Stewardship Report 2023

Strathclyde Pension Fund

Stewardship Report 2023

There are 6 key principles which underpin the Strathclyde Pension Fund's investment strategy. One of these is Stewardship: SPF is a responsible investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

During the last year, as always, we have continued to develop and improve our approach. This year's report provides a current summary of our stewardship strategy and activity.

Richard Bell

Convener

Strathclyde Pension Fund Committee

Stewardship Report 2023 prepared and submitted on behalf of the Strathclyde Pension Fund (SPF) by:

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Strathclyde Pension Fund

The UK Stewardship Code

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The UK Stewardship Code

Introduction / Background

The Financial Reporting Council

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC promotes high standards of corporate governance through the UK Corporate Governance Code. All companies with a Premium Listing of equity shares in the UK are required under the listing rules to report in their annual report and accounts on how they have applied the Code. A copy of the Code can be seen at: https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf

The UK Stewardship Code

The FRC published the first UK Stewardship Code (the Code) in 2010 with an aim to enhance the long-term returns to shareholders via improvements in the quality and quantity of engagement between investors and companies. The Code defined stewardship as the promotion of long-term success of companies in such a way that the ultimate providers of capital also prosper. The UK Stewardship Code is recognised as an effective standard for asset owners and asset managers to comply with and demonstrate best practice in discharging their stewardship responsibilities.

As with the UK Corporate Governance Code, the 2010 UK Stewardship Code used a comply-or-explain approach and set stewardship expectations for investors through seven "comply or explain" principles. Although its official scope was limited to UK listed equities, it was widely adopted and influenced the development of other stewardship codes around the world. To become a signatory, investors were required to publish a statement of commitment outlining their approach for each principle. The Code was revised in 2012 and in 2016 the FRC began to formally assess these statements, with signatories classified as Tier 1 or Tier 2 depending on the quality of the statements, and some organisations were delisted.

The U.K. Stewardship Code 2020.

The 2020 code is much broader in scope than the previous one, it covers all assets, not just UK listed equities, and it shifts the emphasis from policies and procedures to activities and outcomes, and it requires more frequent and extensive reporting.

The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy. A copy of the Code can be seen at: https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf

The UK Stewardship Code

The Code is based on the belief that asset owners and asset managers cannot delegate their responsibility and are accountable for effective stewardship. Stewardship activities include investment decision-making, monitoring assets and service providers, engaging with issuers, and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities. Signatories are expected to use the resources, rights and influence available to them to exercise stewardship, no matter how capital is invested.

Principles for Asset Owners and Asset Managers

The Code requires asset owners and asset managers to comply with 12 Principles and disclose on their actions and outcomes against these each year and requires up to date evidence of activity. This reflects the Financial Reporting Council's intention that the Code will be a basis for differentiating true stewardship best practice. The FRC will evaluate Reports against an assessment framework and those meeting the reporting expectations will be listed as signatories to the Code.

The Code's 12 principles are stated below:

Purpose and Governance

1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

2. Signatories' governance, resources, and incentives support stewardship.

3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

5. Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

Investment approach

6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

8. Signatories monitor and hold to account managers and/or service providers.

Engagement

9. Signatories engage with issuers to maintain or enhance the value of assets.

10. Signatories, where necessary, participate in collaborative engagement to influence issuers.

11. Signatories, where necessary, escalate stewardship activities to influence issuers.

Exercising rights and responsibilities

12. Signatories actively exercise their rights and responsibilities.

Purpose and Governance

1. Purpose, strategy and culture

Principle 1. Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Purpose

The purpose of Strathclyde Pension Fund (SPF) is to pay pensions.

SPF was created in 1974. It has been managed by Glasgow City Council since 1996. SPF is the largest Local Government Pension Scheme (LGPS) Fund in Scotland. It serves more than **280,000** members, **152** participating employers and has investment assets of over **£30 billion**.

Local Government Pension Scheme (LGPS)

The LGPS is a funded, defined benefit, statutory occupational pension scheme. The LGPS in Scotland is administered by 11 administering authorities including Glasgow City Council for SPF. The regulations that govern the scheme's benefits and investments are available at:

https://pensions.gov.scot/local-government/scheme-governance-and-legislation/regulations and

https://www.legislation.gov.uk/ssi/2010/233/contents/made

Strategy

Funding Strategy

SPF's funding objective is to ensure that sufficient funds are available to pay all members' pensions now and in the future. The 2023 Actuarial Valuation established a funding level of 147% of scheme liabilities. Our Funding Strategy Statement and report on the 2023 Actuarial Valuation are available at:

https://www.spfo.org.uk/article/5279/Funding

Investment Strategy

SPF's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporates an appropriate balance between risk and return. To achieve this SPF has developed and implemented a risk-based investment framework.

Details are set out in our Statement of Investment Principles (SIP):

https://www.spfo.org.uk/media/10628/SIP-2024/pdf/SIP_2024.pdf?m=1711033937097

Purpose and Governance

Investment Structure

SPF pursues a policy of lowering risk through diversification of both investments and investment managers. To achieve this, it has delegated day to day investment decisions to external investment managers. In addition, a target of 5% of Fund is invested opportunistically in our Direct Impact Portfolio (DIP) which has the stated objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.

Further details are available on the SPF website at:

https://www.spfo.org.uk/Investments

Culture and Investment Beliefs

Our SIP sets out 6 key principles which underpin our entire approach to investment. They are:

Long-term perspective – by the nature of its liabilities and sponsor covenants, the Fund is able to take a long-term view and position its investment strategy accordingly.

Diversification – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns.

Efficiency – the Fund aims to achieve an efficient balance between investment risk and reward.

Competitive advantage – the Fund's size, time-perspective and risk appetite give it some competitive advantages which it seeks to exploit.

Pragmatism – the Fund recognises that there are implementation considerations including cost and manageability which may lead it to favour practical investment solutions over optimised model structures.

Stewardship – the Fund is a responsible investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

Our approach to Stewardship is summarised in our Responsible Investment Strategy, which is included in our SIP, and is described further in the remaining sections of this report. We firmly believe that ESG issues can affect the performance of investment portfolios. We are absolutely committed to ensuring that this belief is reflected in our investment activity so that we are aligned with the long-term interests of our beneficiaries and the broader objectives of society. This was most clearly manifested in the development of our Climate Change Strategy - Climate Action Plan which included a target to deliver a fair share of the 45% or more global reduction in CO_2 emissions by 2030 and net-zero greenhouse gas emissions across the Fund by 2050 or sooner.

Further details are available on the SPF website at:

https://www.spfo.org.uk/article/4896/Climate-Change

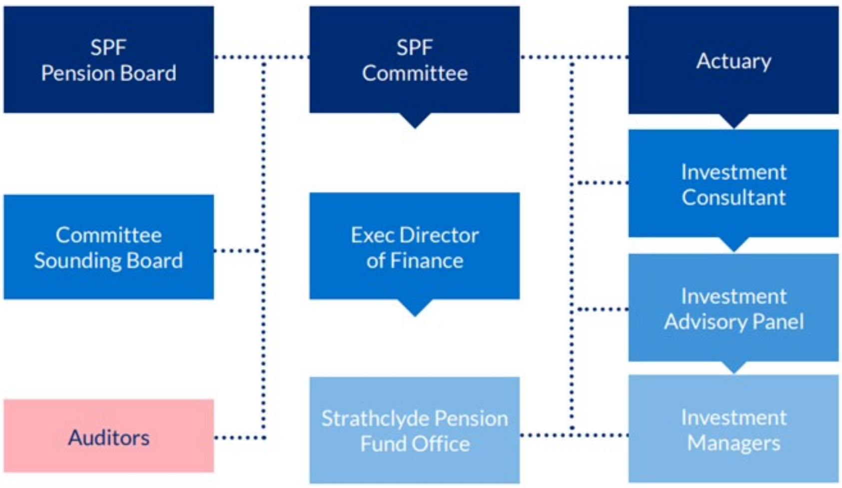
Purpose and Governance

2. Governance, resources and incentives.

Principle 2. Signatories' governance, resources and incentives support stewardship.

Governance

Given the size and complexity of the Strathclyde Pension Fund there are many decision makers, advisers and practitioners involved in running it. The governance structure is illustrated below.



Each of the elements of the structure has a distinct and defined role in relation to Stewardship. Roles and responsibilities are summarised below.

Glasgow City Council's **Strathclyde Pension Fund Committee** is the main decision-making body for the Fund. The Committee agrees and oversees investment strategy and structure including the Responsible Investment and Climate Change strategies. The SPF Committee receives a quarterly report on responsible investment activity. Current committee membership and its terms of reference are available at: https://www.spfo.org.uk/article/4348/Strathclyde-Pension-Fund-Committee

The **Committee Sounding Board** reviews proposals before they are considered by the Committee for decision. This includes individual investment proposals for DIP, our impact portfolio.

The **Pension Board** assists the Committee in securing compliance with the regulations, other legislation and the requirements of the Pensions Regulator. The Board comprises trade union and employer representatives and has a keen interest in Stewardship matters. Details of board membership and constitution are available at: https://www.spfo.org.uk/article/5263/Strathclyde-Pension-Fund-Board

The **Executive Director of Finance** is the responsible officer who ensures that committee decisions are implemented by the **Strathclyde Pension Fund Office** which administers the scheme, and the **investment managers** who manage the Fund's investment portfolios.

The **actuary** provides advice on funding. The **investment consultants** provide advice on all aspects of investment objectives, strategy and structure including Responsible Investment and Stewardship issues.

Purpose and Governance

The **Investment Advisory Panel (IAP)** develops investment strategy and monitors investment performance. The IAP membership comprises investment officers from the Fund and representatives from Hymans Robertson as the Fund's actuary and investment consultant together with three independent expert advisers appointed for their knowledge of investments and of pension funds. Adviser biographies are available in the Governance section of the Annual Report: https://www.spfo.org.uk/article/4703/2023-Annual-Report

The **internal and external auditors** review risk, controls, and the financial statements.

Resources

Stewardship activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Sustainalytics, a leading ESG and corporate governance research, ratings and analytics firm that supports investors with the development and implementation of responsible investment strategies - retained by SPF since 2012 (as GES International).
- SPF itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Climate Action 100+ and other ad hoc alliances.

This collective approach ensures that SPF maximises the resource it employs on stewardship issues by involving all parties – dedicated internal resource as well as external managers and consultants.

SPF Investment Team

SPF Investment Team is made up of eight officers, employed by Glasgow City Council. Led by the Chief Investment Officer, the Team serves the Pensions Committee and works on all issues of governance, finance, investment and Fund administration. The Team have a range of backgrounds, the majority have been recruited from the Finance Sector and have long-standing pension and investment expertise. Some members of the team have been recruited internally due to their knowledge of public sector finance, policy and administration. One senior team member leads on responsible investment issues; however, all members of the team contribute to responsible investment in their respective roles. The team leverages a strong global network among peer investors, as well as investee companies, industry associations and relevant regulatory bodies.

SPF Investment Team qualifications and experience include:

Job title	Relevant qualifications	Years experience
Director of Pensions	MA Languages / Chartered Institute of Public Finance and Accountancy	29
Chief Investment Officer	MA Management / MSc Finance / IMC	26
Investment Manager	MSc Investment Analysis / BA Econ / BA Hist / IMC	25
Investment Manager	BSc Physics / Charted Institute of Bankers Scotland	33
Assistant Investment Manager	Local Authority Treasury & Banking	27

Purpose and Governance

Diversity

Diversity has always been at the heart of SPF's success and we work hard to create a supportive and collaborative environment to safeguard it. In a primarily male-dominated industry, we are proud to count more female than male colleagues.

Glasgow City Council is dedicated to creating and retaining a fair and inclusive workplace for all employees and service users and seeks to achieve this through its employment equality and diversity commitments. These include raising employees' awareness of equality and diversity; encouraging inclusiveness in the organisation by getting people involved; and attaining a workforce that better reflects the community it serves.

Glasgow City Council also recognises that it is still underrepresented by people from minority groups and those who identify as having a disability. To raise awareness and promote careers within Glasgow City Council and partner organisations, 'Positive Action' is used to encourage and inform individuals from these groups.

Further information on Equality & Diversity at Glasgow City Council is available at: https://glasgow.gov.uk/edi

Training

The SPF Committee agrees an annual training plan to ensure that all staff, Committee members and Board members with a role in the management and governance of SPF are fully equipped with the knowledge, skills and understanding to discharge the duties and responsibilities allocated to them. The 2023/24 training plan is available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZ3Z3ZLT12U

The SPF Committee and Board receive training directly prior to each respective quarterly meeting. This training is delivered by the external investment managers or consultants and will typically include responsible investment matters. In 2023 the Committee and Board received training and participated in a series of briefings and workshops investigating strategic and investment management issues. Further detail of the training offered and delivered is available in the Governance section of the Annual Report: https://www.spfo.org.uk/article/4703/2023-Annual-Report

SPF has made a demonstrable commitment to training and development and SPF officers participate fully in the various elements of Glasgow City Council's organisational development strategy. These include Performance Coaching and Review for all staff, and the Leading with Impact, First Line Management, Delivering for Glasgow and Our Glasgow programmes. Staff also make extensive use of a diverse range of training modules and resources which are available through the GOLD (Glasgow Online Learning Development) portal.

The SPF officers attend/participate in seminars and roundtable events to gain a better understanding of responsible investment issues. Ideas and thoughts discussed at these events and wider learning are discussed within the Investments team which feed into development of SPF's responsible investment strategy.

Purpose and Governance

Incentives

Stewardship is an integral part of our investment manager selection and monitoring processes. Managers are required to provide quarterly reporting on proxy voting and engagement activity. We scrutinise these reports closely and they form the basis of a quarterly report to the SPF Committee. Managers have a clear incentive to maintain and improve their Stewardship activity, and to provide quality reporting on it to ensure that they retain their mandates.

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager and other service provider appointments and included in Investment Management Agreements.

Investment managers and service providers are subject to formal annual due diligence reviews and required to complete an extensive questionnaire which includes disclosure on matters including external assurance, conflicts of interest, responsible investment and climate change.

The Fund also requires investment managers and service providers to conduct their own business with regard to certain standards relating to living wages, labour rights, diversity, inclusion, sustainability and climate change.

SPF

Being a public sector fund reflects on the culture and operations of the Fund. Along with acting in the best interest of our members, the Fund is sensitive to the wider public interest.

Glasgow City Council is committed to making the city a world leader in the development of a greener circular economy. Prior to hosting the 26th United Nations Climate Change Conference (COP26) in November 2021, Glasgow declared a climate and ecological emergency and laid out an ambitious plan to reach net-zero emissions by 2030 while placing climate and social justice at its heart.

The SPF Climate Change strategy supports urgent action on climate change and has continued to develop in 2023 with initiatives that include:

- explicit objective of implementing an investment strategy that is consistent with achieving the goal of global net-zero emissions by 2050.
- SPF target of net-zero emissions across portfolios by 2050; and
- interim target of at least 45% of Total Fund to be aligned with a 1.5-degree scenario by 2030.
- agreeing a high-level climate action plan.
- joining the Paris Aligned Investment Initiative (PAII); and
- adopting the IIGCC Net Zero Investment Framework as the basis for the climate action plan.
- assessment of energy sector companies in its portfolios and to establish minimum standards in relation to the energy transition.

The SPF Committee also approved five new impact investment proposals by DIP, the SPF’s impact portfolio. These spanned renewable energy, build to rent affordable housing and UK regional venture capital.

Purpose and Governance

- £60m into **Capital Dynamics Clean Energy UK Fund** - to invest in Investing in clean energy technologies including solar PV, onshore/offshore wind, hydro and electricity storage, electric vehicle and grid infrastructure.
- £20m into **Corran Environmental Fund II** - to make investments in UK based businesses in the clean energy, environmental & sustainability sectors.
- £20m into **– Places for People Scottish Mid-Market Rent Fund**, to develop an additional c.500 purpose built, affordable residential units for rent in Scotland.
- £25m into **Par Equity Northern Scale-Up Fund** which will invest in early stage, high growth technology companies in the north of the UK.
- £15m to **Schroders Greencoat Glasgow Terrace**, from the DIP Co-investment programme, to invest in a solar energy portfolio of assets consisting of 53 operating solar farms in the UK.

All committee reports and minutes are available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/allBodyMeetings.asp?page=1&MeetingYear=2023&bodyid=17&bodytitle=Strathclyde+Pension+Fund+Committee

Purpose and Governance

3. Conflicts of interest

Principle 3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Conflicts Policy

In meeting its statutory responsibility to manage SPF, Glasgow City Council ensures that management of SPF and its investments is kept separate from the political and administrative business of the Council by delegating responsibility for SPF to the SPF Committee and the Strathclyde Pension Fund Office (SPFO). In carrying out this responsibility members of the Committee are obliged to put aside their personal interests and views and make investments with the intention of achieving the best financial returns for the Fund whilst balancing risk and return considerations.

Councillors' Code of Conduct

Guidance on declarations of interest is provided to elected members of the Committee by section 5 of the Standards Commission Councillors' Code of Conduct. The individual Registers of Interest for SPF Committee members are publicly available on the Council website at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/allMembers.asp?sort=0

In respect of conflicts of interest within SPF, the Committee, Board and IAP members are required to make any declarations of interest prior to meetings.

Code of Conduct for Employees

The Council's Code of Conduct for Employees is publicly available on the Council's website and is applicable to all Council employees as the administering authority for SPF. Section 2.3.7 relates to conflicts of interest and covers conflicts arising by virtue of officers' personal or family interests and/or loyalties, be they financial or non-financial, as well as officers who sit on the boards of external bodies, or who are involved with them. Senior council officers are required to complete annual Declarations of Interest and these inform the Register of Interests. This is publicly available on the Council website:

https://glasgow.gov.uk/media/5070/Code-of-Conduct-for-Employees/pdf/Code_of_Conduct_for_Employees1.pdf?m=1702657339250

Investment Managers and Service Providers

SPF stipulates that external investment managers and service providers should take reasonable steps to manage conflicts of interest in relation to stewardship by incorporating conflicts of interest clauses into the Investment Management Agreements for each manager. Investment managers are expected to maintain and publicly disclose their conflicts of interest policy. Given the role of the external investment managers, SPF obtains assurances on the adequacy of the internal control systems operated by them. The main source of this assurance is the annual audit report produced by each of the managers' independent service auditors. Fund officers obtain and review these reports for each of the investment managers and the global custodian, which is responsible for the safekeeping and servicing of SPF's assets. Current practice is for the findings of these reports to be reported to the SPF Committee only by exception where there are audit concerns. Recent and current examples of

investment manager conflicts of Interest and other internal controls policies are available from equity manager **Baillie Gifford** at:
https://www.bailliegifford.com/en/uk/individual-investors/literature-library/legal/best-execution-disclosures/conflicts-of-interest-disclosure/

and passive equity and fixed income manager **Legal &General Investment Management** (LGIM) **at:**
https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-conflicts-of-interest.pdf

Conflicts Management

In practice, conflicts of interest are rare and there were no potential or actual conflicts of interest during 2023 which required management.

Purpose and Governance

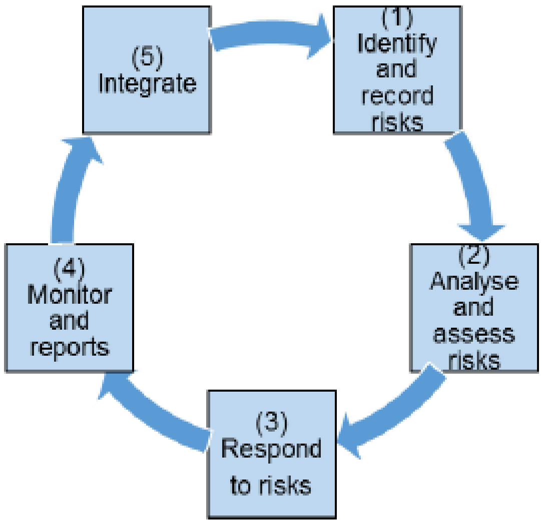
4. Promoting well-functioning markets

Principle 4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

SPF Activity and Outcomes

Risk Management

The Fund's risk management process is in line with that recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Pensions Regulator's Code of Practice. This is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities, which includes systemic and market-wide risks in addition to Fund-specific risks. Risk identification is enhanced through liaison with investment managers, other administering authorities and regional and national groups, including the Scheme Advisory Board, the CIPFA Pensions Panel, the Pensions Regulator and various investor collaborations and initiatives. Risks are assessed in terms of the potential impact of the risk event should it occur, and in terms of the likelihood of occurrence. A detailed risk register is maintained and is central to risk management. The risk register is monitored on an ongoing basis by officers and the complete register is reviewed periodically by the Committee. The principal risks, in terms of their residual ranking, are reported to the Committee and published as part of the Fund's Annual Report. The risk management process is illustrated as follows.



The Statement of Risk Policy & Strategy is available at:

https://spfo.glascc1-prd.gosshosted.com/media/4802/Statement-of-Risk-Policy-Strategy/pdf/Risk_Policy__Strategy.pdf?m=1683132060667

A copy of the Risk Register is available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDN81T1NT2UUT

Purpose and Governance

The Fund's foremost mitigation against market-wide and systemic risk is a well- diversified investment strategy which:

- seeks enhanced returns whilst lowering risk through diversification of investments by asset class, fund manager and geography. Risk is also controlled by setting appropriate benchmarks and investment guidelines.
- pursues a policy of progressively reducing the Fund's equity exposure and diversifying its asset base.
- maintains robust investment performance reporting and monitoring arrangements which provide the committee and investment officers with the flexibility to rebalance the portfolio in a timely manner.
- employs a global custodian to ensure safekeeping and efficient servicing of its assets.

The long-term nature of the liabilities also allows the Fund to weather market events and volatility.

The SPF investment team, external investment managers and investment consultant monitor global markets and are vigilant for macroeconomic and market-moving events as well as key themes in equity, credit and private markets.

The Investment Advisory Panel discusses developments in economies and individual portfolios on a regular basis and considers risks which may have a significant impact on the financial system and, in turn, affect our investments. Where possible, the IAP develops strategies and solutions to mitigate these risks. Risks and major market events are also discussed in detail during the Committee and Board meetings each quarter.

In addition, the Fund recognises the risk to investments from ESG factors, including the impact of Climate Change, that could materially impact long-term investment returns.

Policy Engagement

SPF participates in a variety of industry initiatives and forums which involve collaborative lobbying regarding ESG issues to promote well-functioning markets. A summary of this activity is provided below.

- **Principles for Responsible Investment (PRI)**
  Signatories contribute to developing a more sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation. SPF has been a PRI signatory since 2008.

- **Local Authority Pension Fund Forum (LAPFF)**
  On top of engaging with market-leading companies to encourage them to lead by example in responding to market and systemic risks, LAPFF also engages policy makers on a range of issues in a number of countries. LAPFF has submitted several consultation responses on ESG issues over the year and supported investor letters in these areas pushing public bodies to take improved action in support of responsible investment. These include:
  - consultation response to the UN Working Group on Business and Human Rights consultation on investors, ESG, and human rights.

- supported All-Party Parliamentary Group for Local Authority Pension Funds (APPG) investigations into affordable housing and the LGPS.
- LAPFF's chair is a member of the Taskforce on Social Factors, which was established by the Department for Work and Pensions (DWP) with cross departmental and multi-regulator involvement.

- SPF's engagement partner, **Sustainalytics**, actively participates in public consultations and lobbying across sectors to help shape public policy for better ESG industry standards. Sustainalytics has a strong track record in working with industry associations and government agencies on systemic ESG risks, such as human rights and labour standards. These include: the International Cocoa Organisation and the World Cocoa Foundation on the eradication of child labour; The International Council on Mining and Metals on addressing human rights and environmental issues in the mining sector; the Living Income Community in Practice on addressing root causes to labour rights risks and impacts in food and agricultural supply chains; and continuous knowledge sharing with Shift, a leading centre of expertise on the UN Guiding Principles on Business and Human Rights. Examples of recent consultations responded to include guidance for corporate culture reporting in response to a UK Financial Conduct Authority request and input to the EU Taxonomy for technical screening criteria. Sustainalytics was appointed as a member of the Global Sustainability Standards Board (GSSB) Global Reporting Initiative (GRI) Banking Technical Committee in mid-2023 and is responsible for making recommendations to the GRI on how to enhance its guidance and standards for the global banking.

