

Keystone Positive Change Investment Trust plc

TCFD Climate Report for the year ending 31 December 2023

Prepared using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.



Introduction

Keystone Positive Change Investment Trust aims to generate long-term capital growth with the aim of the NAV total return exceeding that of the MSCI AC World Index in Sterling terms by at least 2% per annum over rolling five-year periods and contributing towards a more sustainable and inclusive world by investing in the equities of companies whose products or services make a positive social or environmental impact. More information on the portfolio managers' philosophy, process, performance and other insights can be found on the Trust's webpages accessed via the Baillie Gifford website.

This report explains the investment trust's approach to addressing climate-related risks and opportunities and describes a current view of how they may impact the portfolio. It also includes metrics to provide useful additional information. It is expected the content, format and data to evolve in future versions.

Our climate commitments

The Keystone Positive Change Investment Trust has two objectives: to deliver superior investment returns and a positive social and/or environmental impact. Naturally, this includes climate change. As such, many of our portfolio companies are helping to decarbonise the economy and help societies adapt to climate change.

In addition to our investment activities, we believe that we, as investors, can contribute towards addressing climate change through support for investee companies and through our engagement. In 2022 we formalised this approach by setting a number of climate-related expectations and commitments for the portfolio that align with our support for the global goal to achieve net zero greenhouse gas ('GHG') emissions by 2050 or sooner.

Our ambition is ultimately for 100% of the assets in the trust to be managed in line with the overarching requirements and longterm ambitions of the net zero emissions commitment. However, at this time we have omitted companies that are private from our commitments because they are at such an early stage of growth that disclosure is limited and the emissions of the companies are likely to be insignificant when compared to the larger companies in the portfolio.

Given the concentration of the portfolio and the objectives to deliver impact across a wide range of social and environmental challenges, we do not believe it is appropriate to set a target for the portfolio emissions as a whole. Instead, we will monitor individual company metrics, as set out in our expectations below, reporting against them annually in the strategy's ESG and Engagement Report "Positive Conversations".

Longer term:

- By the end of 2030 we commit that 90% (by number) of the portfolio will have appropriate net zero-aligned targets
- By the end of 2040 we commit we will have full alignment with reporting and established decarbonisation pathways that can achieve net zero across the portfolio by 2050 or sooner

Within the next 5 years:

- By the end of 2023 reporting (or within 2 years of entering the portfolio) we expect 90% (by number) of the portfolio to be reporting their Scope 1 and 2 emissions.
- By the end of 2024 reporting (or within 3 years of entering the portfolio) we expect 75% (by number) of the portfolio to be reporting material Scope 3 emissions; with 90% reporting by the end of 2026
- By the end of 2026 reporting (or within 5 years of entering the portfolio) we expect 75% (by number) of the portfolio to have appropriate net zero aligned targets Further details of this commitment can be found in our Positive Conversations Report on our website.

Having engaged with several companies this year on disclosure and target setting, we believe that despite the apparent insufficiency of current progress in global climate action and policies, our expectations continue to provide the right basis for our research and engagement across the portfolio. From company reporting and conversations over the past few years, we have good reason to believe that over 90 per cent of the portfolio will be reporting their Scope 1 and 2 emissions for the 2023 financial year.

Some of the smallest companies in the portfolio (Remitly, AbCellera and 10x Genomics) have yet to meet our reporting expectations. It is right that we tailor our expectations appropriately for scale, region and core business. We have been in touch with them regarding our commitments and to offer tailored support.

The concepts of alignment and decarbonisation pathways, which are integral to the portfolio-level net zero commitments we make, continue to evolve. Our aspiration and ability to fulfil these commitments is influenced by a wide range of parties and factors that can be outside of our control, such as client mandates, industry guidance, emissions trends, regulation and government action in support of the Paris Agreement. Consequently we periodically review our portfolio-level net zero commitments to take account of these factors.

