Strathclyde Pension Fund

Stewardship Report 2021

Signatory of:
UK STEWARDSHIP CODE | 2021

PRI Principles for Responsible Investment

Stewardship Report 2021

There are 5 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.

So we were delighted to be accepted by the FRC as a signatory to their revised Stewardship Code during 2021.

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 2021 prepared and submitted on behalf of the Strathclyde Pension Fund (SPF) by:

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Strathclyde Pension Fund

Stewardship Report 2021

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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/document-library/corporate-governance/2018/uk-corporate-governance-code-2018

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 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.

Strathclyde Pension Fund

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 **264,000** members, **159** participating employers and has investment assets of over **£28 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. Our Funding Strategy Statement and report on the 2020 Actuarial Valuation are available at:

https://www.spfo.org.uk/CHttpHandler.ashx?id=12613&p=0

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):

http://www.spfo.org.uk/CHttpHandler.ashx?id=53801&p=0

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/index.aspx?articleid=14489

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. During 2021, this was most clearly manifested in development of our Climate Change strategy which included a 2050 net zero emissions commitment and creation of an energy sector transition assessment model.

Further details are available on the SPF website at:

https://www.spfo.org.uk/index.aspx?articleid=26486

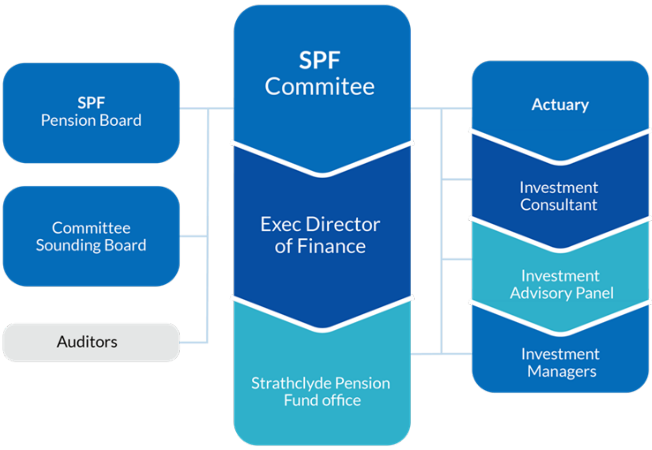
Purpose and Governance

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. 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/index.aspx?articleid=16036.

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/index.aspx?articleid=15814

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: http://www.spfo.org.uk/CHttpHandler.ashx?id=55389&p=0

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 independent 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

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.

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.

Purpose and Governance

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 networks at Glasgow City Council is available at: https://glasgow.gov.uk/article/24929/Our-Employee-Equality--Diversity-networks

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 2020/21 training plan is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNDXDN2UUTZ3

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 2020/21 the Committee and Board received training and participated in a series of workshops investigating actuarial, strategic and investment management issues relating to climate change.

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.

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.

Purpose and Governance

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 and sustainability.

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 2021 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
- assessment of energy sector companies in its portfolios and to establish minimum standards in relation to the energy transition.

The SPF Committee also approved six new investments by DIP, the SPF's impact portfolio. These spanned renewable energy, community housing, UK infrastructure and UK regional growth equity.

All committee reports and minutes are available at:

https://www.spfo.org.uk/index.aspx?articleid=16036

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://www.standardscommissionscotland.org.uk/uploads/files/14424808530109379.pdf

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://www.glasgow.gov.uk/CHttpHandler.ashx?id=2673&p=0

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/about-us/important-disclosures/best-execution-and-trading-disclosures/

Conflicts Management

In practice, conflicts of interest are rare and there were no potential or actual conflicts of interest during 2021 which required management.

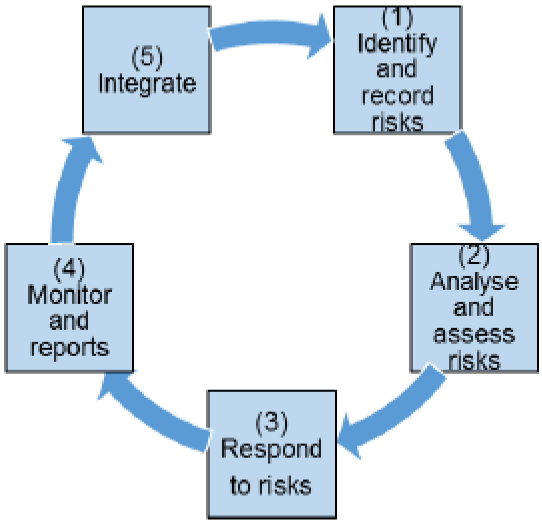
4. Promoting well-functioning markets

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.



A copy of the Risk Register is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=P62AFQDNZLDNT12U81

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, 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's engagement on climate policy has ramped up in the last year with its push for a just transition through a Local Government Pension Scheme All-Party Parliamentary Group inquiry on the issue and presentations on a just transition at party conference fringe meetings. In addition, LAPFF has submitted a number of consultation responses on ESG issues over the year and has signed on to investor letters in these areas pushing public bodies to take improved action in support of responsible investment. These include:
  - EU proposed human rights and environmental due diligence legislation.
  - DWP's calls for evidence on 'Consideration of social risks and opportunities by occupational pension schemes' and 'Taking action on climate risk to improve governance and reporting by occupational pension schemes'.
  - Investor letter to US regulators challenging plans to limit rights of shareholders to file ESG resolutions.

- Letter to International Energy Authority (IEA) regarding targets for carbon capture and storage (CCS).

- 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 some recent consultations they have responded to include the UK Corporate Governance Code's proposed revision, the UK government's Corporate Governance Reform Green Paper, the EU High-Level Export Group on Sustainable Finance's Interim Report, the European Supervisory Authorities (EAS's) Consultation Paper on ESG Disclosures and the UK's Financial Reporting Council's consultation paper A Matter of Principles.