- **Institutional Investors Group on Climate Change (IIGCC)**
  SPF is an active member of the Institutional Investors Group on Climate Change (IIGCC). IIGCC's Policy Programme collaborates with policymakers and other stakeholders to help inform and strengthen policy decisions made in support of a low carbon, climate resilient world. The IIGCC policy programme helps to shape sustainable finance and climate policy for key sectors of the economy. IIGCC is a Founding Partner of the **Investor Agenda** which issues a unified call for action to tackle climate change in the run up to each United Nations Climate Change Conference of the Parties (COP). Ahead of the COP28 UN Climate Change Conference negotiations in Dubai the CEO of the IIGCC wrote to H.E. Dr. Sultan Ahmed Al Jaber, COP28 President-Designate and UAE Special Envoy for Climate Change to present the investor perspective on climate negotiations and to urge ambitious climate action at COP28 in Dubai. During 2023, IIGCC wrote to governments on several occasions throughout the year calling for action from policymakers, as well as responding to public consultations and running member webinars with key spokespeople.

- **CDP**
  In support of CDP's Mandatory Plastic Data Disclosure Campaign, the Fund co-signed an open letter to policymakers and the global community on the importance of addressing plastic pollution and the need for comprehensive plastic-related corporate disclosure. This CDP letter to global governments requests mandatory corporate disclosure of plastics data in the **Global Plastics Treaty** to level the playing field. This letter follows an earlier CDP-led open letter to governments from 49 global investors with US$3.5 trillion in assets, calling for mandatory corporate disclosure as part of the Global Plastics Treaty. The letter and list of current signatories is available at: https://www.cdp.net/en/plastics/corporate-open-letter-to-governments-on-plastics-crisis

Purpose and Governance

- SPF is an active member of the **PLSA**. Senior officers at SPF are members of or advisers to the **PLSA Local Authority Committee**, **CIPFA Pensions Panel**, **Scottish Local Government Pension Scheme Advisory Board** and other industry bodies.

Investment Managers

SPF ensures that its investment managers integrate ESG considerations into their investment process. Through fundamental research, the investment managers evaluate ESG factors, along with a range of other potential risks and opportunities, which may impact industries, companies and markets.

Global equity manager, **Baillie Gifford**, provides recent examples of the integration of ESG considerations into investment research and decision-making: https://www.bailliegifford.com/en/uk/institutional-investor/literature-library/corporate-governance/esg-integration-approach-2024/

and Private equity manager, **Partners Group**, describe how their commitment to sustainability drives the integration of ESG factors into all stages of the investment process: https://www.partnersgroup.com/en/about-us/our-sustainability

Promoting Market Resilience

As long-term investors for clients our investment managers understand that it is essential that markets can generate sustainable value. Managers use their influence and scale to ensure that issues impacting the value of clients' investments are recognised and appropriately managed. This includes working internationally with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change.

Examples of this activity include:

- Absolute Return Bond manager **PIMCO,** engages with sovereign bond issuers and international financial institutions such as the World Bank to enhance understanding of underlying credit risks and opportunities. Overarching engagement themes cover climate risk policies, meeting the UN Sustainable Development Goals (SDG's) and ensuring good governance practices. Engagement also focuses on green, social and sustainability frameworks that sovereigns are putting in place to encourage high standards of transparency and accountability. PIMCO are encouraging sovereigns to build out their ESG frameworks, to issue in the ESG bond market and to set up the infrastructure to achieve the SDG targets and issue SDG-linked instruments.

- Emerging Market Debt manager **Ashmore Group** responds to market-wide and systemic risks through collaboration with other financial market stakeholders with the aim to promote continued improvements in the functioning of financial markets. In particular, the systemic risk of lack of action on climate change has been identified and Ashmore pays close attention to this risk given the vulnerability of Emerging Markets to the damaging consequences of climate change and the important role these markets play as part of climate mitigation. Therefore, Ashmore participates in industry initiatives such as Climate Action 100+ targeting large GHG emitters, TCFD which specifically focuses on the identification and management of climate-related risks, as well as NZAMI which aids Ashmore in its own decarbonisation journey.

Purpose and Governance

Climate Change Risk

SPF believes that Climate Change is a systemic risk and thus a material long-term financial risk for any investor that must meet long-term obligations. Climate change is addressed as a separate item in the SPF Risk Register.

Task Force on Climate-related Financial Disclosures (TCFD)

SPF has committed to reporting on its approach to climate risk using the TCFD framework for asset owners. The 2022/23 annual report provides these disclosures (pages 41-55), setting out our approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets. https://www.spfo.org.uk/article/4703/2023-Annual-Report

Climate Change Strategy

The SPF Climate Change strategy was amended in 2022 to advance the response to climate change risk and energy transition investment opportunities. In 2023 a high-level Climate Action Plan was adopted. The updated Strategy and Climate Action Plan are available at: https://www.spfo.org.uk/article/4896/Climate-Change

During 2022, SPF joined the **Paris Aligned Investment Initiative (PAII)** and became a signatory to the PAII Net Zero Asset Owner Commitment. To fulfil this commitment the Fund adopted the **IIGCC Net Zero Investment Framework (NZIF)** as the basis for its climate action plan and implemented the framework in early 2023. NZIF provides a common set of recommended actions, metrics and methodologies through which investors can maximise their contribution to achieving global net zero global emissions by 2050 or sooner. The NZIF assessment focuses on companies in high carbon emitting sectors and aims to ensure that these companies are increasingly; achieving net zero or aligning to net zero or aligned to net zero. The goal is to have 100% of companies confirmed as net zero or aligned to net zero by 2040. The Fund's Climate Action Plan sets out interim targets on the journey to full alignment.

The revised Climate Change Strategy also established a process to deliver an assessment of energy companies in SPF equity portfolios to ensure all were meeting minimum standards in relation to the energy transition. The energy company standards framework is an additional portfolio risk analysis tool which recognizes the acute climate-related risks surrounding energy sector investments as the world transitions to a low-carbon future. A report on the initial findings of the assessment is available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZLDNDNZLDN

A summary update report for 2023 (page 52) is available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=P62AFQDNZ3NTZ32U0G

ESG Risk

SPF's external investment managers are responsible for identifying and managing all risks associated with their investments, and this includes ESG risk. SPF officers and advisors work closely with the managers to ensure the highest standards of ESG risk management and stewardship are delivered.

Purpose and Governance

The Fund's internal investment team and specialist advisor, **Sustainalytics**, works with managers to help ensure that ESG risks are being assessed and addressed.

SPF subscribes to Sustainalytics' ESG Risk Ratings to help identify and understand financially material ESG risks in portfolio companies and how those risks might affect performance. The Ratings cover listed equity, fixed income, and private equity issuers. Companies with a good ESG risk score are better equipped to anticipate future risks and opportunities, more inclined to longer-term strategic thinking and to prioritize long-term value creation over short-term gains. The risk ratings support ESG discussions with the investment managers and help focus individual and collaborative engagements.

Sustainalytics have used the risk ratings to construct their **Material Risk Engagement (MRE)** overlay service. The MRE service supports SPF through proactive engagement with over 300 companies with the greatest unmanaged financially-material ESG risks. Furthers details of this service can be found on the Sustainalytics website at: https://www.sustainalytics.com/material-risk-engagement/

Sustainalytics norms-based **Global Standards Engagement** is an incident-driven engagement service that identifies companies not in compliance with accepted international conventions, guidelines and other accepted standards. Alongside investor clients, Sustainalytics engages with companies that severely and systematically violate international standards with the objective of resolving incidents and improving the company's future ESG performance and risk management. Furthers details of this service can be found on the Sustainalytics' website at: https://www.sustainalytics.com/global-standards-engagement/

Sustainalytics **Thematic Engagement** is a proactive engagement service that allows investors to align their interests in addressing specific issues with their engagement activities. The Thematic Engagement dialogues are aimed at improving engaged companies' (proactive) risk and impact management, including the related disclosure, as well as their resilience and strategic positioning. Furthers details can be found at: https://www.sustainalytics.com/thematic-engagement/

Details of Sustainalytics engagements in 2023 can be found in Appendix B.

Class Actions and Litigation

LGPS funds, together with public pension funds around the world, have been leading securities fraud lawsuits in a variety of jurisdictions as representative plaintiffs and claimants. The misrepresentation typical within a securities fraud can have a global impact on the market and on investors most of whom may not even be aware of any controversy or financial harm. The cases involved generate billions of dollars in recoveries for investors every year and where possible, reforms designed to improve corporate governance. Plaintiffs have won governance reforms such as shareholder-nominated directors, auditor rotation, limitations on options grants, separation of the CEO and chairman positions, ethics monitoring, whistle-blower hotlines and other bespoke governance enhancements.

SPF participates as an active plaintiff in class actions with the primary goal of obtaining damages but also to promote good corporate governance and sound business practices.

5. Review and assurance

Principle 5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policies

SPF's principal policy documents are all published on the website at **www.spfo.org.uk**

As a minimum, all policies are reviewed every 3 years in line with the Fund's statutory actuarial cycle.

SPF's 2023/24 Business Plan included reviews of its Climate Change Strategy and Investment Strategy (including Responsible Investment) together with submission of an annual stewardship report for compliance with the revised UK Stewardship Code.

Assurance

The LGPS operates in a different legal and policy context to private or retail asset owners. Management of LGPS investments is carried out in accordance with relevant governing legislation and regulations which requires a specific set of review and assurance processes.

Internal Audit

Internal Audit assesses the status of governance within the Council group and provides assurance that overall best practice is being followed in corporate governance. Internal Audit's annual review of the governance arrangements within the Strathclyde Pension Fund Office is available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZ3Z381T1ZL

External Audit

SPF's External auditor, EY provides an annual review of risk, controls, and the financial statements to the SPF Committee and to the Scottish Controller of Audit. The review considers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. The 2022/23 review found that SPF has appropriate arrangements in place to support good governance and accountability. The audit of the Fund's 2022/23 annual report and financial statements is available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/submissiondocuments.asp?submissionid=110328

The Pensions Regulator (TPR)

SPF is required to submit an annual return to TPR and completes the regulator's annual governance and administration survey.

Purpose and Governance

Assessment

PRI Reporting

SPF has been a PRI (Principles for Responsible Investment) signatory since 2008.

PRI reporting is the largest global reporting project on responsible investment and stewardship. The annual PRI survey is compulsory for all asset owner and investment manager signatories and the assessment demonstrates how a signatory has progressed in its implementation of the Principles year-on-year.

The Fund achieved a maximum overall **5 stars** in the 2023 assessment. The following scores were awarded from 5 assessed modules:

- Policy Governance and Strategy: **4 stars** (83 out of a maximum 100 from 43 indicators). The median outcome for this module was 3 stars.
- Listed equity – Passive: **5 stars** (95 out of a maximum 100 from 11 indicators). The median outcome for this module was 3 stars.
- Listed equity – Active: **5 stars** (96 out of a maximum 100 from 12 indicators). The median outcome for this module was 3 stars.
- Real estate: **5 stars** (97 out of a maximum 100 from 10 indicators). The median outcome for this module was 3 stars.
- Confidence building measures: **4 stars** (80 out of a maximum 100 from 2 indicators). The median outcome for this module was 4 stars.

Comparison with the median scores for each module confirms that the Fund continues to perform in the top tier of global PRI signatories, having previously been included in the 2019 PRI Leaders Group in recognition of our ongoing work to incorporate long-term ESG factors into investment analysis and decision-making processes.

The Responsible Investment Transparency Report is one of the key outputs of this reporting project. Its primary objective is to enable signatory transparency on responsible investment activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report is publicly disclosed for all reporting signatories on the PRI website, ensuring accountability of the PRI Initiative and its signatories. The SPF 2023 PRI Transparency Report is available at:
https://www.unpri.org/signatories/reporting-and-assessment/public-signatory-reports

Investment Approach

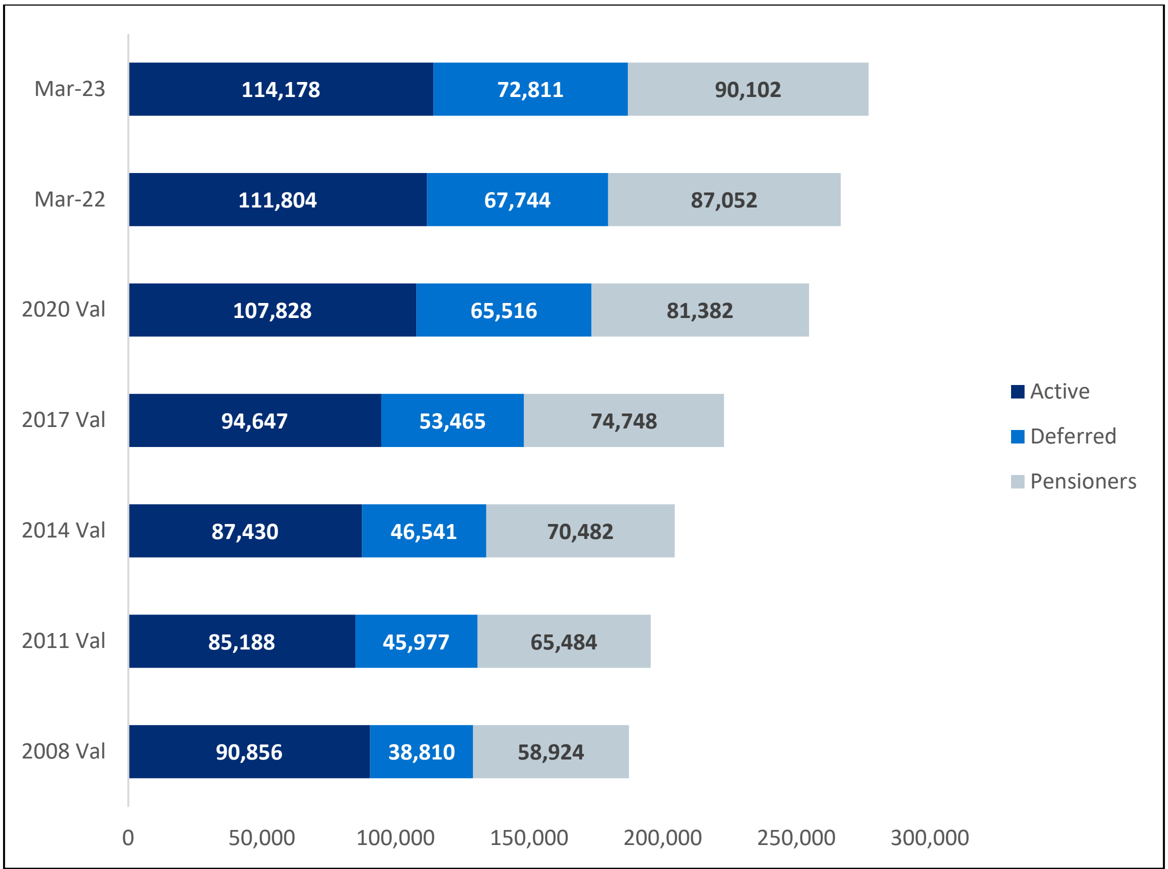
6. Client and beneficiary needs

Principle 6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Beneficiaries

SPF has more than 280,000 members.

Membership of the Fund over time is shown below.



Member representation arrangements were designed to comply with the Local Government Pension Scheme (Scotland) regulations 2015. These provide for:

- A Scheme Advisory Board at a national (Scottish) level and
- A local Pension Board for each LGPS fund.

Both boards comprise equal numbers of employer and trade union representatives. This is consistent with established local government practice whereby recognised trade union representation ensures that members' voices are heard, and their needs addressed.

Investment Approach

The Strathclyde Pension Fund Board allows our employers and trade unions to input into the decisions made by the Strathclyde Pension Fund Committee. It meets alongside the Committee quarterly.

As an open scheme with growing membership, SPF's time horizon is extremely long, possibly infinite. For the purposes of funding and investment strategy our target time period is the weighted average future working lifetime of the active membership – currently around 13 years for the whole Fund. This ensures alignment of investment strategy with the members' interests.

Our **Funding Strategy Statement** describes how we make sure that over time we can pay all the pensions that are due to our members. This publicly available on the SPF website at: https://www.spfo.org.uk/article/5279/Funding

As a place-based fund, SPF considers local impact as well as broader ESG impacts in its investments. Our Direct Impact Portfolio (DIP) has already had significant success in local investment – over **£500m** of its investments to date are locally targeted. Total local investment by funds which DIP has supported is a multiple of that figure. These funds span local property, renewable and social infrastructure, affordable housing, and SME financing. This is a source of added value to the local communities in which the Fund's membership live and work.

Communications

Management of the Fund is carried out in accordance with relevant governing legislation and regulations which require that we prepare and publish a communications policy setting out how we communicate with scheme members, representatives of members and scheme employers. The policy statement is prepared in accordance with regulation 59 of the Local Government Pension Scheme (Scotland) Regulations 2018. The policy is available at:

https://www.spfo.org.uk/article/5393/Communication

Strathclyde Pension Fund Office (SPFO) uses the most efficient and effective delivery media available and is committed to increasing digital access and delivery. All scheme members receive an annual newsletter with a summary of the SPF Annual Report and accounts. Newsletters include a short summary of Responsible Investment activity and direct members to the SPF website for more detail. A monthly newsletter is issued to all employer contacts and provides updates on scheme developments, technical issues, SPFO activities, other publications.

The SPF website features dedicated areas for all scheme members including active, deferred and pensioner members and a link to the secure member self-service portal **SPFOnline**. Members can view their pension account, amend details, carry out benefit projections and contact SPFO. Annual Benefit Statements, which are personalised statements of each member's pension account balance and projection to retirement, are delivered via SPFOnline. The SPF website also features a dedicated area for employers with the information and tools they need to administer the scheme.

The SPF website provides links to other useful websites including www.scotlgps2015.org, FAQs, tools including an additional pensions contribution and contributions calculator, news and regular updates, jargon buster, and contact details for SPFO.

All SPF employer and trade union contacts are invited to an AGM to receive annual reports on administration, investment, finance, actuarial and scheme developments. The 2023 meeting was produced as webcast and was publicly available on the SPF website. SPF encourages feedback and suggestions for improvement.

There is a wide range of other parties apart from members and employers who have a less direct but still legitimate interest in the Fund. These include council taxpayers, campaign groups, suppliers and potential suppliers, and investment counterparties. We are open and transparent about how we manage the scheme and the Fund. The website and annual report provide most of the information interested parties could want. SPF officers are available to other interested parties through the same media used for members and employers to discuss any other information needs they may have.

We regularly receive freedom of information requests about the Fund – last year we received 10 requests related to the way we invest, 3 specifically about our Responsible Investment strategy. Committee members and officers also receive regular correspondence from members on stewardship issues, often as part of online campaigning. SPF welcomes comment and feedback from individual members as part of its Communications Policy and we try to respond clearly and openly. The website includes extensive coverage of our stewardship activity:

https://www.spfo.org.uk/article/6244/Responsible-Investment

Investment Approach

7. Stewardship, investment and ESG integration

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Integration

SPF has a long-standing commitment to the values of stewardship as part of its fiduciary duty to its members. A summary timeline is:

1990s Corporate Governance Policy - ensured all voting rights were exercised.

2000 first Engagement Policy agreed and implemented.

2008 SPF became a PRI signatory. This marked a sea change from engagement towards systematic integration.

Responsible Investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Sustainalytics (formerly GES), a specialist responsible investment engagement overlay provider appointed in 2012; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Climate Action 100+ and other ad hoc alliances.

2009 SPF creates an internally managed impact portfolio, the New Opportunities Portfolio, later renamed as the Direct Impact Portfolio (DIP). Further details below.

2022 SPF adopts a Climate Change Strategy - Climate Action Plan which includes a target to deliver a fair share of the 45% or more global reduction in CO_2 emissions by 2030 and net-zero greenhouse gas emissions across the Fund by 2050 or sooner.

The Stewardship Code 2020

SPF is a signatory the new UK Stewardship Code (2020). SPF is one of 66 asset owners, including 27 LGPS, to be accepted and was the first Scottish public sector asset owner to be listed. Seventeen of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are also signatories.

The Fund encourages all its investment managers to demonstrate their commitment to effective stewardship by complying with the UK Stewardship Code.

The full list of signatories to the Code is available at:
https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code-signatories/

Investment Approach

Investment Managers

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager and other service provider appointments and included in Investment Management Agreements.

All SPF investment management tenders include questioning and disclosure on responsible investment policies and capabilities as well as evaluations of Fair Work Practices and Sustainability.

All of SPF's appointed investment managers are now PRI signatories and 33 of the 35 managers within the Direct Impact Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles. The responsible investment approach varies across the asset classes spanned by SPF's investment strategy. The Fund's asset allocation at 31st March 2023 is summarised as follows:

Asset Class	Fund Manager	% Managed	Market Value £000
Multi Asset - Passive	Legal & General	32.4	8,975,183
Global Equity	Baillie Gifford	7.4	2,044,369
Global Equity	Lazard	3.2	874,596
Global Equity	Veritas	2.9	804,049
Global Equity	Oldfield	2.9	807,114
Specialist – Equities (UK Small Companies)	Lombard Odier	1.4	382,471
Specialist – Equities (overseas Small	JP Morgan	3.0	823,212
Specialist – Emerging Markets	Genesis Fidelity	1.3	350,403
Specialist – Private Equity	Pantheon	5.3	1,477,478
Specialist – Private Equity	Partners Group	3.3	927,102
Specialist – Absolute Return Bonds	PIMCO	3.7	1,030,282
Specialist – Long-only Absolute Return	Ruffer	2.1	570,154
Specialist – Multi Asset Credit	Barings	2.4	678,590
Specialist – Multi Asset Credit	Oak Hill Advisors	1.7	484,048
Specialist – Private Debt	Barings	1.7	473,859
Specialist – Private Debt	Alcentra	1.4	375,937
Specialist – Private Debt	Partners Group	1.0	267,460
Specialist – Private Real Estate Debt	ICG Longbow	1.1	297,966
Emerging Market Debt	Ashmore	1.6	432,037
Specialist – Property	DTZ	8.6	2,385,177
Specialist – Global Real Estate	Partners Group	1.9	535,778
Specialist – Global Infrastructure	JP Morgan	3.9	1,069,606
Specialist – Direct Investment Property	Various	5.1	1,400,899
Cash	Northern Trust	0.9	236,207
		100.00	**27,703,976**

The majority of the Fund's investments (67% of total Fund at 31st March 2023) are held in pooled fund or limited partnership structures. Based on look throughs of the Fund's segregated mandates, and regional equity mandates with L&G, JP Morgan, Lombard Odier, Fidelity and Genesis (both Emerging Markets) the Fund's investment asset allocation may be further analysed as follows:

Investment Approach

Asset Class Category	31st March 2023 (%)
Equity	
UK	5.15
North America	20.84
Europe ex UK	6.83
Japan	2.62
Asia Pacific ex Japan	1.92
Emerging Markets	5.77
Global (RAFI)	6.25
Other	0.04
Fixed Income	6.81
Absolute Return	5.41
Multi-Asset Credit	4.30
Emerging Market Debt	1.57
Private Equity	8.32
Private Debt	5.01
Real Estate	13.56
Infrastructure	3.88
Cash	1.69
Total	**100.00**

The SPF annual report provides full strategy details including a breakdown of the Fund's assets by investment manager, mandate type and asset class.

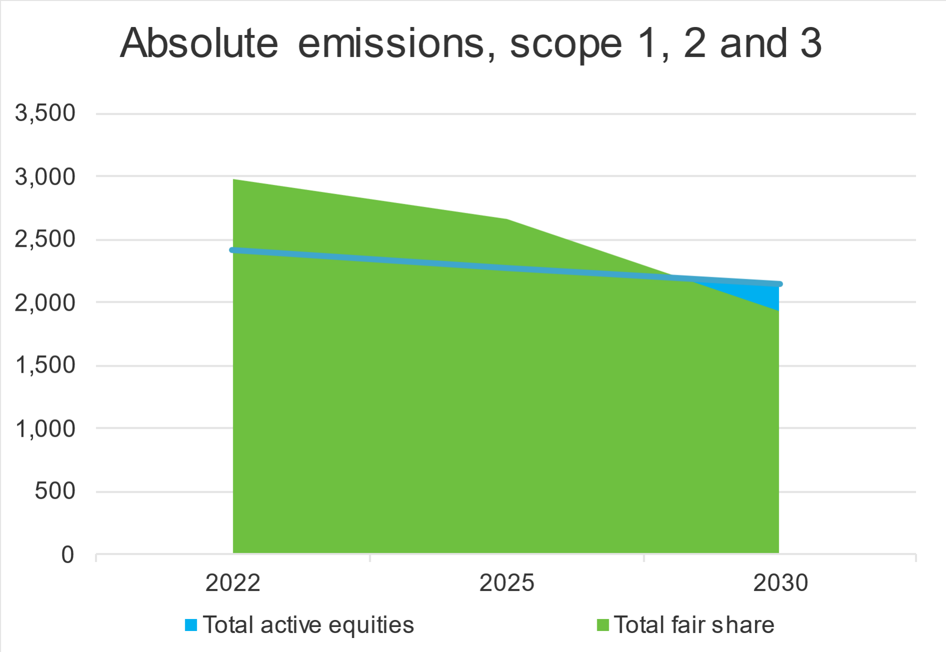
https://www.spfo.org.uk/article/4703/2023-Annual-Report

Priorities

SPF's stewardship activity covers the whole spectrum of ESG concerns but climate change issues are the current priority. To this end, SPF has since 2015 been developing a Climate Change Strategy which is separate from but complementary to its Responsible Investment strategy. As part of the Climate Change Strategy, we have introduced additional measures including TCFD reporting, biennial carbon foot-printing of all portfolios, scenario analysis which we completed for the first time during 2020, a 2050 net-zero emissions target, a process to assess energy transition standards of energy companies and in 2022 a high-level climate action plan and interim emissions target for 2030.