Governance and management of climate-related risks and opportunities

Details of Baillie Gifford's approach to governing and managing climate-related risks and opportunities across the firm can be found in the entity level [TCFD Climate Report](#) on the Baillie Gifford website. This includes descriptions of the roles and responsibilities of relevant Boards and Committees and integration into overall risk management.

For Keystone Positive Change Investment Trust, the management of climate-related risks and opportunities is the responsibility of the investment team. They undertake tailored research and engagement with specific holdings where they feel that climate-related risks and opportunities could be particularly material to investment outcomes. They also aim to assess all holdings at least annually using the Baillie Gifford 'Climate Audit' process. The results of this are reported in the metrics section of this report and further detail on the process can be found in Baillie Gifford's entity level [TCFD Climate Report](#).

Implications of climate change for strategy

Climate change and global efforts to address it pose potential ‘physical’ and ‘transitional’ risks and opportunities for holdings in the portfolio. Physical factors can come from changes to the climate and weather patterns, while transitional factors can come from things like new policies, technologies or consumer behaviours.

Assessing the potential influence of these risks and opportunities on investment returns is part of the portfolio managers’ long-term investment style. However, this is a complex task and they expect their views to continue to change over time. To help them, they think through different versions of the future using a technique called qualitative scenario analysis. At present, they believe this is more useful than quantitative scenario analysis (which is dependent on numerical data and modelling) because it allows them to explore the complexities and knock-on effects of future pathways.

Baillie Gifford has developed three qualitative climate scenarios in partnership with two external organisations: The Deep Transitions project (a collaboration between the universities of Utrecht and Sussex) and Independent Economics (a macroeconomics consultancy). The scenarios are based on NGFS (Network for Greening the Financial System) ‘orderly’, ‘disorderly’ and ‘hothouse’ world scenarios. More detail has been added in areas of interest, including human behaviour, technology adoption and societal change. This is explained further in articles on the Baillie Gifford website. The qualitative scenarios describe three different versions of the future:

	Smooth, orderly transition (1.5C by 2100)	Volatile, disorderly transition (<2C by 2100)	‘Hothouse’ world (>2.5C by 2100)
Climate	Significant but managed change; resilience retained	Worsening impacts	Major challenge to resilience; regional collapses in food/water systems
Politics	Coordination and trade supports transition	Initially divided, then more united	Fractured; protectionism rises
Policies	Well-signalled and proactive; early action	Initially diverse, then higher-cost and sometimes disruptive	Fragmented; supporting incumbents then biased to adaptation
Society	Rapid shifts in behaviour; circular and ‘just transition’	Uneven development; self-reliance; inequality	Individualistic; higher levels of inequality, migration and conflict
Energy technologies	Technology tipping points reached early, influencing many sectors	Fragmented energy system limits cost reductions; innovation comes later	Fossil fuel dependency extended, costs higher, late-stage radical solutions
Adaptation responses	Varied and successful; managed across the global economy	Unequal; significant fiscal drain in some countries	Critical: agriculture, water, healthcare, climate defences
Finance	Multi-lateral financial reform supports investment flows to transition	Contradictory investments; market shocks from abrupt policy change	Greater variability; insurance contracts; adaptation costs pull investment from elsewhere

The Keystone Positive Change Investment Trust is able to use these scenarios to explore possible implications for holdings in the portfolio over the short, medium and long term, which are described below. The Investment Trust is embarking upon deeper scenario work to better understand how the portfolio fares under different flavours of a disorderly transition, and where future opportunities may lie."

These timeframes have been chosen because they are relevant to our investment timeframes, though we recognise that changes to the climate happen over much longer timeframes.

Short-term risks and opportunities (0-3 years)

Over the next few years, climate-related risks for most portfolio holdings are more likely to be transitional than physical. Although climate change is already making weather events more severe, this is unlikely to significantly impact the whole portfolio within a three-year timeframe, even under a hothouse world scenario. However, physical impacts could be significant for some companies.

