

# **Appendix: Example ESG & CR Metrics and reporting**

**All figures purely illustrative**

## **East Sussex Pension Fund**

**Q1 2020 Responsible Investment & Climate Risk Monitoring Report**

## Asset Allocation

This section sets out the high level asset valuation and fund allocations.

This page includes;

- End quarter valuations.
- Asset allocation breakdowns.

### Key Actions/Developments

Any suggested developments/ actions should be highlighted here.

- E.g – Funds moved from M&G to ACCESS Sub-Fund during the quarter, this has resulted in East Sussex's aggregate ESG and Climate Risk Scores changing from X to Y.

Access Pool	Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative	Rebalancing Ratings
		Q4 2019	Q1 2020				
No*	UBS - Regional Equities	370.9	312.4	9.0%	8.0%	1.0%	36.0% - 44.0%
No*	UBS - Fundamental Index	470.7	363.2	10.4%	11.5%	-1.1%	
No*	UBS - UK Equity	295.5	220.9	6.3%	7.0%	-0.7%	
No*	UBS - Climate Aware	190.8	160.0	4.6%	5.0%	-0.4%	
No*	UBS - Global EM Equity	44.6	36.2	1.0%	1.5%	-0.5%	
Yes	Longview - Global Equity	307.8	238.8	6.8%	7.0%	-0.2%	3.5% - 7.5%
No	Harbourvest - Private Equity	102.3	109.5	3.1%	2.8%	0.4%	
No	Adams Street - Private Equity	115.9	135.6	3.9%	2.8%	1.1%	
Total Equity		1898.5	1576.7	45.2%	45.5%	-0.3%	41.0% - 50.0%
No	Newton - Absolute Return	455.3	414.8	11.9%	10.5%	1.4%	9.5% - 11.5%
No	Schroders - Property	364.2	351.8	10.1%	10.0%	0.1%	8.0% - 12.0%
No	UBS - Infrastructure	14.7	16.7	0.5%	1.0%	-0.5%	2.0% - 6.0%
No	Pantheon - Infrastructure	26.3	30.1	0.9%	2.0%	-1.1%	
No	M&G - Infrastructure	18.4	20.7	0.6%	1.0%	-0.4%	
No	M&G - Private Debt	31.3	38.8	1.1%	3.0%	-1.9%	1.0% - 5.0%
No	M&G - UK Financing Fund	0.7	0.0	0.0%	0.0%	0.0%	
No	M&G - Alpha Opportunities	262.7	239.1	6.9%	8.0%	-1.1%	7.0% - 9.0%
Total Alternatives		1173.8	1112.0	31.9%	35.5%	-3.6%	32.0% - 39.0%
Yes**	Ruffer - Absolute Return	445.4	418.5	12.0%	10.5%	1.5%	9.5% - 11.5%
No	M&G - Corporate Bonds	148.9	144.3	4.1%	3.5%	0.6%	2.5% - 4.5%
No*	UBS - Over 5 Year IL Gilt Fund	208.3	212.3	6.1%	5.0%	1.1%	4.0% - 6.0%
Total Protection		802.7	775.1	22.2%	19.0%	3.2%	17.0% - 21.0%
No	Cash	33.9	23.9	0.7%	0.0%	0.7%	0.0% - 2.0%
Total Scheme		3908.9	3487.6	100.0%	100.0%		

\*The UBS funds are provided to members of the ACCESS Pool but the funds themselves sit outside of the pool.

Source: Investment Managers and LINK

\*\*Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements



## Manager A

### ESG Analysis

This section is for ESG Analysis Insights.

### Climate Risk Analysis

This section is for Climate Risk Analysis Insights.