Our active equity carbon footprint has already reduced dramatically since we started to implement the Climate Change Strategy and the Fund's investment consultant has completed an analysis to illustrate the current transition pathway of SPF's active equity portfolios. The analysis considered Scopes 1, 2 and 3 and is summarised in the chart below.

Investment Approach



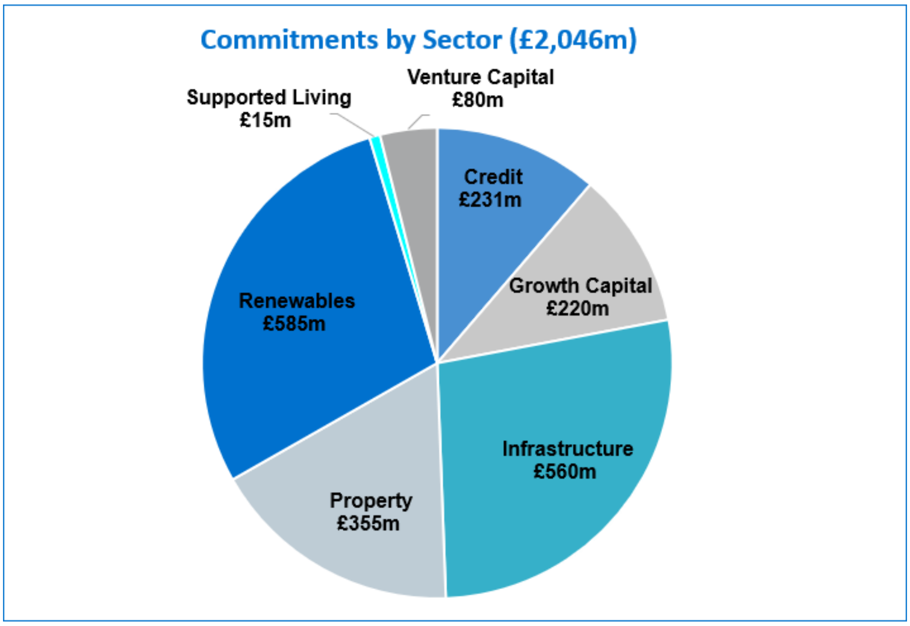
The total active global equity portfolio is estimated to be on track relative to an aggregated "fair share" pathway, with cumulative emissions to 2030 below budget (SPF's share of the remaining carbon budget to limit global warming to 1.5oC).

Strathclyde Direct Impact Portfolio (DIP)

Direct Impact Portfolio

The Strathclyde Direct Impact Portfolio (DIP) has an explicit objective of adding value through investments with a positive local, economic or ESG impact, or some combination of these or other factors which will give added value to the investment case.

Total commitments by DIP as at 31st December 2023 are summarised as follows.



Investment Approach

ESG impact at a sectoral level can be summarised as:

- Renewable energy infrastructure investments which include UK solar funds, specialist onshore and offshore wind funds, generalist renewables and community power funds which includes 192 offshore and onshore wind sites with 1,778 turbines (429 turbines in Scotland).
- Credit, venture, and growth capital allocations are primarily to UK small company financing including 133 loans across credit funds and 163 venture/growth investments.
- Infrastructure commitments include a significant element of social infrastructure.
- The property allocation is to the Fund's own Clydebuilt Portfolio which invests within the Strathclyde area and has a significant bias towards development.

Headline ESG impact of DIP in 2023 can be summarised as:

Impact	2022
Environmental	
Carbon Reduction (tonnes p.a.)	**176,696**
Renewable Energy - sufficient to power homes p.a.	**317,412**
Social	
Infrastructure Projects -investment in	**>15,400 assets**
Governance	
PRI signatories	**33 out of 35**
Local	
Local/Scottish Investments – investment in	
99 Schools	**£200m**
13 hospitals	**£128m**
>1,100 Affordable Housing Units	**£160m**
670 Build to Rent units	**£163m**

Investment Approach

8. Monitoring managers and service providers

Signatories monitor and hold to account managers and/or service providers.

Monitoring arrangements

Investment Advisory Panel

The IAP carries out much of the investment monitoring on the Committee's behalf including the ongoing monitoring of investment managers. The IAP meets quarterly and conducts a series of reviews with SPF investment managers who attend the meetings on a rotational basis. Investment managers are also required to deliver a quarterly and annual report which includes a responsible investment and voting report.

SPF Officers

SPF officers engage with each investment manager and service provider every quarter to monitor performance. This provides assurance that best practice is being followed and constrains the investment managers and service providers from deviating significantly from the intended approach. Issues of concern are referred to the quarterly IAP meeting along with a manager ratings report. The ratings operate by way of a Red, Amber, and Green (RAG) analysis as illustrated in the example below.

Rating	Issue	Action
	Significant concerns regarding the ability of manager to satisfactorily carry out their brief	• IAP to discuss concerns • Manager to be formally notified of any required actions identified by the IAP • Consideration of possible re-tender of mandate
	Concern regarding one or a combination of issues	• IAP to discuss concerns • If appropriate manager to be advised of issues and proposed actions discussed
	No long-term performance related concerns, and no significant firm related issues	• IAP to monitor

	Oak Hill	Q3 2016	Q3 and 1 year performance ahead of benchmark	3 year, 5 year and since inception performance behind benchmark	No significant issues. Business bought by T Rowe Price in Q4 2021.	
	Alcentra	Q2 2016	Q3 and 1 year performance behind benchmark	3 year, 5 year and since inception performance ahead of benchmark	Rating changed to amber following key person changes. Agreement to sell the business to Franklin Templeton agreed in Q2 2022.	Q3 2021

SPF's Investment adviser, Hymans Robertson, also provides the IAP with a quarterly review of investment managers, including ESG ratings.

SPF Committee and Board

The SPF Committee and Board receive a detailed Responsible Investment report from SPF at each quarterly meeting. The report is a public document that discloses in full the manager, SPFO, and Sustainalytics responsible investment activity. Managers are also routinely required to present on mandate performance, covering financial and responsible investment matters, to the Committee. The latest report is available at:

https://onlineservices.glasgow.gov.uk/councillorsandcommittees/Agenda.asp?meetingid=19450

Investment Approach

Annual Due Diligence Reviews

Since 2013, SPF has asked its investment managers and global custodian to complete annual due diligence questionnaires and provide several key documents. Over time, the questionnaires have evolved to take account of regulatory changes, audit requirements and responsible investment initiatives and operational considerations. The questionnaires are reviewed by SPF officers and a summary of the responses is reviewed by the Fund's external auditors. SPF also reviews the investment managers' and service providers' annual PRI and Stewardship Code disclosures.

Advisory Boards and Committees

SPF's investment strategy includes a significant commitment to private market funds, including equity, debt and infrastructure. Developed practice by private market investment managers or General Partners (GP) is the establishment of fund Advisory Boards and Limited Partners' (LP) Advisory Committees. The role of these is considered predominantly to have an advisory and consultative function but frequently takes on a greater role in oversight and provides transparency with respect to the activities of the fund and the general partner. SPF officers attend advisory boards and committees for nearly all of SPF's private market funds.

Property

SPF's UK property manager, DTZ Investors, is supported by an investment committee of external experts who monitor DTZ's strategy implementation and hold them to account for their decisions and outcomes. SPF officers attend the quarterly investment committee meetings.

DTZ have also established a Responsible Property Investment committee of experts and representatives from their fund management, property management, sustainability and facilities management teams to annually audit and report on the progress of the implementation of the DTZ Responsible Property Investment Policy.

Service Review

- **Investment Managers**

  Investment mandates are managed by 20 external institutional investment managers. In addition, a target of 5% of Fund is invested opportunistically within the Fund's Direct Impact Portfolio (DIP). A further 35 investment firms manage specialist funds within DIP.

  A review of investment strategy is carried out in conjunction with the actuarial valuation of the Fund in on a triennial basis. This facilitates a review of investment mandates, managers and service providers to ensure services continue to meet SPF's objectives.

  Amendments implemented following the 2020 actuarial valuation include:

  - a switch of Baillie Gifford's EAFE portfolio to their Global Alpha strategy.
  - a switch out of the PIMCO PARS III fund to the PIMCO Dynamic Bond fund.
  - switching RAFI Global allocation to the RAFI Fundamental Climate Transition Index.
  - a revised benchmark for the Legal and General passive portfolio.
  - additional allocation to the JP Morgan Infrastructure Investments Fund.
  - re-allocation between Absolute Return fund managers PIMCO and Ruffer.

  The 2023 actuarial valuation will inform a review of investment strategy in 2024.

- **Sustainalytics**

  SPF officers and Sustainalytics meet with each investment manager annually to discuss portfolio monitoring of global compact norm breaches, engagements, voting and ESG integration in the investment process. Sustainalytics produce an annual manager benchmarking report that considers all aspects of a manager's responsible investment activity. Sustainalytics also produce a separate report on voting to allow SPF to understand manager's voting activity and to inform discussion with managers on issues raised - particularly missed votes and votes in contradiction of the Fund's position on key issues like climate change.

  The Sustainalytics service is monitored by means of an annual engagement progress report which provides a table of target companies with information on the previous year's engagement and the state of progress.

  Service providers including Sustainalytics and Hymans Robertson are appointed via a transparent and rigorous public procurement process and engaged on fixed term contracts - typically 5 years. The regular retendering provides for the updating of service requirements and KPIs. Objectives, metrics and monitoring process are subject to regular review in line with contract KPIs.

- **Hymans Robertson**

  Since 2019 pension scheme trustees must set strategic objectives for their investment consultants before they enter into a contract or continue to receive services from them, this includes Pensions Committees within the LGPS. SPF submits an annual Investment Consultancy and Fiduciary Management compliance statement to the **Competition and Markets Authority (CMA)** to confirm agreed strategic objectives for Hymans Robertson have been set. This is in line with guidance from **The Pensions Regulator** (TPR) which suggests performance is monitored annually, with a detailed review every three years. TPR also suggests checking that objectives are still appropriate at least every three years. Following a competitive tender exercise in 2022, Hymans Robertson was reappointed to provide actuarial services to the Fund.

Engagement

9. Engagement

Principle 9. Signatories engage with issuers to maintain or enhance the value of assets.

Engagement Activity and Outcomes

Investment Managers

SPF requires its managers to monitor investee companies and engage with company management where ESG practices fall short of best practice. All managers are required to report back quarterly on any activity undertaken. SPF will not appoint investment managers who are unable to demonstrate capabilities in this area.

Examples of investment manager engagements in 2023 can be found in Appendix A.

Sustainalytics

Sustainalytics has advanced SPF's engagement with portfolio companies, stewarded collaboration between the investment managers and facilitated co-operation with other investors. The Sustainalytics engagement service is delivered via three platforms.

- **Material Risk Engagement**
  The Material Risk Engagement (MRE) service is proactive engagement with over 400 companies with the greatest unmanaged financially-material ESG risks. Constructed as an engagement overlay to Sustainalytics' ESG Risk Ratings, the engagement focuses on companies with ESG Risk Ratings of high or severe risk and within the worst performing half of their industry. Sustainalytics conducted 233 engagement meetings and exchanged 1,478 emails or calls with targeted companies in 2023 and thirty engagements were successfully resolved. Furthers details of this service can be found on the Sustainalytics website at:
  https://www.sustainalytics.com/material-risk-engagement/

- **Norms-based Engagement (Global Standards)**
  This incident-driven engagement identifies companies not in compliance with accepted international conventions, such as the UN Global Compact, OECD Guidelines and other accepted standards. Alongside investor clients, Sustainalytics engages with companies that severely and systematically violate international standards with the objective of resolving incidents and improving the company's future ESG performance and risk management. During 2023, Sustainalytics engaged with 171 companies within the Norms-based Engagement Service. 15 engagements were opened during the year and 9 were successfully resolved. In total there were 2,430 contacts, 183 meetings and 57 significant milestones were achieved. Furthers details of this service can be found on the Sustainalytics' website at:
  https://www.sustainalytics.com/global-standards-engagement/

Engagement

- **Thematic Engagement**
  Proactive engagement services that focus on tackling the most challenging ESG issues, from climate change to child labour. Thematic Engagement services allow investors to align their interests in addressing specific issues with their engagement activities. The Thematic Engagement philosophy centres on systemic change and has collaboration, root causes and best practice sharing at its core. The dialogues are aimed at improving engaged companies' (proactive) risk and impact management, including the related disclosure, as well as their resilience and strategic positioning. At the same time, through parallel engagement activities, the intended impact extends beyond targeted companies. The themes strive for creating positive change on company, sector, system and issue level. SPF is a subscriber and active supporter of the following Sustainalytics thematic engagements; **Responsible Cleantech, Modern Slavery, The Governance of Sustainable Development Goals (SDGs), Climate Change - Sustainable Forests and Finance, Feeding the Future**. Furthers details of this service can be found on the Sustainalytics website at:
  https://www.sustainalytics.com/thematic-engagement/

  Details of Sustainalytics engagements in 2023 can be found in Appendix B.

Engagement

10. Collaboration

Principle 10. Signatories, where necessary, participate in collaborative engagement to influence issuers.

Collaborative Engagement

SPF seeks to improve the effectiveness of company engagement and voting by acting collectively with other like-minded investors. As a signatory to PRI, SPF is committed to participating in collaborative initiatives with other like-minded signatories, which seek to improve company behaviour, policies or systemic conditions. To this end SPF participates in a variety of industry initiatives and forums. This also involves collaborative lobbying on government and industry policy and regulations regarding ESG issues. The Fund is represented across a range of initiatives working with institutional investors, charities and interest groups on themes as diverse as renewable energy, plastic pollution, animal welfare and child labour.

Details of collaborative initiatives activity in 2023 are set out in Appendix C.

Sustainalytics

Sustainalytics’ engagement is truly collaborative in that it brings together likeminded investors across markets, investor types, and asset classes. Sustainalytics’ conduct engagement on behalf of over 1000 clients globally and by pooling clients’ ownership they can offer greater efficiency and a larger engagement footprint than if clients engaged by themselves. Sustainalytics’ thematic engagements are specifically designed to proactively address specific ESG issues within portfolio companies and to do so by working collaboratively with small groups of clients. SPF now actively supports five Sustainalytics’ thematic initiatives.

Details of these thematic collaborative initiatives are set out in Appendix B.

Engagement

11. Escalation

Principle 11. Signatories, where necessary, escalate stewardship activities to influence issuers.

SPF is committed to 'naming and shaming' companies not engaging with shareholders on important issues. Section 3 of the SPF quarterly Responsible Investment report is dedicated to Principle 3 of PRI - "We will seek appropriate disclosure on ESG issues by the entities in which we invest." This section discloses Sustainalytics' and the investment managers' drive to engage and seek answers from companies. Our quarterly Responsible Investment reports are published at:

https://www.spfo.org.uk/article/6244/Responsible-Investment

Investment Managers

Responsibility for day-to-day interaction with companies is delegated to the SPF investment managers and Sustainalytics, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own policy documents and statement of adherence to the Stewardship Code. SPF regularly engages with managers regarding publicly reported events at certain portfolio companies that raise environmental, social or governance concerns.

SPF's investment managers undertake regular engagement with the companies in which they invest, with some campaigns lasting multiple years. When one-to-one engagement does not yield results, managers may seek to escalate engagement through collaborating with other institutional investors directly, or via investor networks, to amass voting power. Managers have several escalation options at their disposal, from voting sanctions through to selling the securities of an unresponsive company.

Most of the investment managers will engage with companies as routine before AGMs, they will raise issues prior to voting to try and avoid conflict with Boards. Managers have an exceptionally good track record of achieving corporate change this way.

SPF is also directly involved in escalation of engagement activity through direct engagement collaborations and initiatives. In 2023 this included:

- co-signing a **ShareAction Good Work Investor Coalition** letter to leading UK Supermarket **Sainsbury's** regarding real Living Wage and workers' rights.
- writing to Swedish food service company, **AAK AB.** and US based paints and coatings manufacturer, **PPG Industries, Inc.**, encouraging them to provide information by completing the **CDP Water Security and Forests** questionnaires.
- co-signing a letter to policymakers and the global community on the importance of addressing plastic pollution and plastic-related corporate disclosure in support of **CDP's Mandatory Plastic Data Disclosure Campaign,**

Examples of escalation of stewardship activities are included in Appendix C.

Local Authority Pension Fund Forum (LAPFF)

LAPFF issues voting alerts for members where deemed necessary or helpful. The recommendations are provided on a case-by-case basis and take account of previous company engagement on the relevant topic. LAPFF members sometimes choose to draft and co-file shareholder resolutions, either among themselves or in coalition with other investors. SPF receives periodic voting alerts for companies where LAPFF has identified serious ESG concerns and where attempts to engage with the company have been unsuccessful.

Engagement

LAPFF outlines the rationale behind the vote via several platforms, such as by means of a press release or in the public LAPFF quarterly engagement report. LAPFF believes in engaging constructively with members' investee companies and explaining the escalation in activity is deemed another form of engagement with the company, therefore extending the opportunity for dialogue and debate on material responsible investment concerns.

LAPFF engagements and voting alerts are disclosed in their quarterly engagement reports are publicly available at:

https://lapfforum.org/publications/category/quarterly-engagement-reports/

and in their annual report which is also publicly available at:

https://lapfforum.org/wp-content/uploads/2024/01/LAPFF-Annual-Report-2023.pdf

Sustainalytics

Sustainalytics routinely escalates engagement through collaboration with other investor networks and by enlisting the direct support of its institutional clients. SPF is regularly involved in this collaboration.

Further examples of Sustainalytics escalation of stewardship activities are set out in Appendix B.

Exercising Rights and Responsibilities

12. Exercising rights and responsibilities

Principle 12. Signatories actively exercise their rights and responsibilities.

Expectations, Activity and Outcomes

Voting

SPF's voting policy is exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance and Stewardship Codes. SPF officers monitor the upcoming votes to supervise manager activity and have direct access to the proxy voting platform (Broadridge Proxy Edge) used by the managers. SPF also recalls stock on loan to facilitate voting should the manager or officers require; this happens several times a year. Stewardship takes priority over stock lending.

On issues which have been identified by LAPFF, Sustainalytics, or officer engagement as being of particular concern, SPF is able to:

- co-file or publicly support shareholder or other resolutions.
- choose to take the lead in filing a shareholder proposal as a final means of engagement if a company proves unresponsive to engagement efforts; and,
- vote portfolio holdings directly to support its engagement strategy. Where possible, the Committee will be asked to approve activity in advance. Where timing does not permit this, officers will decide on appropriate action and report to the Committee at the first subsequent opportunity.

SPF Total UK & Overseas Voting in 2023

Manager	No of Meetings	No of AGM	No of EGM	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstain	Not Voted	Proxies Lodged	Proxies Not Lodged
Legal & General	15,574	11,224	4,350	0	148,438	112,160	35,317	961	0	15,574	0
Baillie Gifford	92	87	4	1	1,258	999	66	6	187	81	11
Lazard	108	91	5	12	1,806	1,487	144	6	169	101	7
Oldfield Partners	26	22	2	2	416	265	23	1	127	21	5
Veritas	28	25	1	2	492	362	61	0	69	24	4
Lombard Odier	167	143	24	0	1,931	1,613	38	3	277	145	22
JP Morgan	481	410	59	12	4,881	3,717	436	24	704	436	45
Genesis	111	73	38	0	1,060	932	106	22	0	111	0
Total	16,587	12,075	4,483	29	160,282	121,535	36,191	1,023	1,533	16,493	94
Total%						76%	23%	1%	1%	99%	1%

Full disclosure of voting activity is provided quarterly on the SPF website. This includes both the total number of company meetings and details of individual companies. The voting reports are available at:

https://www.spfo.org.uk/article/6247/Voting

The SPF Responsible Investment report provides a summary of quarterly voting activity and discussion of votes on headline matters such as climate change and executive remuneration.

Detail of voting rational and outcomes in 2023 is included in Appendix D.

Exercising Rights and Responsibilities

Sustainalytics has also been mandated to carry on a monitoring programme of manager voting and to produce a report to allow SPF to understand managers voting activity and to inform discussion with managers on issues raised - particularly missed votes and votes in contradiction of SPF's position on key issues like climate change.

Pooled Fund Voting

Legal & General Investment Management (LGIM) currently manages close to half of SPF's listed equity allocation through pooled index funds. The LGIM Investment Stewardship team exercises the voting rights for all UK-based shares for which it has authority to do so and votes in developed markets and some emerging market countries, covering approximately 95% of the FTSE All-World Index. In 2023, LGIM cast over 148,000 votes at over 15,500 meetings.

LGIM is fully transparent in the exercise of voting rights and discloses details of vote instructions on a per-meeting basis, with the rationale provided for all votes cast against management. Vote disclosures and LGIMs voting policies can be found at:

LGIM Vote Disclosures (issgovernance.com)

Private Markets - Advisory Boards and Committees

SPF has a large portfolio of private markets investments spanning property, private equity, private debt, infrastructure together with some minor niche markets through our Direct Impact Portfolio.

Private markets investments represent more than one third of all SPF investments. SPF's rights and responsibilities in private market investments are exercised through advisory boards and committees. SPF expects to be granted an advisory board seat as a matter of course when making a private markets investment and attends and actively participates in all board meetings as far as possible.

Class Actions and Securities Litigation

- **Class Actions**

Another important part of SPF's active ownership is shareholder litigation aimed at companies whose illegal activities have resulted in financial losses. SPF believes that exercising litigation rights, including seeking monetary redress and governance reforms via legal action when defrauded or otherwise harmed by financial misconduct is an essential in effective stewardship.

UK pension funds traditionally rely on their global custodians to ensure they receive their share of the proceeds of successful class actions or other shareholder settlements. The role of the global custodian is essentially passive. They are not active participants in individual cases and do not actively seek opportunities to lodge claims. US courts generally do not require UK investors be notified of class actions even when the rights of UK investors are impacted. For this reason, there is a real danger that many UK investors remain uninformed about these opportunities. To ensure that the global custodian collects all monies due as a result of class actions and to evaluate the merits of more active participation in securities class actions SPF has engaged the services of several monitoring systems. These systems include:

- BEAMS, a web-based monitoring system focused on US companies and cases, provided by Philadelphia based Law Firm, Barrack, Rodos and Bacine.

Exercising Rights and Responsibilities

- International monitoring and reporting provided by San Diego based Robbins, Geller, Rudman and Dowd.

The monitoring services utilise custodian data of trade history and holdings to monitor relevant class action events from inception to settlement. They provide notification of filing activity plus pending and recovery claims and claim deadlines to use as an oversight on the monitoring and actions of the custodian.

- **Securities Litigation**

SPF has been involved in direct legal proceedings in the United States and the U.K. SPF determines whether to participate as an active plaintiff on a case-by-case basis, with the primary goal of obtaining damages and to promote good corporate governance and sound business practices. Active participation in US litigation is time consuming and offers many potential pitfalls including cost and reputation risk, however, SPF believes these risks are outweighed by the responsibility to pursue corporate illegal activity and recover losses.

SPF concluded its first case as lead plaintiff in 2018 by obtaining a class settlement of USD$25.9m against **PlyGem Holdings Inc**. and in 2022 achieved a USD $45m class settlement against **Bank OZK**. SPF currently serves as lead plaintiff in litigation against **Dentsply Sirona Inc.** in the United States District Court for the Eastern District of New York. Details of the actions are publicly available at:

www.plygemsecuritiessettlement.com

http://www.ozksecuritiesclassaction.com/

https://barrack.com/newsroom/court-upholds-securities-fraud-claims-against-dentsply-sirona-inc/

In addition to the US litigation and class actions activity, SPF was a claimant in a group action litigated in the High Court in London against the Royal Bank of Scotland Group. SPF was one of a group of 313 institutions that included several local government and other public sector pension schemes and played an important role in this litigation as one of six institutions on the group steering committee. The shareholder action against The Royal Bank of Scotland represented a watershed moment in the development of UK securities litigation. Although it settled on the eve of trial, the litigation was the proof of concept: it is possible to successfully pursue high-value, complex shareholder class actions under the UK's legal and procedural framework.