Trends in technology, policy and markets are likely to have more of an impact on the portfolio over this timeframe. Under both orderly and disorderly transition scenarios, there may be significant opportunities for holdings that are directly helping to drive the decarbonisation of the economy. However, in the disorderly scenario this is likely to be more volatile across different regions and sectors. Key enablers of decarbonisation in the portfolio, for example, carbon capture company Climeworks, battery manufacturer Northvolt, and the water efficiency technologies of Xylem, and companies showing other forms of strategic leadership, such as Shopify, should benefit. They may avoid regulatory penalties, gain access to technology and reinforce their brands.

Conversely, both orderly and disorderly scenarios may increase transitional risks for companies with more highly carbon intensive products, processes or supply chains. Although the timing will vary in different markets, such companies may face higher costs or risk customer loss as emissions regulations tighten and social perspectives shift. In 2023 the portfolio managers engaged with holdings such as TSMC and Deere to understand more about their plans to address these risks.

Under the hothouse world scenario, the risks and opportunities described above are less likely to accrue over the short term. For high emitters there may even be financial advantages to delaying plans to reduce emissions or diversify business models. However, the portfolio has limited exposure to companies in this position through its investments in Ecolab and Orsted (now sold from the portfolio). Ecolab is a leading developer of hygiene, water and energy solutions. A proportion of Ecolab's revenues come from its Global Industrial segment, which includes serving customers in the downstream energy, refining and petrochemical industries. Orsted is the world's largest developer of offshore wind infrastructure. It no longer has any oil or natural gas production. However, it does have some long-term contracts remaining for natural gas distribution, where it purchases natural gas produced by other parties.

Medium-term risks and opportunities (3-10 years)

Over the medium term, the impacts of orderly and disorderly transitions may become more different from each other. Under an orderly transition, there are likely to be significant opportunities at a global scale for companies providing climate solutions and those that can reduce their emissions substantially this decade. Under a disorderly transition, these opportunities may be reduced as regional diversity in climate policy introduces additional complexities for companies to navigate.

Meanwhile, the physical impacts of climate change are expected to become more widespread, especially under the hothouse world scenario. For the portfolio as a whole, the geographical and sectorial mix of holdings may help to provide some resilience. However, the portfolio holds some companies with more significant geographic exposures (such as HDFC, Safaricom and Bank Rakyat) and others reliant on complex international supply chains (such as TSMC). The fund is exposed to opportunities as well, particularly through those holdings which are providing technologies which enable societies to adapt to the physical impacts of climate change, such as the precision agricultural technologies of Deere, the water efficiency technologies of Xylem, and the enzyme technologies of Novonosis.

Long-term risks and opportunities (10+ years)

Assessing risks and opportunities to the portfolio over the long term is challenging due to the uncertainties involved. However, under a hothouse world scenario it is anticipated that physical climate impacts become the main climate-related risk to returns. Under this scenario, the impacts on people and economic activity are likely to affect most holdings in the portfolio. There may, however, be some opportunities for companies whose products and services assist with climate adaptation.

Under orderly or disorderly transition scenarios, the impacts on the portfolio in the long term may become even more significant. Risks and opportunities associated with new technologies and markets may become even more material as the 'winners' of the transition emerge, causing the old to fall away. Under a disorderly scenario, regions of the world that were delayed in their transition might need to catch up, offering new opportunities for transition-aligned companies. However, the rushed nature of this process may pose risks due to abrupt policy changes and asset retirement.

