagement reporting, in addition to engaging with issuers to improve data quality within the portfolio.
		✗	M&G should report on the ESG rating / scores for assets held in the Fund.
	Climate	✗	Consider reporting fund level carbon footprint in regular reporting.
M&G – UK Index-Linked Gilts	Investment Approach	✗	Once more widely available for index-linked gilts, M&G should look to include Green Gilts in the portfolio.
	Risk Management	✗	M&G could consider establishing a more formal ESG training programme for investment teams.
	Stewardship	✗	M&G should provide examples of Fund-level engagement with the UK government on ESG related issues.
	Reporting	🕒	<p>M&amp;G have started reporting emissions data for the Fund but should look to improve the proportion of the Fund being covered in the data.</p> <p><i>This is in progress</i></p>

# Proposed Actions (9)

- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Partners Group – Private Credit	Investment Approach	🕒	The Fund has set ESG-objectives through sustainability-linked loans but does not have an overarching or quantifiable target.
		✗	Set clear and quantifiable Fund-level ESG targets.
		✗	Include specific social, climate and natural-related objectives at a Fund-level.
	Risk Management	✗	Review and update the ESG scorecard on an annual basis. Include climate and social risks within their ESG assessments.
		✗	Include climate and social risks within their ESG assessments.
	Reporting	🕒	Begin reporting on temperature pathway alignment and emissions data at a Fund-level.
Permira – Direct Lending PCS	Investment Approach	✗	Set more specific ESG objectives relating to areas such as climate, social and nature.
	Reporting	✗	Improve reporting on ESG characteristics including areas which are lacking in monitoring such as biodiversity. Permira should also consider increasing the frequency and regularity of reporting.
	Stewardship	✗	Enhance the monitoring and documentation of interactions by offering additional examples/case studies that demonstrate Permira's capabilities in stewardship.
	Climate	✗	Set a target timeframe and create a plan of action to achieving Net Zero carbon emissions

# Proposed Actions (10)

-  Action completed
-  Action in progress
-  Action not yet started

Mandate	Proposed Action Category	Progress	Manager Progress Against Action
Macquarie – Infrastructure Debt	Investment Approach		Set up fund specific ESG objectives
	Risk Management		Develop an ESG scorecard that can be used as part of due diligence.
	Stewardship		Set up a central process and escalation policy for engagement of portfolio assets. <i>In progress.</i>
			Provide better evidence of engagement in line with stewardship priorities <i>In progress.</i>
	Reporting		Provide evidence of regular reporting of ESG metrics at the strategy level, including monitoring and outcomes of stewardship activity
			Provide ESG ratings of individual portfolio assets.

## Summary & Next Steps



# Summary and Next Steps

## Summary

- The Fund's investment mandates have retained their meets traditional criteria or at a minimum partially meets our criteria on an overall basis, with the credit and private market mandates continuing to lag the scores of the Fund's equity and alternative mandates. This is not unexpected given the nature of these markets where ESG integration is more difficult to achieve due to a variety of factors.
- While Isio's ESG scoring system has become more robust since last year - "raising the bar" - it should be noted that Amber (i.e. 'partially meets criteria', scoring between 1-2) is a good outcome and requires strong integration of ESG risks and considerations, while Green (i.e. 'meets criteria', scoring above 2) reflects best practice in the market and above the average industry peers. From this perspective we believe the Fund remains in a strong position from an ESG point of view and ahead of other similarly placed LGPS Funds.
- We note both the ESG and climate scores have improved since the 2022 review despite the stricter criteria driven by the newly incepted mandates.
- While at an overall level all mandates satisfy requirements, there are individual areas within various mandates which could potentially be improved, although we acknowledge that in certain structures (for example closed-ended funds or fund-of funds) some changes can be more challenging to make than others, but we have identified areas of improvement for all funds. In particular, the majority of the Fund's managers have underperformed with regards to their reporting on ESG metrics.
- The Fund continues to achieve an above satisfactory score on climate grounds and has seen an improvement to its overall score in this area since the previous assessment. We expect to see further improvements in climate scores going forward, as managers continue to place greater emphasis on climate issues, and data becomes more widely available and increasingly reliable (particularly in private markets).

