Scottish Borders Council Pension Fund

2024 Responsible Investment Metrics and Targets Report

November 2024

isio.

Introduction

- This report provides the third annual update on the Responsible Investment ("RI") 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 Task Force on Climate-Related Financial Disclosures ("TCFD") regulation for LGPS Funds when this comes in to force.
- The metrics outlined in this report were selected in 2022 and 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 2024, compared to the position as at 30 June 2023.
- The report now includes Scope 3 greenhouse gases and carbon emission metrics, as the Fund's managers have begun reporting this data. The Scope 3 data is included for completeness and to highlight the progress made by the managers in their ability to report this metric. Assessment of the Scope 3 metrics against the Committee's agreed target of "relative improvement" will be considered at the next annual review when a meaningful comparison can be made.
- 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.
- 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 which covered:

- 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.

The Committee received further training on Responsible Investment considerations for the Fund in November 2024, however this training did not specifically cover ESG metrics.

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.

The Committee have adopted a "relative improvement" target, with this to be reviewed over time to ensure it remains appropriate.

Purpose of this report

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

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

The report also allows for comparison against the previous year's position for each investment manager, to allow the Committee to assess the metrics against the agreed "relative improvement" target.

These results should be used to guide decision making, as well as demonstrate compliance with the relevant ESG regulation. Any action taken as a result should be documented.

Responsible Investment Metrics - Recap

Total greenhouse gas emissions (Scope 1-3)

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 1-3)

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^{0}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 2024)	Total GHG Emissions (Scope 1 & 2) 30 June 2023		Total GHG Emissions (Scope 1 & 2) 30 June 2024		Carbon Footprint (Scope 1 & 2) 30 June 2023		Carbon Footprint (Scope 1 & 2) 30 June 2024		Data Quality (Scope 1 & 2) 30 June 2024				
		tCO_2e	Coverage	tCO_2e	Coverage	tCO_2e/ £1m of EVIC	Coverage	tCO_2e/ £1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Progress vs 2023
BG GAPA [1]	13%	2,946.2	99%	2,822.9	99%	26.9	99%	22.9	99%	-	83%	16%	1%	
BG UK [1]	4%	1,242.6	96%	1,278.6	100%	40.1	96%	36.5	100%	-	97%	3%	-	
MS Global Sustain	12%	365.8	100%	369.3	98%	3.7	100%	3.6	98%	-	40%	58%	2%	
LGIM FW	12%	3,170.7	99%	3,064.5	98%	33.0	99%	26.7	98%	-	98%	-	2%	
LGT Crown Multi Alternatives	5%	1,361.8	67%	1,058.6	66%	34.7	67%	37.6	66%	-	34%	32%	34%	
Blackrock LLP [2]	10%	-	-	-	-	-	-	-	-	-	-	-	100%	Can't report Scope 1 & 2
CBRE Residential Property [2]	2%	N/A		-	-	N/A		-	-	-	-	-	100%	
M&G AOF [3]	10%	5,587.3	60%	3,172.8	61%	157.5	60%	74.0	61%	-	56%	10%	34%	
M&G UK ILG [4]	6%	94.3	3%	44.1	2%	62.8	3%	54.0	2%	-	2%	-	98%	
Macquarie MIDF2 [3,5]	3%	7,910.5	100%	4,752.3	100%	242.0	100%	135.9	100%	-	94%	6%	-	
Macquarie MSIG [5]	1%	28,905.4	100%	4,300.1	100%	1,729.3	100%	290.4	100%	-	43%	57%	-	
IFM GIF [1, 3, 5]	3%	3,757.9	100%	3,573.8	100%	101.0	100%	84.3	100%	-	100%	-	-	

Comments

- We recognise Baillie Gifford GAPA total GHG emissions and carbon footprint has increased more than we would expect and we are currently engaging with Baillie Gifford regarding the reason behind this. We are also engaging with Macquarie to understand the significant decline in emissions and carbon footprint for the MSIG strategy.