- **Institutional Investors Group on Climate Change** (**IIGCC)**

  IIGCC's Policy Programme works 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. As one of the founding networks behind the **Investor Agenda**, much of IIGCC international policy engagement efforts in 2021 have focused on delivering the strongest-ever unified call for action to tackle climate change in the run up to COP26. **The Global Investor Statement to Governments on the Climate Crisis** calls for governments to end fossil fuel subsidies, phase out coal and mandate climate risk disclosure. IIGCC wrote to governments on a number of occasions throughout the year calling for action from policymakers, as well as responding to public consultations and running member webinars with key spokespeople.

- 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, that may impact industries, companies and markets.

Global equity manager, **Baillie Gifford**, provide a recent and current example of investment manager embedding ESG factors in investing: https://www.bailliegifford.com/en/uk/about-us/insights/ic-document/2021-q1-actual-investing-actual-esg-all-ar-0155/

And Private equity manager, **Pantheon Ventures**, describe how in-depth ESG risk assessment is at the heart of their investment due diligence: https://pantheon-ventures.foleon.com/esg-report-2021/esg-and-corporate-responsibility-at-pantheon/esg-in-our-investment-processes/

Purpose and Governance

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 in 2021 include:

- **Legal &General Investment Management (LGIM)** has engaged with the **UK** government on key ESG issues including, the Department for Business, Energy & Industrial Strategy's (BEIS) long-awaited consultation on 'Restoring trust in audit and corporate governance', the Primary Markets Effectiveness Review into limited dual class share structures and free float requirements; the UK Taxonomy; say on climate; sustainability labelling; green and sustainable bond standards; ESG data providers; and broader sustainability disclosure requirements. LGIM was also at the heart of the COP26 programme, helping to push the private sector to do more on the transition to net zero and to galvanise climate action in the public sector. In **Australia** LGIM responded to a Treasury consultation that is reviewing the regulatory regime for proxy advice and looking to introduce reforms that reportedly encourage greater transparency in the system and in **Japan** engaged with the Tokyo Stock Exchange regarding the second revision of Japan's Corporate Governance Code.

- Private equity manager, **Pantheon Ventures** has demonstrated thought leadership in the private equity community by significantly contributing to policies, guidelines, industry-level dialogues and best practice sharing related to ESG including:
  - Leading the ESG committee within the Hong Kong Private Equity and Venture Capital Association, Asia's largest industry association by membership.
  - Creating the first private equity ESG award in Asia, the ESG Award of Excellence awarded to private equity-backed companies in recognition of outstanding ESG-related initiatives and achievements.
  - Regularly contributing to guideline consultations with regulatory bodies around the world, to continue to contribute to evolving industry best practice.
  - Regularly organising ESG seminars at industry events – and speaks regularly on ESG topics with media and at industry conferences.

- Infrastructure manager **JP Morgan** has identified Cybersecurity as a key risk in its **Infrastructure Investments Fund (IIF).** IIF portfolio companies continue to prioritize cybersecurity risk as an ongoing material risk for businesses of all kinds. Cybersecurity is a standing agenda item for all portfolio company Boards and all portfolio companies have in place, or are in the process of putting in place, comprehensive cyber security insurance policies and cyber incident response plans. All JP Morgan personnel and portfolio company board members receive cybersecurity training by third party experts and can leverage the significant broader cybersecurity resources of J.P. Morgan where possible.

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.

Purpose and Governance

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 2020/21 annual report provides these disclosures (pages 88 -98), 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/CHttpHandler.ashx?id=55389&p=0

Climate Change Strategy

The SPF Climate Change strategy was amended in 2021 to advance the response to climate change risk and energy transition investment opportunities. The updated Strategy is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=P62AFQDNDX81NTZLT1

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. A report on the initial findings of the assessment is available at: https://www.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=P62AFQDNZLDNDNZLDN

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 a class actions with the primary goal of obtaining damages but also to promote good corporate governance and sound business practices.

Purpose and Governance

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 2021/22 Business Plan included reviews of its Funding Strategy Statement, Climate Change Strategy, Investment Strategy (including Responsible Investment), Communications Policy and investment consultancy arrangements, together with submission of an annual stewardship report for compliance with the revised UK Stewardship Code. Each of these progressed well despite COVID-19 disruption.

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://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNDXNT2UT12U

An Internal Audit review of the Strathclyde Pension Fund Committee Operations is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNDXDN2UUTDN

External Audit

Audit Scotland 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 2021 review found that SPF has appropriate arrangements in place to support good governance and accountability.

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZL2UZLDN0G

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 assessment report for 2021 is not available until mid-2022 due to technical issues with PRI's new reporting system. However, the assessment report for 2020 represented SPF's best PRI survey outcome since adopting the Principles in 2008.

The Fund achieved a maximum overall A+ score and the following scores from 4 assessed modules with bands A –E.

- Strategy and Governance: **A** (29 out of a maximum 30 from 10 indicators). The median outcome for this module was band A from 2,127 signatories assessed.
- Listed equity: **A+** (42 out of a maximum 42 from 14 indicators). The median outcome for this module was band A from 572 signatories assessed.
- Property: **A+** (39 out of a maximum 39 from 13 indicators). The median outcome for this module was band B from 264 signatories assessed.
- Listed equity-active ownership: **A** (28 out of a maximum 30 from 10 indicators). The median outcome for this module was band B from 1,086 signatories assessed.

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 2020 PRI Transparency Report is available at:
https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Strathclyde%20Pension%20Fund_2020.pdf