SPF has recovered over GBP£11m since 2007 including individual settlements against Countrywide Financial Corporation for US$1.1m, the Royal Bank of Scotland Group for £1.2m, Tesco for £544,211 and Treasury Wine Estates Ltd. for AUD$513,000. Distributions from US class actions in 2023 totalled $0.25m from 29 settlement funds.

Appendix A

Investment Manager Engagements 2023

Examples of investment manager engagement, escalation and impact are listed by asset class and manager. Not all managers are included and due to the volume of engagements carried out the list provides only a limited snapshot of the activity undertaken in the year. Individual investment manager ESG and Stewardship reports are available via the links provided.

Index Equity and Fixed Income

Legal &General Investment Management (LGIM)

- LGIM's Investment Stewardship team caried out 2,500 engagements in 2023. This included 364 meetings or calls and 2,136 written engagements. The team engaged most frequently on climate change and corporate governance.

- LGIM engaged with Japanese electric utility, **Kansai Electric Power Company**, to seek improvement in their corporate governance practices. LGIM identified several governance areas for improvement and the company appears to lag some of LGIM's minimum expectations on board composition. LGIM believe that through its improvement it could have a positive influence more broadly upon its sector in Japan. Following a bribery scandal in 2020 involving former directors, the company underwent significant changes to improve governance. These changes have been positive but there are some areas where improvements could be made. Specifically, these include:

  • Director independence.
  • Cross-shareholdings.
  • Limits to tenure of senior advisors to the board ('Komon').

  LGIM were pleased to note that the company meets the expectations for gender diversity in Japan of 15% female representation on the board, which is also expected to increase over time. Regarding climate change and LGIM's expectations under the Climate Impact Pledge, Kansai's lack of interim emissions targets and lack of time-bound commitment to exit coal-fired power generation was noted as an area for discussion. In their meeting with Kansai Electric Power, LGIM were able to discuss these areas in detail to better understand its approaches to governance and climate, and to talk in-depth about related areas such as responsibility for executing the net zero transition plan.

- LGIM engaged with German multinational building materials company, **Heidelberg Cement** to discuss the company's approach to decarbonisation. Cement production is responsible for around 8% of global carbon emissions per year. Therefore, the cement industry needs to decarbonise significantly for the world to reach net zero; the sector is included within the 'climate critical' sectors of LGIM's Climate Impact Pledge. Heidelberg believes it has an industry-leading decarbonisation policy as well as first-mover advantage in carbon capture and storage (CCS). LGIM participated in discussions with Heidelberg's management team to discuss the progress and economic viability of the company's planned CCS projects. Questions focused on the economics of CCS (cost of capture, transport and storage versus carbon pricing), the external factors affecting viability of CCS projects (regulation, government subsidies etc.) and demand expectations for 'carbon-free' cement. LGIM will continue to engage with Heidelberg as well as other competitors in the cement industry on their decarbonisation targets and trajectory. For Heidelberg, CCS will only become economical with either an increase in the carbon price or if customers are willing to pay a premium for carbon-free cement. LGIM will continue to monitor these dynamics and discuss with management.

LGIM Proxy voting, ESG and Company Engagement reporting is available at: https://group.legalandgeneral.com/en/sustainability/responsible-investing

Listed Equity

Baillie Gifford

- Baillie Gifford engaged with **Woodside Energy Group Ltd** to discuss plans for capital allocation and to reflect on their AGM voting action in favour of more ambitious emissions targets and climate integration. With the recent final approval of the Trion oil development, Woodside is now operating some $20bn of capital under construction. This, plus the continuing post-merger integration of BHP/Woodside, US/Australia management teams, dominates executive time. That said, the company is aware that longer-term capital allocation presents a wider range of opportunities, including diversification into renewables. While there is increasing customer interest in new energies, corporate enthusiasm is tempered both by a lack of clear government support and perceptions of shareholder reticence. While progress here may remain incremental, Baillie Gifford reiterated that ambitious targets for direct emissions reduction and strong transparency on the consideration of climate and energy transition matters by the Audit Committee were basic expectations for companies operating in this sector. Such factors underpin the broad license to operate while management considers its strategic options. Baillie Gifford will continue the frank discussions with Woodside and hope that their comments regarding climate-related matters are considered in strategic governance and incorporated into the Climate Plan, due for presentation to shareholders in 2024.

- Baillie Gifford engaged with **Tesla, Inc.** to discuss changes to the board and assess its ability to oversee management. Ahead of the AGM, Baillie Gifford had two separate calls with the chair and non-executive directors to discuss the number of independent directors, and the appointment of new directors. Baillie Gifford heard a robust defence of the board's new composition with it described as the most active and robust board they had ever been on, with a healthy level of independence and the ability to have frank discussions and challenge management, when required. In terms of potential future additions, they would like to add a director with strong financial expertise and experience of dealing with global regulations. Baillie Gifford's discussions provided assurance that the Tesla board retains the requisite skills and experience to support management's delivery of the long-term strategy. Baillie Gifford will continue to monitor the board's composition and will support future appointments which enhance its ability to provide effective stewardship of the business.

- Baillie Gifford met with Indian multinational conglomerate, **Reliance Industries Limited** to hear from the company about their approach to methane, wider emissions reporting and carbon pricing. Reliance has the ambition to be the provider of 'the world's most affordable green energy within this decade. This includes 20GW of solar generation capacity by 2025 and producing green hydrogen for $1 a kilogram, within a decade. The company has set a carbon net zero target and Baillie Gifford had previously asked for more granularity in relation to specific business units. They have emphasized emissions reduction strategies through energy efficiency; energy transition; repurposing petcoke gasification to use syngas for producing chemicals and hydrogen; investing in carbon capture and storage and offsets for hard-to-abate emissions. This meeting provided an opportunity to hear about the plans for carbon reporting under India's new disclosure requirements and expectations for future carbon pricing. Baillie Gifford spoke at length about methane, where the company believes it has minimal leakage. Baillie Gifford also shared perspectives on Scope 3 reporting, noting the potential for material mis-estimation by third parties where companies do not report. Baillie Gifford anticipate that future reporting will include methane as a separate data point. It was helpful to hear the company's perspectives on frameworks such as CDP and the associated complexities for conglomerate businesses. Reliance is reviewing Scope 3 reporting and considering further disclosures.

- Baillie Gifford met with the new Chief Scientist at **Rio Tinto Group** to explore the detail behind Rio Tinto's decarbonisation strategy, focusing on its aluminium and iron ore operations, as these account for the vast majority of the company's carbon footprint. The discussion covered several critical aspects of Rio's carbon reduction programme, which is now supported by an R&D team of more than 500 people. To put the challenge in context, Rio's direct operations generate approximately 30 million tonnes of CO2 emissions every year. The company's entire supply chain produces around 600 million tonnes of CO2 each year: more than the entirety of the UK. Baillie Gifford covered the need to develop grid-scale energy storage to support the switching of Rio's aluminium smelter plants from coal-fired power to intermittent renewable power. They also discussed how Rio could support the nascent renewable diesel industry as a low carbon transition fuel, while the company pursues the development of large-scale batteries for haulage trucks. Reducing carbon emissions from processing iron ore into steel is a key challenge. Baillie Gifford learned about specific problems that require breakthrough innovation and subsequently scaling laboratory success to commercial validation. Finally, they discussed the range of partnerships developed across academia, industry and the venture-capital community to address specific technology roadblocks. Rio Tinto faces potentially material financial consequences from rising carbon prices if unable to significantly decarbonise. The engagement provided insight into the complexity of the challenge and reassurance that Rio will continue to commit material resources to exploring potential solutions as it pursues carbon reduction targets. However, the pathway to materially lower emissions will require several technological breakthroughs that remain unproven at commercial scale today.

- Baillie Gifford also met with Irish building materials business **CRH plc.**, to encourage more detailed disclosure within the Report and Accounts regarding the consideration of climate-related issues by the Board and the company auditors. Specifically, Baillie Gifford were seeking more detail on assumptions, including future costs and plausible policy interventions, accounting judgements, and scenario analyses for possible pathways. This engagement was part of a collaborative engagement coordinated through Climate Action 100+ with the board chair and the chair of the audit committee. CRH has strengthened its decarbonisation targets, demonstrating leadership within the construction materials industry that is potentially advantageous but has cost implications. The company commits to be net zero by 2050 and recently outlined new goals, which target an absolute reduction in scope 1 and 2 emissions of 30% by 2030 v 2021 levels. These new targets have been validated by the science-based targets initiative to be in line with a 1.5-degree pathway. The focus of the discussion was encouraging more specificity in the financial accounts of the potential impacts on CRH's business of meeting these long-term objectives. Baillie Gifford also asked how climate risks are examined by the board and how it determines materiality in terms of the company's accounts. Baillie Gifford explained that given the carbon intensive nature of CRH's business, alongside its potential exposure to physical change, it would be useful for investors to have insight into how the company was thinking about the value of the business and assets under various climate change scenarios. Baillie Gifford stressed that more comprehensive disclosure in its annual accounts and auditors' report, are important for shareholders to make informed investment decisions. The 2022 annual report, published at the start of March 2023, demonstrates a significant improvement in the disclosure of how, when and by whom climate-related issues are considered in the discussion of strategy and against existing financial assessments. CRH has also now quantified the incremental capex required to meet its 2030 decarbonisation goals. Baillie Gifford consider CRH to be a leader in terms of its engagement with decarbonisation and the recycling of building materials. Baillie Gifford look forward to further discussions on quantitative transparency in 2023 - particularly concerning scenarios for different plausible climate outcomes.

- Baillie Gifford spoke with the head of ESG engagement at **Amazon.com** to discuss progress and developments in their climate strategy. Amazon has positioned itself as a climate leader by setting ambitious decarbonisation targets and establishing 'The Climate Pledge' to accelerate climate action by the world's top companies. However, recent developments indicate challenges to delivering on its climate strategy. Baillie Gifford discussed the company's decision to step back from its Science-Based Targets initiative (SBTi) commitment. Amazon referred to methodological differences with the SBTi regarding business complexity and differentiated pathways, both organisations' approach to offsets and Amazon's ongoing development as a high growth business. The company is looking at alternative organisations to validate its emissions targets and Baillie Gifford hope a new supply chain standards report, due in 2024, provides more insight into how the company is progressing climate action and sustainability across its value chain. Baillie Gifford encouraged Amazon to broaden the scope of its targets to include upstream emissions from first-party and third-party sellers on its platform. Given the company's systemic importance, this would be an important catalyst for decarbonisation across the value chain. Baillie Gifford remain supportive of Amazon's long-term aspiration to be net zero by 2040 and understand the pathway to this goal will be challenging. Baillie Gifford asked for greater transparency in how Amazon plans to achieve its objectives and outlined that external validation of its targets is important to ensure accountability beyond its immediate emissions boundary. Baillie Gifford will continue to monitor the company's progress and engage when necessary.

- Baillie Gifford engaged with the Swiss luxury holding group **Richemont** due to board changes and ongoing concerns regarding executive remuneration practices. The concerns relate to poor structure and disclosure of remuneration, which undermines investor's ability to assess pay for performance. This meant Baillie Gifford voted against variable remuneration at the 2022 AGM. Baillie Gifford asked Richemont to reflect on the significant dissent on remuneration received from free-float shareholders at last year's AGM. Richemont believed the primary reason for this was the undisclosed executive receiving a special award. This year, Richemont has disclosed the CFO as the beneficiary. Replacement of long-tenured board members is also an ongoing process, and the board is seeking new representatives with an understanding of clientele in the US and Asian markets. Baillie Gifford escalated voting action to oppose the Remuneration Committee Chair and the variable remuneration component at the 2023 AGM. Remuneration was the subject of significant dissent again this year, with 23% of shareholders voting against executive variable remuneration. The Remuneration Committee Chair also received 9% of votes against their re-election.

- Baillie Gifford met with Netherlands based global investment group, **Prosus** to monitor the evolution of its climate strategy. Baillie Gifford spoke with the Head of Global Sustainability to learn more about the company's approach to climate change and its long-term ambitions. In conversation they learnt that over the past 12-18 months, the company has made considerable progress in better understanding sources of climate-related risk and opportunity across its own operations and portfolio of holdings and taken steps to address those. Disclosure of emissions data has improved this year (an expectation under EU regulation), and new decarbonisation targets have been set. Specifically, the company commits to reduce absolute scope 1 and 2 emissions by 100 per cent by 2028 versus a 2020 baseline. It also targets 35 per cent of eligible private and listed investments by invested capital have set validated SBTi targets by 2028. The latter scope 3 target is important as this is where most of the company's emissions are located. Baillie Gifford also learnt that the company aims to show leadership in representing emerging markets and southern hemisphere businesses in the development of climate policy and standards. Following the discussion, the company's emissions targets received external validation from SBTi, including confirmation of alignment with a 1.5-degree pathway. This demonstrates significant improvement in the business's climate strategy.

  The Baillie Gifford Global Alpha Stewardship Report is available at:
  https://www.bailliegifford.com/en/uk/individual-investors/insights/ic-document/2023-q3-global-alpha-stewardship-report-10020556/

Lazard Asset Management

- Lazard engaged with Indian multinational conglomerate, **Reliance Industries** regarding the company's disclosure around climate transition. Following a previous engagement meeting with Reliance in late 2022, Lazard followed up with detailed suggestions to strengthen the company's disclosure around climate transition. Lazard communicated expectations for transparency on the company's decarbonization plans and requested extended reporting to the CDP Climate survey beyond its telco subsidiary, JIO. JIO has achieved an A-rating from CDP and had its GHG targets validated by the SBTi, demonstrating the company's commitment to adaptation. Lazard also clarified the additional transparency expectations and how Lazard would interpret and use this information, including CDP data in its Climate Alignment Assessment. Although the company did not complete the CDP Climate report for that year, it was encouraging that the company has taken some steps in strengthening its transparency within its annual report including more detail around its net zero developments and increase in renewables use. Lazard made a specific request for greater disclosure to evidence management of transition risks and opportunities and will continue monitoring progress.

- Lazard engaged with Swedish industrial technology company, **Hexagon AB** to address concerns raised in a short-seller report about transparency, governance, and conflicts of interest. Lazard engaged with the company on multiple occasions meeting with IR, CEO, Chairman, and the Chair of the Nominations Committee discussing potential conflicts of interest, disclosure concerns, board independence, and the replacement of three Non-Executive Directors. Lazard consistently encouraged enhanced disclosure and rebuilding trust in corporate governance. Specifically, Lazard suggested that the company explain the board changes, commit to a timeline for replacing members, conduct an independent board evaluation, and enhance disclosures regarding M&A, related party transactions, and accounting practices related to R&D. Hexagon subsequently announced several positive improvements to both governance and disclosure. Lazard noted that specific requests were implemented with appointment of two new independent directors.

Lazard Asset Management Sustainable Investment Reports are available at:
https://www.lazardassetmanagement.com/uk/en_uk/references/sustainable-investing/policy-documents

Oldfield Partners

- Oldfield Partners engaged with Hong Kong–based multinational conglomerate, **CK Hutchison Holdings** to understand the physical risks to the business posed by climate change and their future strategy. Significant physical risks due to coastal flooding are attributed to the port and infrastructure divisions of the business. With regulated underlying businesses, the infrastructure division reports every 5 years on adaptation, however oversight of the ports division is a more recent addition. Hutchison has leveraged third-party expertise to ensure that the risks, unique to each geographic location, have been well understood. Their response to this analysis will become clearer in the coming months as they consider if and how to implement the recommendations made. To monitor their progress, Oldfield look to improvements in their in-house scenario analysis, outlined in an updated TCFD report, as well as the detail in the annual publication of their sustainability report. As a company that has dedicated considerable time and resource to the transition to net zero, Oldfield were keen to understand their targets at a holding company level and how this influences their own investment approach. With a minority stake in Cenovus energy, their intention is to reduce the percentage of revenue attributed to this over time, whilst also pivoting to greater transparency on green CAPEX and green revenue. With an open dialogue with investors, Oldfield look forward to their advancement and future discussions on their continued progress.

- Oldfield Partners continued engagement with **Southwest Airlines** to better understand their position on the transition to net zero and on the topic of female representation on the Board. Previous discussion with Southwest Airlines in November 2022 was constructive, however Oldfield Partners emphasised the need to formalise net zero transition targets and to work with a third party to verify their science-based alignment. Oldfield were pleased to note progress when they spoke to the team again this August, with a 2035 carbon intensity reduction target pending submission to the Transition Pathway Initiative (TPI). The company shared that they had felt more confident to commit to a formal target based on the support given to sustainable aviation fuel (SAF) in the Inflation Reduction Act. They consider SAF to be the most impactful lever to support decarbonisation and continue to engage with government, through their trade association of Airlines for America (A4A) and are investing in several SAF start-ups, to support its production. In August Oldfield followed up with the company on the topic of female representation on the Board which they had raised last year and again around the AGM. Oldfield wanted to understand why the company had set diversity targets for 2025 throughout the organisation but not at the Board level. The company repeated that they remain focused on this, despite not committing to a target. Having paused Board refreshment during COVID this is now a priority. They look at diversity in many forms, including diversity of industry, function etc. With the recent appointment of 2 female Board members, increasing female representation to 21%, Oldfield reiterated the optimal target of 30% but are encouraged by their consistent message and look to see further evidence of this in their near-term. With productive dialogue, Oldfield will continue the annual updates with Southwest.

- Oldfield Partners engaged with global insurer, **Chubb** to better understand their position on the transition to net zero. Chubb, as a large property and casualty insurer, have set decarbonisation targets for scope 1 and 2 emissions and have adopted several policies related to fossil fuels including no longer underwriting new coal-fired power plants, or companies with more than 30% of revenue from thermal coal mining. For oil and gas projects they have reduced their underwriting to clients that can demonstrate they have plans to reduce methane emissions. Chubb have independently set policies and targets, however, recognising the prospects and challenges for the sector, have recently convened investors, academics, and regulators alongside industry peers to discuss these. Philosophically, Chubb believes that insurers can be more effective through engagement with high emitters, and Oldfield will continue to follow their progress alongside that of the industry in the coming months.

- Oldfield Partners wrote to **Berkshire Hathaway** to highlight their support for shareholder resolutions filed by Climate Action 100+. As members of this collective engagement, Oldfield were aware that several attempts were made to reach a compromise, with the filing of resolutions seen as an escalation due to lack of progress. In the letter, Oldfield recognised considerable progress made at BNSF and BHE, the two subsidiaries that account for most emissions. However, they emphasised the importance of improved climate related disclosures, and crucially, a standard approach to disclosure via a TCFD framework that allows investors to assess companies within one globally recognized framework. Oldfield do not believe that the resolutions are overly prescriptive, instead calling for a level of transparency that is increasingly seen as standard practice. The letter emphasised that this a key consideration for their own climate commitments, as well as those of clients.

- Oldfield Partners engaged with US software services company, **SS&C Technologies** to discuss issues related to human capital management, including progression on their diversity efforts, as well as climate related disclosures. Oldfield learnt that previous elevated levels of staff turnover have normalised and the company have made efforts to combat potential related issues of low morale through increased compensation including bonuses, as well as flexibility for working from home. They are in the process of finalising a diversity policy, recognising that there are pockets of activity today, run at a business unit or regional level, with the need to formalise this. At the level of the board, they have brought forward their target to add an additional female by one year (from 2025, in line with NASDAQ requirements, to 2024). With regards to greater GHG emissions disclosure, although this is not a material issue to their business, they are looking into the best approach considering the delay from the SEC. They recognise that for investors and clients this is an important issue and may look to disclose ahead of regulatory requirements. Overall, there has been satisfactory progress over the last 12 months and Oldfield will continue the dialogue in annual discussions.

Investment Manager Engagements 2023

Oldfield Partners ESG reports are available at: https://www.oldfieldpartners.com/About-Us/ESG/

Veritas Asset Management

- Veritas Asset Management engaged with North American Railroad company, **Canadian Pacific Kansas City Limited.**, as the company had failed to commit to introducing and disclosing science-based emission reduction targets with a coherent strategy and action plan in line with a 1.5-degree scenario. The company has a decarbonisation target across Scope 1, 2 and 3 in its locomotive operations to reduce emissions intensity 38.3% by 2030. The near-term target is approved by SBTi and aligned with a temperature pathway of well-below 2°C. Veritas recognise that the temperature alignment is inconsistent with the 1.5°C guidance stipulated their policy. However, Veritas have reviewed the company's climate strategy and engaged with management to encourage target alignment with 1.5°C. Veritas received a letter from the company that acknowledged target alignment with 1.5°C is necessary and confirmed that work is underway to understand how this can be achieved. The company is focused on the efficient use of existing technology and market-ready renewable fuels while evaluating alternative propulsion technologies, particularly hydrogen-based solutions, which are necessary for long-term reductions in GHG emissions in the freight rail industry. The company is making progress and has been cooperative when engaging on this topic. Therefore, Veritas decided the best approach at this juncture is to continue engaging with management.

  Veritas ESG and Stewardship report is available at: https://www.vamllp.com/assets/VAM-LLP-UK-Stewardship-Code-April-2023.pdf

J.P. Morgan Asset Management (Global Smaller Companies)

- J.P. Morgan met with the CEO and CFO of UK low-cost airline, **Jet2** to raise concerns that the company's targets to reduce its carbon footprint are less ambitious than its aviation peers. The directors defended themselves by stating that they believe in making realistic targets and have focused on reducing their emissions intensity, which was reportedly less than their European peers. The company reported they have taken steps to reduce emissions through carbon offsetting measures. They are investing in energy efficient aircraft by installing winglets and using single engine taxis which will not only reduce fuel consumption but will also reduce greenhouse emissions. The company has invested in Sustainable Aviation Fuels (SAF) and suggested that the UK government should promote its production to make it affordable to meet the long-term sustainability goals of the aviation industry. In addition, the company stated that they have set up carbon neutral offices and reduced the consumption of single use plastic by 80%. J.P. Morgan questioned the lack of women on the board, to which the CEO responded that they believe in hiring the best talent and confirmed the appointment of a female on the board.

- J.P. Morgan engaged with French engineering specialist, **SPIE** to discuss the company's ESG initiatives. J.P. Morgan's objectives were to: clarify what operations fall under the company's oil, gas & nuclear business division and if they have any direct nuclear exposure; clarify the drivers of the company's scope 1, 2 and 3 emission reduction targets; and discuss the drivers of the recent third-party downgrade of SPIE's ESG rating. SPIE confirmed that they do not work on nuclear weapons. They manage some data centres, ventilation or HVAC (heating, ventilation, and air conditioning) and fire protection systems, but do not have any direct nuclear exposure. The company confirmed their oil, gas & nuclear business division accounted for 7% revenues in 2022 and that this work is mainly taking care of clients' fire safety and electrical networks. The company is confident that they will be able to meet their 2025 target for scope 1 and scope 2 emissions. Their scope 1 and 2 emissions are mainly from their large vehicle fleet and they are renewing every second vehicle into an electrical one. MSCI downgraded their ESG rating for SPIE from A to BBB citing that their expanded assessment of SPIE's labour management practices indicate limited evidence of robust staff development programmes, unlike the case of industry peers, which SPIE denied. SPIE have been engaging with MSCI but said they have had limited success so far.

- J.P. Morgan met with Irish building materials company, **Grafton Group** to discuss Board diversity, environmental impact/risks and social risks. From an environmental perspective, Grafton has an opportunity to make improvements through its vehicle fleet, where they have converted some vehicles to hydrotreated vegetable oil (HVO) and are trialling electric vehicles. The company said that they are in the process of quantifying scope 3 emissions and will look to move towards less energy intensive products. The company's recycling efforts historically focused on diversion from landfill, but they are now more focused on actively recycling. Whilst Grafton has no specific target on this yet, the company is working on it and the current recycling rate is c.58%. From a diversity, equity, and inclusion perspective, the company is making progress and currently has c.38% gender diversity, which they aim to get to >40% and they currently have one ethnic diverse director.

JP Morgan Asset Management ESG and Sustainability reports are available at:
https://am.jpmorgan.com/gb/en/asset-management/institutional/about-us/investment-stewardship/

Private Markets

Partners Group

- Private equity and debt manager, Partners Group, operates within the responsible investment/ESG integration to philanthropy end of the spectrum in addition to screening and excluding investments whose products, services or practices pose significant social or environmental harm. **International Schools Partnership** is an example of how Partners Group work with portfolio companies to achieve long-term ESG progress. International Schools Partnership (ISP) is a global community of 82 international schools in 22 countries. The investment in ISP shows how Partners Group supports Boards in transforming companies via different sustainability levers. Championing ISP's sustainability agenda comes from the highest levels of the organization. A Non-Executive Director champions sustainability at Board level, while the CEO has formalized sustainability as a key strategic initiative for the company. As part of ISP's sustainability agenda, the organization's Board and management are driving decarbonization and energy efficiency and are embedding student engagement for sustainable development and best-in-class safeguarding policies to promote the welfare of communities. The Board approved targets in 2023, aiming for net zero by 2050, a 25% reduction in Scope 1 and 2 emissions by 2027, and optimizing renewable energy usage. As a people-centric business, ISP engages students in its sustainability journey through encouraging behavioural change and educating them about the path to decarbonization, both inside the classroom and through experimental learning opportunities. On the community side, the group's safeguarding approach has been recognized as best practice, with the Group Head of Safeguarding advising and demonstrating ISP procedures to other schools in the sector with the International Task Force for Child Protection.

