

SCOTTISH WIDOWS AND HALIFAX OEIC AND ISA FUNDS

Climate Fund Report 2022

SCOTTISH WIDOWS



BACKGROUND

From 1 July 2023 the Financial Conduct Authority (FCA) introduced new reporting requirements in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The aim is to improve the quality of governance and the level of action by asset managers, life insurers and FCA-regulated pension providers in identifying, assessing, and managing climate risk and opportunity.



The rules require in-scope firms to make disclosures on an annual basis at:

- **Entity-level** – an annual TCFD entity report published in a prominent place on the main website of the firm’s business setting out how they take climate-related matters into account in managing or administering investments on behalf of clients and consumers
- **Product-level** – disclosures (including a core set of climate-related metrics) on the firm’s products and portfolios made publicly in a prominent place on the main website of the firm’s business and included or cross-referenced in an appropriate client communication, or made upon request to certain eligible institutional clients

This document covers the core set of climate-related metrics for the Product-level disclosure. Further details of how our approach is managed against these elements can be found in the Scottish Widows Group Report of our [TCFD report](#), as the approach in relation to the funds below does not materially deviate from our overarching approach disclosed in the entity report.

Note that the FCA guidance outlines that as far as reasonably practicable, this report must include Climate Value at Risk (“CVAR”) for each product and metrics that show the climate warming scenario with which the product is aligned, such as an implied temperature rise metric. These latter two metrics (CVAR and an alignment metric) have not been published as we believe them to

be misleading because there is no consensus on their definitions, and they rely on underlying models and assessments which are subject to a high degree of subjectivity. These issues could not be sufficiently addressed using proxy data or assumptions. We believe in transparency and will continue to work with the industry and regulators in respect of developing an approach to narrow this gap in order to make future disclosures that are not misleading.

Scope

This product level report covers funds within the Scottish Widows and Halifax OEIC and ISA product range and discloses key climate related disclosures (see page 3).

Before you start, check your plan (or policy) brochure – Depending on the type of policy (or plan) you have, you can only invest in certain funds with us. The best way to check is to look at your plan (or policy) brochure. Or you can [check this list](#) to see which plans allow you to invest in which funds. If you’re not sure which funds are right for you, call us.

For funds managed by third parties we are making these disclosures with reference to our own outlined methodology (see Appendix). A third party that manages the fund may also disclose similar information using their own methodology.

Disclaimer

This document is provided for the purpose of information only and is intended for individuals who are familiar with investment terminology. Please contact your financial adviser if you need an explanation of the terms used. This material should not be relied upon as sufficient information to support an investment decision.

Core elements of climate-related financial disclosures

Governance

The organisation’s governance around climate-related risk and opportunities.



Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.



Risk management

The processes used by the organisation to identify, assess and manage climate-related risks.



Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities



CARBON EMISSIONS IN CONTEXT

IMPACTS OF GLOBAL WARMING*



Food insecurity



Sea level rise



Extreme drought and flood hazard



Loss of wildlife and habitats



Climate and weather extremes

*<https://www.ipcc.ch/sr15/>

LIMITING GLOBAL WARMING

In an effort to combat climate change, 195 nations adopted the Paris Agreement in December 2015*. Its overarching goal is to hold the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

1.5°C



aim to limit global warming by*

*[United Nations Climate Change website](https://www.un.org/development/desa/press/2015/12/15-12-2015-paris-agreement.html)



HOW MUCH CARBON BEFORE 1.5°C IS REACHED

Limiting global warming requires limiting the total cumulative global emissions of CO₂ from human activities, staying within what is referred to as a 'total carbon budget*'.

The Intergovernmental Panel on Climate Change (IPCC) give an estimate of the remaining carbon budget of 580 GtCO₂ for a 50% probability of limiting warming to 1.5°C. This could be equated to 72.5 tCO₂ per person, assuming a global population of 8 billion.

580 GtCO₂



carbon budget remaining before 1.5°C temperature increase is reached*

72.5 tCO₂

equivalent carbon budget per person**

*Intergovernmental Panel on Climate Change, Special Report: Global Warming of 1.5°C
** assuming a global population of 8 billion.

