BORDER TO COAST PENSIONS PARTNERSHIP

CLIMATE CHANGE REPORT

2022 - 2023

BORDER TO COAST

PENSIONS PARTNERSHIP

CONTENTS

Our Climate Change Report has images from the areas represented by our Partner Funds.
Front cover image: North Yorkshire, Rosebury Topping


Warwickshire

FOREWORD

At Border to Coast, we recognise the threat posed by climate change to people and ecosystems around the world; indeed, we consider it a systemic risk to our ability to deliver on our purpose – 'making a difference to the Local Government Pension Scheme (LGPS)'.

This report marks an evolution in our approach. Not only is it our fourth report in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), but it is also the first to be called our Climate Change Report. This follows the publication of our Net Zero Implementation Plan in October 2022, and reflects the fact that this report will detail our advances towards achieving Net Zero greenhouse gas emissions (GHG) across our investment portfolios by 2050 or sooner.

We show the first steps we are taking towards decarbonising our investments – by identifying and assessing climate risk, adapting our investment strategy, engaging with investees, peers and regulators, and transparently reporting on our progress.

As well as describing how we are managing climate risk, this report offers some examples of the opportunities we are taking to help finance the Net Zero transition.

While climate change creates risks to investors, there are also investment opportunities related to the transition to a lower carbon economy. The transition to a Net Zero economy will require new business models, new companies and new infrastructure. These represent potentially profitable investments that will help our Partner Funds look after beneficiaries for decades to come.

We recognise we have a long way to go on the road to Net Zero, but we are encouraged by the response from our Partner Funds, investment managers, and investee companies to our efforts to date. We look forward to working with them, and all our stakeholders, as we meet this most profound challenge.

Rachel Elwell, Chief Executive Officer

South Yorkshire, Manvers Lake

ABOUT US

Tyne & Wear, Souter Lighthouse

Border to Coast Pensions Partnership was created to pool the investments of 11 like-minded LGPS funds; our 'Partner Funds'. Established as a Financial Conduct Authority (FCA)-regulated asset manager in 2018, we are a customer-owned, customer-focused organisation.

We make a difference for the LGPS by providing cost-effective, innovative and responsible investment opportunities that deliver returns over the long term. This is on behalf of more than 1.1 million LGPS members, over 2,800 employers and the millions of local taxpayers who ultimately provide the funding to ensure that pensions can be paid.

Our Partner Funds have c.£58bn in investments, of which Border to Coast is directly responsible for the management of £40.3bn (as of 31 March 2023). We also provide support and advice on a further £8.2bn, primarily invested in index funds, which sit outside of the pool.

We develop and operate collective investment vehicles across a range of asset classes, in both public and private markets, in which our Partner Funds invest to implement strategic asset allocations.

ABOUT THIS REPORT

As a responsible investor, Border to Coast has been a supporter of the recommendations of the Financial Stability Board's TCFD since our launch.

Our fourth report in line with the recommendations of the TCFD covers the period 1 April 2022 to 31 March 2023. It outlines our approach to managing climate-related risks and opportunities using the TCFD framework of governance, strategy, risk management, and metrics and targets, as well as including progress towards our Net Zero goal.

Our climate-related governance, strategy and risk management applies to all Border to Coast assets. The Net Zero targets and metrics we have set, as detailed in Chapter 4, cover all our listed equity and a proportion of our fixed income assets, and account for 57% of our total assets under management as of 31 March 2023.

We hope this report effectively outlines our approach to climate risk. We recognise this is a complex and evolving issue, and we acknowledge that, in common with many investors, we are on a journey on how we manage our climate exposures.

FIGURE 1
Summary in numbers

£6.9bn invested in climate solutions via our equity and fixed income portfolios

Our Partner Funds have committed **£1.35bn** to our Climate Opportunities offering

Border to Coast's normalised financed emissions were **47% BELOW** 2019 levels, towards our target of a **53% REDUCTION** by 2025

We are engaging with companies representing **73%** of the emissions covered by our Net Zero Implementation Plan

44% of our financed emissions are emitted by companies considered to be aligned or aligning with Net Zero

Our published **NET ZERO IMPLEMENTATION PLAN** sets a pathway to Net Zero emissions by 2050

OUR APPROACH TO CLIMATE CHANGE

We recognise that the climate is changing, and the global scientific consensus that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. This is a systemic risk, and a key risk for us as an investor – we are already witnessing the effects of global warming around the world, which pose physical risks to human life, property and the natural world on which we depend.

We support the objectives of the Paris Agreement; namely, to limit warming to 2ºC, to pursue efforts to limit the temperature increase to 1.5ºC, and to reach Net Zero greenhouse gas emissions globally by 2050. The global transition to low carbon economies will require significant investment and will simultaneously create investment risks and opportunities. It will have a material impact on the value of financial assets and the long-term performance of investments.

As a long-term and responsible investor, we have a duty to ensure our investments are well-positioned to manage the physical climate risks, regulations, and policies that are developed to promote a Net Zero economy. Being an active investor, we have the skills and capabilities to deliver investments that will support the necessary transition to Net Zero.

Representing our asset owners, we have a role to play in influencing those companies and organisations in which we invest to take into account climate change; this includes providing better climate-related financial disclosures, which assist us in making better-informed investment decisions.

The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of Net Zero greenhouse gas emissions by 2050 or sooner.

We joined the initiative in October 2021, and as a member we are committed to achieving the same objective across our investment portfolios.

In October 2022, we published our **Net Zero Implementation Plan** to explain how we will deliver on our Net Zero commitment – including an emissions reduction target for 60% of our assets under management, with the aim to expand the scope of these targets over time.

We believe the most effective way to drive reductions in emissions is through active engagement with portfolio companies and managers to ensure their climate change strategies are in line with robust, science-based Net Zero pathways; simply divesting from high-emitting sectors will not remove the underlying risk of climate change in our portfolios and will not have any real-world impact. We also seek to increase the opportunities for Partner Funds to invest in climate solutions that will accelerate the low carbon transition.

Underpinning our investment approach is a commitment to collaborate with like-minded investors, policymakers, standards setters and other stakeholders to address climate risks and help create a stable environment in which it is possible to generate long-term portfolio returns. Our approach is outlined more fully in our annual **Responsible Investment and Stewardship Report**, which can be found along with further information on our approach to responsible investment (RI) more generally on our **website**.

We are committed to transparency in how we manage our climate-related risks and opportunities, including reporting annually in line with TCFD recommendations in this report.

Cumbria, Lake Buttermere

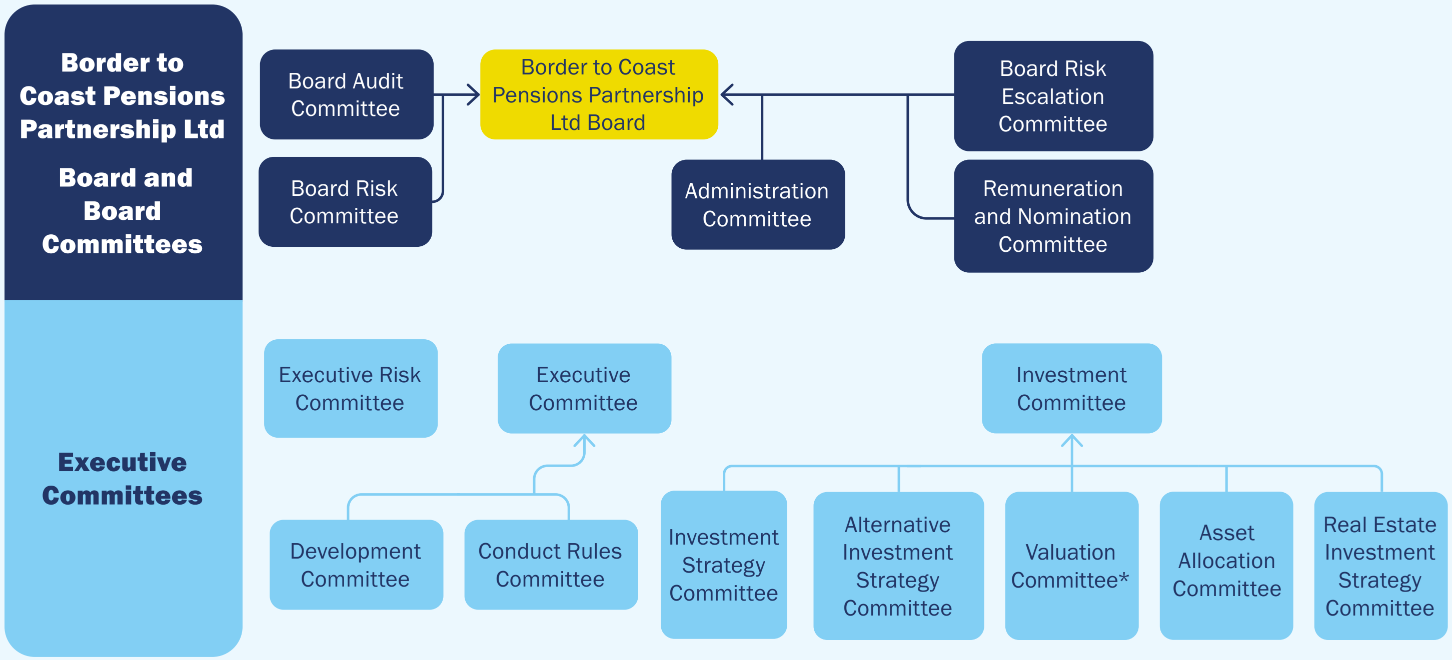
CHAPTER 1
GOVERNANCE

Bedfordshire, Dunstable Downs

GOVERNANCE

Given the importance of climate change to Border to Coast, we have clear structures in place to ensure we assess and manage climate-related risks and opportunities.

FIGURE 2
Climate governance and oversight



*The Valuation Committee has a direct reporting line into the Board Audit Committee

Board oversight

Our Board determines our overall climate strategy and, with support from the Board Risk Committee, oversees the Executive's identification and management of risk. The Board approves the RI strategy and policies, which incorporate our approach to climate change and associated risks and opportunities.

Updates on RI are presented to the Board at regular intervals, including activities relating to climate change. The Board met ten times over the financial year to 31 March 2023 (eight meetings and two strategy away days) and the Board Risk Committee met formally four times. Agenda items included: an update on Net Zero and the approach taken to develop metrics against which targets were to be set; the proposed Net Zero metrics; the Climate Change Report for approval; the Net Zero Implementation Plan for approval; and the revised RI policies for approval. Last year the Board undertook training sessions on climate change strategy and Net Zero.