Key Metrics (as at end December 2023)

Emissions scopes and units

The global standard for measuring entities' greenhouse gas emissions is the Greenhouse Gas Protocol. It contains different 'scopes' of emissions, which are used in this report:

- Scope 1: Emissions produced directly by the entity, typically through the combustion of fossil fuels on site.
- Scope 2: Emissions that occur due to energy used by the entity, often through the off-site generation of electricity in a power station.
- Scope 3: Emissions that occur somewhere in the entity's 'value chain' as a result of its activities. There are 15 different categories including those associated with the raw materials an entity uses and the use of its sold products. Emissions from transport, distribution and business travel are also included.
- Material Scope 3: An additional category of 'material' scope 3 emissions is also added to this report in line with the recommendations of the Partnership for Carbon Accounting Financials (PCAF). Material scope 3 emissions are the scope 3 emissions from entities operating in certain sectors where such emissions are particularly significant. In the 2022 reporting year this covered the oil and gas and mining sectors, however for the 2023 reporting year it also includes the transportation, construction, buildings, materials and industrial activities sectors, per PCAF guidance. **Material scope 3 emissions are therefore very likely to be higher for the 2023 reporting year vs. the 2022 reporting year.**

All emissions metrics use CO₂e as the unit of greenhouse gases. Carbon dioxide (CO₂) is the most prevalent greenhouse gas but there are others such as methane which have different levels of warming impact per tonne of emissions. Because of this, it is common for CO₂e to be used as a common unit to refer to all greenhouse gases emitted by an entity. Its value is equivalent to the total amount of CO₂ that would need to be emitted to achieve the same level of warming impact as the CO₂ plus other greenhouse gases emitted.

Core emissions metrics

The metrics in this section include the Total Emissions, Carbon Footprint and Weighted Average Carbon Intensity (WACI) of the portfolio as required by the UK Financial Conduct Authority's (FCA) product-level climate disclosure rules. More explanation of all the metrics used can be found in the tables themselves and footnotes. Any climate targets or objectives set by the portfolio are detailed in the earlier sections of this report.

Data availability

Data for some holdings is currently unavailable from the data suppliers. The metrics presented in this section may therefore not relate to the entire portfolio, particularly where holdings are not listed on a stock exchange. Cash and derivatives are presently excluded. For emissions data, details are provided on whether data is reported, estimated or unavailable in the 'Emissions data coverage' table. The disclosure of metrics associated with the portfolio managers' own assessments of holdings' targets and transition role is intended to help address gaps in data from external data suppliers, and Baillie Gifford will continue to explore additional solutions in future.

Additional metrics

Baillie Gifford has included additional metrics that may be useful in assessing potential climate-related risks and opportunities to the portfolio. These include their assessment of holdings' net zero targets and their transition role, which is based on their own research and analysis. In addition, they provide metrics on exposure to 'climate material' sectors, fossil fuels and alignment with the Science Based Targets initiative.

FCA rules also require Baillie Gifford to determine if a portfolio has concentrated or high exposures to carbon intensive sectors and if so to include quantitative scenario analysis metrics. Such portfolios are defined by Baillie Gifford as those with either: 1) a WACI (on a Scope 1, 2 & material Scope 3 basis) above that of its respective financial performance benchmark or the MSCI ACWI index, or 2) a higher level of exposure to holdings generating more than 5% revenues from fossil fuels than its respective financial performance benchmark index or the MSCI ACWI index.

For such portfolios, they also include Climate Value-at-Risk metrics in this section, provided they can obtain data for more than 70% of the portfolio by AUM) from the data suppliers. However, unless specifically required, Baillie Gifford has chosen not to provide Climate Value-at-Risk metrics for all portfolios as they believe data and methodology constraints mean they are not practicable for widespread use and potentially could be inaccurate or misleading. They also do not provide Implied Temperature Rise metrics for the same reasons. They continue to engage with data providers as these metrics evolve.

Year-on-year changes

In line with the requirements of the UK FCA, Baillie Gifford has included values for previous years alongside the most recent values for most metrics. **It is important to be aware that any changes in year-on-year metric values may happen for several different reasons** including changes to the portfolio composition, data re-adjustments by the data suppliers, new data being available to the data suppliers, as well as underlying changes within the holdings themselves.

Benchmarks

Where applicable, Baillie Gifford has provided metrics for the financial benchmark used by the portfolio for comparison purposes. The benchmark used for this portfolio is the MSCI ACWI Index.