1 tCO₂ IS EQUIVALENT TO



11 refrigerators powered for 1 year*



Driving 6,000km in a diesel car*



121,643 smartphones charged**



The average emissions of one passenger on a return flight from London to New York***



40 BBQ propane tanks**

* <https://radiclebalance.com/resources/articles/what-is-a-tonne-of-co2>
** <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator#results>
*** http://www.aef.org.uk/downloads/Carbon_Footprint_Calculator_including_flights.pdf

HOW TO INTERPRET THE DATA

Fund name

1 Fund size £m

2 % Coverage included in carbon footprint

3 Total financed carbon emissions (tCO₂e)

4 Carbon footprint (tCO₂e per £m market value)

5 Weighted average carbon intensity (tCO₂e per £m revenue)

6 Data quality score

7 % of fund invested in carbon sensitive sectors

1. Fund size £m

This is the total fund size across all customer investments.

2. % Coverage included in carbon footprint

This is derived from the following:

- First, we identify the % of assets included in the fund that have a valid PCAF methodology (this is primarily publicly listed equities and corporate bonds)
- Of those assets in scope, we identify assets where data for the metrics is published by the organisation that issued the asset
- % coverage = a × b. For example, if a fund is 80% invested in Equities and Bond, and for those assets we have data on 75% of the investee companies the coverage would be 75% of 80% = 60% coverage

If a fund has less than 30% coverage, we don't consider the data to be credible enough, and no carbon metrics are published. We hope that as coverage of assets increase and more organisations publicly report emissions, these coverages will increase.

3. Total financed carbon emissions

- a measure of absolute emissions associated with the investments in the fund – where data is available.

Carbon Emissions are calculated as the sum of the fund's share of each investee company's total Scope 1 & 2 emissions, based on the proportional ownership of the company's equity and debt.

Each fund is a collection of assets, such as equities, bonds, or real estate that is invested in for financial returns. The carbon footprint

of a fund is the sum of the emissions caused by each asset in the fund, weighted by how much money is invested in each asset.

For example, let's say we invest £1,000 in a company that is valued at £10,000. If that company reports that it emits 30 tonnes of carbon dioxide per year, the carbon footprint attributable to that investment would be $(1000/10000) \times 30 = 3$ tonnes of carbon dioxide. This is then repeated for each investment in the fund and aggregated.

Explainer

SCOPE 1, 2 & 3 EMISSIONS

Emissions are classified into three distinct 'scopes', as defined by the GHG Protocol Corporate Standard, which covers the different kinds of carbon emissions a company creates in its own operations and in its wider value chain.

SCOPE 1

relates to emissions that a company makes directly from owned or controlled sources, for example: while running its boilers and vehicles.

SCOPE 2

relates to emissions that a company makes indirectly, for example when the electricity or energy it buys for heating and cooling buildings is being produced on its behalf.



SCOPE 3

relates to emissions that are more external to a specific organisation, such as from buying products from its suppliers and from its products when customers use them.

Scope 1 and 2 emissions are a mandatory part of reporting for many organisations across the world. Our baseline and the data presented below represents Scottish Widows' Scope 3 financed emissions which is calculated from Scope 1 and 2 emissions generated from our investment or lending. Scope 3 emissions generated from our investments or lending will be reported in future disclosures.

How to interpret the data continued

4. Carbon footprint

Carbon footprint is the principal metric for measuring our investment portfolio’s financed emissions and monitoring progress towards our 2030 and 2050 targets. The footprint is the tonnes of GHG emissions ‘owned’ by the fund. This is measured as carbon dioxide equivalents (CO₂e) ‘owned’ per £1 million invested. This represents Scope 1 & 2 emissions.

Due to the nature of the calculations, we would expect short-term variation of the carbon footprint generated by the Partnership for Carbon Accounting Financials (PCAF) standard. In any given year the metric is impacted by:

- a. changes in reported emissions,
- b. changes in enterprise value, and
- c. our own investment activity.

In the example where equity markets are strong and the value of our investment increases in line with the enterprise value, this would drive a material reduction in carbon intensity even in the absence of any underlying change in the reported emissions of the company in which we are invested. Therefore, it is important to study the medium-term trend from future reporting.

Some of the limitations of carbon footprint as an indicator of environmental sustainability are:

- It does not capture other environmental impacts, such as chemical pollution, resource depletion, biodiversity loss, or water use.
- It may not reflect future emission reduction plans or potential low-carbon innovations by companies.
- It does not yet fully account for indirect emissions from upstream and downstream activities (Scope 3 emissions), which can be significant for certain sectors.

- Comparability across different firms’ disclosures may be difficult due to difference in data sources, methods, standards, and assumptions used to calculate it.

5. Weighted average carbon intensity (WACI)

This uses the same emissions as footprint but is expressed in terms of revenue of the investee company rather than the amount invested. It therefore reflects the intensity based on the revenue generated from the organisation, rather than its market value.