Notes: Totals may not sum due to rounding. The managers are not scaling up emissions where coverage is not 100% (which is particularly notable for M&G UK ILG). [1] Baillie Gifford and IFM report their data based in USD. [2] Given the nature of the CBRE and BlackRock Property mandates and lease agreements in place, the managers are limited in their ability to directly collate environmental performance information across their respective funds. As such, BlackRock and CBRE are unable to provide Scope 1 & 2 carbon emissions metrics. [3] 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. [4] 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. Isio are currently engaging with them and they are looking to enhance this in due course. [5] Data is provided as at 31 December 2022 and 31 December 2023 given the illiquid nature of the mandates. Source: Investment managers.

Scope 1 & 2 Emissions (2)

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

Manager	Asset Allocation (30 June 2024)	Total GHG Emissions (Scope 1 & 2)				Carbon Footprint (Scope 1 & 2)				Data Quality (Scope 1 & 2)				
		30 June 2023		30 June 2024		30 June 2023		30 June 2024		30 June 2024				
		tCO_2e	Coverage	tCO_2e	Coverage	tCO_2e/ £1m of EVIC	Coverage	tCO_2e/ £1m of EVIC	Coverage	Verified	Reported	Estimated	Unavailable	Progress vs 2023
Partners Group DL (2016) [1, 2]	0%	42.8	32%	2.0	3%	26.9	32%	1.2	3%	-	3%	-	97%	
Partners Group DL (2018) [1, 2]	1%	13.5	15%	3.5	6%	4.0	15%	0.2	6%	-	6%	-	94%	
Partners Group DL (2020) [1, 2]	3%	1.9	4%	1.5	1%	0.3	4%	1.0	1%	-	1%	-	99%	
Permira Fund III [1]	0%	308.5	100%	183.3	100%	27.4	100%	22.9	100%	-	57%	43%	-	
Permira Fund V [1]	3%	582.7	100%	111.1	100%	34.4	100%	4.5	100%	-	59%	41%	-	
Nuveen Timberland [1,3]	1%	N/A		570.4	100%	N/A		53.5	100%	-	-	100%	-	New mandate
Quinbrook RIF [4]	1%	N/A		7.5	100%	N/A		0.9	100%	-	100%	-	-	New mandate
Not covered [5]	8%	-	-	-	-	-	-	-	-	-	-	-	100%	-
Total Portfolio	100%	56,291.8	68%	25,316.5	70%	102.2	68%	40.6	70%	0%	53%	17%	30%	

Comments

- Partners Group coverage has significantly worsened since the data provided as at 31 December 2022. Partners Group changed their collection methodology for 2023, and as a result coverage reduced, driven by reduced disclosures from underlying companies under the new approach, with very few companies completing fields noted as voluntary. Due to the change in process and coverage, comparability versus 2022 is challenging. Partners Group have noted coverage was lower than they anticipated under the new approach and are actively engaging with underlying companies to improve coverage for their next reporting cycle. We are also continuing to engage with Partners Group to improve this coverage and will be able to more meaningfully assess their metrics against the relative improvement target next year following further engagement.
- At a total Fund level, total Greenhouse Gas ("GHG") emissions and carbon footprint metrics have improved from 30 June 2023, with coverage of the metrics also improving, although we note at an underlying manager level, the change in metric data and coverage has been more dispersed. Data quality has also improved since last year at the total Fund level, with a higher proportion of metrics available and formally reported.

Notes: Totals may not sum due to rounding. We have slightly restated a few 2023 numbers where necessary where discovered a discrepancy in manager data previously provided. The managers are not scaling up emissions where coverage is not 100% (which is particularly notable for Partners Group Direct Lending). [1] Data is provided as at 31 December 2022 and 31 December 2023 given the illiquid nature of the mandates. [2] Partners Group confirmed their data collection methodology was changed for this reporting cycle, and coverage fell as a result. As a result of the fall in coverage, we cannot meaningfully compare the change in carbon emissions and as such have not shown this as an improvement for the year. [3] Nuveen report their data based on USD. [4] Quinbrook total carbon emissions are estimated from total fund emissions, based on the Scottish Borders Pension Fund's investment proportion of the overall funds. [5] Not covered includes cash held in the Fund's bank account, the UBS Property mandate which is in the process of being wound down, and the direct infrastructure investment held in conjunction with the Lothian Pension Fund, as this is externally managed. Source: Investment managers.