Pharmathen is a leading developer of drug-delivery technologies for pharmaceutical products. Headquartered in the Netherlands, they have large operations in Greece and a new presence in the US. Pharmathen develops, manufactures, and supplies generic and value-added medicines to more than 215 pharmaceutical company customers globally. Pharmathen offers a diverse portfolio of products with a specialization in complex long-acting injectable formulations where they are a global leader. Pharmathen is committed to having a positive impact on patients' lives while also contributing to the UN's SDG 3.8, which aims to achieve universal health coverage, including through access to essential medicines.
Since Partners Group's investment, Pharmathen has shown strong organic growth within the existing portfolio and through the launch of new products, including several new long acting injectables. Many of Pharmathen's products are now on the World Health Organization's 'List of Essential Medicines,' including Clopidogrel, Ondansetron, and Meropenem.
In 2023, Pharmathen joined the UN Global Compact and achieved EcoVadis Bronze. The company fostered its talent-development program by actioning feedback received during employee engagement surveys. This included enhancing health and safety training and enrolling more employees in Pharmathen's Employee Engagement Program. This program improves talent retention and aligns monetary incentives for all stakeholders involved in the investment. In 2023, Pharmathen also received a 'Business Extroversion' Award for playing a major role in supporting the Greek economy.

Partners Group corporate sustainability report is available at:
https://www.partnersgroup.com/en/about-us/our-sustainability

Pantheon Ventures

- Private equity manager, Pantheon Ventures, provided its annual ESG and Corporate Responsibility Report. The report included details of how Pantheon ensures underlying fund managers integrate ESG considerations into their investment process. Pantheon have been carrying out their own ESG analysis of their fund managers since 2015 and in 2018 they incorporated climate change risk questions into their investment due diligence for primary fund investments. All managers are now subject to an in-depth risk assessment that covers a range of questions including:
  - Do you have a formal approach to integrating ESG factors within your investment process?
  - Have you signed the UN PRI or adopted any other ESG-related standards?
  - Does your investment process include monitoring climate change-related regulation?
  - How do you engage with portfolio companies on ESG issues?

  Based on responses to these questions, each manager is assigned a rating ranging from:

  - Green – good ESG integration, clear reporting, UNPRI membership
  - Amber – areas for improvement, e.g., ESG not formally integrated into investment process
  - Red – significant gap with good practice.

  In relation to the environmental impact of underlying portfolios, Pantheon appointed RepRisk to provide ESG data on existing portfolios – Pantheon now get live reports and news on ESG issues affecting more than 7,000 portfolio companies, with hundreds of "incidents" logged each year to enable them to examine cases of specific interest in more detail and intervene with the fund manager where necessary. Pantheon built on this by embedding RepRisk into their due diligence processes for co-investment programs, and in a targeted way across secondary investment programs and since 2021 they have incorporated the Sustainability Accounting Standards Board (SASB) Materiality Map into co-investment processes.

The Pantheon sustainability report is available at: https://www.pantheon.com/investing-sustainably/

Alcentra

- Private debt manager, Alcentra, believes that ESG risk factors will increasingly determine the fate of the companies to whom they lend: which companies will thrive, which will struggle and which will disappear. Credit markets have lagged larger public markets on Responsible Investing matters, not least as they relate to data and disclosure. However, it is essential that they catch up.

  Alcentra's RI process includes several proprietary and interdependent tools which aim to enable greater accuracy and consistency of ESG risk assessments. The ESG Risk Framework assesses companies on more than 20 ESG risk factors across Climate Change, Environmental, Social and Governance pillars, and includes a Climate Change Risk Tool, which leverages external data to benchmark issuers based on their greenhouse gas (GHG) emissions and climate risk profile. Engagement is the common denominator in all Alcentra's ESG risk assessments. They continuously engage with portfolio companies and other key stakeholders to ensure they understand the exposure to material ESG risks.

  As part of the ongoing commitment to further integrate ESG into their investing practices, Alcentra have been exploring the incorporation of ESG incentive mechanisms into loan documentation. In 2021, Alcentra completed the first transaction of this kind with existing portfolio company, the Netherlands based international digital agency **Dept**, backed by The Carlyle Group. Alcentra have set three criteria relating to ESG advancement, which if achieved in total, will trigger an interest rate reduction. The criteria relate to the following:

  - Obtaining and maintaining a B Corporation certification, which is provided by an independent organisation assessing social and environmental performance.
  - Focussing on gender diversity by ensuring a balanced ratio of female to male employees and.
  - Consistently achieving a high employee satisfaction rate as evidenced through a quarterly employee satisfaction survey.

  Alcentra continue to evaluate the application of ESG incentive mechanisms on a case-by-case basis in consultation with corporate management teams and shareholders. Alcentra are committed to capturing the authentic spirit of such mechanisms and are focussed on creating meaningful targets for borrowers and to avoid the perception of green/social washing, which is harmful to the industry's collective efforts.

Alcentra worked with a Laser treatment device manufacturer to introduce an ESG margin ratchet mechanism. The margin adjustment mechanism allows the borrower to reduce its interest rate burden, if predetermined KPIs are met. Alcentra introduced these incentives to encourage the business to adopt more sustainable and accountable business practices, as they believe the KPIs will

Investment Manager Engagements 2023

help create value and reduce credit risk. Alcentra will be monitoring the company's performance on the above metrics and require the company's Sustainability Report to be delivered within 30 days of the Annual Financial Statements, alongside relevant director sign-off.

Alcentra Investors Responsible Investment Policy is available at:

https://www.alcentra.com/about/responsible-investment/

Barings

- Private debt manager, Barings, integrates environmental, social, and governance (ESG) considerations into the investment process. Through fundamental research, Barings analysts and portfolio managers evaluate ESG factors, along with a range of other potential risks and opportunities, which may impact industries and companies. As part of this process, Barings assigns an ESG score between 1 (Excellent) to 5 (Unfavourable) to the issuers that captures both the current ESG performance relative to peers as well as the outlook, which rates the momentum of the entity's ESG efforts. Long-term knowledge of companies and sectors, as well as access to management, provides a superior level of analysis and a more robust methodology than relying solely on third party data. As the private debt and high yield markets are characterised by a lower level of disclosure on sustainability metrics when compared to equities or investment grade markets, Barings believes that collaborative engagement is critical to improving disclosure and changing behaviour.

  Barings reported engagement with a global industrial minerals and logistics company, based in the US. Following the review of the company's annual sustainability report, the Barings' team noticed that emissions reporting and disclosure around reduction targets trailed peers and identified the opportunity to engage with the company to better understand its approach to climate risk. In early Q1 2023, Barings emailed the Investor Relations department requesting more concrete examples of planned emission reduction efforts and targets. Following a call with Investor Relations, the company communicated that it was the end of year two of a three-year data gathering exercise that will serve as a baseline to set reduction targets from in the future. The Barings' team plans to follow up with the company later this year to understand progress on targets being set and published post 2023.

  Further detail of Baring's approach to active ownership and engagement is available at: https://www.barings.com/en-us/guest/strategies/private-credit

Oak Hill Advisors

- ESG integration is an integral component of private debt manager Oak Hill Advisors investment process and its approach to seeking long-term value creation. Oak Hill relies on a thorough due diligence process prior to making an investment as well as ongoing monitoring during the holding period, including engagement with borrowers and other stakeholders on material sustainability factors.

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Oak Hill focuses on the financially material ESG factors that underpin a company's creditworthiness, utilizing global frameworks such as the Sustainability Accounting Standards Boards (SASB) standards and GRESB standards to inform asset level materiality. Oak Hill has applied a credit lens to the SASB standards and the investment team utilizes this framework to inform underwriting the financially material ESG factors for each company in which it invests. Primary determinants of their factor selection are where ESG factors manifest within the income statement and risk profile and their relevance to credit quality and the potential magnitude of impact. Additional determinants involve a relative comparison between material factors and associated financial implications as well as climate risk implications informed by the TCFD. Companies are evaluated and scored across each E, S and G on a 5-point scale based in part on industry specific financially material factors.

ICG Longbow

- ICG is committed to driving meaningful sustainability action throughout its investment activities. This is embedded in the approach to sustainability across ICG's real estate strategies, with robust assessment frameworks to identify and mitigate risk, as well as baseline and improve assets' sustainability performance. ICG recognise the opportunity for the built environment arising from the transition to net zero and are working to future-proof portfolios and capitalise on benefits associated with more sustainable buildings.
  ICG's Responsible Investing Policy provides an overarching framework for integrating sustainability factors into the investment process and is applicable to 100% of AUM. ICG's Real Estate Funds apply the Responsible Investing Policy to all investments by leveraging tools such as the Real Estate ESG Screening Checklist to identify potential risks and opportunities arising from ESG factors. In addition to ICG's Responsible Investing Policy, ICG's Real Estate Debt Fund VI (RED VI) applies ICG's Real Estate Green Loan Framework (GLF), which provides a systematic approach to incentivising the sustainable transition of existing and new commercial real estate via ICG's financing structures. A refurbishment saves approximately 60% of new embodied carbon emissions associated with the construction of a new building. ICG can make additional capital available to borrowers to replace legacy energy technologies with environmentally friendly alternatives with the goal of achieving Net Carbon Zero and EPC rating A. The investment team has actively engaged with borrowers and sponsors, typically at the time of investment, to identify value-add opportunities for improvement. (As at 31 March 2023, 66% of committed capital has been allocated to green loans within the Fund.)
  Pre-investment, all potential ICG real estate deals are evaluated against ICG's exclusion criteria, with an enhanced real estate specific ESG screening checklist implemented from January 2023. This includes both asset and borrower level assessment. Asset-level assessment is informed by external environmental due diligence processes and includes a detailed climate risk assessment, including both transition and physical risk. Borrowers must meet energy efficiency and carbon reduction criteria, which at a minimum requires EPC rating B or above for standing investments or primary energy demand thresholds for development and refurbishment assets. Where these metrics are not available, equivalent outperformance versus relevant benchmarks (e.g. NABERS2, REEB3) are also considered. Borrowers may then score 'points' against other material topics, each of which has specific criteria. The overall number of points determines qualification under the GLF and the performance tier. Once evaluated, pricing incentives are agreed alongside requirements for ongoing monitoring. Once a green loan has been held in the Fund for at least one calendar year, it will go through an

annual review process in which additional ESG data (e.g., utility consumption) is collected to verify the loan's progress on its sustainability commitments.

The investment team has actively engaged with borrowers and sponsors, typically at the time of investment, to identify value-add opportunities for improvement.

This has included:

- Supporting a borrower's commitment to acquire a 11,488 sqm development contract for a Hotel located at Nice Airport, France. The Nice Airport hotel has achieved an equivalent EPC B rating by demonstrating the property consumes 38% less energy than comparative building stock and exceeds construction requirements. The asset also demonstrates sustainable travel credentials and has conducted an employee travel survey. The borrower intends to procure 100% renewable electricity by Q4 2023 and will replace the gas boiler with a renewable alternative by 2025.

Environmental performance highlights

38%	100%	EPC B
Less energy consumed than similar buildings	Renewable energy to be procured by Q4 2023	Rating achieved

- A facility to finance a 48,000 sqm / Office /Leisure / Retail campus in Berlin. Seeking DGNB certification (German Sustainable Building Council) through additional EV charging points, energy efficient window systems, improvements to wastewater management and insulation, expanding cycle facilities and the creation of roof garden / roof terrace spaces. The Campus is on track to meet its commitments. The asset's energy performance is estimated to be EPC rating C, with energy efficiency improvement plans in place that will increase the rating to an EPC B. This includes replacing lighting with LEDs and procuring renewable energy. The asset is also on track to achieve DGNB Gold in Q3 2023 and will conduct a Carbon Risk Real Estate Monitor (CRREM) analysis with Agradblue in Q4 2023.

Environmental performance highlights

57%	58%	97%
Reduction in energy consumption	Reduction in carbon emissions	Of waste diverted from landfill

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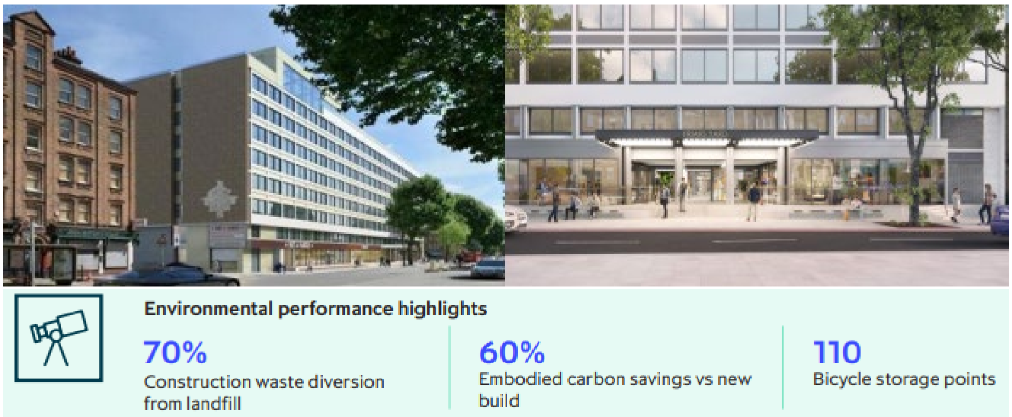
- Supporting a borrower to refinance an all-cash acquisition and fund the refurbishment of a Central London office building to a best-in-class ESG focused building. The project will oversee the transition of a dated office building to a modernised building with strong green credentials. The refurbishment of the property will save an estimated 60% in embodied carbon emissions associated with the construction of a new building. The scope of the office refurbishment has evolved to encompass the replacement of the gas boiler capital plant with a new electric air source heat pump solution. The asset aims to be Net Zero Carbon with an EPC A rating.



The ICG Responsible Investing Policy is available at:
https://www.icgam.com/sustainability/investing-responsibly/responsible-investing-policy/

Real Estate

DTZ Investors

- The World Green Building Council (WGBC) states that all buildings must be 'net zero carbon' by 2050 if the Paris Agreement is to be fulfilled. Following the UK government legislating its commitment to achieving net zero by 2050, Property manager, DTZ Investors, committed to achieving Net Zero for the Strathclyde Pension Fund direct portfolio operational carbon emissions by 2040 with all residual emissions offset.
  Some of the milestones in DTZ's Net Zero implementation plan include:
  - Transition all occupiers to purchase renewable electricity by 2030
  - Decarbonise 50% of assets (removing use of gas and other fossils fuels) for heating and hot water by 2030, 75% by 2035 and 100% by 2040
  - 50% reduction in carbon emission intensity by 2030 as required by Science Based Targets Initiative (SBTi) and in line with 1.5-degree pathway from a 2019 baseline.
  - By 2035 demonstrate decrease in embodied carbon in new developments and major refurbishments through changes in decision making and adoption of circular economy principles

DTZ has embedded a consistent and managed approach to the monitoring SPF's exposure to climate risk and put in place the required governance and reporting structures to report and disclose in 2023.

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To further support their commitment to net-zero, DTZ have become a signatory of the **Better Building Partnerships Climate Commitment**. As a signatory, DTZ Investors commit to publishing progress against the net-zero target, develop comprehensive climate resilience strategies and support the development of best practice within the sector. Commitments such as these are crucial to ensure that net-zero can be delivered at both a sector and global scale and further reinforces DTZ Investors' strategy to have an impact beyond the Four Walls of their real estate.

The key metric that underpins DTZ's net-zero target is the reduction of absolute emissions. This includes the emissions from the utilities under their control (scope 1 & 2) i.e. all landlord electricity and natural gas across the SPF portfolio, and the emissions associated to the tenants (scope 3) i.e. all tenant electricity and natural gas. The 2040 target has been modelled following an absolute reduction in emissions of 4.2% per year. This is in alignment with the **Science Based Target Initiative's** reduction pathway that will limit global warming to 1.5oC.

Metric	Year on Year Change (2022 vs 2019)	Reduction Target (2022 vs 2019)	RAG Status
Absolute Scope 1 & 2 Emissions Reduction	-33%	-12.6%	
Absolute Scope 1 & 2 Emissions Intensity Reduction	-40%	-12.6%	
Absolute Scope 3 Emissions Reduction	-31%	-12.6%	
Absolute Scope 3 Emissions Intensity Reduction	-23%	-12.6%	

As shown above, DTZ are exceeding this target for the landlord (scope 1&2 emissions) with a 33% reduction in actual emissions vs 2019. It must be noted that the figures above are based on UK grid average emission factors and does not take into account that DTZI purchases all electricity via renewables. For tenant emissions, DTZ are again seeing a reduction of 31% against the 2019 target. It must also be noted that that the SPF portfolio was able to achieve a tenant data capture rate of 49% in 2022 and 36% in 2021. The remaining consumption and emissions were calculated based on industry averages.
To support the continued reduction in carbon emissions across the SPF portfolio, DTZ are focussing on the following items:

- The completion of net-zero/sustainability audits to identify key energy reduction initiatives, water efficiency measures and waste management opportunities across the portfolio.
- Engagement with occupiers to collect their utility data and encourage them to make reductions.
- Utilising tenant engagement and green clauses in new leases to push tenants to purchase renewable energy.
- Looking to remove gas boilers from 50% of assets by 2030 and 100% of assets by 2040.
- Generating renewable electricity at by installing on-site renewable generation systems.

A 2023 sustainability case study is the **Printworks** in Manchester, a landmark city centre leisure destination comprising 368,770 sq. ft over four floors. An ESG Project Manager was appointed in 2023 to co-ordinate the overall MEES and Net Zero strategy. Progress continues to be made toward MEES objectives with 61% of units rated EPC A-B with the remaining units rated EPC C-D. The near-term intention is to implement PV panels on the roof space to reduce electrical consumption in the common parts.

DTZ also provided the results from the 2023 **Global Real Estate Sustainability Benchmark (GRESB)** annual assessment for the SPF portfolio. The SPF portfolio obtained a score of 77/100

Investment Manager Engagements 2023

(30/30 for the Management module and 47/70 for the Performance module) and 3 Green Stars. DTZ will aim to build on this 7-mark improvement in the 2024 submission, remaining above the peer average and maintain the 3-star rating.
DTZ Investors Responsible Investment Policy is available at:

https://www.dtzinvestors.com/en/about-us/responsible-investment/

Infrastructure

J.P. Morgan Infrastructure Investments Fund

- Infrastructure manager JP Morgan provides an annual Sustainability Report for the Infrastructure Investments Fund (IIF). The report discusses the importance of ESG implementation and provides an overview of how ESG is integrated at the Fund-level and throughout the portfolio and sets out specific examples of how IIF portfolio companies are contributing to ESG initiatives including in respect of climate, stakeholder and community engagement, diversity, inclusion, health and safety. Key takeaways from the 2023 report include:
    - Over 22% of the fund invested in renewable power generation.
    - 10.1 GW of renewable energy capacity - enough to power over 4 million homes.
    - Over 5 million tonnes of GHC emissions avoided in 2023.
    - 4% reduction in NAV carbon emissions intensity.
    - Clean water and wastewater projects serving over 3 million people.
    - Over 12,000 people employed in local communities by IIF portfolio companies.
    - Over 1,100 new jobs created in 2023.
    - Over 35,000 volunteer hours from IIF portfolio companies and over USD 5m in charitable donations and sponsorship.
    - 5 stars and score of 95 for direct infrastructure in the 2023 PRI survey.

JP Morgan also provided a report on the Infrastructure Investments Fund (IIF) results from the 2023 **Global Real Estate Sustainability Benchmark (GRESB)** annual infrastructure assessment.

GRESB assesses ESG performance at the asset level for infrastructure asset operators, fund managers and investors that invest directly in infrastructure. The Assessment offers high-quality ESG data and advanced analytical tools to benchmark ESG performance, identify areas for improvement and engage with companies.

Key takeaways from the report include:

- IIF ranked 31 out of 119 (2002 - 43 out of 117) Infrastructure Funds in GRESB score.
- IIF received 4 stars and a score of 93 (2022 – score of 89).
- 13 IIF portfolio companies received a score of 90 or above.
- Sonnedix scored 100 and ranked number one (out of 687 assets) in all of GRESB.

In addition to benchmarking performance against peers, IIF uses the GRESB assessment as a tool to formally engage with each portfolio company twice a year and serve as a guide for continuous improvement for material ESG drivers as well as monitoring and preparing for future ESG trends.

Appendix B

Sustainalytics Engagement 2023

Responsible investment engagement services use the influence provided through stewardship of clients' combined holdings to encourage investee companies to enhance their business performance by adopting better environmental, social, and corporate governance (ESG) practices.

Material Risk Engagement (MRE)

Developed as an engagement overlay to Sustainalytics' flagship ESG Risk Ratings, Material Risk Engagement (MRE) engages with high-risk companies on the material ESG issues with the greatest levels of unmanaged risks. The purpose is to protect and develop long-term value in portfolio companies. MRE aims to engage with high- and severe-risk companies ranked in the bottom half of their industry as defined by the ESG Risk Ratings. The focus is on collaborative and constructive engagement that helps companies better identify, understand and manage these ESG risks.

Since the beginning of the MRE programme in March 2020, Sustainalytics have in engaged with 573 companies in total with 410 companies engaged during 2023. During 2023, the MRE team conducted 233 meetings and exchanged 1,478 emails/phone calls.

Thirty engagements were resolved in 2023, the highest annual number ever. An engagement dialogue is considered resolved when a company's ESG Risk Rating score improves to Medium ESG Risk Rating category.

In addition to resolved engagements, MRE recorded 354 positive developments in relation to engagement objectives and suggested actions, which is a record-high and 15% better than 2022. By the end of 2022, Sustainalytics implemented the milestone structure, where they track progress over five milestones towards the end goal of moving the companies into the medium-risk category. During 2023, they collectively recorded 221 milestones achieved.

Sustainalytics provide a wealth of information in their 2023 MRE Annual Report, the following summaries as reported to SPF provide only a limited snapshot of the activity undertaken in the year.

- The engagement focus at the UK based Aerospace and Defence company **BAE Systems PLC**, was Product Governance, Carbon in Products and Services and Data Privacy and Security. In the latest ESG Risk Rating assessment, BAE Systems improved its ESG risk management score to below 28 points, bringing it into the medium risk category. The positive developments included:
    - In its 2022 annual disclosure, BAE Systems formally recognized ESG as important in its long-term financial sustainability by introducing an ESG component to it long-term incentive plan with a 10% weight.
    - The company's website explains that product safety is assessed as part of the Operational Assurance Statement, which is a key biannual governance process owned by the Internal Audit function. As part of this process, relevant incidents undergo appropriate independent investigations.
    - In its 2022 annual disclosure, BAE Systems provided information on its cyber resilience infrastructure, including how its Security Operations Centres in the UK and the US perform continual monitoring of the core networks. The company explained the application of the Cyber Incident Response plan in the event of a cyber incident, how it feeds into the Group's crisis management system, and regular testing of the procedures across the business and up to the Executive Committee.

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- In its 2022 annual disclosure, BAE Systems sharpened its climate disclosure providing investors with a clearer and a more focused overview of its net zero roadmap, including reduction levers and activities with time horizons, progress made in 2022, and pipeline. In addition, the issuer improved the quality and comprehensiveness of its TCFD reporting.

- US Electric Utility, **FirstEnergy Corp.**, was engaged on Carbon in Own Operations, Business Ethics and Occupational Health and Safety. In the latest update of the ESG Risk Rating, FirstEnergy has improved its ESG risk management score by more than 3.8 points, bringing it into the medium risk category. The positive developments included:

  - FirstEnergy disclosed progress against the company's GHG emission reduction and carbon neutrality goals, including updates for its plan to transition away from coal and its investments in clean energy transition initiatives such as $10B from 2021-2025 to support a more resilient electric grid.
  - In its 2021 Corporate Responsibility Report, FirstEnergy disclosed details of its Contractor Safety programme including information about contractor pre-qualification, contractor safety requirements, contractor oversight and evaluation of onsite safety performance.
  - To understand the extent and locations of biologically critical areas, FirstEnergy conducted a biodiversity exposure assessment of its fee-owned lands and rights-of-way. FirstEnergy does not operate within World Heritage sites. It does, however, maintain limited critical infrastructure within classified protected areas designated by the International Union for the Conservation of Nature (IUCN) and Key Biodiversity Areas. The company has set a goal to create 225 acres of biodiverse pollinator habitats by 2025 by planting seed mix in its transmission rights-of-way.