Investment Approach

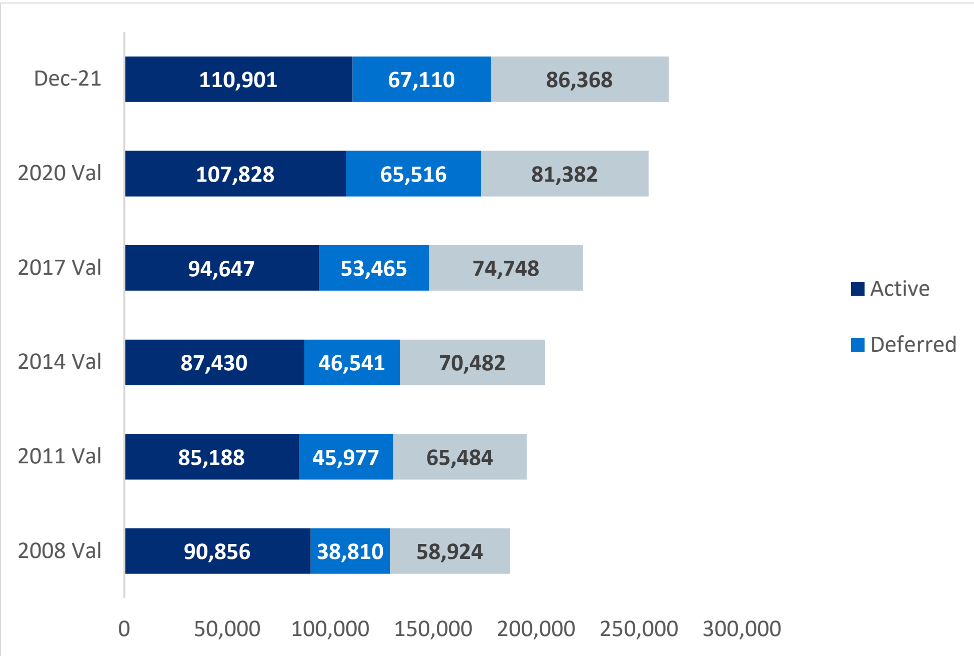
6. Client and beneficiary needs

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 250,000 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.

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

Investment Approach

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/CHttpHandler.ashx?id=12613&p=0

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

Local Government Pension scheme regulations 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 is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=P62AFQDNDXZLDXUT2U

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. The website includes extensive coverage of our stewardship activity:
https://www.spfo.org.uk/index.aspx?articleid=14486

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 2021 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 83 requests related to the way we invest, 71 specifically about climate change. 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.

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), Carbon Action 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.

The Stewardship Code 2020

SPF is a signatory the new UK Stewardship Code (2020). SPF is one of 38 asset owners to be accepted and was the first Scottish public sector asset owner to be listed. Ten of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are also signatories.

The Fund encourages all of 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/investors/uk-stewardship-code/uk-stewardship-code-signatories

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.

Investment Approach

All of SPF's appointed investment managers are now PRI signatories and 32 of the 33 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 2021 is summarised as follows:

Asset Class	Fund Manager	% Managed	Market Value £000
Multi Asset - Passive	Legal & General	34.47	9,027,462
Global Equity	Baillie Gifford	8.76	2,294,878
Global Equity	Lazard	3.31	865,500
Global Equity	Veritas	2.95	771,791
Global Equity	Oldfield	2.83	740,175
Specialist – Global Real Estate	Partners Group	1.37	358,948
Specialist – Absolute Return Bonds	PIMCO	4.61	1,207,020
Specialist – Equities (Overseas Small Companies)	JP Morgan	3.87	1,013,158
Specialist – Equities (UK Small Companies)	Lombard Odier	1.71	447,614
Specialist – Private Equity	Pantheon Ventures	4.53	1,187,425
Specialist – Private Equity	Partners Group	3.23	846,897
Specialist – Emerging Markets	Genesis	1.99	521,902
Specialist – Emerging Market Future	Legal & General	0.32	83,239
Specialist – Direct Investment Portfolio	Various	3.53	924,553
Specialist – Multi Asset Credit	Barings Multi-Asset Credit	2.74	716,655
Specialist – Multi Asset Credit	Oakhill Advisors	1.83	477,973
Specialist – Private Debt	Alcentra	1.30	340,549
Specialist – Private Debt	Barings Global Loan Funds	1.55	405,116
Specialist – Private Debt	Partners Group Private Debt	0.44	114,327
Specialist – Global Infrastructure	JP Morgan	2.12	555,982
Specialist – Private Real Estate Debt	ICG Longbow	0.50	130,771
Specialist – Long Only Absolute Return	Ruffer	0.96	251,368
Emerging Market Debt	Ashmore	1.85	484,631
Cash	Northern Trust	0.91	239,084
Specialist - Property	DTZ	8.32	2,176,620
		100.00	**26,183,638**

The 2020/21 annual report (pages 107 -108) 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/CHttpHandler.ashx?id=55389&p=0

Investment Approach

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 and in 2021 a 2050 net-zero emissions target and a process to assess energy transition standards of energy companies.

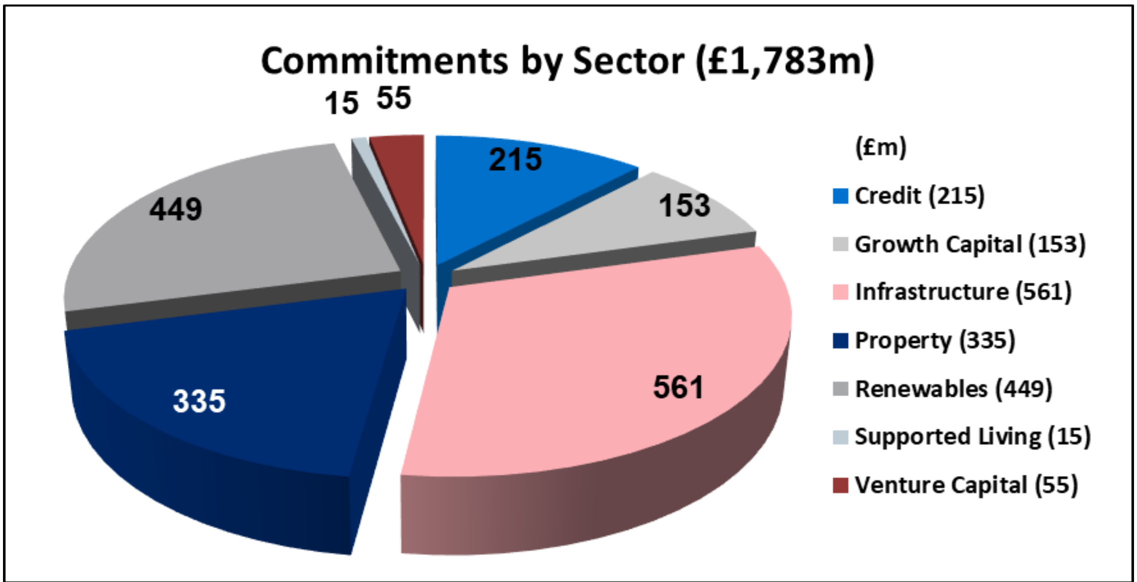
Our carbon footprint has already reduced dramatically since we started to implement the Climate Change Strategy.