This year we also updated our Climate Change Policy to align it with our Net Zero Implementation Plan, published in October 2022, both of which were approved by the Board. The Board will monitor and oversee progress against our Climate Change Policy and Net Zero Implementation Plan, and has reviewed and approved this Climate Change Report prior to publication.

South Yorkshire, Sheffield Town Hall

The role of management

RI is fundamental to our investment approach. The RI Policy and accompanying Climate Change Policy and the Corporate Governance and Voting Guidelines (Voting Guidelines) detail the approach that we follow. The Chief Investment Officer (CIO) is responsible for the implementation and management of both the Climate Change and RI policies, with oversight from the Investment Committee, which is chaired by the CEO. The remit of the Investment Committee includes overseeing progress and reporting against Net Zero targets.

The Investment Team work to identify and manage environmental, social, and governance (ESG) risks and opportunities, including climate change, with support and oversight from the Risk and Compliance function. They monitor climate change regulation, scanning the horizon for future regulation, and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

RI issues, including climate risk, are a standing agenda item at weekly Investment Strategy Committee meetings, chaired by the CIO, with in-depth presentations on ESG and climate-related risks covered quarterly. These matters are discussed in relation to potential investments at the Alternative Investments Strategy Committee meetings. Reports are presented to the Investment Committee which include voting and engagement statistics, ESG and carbon data, and updates on collaborative responsible investment initiatives, such as Climate Action 100+ (CA100+), for monitoring purposes.

We continued to develop our approach to assessing and managing climate-related risks and opportunities during the year. After making our Net Zero commitment in 2021, we followed up by publishing our Net Zero Implementation Plan which details how we will deliver on our commitment. We established a Climate Change Working Group to monitor and report on developments in respect of our approach to climate change, within investments and other investment-related services provided to Partner Funds. We also strengthened the RI Team with the inclusion of a new dedicated climate change role.

Training

Our Board and colleagues undertake regular training: to maintain the necessary skills in RI; to strengthen ESG knowledge throughout our organisation; and to embed our culture as a responsible investor. On climate change, this includes maintaining and increasing our knowledge and understanding of climate change risks, risk measurement tools and developments in policy and regulation.

In 2022, in addition to the Board training noted above, the RI Team ran sessions with Investment Team members on topics including climate and engagement metrics and tools such as the Transition Pathway Initiative (TPI) and CA100+. We had tailored training sessions on climate change and wider sustainability issues from our voting and engagement provider and other external providers. RI and stewardship training sessions were also conducted at team meetings and during ‘lunch and learn’ sessions. To support our Partner Funds’ needs, we continued to carry out training sessions during the reporting year, both individually and through group workshops. Topics included understanding carbon metrics ahead of our Net Zero Implementation Plan launch.

INTERVIEW

Driving the journey to Net Zero

Mark Lyon
Deputy CIO

> Our portfolio managers are already incorporating ESG factors – including climate – into their investment decisions. In the same way they think about valuation, management quality, competitive advantage and profitability, for example, they also think about ESG and climate.

Border to Coast's Net Zero Implementation Plan is starting to change how we manage our Partner Funds' assets. Mark Lyon, deputy CIO, explains how.

Border to Coast unveiled its Net Zero Implementation Plan last year. What are the steps you've taken since then?

We've done a lot of work to understand the climate risks and opportunities in the largest carbon emitters within our internally managed portfolios. We've performed further analysis on the five largest emitters from each of those portfolios, which will feed into our engagement around carbon.

We've communicated our Net Zero targets to our external managers and are working with them to implement them in the portfolios they manage.

We recognise that there is an issue around data availability and quality, and the lack of standardised methodologies we can use to assess carbon risk and opportunity, particularly in private markets and fixed income. On the private markets side, we've joined the ESG Data Convergence Initiative, and on sovereign bonds, we are encouraged by the progress made by the Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) project.

We've issued our revised Climate Change Policy, where revenue thresholds for exclusion have been reduced for thermal coal and oil sands. We are monitoring the progress of our portfolios against the targets we've set. And we've started thinking about how we can apply our Net Zero targets to the assets not currently covered by the Plan – Multi-asset credit, Sovereign bonds, Real Estate and Alternatives.

Has the Net Zero Plan changed how Border to Coast invests?

It's more of an acceleration than a change of direction. The low carbon transition is already one of our four priority engagement themes. Our portfolio managers are already incorporating ESG factors – including climate – into their investment decisions. In the same way they think about valuation, management quality, competitive advantage and profitability, for example, they also think about ESG and climate.

There is a greater focus on ensuring we are comfortable owning high emitters. That might be based on analysis of a company's carbon reduction plan, or other longer-term indicators. If we are confident in the credibility of that plan, if it's backed with scientific evidence and is in line with our own 2050 target, we would be happy holding that company and continuing to monitor it.

If we think they don't have a credible plan, that would be a factor in our consideration on whether to continue to be invested in that company.

Durham, Hartlepool

How has the Net Zero Implementation Plan been received by your managers?

There was an understandable concern from our internal portfolio managers that the plan could have an oversized impact on their decision making. However, we have worked closely with the Investment Team as a whole, through a series of workshops, to understand the data we have and its limitations, and to develop a framework that can act as a guide. They are comfortable that the Net Zero metrics are another input to consider in their investment decision-making process.

There is a potential for conflicts to emerge between the near-term investment decisions portfolio managers are making and our Net Zero objectives, but it's probably a bit soon to see that happening. We've adopted a range around our targets as we expect carbon profiles to fluctuate in the short term. If the profile moves outside the range, we'll investigate the causes in more detail. While we would be unlikely to take action if it's just a short-term driver which is not symptomatic of a longer-term trend, we would do so if it's a sign of something more fundamental.

The responses from our external managers have been positive and they have not expressed any significant concerns. They are also comfortable with our approach to monitoring carbon profiles over the long term and only considering corrective action if necessary.

You mentioned issues around data. Is the market responding to fix these?

We know that private markets are a long way behind listed equity, but there is a willingness within the industry to come together and agree a set of metrics and a standardised methodology to report against.

Fixed income is still a work in progress. The asset class is incredibly complex. There are a huge number of different types of debt instruments. A lot of issuers aren't public companies, so not used to providing data to their equity investors. These are challenges that should be solvable, but there is a risk that there is not the same level of urgency to address them.

Border to Coast is taking the first steps on its decarbonisation journey – which are you most proud of?

First, it's really brought the different teams within our Investment function together to consider climate risk. Setting targets and putting a timeframe on them has encouraged us to understand the risks involved. It's pleasing to see how our people and our external managers have embraced that.

I'm really excited about the positive impacts that we are going to have over time through the Climate Opportunities proposition. We've invested in hydrogen and battery storage, for example; technologies that will accelerate the move to a lower carbon economy. We are able to point to specific investments which we believe will have a material impact.

We have adopted a long-term engagement approach. We could simply sell the top five emitters in each of our portfolios and we'd meet our 2030 targets. But that would have no impact on real-world emissions because they will be someone else's emissions once we've sold the stock.

I'm also proud that we have committed to a just transition. It's really important that we recognise that different countries and different industries will decarbonise at different paces and therefore we can't adopt a one-size-fits-all approach. We want to ensure that everything we do takes account of just transition principles and that we understand the impacts our decisions have on the real economy.

East Riding, Flamborough Landing Beach

CHAPTER 2
STRATEGY

STRATEGY

Climate change is a systemic risk and our strategy recognises that this presents a variety of material investment risks which we need to manage across our investment portfolios over the short, medium and long-term. We do this by: integrating ESG factors, including climate considerations, into our investment processes across all asset classes; using our influence as a steward of capital; committing to a Net Zero carbon emissions target by 2050 or sooner; and aligning our own operations with this goal.

Climate-related risks

Climate-related risks can be characterised as physical or transition risks, and we consider both in our investment decisions. The former describes the physical impacts and associated costs arising from a changing climate. These might include: damage to assets or disruption to supply chains from extreme weather events; flooding from rising sea levels and storm surges; wildfires; or the impacts of rising temperatures on, for example, crop yields or human health.

The latter describes the risks flowing from the realignment of our economic system towards low carbon, climate-resilient and carbon-positive business models. The policies to encourage such a realignment will impose costs on carbon-intensive companies and will encourage the uptake of some technologies and the potential disappearance of markets for others. Responding to climate change will change consumer preferences, while companies that fail to respond could face reputational and legal risk. The risks of climate-related litigation continue to increase and are not just limited to governments and fossil fuel companies.

The physical and transitional climate risks we face, primarily through the investments we make on behalf of our Partner Funds, manifest themselves through the following mechanisms:

- **Policy and legal risks:** The transition to a Net Zero global economy will be largely driven by changes to policy and regulation. These will impose costs on business while creating opportunities for those businesses that are well-positioned to respond to them.
- **Technology risk:** Eliminating carbon emissions will require companies to change the mix of technologies they use, imposing costs as well as providing opportunities for some technology providers.
- **Market risk:** Equity and bond prices will be affected by the impact of physical, transitional and reputational impacts from climate change. New climate policies or regulations, or acute physical impacts from climate change, could lead to the sudden repricing of assets (either positively or negatively). Chronic physical impacts or shifts in market share towards companies better aligned with the low carbon transition could result in more gradual repricing.
- **Credit risk:** Climate impacts are likely to be expressed through changes to credit spreads, general creditworthiness and, in extreme cases, bankruptcy of issuers.
- **Liquidity/capital risk:** Companies that are failing to adequately transition to a low carbon economy could find their access to capital restricted.
- **Reputational risk:** Companies that are not doing enough to move towards Net Zero emissions risk damage to their reputations, with potential impacts on revenue and higher regulatory costs. As an investment manager, we face reputational risks from failing to align investments with our climate policies.
- **Operational risk:** In addition to climate risk from our investments, we also have some direct exposure to climate risk from our operations and supply chain.

These risks will manifest over short, medium and long-term horizons. For example, we are already seeing significant economic impacts from extreme weather events. Other physical impacts, such as rises in sea-levels, are likely to be felt over decades. Policies to price carbon emissions and encourage low carbon technologies are already in place in many jurisdictions; these are likely to spread, and the associated carbon costs are likely to rise over the years to come.

Our short-term horizon looks at a two-to-three-year period. Medium-term considers up to 2030 and long-term seeks to consider risks and opportunities through to when the youngest beneficiaries might be drawing their pensions in many decades' time.