- The engagement focus at Japanese auto manufacturer **Nissan Motor** was Product Governance, Carbon in Own Operations and Corporate Governance. In the latest ESG Risk Rating update, Nissan Motor has improved its ESG risk management score by 13.6 points, bringing it into the medium risk category The positive developments at Nissan included:

  - Nissan has developed an integrated materiality analysis covering the full scale of ESG. This has led to a more consistent and integrated ESG risk management structure and a broad framework for performance management.
  - Nissan has integrated two ESG metrics in the long-term incentive plan carrying a total weight of 10%. Product quality also carries a 15% weight in executive variable pay. This is building accountability for ESG in the top management.
  - Nissan has started to report product recalls in the 2021 ESG report, which is giving investors insight to an important cost and potential reputational and liability risk.

To develop a better understanding of the impact of the engagement within the **Material Risk Engagement** programme, all MRE dialogues are mapped to the 17 **UN Sustainable Development Goals** (SDGs). The mapping refers to the focus and objective(s) of the engagement. In 2023, more than 300 of the 354 positive developments contribute to SDG 16 Peace, Justice and Strong Institutions. The second-most frequent impact on the SDGs is related with SDG 13 Climate Action.

Sustainalytics Engagement 2023

1 No Poverty	1%	10 Reduced Inequality	2%
2 Zero Hunger	1%	11 Sustainable Cities and Communities	21%
3 Good Health and Well-Being	13%	12 Responsible Consumption and Production	44%
4 Quality Education	0%	13 Climate Action	61%
5 Gender Equality	4%	14 Life Below Water	1%
6 Clean Water and Sanitation	6%	15 Life on Land	5%
7 Affordable and Clean Energy	19%	16 Peace and Justice, Strong Institutions	60%
8 Decent Work and Economic Growth	21%	17 Partnerships to Achieve the Goal	3%
9 Industry, Innovation and Infrastructure	14%		

https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/material-risk-engagement

Global Standards Engagement (Norms based)

Developed as an engagement overlap to Sustainalytics' Global Standards Screening, **Global Standards Engagement** is an incident-driven service where Sustainalytics engage alongside clients with companies that severely or systematically violate the Global Compact. The engagement encourages companies to resolve the incident in a way that would enhance its future ESG performance and risk management to avoid similar controversies in the future.

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The EU Action Plan and similar initiatives are placing a renewed emphasis on the importance of ensuring portfolio companies comply with internationally recognized norms and standards, such as the United Nations' Global Compact Principles, ILO Conventions and the OECD Guidelines for Multinationals.

During 2023, the Global Standards Engagement team worked on 171 engagements and closed the year with 142. 15 engagements were opened during the year, 9 were successfully resolved and 73 milestones were reached. To achieve this, more than 2,430 emails and phone calls were exchanged and 183 meetings conducted. For nine engagements, Sustainalytics prepared and sent collaborative investor letters. Five engagements were assigned 'Disengage' status due to a lack of progress and response over a two-year period.

Apart from regular dialogue and conference calls with the companies, Sustainalytics also organized special events for clients to participate in that offered deep dives into content, in the form of webinars and in-person meetings. At the end of March, Sustainalytics organized an online seminar with **Vale**, attended by 21 investor clients and later in the year an online roundtable 'Culture in Mining: Why it's Important'. Sustainalytics also participated in panel discussions organized by institutional investors on the topic of the role of engagement in promoting human rights within investment practices and participated in the OECD Global Anti-Corruption & Integrity Forum in Paris.

In addition, the Global Standards Engagement team participated in several ESG initiatives and consultations, including guidance for corporate culture reporting in response to a UK Financial Conduct Authority request and input to the EU Taxonomy for technical screening criteria. One team member was appointed as a member of the GRI Banking Technical Committee in mid-2023 and is responsible for making recommendations to the GRI on how to enhance its guidance and standards for the global banking.

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers and Sustainalytics and aligns with Principle 3 of the Principles Responsible Investment – "We will seek appropriate disclosure on ESG issues by the entities in which we invest." The following summaries as reported to SPF provide only a limited snapshot of the activity undertaken in 2023.

- Sustainalytics reported efforts to engage with **Barrick Gold Corp.** regarding human rights violations related to its Porgera mine in Papua New Guinea (PNG) and its 84% owned North Mara mine in Tanzania. The Porgera mine is owned and operated by a joint venture between Barrick Niugini Ltd. (BNL), which holds a 49% interest, and PNG stakeholders (the Enga provincial government and local landowners), which hold 51%. BNL is owned 50% by Barrick and 50% by Zijin Mining Group (Zijin). At Porgera, between 2009-2017, Barrick faced multiple allegations of inadequate relocation of villagers and severe abuse by police and other security forces, including the use of excessive force against artisanal miners and local communities, forced evictions and sexual assault. The abuse, in some cases, led to injuries and deaths. In 2018, a report commissioned and funded by Barrick found a backlog of over 900 unaddressed human rights cases filed with the mine. In June 2020, due to legacy environmental and resettlement issues, the government of PNG declined to extend a mining lease for Porgera. Since then, operations have stopped, but the mine has been kept on care and maintenance. In March 2023, the company reported that it signed an agreement with the PNG government to resume operations "at the earliest opportunity". In May 2023, the media reported that activists from PNG joined global protests against Barrick over its decision to reopen the mine, claiming that the new agreement does not address a legacy of violence and environmental damage. Between 2011-2017, the North Mara mine operations were also linked to serious human rights abuses by security forces against local communities. The abuses included deaths and sexual assault. In 2020, 10 Tanzanians launched a legal claim in the British High Court against Barrick TZ (formerly Acacia Mining), a subsidiary that operated the North Mara mine and which was fully acquired by Barrick in 2019. The claimants allege that they were abused by security forces employed at the mine.

Barrick Gold should align its policies and practices to international human rights norms, with regards to security and human rights and community relations. The company must provide information on how the Voluntary Principles on Security and Human Rights have been implemented and communicated at North Mara mine. Barrick should use its leverage with the Tanzanian government to promote that public forces respect and protect human rights.

- Sustainalytics reported efforts to engage with **TotalEnergies SE** regarding human rights and environmental impacts. TotalEnergies SE (Total) is the major shareholder in two oil and gas projects in East Africa that have been the subject of controversy over social and environmental concerns. Total's Tilenga and East African Crude Oil Pipeline (EACOP) projects are both part of Uganda's Lake Albert Development Project, which aims to develop the oil and gas resources of the Lake Albert area. The Tilenga project involves drilling 419 wells in Uganda, some of which are in a national park, while the EACOP project will transport crude oil across Tanzania to the Indian Ocean through the world's longest heated pipeline. The projects have faced significant opposition from activist groups, which claim that Total's land acquisition programmes will displace local communities and affect their livelihoods and have raised concerns about human rights violations and fair compensation. In July 2023, Human Rights Watch (HRW), an international NGO, published a report stating that the projects have caused the loss of land and livelihoods for local communities. The report is based on over 90 interviews conducted by HRW in early 2023, including with 75 displaced families in five of the affected districts of Uganda. The controversy over the projects led to a landmark lawsuit filed by six NGOs against Total in 2019 in Paris, based on France's duty of vigilance law, which requires companies to prevent serious violations of human rights, health, safety, and the environment in their foreign operations. Several governments, international organizations and banks have expressed concerns about Total's involvement in the EACOP project, and some banks have withdrawn their funding primarily due to climate concerns. Total has maintained that it is taking necessary mitigation measures and compensating eligible local communities. The company began commercial drilling of Tilenga in July 2023 and plans to start production in 2025.
  The company should conduct human rights due diligence and engage with stakeholders constructively to eliminate or mitigate land and livelihood loss, provide remedy where required, and to ensure that the project has social license. The company should conduct environmental and social impact assessments across the development route, acting on all recommendations and to international best practice.

- Sustainalytics reported ongoing engagement with Swiss bank **UBS Group** regarding multiple business ethics-related controversies over the past decade. Credit Suisse Group (CS), which was acquired by UBS Group in June 2023, pleaded guilty in a tax evasion case in 2014 and paid USD 2.8 bn to several US regulators, has remained under regulatory scrutiny for market manipulation, money laundering, bribery, insufficient due diligence and fraud. In September 2018, the Swiss Financial Market Supervisory Authority (FINMA) identified deficiencies in CS's anti-money laundering process and appointed an independent third party to monitor the

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implementation of new measures aimed at strengthening its compliance process. In December 2020, the US Federal Reserve ordered CS to improve its anti-money laundering policies and to create a plan to improve its monitoring of improper activities. In addition, CS employees engaged in a USD 2 bn debt scandal in Mozambique. US prosecutors stated that, between 2013 and 2016, Mozambican state-owned companies borrowed more than USD 2 bn through loans guaranteed by the government and arranged by CS and two other banks. Three now-former CS employees have pleaded guilty to receiving bribes to arrange loans and laundering money from illegal activities. In October 2021, CS was fined USD 475 mn by US and UK regulators for deceiving investors. The bank further agreed to forgive USD 200mn of Mozambique's outstanding debt. Separately, in March 2021, CS came under scrutiny for its business relationship with corporate clients, Greensill Capital and Archegos Capital, both of which collapsed. There are ongoing investigations into the bank's relationship with the firms. In June 2022, CS was fined USD 22mn for having lax controls that allowed a drug ring to launder money through the bank. Furthermore, in October 2022, CS agreed to pay USD 234 mn to settle a French criminal probe into allegations that the bank helped clients hide undeclared funds between 2005 and 2012.

UBS should implement a robust risk management system, have accountable risk governance, drive improvements in risk culture and have a strong compliance function company-wide, including across its subsidiaries. UBS should also establish a robust AML programme.

Sustainalytics reported that they successfully ended 9 engagements and archived 10 cases in 2023. Examples of resolved cases include:

- Following several controversies relating to product quality and safety, Sustainalytics engaged with US based medical technologies company **Stryker** to ask that the company take appropriate actions to responsibly address the negative impacts of its products. Specifically, Sustainalytics engaged with Stryker to ensure that the company continued to improve the quality and safety of its devices and to improve the disclosure of all product-related data to ensure that relevant information is communicated to the public. As a result of four years of engagement, the company has shown considerable improvements in the level of meaningful disclosure, culminating in a dedicated quality website. While the company responded to queries with strong technical responses, it also provided additional assurances that its quality system was effective through compliance and certification with international standards (ISO). The effectiveness of the company's refreshed approach to quality is seen through reduced numbers of US Food and Drug Administration interventions. Considering improvements in product quality and safety management and the lack of any new severe product quality and safety issues over the past few years, Sustainalytics decided to resolve the case.

- **Johnson & Johnson** had been involved in repeated issues related to the quality and safety risks of several of its medical devices, medicines, and other products. Sustainalytics engaged with the company to ensure that the lessons learned from the numerous product quality issues have been incorporated into its protocols and procedures to minimize the risk of future litigation. Since engagement began, more effective quality control can be evidenced through reduced FDA activity against the company and subsequent product recalls. In addition, the company has mostly resolved its product controversies - for example, the decision to discontinue talc-based products eliminates any potential future issues relating to its safe use. Finally, the company now favours regular internal audits to monitor the effectiveness of its quality management system, complemented with external regulator-led audits. Considering

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improvements in product quality and safety management and a lack of any new severe product quality and safety issues over the past few years, Sustainalytics decided to resolve the case.

- Financial services company **AMP Limited** has faced scrutiny from Australian authorities over its business ethics practices, with accountability reaching the board and executive levels. Sustainalytics engaged with the objective of ensuring that robust policies and internal controls addressing product governance and business ethics were implemented, universally applied, and, where appropriate, disclosed. Since initial engagement, effective improvements to responsible business conduct have been evidenced by the bank sustainably embedding its compliance and cultural transformation programmes. AMP has also implemented the Remediation Programme required by the Australian Royal Commission by fully compensating clients affected by service misconduct. The company has embraced the need for change and has taken significant action to develop a new risk governance and compliance system to ensure sustained improvements to risk culture within the organization. Finally, AMP has improved its financial regulatory reporting and disclosures on its risk management, ethics and compliance and, over the last three years, AMP has not been complicit in any financial misconduct and business ethics incidents. As a result of the improvements made by the company, Sustainalytics have deemed the engagement resolved.

All **Global Standards Engagement** dialogues are mapped to the 17 **UN Sustainable Development Goals** (SDGs). In 2023, engagements in the program mapped proportionately higher to SDG 16 Peace, Justice and Strong Institutions.

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1 No Poverty	6%	10 Reduced Inequality	12%
2 Zero Hunger	4%	11 Sustainable Cities and Communities	6%
3 Good Health and Well-Being	22%	12 Responsible Consumption and Production	18%
4 Quality Education	2%	13 Climate Action	5%
5 Gender Equality	3%	14 Life Below Water	4%
6 Clean Water and Sanitation	4%	15 Life on Land	13%
7 Affordable and Clean Energy	0%	16 Peace and Justice, Strong Institutions	43%
8 Decent Work and Economic Growth	22%	17 Partnerships to Achieve the Goal	0%
9 Industry, Innovation and Infrastructure	5%		

https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/global-standards-engagement

Thematic Engagement

Thematic Engagement services allow investors to align their interests in addressing specific issues with their engagement activities. The Thematic Engagement philosophy centres on systemic change and has collaboration, root causes and best practice sharing at its core. The dialogues are aimed at

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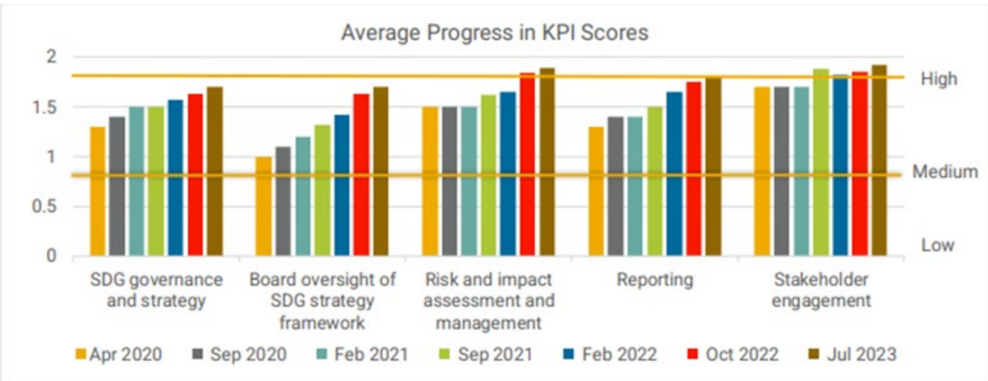
improving engaged companies' (proactive) risk and impact management, including the related disclosure, as well as their resilience and strategic positioning. At the same time, through parallel engagement activities, the intended impact extends beyond targeted companies. The themes strive for creating positive change on company, sector, system and issue level. SPF is a subscriber and active supporter of the following Sustainalytics thematics: **Responsible Cleantech, Modern Slavery, The Governance of Sustainable Development Goals (SDGs), Climate Change - Sustainable Forests and Finance, Feeding the Future.**

- **The Governance of Sustainable Development Goals (SDGs)** focuses on encouraging companies to define meaningful SDG strategies that align with their business plans and encouraging companies to seek out opportunities that produce positive outcomes in line with the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. The goal is to ensure that the companies' decision making considers SDG impacts, guides culture, maintains their license to operate, and is geared towards achieving concrete impacts by turning SDG-related goals into competitive advantages.
  The sixth biannual report in the programme, covering the period from October 2022 to June 2023, summarizes conversations with the companies and outlines their progress against the key performance indicators (KPIs) as companies move towards the change objective. The report also consists of an update on recent developments in the field, a summary of dialogue, and individual companies' summaries. It lastly presents current scoring on the KPIs of all companies and sectors.
  All companies in the Governance of the SDGs engagement program have been responsive. Since the publication of the October 2022 biannual report, Sustainalytics exchanged 225 emails and 14% of these emails included substantial information. Companies have been open to meetings and discussing their governance of the SDGs. Sustainalytics have met with half of the companies since October 2022: BBVA, BT Group, Burberry, Deutsche Börse, Estée Lauder Companies, Goldman Sachs, Henkel, HSBC, KPN, LVMH, and Wells Fargo. In two cases, a board chair (or a corporate secretary) took part, and in seven a head of sustainability. This shows that the Sustainable Development Goals are high on companies' agendas and reaches top executives and the board. 90% of the companies in the programme demonstrate good or excellent progress, and all of them have achieved Milestone 3 or 4.



  The KPI's illustrate the steady progress towards the programme's goals across all sectors as companies' average performance rose from medium to high. Sustainalytics determine that most companies in the programme now exhibit satisfactory governance of SDGs. However, the purpose of this engagement is also to produce positive outcomes in line with the 2030 Agenda, contributing to a more stable, long-term operating environment for business. Therefore, while this engagement draws to a close, there are still seven years to go before the 2030 Agenda deadline and a lot of work to do to reach its goals. Sustainalytics will

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summarize lessons learned and identify best practices and areas for further development and present them during the closing roundtable and the final report. They will inform their next new Thematic Stewardship Programme - Sustainability and Good Governance starting in 2024. Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-governance-of-sdgs

- **Responsible Cleantech** is a three-year engagement aiming to strengthen target companies' strategic management of environmental and social considerations related to the processes around cleantech products.
  Just like the products it aims to replace or make more efficient, cleantech requires space and natural resources. Companies have a responsibility to respect local communities' human rights and consider the environmental impacts in and around sites where raw materials are sourced, where products are made, and/or where renewable energy is generated. Similarly, the cleantech supply chain relies on human resources. The labour rights of workers in mines and factories need to be respected, including healthy and safe working conditions, freedom of association and collective bargaining, and either avoidance or mitigation of child and forced labour. Furthermore, the recycling of products such as solar photovoltaic (PV) systems, wind turbines and vehicle batteries has received less attention than the benefits of these technologies. It is advantageous to promote circular business models for recovering materials when products reach the end of their life cycle. These products are truly sustainable only if all stages in the value chain are environmentally and socially sustainable. Sustainalytics' Responsible Cleantech engagement addresses both the environmental and social implications of the growth of selected cleantech domains—photovoltaic solar panels, wind turbines, battery electric vehicles and hydrogen—and aligns with multiple Sustainable Development Goals, namely:

The Responsible Cleantech thematic engagement program started with a baseline report in September 2020. The fifth biannual report accounts for the progress made between August 2022 and June 2023.

Throughout the engagement, Sustainalytics assesses the engaged companies on five key performance indicators (KPIs) that cover governance, operational management, supply chain management, circularity, and stakeholder engagement. A scoring scale from 0.00 up to 2.00 is used for this purpose. The chart below shows the average overall score per cleantech domain. The EV domain continues to lead and the hydrogen domain continues to lag relatively. The solar domain has been catching up with the wind domain.

This biannual report also features updated KPI assessments for all 19 engaged companies.

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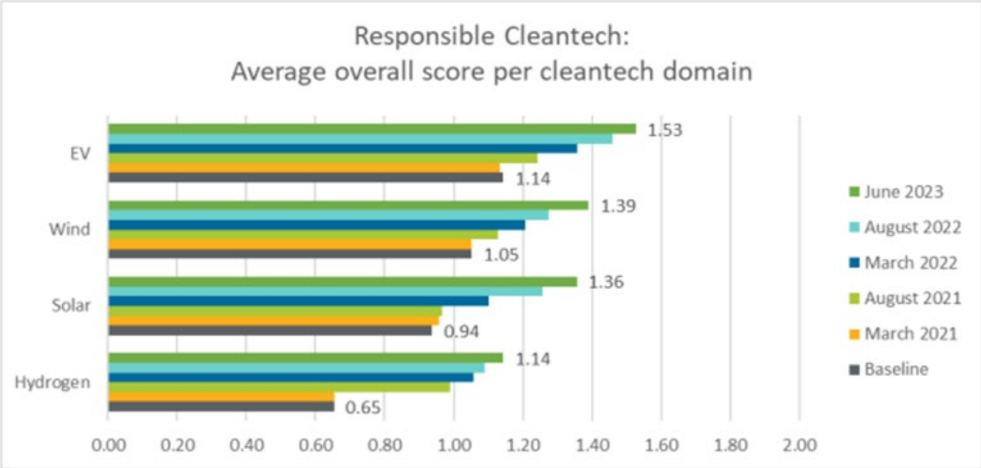

All score changes are positive and it has not been necessary to downgrade any company on any indicator. The overall scores of three companies managed to surpass the threshold from Medium to High. This means that 12 out of the 19 engaged companies now exhibit an overall score in the High range. The report also featured new engagement calls with all engaged companies.

Sustainalytics will now organize a round of concluding calls to consolidate the progress made during the programme and specify further steps for the companies. The Responsible Cleantech thematic engagement programme was designed to last three years. Sustainalytics will draft a concluding report in December 2023 and evaluate the collaborative experience with the investors. Further detail is available at:
https://connect.sustainalytics.com/thematic-engagement-responsible-cleantech

- **Modern Slavery** is a crisis that is both global and silent. It is global because modern slavery is present in every country, but it is also silent because victims often do not have a voice or are not being heard. The most recent figure on modern slavery, calculated in 2016 and estimated to be 40.3 million people, may well be an under-representation. Given the magnitude of the problem and concerns that businesses may be connected to modern slavery, there is an urgent need to ensure companies are not causing, contributing to, or otherwise directly linked to these violations. This is the expectation that the UN Guiding Principles on Business and Human Rights (UNGPs) sets out in its foundational principles on the corporate responsibility to respect human rights. Yet studies find that many businesses are not taking sufficient action to address these impacts. Investors may therefore be more exposed to the risks of modern slavery than they are currently aware.
  The modern slavery theme has been running for almost two years. Over the biannual period, which took place between September 2022 to February 2023, Sustainalytics held individual engagements with nine companies and hosted a roundtable, which eight construction firms joined. There are now sixteen companies in the theme (engagements with two further companies took place since the last report). The engagement is at different stages with individual companies and continues to bring to light insights, opportunities and learning. Modern slavery is a topic that does not easily lend itself to a candid dialogue owing to the sensitivities that need to be navigated. Regardless of geography or maturity, the subject has been challenging for all companies.
  The engagement has been able to influence companies or has brought to light valuable information about companies' operations/supply chains. Highlights of the most recent engagement include:

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- A European construction company informed Sustainalytics in November 2022 that it has been selected to join a human rights business initiative, in which best practices are shared and greater stakeholder dialogue takes place.
- Following the Sustainalytics modern slavery roundtable in December 2022, another European construction company requested to join the theme. An introductory meeting was held in January 2023 where the firm expressed it was interested to learn about modern slavery risks.
- An Asian construction company said in the engagement meeting in February 2023 that it wants to learn from investors and would consider requests for greater disclosure (for example on health and safety and procurement practices, in accordance with GRI recommendations).
- Another Asian construction company disclosed to Sustainalytics countries where it sources its wood and solar panels. More needs to be understood about these items, which the next engagements will seek to do.
- An Asian apparel company agreed to follow up with colleagues in its operations in Indonesia and suppliers in Taiwan about the risk of recruitment fees that may have been paid by migrant workers after Sustainalytics discussed concerns with the company.
- A North American retailer was keen to learn from Sustainalytics about how retailers are addressing the risks of forced labour. It recognizes more transparency and board oversight are expected of companies. Sustainalytics shared relevant resources with the company.

As this is now the final year of the theme, the engagement will continue to ask pertinent questions, share key research and good practice with companies and seek the change needed to reach the engagement goal. Sustainalytics will be exploring the role that Boards play in ensuring investor concerns are being taken seriously and push for in-person meetings where possible in to support a more effective dialogue. Further detail is available at:
https://connect.sustainalytics.com/thematic-engagement-modern-slavery

- **Climate Change - Sustainable Forests and Finance** thematic engagement addresses climate risk and advocate for reductions in direct and indirect emissions in the context of global forest systems. Building on insights gained from Sustainalytics' Climate Transition engagement (2018 to 2021), this theme targets companies throughout forestry-linked value chains to promote science-based emissions reduction strategies, transparent Climate-related disclosure and sustainable practices to mitigate impacts from climate change.
  There are 22 companies in the three sectors (financiers, mid-value chain companies, and end-of value chain companies) in this thematic engagement and most are active participants. In 2023, Sustainalytics conducted 35 engagement meetings (including 1 in-person meeting), 410 outgoing emails, 299 incoming emails, and joined 12 company events such as Annual General Meetings (AGM) and webinars. Throughout the engagement, Sustainalytics will assess engaged companies on 5 key performance indicators (KPIs) that cover: Disclosure and Governance; Strategy and Targets; Practical Mitigation and Forests; Physical Risk – Value Chain Management; and Natural Resource Management.
  Aggregately, companies continue to score the highest for KPI 1 focusing on disclosure and governance across the three targeted sectors. This is driven by more rigorous climate disclosure regulations across various jurisdictions including the UK, Japan, Hong Kong and Singapore. The US Securities and Exchange Commission (SEC) is also finalizing a Climate Disclosure Rule and many American companies have improved their disclosure and climate governance structure in anticipation.