Emissions metrics

Total carbon emissions from assets held by the portfolio

The total emissions of the portfolio represent the absolute greenhouse gas emissions from assets held, allocated on a proportional basis. This means a portfolio holding 1% of a company's enterprise value would be attributed 1% of the company's emissions. This metric will vary due to portfolio size and is therefore not recommended for direct comparison with other portfolios.

	2022	2023
	Portfolio	Portfolio
Total Scope 1&2 emissions (tCO ₂ e)	1,415	1,689
Total Scope 1,2 & material Scope 3 emissions (tCO ₂ e)	20,617	25,450
Total Scope 3 emissions (tCO ₂ e)	29,781	30,938
Total Scope 1,2 & 3 emissions (tCO ₂ e)	31,196	32,628

Source: Baillie Gifford, MSCI, FactSet

Carbon footprint of the portfolio

The carbon footprint of the portfolio represents the aggregated GHG emissions per million £/\$ invested and allows for comparisons of the carbon intensity of different portfolios.

	2022		2023	
	Portfolio	Benchmark	Portfolio	Benchmark
Scope 1&2 emissions (tCO ₂ e) per \$m invested	7	58	8	54
Scope 1,2 & material Scope 3 emissions (tCO ₂ e) per \$m invested	106	251	115	330
Scope 1,2&3 emissions (tCO ₂ e) per \$m invested	161	418	148	395

Source: Baillie Gifford, MSCI, FactSet

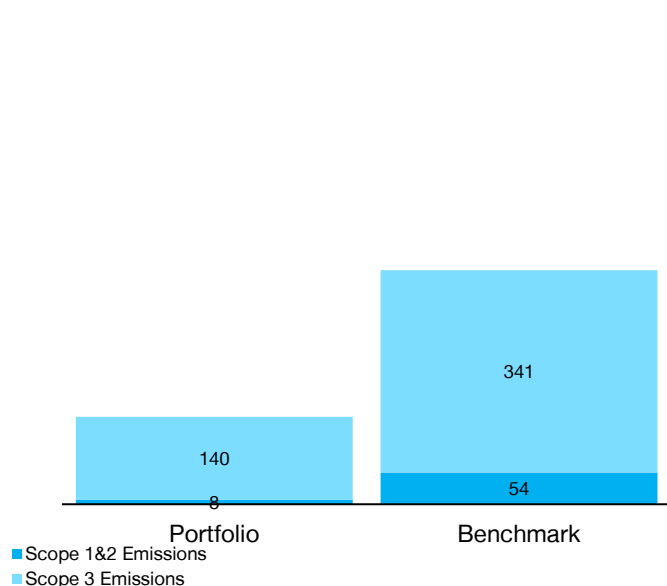
Weighted average carbon intensity (WACI) of the portfolio

The WACI of the portfolio represents the aggregated carbon intensities per \$m revenue of the companies in a portfolio, scaled by size of holding. The WACI metric therefore helps measure a portfolio's exposure to high carbon intensity companies and can be used for comparisons with other portfolios.

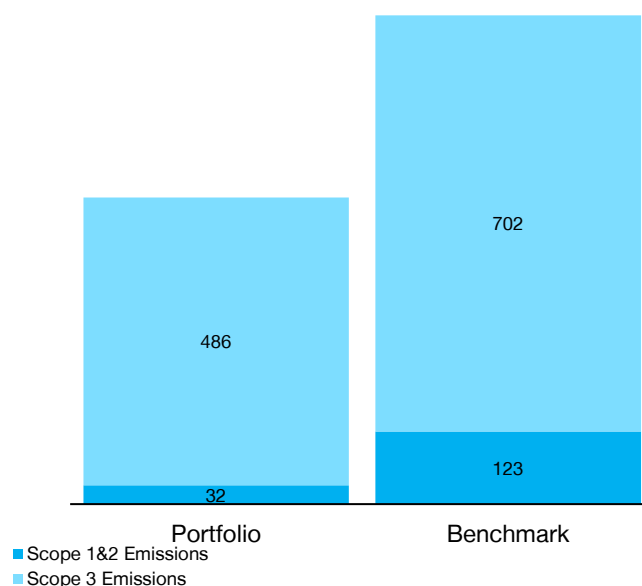
	2022		2023	
	Portfolio	Benchmark	Portfolio	Benchmark
Scope 1&2 emissions (tCO ₂ e) per \$m revenue	36	149	32	123
Scope 1,2 & material Scope 3 emissions (tCO ₂ e) per \$m revenue	141	478	283	617
Scope 1,2&3 emissions (tCO ₂ e) per \$m revenue	558	911	518	825