Scope 3 Emissions

We are unable to show any comparisons as this is the first reporting year for Scope 3 Emissions

Manager	Asset Allocation (30 June 2024)	Total GHG Emissions (Scope 3) 30 June 2024		Carbon Footprint (Scope 3) 30 June 2024	
		tCO_2e	Coverage	tCO_2e/ £1m of EVIC	Coverage
BG GAPA [1, 2]	13%	17,619.2	99%	143.5	99%
BG UK [1, 2]	4%	12,179.5	100%	347.2	100%
MS Global Sustain	12%	10,779.0	86%	116.6	86%
LGIM FW	12%	58,241.1	98%	510.6	98%
LGT Crown Multi Alternatives	5%	3,927.2	37%	248.1	37%
Blackrock LLP	10%	2,130.0	77%	22.9	77%
CBRE Residential	2%	2,664.2	78%	277.4	78%
M&G AOF [3]	10%	12,951.1	52%	540.0	52%
M&G UK ILG [4]	6%	148.2	2%	180.0	2%
Macquarie MIDF2 [3, 5]	3%	3,670.9	100%	104.9	100%
Macquarie MSIG [3, 5]	1%	3,884.1	73%	262.3	73%
IFM GIF [2, 3, 5]	3%	-	-	-	-

Manager	Asset Allocation (30 June 2024)	Total GHG Emissions (Scope 3) 30 June 2024		Carbon Footprint (Scope 3) 30 June 2024	
		tCO_2e	Coverage	tCO_2e/ £1m of EVIC	Coverage
Partners Group DL (2016) [5]	0%	0.0	3%	0.0	3%
Partners Group DL (2018) [5]	1%	287.9	6%	14.8	6%
Partners Group DL (2020) [5]	3%	42.3	1%	28.9	1%
Permira Fund III [5]	0%	2,442.6	100%	305.0	100%
Permira Fund V [5]	3%	576.8	100%	23.4	100%
Nuveen Timberland [2]	1%	241.2	100%	22.6	100%
Quinbrook RIF [3]	1%	1,256.3	100%	145.0	100%
Not covered [6]	8%	-	-	-	-
Total Portfolio	100%	133,084.8	72%	229.3	72%

Comments

- This is the first year reporting Scope 3 emissions data. While data for Scope 3 is typically a lower quality (compared to Scope 1 & 2) and large portion is estimated, coverage of 72% is very strong and suggests a good starting point for future reporting, however we will continue to work with managers to improve data quality as well as coverage.

Notes: Totals may not sum due to rounding. The managers are not scaling up emissions where coverage is not 100%. [1] Baillie Gifford coverage for Scope 3 data is 100% estimated. [2] Baillie Gifford, IFM and Nuveen report their data based on USD. [3] M&G, Macquarie, IFM and Quinbrook total carbon emissions are estimated from total fund emissions, based on the Scottish Borders Pension Fund's investment proportion of the overall funds. [4] 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. [5] Data is provided as at 31 December 2023, given more illiquid nature of the mandates. [6] Not covered includes cash held in the Fund's bank account, the UBS Property mandate which is in the process of being wound down, and the direct infrastructure investment held in conjunction with the Lothian Pension Fund, as this is externally managed.

Source: Investment managers.

Additional Climate Metrics (1)

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

Manager	Asset Allocation (30 June 2024)	Implied Temperature Rise				Climate-related Engagements			
		30 June 2023		30 June 2024		30 June 2023		30 June 2024	
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage
BG GAPA	13%	1.8°C	96%	-	-	25	100%	24	100%
BG UK	4%	2.2°C	83%	-	-	7	100%	3	100%
MS Global Sustain	12%	1.6°C	99%	1.9°C	100%	16	100%	19	100%
LGIM FW	12%	2.7°C	98%	2.7°C	98%	335	100%	1,490	100%
LGT Crown Multi Alternatives	5%	-	-	-	-	-	-	-	-
Blackrock LLP	10%	-	-	-	-	-	-	-	-
M&G AOF	10%	2.6°C	65%	2.3°C	78%	2	100%	11	100%
M&G UK ILG [1]	6%	2.1°C	6%	1.7°C	2%	-	-	-	-
Macquarie MIDF2 [2]	3%	-	-	-	-	-	-	-	-
Macquarie MSIG [2]	1%	-	-	-	-	-	-	-	-
IFM GIF [2]	3%	1.5°C	100%	1.5°C [3]	100%	24	100%	5	100%