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 2021 are summarised as follows.



ESG impact at a sectoral level can be summarised as:

- Renewable energy infrastructure investments which include specialist onshore and offshore wind funds, UK solar funds and generalist renewables and community power funds.
- Credit, venture, and growth capital allocations are primarily to UK small company financing.
- 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.

Investment Approach

Headline ESG impact of DIP in 2021 can be summarised as:

Impact	2021
Environmental	
Clean Energy Generated	**636 GWh p.a.**
Carbon Reduction (tonnes p.a.)	**147,000**
Sufficient to Power (homes p.a.)	**219,000**
Social	
Jobs Created	**3,900**
Jobs Sustained	**55,000**
Infrastructure Projects	**682**
Governance	
PRI signatories	**32/(33)**
Local	
Local/Scottish Investments	**>£500m**

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.

SPF's Investment adviser, Hymans Robertson, also provides the IAP with a quarterly review of investment managers, now 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://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZLDXNT81DN

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 Audit Scotland. 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.

Investment Approach

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.

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 managers 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.

Service Review

During 2021 SPF reviewed its allocation to the RAFI 3000 Global Fund managed by Legal & General. The value tilt of the RAFI allocation plays a key role in balancing overall style exposures across the Fund's equity mandates, but the strategy's high carbon intensity was a cause for concern given the Fund's broader approach to ESG factors including climate risk. To address this SPF agreed to be the cornerstone investor in the new RAFI Fundamental Climate Transition Index (CTI) that launched during the year. RAFI CTI will target a 30% reduction in carbon intensity at launch relative to market cap levels and a further 7% per annum thereafter. This index will also retain most of the value exposure that the Fund is seeking to retain at an overall level.

Strathclyde Pension 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 2021 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 300 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 247 engagement meetings and exchanged 1963 emails with targeted companies in 2021 and seven 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 2021, Sustainalytics engaged with 186 companies within the Norms-based Engagement Service. In total there were 2,924 contacts, 168 meetings and 144 significant milestones with 79 companies 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, Plastics & Circular Economy** and **Child Labour in Cocoa**. Furthers details of this service can be found on the Sustainalytics website at: https://www.sustainalytics.com/thematic-engagement/

  Details of Sustainalytics engagements in 2021 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, animal welfare and child labour.

Details of collaborative initiatives activity in 2021 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 850 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. The number and range of themes supported by SPF expanded significantly in 2021 and SPF now actively supports seven 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/index.aspx?articleid=20809

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 collaborations and initiatives. In 2021 this included:

- co-signing letters to the leading UK Supermarkets including **Sainsbury's, Tesco, Morrisons, M&S** and **Ocado** regarding real Living Wage and workers' rights.
- co-signing a Workforce Disclosure Initiative (WDI) collaborative letter to US based video game company **Activision Blizzard Inc.** to seeking transparency about workforce practices.

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.

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/2021/12/LAPFF-Annual-Report-2021.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 2021

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	77	62	8	7	1,159	999	32	15	113	77	-
Genesis	260	168	72	20	2,810	2,430	280	96	4	260	1
JP Morgan	449	367	68	14	4,383	3,702	355	13	313	449	2
Lazard	113	90	14	9	1,689	1,458	82	3	146	113	3
Legal & General	5,934	3,982	1,952	-	67,570	54,346	12,518	706	-	5,934	4
Lombard Odier	120	79	41	-	1,904	1,857	13	14	20	120	6
Oldfield Partners	26	19	5	2	409	367	42	-	-	26	7
Veritas	26	22	1	3	472	424	46	-	2	26	8
Total	7,005	4,789	2,161	55	80,396	65,583	13,368	847	598	7,005	31
						82%	17%	1%	1%	100%	0%

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/index.aspx?articleid=16040

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 2021 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 2021, LGIM cast over 67,000 votes at over 5,000 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.

- 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 currently serves as lead plaintiff in litigation against Bank OZK before the United States District Court for the Eastern District of Arkansas and Dentsply Sirona Inc. in the United States District Court for the Eastern District of New York. Details of both actions are publicly available at:

https://www.rgrdlaw.com/news-item-Defeats-Motion-to-Dismiss-in-Bank-OZK-Securities-Suit.html

https://www.barrack.com/node/622

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£9m 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 2021 totalled $0.4m from 27 settlement funds. SPF is currently investigating opportunities for class actions in other jurisdictions including Canada, Japan, Switzerland, and the Netherlands.

Investment Manager Engagements 2021

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 engaged with 571 companies in 2021. This included 312 meetings or calls and 461 written engagements. The team engaged most frequently on climate change.

- LGIM engaged with multinational chemical company, **LyondellBasell Industries N.V.** under the IIGCC/CA100+ umbrella to discuss management of climate-related risks. Under this collaborative initiative LGIM had asked for the board to add two discussion items to the AGM agenda: 'Climate Change and Commitment Strategy' and 'Advisory Vote on Climate Change'. The company agreed to this and, alongside other investors, LGIM asked multiple questions regarding LyondellBasell's net-zero targets, science-based targets, lobbying, Task Force on Climate-Related Financial Disclosures (TCFD) reporting, and Paris-aligned activities. LGIM also discussed director accountability and annual votes on the company's transition plan. Dialogue with the Board directors will continue.

- LGIM have ongoing engagements with mining companies not just on their environmental strategies, but also the 'S' and 'G' of ESG. Embroiled in a scandal after the destruction of a 46,000-year-old heritage site in Western Australia, LGIM have continued to press **Rio Tinto** for more accountability, believing that the initial responses (and the board oversight) were inadequate. LGIM opposed the executive remuneration at the 2021 AGM and will continue to engage with the company on how it plans to reform its culture and renew its social licence to operate, as well as on other governance concerns.