As detailed in our risk management chapter, we use a variety of tools and metrics to measure and monitor climate risk in our portfolios. We use third-party data and analytics, continue to develop our internal analytical capabilities, and we work collaboratively with our partners to better assess carbon-related risk.

Business planning

Our strategic business planning process considers our Partner Funds' needs and expectations with respect to climate risk. This has led to the development and embedding of various tools to support our portfolio managers in investment decision making (for both directly and indirectly managed mandates). Our three-year RI Strategy, running from 2022 to 2025, has been agreed and takes into account evolving industry best practice, regulatory change and key trends related to climate risk. The strategy has four pillars, with climate change being an integral component: ESG integration; active ownership; industry advocacy and engagement; and reporting and governance. The strategy is reviewed on a regular basis by our Board and Partner Funds.

We consider how climate change and the evolving regulatory environment and macroeconomic impact will affect the investments we make on behalf of our customers. Climate risks and opportunities are considered when conducting internal research and stock selection in the portfolios managed by our internal Investment Teams. Climate risk is factored into the selection and appointment of external managers and ongoing monitoring of these mandates. Climate-related risks are monitored across portfolios and we challenge managers on their portfolio holdings, analysis and investment rationale in relation to these risks. This in turn informs our engagement strategies, through collaborative initiatives and direct engagement.

We continue to evolve our investment process, incorporating climate change considerations as part of our Net Zero commitment. This includes enhanced risk assessments for our biggest emitters and using a wide range of data and tools. Stewardship is a critical component of our Net Zero Implementation Plan, with engagement being the primary mechanism for driving alignment to Net Zero in our portfolio companies and thereby meeting our own Net Zero targets, both at asset class and portfolio level, as well as for driving real-world decarbonisation. We have therefore developed our Net Zero Engagement Strategy using the Institutional Investors Group on Climate Change's (IIGCC) Net Zero Stewardship Toolkit.

Durham, Barnard Castle


Cumbria, Penrith

Scenario analysis

Border to Coast supports our Partner Funds to implement investment strategies, ultimately making a difference to the LGPS. The extent of the impact of climate change on our strategy is therefore inextricably linked to the impact on our Partner Funds. Climate change and the potential risks and opportunities it brings are considered when conducting research, risk analysis, due diligence and ESG screens across the investment propositions that have been developed for our customers.

We recognise that scenario analysis can be useful in identifying, assessing and managing the potential risks and opportunities attached to individual investment holdings, portfolios and strategies resulting from climate change. However, we note the challenges related to scenario analysis due to a lack of data and the continuing development of the methodologies of different providers.

During the year we have undertaken work to assess the different climate scenarios available through our third-party data provider, and understand the key assumptions and limitations. The models pull together a range of climate-related variables, including assumptions around gross domestic product, population growth, policy making, energy mix, land use and greenhouse gas emissions to simulate future impact. We have used the Climate Financial Risk Forum's selection framework to consider the climate scenario options available.

Based on this framework, the decision has been made to use the Regional Model of Investment and Development model scenarios which come from the Network for Greening the Financial System, a group of central banks and supervisors in the financial system. The scenarios were developed to provide a common starting point for the financial sector to assess climate-related risks. Scenarios can be conducted on an orderly or disorderly transition basis. Orderly scenarios assume climate policies are introduced early and become gradually more stringent. Disorderly scenarios, by contrast, assume higher transition risk due to policies being delayed or divergent across countries and sectors. We will be considering a 1.5°C disorderly scenario, 2.0°C scenarios (orderly and disorderly) and the 3.0°C 'Hot House World' scenario.

Going forward we will initially conduct scenario analysis on our equity and investment grade credit funds. Due to the current limitations of the models there are risks associated with using this information to make informed investment decisions; therefore, we will continue to develop our understanding and analysis of the outputs.

Climate risk in our own operations

The vast majority of our climate change risks and opportunities are found within the £40.3bn of assets that we manage on behalf of our Partner Funds. We also recognise, however, that we face direct climate risks to our organisation. At the operational level, Border to Coast has a low carbon footprint; we have a single office in central Leeds, a few minutes from Leeds railway station; we promote the use of public transport for commuting and business travel and our electricity is sourced from renewables. As a result, our operational emissions are minimal.

We are committed to becoming Net Zero on an operational basis. We are currently undertaking the Planet Mark certification process to measure our carbon footprint. This covers Scope 1, Scope 2 and some Scope 3 emissions categories. This audit will then allow us to consider our current carbon footprint, develop a robust plan to reduce our emissions and, if relevant, consider balancing any unavoidable emissions through accredited carbon removal schemes. This process is approved and overseen by the Board.

Climate-related opportunities

As well as risks, climate change presents opportunities to invest significant amounts of capital in the growth of those businesses with the potential to deliver the solutions needed to reduce emissions throughout the economy.

There are considerable climate-related investment opportunities within our listed equity and fixed income portfolios. As of 31 March 2023, we estimate that around £6.9bn was invested in climate solutions through these portfolios. This is based on our carbon data supplier MSCI's definition of climate solutions, which identifies companies offering clean technology solutions, such as the facilitation of renewable energy production. Two examples – our investments in a global leader in lithium production (a mineral crucial to low carbon technologies) and an investment in the UK's largest battery energy storage portfolio – are on page 17.

Our private markets programme includes an energy transition theme within the Infrastructure offering, investing in companies or assets that enable or benefit from the move to a lower carbon economy. Last year we also launched a dedicated Climate Opportunities offering targeting investments that will have a material positive impact on climate change and support long-term Net Zero carbon emission goals (see page 18). In total, our existing private markets programme includes commitments of around £1.4bn to investments in climate solutions.

As with climate risks, these opportunities will manifest over the short, medium and long-term.

CASE STUDY

Investing in the hydrogen economy

Hydrogen will play a central role in the Net Zero economy of the future. It can meet a wide range of needs: providing a long-term store of energy generated by intermittent renewables; decarbonising industrial processes which require intense heat, such as steelmaking; and offering an alternative transportation fuel.

Border to Coast is investing in the emerging hydrogen economy, committing £100m to the Clean H2 Infra Fund, a €2bn first-of-its-kind fund focused on bringing proven hydrogen technologies to scale.

The fund is managed by FiveT Hydrogen, a hydrogen investment specialist, and Ardian, a leading private equity investment firm. As well as financial investors such as Border to Coast, the fund is also backed by industrial giants including Air Liquide, TotalEnergies and Snam.

As of the end of 2022, the fund had made three investments: a 30% stake in Enagás Renewables, a Spanish firm which converts renewable power into hydrogen; part of a €200m investment in Hy2gen AG, a German producer of green hydrogen-based fuels for transportation and industrial use; and participation in a €110m round of investment in H2 MOBILITY Deutschland, which operates Germany's largest network of hydrogen refuelling stations.

This investment shows how our Partner Funds' capital – and the pension savings of beneficiaries – is being put to work to turn a commitment to Net Zero into the physical infrastructure that will enable a greener global economy.

LITHIUM: AN INCREASINGLY PRECIOUS METAL

From electric car batteries to renewable energy production, the transition to a Net Zero global economy needs low carbon solutions that require critical minerals such as lithium. According to one leading market analyst, meeting Net Zero demand requires lithium mining to increase production by 880% in the decade from 2020 to 2030.

That is one of the reasons behind increasing our holding in Chilean mining company SQM last year, one of the leading miners of lithium – a critical mineral in the manufacture of the lithium-ion batteries that power most of the world's electric vehicles.

The Chilean-based chemicals firm is a textbook example of a company in transition. While it has its roots in fertilisers, specialist plant nutrition and iodine production, it is pivoting towards lithium production, extracted from Chile's Atacama desert, to meet rocketing demand from the automotive industry.

We are also aware that operating in desert environments raises serious challenges around water use. Mining operations can often lead to tensions with local communities. SQM is responding to these challenges, but we are keeping a close watch on its performance to ensure that it continues to do so effectively and equitably.

THE ENERGY STORAGE OPPORTUNITY

As the world's renewable energy capacity rapidly increases, the race is on to prepare electricity grid infrastructure for a huge influx of intermittent power. We see enormous opportunity in energy storage technologies that can accumulate excess power in times of oversupply, when wind and solar energy are plentiful, and release it back to the grid in times of excess demand.

One of our largest listed infrastructure positions is the Gresham House Energy Storage Fund plc, the market leader in the UK battery energy storage market. The company invests in utility-scale operational battery energy storage systems across Great Britain and will have over 1GW of capacity by the end of 2023.

To provide attractive investment returns, energy storage systems need to tap into a range of revenue streams. The Gresham House portfolio is optimised to maximise the contribution of its battery assets across National Grid's frequency response services, which help to balance the frequency of the UK electricity grid second-by-second, as well as longer-dated capacity contracts and trading in the wholesale electricity markets.

Surrey

SPOTLIGHT

Climate Opportunities offering

Climate change creates enormous investment opportunity. According to the Intergovernmental Panel on Climate Change, investment of $550tn will be needed to tackle climate change.

To enable our Partner Funds to support global decarbonisation, we launched our £1.35bn Climate Opportunities offering in April 2022. It targets investments that will have a material positive impact on climate change and support long-term Net Zero carbon emission goals.