Notes: Totals may not sum due to rounding. The managers are not scaling up emissions where coverage is not 100%. [1] The ITR is based off the corporate part of the fund, which makes up 1.51% as at 30 June 2024 (5.83% as at 30 June 2023). The coverage therefore for corporates is 100% although, as this is only based on a limited number of issuers, the ITR is subject to high volatility which should be considered when reviewing the data. [2] Data is provided as at 31 December 2023 and 31 December 2024 given the illiquid nature of the mandates.
Source: Investment managers. [3] IFM has undertaken decarbonisation pathway analysis across 100% of the portfolio, and confirmed that plans and targets in place are consistent with a 1.5 °C (net zero) by 2050 scenario and so have reported this figure, however there is currently no standard methodology for a temperature score or ITR applicable to infrastructure.

Additional Climate Metrics (2)

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

Manager	Asset Allocation (30 June 2024)	Implied Temperature Rise				Climate-related Engagements			
		30 June 2023		30 June 2024		30 June 2023		30 June 2024	
		Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage
Partners Group DL (2016) [1]	0%	-	-	-	-	-	-	-	-
Partners Group DL (2018) [1]	1%	-	-	-	-	-	-	-	-
Partners Group DL (2020) [1]	3%	-	-	-	-	-	-	-	-
Permira Fund III [1]	0%	-	-	-	-	-	-	-	-
Permira Fund V [1]	3%	-	-	-	-	-	-	-	-
CBRE Residential	2%	-	-	-	-	-	-	-	-
Nuveen Timberland	1%	-	-	-	-	-	-	-	-
Quinbrook RIF	1%	-	-	-	-	-	-	-	-
Not covered [2]	8%	-	-	-	-	-	-	-	-
Total Portfolio	100%	2.1°C	55%	2.1°C	38%	409	62%	1,552	59%

Comments

- At a total Fund level, the implied temperature rise ("ITR") metric has marginally worsened, while coverage of the metric has fallen since last year. This has been driven by the lack of reporting of this metric by Baillie Gifford this year, while they provided this last year. Baillie Gifford have said they are currently not reporting ITR due to concerns around coverage and quality of data available from their service provider as well as the calculation methodology for this metric and they are liaising with their data providers to improve this metric along with other portfolio alignment metrics. They provided a figure of 2.3°C for GAPA but as a result of the above, they are currently wary of providing this information and so we have excluded this from the analysis for the time being. We will continue to actively engage with them on progress and report back.
- Overall, ITR has remained broadly stable, however it is challenging to provide meaningful conclusions given the low coverage level and different methodologies used.
- Climate-related engagements have increased significantly since 2023. This has been largely driven by the LGIM equity mandate which contributes c. 97% of the total engagements at total Fund level as the mandate has increased the number of engagements since last year by over 400%.

Notes: Totals may not sum due to rounding. The managers are not scaling up emissions where coverage is not 100%. [1] Data is provided as at 31 December 2023 and 31 December 2024 given the illiquid nature of the mandates. [2] Not covered includes cash held in the Fund's bank account, the UBS Property mandate which is in the process of being wound down, and the direct infrastructure investment held in conjunction with the Lothian Pension Fund, as this is externally managed.
Source: Investment managers.

Conclusions

1 **Total Greenhouse Gas emissions** for the Portfolio is **25,316.5 metric tonnes (tCO_2e) (scope 1 and 2 only).**

This is a decrease of 30,975.3 tCO_2e from the 2023 analysis. This was due to improvements across a number of the Fund's underlying mandates, despite slightly increased coverage across the portfolio. The Fund has also invested in new mandates over the period which have higher data quality.

2 Weighted average **Carbon Footprint** for the portfolio is **40.6 metric tonnes per £1 million investment[1] (scope 1 and 2 only).**

This is a decrease from the 2023 analysis of 61.6 metric tonnes per £1 million investment[1], with improvements seen at individual mandate level. Similarly to GHG emissions data, improvements were due to reduced carbon footprint across a number of mandates, despite slightly increased coverage.

3 **Implied Temperature Rise** figures provided by managers ranged from **1.5˚C to 2.7˚C** temperature rise by the end of the century (in line with what was reported in 2023).