- LGIM engaged with the American multinational technology company, **Amazon.com Inc.**, regarding workers' rights to unionise. LGIM signed a letter to Amazon along with more than 70 other investors to emphasise the role that worker representation plays in supporting companies in identifying and managing operating risks. LGIM highlighted that Amazon should meet the expectations set out in the UN Guiding Principles on Business and Human Rights, and that as an internationally recognised human right, workers should be free to exercise their freedom of association and right to collective bargaining. LGIM set out the expectation that Amazon should have in place policies and processes appropriate to its size and circumstances, including: (a) A policy commitment to meet their responsibility to respect human rights (b) A due diligence process to identify, prevent, mitigate and account for how the company addresses its potential impacts on human rights (c) Processes to enable the remediation of any adverse human rights impacts Amazon causes or to which it contributes. Against this background and with these expectations Amazon launched its Global Human Rights Principles. Through this policy the company has committed to The UN Guiding Principles on Business and Human Rights, which in turn recognise the fundamental right of workers to exercise their right to organise, should they choose to do, and Amazon has commissioned a human rights impact assessment by an external consultant. However, despite these LGIM remain concerned that the company has yet to demonstrate how it meets the commitments that it has set, not only with respect to human rights but also to transparency and stakeholder engagement. Engagement with the company continues.

- As part of The Investors for Opioid Accountability (IOPA) initiative LGIM co-filed a shareholder resolution at American multinational health care services company **Cardinal Health, Inc.** asking the company to publish annually an in-depth report disclosing its direct and indirect lobbying activities and expenditures, as well as its policies and procedures governing such activities (a 'Political Contributions and Activities Report'). Following engagements with the company, the board agreed to expand its Political Contributions and Activities Report to include all disclosures relating to state lobbying expenses exceeding US$25,000; payments to trade associations and other organisations (including to those that draft and support model legislation); and the approach the company will take when a trade association of which it is a member takes a position which differs from the company's corporate position. Following the engagement LGIM, together with the other co-filing investors, withdrew the shareholder proposal. This is a concrete example of using a shareholder proposal as an engagement tool and demonstrates the positive impact of engagement.

  LGIM Proxy voting, ESG and Company Engagement reporting is available at: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2021-uk-eu-middleeast.pdf

Appendix A

Investment Manager Engagements 2021

Listed Equity

Baillie Gifford

- Baillie Gifford met with multinational metals and mining corporation **Rio Tinto Group** to learn more about the company's developing climate strategy. Whilst it is encouraging to see the company strengthen its scope 1 and 2 emissions reduction targets for 2030 these emissions only account for approximately 5 per cent of the company's total footprint, with downstream scope 3 emissions, particularly in the production of steel, the largest contributor. Accordingly, Baillie Gifford will focus on how Rio Tinto intends to collaborate with customers and other stakeholders to cut these emissions, what they see as the key challenges and how these may impact the sustainability of the business. Baillie Gifford think the company can do more to address its lifecycle emissions, including setting ambitious medium and long-term scope 3 targets and have encouraged Rio Tinto to lead the mining and minerals industry by setting stretching scope 3 emissions reduction targets. This should include a long-term strategy, including engagement with key stakeholders and financial investments. These items will be important to secure support for next year's climate transition resolution

- Baillie Gifford engaged with Irish building materials company **CRH Plc**. to get an update on the company's decarbonisation strategy. The company has continued to innovate, particularly with alternative fuels, which has enabled them to continue to reduce their carbon emissions. They have set a target to be carbon neutral by 2050. An industry roadmap is due to be published later in the year which is likely to provide greater clarity on the technological advancements that will be material for the cement industry achieving carbon neutrality. How CRH achieve their 2050 target is likely to become clearer after the roadmap is published.

- Baillie Gifford engaged with **Ryanair** to discuss the progress of the company's decarbonisation strategy. The company has submitted its carbon emissions data to the Carbon Disclosure Project (CDP) for external verification and has announced a sustainable aviation fuel target for 2030, as well as a partnership with Trinity University to research sustainable aviation fuel.

- Baillie Gifford also engaged with Canadian multinational e-commerce company **Shopify** to learn more about their approach to positive climate influence across the ecommerce value chain. Shopify reports its direct emissions and runs both its own and cloud-related activities on 100 per cent renewable power. Just as importantly, it is a direct investor in carbon reduction and removal innovators. Shopify is exploring ways to accelerate its offer of lower-carbon warehousing and distribution. The company also acknowledged that it may be able to deploy the deep dataset it is gathering on ecommerce purchases to further educate and empower consumers on product carbon footprints.

- Baillie Gifford continued discussions with **Wizz Air Holdings Plc.** on sustainability topics. The company has an ongoing dialogue with the Science-Based Targets initiative and made its first submission to the Carbon Disclosure Project. Baillie Gifford discussed how the company thinks about decarbonisation of its business and the broader aviation industry. In the medium-term, sustainable aviation fuel has the potential to contribute, while longer-term new airplane technology, in the form of electric and hydrogen planes, will be important. As the greenest airline in Europe, Wizz is confident of maintaining its industry-leading position. However, they believe the low carbon transition will have significant impact on the whole industry. The company's efforts to improve diversity and inclusion, as well as maintaining open communication and good relationships with employees was also discussed. Wizz Air are taking a pragmatic approach to sustainability, which is supportive of the company's long-term strategy.

- Baillie Gifford engaged with pharmaceutical and biotechnology company **Moderna** on its approach to maximising access to its Covid-19 vaccine. Baillie Gifford are supportive of Moderna's tiered pricing model and its reinvestment in an expanding pipeline of vaccines and treatments but continue to encourage efforts to ensure universal vaccine access. It was also encouraging to hear how the company is facilitating vaccine donations from countries with excess supply.