## Next steps

- We suggest that Isio engage with the investment managers on behalf of the Fund regarding the key actions identified as part of our ESG assessment, with progress again reported at next year's assessment.
- The Committee can use this Impact Assessment as evidence of the Fund's stewardship activity for the year, in adherence to the UK Stewardship Code (2020). This can be included in the Fund's stewardship submission report. The output can also contribute to the analysis required for TCFD compliance.

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The Fund's investment mandates all continue to satisfy ESG requirements at a high level.

We have noted a number of "best practice" managers and additional engagement points for each manager in order to continue to drive ESG improvements going forward.

Appendices

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# A1: ESG Assessment Criteria – Further Detail (1)

## Further Detail on ESG Assessment Criteria

### Investment Approach/ Framework

- The fund's ESG **approach and objectives** are linked to the firm-wide ESG objectives.
- The portfolio management team can talk about **key ESG priority areas** for portfolio holdings and sectors.
- ESG considerations are clearly **integrated** into the manager's investment decision making process and ongoing investment analysis.

### Risk Management

- Each manager should have a **well resourced ESG team** separate from the portfolio management team who drive ESG policy-making
- Firm-wide ESG policies are translated into a fund-level risk management approach. An ESG **scorecard** to provide a quantitative ESG risk assessment.
- The portfolio management team can evidence that ESG risks are material to the **investment process** and that an investment is not made if ESG risk is thought to be too high.
- The manager has appropriate policies in place to quantify **climate change risks** and promote **equality and diversity**.

# A1: ESG Assessment Criteria – Further Detail (2)

Further Detail on ESG Assessment Criteria	
Voting & Engagement	<ul style="list-style-type: none"><li>• The fund's voting &amp; engagement activities are <b>consistent with the Firm-level</b> stewardship policies.</li><li>• Stewardship activities are undertaken by a <b>central stewardship team</b> leveraging capital across the business.</li><li>• The fund's portfolio companies are aware of the manager's <b>key ESG focus areas</b>.</li><li>• The fund can evidence that its engagement priorities have been <b>effective</b>.</li></ul>
Reporting & Monitoring	<ul style="list-style-type: none"><li>• The manager's ESG and stewardship policies are <b>publicly available</b> and are readily accessible.</li><li>• <b>Stewardship activity is reported</b> in regular quarterly reporting.</li><li>• <b>ESG metrics</b> e.g. carbon intensity is incorporated into regular quarterly reporting.</li></ul>
Collaboration	<ul style="list-style-type: none"><li>• The manager is a <b>signatory</b> to key organisations e.g. UN PRI.</li><li>• The manager engages with others in the <b>investment community</b> on ESG issues e.g. regulators.</li><li>• The manager <b>collaborates</b> with other investment managers on ESG issues.</li></ul>

# A2: Disclaimers

## Performance, Opinions, and Estimated Liabilities

- This report sets out the past performance of various asset classes and fund managers. It should be noted that past performance is not a guide to the future.
- Our opinions (and comparison vs criteria) of the investment managers stated in this report are based on Isio's research and are not a guarantee of future performance. These are valid at the time of this report but may change over time.
- Our opinions of investment products are based on information provided by the investment management firms and other sources. This report does not imply any guarantee as to the accuracy of that information and Isio cannot be held responsible for any inaccuracies therein. The opinions contained in this report do not constitute any guarantees as to the future stability of investment managers which may have an effect on the performance of funds.
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- The estimated liabilities (where quoted) have been "rolled forward" from the last actuarial valuation and/or funding update, by taking current bond yields and inflation expectations into account. The methodology underlying the actuarial assumptions (e.g. discount-rate premium, mortality, real salary growth etc.) is assumed to remain constant for this estimate. Due to the approximate nature of the calculations, the Fund's actual experience and changes in future valuation assumptions may mean that the liabilities and funding position calculated at the next actuarial valuation (or funding update) could be significantly different from the quoted estimate.

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