The portfolio level figure calculated for 2024 was 2.1˚C, consistent with what was reported in 2023. However, it should be noted there are currently data quality and methodology concerns in relation to this metric. We will monitor this over time.

4 There were **1,552** individual **Climate-related Engagements** with companies within the portfolio, where managers were able to report.

This is an increase of 1,143 from the 2023 figure of 409 climate engagements.

Highest Emitters

From an **absolute emissions** perspective, the biggest emitters in the portfolio are the **infrastructure debt mandates with Macquarie** and the **infrastructure equity mandate with IFM.**

Macquarie and **IFM** are also the highest emitters in terms of **carbon footprint.**

We recommend that we continue to engage and monitor these managers and understand their exposures and overall impact better.

Targets

The Committee agreed to adopt a target of "**relative improvement**" as opposed to absolute or fixed targets.

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

Relative change at an underlying manager level has been more dispersed. We are actively engaging with the Fund's managers where improvement is needed, or metrics have worsened relative to 2023.

Data availability

All managers are now able to report carbon emissions metrics, although there are still clear **gaps in the data**.

Partners Group have seen the **biggest deterioration in coverage** relative to 2023, and coverage levels for **M&G UK Index Linked Gilt Fund** continue to be low**.**

While **Baillie Gifford** and **IFM** note issues with ITR methodology and data quality. In addition, very few of the Fund's other managers are able to provide ITR metric reporting, with no improvement relative to 2023.

Notes: All metrics exclude cash held in the Fund's bank account, the UBS Property mandate which is in the process of being wound down, and the direct infrastructure investment held in conjunction with the Lothian Pension Fund, as this is externally managed. [1] The weighted average calculation for this metric excludes those managers that were unable to report. In some cases, managers have reported metrics in USD terms.
Source: Investment managers, Isio calculations

Next Steps

We recommend the Committee:

- Continue to assess the position on an annual basis, 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, and engage where data availability and reporting has worsened, in particular to continue to actively engage with Partners Group and M&G in relation to data coverage and quality as well as Baillie Gifford in relation to ITR reporting.
- 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, in line with approach taken for previous years' submissions.

Q1 2025 Committee meeting Responsible Investment item:

- Annual Sustainability Integration Assessment

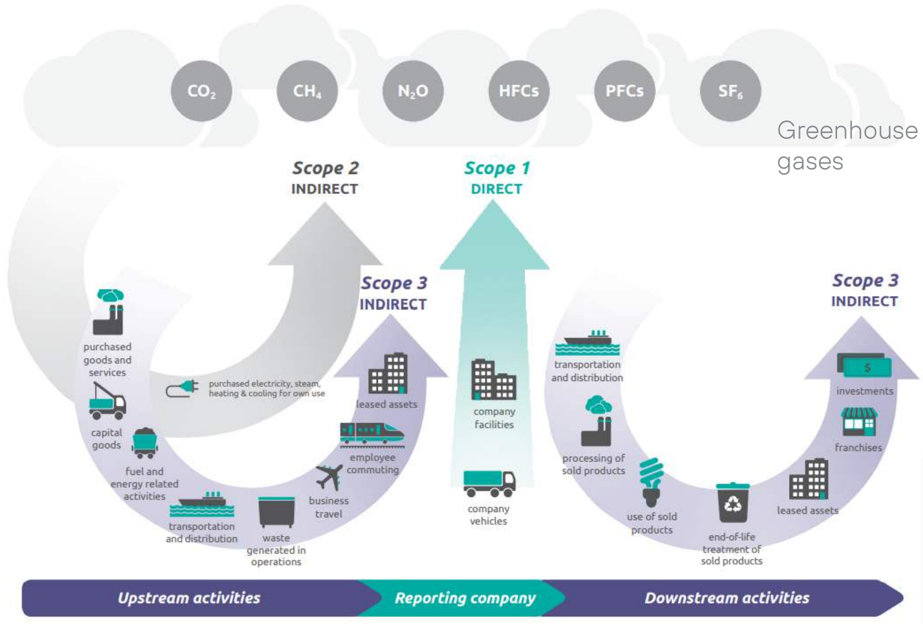
Additional Information

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. We are continuously engaging with managers to improve their Scope 3 data quality.



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