- Baillie Gifford met with Arizona based internet used car retailer **Carvana** to begin a more direct conversation around Carvana's climate-related thinking and reporting. Carvana is the fastest growing online used car dealer in the United States and as a disruptor of the US second-hand car market, Carvana's interaction with the trends of the energy transition are multi-faceted, but, so far, it has no public disclosure or commentary on the issues. There is opportunity in the extension of vehicle lives and, potentially, in acting as a sales channel for original equipment (automotive component) manufacturers (OEMs) retreating from the dealership footprint. But there is also risk if old combustion engine cars see sudden value loss due to dislocating policy or technology change. Carvana needs to understand and report its carbon footprint (direct emissions and those inherent in the cars it trades), but also explore its handprint - its options for system influence. This could be as simple as the provision of fuel efficiency data for buyers, or as complex as the academic research needed on life-cycle efficiency: is it more carbon efficient to scrap early and go electric, or better to wring the last drop of life from the current fleet before building new? There are many interesting issues to debate here as Carvana shakes this old-fashioned market, and Baillie Gifford look forward to continuing the discussions.

- Baillie Gifford engaged with multinational mining company **BHP Group Plc**. to discuss the climate transition resolution on the company's AGM agenda. Baillie Gifford outlined concerns with the proposed resolution, specifically that it is advisory only, it will hand considerable influence to proxy advisors and consultants and may reduce accountability from the board. Baillie Gifford believe that an annual vote is not necessary and want to avoid an endless cycle of shareholder engagement and short-term assessments. They see concerning parallels with the 'say-on-pay' resolutions, which have disappointed in their ability to improve pay-for-performance and alignment. Baillie Gifford encouraged the company to take a long-term, forward-looking approach, which explains how the climate strategy relates to the broader business plan, how the company intends to meet targets and where it sees bottlenecks and opportunities. Whilst the company has set targets for its scope 1 and 2 emissions, these only represent around 5 per cent of BHP's carbon footprint. Baillie Gifford expressed their disappointment with the scope 3 goals set as part of the climate transition plan.

Investment Manager Engagements 2021

- Baillie Gifford engaged with **CBRE Group, Inc.** to discuss the company's climate strategy. CBRE's emissions reduction targets are aligned with a 1.5-degree world and CBRE is committed to reduce absolute scope 1 and 2 GHG emissions 68 per cent by 2035 from a 2019 base year. To achieve this target, they have committed to achieving 100 per cent renewable electricity by 2025 and to transitioning its fleet to electric vehicles. The company also commits to reduce scope 3 GHG emissions from the use of sold products managed on behalf of occupiers and scope 3 GHG emissions from the use of sold products managed on behalf of owners over the same timeframe. The company's targets have been verified by the Science-Based Targets initiative. More recently, the company strengthened its ambitions, joining the Amazon-led Climate Pledge and committing to be net zero for all scope 1, 2 and 3 emissions by 2040.

- Baillie Gifford engaged with cosmetics manufacturer **Estee Lauder** on executive compensation decisions made in the last year. In the past 12 months a special equity award valued at $40m was granted to the CEO. The terms of the award are not particularly stretching and given the significant shareholding the CEO has in the business, alongside an already generous pay package, Baillie Gifford did not believe this to be an effective use of shareholder funds. Baillie Gifford opposed the executive compensation resolution and the re-election of compensation committee members at the AGM and communicated their rationale to the company.

The Baillie Gifford Global Alpha Stewardship Report for 2021 is available at: https://www.bailliegifford.com/en/uk/intermediaries/funds/global-alpha-growth-fund/ic-document/2022-q1-global-alpha-stewardship-report-2021-10006004/

Oldfield Partners

- Oldfield Partners continued their engagement with **Korea Electric Power (KEPCO)** in support of Climate Action 100+. Oldfield have been lobbying KEPCO to improve climate related disclosure, to adopt a net zero objective for 2050 and to cease building new coal plants at home and abroad. Late in 2020, the company improved its climate-related disclosure and agreed to target net zero emissions by 2050. This was made possible by the change in stance of its controlling shareholder, the Korean Government, that itself committed to achieve net-zero emissions by 2050 and pledged to spend US$7bn on green-focused growth. In July KEPCO confirmed it would make no further investments in coal projects either domestically or internationally and would focus on renewables and natural gas in the future (Vietnam and Indonesian plants under construction will be completed). KEPCO has also agreed to provide 43 gigawatts (GW) of renewable power capacity of the national target of 58 GW by 2030.

  Oldfield Partners Annual Proxy voting, ESG and Company Engagement report for 2021 is available at:
  https://www.oldfieldpartners.com/srp/lit/NjxpL2/Proxy-voting-and-engagement-report-annual_31-12-2021.pdf

Veritas Asset Management

- Veritas reported engagement with French multinational aerospace and defence corporation Safran SA, to discuss Board representation and oversight of Climate related issues and distinct targets and strategy. Safran presented a strategy to reduce the CO2 emissions from its products, which constitute its essential contribution to meet the aviation sector goal of halving emissions by 2050 compared to 2005 (a 90% reduction in average emissions per

- passenger kilometre across the worldwide fleet). This ambitious goal is reachable based on several solutions in which Safran plays its part, in particular by:
  - Working on ultra-optimized thermal propulsion for the next aircraft platforms
  - Promoting a wide use of sustainable aviation fuels (SAFs), notably sustainable fuels for current generation aircraft and future long haul. Safran leads by example by incorporating SAF in its civil engines tests: 10% by year-end and at least 35% by 2025,
  - Exploring the potential of hydrogen.

  Safran's CDP score in 2020 improved to A-, from the 2019 score of C, highlighting rapid progress. In 2021, Safran will report additional progress by:

  - updating its climate action plan consistent with TCFD recommendations
  - revising its Scope 1&2 targets to reduce CO2 emissions (30% in 2025 compared with 2018 levels) to maintain ambition beyond the impact of the COVID-1 9crisis
  - completing its Scope3 emissions disclosure with the evaluation of indirect emissions (purchases & logistics and employee commuting)
  - disclosing Scope3 direct emissions from the use of its products, i.e., emissions from civil aircraft engines and helicopter engines.
  - In 2022, Safran will disclose all Scope 3 emissions including use of products across whole Group perimeter with reduction targets.

A key requirement of the Veritas engagement was to secure commitment of direct Board responsibility for the company's climate change work. The Safran Board has designated a "Director responsible for monitoring climate issues". He is also the independent chairman of the Innovation, Technology & Climate Committee and will embody and represent the Board's commitment on climate issues.

