Climate disclosures for the year ended 31 March 2023

The Trustees ("the Trustees") of the Scottish Enterprise Pension & Life Assurance Scheme ("the Scheme") believe that climate change is a systemic risk and seek to manage that risk with respect to the Scheme on behalf of their members. The Trustees are supportive of initiatives they believe will be in the long-term financial interest of the Scheme's members. The Taskforce on Climate-related Financial Disclosures ("TCFD") is one such initiative, as the Trustees believe greater disclosure will lead to more engagement and a more structured approach to managing this risk.

Executive summary

Whilst the Scheme is not in scope of the requirements pertaining to the TCFD, the Trustees acknowledge the significance of climate change and wider environmental, social and governance considerations for the Scheme, particularly given the expectation of the Scheme remaining open to future accrual over the long-term as well as the Scottish Government's commitment to net-zero emissions of all greenhouse gases by 2045.

The Trustees are using the Scheme position as assessed as part of this report, as well as both the requirements for and the recommendations to schemes under the disclosures, to propel further action and identify areas in which they can do more, as well as addressing any current gaps. This will include setting a target for the Scheme to achieve with respect to climate-related issues and then designing a road map for the Scheme outlining tangible actions that the Trustees can take to achieve this objective in an effective and efficient manner

Activity over the year to 31 March 2023 and future actions

Over the year to 31 March 2022, the Trustees took a number of steps to manage climate risk within the Scheme, including:

- The Trustees reviewed the Scheme's Statement of Investment Principles to include climate-related and Environmental, Social and Governance ("ESG") issues.
- The Investment Committee received additional training on TCFD, including the governance processes to oversee and manage climate-related risks, as well as the risk management processes to monitor these.
- The Trustees developed an integrated risk management and strategy dashboard to include further consideration of climate-related and ESG issues.
- The Governance Committee made some initial steps in agreeing the plan for developing the overall climate and sustainability policy of the Scheme.

The Trustees had plans to further manage climate risk in various areas within the Scheme over the year to 31 March 2023. However, progress was paused following the introduction of several other regulations and issues that the Scheme had to commit time to, including the impact of market volatility following the mini-budget announcement in September 2022, the new General Code of Practice, GMP reconciliation and equalisation and cyber resilience. Furthermore, over the year the Scheme's assets reduced from c£900m (as at 31 March 2022) to c£500m (as at 31 March 2023). This was as a result of the market volatility in late 2022. Therefore, it's expected that the Scheme will not be required to adopt these reporting requirements in the short-term. Albeit, the Trustees are still keen to consider climate change in key strategic decisions that are made. Therefore, over the year to 31 March 2023, the Trustees have taken the following steps to further manage climate risk within the Scheme, including:

- The Trustees held a scenario planning workshop which considered the implications of Environmental, Social and Governance ("ESG") issues for the Scheme and its funding.

The Trustees have also identified a number of actions that they would like to undertake in future, as set out below:

- Undertaking scenario analysis as part of the 2023 valuation to understand the expected likelihood and impact of climate-related risks and opportunities, in order to better improve resilience to climate-related risks and opportunities.

- Putting mitigation plans in place to reduce the impact of climate-related and ESG risks.
- Setting environmental, social and governance metrics to include in the Trustees' integrated risk management dashboard. These metrics would be monitored and reviewed annually.
- Considering members' views on climate-related and ESG issues. This will help inform both the Scheme's approach to these issues as well as any targets set for the long term.

Taskforce on Climate-related Financial Disclosures - Compliance

The Trustees have assessed the Scheme against the recommended disclosures and our progress is summarised below, under the four thematic areas of Governance, Strategy, Risk Management, and Metrics and Targets. As an output from the gap analysis, the Trustees have noted actions that they can take to improve their approach and will note what steps they have taken in next year's report. The recommended disclosures and current Scheme position are as outlined below:

Governance

Disclosure A: Describe the board's oversight of climate related risks and opportunities.

The Trustees meet on a quarterly basis. Climate-related and ESG issues are discussed when relevant and when making decisions. Both the Trustees and their advisers raised climate-related issues multiple times over the year in the context of wider discussions on the Scheme's strategy, noted within meeting minutes.

The Trustees recognise that they retain ultimate responsibility for managing the Scheme with respect to climate-related issues and oversight of any delegated responsibilities. In fulfilling their duties, the Trustees delegate certain responsibilities to other parties. This includes delegating the formal monitoring of the Scheme's investments to an Investment Committee, who meet quarterly to discuss the investment objectives, investment management structure and policy direction of the Scheme's assets, thus including the overall approach of the Scheme to climate-related and ESG matters and their implementation. The Investment Committee reports to the Trustees and recommends any further action.