Climate Opportunities identifies private equity, infrastructure and private credit fund managers providing funding to companies developing climate solutions and assets focused on six sectors:

CLEAN ENERGY

Renewable energy generation

Next generation electricity grids

Battery storage

Green hydrogen

TECHNOLOGY

Emissions tracking / reporting

Climate modelling

Energy and fuel management software

INDUSTRY

New generation plastics

Low carbon cement / steel

Automation

Circular economy innovation

TRANSPORT

Electric vehicles

Charging points

Low carbon fuels

Low carbon rail, aviation and shipping

AGRICULTURE

Sustainable food production

Alternative proteins

Biodiversity

Water management

SEQUESTRATION

Carbon capture and storage

Direct air capture and storage

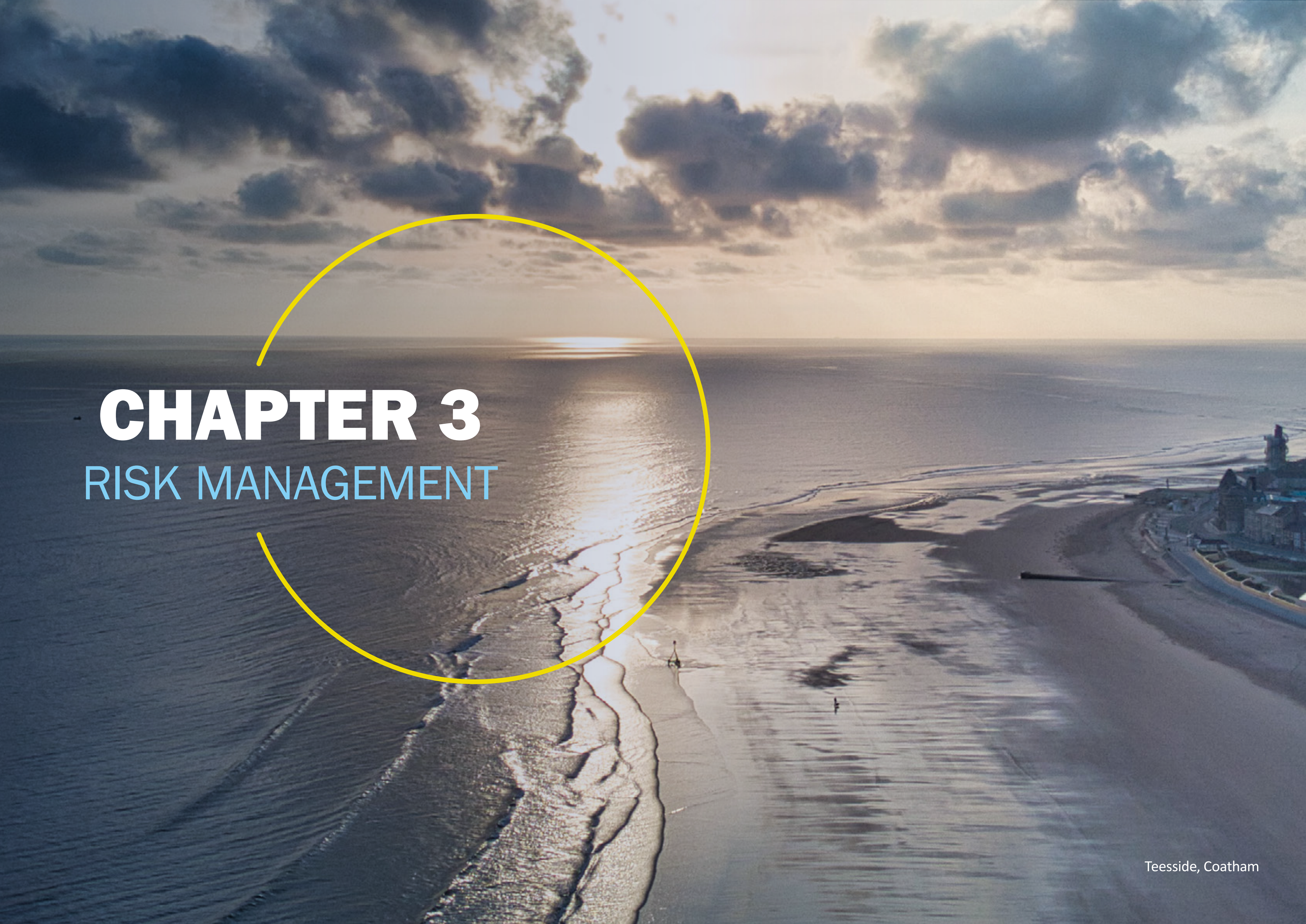
Forestry

Some of these themes, such as clean energy, are more mature than others, but we have been encouraged by the growing number of managers providing climate-related investment opportunities. Before we make a commitment, fund managers are required to demonstrate how their investments are expected to have a positive climate impact and how this will be measured and reported. We would also like to see some alignment of fees with delivery of positive climate impacts, as well as with financial performance.

These managers include:

- Brookfield Global Transition Fund ($150m commitment), which is focused on driving the global transition to a Net Zero carbon economy and in aligning investments that contribute to the United Nation's Sustainable Development Goals.
- Blackstone Green Private Credit Fund ($144m commitment), which provides flexible credit capital to companies and assets that focus on renewable energy and climate change solutions.
- BeyondNetZero ($110m commitment), which is seeking growth-stage investments with a focus on decarbonisation, energy efficiency, resource conservation and emissions management.
- Clean Hydrogen Infra Fund (€100m commitment), a joint venture between clean hydrogen investor FiveT Hydrogen and private investment house Ardian, which aims to bring proven hydrogen technologies to scale (see page 16).

CHAPTER 3
RISK MANAGEMENT



Teesside, Coatham

RISK MANAGEMENT

Our processes for identifying and assessing climate risk

All of our business areas are responsible for identifying risks, with senior managers accountable for the identification, assessment and management of risks within their span of control. Risks are identified via a number of processes. These include horizon scanning, strategic planning, emerging risk processes, our risk and control self-assessment process, and the Internal Capital Adequacy and Risk Assessment process. Identified risks are classified into specific types of risk which are managed in line with the Company's Risk Management Framework. Our overall risk profile is reported to the Board's Risk Committee on a quarterly basis, where it is subject to review and challenge.

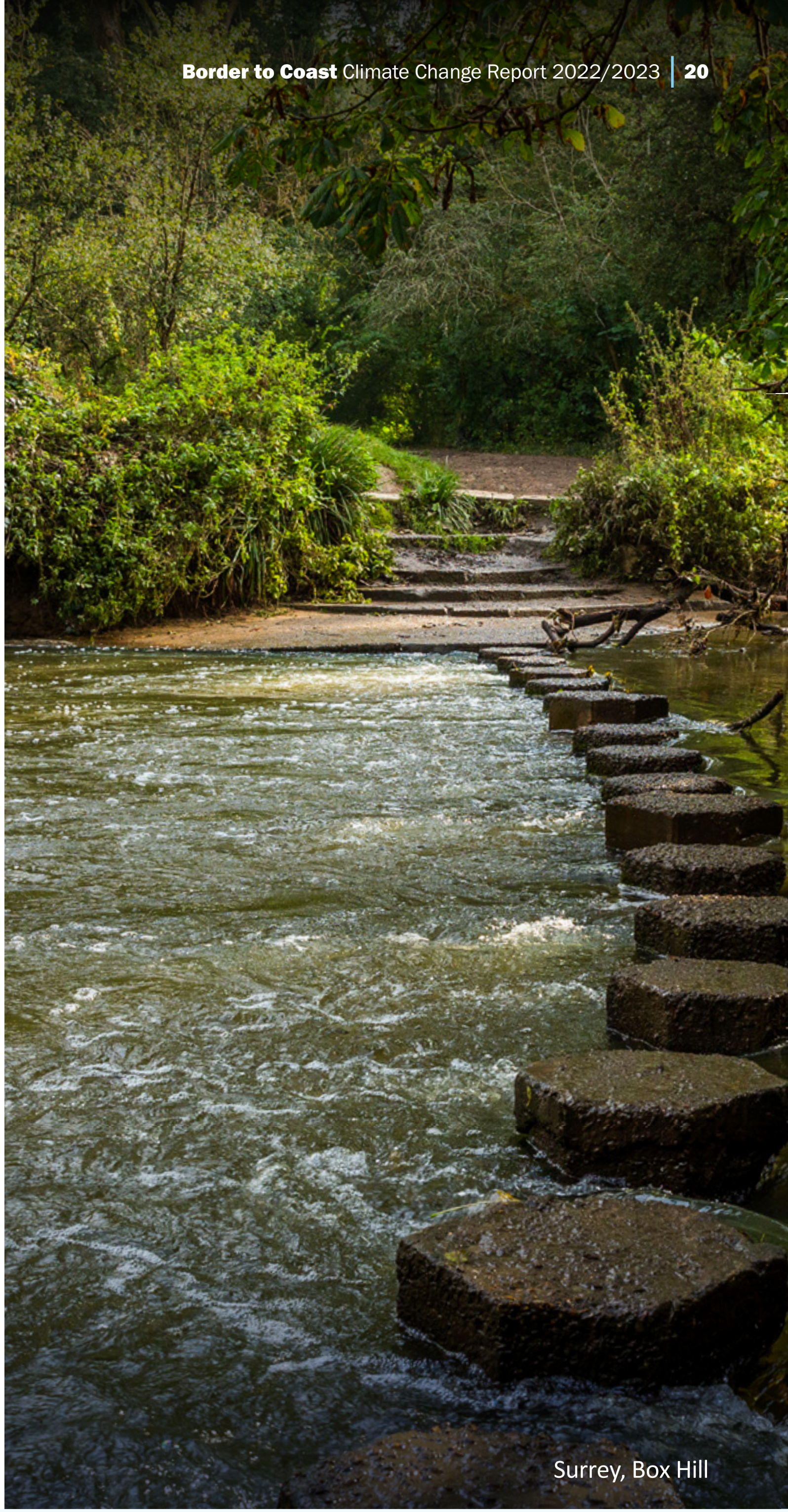
We horizon scan for emerging risks, opportunities and regulations which have the potential to impact markets and our ability to deliver desired customer outcomes. As a systemic risk, which could impact financial markets and assets across all geographies, we have included climate change as one of our principal strategic risks.

Integrating climate-related risks into our risk management

Climate change risk is integrated into our wider risk management framework. We operate a Risk Management Framework consistent with the principles of the 'three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations Teams. A second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over our Governance, Risk and Control Framework.

Border to Coast is willing to accept certain levels of risk in managing its business to generate appropriate returns for its customers but does this in a controlled and deliberate manner. Risk appetite levels are proposed by the Risk function within our Risk Appetite Framework, working with the first line of defence, for review by the Board Risk Committee and approval by the Board. Risk exposures are monitored at least quarterly against appetite, reported to the relevant Executive Committee and the Board Risk Committee. The Risk function ensures that an effective process is in place for all risks outside of the agreed risk appetite to be escalated to the Executive Committees. Climate change is not treated as a standalone risk category in our Risk Appetite Framework; it is instead considered within the related components of our Risk Appetite Framework, such as strategy, customer outcomes and stewardship.

The objectives and considerations for our approach to managing responsible investing in relation to climate change is set out from an investment perspective within the Climate Change Policy and our Net Zero Implementation Plan.



Surrey, Box Hill

Lincolnshire, Lincoln Cathedral

Our processes for managing climate risk

We consider material ESG risks, including transition risks and the physical risks of climate change as identified on page 13, as part of the investment decision-making process. We work with our internal portfolio managers and with our external asset managers to firstly understand the risk, conducting carbon screens to identify the largest emitters and potential risks around stranded assets.