6. Data quality score

The PCAF standard outlines an approach to measuring the data quality of the emissions calculated and is specific to each asset class and aligns to the following classification. Further details of this can be found in the [PCAF methodology](#). The score quoted in the table relates to that of the Carbon Footprint metric only.

PCAF general data quality score card

Certain (5-10% error margin in estimations)

Score 1	Audited GHG emissions data or actual primary energy data
Score 2	Non-audited GHG emissions data, or other primary data
Score 3	Average data that is peer/(sub) sector specific
Score 4	Proxy data on the basis of region or country
Score 5	Estimated data with very limited support

Uncertain (40-50% error margin in estimations)

Broadly speaking, the lower the number, the more robust the data underlying the calculation. Over time we would expect this to reduce as organisations improve the quality of their emissions reporting and further asset classes come into scope of the PCAF methodology.

7. % of fund invested in carbon sensitive sectors

This is the proportion of the fund that we have identified is invested in carbon intensive sectors – defined as “Coal Mining & Gas” (including Gas Utilities) and “Oil & manufacture of Petroleum Products”. See page 28 of our [TCFD Report](#) – “Sectoral sensitivity to climate risks” for an analysis of how climate change is likely to impact the underlying assets under different future climate scenarios – namely Orderly and Divergent (these are defined in the same report). Note that where this figure displays as 0% this may be rounding and the actual percentage may be less than 0.5%.

Data Limitations

Only asset types where a PCAF-aligned methodology exists, and for which we have access to the data required to meet the PCAF standard, have been included within the above emissions baseline. For listed equities and corporate bonds, we have followed PCAF methodology 5.1 ‘Listed equity and corporate bonds’ to calculate emissions. For emissions data associated with loan investments, we have followed PCAF methodology 5.2. ‘Business loans and unlisted equity’. The exception to this is our infrastructure loans where PCAF methodology 5.3 ‘Project Finance’ has been followed. There are some assets where, despite a PCAF methodology being available, we do not currently have access to the data to meet the PCAF standard. Emissions per £1 million invested has been calculated with reference to Equity market values and Bond nominal values, in line with PCAF methodology. Where there is no current PCAF method for calculating emissions those asset types have been excluded from the scope of the calculations at this time. Asset types excluded on this basis are government bonds, derivatives, and cash.

Example of how we calculate emissions financed by our investment

$$\text{SW Investment} \div \text{Total enterprise value*} \times \text{Total company emissions**} = \text{Financed emissions}$$

Example company

$$£160\text{m} \div £4,000\text{m} \times 2.8 \text{ MtCO}_2\text{e} = 0.112 \text{ MtCO}_2\text{e}$$

*Market cap + book value of debt

**Scope 1 + Scope 2

LIST OF FUNDS AND DATA

	Fund name	Fund Size £m	% Coverage Carbon Footprint	Financed Carbon Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e per £m market value)	Weighted Average Carbon Intensity (tCO ₂ e per £m revenue)	Data Quality Score	% of fund invested in carbon sensitive sectors
Scottish Widows Income and Growth Funds ICVC	Adventurous Growth Fund	11.9	85%	1,229	121.1	252.2	2.2	9%
	Balanced Growth Fund	843.9	77%	63,656	95.7	225.4	2.4	7%
	Cautious Growth Fund	650.2	70%	30,487	62.4	160.3	2.4	4%
	Corporate Bond 1 Fund	1,407.8	84%	99,789	72.8	218.3	2.3	8%
	Corporate Bond PPF Fund	1,026.6	74%	54,865	62.3	145.7	2.5	2%
	ESG Sterling Corporate Bond Tracker Fund	4,512.7	84%	113,853	27.3	74.7	2.5	1%
	Global Tactical Asset Allocation 1 Fund	892.3	75%	202	0.3	5.3	2.8	0%
	Progressive Growth Fund	183.5	88%	17,398	107.1	237.0	2.3	8%
	UK Index Linked Gilt Fund	255.3	0%					
Scottish Widows Investment Solutions Funds ICVC	Corporate Bond Fund	2,543.2	83%	101,784	43.2	119.4	2.4	1%
	Developed Asia Pacific (Ex Japan Ex Korea) Equity Tracker Fund	372.1	93%	37,964	109.2	304.0	2.2	5%
	Developed Europe (Ex Uk) Equity Tracker Fund	959.1	99%	84,550	89.3	149.2	2.0	5%
	Fundamental Low Volatility Index Global Equity *	551.1	99%	51,032	93.5	246.2	2.3	12%
	Fundamental Low Volatility Index Emerging Markets Equity *	218.2	98%	108,012	507.5	1,259.2	2.8	9%
	Fundamental Index Emerging Markets Equity Fund	898.7	98%	320,914	364.6	735.2	2.5	11%
	Fundamental Index Global Equity Fund	2,200.9	98%	259,904	119.9	285.8	2.2	10%
	Gilt Fund	1,767.6	5%					
	Fundamental Low Volatility Index UK Equity *	209.4	97%	11,930	58.8	101.1	2.2	6%
	High Income Bond Fund	815.6	58%	63,905	115.4	327.3	2.6	9%
International Bond Fund	539.3	8%						