The setting of Scheme policies and objectives fall within the remit of the Trustees. The Trustees have an objective *"to go beyond ESG compliance and to be committed to an ESG+ strategy"*. This is included in the Trustees' integrated risk management dashboard.

A wider Environmental, Social and Governance objective is noted in the Scheme's Myners compliance documentation and the Trustees' policy towards Environmental, Social and Governance factors is outlined within the Statement of Investment Principles.

The Statement of Investment Principles includes a policy to only appoint managers who satisfy a number of criteria, unless there is good reason why the manager does not satisfy each criteria. Further information is provided in the sections that follow.

A number of parties assist the Trustees in identifying and assessing climate-related risks and opportunities. The roles of these parties are outlined in the next governance disclosure, as well as how they feed into the Trustee Board, thereby enabling appropriate oversight of climate-related risks and opportunities to the Scheme.

Disclosure B: Describe the board's role in assessing and managing climate related risks and opportunities.

The Trustees retain oversight of the Scheme's overall financial strategy as part of their Integrated Risk Management framework. This includes consideration of risk across funding, investment and sponsor covenant aspects. Assessment and management of climate related risks under each of these areas, as well as the interaction between them, are considered as part of this ongoing process. Over the coming years, the Trustees hope to set environmental, social and governance metrics to include in their integrated risk management dashboard. These metrics would be monitored and reviewed annually.

There are a number of parties with a role in the Scheme's management and including the identification, assessment and management of responsible investment, and in particular climate related risks and opportunities.

These parties and their role in the Scheme's overall approach to climate-related issues, including the assessment and management of climate risks and opportunities, is set out below alongside the methods the Trustees use to assess each party.

Scottish Enterprise

The Trustees are aware that the Scheme's sponsor, Scottish Enterprise, have their own approach to sustainability and climate change. This is of particular importance, given the sponsor's industry and the potential impacts that climate change may have on the industry in future years - further information on Scottish Enterprise's approach to helping tackle climate change can be found in their Net zero framework for action 2022/23 report. As such, sponsor representation is present at all relevant meetings to provide their input into our approach, where appropriate. This will help ensure that the approach of the Scheme and Scottish Enterprise are aligned where possible.

Investment advisers

The Scheme's investment advisers, Isio, are responsible for assisting the Trustees to ensure climate related risks and opportunities are embedded into all investment decisions. They provide advice and training to the Investment Committee regarding regulatory requirements and are expected to incorporate responsible investment considerations into any advice regarding any strategy changes or manager appointment. The investment adviser also sits on the Investment Committee as a member and attends quarterly Trustee meetings and biannual strategy route-map meetings. Isio provide regular reporting on the Scheme's investment managers, including an annual assessment to the extent in which the Scheme's investment managers integrate ESG considerations (including climate) - more detail is provided on this in the section Risk Management: Disclosure B.

Actuarial advisers

The Scheme's actuarial advisers, Hymans Robertson, are responsible for identifying any climate-related and ESG considerations which should be incorporated into the Scheme's funding strategy (both short and long term) and in the Scheme's integrated risk management plan. This will include the setting of individual financial and demographic assumptions. The actuarial advisers attend quarterly Trustee meetings and biannual strategy route-map meetings.

Investment managers

On the appointment of any new manager, the Trustees assess each manager's climate-related and ESG capabilities, with assistance from their investment adviser, to determine if that manager's approach is aligned with the Trustees expectations, including those regarding climate change and ESG. Once appointed, the Trustees monitor all managers regularly, assessing each manager's processes and policy and challenges managers on any issues identified. The Investment Committee also liaises with the investment managers in relation to climate-related and ESG matters, as required.

The Trustees hold an investment roundtable on an annual basis. A group of investment managers will attend this meeting. This gives the Trustees an opportunity to hear from the investment managers and question them on certain issues, including those in relation to climate-related and ESG matters.

The investment advisers also ensure that monitoring results (including any issues that are identified) are fed back to the Committee at their regular meetings.

Investment Committee

The Investment Committee considers the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism. They make recommendations to the Trustee Board in respect of these matters. The Investment Committee is empowered to delegate responsibility for socially responsible investment, corporate governance and shareholder activism to the Scheme's manager, in line with the Trustees' policy of preserving and enhancing long term shareholder value.

Governance Committee

The Governance Committee made some initial steps in agreeing the plan for developing the overall climate and sustainability policy of the Scheme within the year ended 31 March 2022. However, progress was paused following the introduction of several other regulations and issues that the Scheme had to commit time to, as noted above.

The Committee plan to develop this plan over the coming years, with the help of the investment advisers, the actuarial advisers and the Investment Committee.

Scheme members

The Trustees are considering ways to collect members' views on climate-related and ESG issues. This will help inform both the Scheme's approach to these issues as well as any targets set for the long term.

Strategy

Disclosure A: Describe the climate related risks and opportunities identified over the short, medium and long term.