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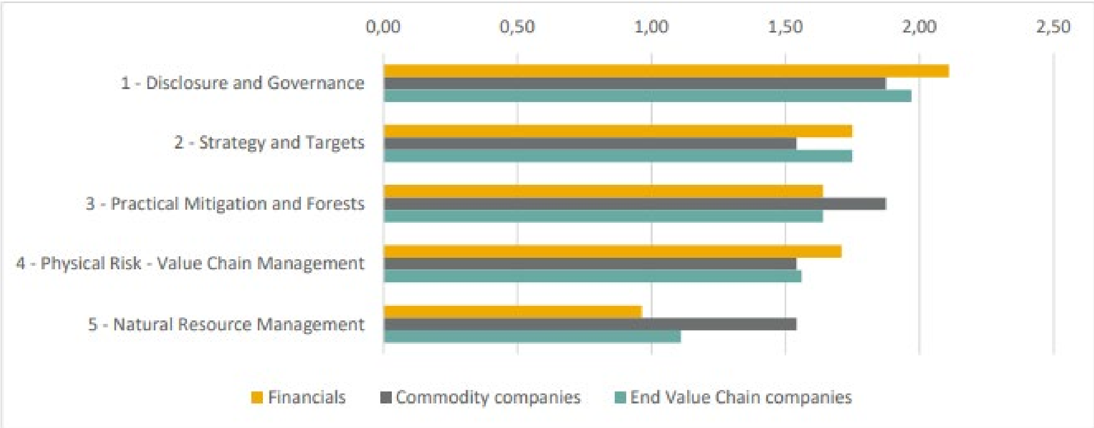

A challenging KPI for companies is KPI 5 regarding natural resource management. This is especially true for end value chain companies and financials because of their complex value chains and portfolios, respectively. Nevertheless, with the finalization of the Taskforce on Nature-related Financial Disclosures (TNFD) framework and the development of Science Based Targets Network (SBTN) guidelines, companies now have a better structures and tools to assess risk and manage nature topics, such as water, biodiversity, and land.
For KPI 2, on strategy and targets, six out of the seven banks engaged with have already joined net zero initiatives, so we continue seeing improvement in their sector coverage. A year after the release of the Science Based Targets initiative (SBTi) Forest, Land and Agriculture (FLAG) guidance, 14 of the companies engaged across soft commodity and end-value-chain sectors have started assessing how to adapt or renew their climate targets based on the new guidance, and the engagement dialogue will continue to monitor the progress.
For KPI 3 on practical mitigation and forests, the commodity companies perform the strongest as they usually have stronger forestry management mechanisms in place.
For KPI 4 focusing on physical risk, financiers have higher scores as most of them have analysed physical risk exposure across sectors and locations and the potential financial impacts.
Further detail is available at:
https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement

- **Feeding the Future** is a three-year engagement targeting approximately twenty companies in the food sector with the focus on how companies are transforming their business models to address the new realities for production and consumption. The objective of this engagement programme is to encourage food companies to embark on a transition towards more sustainable practices and develop holistic responses to the environmental challenges and contribute to a more sustainable trajectory for the future of food. The measures companies are expected to implement cover contingency planning (including science-based scenario analysis), responsible stewardship of land and other natural resources, eliminating food waste, aligning with shifting consumer trends and supporting a sector-wide transition to more sustainable business models.
Since the publication of the December 2022 biannual report, Sustainalytics has exchanged 203 emails, made 9 follow-up telephone calls and held 10 content-based and 2 introductory calls with engagement companies.
As the chart below illustrates, all four focus sectors now display an average KPI score of between 0.89 (packaged) and 1.05 (agriculture), placing them in the medium scoring band. The leading sectors, agriculture and agricultural chemicals, have similar average scores, as do the third and fourth ranked, packaged food and food retail. This small but discernible

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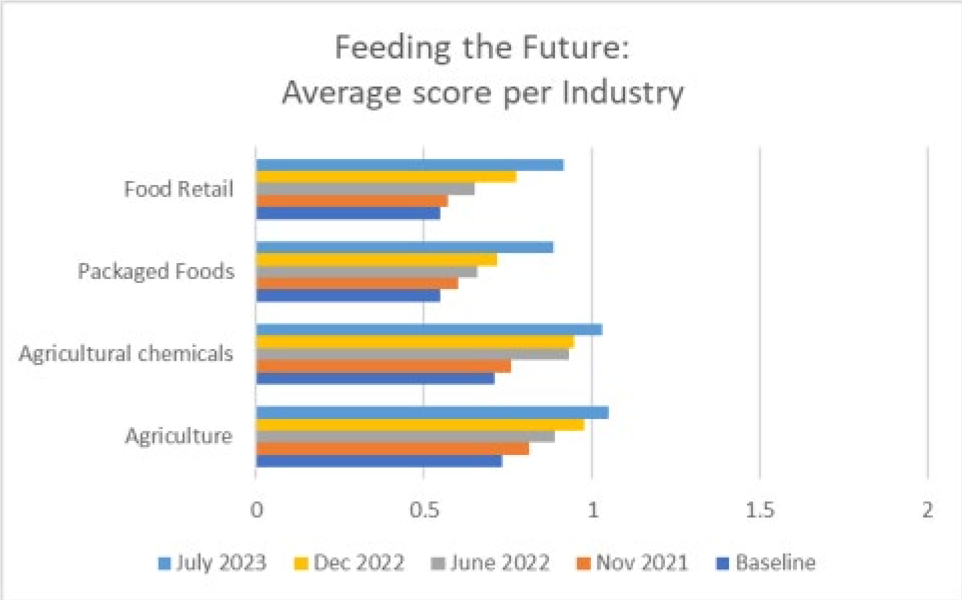
difference reflects the greater direct exposure that agricultural business have to most of the sustainability issues in the scope of this programme, such as climate change, soil health and water stewardship. While these issues clearly impact on the upstream sectors too, they can mitigate risk by diversifying their supply chains, at least when it comes to some commodities, and therefore may be marginally less incentivized to take decisive action.



Highlights of the most recent engagement report include:

- Most of the engagement companies have published sustainability reports in the first half of 2023, giving a rich seam of fresh information to tap into, augmented by direct dialogue with eleven companies.
- Climate change has once again emerged as a key area of focus for companies, not only on its own merits, but also because of its connection with other issues, such as soil health, water stewardship, forestry management and biodiversity.
- This is reflected in the way that companies are responding to the Taskforce on Climate-related Financial Disclosures (TCFD) and Taskforce on Nature-related Financial Disclosures (TNFD) frameworks. Some are participating in TNFD working groups to influence the development of this framework, but Sustainalytics are also hearing from companies that they are devoting more resources to TCFD, in part because they see it as a good rehearsal for TNFD disclosure.
- Many engagement companies have published emissions reduction targets (as well as measures to achieve them) and some have had their targets approved by the Science-Based Targets Initiative (SBTi).
- A key lever that companies are using to manage carbon emissions is to avoid deforestation linked to their own operations and/or supply chains. Indeed, companies are making the avoidance of deforestation a feature of their product branding.
- Companies at different stages of the food value chain are developing and applying digital systems to strengthen their environmental stewardship. For example, an agricultural chemical company has created a geospatial mapping system to help farmers detect and limit runoff of agricultural chemicals into watercourses.
- Sustainalytics have been encouraged by the progress that other companies are publicly disclosing on water stewardship. An agriculture business discloses processing

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water usage and plantations water usage, divided by segment, and highlights strategic initiatives and the impacts they have had on water usage and water pollution.

Looking ahead to the final year of the engagement programme, in established company dialogues, Sustainalytics will seek to achieve tangible progress towards the change objective of contributing to more sustainable food system, where possible with leverage of existing multi-stakeholder initiatives. This thematic engagement seeks to directly contribute to the Sustainable Development Goals. SDG 2 on Zero Hunger, SDG 6 on Clean Water and Sanitation, SDG 12 on Responsible Consumption and Production, SDG 13 on Climate Action, SDG 14 on Life Below Water and SDG 15 on Life on Land. It is indirectly connected to several others. Further detail is available at:

https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement

Appendix C

Collaborative Engagement – Activity During 2023

Examples of collaborative engagement activity are listed by initiative or organisation. The list provides only a limited snapshot of the activity undertaken in the year.

Institutional Investors Group on Climate Change (IIGCC)

- Ahead of the **COP28 UN Climate Change Conference** negotiations in Dubai the CEO of the **Institutional Investors Group on Climate Change (IIGCC)** wrote to H.E. Dr. Sultan Ahmed Al Jaber, COP28 President-Designate and UAE Special Envoy for Climate Change to present the investor perspective on climate negotiations and to urge ambitious climate action at COP28 in Dubai.

  The letter highlights that 'investors are uniquely placed to support the climate transition, although their ability to do so is in part predicated on there being a supportive and conducive political and regulatory environment.' Building on this, the letter highlights the vital role COP28 has in fostering a policy environment which is supportive and similarly ambitious to the investors who have set net zero pledges. Specifically, the letter emphasises the 'importance of COP28 setting out a global pathway to achieve emissions reductions, enhanced resilience, and finance flows that are aligned with climate neutrality objectives and climate resilient development.' To support this, the open letter highlights three key areas of focus:
  - Phasing out fossil fuels and speeding up global decarbonisation efforts: IIGCC calls on all Parties to align their national policies with the shared commitment to achieve the long-term goals of the Paris Agreement, including increasing renewable energy adoption, setting more ambitious energy efficiency targets, and accelerating the transition towards energy systems free of unabated fossil fuels.
  - Building resilience and reducing vulnerability: IIGCC highlights the importance of COP28 achieving considerable progress on enhanced adaptation action including by providing clarity on the Paris Agreement's Global Goal on Adaptation.
  - Scaling up, accelerating and aligning finance for climate action: IIGCC calls on COP28 to support reform of the global financial architecture to address finance gaps and de-risk projects, as well as to support progress on a New Collective Quantified Goal on Climate Finance to mobilise public and private capital for a net zero and climate-resilient future.

  The letter is available at: https://www.iigcc.org/insights/iigcc-ceo-writes-to-cop-28-president

CDP

- SPF joined with 273 other financial institutions to back the 2023 **CDP Science-Based Targets Campaign**, where investors request large, high-emitting companies to set greenhouse gas emission reduction targets following guidance from the **Science-Based Targets initiative (SBTi)**. SBTi, which is a collaboration between CDP, World Resources Institute, the WWF, and the UN Global Compact, aims to define and promote best practice in greenhouse gas emissions reduction target-setting. The 2022 CDP Science-Based Targets (SBT) Campaign included 318 financial institutions and multinational firms with $37 trillion in assets and called on over 1,060 of the world's highest-impact businesses to set emissions goals in line with the Paris agreement's 1.5°C goal. This marked a growth of 30% from the previous campaign, both in terms of the number of supporting organizations and their collective assets and purchasing power. The over 1,060 companies targeted in the campaign are critical for global efforts to limit global warming to 1.5°C. As a result of meaningful engagement through the campaign, 77 targeted companies joined the ranks of 5100+ SBTi companies committed to align their business with the Paris Agreement. The 2023 Campaign will call on 2100 of the most impactful companies globally to set science-based targets.

- SPF is an active supporter of the **CDP Non-Disclosure Campaign (NDC)**. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. CDP's NDC targets those companies that continually decline to disclose, as well as providing a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. The 2023 campaign was launched in April with a record 288 financial institutions from 31 countries, representing US$29 trillion in assets, signed up to this campaign and selected to engage 1,600+ companies on CDP disclosure. These companies represent over US$21 trillion in market capitalization and emit more than 4,200 megatonnes of carbon dioxide annually. The campaign has seen an average 33% year-on-year growth in participation from financial institutions since inception in 2017. This year's campaign also saw significant growth in the number of companies requested to disclose to CDP's water and forest questionnaires, with 8% of the companies targeted requested to report on their water-related impact, while 26% will be asked to disclose on forests.

  This year the Fund was selected to lead the initiative's water and forest disclosures engagement with two companies that had declined to disclose in the past. The Fund organised collaborative letters to Swedish food service company, **AAK AB.** and US based paints and coatings manufacturer, **PPG Industries, Inc.**, encouraging them to provide information by completing the CDP Water Security and Forests questionnaires.

  The Fund also co-signed letters on climate, water and forest disclosures to three companies: **NextEra Energy Inc., Newmont Corporation** and **Reliance Industries**. Further details are available on the CDP website: https://www.cdp.net/en

- The **CDP Non-Disclosure Campaign** (NDC) published its 2023 report. Highlights from the report include:
  - Overall, 317 companies disclosed after engagement by Financial Institutions. This breaks down to 221 (19.5%) companies disclosing on climate change, 58 (14%) on forests, and 66 (14.3%) on water security.
  - Companies were twice as likely to disclose after being targeted by Financial Institutions through the campaign.
  - Signatories had the biggest impact on encouraging companies to disclose through CDP's forests questionnaire, compared to climate change and water. Companies targeted in the NDC were 6.8 times more likely to disclose on forests.
  - Financial institutions had the biggest impact with companies in the biotech, health care, and pharma sectors, on water disclosure. The response rate for these sectors was 7.6 times higher than that of the control group. This highlights that high-impact sectors can react quickly to investor pressure.
  - Companies in Europe and Asia (excluding Japan) engaged by FIs were three times more likely to disclose

  The full report is available on the CDP website: https://www.cdp.net/en

- In support of **CDP's Mandatory Plastic Data Disclosure Campaign,** the Fund co-signed an open letter to policymakers and the global community on the importance of addressing plastic pollution and the need for comprehensive plastic-related corporate disclosure.

Collaborative Engagement – Activity During 2023

Plastic pollution is detrimental to our global ecosystems, economies and communities. This CDP letter to global governments requests mandatory corporate disclosure of plastics data in the Global Plastics Treaty to level the playing field. 48 Financial Institutions with over US$3.5 trillion in assets under management and 37 global companies representing US$270 billion in global market capitalization have publicly endorsed this letter. By publicly supporting CDP's letter, these institutions and companies will send a powerful signal to policymakers and the global community regarding the vital role of corporate disclosure and action in tackling the plastic crisis. This letter follows an earlier CDP-led open letter to governments calling for mandatory corporate disclosure as part of the Global Plastics Treaty. The letter and list of current signatories is available at: https://www.cdp.net/en/plastics/corporate-open-letter-to-governments-on-plastics-crisis

Climate Action 100+

- **SPF** is an active supporter of **Climate Action 100+ (CA100+)** which is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. In June, CA100+, the world's largest investor-led engagement initiative on climate change, launched the second phase of its investor led climate action programme. The first phase of the CA100+ has seen notable successes in its engagement approach, such as 92% of focus companies now having some level of executive oversight, and 75% of companies committing to net zero by 2050. Building on this success of the first five years, the initiative has evolved its core goals, improved and expanded the ways investors can participate, and enhanced the investor engagement model. The new phase, running until 2030, intends to inspire a global scale up in active ownership, markedly shifting the focus from corporate climate-related disclosure to the implementation of climate transition plans. In consultation with signatories, the initiative has renewed its three goals, evolved the Net Zero Company Benchmark, enhanced the ways in which investors can participate including the lead investor terms of references, and made marginal updates to the focus list. Further detail is available at: https://www.climateaction100.org/

- In October **CA100+** released the latest round of its company assessments against its newly updated and more ambitious **Net Zero Company Benchmark**.
  The Disclosure Framework assessments show:
  - More companies are disclosing details on their net zero transition plans, but quantification of individual decarbonisation levers is lacking: 59% of focus companies assessed this year now identify actions needed to meet their GHG reduction targets, compared to 52% in October 2022. However, further progress is needed on quantifying the contribution of these actions to their GHG reduction goals, as well as on disclosures on the use of offsets and abatement technologies.
  - Companies are making steady progress on long- and medium-term target setting, but most of these targets are not sufficiently comprehensive or Paris aligned. 82% of focus companies have set long-term GHG reduction targets and 87% of focus companies have now set medium-term targets. However, only 37% of these long-term and 33% of medium-term targets also cover material Scope 3 emissions. In addition, while 30% of long-term GHG reduction targets can now be considered aligned with a 1.5°C trajectory, this is true for only 13% of medium-term targets.
  - New climate solutions disclosures show positive potential: Despite this being the first-year climate solutions metrics have been introduced, it is positive that approximately a third (29%) of focus companies disclose how much they invested in climate solutions in the past year and 32% specify the value of Capex they plan to allocate to climate solutions in the future. Examples of climate solutions include electric vehicles and

Collaborative Engagement – Activity During 2023

renewable energy (wind and solar). These results come at a crucial time, following the publication of the IEA's updated Net Zero Roadmap indicating that limiting global warming to 1.5°C remains possible due to the growth of clean energy technologies.

- The Disclosure Framework is assessed by the **Transition Pathway Initiative (TPI) Centre** in collaboration with data partners.

ShareAction

- In support of **ShareAction's Good Work investor coalition** the Fund co-signed a letter to the leading UK Supermarket **Sainsbury's**, regarding real Living Wage and workers' rights. All of Sainsbury's directly employed staff and security guards are paid the real Living Wage but investors asked the company for clarity on the distribution of Sainsbury's third-party contracted workforce, the proportion of each job type that are paid below the real Living Wage and the minimum hourly pay rate for each job type.
  The Fund supported similar letters in 2021 and 2022 to **Sainsbury's, Tesco, Morrisons, M&S, Aldi** and **Ocado**. Supermarkets are one of the largest employers of low paid workers in the UK – with 45% of supermarket worker's earning less than the real Living Wage. ShareAction's Good Work investor coalition have been engaging with supermarkets on the topic of the Living Wage since 2013 and over the last three years it has been a key focus sector. The coalition have raised the topic of the Living Wage through AGM questions, letters, meetings as well as hosting a sector roundtable earlier this year. Through this engagement we have seen some supermarkets make movement towards the Living Wage rates, but no supermarket has yet accredited. The letters argue that many low paid workers played a critical role in ensuring that society continues to function during the COVID-19 crisis at great personal risk and that paying a real Living Wage with basic rights and benefits are long overdue.
  The Good Work investor coalition represents 38 investors with over £4.6 in assets under management. Further detail is available at:https://shareaction.org/investor-initiatives/good-work-coalition

- In April, the Fund co-signed the **Investor statement: expectations of companies in 2023** in support of the ShareAction **Good Work** investor coalition. The statement was an outreach to 100 of the UK's largest listed employers to set out our expectations of companies to protect their lowest paid workers during the cost-of-living crisis. Backed by 14 investors including Aviva, NEST and Legal & General Investment Management the statement urged companies to:
  - Target pay awards where they will support low-paid workers, who are disproportionately impacted by the rising cost of living. Recognising this, companies should ensure that the balance of executive remuneration to that of the wider workforce is equitable and supports workers to manage inflationary pressures. As far as possible, lowest paid workers should receive pay rises that meet the current rate of inflation, as measured by CPI.
  - Show long-term commitment to paying at least the real Living Wage through accreditation as a Living Wage Employer. As well as guarantees for direct employees, we increasingly expect companies to ensure any Living Wage commitments are extended to on-site third-party contracted staff.
  - Provide secure work, through guaranteed working hours, accurate contracts and decent notice periods for shifts. Where relevant, we will encourage companies to

demonstrate their commitment through becoming an accredited Living Hours Employer.

The full statement and list of current signatories is available at: https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Good-Work-Coalition-Statement-on-Cost-of-Living-Final_2023-04-14-100043_jkrp.pdf

Local Authority Pension Fund Forum (LAPFF)

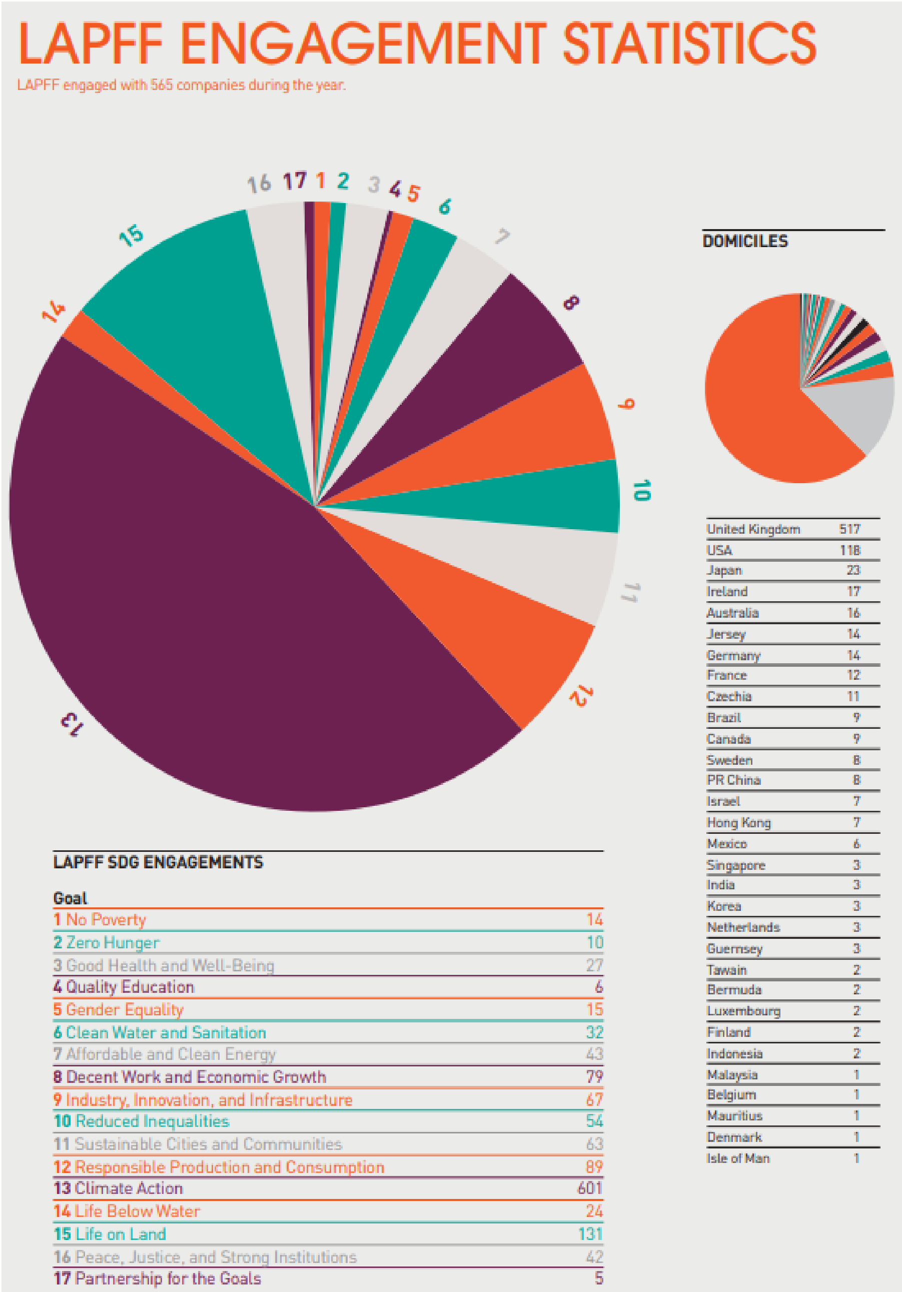
- LAPFF engagement activity in 2023 has been extensive and LAPFF continued to be at the vanguard of seeking accountability for ESG impacts from companies and better outcomes. Climate change continues to be the most pressing issue for the Forum to address. **SPF** participated in a range LAPFF meetings and events during 2023.
  Highlights from **LAPFF** engagement activity in 2023 include:
  - Engagement with **HSBC** to ensure the company continues to show leadership in climate and addresses the human rights concerns arising from the increasing integration of Hong Kong into mainland China.
  - LAPFF met with the **BP** CEO to better understand BP's decision to move down its 2030 reduction targets. LAPFF had a cordial meeting and gained some explanations of BP's thinking, with further research and engagement in this area to follow.
  - Engagement with **Anglo American** to obtain the company's views on its report from LAPFF's time in Brazil visiting communities affected by Anglo American's Minas Rio mine.
  - LAPFF met with **Kingfisher** to understand the company's approach to remuneration and employee engagement, particularly in the context of a cost-of-living crisis.
  - LAPFF met with representatives of **Bank Leumi** to encourage the company to undergo an independently led human rights impact assessment, and to better understand the company's approach to human rights in its financing decisions.
  - At the **Home Depot** AGM, LAPFF asked the company to undertake a mapping of its supply chain in higher-risk areas such as Xinjiang, and whether it would undertake an independently led human rights impact assessment on its PVC supply chain. The company provided a general response on its supply chain due diligence but did not commit to either of LAPFF's requests.
  - LAPFF met with **Next** to discuss its position in Myanmar and what it was doing in the context of human rights risk management and due diligence.
  - LAPFF signed on to a letter to **Toyota** organised by NYC Office of the Comptroller and Domini Impact Investments, which called on the company to align its strategy and lobbying activity to a 1.5-degree scenario.
  - LAPFF presented at a side event of the **OECD Forum on Responsible Supply Chains**. The aim of the presentation was to share LAPFF's learning from its visit to Brazil and, more broadly, its engagement with stakeholders affected by mining operations. It was also useful to engage with the other panellists to understand their work and perspectives better.
  - LAPFF engaged with **Volkswagen** (VW) and **Volvo Group** (trucks and HGVs) regarding human rights programmes and minerals supply chains.
  - LAPFF engaged with **WH Smith**, **Marks & Spencer**, **Argos** (which is owned by **Sainsbury's**) and **Whitbread** regarding statutory national minimum wage standards. In June, the Department of Business and Trade announced that an investigation had found several companies not adhering to wage floor requirements.