We use a variety of data sources to develop and evolve our approach to managing climate risk and reporting, and to support our Net Zero commitment. We utilise third-party carbon data to implement a carbon analysis tool across internally and externally managed portfolios. This is used alongside other tools, such as the TPI tool and engagement data, to understand intrinsic risk at stock, sector and portfolio level.

Climate-related risk and opportunities are addressed during the selection and appointment of external asset managers and as part of ongoing monitoring of managers and portfolios, enabling us to challenge their investment decisions when necessary. Climate risk is covered during the due diligence process for private market investments and annual monitoring.

Over the longer term, our pledge to achieve Net Zero emissions across our investments by 2050 aims to substantially reduce the climate risk we face through our investments.

Differing approaches between asset classes

The approach to identifying, assessing and managing climate risk is tailored to the nature of each asset class we invest in. These include:

- **Listed equities and corporate fixed income:** Climate risks and opportunities are deeply integrated into the stock analysis and decision-making process for these asset classes. Third-party ESG and carbon data are used to assess individual holdings and we utilise internal, sell-side and climate-specific research, and engagement information as required. We also use forward-looking metrics, including the TPI tool and the CA100+ Net Zero Company Benchmark to assess companies' transition progress. Where holdings are indirectly managed, we consider the approach to climate risk management during the external manager selection and appointment process. We also monitor and challenge our external managers on their portfolio holdings, analysis and investment rationale in relation to climate-related risks. We also use engagement as a primary mechanism in these asset classes.
- **Sovereign bonds:** For sovereign fixed income mandates the focus is on protecting and limiting downside risk. We do not currently believe that methodologies and data for measuring sovereign debt emissions and setting targets are robust enough. However, we expect that the output of the ASCOR Project will provide a more consistent approach to understanding governments' transition plans, therefore enabling us to assess the climate risk within our sovereign bond assets and incorporate them into our Net Zero Implementation Plan.
- **Private markets:** Within our private markets programme we use both ESG integration and active ownership to manage climate risk. An assessment of a company's ESG strategy, the level of incorporation of ESG factors into the organisation, and the quality and availability of associated reporting are key considerations during pre-investment due diligence. In addition, we are supporting the ESG Data Convergence Initiative, which aims to develop a common approach to reporting ESG data, including carbon emissions, by private market managers. All managers report to us annually on ESG performance, including climate risk.
- **Multi-asset credit:** Here too, the lack of suitable methodologies and data means we are not currently able to effectively assess climate risk and set targets for this asset class. We are working with our managers to develop industry best practice and monitor developments in this area.
- **Real Estate:** Border to Coast will soon be launching a series of Real Estate capabilities. We will actively work with our industry partners to set appropriate targets and engagement strategies in line with the principles set out in our Net Zero Implementation Plan.

COLLABORATIVE ENGAGEMENT ON CLIMATE CHANGE

By collaborating with other investors, we can amplify our voice with the companies in which we invest. That is why in 2023 we signed up to the IIGCC's Net Zero Engagement Initiative, the latest of a number of collaborative engagement programmes in which we participate and will be leading engagement with a target company.

We have joined 93 other institutional investors in writing to an initial 107 companies that are outside of the 166 companies targeted by the CA100+ initiative. While they emit smaller quantities of carbon than those on the CA100+ focus list, these 107 firms nonetheless are significant sources of carbon emissions.

By joining this initiative we will help align a greater proportion of our assets with Net Zero, bringing down real-world emissions and reducing the climate risk that we all face.

Managing climate risk through active stewardship

Active stewardship, which includes voting and engaging with companies, industry and policy makers, is an integral part of our Net Zero Strategy and an important means of reducing climate risk.

This year we have continued to enhance our RI policies, to reflect our Net Zero commitment. Our Net Zero Implementation Plan details how we will address the systemic risk of climate change, drive reductions in real-world carbon emissions, and reduce our carbon footprint to Net Zero by 2050 or sooner. The plan marks an important step in our journey and demonstrates how we will continue to leverage our collective scale and influence to proactively engage with companies to decarbonise and create investment propositions aligned with Net Zero emission goals.

Engagement

We engage with portfolio companies on business sustainability and disclosure of climate risk in line with the TCFD recommendations and encourage companies to adapt their business strategy in alignment with a low carbon economy. We encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.

The areas we consider in our climate engagement include: climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; Scope 3 emissions and the supply chain; capital alignment; climate policy lobbying; and exposure to climate-stressed regions.

Engagement is conducted by our engagement partner, Robeco, and directly by members of the Border to Coast Investment Team. We also expect our external asset managers to engage with companies on climate risk. Collaborative initiatives are an important part of both our engagement and escalation strategies.

A key part of our approach to managing climate risk is to work with peers, policymakers, regulators and standard setters to help create a stable environment to enhance long-term portfolio returns. Collaboration with key industry bodies and other stakeholders is an essential way to play an active role in driving a global shift to reduce real-world emissions. We seek to work collaboratively with like-minded investors and organisations to maximise Border to Coast's influence on behalf of Partner Funds and to address climate-related challenges, including through our involvement in key collaborations such as the IIGCC, CA100+ and the Local Authority Pension Fund Forum.

Durham, Croxdale

South Yorkshire, Barnsley Town Hall

Voting

We vote all equity portfolio holdings according to our Voting Guidelines, which are administered by our voting and engagement provider. The Voting Guidelines were updated for the 2023 proxy season, further strengthening our stance on climate change. Additions include voting against the Chair of the Board where a company covered by the CA100+ Net Zero Benchmark fails priority indicators of the Benchmark. We will vote against the Chair where a company is scored 2 or lower by TPI, with higher expectations for the oil and gas sector, with votes against the Chair if scored 3 or lower.

As banks will play a pivotal role in the transition to a low carbon economy, we have also set out our climate-related voting intentions for the sector. We will assess banks using the framework developed by the IIGCC and the TPI. We will vote against the Chair of the Sustainability Committee, or appropriate agenda item, where a company materially fails the bespoke TPI framework for banks.

We support climate-related resolutions at investee company shareholder meetings that we consider reflect our RI Policy. In certain cases, we may also pre-disclose our voting intention; this is to highlight to other investors a particular issue or resolution. We co-file shareholder resolutions at Annual General Meetings on climate risk disclosure if we deem them to be institutional quality shareholder resolutions consistent with our RI Policy, after conducting due diligence.

More details can be found in our **Responsible Investment and Stewardship Report**

CHAPTER 4

METRICS AND TARGETS

Tyne & Wear, Lindisfarne

METRICS & TARGETS

Border to Coast uses several tools to assess climate-related risk and opportunities. We use third-party carbon data from MSCI carbon portfolio analytics to implement carbon screening across all listed equity and fixed income portfolios which produces a carbon footprint relative to the portfolio benchmark, allowing for internal analysis of carbon risks. This enables us to assess portfolios in a timely manner, identifying the largest emitters and contributors to the carbon footprint. The data and information are shared with the portfolio and research managers to inform analysis and investment decisions.

When considering public reporting of carbon data, we firstly assess the data quality and coverage for asset classes and our Funds. We ensure we understand the data and any limitations and gaps. We aim to be transparent about the reliability of our reporting. This means that in some cases our reporting may be heavily caveated due to data quality and/or inconsistencies in the methodology or assumptions used to generate data where it is incomplete.

At the time of this report, Border to Coast has investments in listed equities, fixed income and private markets funds. Carbon footprinting of index-linked bonds, multi-asset credit and private markets portfolios has not been conducted due to the absence of sufficiently robust methodologies and issues with data quality and availability.

Carbon footprinting of unlisted investments is challenging due to the lack of reporting and disclosure of carbon emissions data by private companies and private equity fund managers. As a result, we are not including carbon reporting for our private market assets at the current time. We have sourced data from a third-party provider to enable monitoring of carbon emissions and this will continue to be assessed and monitored. We are also members of the ESG Data Convergence Initiative which is a collaboration between some of the largest private market asset owners and managers to standardise ESG reporting on a core set of ESG metrics, including greenhouse gas emissions. This is the industry's first-ever collaboration to align on an initial set of standardised ESG metrics and a mechanism for comparative reporting, and is a good baseline for establishing carbon/ESG data collection and furthering implementation in Private Equity.

In selecting the metrics we measure and track for our Net Zero commitment, we reviewed industry guidance, a number of climate initiatives and relevant regulations. We evaluated each potential metric against a set of principles. We sought metrics that:

- provide clear, science-based targets at the portfolio and asset class level
- measure GHG emissions in the real economy
- comply with regulatory requirements and meet industry standards
- are easy to use, with clear and easily applied methodologies based on publicly available information, are reliable, verifiable and objective, are achievable and practical to implement, and which are consistent over time
- enable our stakeholders to easily assess our alignment with the goals of the Paris Agreement

Surrey, Leith Hill

East Riding, Cottam

OUR NET ZERO METRICS

Based on these principles, we selected the following metrics against which our Net Zero targets are set:

- **Absolute financed emissions –** this reflects the total carbon emissions associated with the underlying investments in a portfolio.
- **Normalised financed emissions (normalised by AUM) –** this measures the emissions intensity of a portfolio per monetary unit. This metric is similar to absolute financed emissions but is adjusted for AUM within the portfolio. This takes into account impacts on absolute financed emissions that are driven by changes in AUM, which can result from new fund launches, additional investments, disinvestments or market volatility.
- **Weighted average carbon intensity (WACI) –** WACI measures the carbon emissions of a portfolio relative to the revenue of companies within the portfolio. It is measured in carbon dioxide equivalent per monetary unit. Using an intensity metric that is adjusted for company revenues means that company sizes are accounted for, and emissions are more easily comparable across different-sized portfolios or relative to a benchmark.
- **Carbon intensity –** this measures the carbon efficiency of a portfolio, based on company emissions per dollar of sales generated. The metric adjusts for company size, providing a measurement of the efficiency of output rather than its absolute emissions.
- **% of AUM in Net Zero-aligned assets –** this tracks the percentage of investments in the portfolio that are aligned to a Net Zero pathway, based on specific assessment criteria. This metric offers a forward-looking perspective showing the likelihood of companies within our portfolio achieving Net Zero.
- **% of financed emissions under engagement –** this tracks engagement with companies responsible for financed emissions.

We look at financed emissions (carbon emissions), carbon intensity and WACI when assessing carbon-related risk.