Veritas Proxy voting, ESG and Company Engagement reporting is available at: https://www.vamllp.com/sustainability/

JP Morgan Asset Management (Global Smaller Companies)

- J.P. Morgan engaged with UK retailer **Boohoo Plc** regarding its supply chain and working conditions. Boohoo has been under the spotlight to establish stringent policies and procedures on its supply chain and working conditions, since the allegations surfaced of labour issues and poor working practices at its factories. Subsequently, since an independent review, they have introduced an Agenda for Change Programme. Boohoo announced a series of changes towards their governance and supply chain management processes, where a list of T1 and T2 suppliers have been named and they have appointed a Sustainability professional to lead the projects of maintaining their supplier list and created a detailed audit process. J. P Morgan have had extensive engagement with the company and acknowledge that Boohoo have made some promising changes. However, at the recent shareholder AGM, JP Morgan voted against approving the management incentive plan, due to the potential significant pay-out opportunity for the management board. Since the Agenda for Change programme is still at an early stage such changes to compensation packages are not appropriate. JP Morgan will monitor the Agenda for Change Programme in 2022 and engage with the company to check on progress.

- J.P. Morgan engaged with UK homewares retailer **Dunelm** to discuss a variety of ESG topics. On the topic of emissions, Dunelm has a clear roadmap to getting to net zero emissions by

2050. Further, it has committed to an absolute reduction of 50% in scope 1 and 3 carbon emissions by 2030, and to purchase only renewable electricity, in terms of scope 2 emissions. The company's home delivery mailing bags are now made from greater than 95% recycled plastic and are 100% recyclable. It continues to partner with organizations such as the British Retail Consortium (BRC) to ensure that the retail industry is not only headed in the right direction when it comes to climate change, but that it sets a world-leading industry ambition to reach net zero emissions.

- J.P. Morgan met with **Pan Pacific** to discuss their board composition. J.P. Morgan voted against elections of all directors at the AGM last year because the company increased the numbers of directors from 14 to 17; and had not addressed the lack of diversity on the board. Following engagement with the company Pan Pacific proposed to reduce the number of directors to 15 and to appoint its first female executive board director. Additionally, J.P. Morgan asked about the measures the company has undertaken to advance female participation in the workplace. The ratio of female employees in management was reported at 7% for 2020, compared with the female employee ratio of 30%. Diversity was made a top priority of upper management in 2021 and the percentage of female employees in management positions had already reached 10% in March of 2021 and a target of 30% has been set for March 2023. J.P. Morgan will continue to engage with the company to further enhance diversity at the board level and to monitor progress in achieving its target.

- J.P. Morgan engaged with **Milbon** on its efforts to enhance diversity on its board and in the workplace and establish/disclose social supplier standards. The discussion with management confirmed a steady increase in the ratio of female employees and female managers, and the appointment of an outside female director. The company has also been preparing new policies on human capital development that will be announced in the next corporate governance report, where acceleration of diversity will also be emphasized. Advancement in initiatives for sustainable palm oil and paper usage in their procurement practices was also discussed. J.P. Morgan will continue to monitor the company's actions to improve workplace diversity and encourage the company to establish a supply chain management system.

JP Morgan Asset Management ESG and Sustainability reports are available at:

https://am.jpmorgan.com/gb/en/asset-management/institutional/about-us/investment-stewardship/

Lombard Odier Investment Managers (UK Smaller Companies)

Over the last year in particular Lombard Odier have recognised the need to demonstrate more fully the sustainability credentials of the Fund's underlying investments and provide an overall ESG factor picture of the portfolio. Given the lack of data both in aggregate or standardised form Lombard Odier have conceived a qualitative model to categorise companies:

- Businesses that are **Enablers** of the advancing STEP change.
- **Adaptors** which are businesses for whom their transition is both advancing and a source of competitive advantage.
- A **Passive** group of businesses for whom this STEP change does not have radical or profound impacts on their business models or relevance.
- A more controversial bucket acknowledging that there are **Unresolved Debates**. This for example is where most direct carbon exposure lies.

Investment Manager Engagements 2021

They have further broken down the Enablers to provide greater clarity on business contribution and portfolio exposure to Social, Environmental and Technological advances. On this basis they have been able to take qualitative assessments directly from a well-established investment process, including high levels of corporate engagement and translate into a quantitative picture of the portfolio.

For completeness, the team have run the portfolio through Lombard Odier's own Sustainability rating system using conventionally available data resources. The key highlight of which is that just 32% of the portfolio is covered by standardised ESG data sources. This shows the disproportionate value in a stewardship and engagement approach to ESG for smaller companies. In addition, the discovery process of identifying companies enabling the advancing STEP change and those for whom adapting the business model is a source of sustainable competitive advantage is inextricably attached to the prospect of an enhanced investment return.

Lombard Odier recently provided a case study example of Corporate Governance engagement on the back of many companies asking what investors want or need to see in terms of ESG strategy and disclosure. A leading international healthcare business engaged in the acquisition, marketing and distribution of pharmaceutical products reached out to understand how Lombard Odier evaluate companies from an ESG perspective, how they viewed their company specifically and what they could do to improve their ESG reporting and disclosure. Lombard Odier met with the company's CFO and Head of IR / ESG Reporting and discussed the ESG framework highlighted above, alongside the direction of travel for ESG disclosure and material ESG data points for UK smaller companies in the years to come. On the back of this meeting Lombard Odier were invited to share their approach and thoughts at the company's next board meeting.

Lombard Odier ESG policies and Stewardship reports are available at:
https://am.lombardodier.com/home/sustainability/our-sustainable-investment-frame/stewardship.html

Investment Manager Engagements 2021

Private Markets

Partners Group

- Private equity and debt manager, Partners Group, operates within the responsible investment/ESG integration through to the philanthropy end of the spectrum in addition to screening and excluding investments whose products, services or practices pose significant social or environmental harm. Partners Group ESG strategy is anchored in their Responsible Investment Policy which describes their overall approach to responsible investment and is available at: https://www.partnersgroup.com/fileadmin/user_upload/Files/ESG_disclosures/210309_ESG___Sustainability_Directive_vFV.pdf

  In the past year Partners Group conducted 60 ESG engagements with its portfolio companies and assets, each consisting of several individual projects. These efforts delivered a reduction of over 3.1 million metric tons of CO2 emissions, recycled more than 29,000 tons of waste and reduced energy consumption by over 597 GWh across the Partners Group investment portfolio.