Collaborative Engagement – Activity During 2023

- LAPFF wrote to **Procter & Gamble** to understand its approach to biodiversity as Procter & Gamble was recently reported to have removed policy commitments not to buy wood pulp from degraded forests.
- LAPFF also wrote to **Nestlé** to discuss the company's plans for regenerative agriculture and how it contributes to the company's pathway to halve its greenhouse gas emissions by 2030 and reach net-zero by 2050.
- LAPFF engaged with **Shell** to help the company understand its role in the energy transition and act accordingly.
- LAPFF engaged with **Centrica** to understand how energy companies managed the regulatory and reputational risks around the cost-of-living crisis, including changes needed to support those on low incomes or in arrears.
- LAPFF continued its engagement with **National Grid** through the **CA100+** forum. One of LAPFF's main concerns is to ensure that the company's transition plan allows for a sufficiently speedy transition for the users of its grid.
- LAPFF met with the Chair of **Taylor Wimpey** to discuss the company's approach to climate change. Since LAPFF last met the company, Taylor Wimpey has produced a transition plan, which has emission targets covering scopes 1-3 emissions and with a net zero by 2045 commitment.
- LAPFF re-signed onto a **FAIRR** engagement focusing on working conditions at food producers, in North and South America. LAPFF also signed onto two new engagement streams, one examining antimicrobial resistance in the animal pharmaceutical industry and the other analysing quick service restaurant antibiotic policies, both with a focus on the concern about increasing global antimicrobial resistance.
- LAPFF joined calls hosted through **Asia Research and Engagement's Energy Transition Platform** which seeks to engage both financial companies and coal-exposed power companies. During the second quarter of 2023, LAPFF joined calls with **Mizuho Financial Group**, **China Construction Bank (CCB)**, and **Huaneng Power**.
- LAPFF signed onto a major new collaborative initiative **Nature Action 100**. The global investor-led engagement initiative led by Ceres and IIGCC seeks to reverse biodiversity loss and drive nature action. The initiative sent letters to 100 companies from eight key sectors systemically important in reversing nature loss. The letter supported by over 190 investors sets out the initiative's expectations.
- LAPFF signed onto the **CDP Science-Based Targets Campaign** for the third straight year. This campaign offers CDP investor signatories and Supply Chain members the opportunity to accelerate the adoption of science-based climate targets, by collaboratively engaging companies on this matter.
- LAPFF signed a letter to the **International Sustainability Standards Board (ISSB)** requesting that the body 'prioritise researching' human capital and human rights indicators in its work plan.
- LAPFF signed a letter organised by the **PRI, IIGCC** and **UKSIF** regarding a statement by the Prime Minister on climate change.

LAPFF map their engagement cases to the **United Nations Sustainable Development Goals (SDGs)** as illustrated in the chart below.

Collaborative Engagement – Activity During 2023



LAPFF SDG ENGAGEMENTS

Goal	
1 No Poverty	14
2 Zero Hunger	10
3 Good Health and Well-Being	27
4 Quality Education	6
5 Gender Equality	15
6 Clean Water and Sanitation	32
7 Affordable and Clean Energy	43
8 Decent Work and Economic Growth	79
9 Industry, Innovation, and Infrastructure	67
10 Reduced Inequalities	54
11 Sustainable Cities and Communities	63
12 Responsible Production and Consumption	89
13 Climate Action	601
14 Life Below Water	24
15 Life on Land	131
16 Peace, Justice, and Strong Institutions	42
17 Partnership for the Goals	5

DOMICILES

United Kingdom	517
USA	118
Japan	23
Ireland	17
Australia	16
Jersey	14
Germany	14
France	12
Czechia	11
Brazil	9
Canada	9
Sweden	8
PR China	8
Israel	7
Hong Kong	7
Mexico	6
Singapore	3
India	3
Korea	3
Netherlands	3
Guernsey	3
Tawain	2
Bermuda	2
Luxembourg	2
Finland	2
Indonesia	2
Malaysia	1
Belgium	1
Mauritius	1
Denmark	1
Isle of Man	1

The **2030 Agenda for Sustainable Development**, adopted by all United Nations Member States in 2015, recognised the private sector as a key agent in addressing global challenges such as climate change, poverty, environmental degradation and inequality. Meaningful SDG strategies aligned with companies' business plans can link profit with sustainability and contribute to a more stable and sustainable world. Further detail of LAPFF activity is available in the Quarterly Engagement Reports: https://lapfforum.org/publications/category/quarterly-engagement-reports/

And the LAPFF annual report https://lapfforum.org/publications/category/annual-reports/

- **LAPFF** also provided responses to consultations and calls for evidence during 2023 including:
    - LAPFF submitted a consultation response to the **UN Working Group on Business and Human Rights** consultation on investors, ESG, and human rights in late 2023. This consultation sought to understand better how investors could do more to implement the UN Guiding Principles on Business and Human Rights. In this response, LAPFF called for a better regulatory environment for investors to implement meaningful ESG

Collaborative Engagement – Activity During 2023

practices. Earlier in the year, LAPFF submitted a response to UN Working Group on Business and Human Rights consultation on extractive industries, just transition, and human rights. LAPFF's response called for mandatory reporting on climate plans to include just transition factors, including stakeholder mapping and free, prior and informed consent (FPIC), and for boards to regularly engage with stakeholders and undertake FPIC in good faith.

- The LAPFF-supported **All-Party Parliamentary Group for Local Authority Pension Funds (APPG)** held a meeting on affordable housing and the LGPS. The meeting came off the back of government calls for the LGPS to increase local investment and the chancellor has stated that the government will consult on requiring LGPS funds to consider illiquid asset investment opportunities. There have also been other calls for the LGPS funds to scale up place-based investment and invest more in social and affordable housing. The discussion covered housing investments that LGPS funds were already making as well as some of the barriers to doing more. The meeting highlighted challenges of scaling up investment in affordable or social housing without additional government funding as well as issues around scale and the lack of investible projects.
- LAPFF's chair is a member of the **Taskforce on Social Factors**, which was established by the **Department for Work and Pensions (DWP)** with cross departmental and multi-regulator involvement. The taskforce was established to outline how trustees could and should address social risks and opportunities. Specifically, the group has looked at the materiality of such issues, data on social factors, and the actions pensions funds can take. During 2023, the group's initial findings were published for consultation. Within the report a series of recommendations were set out to pension trustees, the investment industry, regulators, government, civil society and businesses.

Investment Manager Collaborative Engagement

- As signatories to PRI and the UK Stewardship Code the Fund's investment managers are committed to the highest standards of investment stewardship and participation in collaborative initiatives with other like-minded signatories, which seek to improve company behaviour, policies or systemic conditions. Climate change is a priority and to this end the managers participate in a variety of climate change focused industry initiatives and forums. This also involves collaborative lobbying on government and industry policy and regulations.
- A summary table of investment manager participation in collaborative initiatives is provided below.

Collaborative Engagement – Activity During 2023

Manager	Net Zero Policy	Net Zero Asset Manager Alliance (NZAM)	UK Stewardship Code	PRI Signatory	Other Initiatives
Legal & General	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Baillie Gifford	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC, CDP
Lazard	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Oldfield	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Veritas	Net Zero 2050	Yes	Yes	Yes	TCFD, SDG's, CDP
Lombard Odier	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
JP Morgan	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
Genesis	Net Zero 2050	No	Yes	Yes	TPI, CDP, FAIRR
Fidelity	Net Zero 2050	Yes	Yes	Yes	TCFD, IIGCC, CA100+
Pantheon	No	No	No	Yes	TCFD
Partners Group	Manage assets towards Paris 2050	No	No	Yes	TCFD, SDG's
PIMCO	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Ruffer	Net Zero 2050	Yes	Yes	Yes	TCFD, CDP, CA100+
Barings	Manage assets towards Paris 2050	No	Yes	Yes	UNGC, SDG's, TCFD
Oakhill	No	No	No	Yes	TCFD
Alcentra	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, IIGCC
ICG	Net Zero by 2040	Yes	Yes	Yes	CDP, TCFD
Ashmore	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
DTZ	Operational Net Zero 2030. Portfolio Net Zero 2040	No	No	Yes	TCFD, IIGCC, GRESB, BBP

Examples of investment manager voting are listed by reporting quarter. The examples cover a wide range of issues and involve companies in most regions and sectors. Due to the volume of voting carried out the list provides only a small snapshot of the votes exercised in 2023.

SPF Total UK & Overseas Voting in 2023

Manager	No of Meetings	No of AGM	No of EGM	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstain	Not Voted	Proxies Lodged	Proxies Not Lodged
Legal & General	15,574	11,224	4,350	0	148,438	112,160	35,317	961	0	15,574	0
Baillie Gifford	92	87	4	1	1,258	999	66	6	187	81	11
Lazard	108	91	5	12	1,806	1,487	144	6	169	101	7
Oldfield Partners	26	22	2	2	416	265	23	1	127	21	5
Veritas	28	25	1	2	492	362	61	0	69	24	4
Lombard Odier	167	143	24	0	1,931	1,613	38	3	277	145	22
JP Morgan	481	410	59	12	4,881	3,717	436	24	704	436	45
Genesis	111	73	38	0	1,060	932	106	22	0	111	0
Total	16,587	12,075	4,483	29	160,282	121,535	36,191	1,023	1,533	16,493	94
Total%						76%	23%	1%	1%	99%	1%

Full disclosure of voting activity is provided quarterly on the SPF website. This includes both the total number of company meetings and details of individual companies. The voting reports are available at:

https://www.spfo.org.uk/article/6248/Voting-reports

Full disclosure of **LGIM** voting activity with the rationale for all votes cast against management can be found at: LGIM Vote Disclosures (issgovernance.com)

Q1 2023

- **Oldfield Partners** voted against the remuneration policy and other matters at the **EasyJet** AGM, as incentives for executives are not aligned with the interests of shareholders. Oldfield's concerns centre around incentive structures that they believe should be more forthright in ensuring management have better alignment through ownership of more shares (the CEO for example holds 27% of the recommended amount), as well as consider the appropriateness of the current incentive metrics. (The resolutions were approved).

- **J.P. Morgan** voted against executive remuneration at US Home Builder **DR Horton**, due to ongoing pay-for-performance misalignments. Last year JP Morgan noted that executive compensation was heavily weighted towards cash bonuses instead of more long-term equity compensation. The company sought to address the concerns raised last year and while these changes look positive a first glance, they effectively became a way to anchor compensation at the elevated levels of the last two years. JP Morgan voted against the remuneration report at UK Financial Services company **Paragon Banking Group**, due to inappropriate share plan awards. The 2019 Performance Share Plan awards granted in 2020 were calculated at the bottom of a share price cycle which resulted in a materially higher award than in other years. In such circumstances the remuneration committee should have adjusted the grant or end stage. As a result of the concerns and lack of response by the company a vote against was warranted (31% of shareholders voted against the report).

- **Baillie Gifford** opposed executive compensation at US semiconductor company **Analog Devices,** because they do not believe the performance conditions for the long-term incentive plan are sufficiently stretching. Baillie Gifford believe when performance is assessed relative to a benchmark that vesting of awards should only begin when performance is equal to, or above that, of the chosen benchmark. (resolution approved).

- **Legal & General** supported shareholder resolutions to replace six directors at Japanese elevator manufacturer **Fujitec Co., Ltd.**, Legal & General supported the activist proposals due to concerns about the firm's flawed governance processes and its conduct at the last AGM, which resulted in an irreparable loss of faith in the leadership and in the incumbent outside directors' ability to overcome the family's strong influence on the board. Successful shareholder activism of this kind is rare in Japan, and director independence and board composition is a critical area of governance for LGIM, making this a significant vote. Legal & General voted against the re-election of a Director at **Air Products and Chemicals, Inc.**, due to a lack of gender diversity on the executive committee. From 2022, Legal & General have applied voting sanctions to the FTSE 100 companies and S&P 500 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time (resolution approved).

- **Lombard Odier** voted against the remuneration report at the **Mitchells & Butlers Plc** AGM, as incentives for executives are not aligned with the interests of shareholders. Bonus targets were amended in respect of in-flight bonuses for the year under review. The decision to amend targets is a significant concern. The payment of bonuses is also questionable in the context of the material uncertainty regarding going concern status, and the continued suspension of the dividend.

Q2 2023

- In June, the **Local Authority Pension Fund Forum (LAPFF)** issued a voting alert for the **BP** AGM. The alert recommended that LAPFF members support a shareholder proposal on climate change targets. LAPFF previously recognised progress made by BP in having the most credible strategy of any large oil and gas company to progress a strategy consistent with a 1.5 degrees scenario and to push for an orderly net zero carbon transition. However, LAPFF was disappointed with the slackening of 2030 aims for emissions reduction and believed the shareholder resolution flows naturally from having insufficient 2030 targets for absolute emissions. The resolution proposed that "Shareholders support the company to align its existing 2030 reduction aims covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. The strategy for how to achieve these aims is entirely up to the board."
  SPF and **Lazard** discussed this proposal and agreed that it was necessary that BP adopt and disclose plans to align their business with the goals of the Paris Agreement and therefore the resolution should be supported. (The proposal attracted 17% support and was rejected).

- **Baillie Gifford** supported six shareholder resolutions at the **Amazon.com** AGM covering the company's climate strategy, climate lobbying, gender/racial pay gap reporting, freedom of association and a report on plastic use (resolutions received considerable support but failed to pass). At US-based **Charles Schwab**, Baillie Gifford supported a shareholder resolution requesting the company report on median pay gaps across race and gender (resolution received 24% support). At **Meta Platforms Inc.**, Baillie Gifford supported five shareholder resolutions covering a report on failures of community standards enforcement, a report on effectiveness of efforts on harm reduction to children, a resolution on equal voting rights plus resolutions on general lobbying and climate lobbying (resolutions received considerable support but failed to pass). At **Netflix Inc.**, Baillie Gifford supported a shareholder resolution requesting that the company adopt and disclose a freedom of association and collective bargaining policy (resolution received 35% support). At Australian based multinational oil & gas company **Woodside Energy Group Ltd** Baillie Gifford opposed resolutions to re-elect three directors as the company lags expectations regarding setting emissions reductions targets and has insufficient climate-related financial disclosure and these three directors sit on the sustainability committee (resolutions passed). Baillie Gifford also opposed executive compensation resolutions at **Adevinta**, **Adobe Systems**, **AJ Gallagher & Co.**, **Cloudflare Inc.**, **Illumina**, **Teradyne** and **Thermo Fisher Scientific** due to inappropriate performance targets and vesting conditions (resolution passed). Baillie Gifford abstained on the re-election of the chair of the board at Japanese automotive components manufacturer **Denso** because they believe that the company's climate targets are not ambitious enough (resolution passed 95%). Baillie Gifford abstained on executive remuneration at Albemarle as the long-term performance targets are not sufficiently challenging. The decision to abstain rather than oppose recognises some strengthening of performance targets this year. At US power management company, **Eaton**, Baillie Gifford abstained on the advisory vote on compensation due to unchallenging performance targets, and plan to engage on this topic with the company and a resolution to approve executive remuneration at Entegris Inc. was also abstained as the incentive plan terms were not sufficient.

- **Legal & General** supported a shareholder resolution at the **Yum! Brands Inc.** AGM which asked for a report on efforts to reduce plastic use. Legal & General believes that improving the recyclability of products will have a positive impact on climate change and biodiversity. Although unsuccessful, over a third of shareholders supported the resolution, which is a significant level of support for a shareholder proposal. Legal & General also opposed management at **Toyota Motor Corp** by voting for a shareholder resolution to amend articles to report on corporate climate lobbying aligned with the Paris Agreement. Legal & General acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years, however additional transparency is necessary (15% of shareholders supported the proposal).

- **Oldfield Partners** supported shareholder resolutions at the **Berkshire Hathaway** AGM which asked for reports on the company's physical and transitional climate-related risks and opportunities and the audit committee's oversight on climate risks and disclosures. The enhanced disclosure would allow shareholders to assess the board's governance and risk oversight mechanisms in place to protect the company from potentially adverse regulatory requirements and market changes related to the energy transition. Oldfield also supported a shareholder resolution seeking a report on the effectiveness of diversity, equity, and inclusion efforts at the company. Oldfield voted against the remuneration for the CEO at German multinational pharmaceutical and biotechnology company, **Bayer** as the group's current CEO executed the acquisition of Monsanto which led to unprecedented litigation charges. Oldfield believe that the CEO is directly responsible for the litigation and "adjusting out" his own mistakes would be entirely inappropriate.

- In the US, **Veritas** supported a shareholder resolution at the **Amazon.com.** AGM, that asked for a report on customer due diligence. Shareholders would benefit from increased transparency and disclosure on how the company is managing human rights-related risks. Veritas also supported a shareholder resolution for an independent board chairperson at global fintech and payments company, **Fiserv, Inc.**, as they believe this is best practice. Also in the US, Veritas voted against remuneration for executive officers at **Alphabet Inc.** as the stock plan cost is excessive and at healthcare provider **Illumina Inc.** as remuneration is not aligned with shareholders best interests.

- At the **BP** AGM, **Lazard** opposed management by voting for a shareholder resolution requiring climate change targets to have a greater strategic alignment with the Paris agreement (resolution received 17% support). In the US, Lazard supported two shareholder resolutions at the **Bank of America** AGM which asked for a report on climate transition planning describing efforts to align financing activities with GHG targets and to commission a third-party racial equity audit. Lazard voted against approving executive compensation and long-term incentives at **Alphabet Inc.**, due to a lack of clarity and clear alignment with shareholder interests (resolutions approved). Lazard also opposed CEO compensation at the French laboratory testing specialist, **Bureau Veritas SA.**, as the incentive plan terms were not sufficient.

- **J.P. Morgan** voted against the remuneration report and the remuneration policy at London-listed provider of insurance and reinsurance, **Beazley** as long-term incentive plan awards were based on NAV growth, which benefitted from raising equity at a premium to NAV and no downward adjustment was made. J.P. Morgan also voted against the re-election of the CFO following several high-profile financial presentation errors.

- **Lombard Odier** voted against the remuneration report at the **CentralNic Group Plc** AGM, because a former Executive Director received a retention bonus during the year and no further explanation on this bonus payment was not provided, the details of the service contract of the newly appointed CFO were not disclosed and non-executive directors received pension payments during the year. Lombard Odier also voted against the re-election of two directors over potential independence issues. Both directors sat on the Audit and/or Remuneration Committees, and this does not adhere to UK best practice recommendations for a company of this size. **Lombard Odier** voted against the remuneration report at **TI Fluid Systems Plc**, as there are concerns about the alignment of pay with performance. The bonus outcome was entirely driven by a 100% achievement of the strategic targets, which form 50% of the total bonus opportunity. The total remuneration package is pitched at a high level, and the CEO's bonus outturn of EUR 1.3 million is questionable in the context of the Company's financial performance, overall shareholder experience and reduced total dividend for the year. Lombard Odier opposed the remuneration report at the **boohoo group** AGM. The Remuneration Committee again applied upward discretion on bonus outcomes, increasing payouts from 25 percent to 50 percent of maximum. and the Company introduced a new Growth Share Plan which replaced the underwater share awards of the Executive Directors and where awards represent a substantial quantum.

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- **Legal & General** voted against the re-election of the Board Chair at the AGM of Chemicals producer **EMS-Chemie Holding AG.**, as the company does not meet minimum standards regarding climate risk management. The company's climate-related disclosures are lacking in the transparency and robustness that Legal & General believe is necessary for shareholders to obtain a sound picture of the company's climate transition plans and strategy. Legal & General also have concerns with regards to the scope and credibility of its net-zero commitment, as well as its medium-term targets, alignment to a 1.5°C scenario, and reliance on offsets. The company currently does not align executive remuneration with its medium-term emissions targets, which raises governance concerns regarding prioritisation and accountability for climate-related issues. Further, Legal & General have been disappointed in the company's lack of response to its shareholders' requests for dialogue regarding its climate strategy and disclosures. The decision to vote against the re-election of the Chair of the Board, is an escalation of Legal & General's collaborative engagement with ShareAction and a reflection of longstanding climate concerns at the company (resolution approved).

- **Baillie Gifford** opposed two remuneration resolutions at the **Richemont** AGM. The appointment of the chair of the remuneration committee and approval of executive variable remuneration was opposed due to ongoing concerns with executive variable remuneration practices which are not in the best long-term interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent (resolutions approved).

- At the **Remy Cointreau** AGM, **Lazard** opposed management by voting against three executive remuneration resolutions as they were deemed not to be in the best long-term interests of shareholders (resolutions approved).

- **Veritas** opposed management at the **Diageo Plc** AGM by voting against a resolution to authorise the issue of equity without pre-emptive rights. Veritas believe disapplication of pre-emptive rights is not in the best interests of shareholders.

- **J.P. Morgan** voted against executive compensation at Swedish technology trading company, **Addtech AB** due to the lack of disclosure. The CEO was due to receive a significant salary increase of 24% without a clear rationale for the increase (resolution passed).

- **Lombard Odier** voted against the remuneration report and the re-appointment of a director at the **Fulcrum Utility Services Ltd.** The report does not include a clear breakdown of the individual remuneration components paid to the Directors during the year under review and a potential director independence issue was identified. At a Special Shareholder Meeting of **Nanoco Group Plc** Lombard Odier voted against activist shareholder resolutions to replace the current board following accusations of issuing misleading information in relation to a recent litigation (resolutions failed to pass).

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- **Baillie Gifford** opposed three remuneration resolutions at the **Estee Lauder** AGM, due to the continued practice of granting sizeable one-off awards. They also withheld support from the re-election of an incumbent to the compensation committee, due to concerns over executive compensation policies. Baillie Gifford opposed several resolutions at **Microsoft Corporation**, which requested reports from the company on issues such as tax transparency, operating in countries with human rights concerns, third party political reporting, gender-based compensation and benefits inequities, risks of omitting viewpoint and ideological diversity from the company's diversity policy, take down requests by the US government and risk around the companies AI operations. Baillie Gifford believe the company has robust policies, reporting, risk mitigation and governance frameworks in places covering all these areas already. Finally, Baillie Gifford opposed a resolution which sought authority to issue equity at **Pernod Ricard SA** because they believed the potential dilution levels were not in the interests of shareholders.

- **Legal and General** voted against a management resolution for the election of a new director at Australian logistics firm **Qube Holdings Ltd.,** due to lack of board diversity at the company.

Legal and General expect the board of Australian companies to comprise at least one third women and Qube only has one woman on its board. Legal and General voted against a shareholder resolution at **Microsoft Corporation** on AI risks and disclosure. Having engaged with the company directly to discuss its approach to the risks described in this resolution, Legal and General consider at the present time that the company is a leader in the disclosures, governance processes and mitigation steps it is taking on risks posed by its operations from generative AI. Legal and General therefore took the decision not to vote in favour of this shareholder resolution as they consider the company to be a leader in the disclosure, governance and mitigation of risks posed by generative AI operations. Legal and General will continue to engage with Microsoft on this issue as it evolves and as shareholder expectations evolve, too.

- **Veritas** opposed management at the **Microsoft Corporation** AGM by voting for a resolution proposing that the company produce a report on risks of operating in countries with significant human rights concerns. Veritas believe that shareholders would benefit from increased disclosure regarding how the company is managing human rights risks in high-risk countries.

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