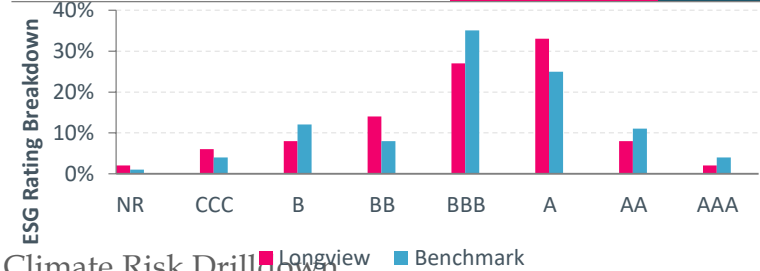
### Engagement Priorities

This section outlines companies that should be flagged to the Investment Manager or Engagement Provider as engagement priorities.

e.g Volkswagen due to its portfolio weighting and its extremely high controversy Score

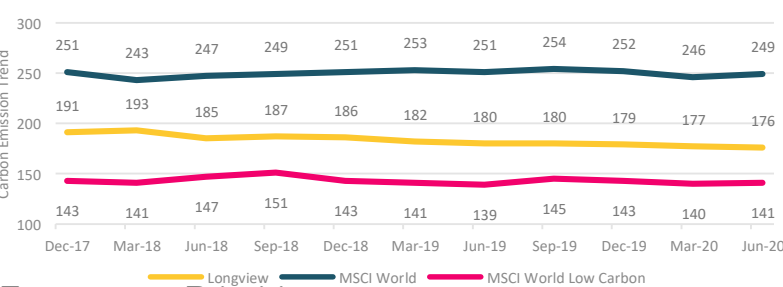
## ESG Drilldown

	ESG Rating	Governance Score	Environmental Score	Social Score	Very Severe Controversy Exposure
Manager A	6.5	8.1	6.9	6.7	3.1%
MSCI World	5.9	7.5	6.2	5.9	2.5%
MSCI Low Carbon	6.4	7.7	7.4	6.8	1.8%



### Climate Risk Drilldown

	Carbon Emissions	Fossil Fuel Reserves (Tons)	Low Carbon Mgt (% Below Average)	Est Revenue from Clean Technology	Carbon Risk
Manager A	176.2	192,456	12%	23.5%	Low
MSCI World	249.1	221,964	-	21.2%	Moderate
MSCI Low Carbon	141.3	87,654	14%	26.4%	Very Low

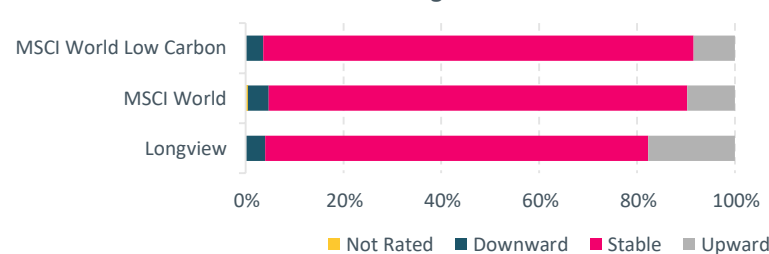


### Engagement Priorities

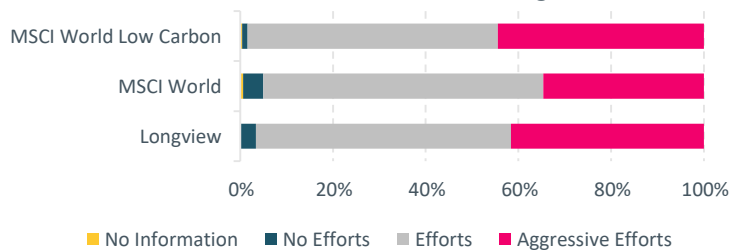
	Portfolio Weight	ESG Score	Controversy Score	Carbon Risk	Low Carbon Management
BHP GROUP PLC	6.5%	B	3.0	High	4.1
ROYAL DUTCH SHELL PLC	5.9%	BB	3.0	High	5.6
Volkswagen AG	6.4%	AA	1.0	Moderate	6.4
RYANAIR HOLDINGS PUBLIC LIMITED COMPANY	3.9%	BBB	1.0	Moderate	5.4
WELLS FARGO & COMPANY	4.5%	A	3.0	Low	6.7