Source: Baillie Gifford, MSCI, FactSet

Carbon Footprint of the portfolio
(tCO₂e per \$m invested)



Weighted Average Carbon Intensity (WACI) of the portfolio
(tCO₂e per \$m revenue)



All figures are rounded, so any totals may not sum.

Emissions data coverage for the portfolio

These metrics are intended to provide a guide to the level of data coverage for portfolio emissions metrics. For reasons of consistency, Baillie Gifford sources all emissions data from its data provider. The metrics show the level of reported vs. estimated vs. unavailable data for different emissions scopes for the portfolio.

It is important to note that the data used for Scope 3 emissions is all estimated. This is because whilst some holdings do report Scope 3 emissions, this typically does not cover all emissions categories within Scope 3, meaning that reported data is not consistent across companies. Estimated Scope 3 data covers all relevant Scope 3 categories and is therefore more consistent.

For additional context, Baillie Gifford includes the percentage of total AUM invested in holdings who disclose to the CDP which is the world's foremost voluntary climate disclosure platform.

	2022		2023	
	Portfolio	Benchmark	Portfolio	Benchmark
% of total AUM for which reported Scope 1&2 emissions data from the data provider is used	55	85	68	88
% of total AUM for which estimated Scope 1&2 emissions data from the data provider is used	36	15	22	12
% of total AUM for which Scope 1&2 emissions data is not available from the data provider	9	0	10	0
% of total AUM for which estimated Scope 3 emissions data from the data provider is used	91	100	90	100
% of total AUM for which Scope 3 emissions data is not available from the data provider	9	0	10	0
% of total AUM invested in holdings disclosing to CDP annually	56	82	58	85

Source: Baillie Gifford, MSCI, CDP, FactSet

Additional insight metrics

Exposure to 'climate material' sectors

This metric is intended to show the proportion of the portfolio invested in companies operating in sectors that are materially relevant to addressing climate change. These sectors may be exposed to higher levels of climate-related risks and opportunities. The definition uses the TCFD 'carbon related assets' definition, ie any company operating in the Energy, Transportation, Buildings and Materials, Agriculture, or Food and Forests sectors, mapped by GICS sub-industry.

	2022		2023	
	Portfolio	Benchmark	Portfolio	Benchmark
% of total AUM invested in companies in 'climate material' sectors	38	34	33	34

Source: Baillie Gifford, FactSet

Exposure to fossil fuel activities

These metrics show the exposure of the portfolio to any companies generating at least 5% of their revenues from fossil fuel activities. This is a broad metric which can include companies in fossil fuel sectors and those operating mainly in other sectors.

	2022		2023	
	Portfolio	Benchmark	Portfolio	Benchmark
% of total AUM invested in companies with > 5% revenues from oil and/or gas activities ¹	5	10	3	8
% of total AUM invested in companies with > 5% revenues from thermal coal mining and sale ²	0	0	0	0
% of total AUM invested in companies with > 5% revenues from thermal coal power generation	0	1	0	1

Source: Baillie Gifford, MSCI, FactSet

Transition alignment metrics

Assessment of holdings' net zero targets through the 'Climate Audit' process

These metrics provide insight into Baillie Gifford's own assessment of holdings' emissions reduction targets, strategy and progress towards achieving them. The metric is based on their 'Climate Audit' assessment, which is explained in more detail in Baillie Gifford's entity level [TCFD Climate Report](#).