*funds marked with a * transitioned in Q1 2023. The data and names shown are as at 31 December 2022.

List of funds and data continued

	Fund name	Fund Size £m	% Coverage Carbon Footprint	Financed Carbon Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e per £m market value)	Weighted Average Carbon Intensity (tCO ₂ e per £m revenue)	Data Quality Score	% of fund invested in carbon sensitive sectors
Scottish Widows Investment Solutions Funds ICVC continued	Japan Equity Fund	528.9	99%	47,061	89.6	120.3	2.4	2%
	Managed Growth Fund 2	65.8	70%	4,442	88.7	228.7	2.3	7%
	Managed Growth Fund 4	180.9	80%	15,640	103.6	249.7	2.3	8%
	Managed Growth Fund 6	149.5	89%	14,510	108.8	248.0	2.3	8%
	Strategic Income Fund	129.7	73%	7,400	67.4	145.7	2.4	2%
	Fundamental Index UK Equity Fund *	416.6	97%	56,083	138.6	207.2	2.2	25%
	US Equity Fund	883.3	99%	39,828	45.7	206.6	2.2	5%
Scottish Widows Managed Investment Funds ICVC	Balanced Growth Portfolio	1,081.9	79%	85,751	95.9	226.3	2.3	8%
	Balanced Income Portfolio	280.5	76%	17,472	77.4	186.2	2.4	6%
	Cash Fund	131.8	66%	27	0.3	5.2	2.9	0%
	Cautious Income Portfolio 1	114.9	73%	5,164	57.5	151.3	2.4	4%
	Cautious Income Portfolio 2	473.3	72%	25,165	68.6	179.7	2.4	5%
	International Equity Tracker Fund	158.1	98%	11,159	71.8	228.5	2.2	5%
	Progressive Growth Portfolio 1	494.2	89%	49,520	111.2	253.7	2.3	8%
	Progressive Growth Portfolio 2	160.0	88%	17,363	121.2	257.1	2.3	10%
Scottish Widows Overseas Growth Investment Funds ICVC	American Growth Fund	430.3	100%	30,538	71.2	271.4	2.2	7%
	European Growth Fund	709.1	98%	77,464	111.2	170.5	2.0	8%
	European Select Growth Fund	235.3	95%	42,630	190.9	130.6	2.2	3%
	Global Growth Fund	929.0	99%	84,109	91.4	201.6	2.2	9%
	Global Select Growth Fund	86.4	100%	2,240	26.0	75.7	2.2	6%

*funds marked with a * transitioned in Q1 2023. The data and names shown are as at 31 December 2022.

List of funds and data continued

	Fund name	Fund Size £m	% Coverage Carbon Footprint	Financed Carbon Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e per £m market value)	Weighted Average Carbon Intensity (tCO ₂ e per £m revenue)	Data Quality Score	% of fund invested in carbon sensitive sectors
Scottish Widows Overseas Growth Investment Funds ICVC continued	Japan Growth Fund	110.6	99%	10,242	93.1	130.5	2.3	1%
	Pacific Growth Fund	76.7	94%	19,221	266.1	547.5	2.5	8%
Scottish Widows Tracker and Specialist Investment Funds ICVC	Emerging Markets Fund	1,143.8	96%	423,782	385.3	739.0	2.5	10%
	UK Equity Tracker Fund	3,932.3	92%	362,234	100.1	173.8	2.2	13%
	UK Fixed Interest Tracker	182.8	0%					
	UK Index Linked Tracker Fund	40.1	0%					
	UK Smaller Companies Fund	44.4	85%	1,631	43.4	66.6	1.9	4%
	UK Tracker Fund	377.3	98%	38,543	104.5	177.8	2.2	14%
Scottish Widows UK and Income Investment Funds ICVC	Environmental Investor Fund	324.4	84%	11,631	42.5	73.1	2.1	0%
	Ethical Fund	131.7	96%	4,551	36.0	96.0	2.1	0%
	Regular Income Fund	197.5	93%	15,883	84.2	156.9	2.2	10%
	UK Equity Income Fund	294.3	98%	28,179	97.5	167.9	2.1	13%
	UK Growth Fund	1,772.2	99%	175,562	100.3	172.6	2.1	15%
	UK Select Growth Fund	24.9	96%	767	32.1	97.2	2.2	0%
Scottish Widows Property Authorised Contractual Scheme	Pooled Property ACS Fund 1	816.9	0%					
	Pooled Property ACS Fund 2	1,610.5	13%					
HBOS International Investment Funds ICVC	European	314.8	98%	34,525	111.6	171.1	2.0	8%
	Far Eastern	161.7	94%	40,538	266.1	547.1	2.5	8%
	International Growth	1,834.0	99%	165,463	90.9	200.7	2.2	9%