The Trustees have not formally agreed time-horizons for the Scheme with regard to climate risk considerations. However, the Trustees do consider climate risks and opportunities more holistically as part of their approach to the Scheme's investment strategy. The Trustees acknowledge that climate risk poses a threat to the long-term sustainability of the Scheme. The Trustees also acknowledge the potential for climate-related opportunities within their investment strategy, though this has not been considered in detail over the year to 31 March 2023.

The Trustees have discussed and agreed a relevant climate and ESG risk to the Scheme and have documented this in the Statement of Investment Principles. This is outlined below:

- **Risk:** Environmental, Social and Governance
- **Definition:** Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments
- **Policy:** To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:

    1. Responsible Investment ('RI') Policy / Framework
    2. Implemented via Investment Process
    3. A track record of using engagement and any voting rights to manage ESG factors
    4. ESG specific reporting
    5. UN PRI Signatory

    The Trustees monitor the managers on an ongoing basis.

Disclosure B: Describe the impact of climate–related risks and opportunities on the business, strategy and financial planning.

The Trustees have stated a clear intent to contribute to responsible investment through meaningful change within the investment strategy. The Trustees reviewed their investment strategy and agreed a new Environmental, Social and Governance Plus ("ESG+") strategy within the year ended 31 March 2021, which was designed to reflect the Trustees' desire to effect change and going a step above meeting compliance requirements. This strategy was implemented during the year ended 31 March 2022 and includes an allocation to equity investments with Baillie Gifford and BlackRock. The Trustees continue to monitor and evolve the Scheme's exposure to sustainable investments as opportunities arise.

In line with embedding climate-related issues into our integrated risk management framework, we will also consider the impact of climate risk to the Scheme's liabilities in future valuations. This may include possible margins of prudence to make allowance for economic impacts of climate change as well as the effect of the long-term effects of climate change on assumptions such as longevity and mortality.

More information on integrated risk management and how climate-related risks fit into our approach can be found in the risk Management section of this report.

Disclosure C: Describe the resilience of the strategy, taking into consideration different climate-related scenarios including a 2 degree or lower scenario.

In October 2022, the Trustees held a scenario planning workshop which considered the implications of Environmental, Social and Governance (“ESG”) issues for the Scheme and its funding. The Trustees agreed that more active management of ESG issues was needed, in particular to understand in more detail how ESG factors are likely to evolve over time. As such, scenario analysis will be undertaken in September 2023 (as part of the 2023 valuation) to look at the potential impact of ESG factors on the Scheme and to develop contingency plans.

Risk Management

Disclosure A: Describe the processes for identifying and assessing climate-related risks.

At a simple level, the Trustees’ risk management process comprises identification, assessment, monitoring and control of risk. Climate risks are identified by Trustees and their advisors as appropriate. Once identified, risks are then evaluated and prioritised based on the overall threat posed to the Scheme.

The Trustees prioritise risks based on the size, scope and materiality of the risk event. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Scheme, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action.

The risk register for the Scheme, and the risks outlined within the risk register that are identified and assessed as described above, are reviewed on an at least annual basis. The Scheme’s risk register includes relevant climate-related risks for the Trustees to assess and monitor, including both physical and transition risks to the Scheme, its assets and liabilities. These risks will be investigated further as part of the scenario analysis to be conducted in September 2023 (as part of the 2023 valuation).

Climate-related and ESG risks have been included within the Scheme’s Statement of Investment Principles, as outlined under Strategy Disclosure A. The Trustees are also expecting to include climate-related and ESG metrics, in order to monitor the risks and opportunities they pose, within the Scheme’s integrated risk management dashboard.

ESG and, in particular, climate related risks can be identified by various parties including us, our advisors, and managers as outlined under the Governance section of this report as part of the ongoing management of the Scheme. ESG risks may identified as part of the following processes:

- Investment strategy reviews;
- Valuations and covenant reviews;
- Considering asset classes;
- Selection of investment managers; and
- Individual mandates and investment monitoring.

Disclosure B: Describe the processes for managing climate-related risks.

Risks and opportunities are considered both in absolute terms and in relation to the risk appetite of the Scheme. The Trustees discuss and agree management of risks at the Scheme level. Risk appetite can be defined in terms of a willingness to take risk or the acceptability of risk. Climate-related risks are a strategic risk for the Scheme and are first considered at Board level as part of integrated risk management and strategy discussions. As a result of these discussions, the Trustees have developed a document setting out their environmental beliefs and how responsibility for environmental risks are managed, including delegation of investment risk management to the Investment Committee.

The remit of the Investment Committee includes discussions on investment governance and voting with the Scheme’s equity manager on a periodic basis. The Trustees have delegated voting rights to the Scheme’s investment managers on the basis that voting power will be exercised by the manger with the objective of preserving and enhancing long term shareholder value, with consideration given to environmental, social and governance issues, including climate risk.