	2022	2023
	Portfolio	Portfolio
% of total AUM with targets assessed as 'leading' (ie holdings with targets, strategy and progress in line with an appropriate 1.5C-aligned pathway)	44	32
% of total AUM with targets assessed as 'preparing' (ie holdings preparing targets and strategy in line with an appropriate 1.5C-aligned pathway)	20	18
% of total AUM with targets assessed as 'lagging' ³ (ie holdings with little evidence of preparing targets and strategy in line with an appropriate 1.5C-aligned pathway)	37	49
% of total AUM with targets not assessed	0	0

Source: Assessed according to Baillie Gifford's internal assessment framework.

Assessment of holdings' transition role through the 'Climate Audit' process

These metrics provide insight into Baillie Gifford's own assessment of holdings' role in a successful transition to net zero. The metric is based on their 'Climate Audit' assessment, which is explained in more detail in Baillie Gifford's entity level [TCFD Climate Report](#).

	2022	2023
	Portfolio	Portfolio
% of total AUM assessed as 'solutions innovators' (ie holdings whose core business involves developing solutions to climate change)	24	18
% of total AUM assessed as 'potential influencers' (ie holdings with relatively low emissions who are supporting the transition to net zero)	45	50
% of total AUM assessed as 'potential evolvers' (ie holdings with relatively high emissions who have potential to support the transition to net zero)	31	32
% of total AUM assessed as 'materially challenged' (ie holdings whose core business is likely to decline in a transition to net zero, with limited options to evolve)	0	0
% of total AUM not assessed	0	0

Source: Assessed according to Baillie Gifford's internal assessment framework.

¹ Includes oil and/or gas extraction and production, distribution, retail, equipment and services, petrochemicals, pipelines and transportation and refining. Excludes biofuel production and sales, and trading activities.

² Includes the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. Excludes metallurgical coal, coal mined for internal power generation, intra-company sales of mined thermal coal and revenue from coal trading.

³ In some cases, portfolios with higher proportions of unlisted or smaller companies may contain more holdings assessed as 'lagging'. This may be due to the relative immaturity of these companies' disclosure and net zero alignment strategies, when compared to larger and more established companies.

Science-Based Targets alignment among holdings

These metrics provide a view of portfolio holdings' net zero alignment targets, in addition to Baillie Gifford's own assessment in the tables above. The SBTi (Science Based Targets initiative) is the world's foremost certification body for corporate net zero targets. Companies with 'approved' targets are those whose net zero targets have been validated by the SBTi. Companies who have 'committed' are those who have submitted a commitment letter to SBTi and are in the process of setting targets or awaiting their validation.

	2022		2023	
	Portfolio	Benchmark	Portfolio	Benchmark
% of total AUM invested in companies with targets approved by Science-Based Targets initiative	35	35	25	39
% of total AUM invested in companies who have committed to set targets approved by the Science-Based Targets initiative (ie those who are in the process of setting targets or awaiting their validation)	19	16	31	15

Source: SBTi

Legal Notices

Baillie Gifford uses a combination of internal research and analysis and third-party data sources when preparing ESG-related disclosures.

Prior to using data sourced from a third-party provider, Baillie Gifford conducts appropriate due diligence on the third-party provider including validation of their methodology and assessment of their coverage and then carries out spot checks of the data periodically, escalating issues to the third-party provider where necessary.

However, Baillie Gifford cannot guarantee that such data is complete, up-to-date and/or accurate. Furthermore, information disclosed is based on data established at a specific time which may be liable to change. More generally, the coverage, standardisation, and comparability of ESG data continues to change and develop over time.

This disclosure is not intended to be used for marketing purposes and nor does it constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

The figures in this report are aggregations and calculations which draw upon data from external data providers, principally MSCI.

MSCI ESG Research

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