List of funds and data continued

	Fund name	Fund Size £m	% Coverage Carbon Footprint	Financed Carbon Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e per £m market value)	Weighted Average Carbon Intensity (tCO ₂ e per £m revenue)	Data Quality Score	% of fund invested in carbon sensitive sectors
HBOS International Investment Funds ICVC continued	Japanese	66.1	99%	6,123	93.2	130.5	2.3	1%
	North American	440.7	100%	31,302	71.2	271.7	2.2	7%
HBOS Specialised Investment Funds ICVC	Cautious Managed	2,159.7	82%	113,938	60.0	133.2	2.3	5%
	Ethical	179.0	99%	6,324	35.6	74.9	2.1	0%
	Fund of Investment Trusts	343.2	17%					
	Smaller Companies	110.1	85%	3,950	42.4	65.7	1.9	4%
	Special Situations	111.0	97%	3,394	31.6	95.7	2.2	0%
HBOS UK Investment Funds ICVC	Corporate Bond	1,218.5	83%	54,237	47.5	136.6	2.5	1%
	UK Equity Income	1,690.7	98%	161,185	96.9	166.9	2.1	13%
	UK Equity Tracker	1,451.3	92%	133,262	99.8	173.8	2.2	13%
	UK Growth	3,173.2	99%	314,279	100.3	172.4	2.1	15%
	UK Large Company Tracker	1,118.0	98%	114,521	104.7	178.0	2.2	14%
HBOS Property Investment Funds ICVC	UK Property Fund	295.2	17%					

APPENDIX

Financed emissions methodology

Our investments' carbon footprint is the principal metric for measuring our investment portfolio's financed emissions and monitoring progress towards our 2030 and 2050 targets. The footprint is the tonnes of GHG emissions 'owned' by the portfolio. This is measured as carbon dioxide equivalents (CO₂e) 'owned' per £1 million invested.

To calculate a reduction of emissions produced by the companies in our investment portfolios, we've used the emerging industry standard for calculating financed emissions developed by the Partnership for Carbon Accounting Financials (PCAF).

PCAF is an international industry-led initiative to measure and disclose the GHG emissions financed by loans and investments. It's now recognised as the most widely adopted global standard for measuring financed emissions by the financial sector. Where possible, we have adopted the guidance afforded by the PCAF standard across all material asset classes where published methodologies have been made available.

To establish emissions data for corporate bonds and equities, we matched our investments against the published emissions data available on those companies from S&P Global Trucost's data and analytics tool. Trucost provides carbon and environmental data and risk analysis for more than 15,000 companies. However, there is a lack of published emissions data on loan investments. Therefore, we adopted an alternative PCAF-aligned approach to calculate emissions using estimates from the Office for National Statistics and Department for Business, Energy and Industrial Strategy sector averages.

Read the PCAF standard in [The Global GHG Accounting and Reporting Standard for the Financial Industry](#).

The calculation date of the metrics and data published in this document is 31 December 2022. Underlying greenhouse gas (GHG) emissions reported by organisations will take time to be reported to our data supplier following publication – typically 12-18 months. Therefore, for the 2022 reporting period, emissions are typically (but not exclusively) based on those reported at the end of 2021.

Note that emission reduction targets (Scottish Widows target is to be Net Zero by 2050 with a 50% reduction by 2030) are set at Scottish Widows Group level, not at individual entity, product, or fund level.

Scottish Widows Limited. Registered in England and Wales No. 3196171.
Registered office in the United Kingdom at 25 Gresham Street, London EC2V 7HN.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority
and the Prudential Regulation Authority. Financial Services Register number 181655.

37332 06/23

SCOTTISH WIDOWS