The Trustees have included ESG factors as an area for engagement with investment managers within their Statement of Investment Principles, and as outlined below:

- **Area for engagement:** Environmental, Social, Corporate Governance factors and the exercising of rights
- **Method for monitoring and engagement: Investment advisor "Impact Assessments"**
  - Whilst the Trustees retain overall responsibility, the Trustees delegate day-to-day management of the investments to investment managers, and expect the managers to be identifying, assessing and managing climate-related risks on an ongoing basis on the Trustees' behalf. The Scheme's investment managers meet with the Trustees on an ongoing basis to provide an update on the market and the Scheme's mandates. The investment advisor also reviews the investment managers for material developments on a quarterly basis.
  - The Trustees receive an annual assessment report from its investment advisor that assesses each of the underlying managers with regard to the level of ESG integration for each mandate. The manager impact assessment has a strong focus on climate-related risks and includes a specific climate score for each of the underlying managers. Example criteria for this assessment are shown below.

Assessment category	Example evaluation criteria
Investment approach	Are the fund's climate objectives quantifiable with interim targets set?
Risk management	Does the manager have a dedicated individual within the ESG team with responsibility for oversight of the climate change policy?
Voting & engagement	Can the manager provide a case study example demonstrating effective engagement on climate-related issues?
Reporting	Does the manager undertake forward-looking climate scenario modelling and is this published in quarterly reports?
Collaboration	Is the manager a member of the UN Net Zero Asset Owner Alliance? If not, is there a valid reason why?
Climate	Does the manager have explicit climate objectives or stewardship priorities?

  - Each mandate is assessed across these five key areas. At a high level, the majority of the Scheme's managers received at least satisfactory ratings, meeting traditional criteria for most of the above categories, meaning good practice approaches, and partially meeting criteria in others. The main areas of improvement were in relation to the evidencing of voting and engagement and the reporting capabilities of the managers, mostly in relation to the real assets and illiquid credit mandates.
  - The Trustees use this assessment to identify areas of improvement and targets engagement efforts towards these areas. The Trustees expect to see progress in the investment managers' capabilities and the Investment Consultant's considerations each year.

- **Circumstances for additional monitoring and engagement:** The manager has not acted in accordance with their policies and frameworks. The manager's policies are not in line with the Trustees' policies in this area.

Through the engagement described above, the Trustees will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustees will review the relevant investment manager's appointment and will consider terminating the arrangement.

The Trustees receive annual stewardship reports from their investment consultant on engagement and voting activities of investment managers.

Disclosure C: Describe how processes for identifying, assessing and managing climate-related risks are integrated into the overall risk management.

The Trustees and their advisors raise new or updated risks at quarterly Trustee meetings or other appropriate points in time, depending on urgency. These risks are then added to the Scheme's risk register which forms part of the Scheme's overarching Integrated Risk Management approach and management framework. This includes rating the likelihood and impact of the risk event to produce a score reflecting the threat that the risk event poses to the Scheme, then making a decision on the appropriate action (mitigation, control or acceptance) based on this score and available courses of action.

The Trustees are expecting to include climate-related and ESG metrics, in order to monitor the risks and opportunities they pose, within the Scheme's integrated risk management dashboard.

The Trustees also have biannual strategy route-map meetings with the Company, at which climate-related risks and opportunities that face the Company are also discussed where necessary, as well as potential mitigations.

Metrics and Targets

Disclosure A: Disclose the metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process.

The Trustees do not currently have agreed metrics in place to assess climate-related risks and opportunities. The Trustees expect to agree and implement climate-related and ESG risk metrics within the Scheme's integrated risk management dashboard over the next few years.

Disclosure B: Disclose Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks.

The Trustees do not currently receive data on the Scheme's Scope 1, Scope 2 and Scope 3 greenhouse gas emissions. The Trustees plan to gather this data in the coming years as part of their work to implement climate and ESG-related metrics for risk monitoring purposes.

Disclosure C: Describe the targets used to manage climate-related risks and opportunities and performance against targets.

The Trustees have not set a specific target for the Scheme with reference to climate risks or opportunities. The Trustees expect to agree and implement climate-related and ESG risk metrics on the Scheme's integrated risk management dashboard over the next few years. Upon agreeing climate-related and ESG metrics, the Trustees will also consider and agree an appropriate target for the Scheme against at least one of the metrics. This will include consideration of the time horizons for the Scheme as well as the targets that the Company have in place, in order to ensure consistency with the Company's approach.

The Trustees are considering ways to collect members' views on climate-related and ESG issues over the next Scheme year to 31 March 2024. This will help inform both the Scheme's approach to these issues as well as any targets set for the long term.