## Figures purely illustrative

### ESG Ratings Momentum



### Carbon Reduction Targets



## Understanding the ESG Metrics

Metric	Description/ Methodology
<b>ESG Rating</b>	To arrive at a final letter rating, the weighted averages of the Key Issue Scores are aggregated and companies' scores are normalized by their industries. After any overrides are factored in, each company's Final Industry-Adjusted Score corresponds to a rating between best (AAA – 10.0 to 8.6) and worst (CCC- 0.0 to 1.4).
<b>ESG Quality</b>	Measures the ability of underlying holdings to manage key medium to long-term risks and opportunities arising from environmental, social, and governance factors. It is based on ESG Ratings and would be benchmark against the sub-funds relevant benchmark. A score of 21% would indicated that 21% of the WPP's holdings have a higher ESG ratings than the benchmark average.
<b>ESG Rating Upward Momentum</b>	Represents the percentage of the sub-funds market value coming from holdings that have had an ESG Ratings upgrade since their previous ESG Rating assessment.
<b>ESG Rating Downward Momentum</b>	Represents the percentage of the sub-funds market value coming from holdings that have had an ESG Ratings downgrade since their previous ESG Rating assessment.
<b>Controversy Exposure</b>	Each company receives an overall score based on an assessment of performance across the three pillars (E, S, and G), with the score driven by the lowest scoring indicator. A 0-10 scale is adopted, 0 indicated that a company has been involved in one or more recent very severe controversies. The % of the sub-fund's holdings carry a score of 0 could then be calculated.
<b>Governance Score</b>	The Governance Score is an absolute assessment of a company's governance that utilizes a universally applied 0-10 scale. Each company starts with a "perfect 10" score and scoring deductions are applied based on the assessment of Key Metrics.
<b>Environmental Score</b>	The Environmental Pillar Score represents the weighted average of all Key Issues that fall under the Environment Pillar.
<b>Social Score</b>	The Social Pillar Score represents the weighted average of all Key Issues that fall under the Social Pillar.

## Understanding the CR Metrics

Metric	Description/ Methodology
<b>Carbon Emissions</b>	Scope 1+2 Intensity (tons Co2/USD million sales). Expresses the carbon efficiency of the sub-fund and measures how much carbon emissions per dollar of sales are generated.
<b>Carbon Reduction Targets</b>	If a company has a carbon emissions reduction target, this data point indicates how aggressive that target is. The highest scores go to companies aggressively seeking to reduce emissions from a level that is already relatively low. Apart from companies with no target, the lowest scores go to those with high emissions levels that are seeking to make only minor reductions. For smaller companies, among which carbon reduction targets are relatively uncommon, a moderately high score is given for any type of carbon reduction target.
<b>Low Carbon Management</b>	This indicator measures how well a company manages risk and opportunities related to the Low Carbon Transition. It combines Management assessments for the following Key Issues: Carbon Emission for all companies, Product Carbon Footprint, Financing Environmental Impact, Opportunities in Clean Tech, Opportunities in Renewable Energy where available. Higher scores on management indicate greater capacity to manage risk. (Score: 0-10). This scores could be weighted based on a holding's weighting in the sub-fund and then benchmark against the average score within the relevant index.
<b>Estimated Revenue from Clean Technology</b>	Analyses companies involved in clean technology solutions based on their sales in the following categories: Alternative Energy, Energy Efficiency, Green Building, Pollution Prevention, and Sustainable Water. A holdings estimated revenue from Clean Tech is then weighted by the holding's sub-fund weighting.
<b>Fossil Fuel Reserves (Tons)</b>	Measure the sub-fund exposure to fossil fuel reserves per \$1m invested. Fossil Fuels Reserves include Thermal Coal (Tons), Gas (MMBOE- Million barrels of crude oil equivalent) and Oil (MMBOE).
<b>Carbon Risk</b>	Measures exposure to carbon intensive companies. It is calculated as the portfolio weighted average of issuer carbon intensity. Carbon Intensity is the ratio of annual scope 1 and 2 carbon emissions to annual revenue. Carbon Risk is categorized as Very Low (0 to <15), Low (15 to <70), Moderate (70 to <250), High (250 to <525), and Very High (>=525).

Manager Ratings

Mandate	Advisor Rating	RI
Mandate X	Preferred	Good
Mandate Y	Preferred	Adequate
Mandate Z	Preferred	-
	Preferred	-
	Suitable	Good*
	Positive	-
	Positive	-
	Suitable	-
	Preferred	-
	Positive	-
	Preferred	-
	Preferred	-
	Preferred	-
	Preferred	-

Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.