Carbon metrics, whilst useful, also have limitations; results need to be considered alongside other forward-looking climate-related tools to have a more holistic understanding of the underlying contribution and exposure to risk. Our portfolio managers also use a number of tools to inform their decision making and to monitor risk within their portfolios. This includes using CA100+ Net Zero Benchmark indicators, TPI analysis and whether a company has a target approved by the Science Based Targets Initiative (SBTi). In addition to the Net Zero metrics we also track data availability, consider whether it is reported or estimated and use MSCI data to track exposure to fossil fuel reserves and clean technology solutions.

OUR NET ZERO COMMITMENT

In September 2021 we pledged to achieve Net Zero emissions by 2050 or sooner. This is in line with the UK government's Net Zero commitment and the Paris Agreement.

To meet our commitment we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF), developed by the IIGCC and included them in our Net Zero Implementation Plan. We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan; and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income, etc.). In addition to our long-term Net Zero target, we have set interim targets towards that goal. Each year, we use this publication to report on our progress.

As recommended in the NZIF guidance, our targets will be reviewed and updated at least every five years. This reflects the fact that best practice, methodologies and data in this area are evolving quickly, and so our targets and plan require the flexibility to adapt.

Financed emissions (normalised by AUM) is the primary metric against which we have set our emissions targets. We also use intensity measures such as WACI and carbon intensity to provide additional guidance. As emissions metrics are backward looking we supplement them with a forward-looking metric – the percentage of AUM in Net Zero-aligned assets. Progress is measured against our baseline year of 2019.

Our key target is for a 53% reduction in financed emissions (normalised by AUM) by 2025 (relative to our 2019 baseline) and a 66% reduction by 2030 in order to reach 100% emission reductions by 2050 or sooner.

Warwickshire, Hatton Locks

Bedfordshire, Bedford

Scope and context of targets

Our portfolios are split across listed equities, fixed income and private markets. Initially, we have set targets for Scope 1 and 2 emissions for our listed equities and a proportion of our fixed income assets, covering 57% of our overall AUM as of 31 March 2023 (2022: 60%). The reduction in coverage is due to an increase in commitments to private markets.

At this point, we have not set Net Zero targets for private markets assets, sovereign bonds and multi-asset credit investments, which make up the remaining 43% of AUM. We have also not set targets for Scope 3 emissions. This is due to the absence of sufficiently robust methodologies and issues with data quality and availability. We will continue to evaluate data availability and methodologies and work with the industry with the aim of expanding the scope of our targets once methodologies are established and data quality improves.

Our targets are informed by a science-based scenario pathway, which is a scenario that estimates the global emission reductions needed, by sector and region, up to 2050 and explores the emissions trajectories required to transition to a low carbon economy.

We have used the International Energy Agency (IEA) Net Zero by 2050 (NZE2050) scenario as it provides an ambitious but viable global pathway for reaching Net Zero, underpinned by assumptions based on modelling of the climate science. Our targets, which are based on the sectors and regions that we are invested in, aim for more ambitious emission reductions than the IEA pathway.

Emission targets

Our total portfolio-level target can be broken down into asset class-level targets. For each asset class, our targets were developed by considering the actual emissions pathway of each fund since launch and what we consider to be achievable over the short and medium-term.

For listed equities, we are targeting reductions of 52% and 65% by 2025 and 2030, respectively, from our 2019 baseline year. For corporate fixed income, we are targeting reductions of 54% and 66% by 2025 and 2030, respectively, from launch in 2020.

FIGURE 3

Border to Coast – Total decarbonisation pathway

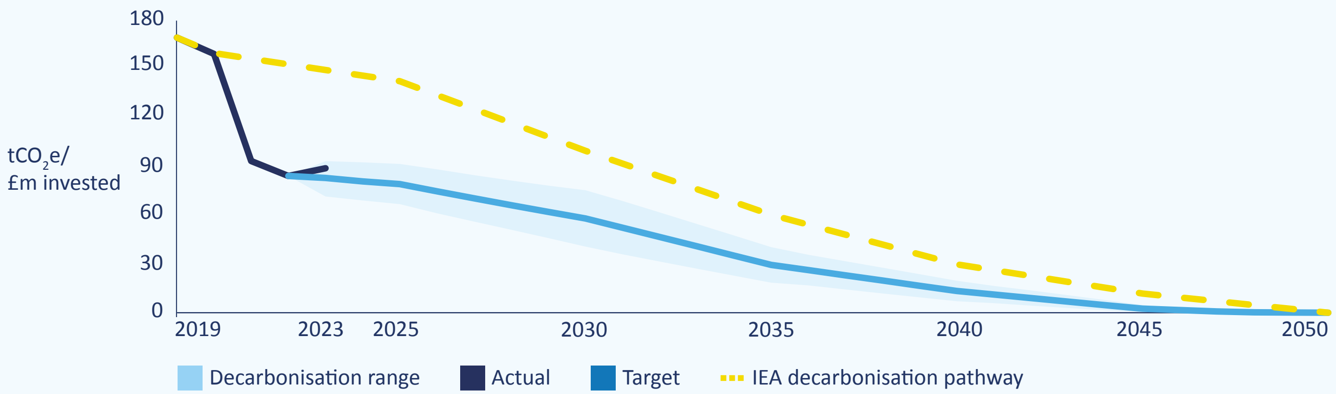


FIGURE 4

Border to Coast – Normalised financed emissions

Progress towards our Net Zero goal

In-scope assets

Financed emissions have reduced by 47% from our 2019 base year up to 31 March 2023. This is the result of the launch of new funds that have a lower carbon profile and the restructuring of existing capabilities, resulting in a lower carbon profile. There has also been a reduction in the carbon profile of existing capabilities, driven by the natural decarbonisation of the asset class and changes in portfolio composition. This means we remain on target for our long-term goal of reaching Net Zero emissions by 2050.

As of 31 March 2023, our financed emissions were 6% higher than 31 March 2022 (Equities: +6%; Fixed Income: +1%). This was due to:

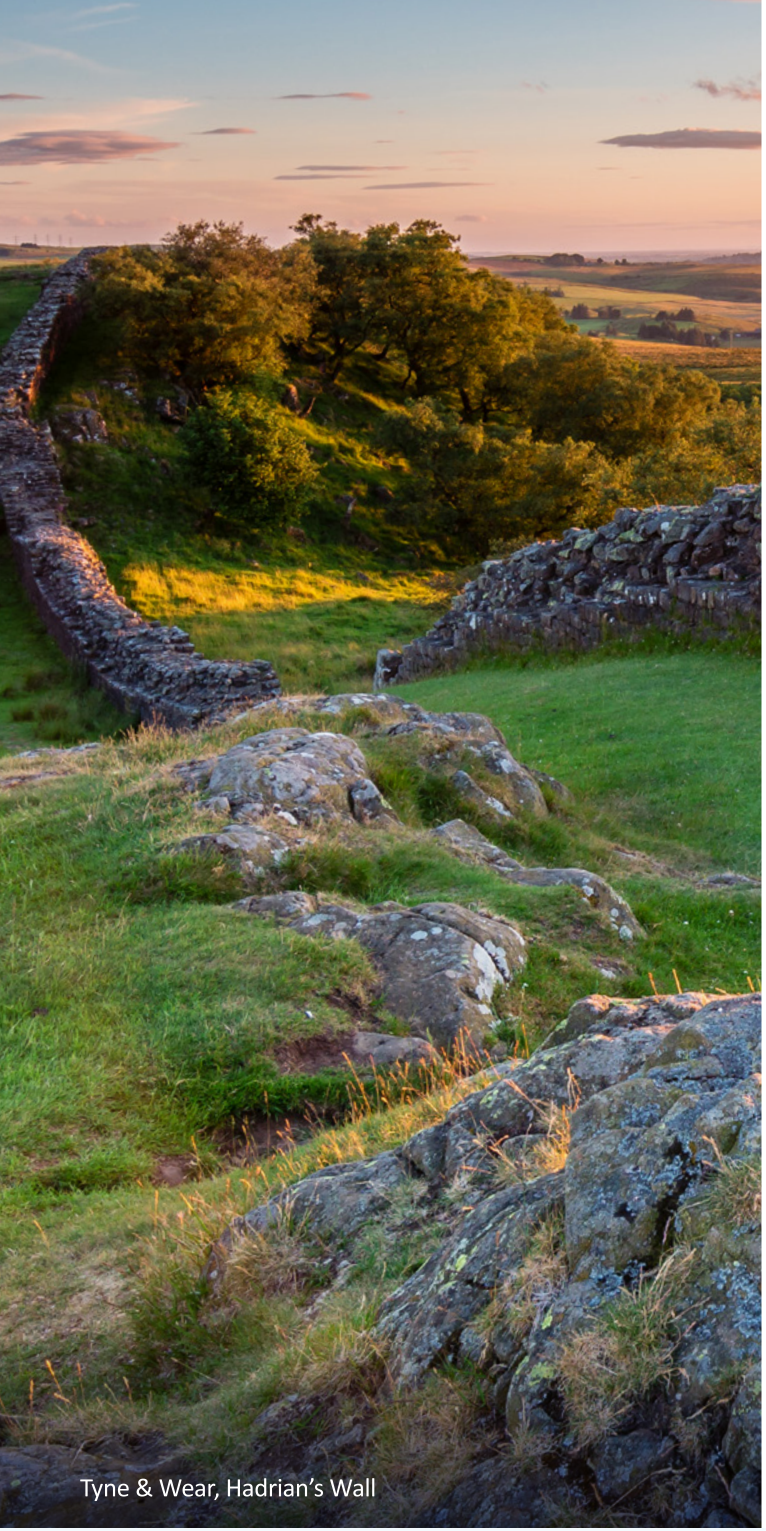
- An increase in financed emissions in two equity sub-funds:
  - UK Listed Equity – an increase in the weighting to the Energy sector broadly in line with the increase in the benchmark weight.
  - Overseas Developed Markets Equity – outperformance of a number of large emitters which score relatively well using indicators such as TPI, CA100+, and SBTi and are considered to have credible transition plans.
- A change in mix driven by a combination of relative performance and customer flows:
  - Increase in AUM in sub-funds that have higher financed emissions (Overseas Developed and Emerging Markets).
  - Decrease in AUM in sub-funds that have lower financed emissions (Listed Alternatives).

This increase in normalised financed emissions compares to a 9% increase in the weighted average financed emissions of each sub-fund's relevant benchmark.

Intensity measures, including WACI and carbon intensity, are 6 – 8% lower than at 31 March 2022. This supports our assertion that the increase in financed emissions is not due to a deterioration in the carbon profiles of the sub-funds.

Although financed emissions are ~7% higher than our Net Zero target trajectory, corrective action is not considered necessary at the current time.

Teesside, Stockton-on-Tees



Tyne & Wear, Hadrian's Wall

Alignment and engagement metrics

Percentage of AUM in Net Zero-aligned assets

Tracking the percentage of our assets invested in companies which are aligned to Net Zero offers a forward-looking view of the emission projections of our portfolios. This metric helps us understand which companies are aligned or aligning to a Net Zero pathway, which allows us to understand their likely future emission reductions.

For a company to be Net Zero aligned, it must meet one of the following three definitions, which we determine using the Paris Aligned Investment Initiative criteria:

- Achieving Net Zero
- Aligned to a Net Zero pathway
- Aligning towards a Net Zero pathway

Currently, 44% (31 March 2022: 48%) of our financed emissions in the asset classes that are in scope for our Net Zero Implementation Plan are emitted by companies that are considered to be aligned or aligning with Net Zero. The reduction in alignment in the last year is due to the impact of additional data coverage in fixed income which reduces the contribution of one of the largest emitters in the portfolio which is considered to be aligning towards Net Zero. There has been a significant reduction in companies considered to be not aligned across all of the sub-funds. We have based our assessment on data provided by CA100+, the TPI, the SBTi and MSCI. We have set a series of interim targets, with the aim of reaching 100% Net Zero alignment by 2040.

Percentage of high-emitters engaged

We have also set a target for 80% of Border to Coast's financed emissions to be subject to engagement by 2025, and 100% by 2030.

Engagement is the primary mechanism for driving real-world decarbonisation in our portfolio companies and thereby meeting our Net Zero targets, both at asset class and portfolio level. By engaging with portfolio companies, our goal is to ensure their climate change strategies are in line with robust, science-based Net Zero pathways.

We have identified the 30 largest emitters within our portfolios in order to help prioritise where active stewardship was most urgently required to manage climate risk. This group accounted for approximately 72% of the financed emissions covered by our Net Zero Implementation Plan (31 March 2022: 72%).

We have set a series of interim targets with the aim of engaging with 100% of the companies that are in scope by 2030.

Our initial engagement focus is on the highest emitters in our portfolios as these represent the greatest risk to meeting our Net Zero commitments. The extent of our engagement with individual companies will depend on the materiality of the risk and the progress they have made towards Net Zero alignment. We have adopted the IIGCC Net Zero Stewardship Toolkit as the basis for our engagement strategy for Net Zero.

At 31 March 2023, 73% of in-scope financed emissions were under engagement (31 March 2022: 73%).

Teesside, Redcar

Investment in climate solutions

Investment in low carbon infrastructure and technology solutions will be needed to enable the transition to a Net Zero global economy. As at 31 March 2023, we estimate that around £6.9bn of our equity and fixed income portfolios covered by the Net Zero Implementation Plan is invested in climate solutions (31 March 2022: £6.8bn).

In addition, our private markets portfolio includes around £1.4bn of capital (31 March 2022: £600m) that has been committed to investments in climate solutions, with ~£350m deployed (31 March 2022: ~£175m). A significant proportion of these investments are in our Climate Opportunities portfolio, which we launched in April 2022 with £1.35bn of commitments. This portfolio will make investments focused on accelerating the Net Zero transition (see page 18).

We aim to increase our investments in climate solutions over time, although this will depend upon the asset allocation decisions of our Partner Funds. Due to data availability issues and the absence of an industry-standard definition, we have not set an explicit target. We will continue to work with the industry to seek improvements to data availability and the development of a standard definition and will consider adopting an explicit target in the future, taking into account our Partner Funds' asset allocation decisions.

Emissions of our Funds

The FCA requires the reporting of carbon metrics for our investment products.

We report financed emissions, carbon intensity and WACI data on a three-year rolling basis. Figures 5-7 give the carbon data for all three metrics relative to the benchmarks for the last three reporting periods (31st March 2021 to and including 31st March 2023) or since inception for Funds launched post 2021. Reporting covers the listed equity funds and Sterling Investment Grade Credit Fund.

KEY 31/03/2021 31/03/2022 31/03/2023

Source: MSCI ESG Research LLC, 31/03/2023

FIGURE 6

Weighted average carbon intensity (WACI) relative to benchmark

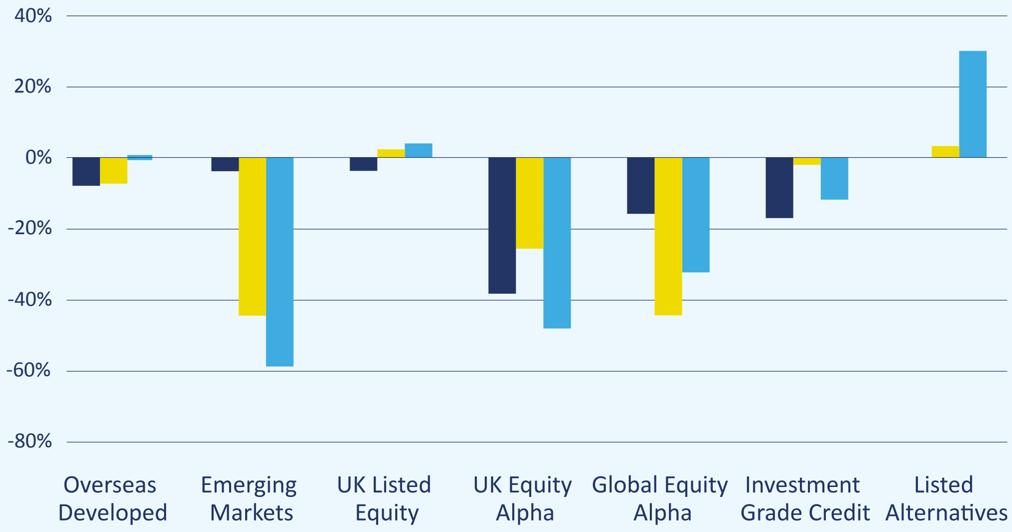


FIGURE 5

Financed emissions relative to benchmark

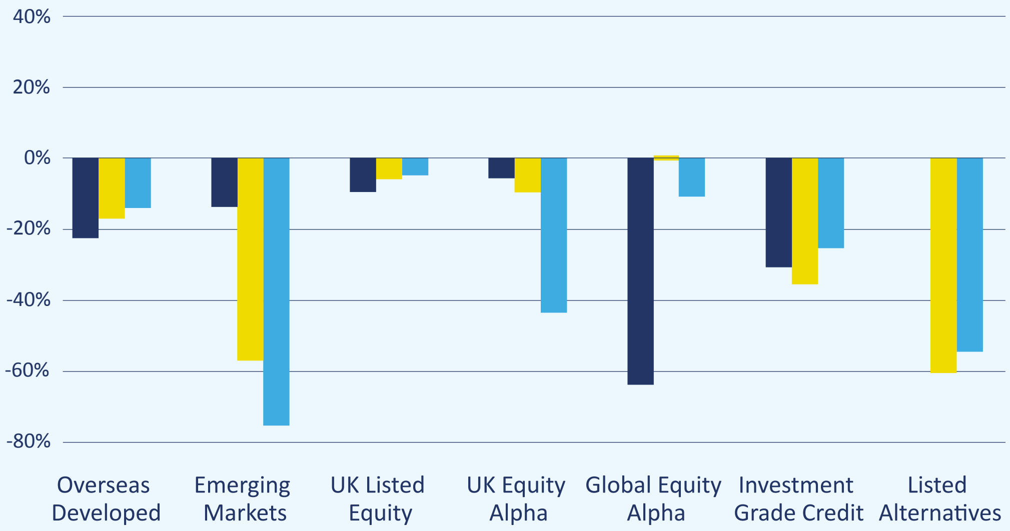


FIGURE 7

Carbon intensity relative to benchmark

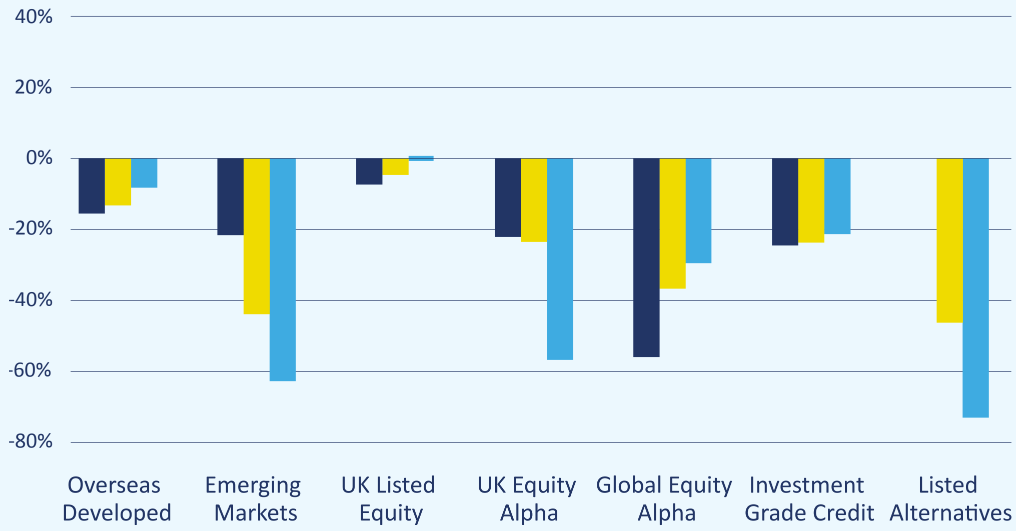


TABLE 1
Carbon metrics

	Financed emissions (tCO_2e/$m Invested)		Weighted average carbon intensity (tCO_2e/$m sales)		Carbon intensity (tCO_2e/$m sales)	
Portfolio	**Fund**	**Benchmark**	**Fund**	**Benchmark**	**Fund**	**Benchmark**
Overseas Developed Markets Equity	97	112	135	135	167	181
Emerging Markets Equity	75	300	158	378	160	428
UK Listed Equity	117	122	124	120	141	141
UK Listed Equity Alpha	69	122	63	120	62	141
Global Equity Alpha	82	92	100	147	128	180
Investment Grade Credit	65	86	72	81	44	56
Listed Alternatives	42	92	190	147	49	180

Source: MSCI ESG Research LLC, 31/03/2023

Over the three-year period covered in this report all Funds are either in-line or significantly below their benchmark for financed emissions (our primary metric against which we have set our emissions targets). The biggest movement has been seen in the UK Listed Equity Alpha Fund following its restructuring in the second quarter of 2022.

The WACI of most of the Funds relative to the benchmark has either further decreased or maintained an underweight position over the period; some are materially below benchmark. The one exception being Listed Alternatives which is above benchmark. Due to the way in which the WACI allocates carbon intensity, it can be highly sensitive to relatively small changes in concentrated portfolios. Listed Alternatives is a highly concentrated portfolio where, for example, one company contributes approximately 20% of the overall WACI metric.

The carbon intensity of the majority of Funds is significantly below the respective benchmark with some Funds showing material reductions over the period or remaining stable. The UK Listed Equity Alpha Fund stands out due to the restructuring undertaken with a significant further reduction; the additional decline in emissions in the Emerging Markets Fund was due to the sale of several high emitting companies.

Lincolnshire, Lincolnshire Wolds

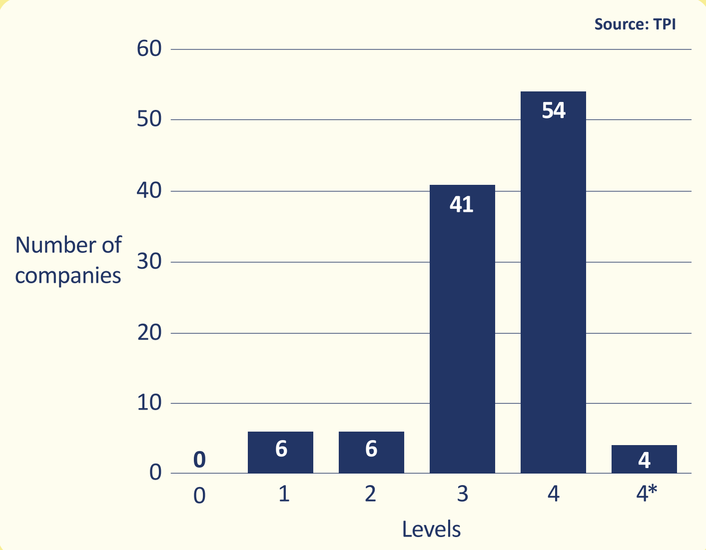
Cumbria, Lake Windermere

THE TRANSITION PATHWAY INITIATIVE

TPI is a global initiative led by asset owners and supported by asset managers; it uses a framework to evaluate the quality of companies' management of greenhouse gas emissions associated with their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. The TPI currently covers almost 600 publicly listed companies and coverage continues to increase. Companies' management quality is assessed against a series of indicators, covering issues such as company policy, emissions reporting and verification, targets, strategic risk assessment and executive remuneration.

FIGURE 8

TPI levels – Border to Coast portfolio companies



Based on their performance against the indicators, companies are placed on one of six levels:

- **Level 0 –** Unaware of (or not acknowledging) climate change as a business issue
- **Level 1 –** Acknowledging climate change as a business issue
- **Level 2 –** Building capacity
- **Level 3 –** Integrated into operational decision making
- **Level 4 –** Strategic assessment
- **Level 4* –** Satisfies all management quality criteria

We use TPI scoring to inform our voting decisions and to identify targets for engagement.

A total of 111 Border to Coast portfolio companies have been rated by the TPI, representing approximately 18% of our overall assets under management.

Out of the 111 portfolio companies rated by TPI:

- 99 (89%) were ranked Level 3/4/4* for their management quality of carbon. They are therefore, according to TPI, "integrating climate change into operational decision making" and/or making a "strategic assessment" of climate change.
- eight companies were upgraded from Level 3 to Level 4/4* in the year, while a further seven companies moved up to Level 3.
- conversely, three Level 4 companies were downgraded to Level 3.
- the single Level 0-rated company which Border to Coast held in 2022 was upgraded in the reporting year to Level 1.

Over the reporting year, 19 (17%) of TPI-rated portfolio companies were upgraded, while three (just under 3%) were downgraded.

TABLE 2
Data availability

	Reported		Estimated		No Data	
	2022	2023	2022	2023	2022	2023
Equities	84%	89%	9%	6%	7%	5%
Fixed Income	35%	62%	6%	12%	59%	26%
Total	**77%**	**85%**	**9%**	**7%**	**14%**	**8%**

Source: MSCI ESG Research LLC, 31/03/2023

Data quality

Table 2 shows the proportion of carbon emissions data for the assets included in the Net Zero Plan that is reported, estimated or where there is currently no data available.

Whilst it is clear that the majority of data in equities is based on reported data, the table highlights the relative lack of data in fixed income. This is an industry-wide issue, and we continue to engage with the industry, including our external managers and data providers, to increase the proportion of reported data.

Data availability for fixed income has increased materially over the period. After a period of monitoring both data sets and engaging with our external managers, we have switched to a methodology that maps more issuers to a parent subsidiary, having gained comfort that the quality of the data is sufficiently high and understandable.

Lincolnshire, Gibraltar Point


North Yorkshire, Ribblehead Viaduct

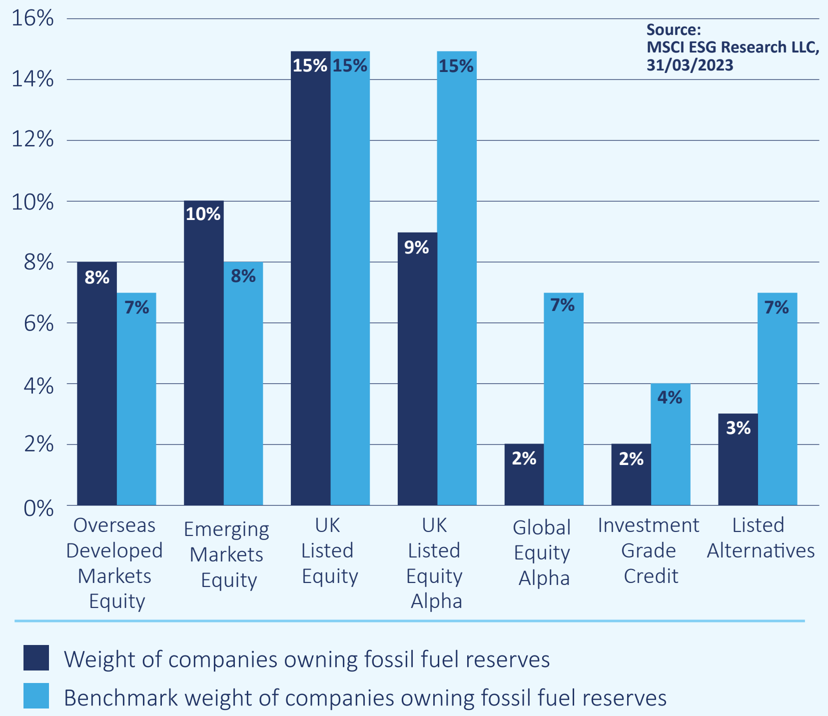
COMPANIES OWNING FOSSIL FUELS

Companies holding substantial fossil fuel reserves risk seeing those assets become stranded, as the world moves towards a low carbon economy.

We use data from MSCI to assess our exposure to companies with a high risk of potentially stranded assets. There is no standard industry definition, therefore we use the methodology of MSCI, which may differ from that of other data providers. The percentage of portfolio companies owning fossil fuel reserves is broadly in line with or underweight their respective benchmarks.

FIGURE 9

Weight of holdings owning fossil fuel reserves

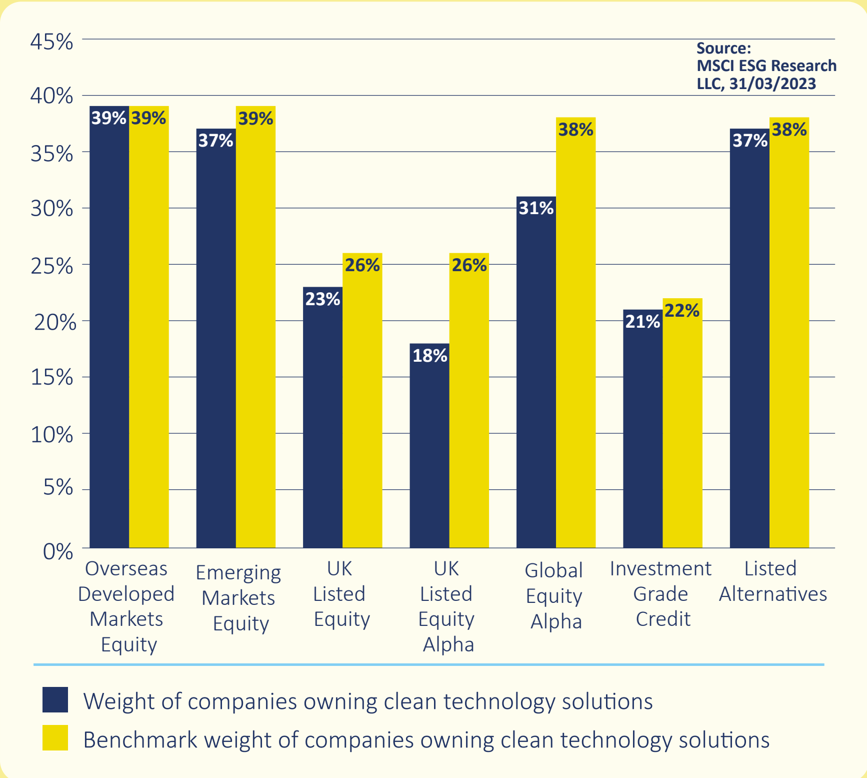


COMPANIES OWNING CLEAN TECHNOLOGY SOLUTIONS

As well as monitoring the exposure to fossil fuels, the proportion of companies contributing to a low-carbon transition is also assessed. There is currently no industry standard definition for clean technology solutions; as our data provider is MSCI we use their methodology which may differ from that of other data providers. Our Overseas Developed Markets Equity Fund, Emerging Markets Equity Fund and Listed Alternatives Fund have the highest allocation to companies providing clean technology solutions.

FIGURE 10

Weight of holdings owning clean technology solutions



Teesside, Saltburn-by-the-Sea

Warwickshire, Chesterton Old Windmill

BORDER TO COAST

PENSIONS PARTNERSHIP

Border to Coast Pensions Partnership Limited is authorised and regulated by the Financial Conduct Authority (FRN 800511).

Registered in England (registration number 10795539) at the registered office:

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