  Partners Group are committed to working towards net zero carbon emissions across their entire organization and managing the investment portfolio towards the goals of the Paris Agreement. Their group-wide Climate Change Strategy outlines the approach towards achieving these goals, highlighting how they manage climate risks and impacts across the firm and the investment portfolio. Partners Group have embedded this strategy into the key stages of their investment and ownership process from sourcing and due diligence through ownership to exit. The strategy also aligns with the Task Force on Climate-related Financial Disclosures' (TCFD) recommended disclosures. The Climate Change Strategy can be viewed at: https://www.partnersgroup.com/fileadmin/user_upload/Files/ESG_and_Corporate_Responsibility_PDFs/20210325_Climate_Change_Strategy_Final_website.pdf

  Partners Group reported engagement with US based infrastructure services company **USIC.** USIC is the market leader in underground infrastructure location services in North America. Over 1,000 government and corporate clients across the US and Canada depend on USIC's 9,000-strong team of technicians to provide this critical service. Since Partners Group acquired USIC on behalf of clients in 2017, they have introduced company-wide measures to ensure that USIC technicians avoid injury and government agencies and corporate clients do not disrupt their service. This strategy has transformed USIC's health & safety culture and added significantly to its overall performance.

  Partners Group have also renewed USIC's entire fleet of trucks. Newer models are safer, more fuel efficient and internet connected. Proprietary USIC software makes rostering and route planning more efficient, with no left turns imposed wherever possible to cut the biggest cause of accidents. With new drones in their toolboxes, technicians will also be able to service inaccessible locations quickly and safely. Since these initiatives, motor vehicle accidents have fallen by a third. Field injuries and lost-time incident rates have been halved.

  Staff turnover at USIC is now at historic lows ad new initiatives have been introduced to ensure staff feel valued and to optimize their working conditions. For example, any employee can now contact the USIC CEO to raise issues, from their work-life balance to training or a specific job. Thanks to USIC's proprietary route planning software, every driver ends their day on the job closest to home. Additionally training periods have increased for technicians from 4 to 13 weeks. On-call payments and regular off-time now feature in every employment contract.

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Partners Group are committed to the Paris Agreement objectives and USIC is no exception. Better fuel efficiency and real-time routing on newer trucks will lead to a lower carbon footprint. Additionally, USIC's emissions are targeted to halve by 2030 and achieve net zero by 2050 as electric vehicles (EVs) are increasingly rolled out. The next few years are likely to be busy. The US infrastructure bill provides a solid base for growth. Every renovated bridge, new solar or wind farm, 5G tower upgrade, and EV charging station will need USIC's location services.

https://www.partnersgroup.com/fileadmin/user_upload/Files/Research_PDF/20220222_Partners_Group_Case_Study_USIC.pdf

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.

  Currently 61% of managers are rated green, with just 3% rated red. Since 2020, 80% of the managers across both private equity and infrastructure programs scored Pantheon's highest rating for integrating ESG factors into investment processes and 82% scored the highest rating for engaging directly with portfolio companies on ESG issues. While only 51% of managers achieved the highest rating for fully integrating assessment of climate change risk and opportunities into their investment processes in 2020, this is an area of rapid progress and the percentage of those scoring the lowest rating was just 3%.

  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 in 2021, they incorporated the Sustainability Accounting Standards Board (SASB) Materiality Map into co-investment processes.

  Examples of positive impacts from portfolio companies can be found in the Pantheon Annual ESG and Corporate Responsibility Report for 2021 which is available at: https://pantheon-

Investment Manager Engagements 2021

ventures.foleon.com/esg-report-2021/esg-and-corporate-responsibility-at-pantheon/front-page/

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 a number of proprietary and interdependent tools developed over the last 18 months, 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 of 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 has recently recruited a dedicated ESG resource who will work across the firm's strategies, focussing on expanding ESG capabilities.

  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

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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 senior management of a soft drinks manufacturer to encourage the company to improve its supply chain monitoring regarding key imported food ingredients and to better promote recycling in its end markets and improve the mix of recycled materials in its production processes. The company has a high reliance on single use packaging that was reflected in Barings' 4 (Poor) / Stable ESG Rating and underweight positioning. During the initial engagement, the company was open to feedback and acknowledged it needed to improve its sustainability strategy and communication to investors. First quarter financial results provided an update on ESG initiatives. The company entered a collaboration to produce PEF bottles that are plant-based and recyclable and co-initiated an industry platform to improve transparency and traceability for sustainable juice products. As a result, Barings increased its internal ESG outlook rating to Improving and will continue to monitor the company as new processes and packaging technologies are implemented, with the expectation of an ESG Rating upgrade over time.

Further detail of Baring's approach to active ownership and engagement is available at:https://www.barings.com/gb/guest/about-us/investing-responsibly

ICG Longbow

- Whilst most ICG Longbow Real Estate Debt funds contain legacy investments where ESG initiatives were less formalised than in some newer deals, their most recent deals have made good progress on sustainability-led enhancements efforts. In 2021 both ICG Longbow Senior Debt and Partnership Capital programmes entered into their first dedicated Green Loans with underlying borrowers, which in each case have pricing reductions available for meeting defined sustainability targets or accreditations. Also, in 2021 ICG plc secured its first Sustainability-linked Revolving Credit Facility, replacing existing financing facilities. The loan comes with adjustments to the margin linked to achieving specific climate-related metrics, related to reducing ICG's operational emissions and integrating climate risk into investment analysis. These facilities demonstrate ICG's ongoing commitment to ESG efforts, particularly around climate change, at corporate as well as fund level. In November 2021, ICG committed to support the goal of net zero GHG emissions by 2040 and adopted an enhanced ESG Screening Checklist with an initial assessment of alignment to the UN Sustainable Development Goals.
  In the office sector in particular, sustainability credentials continue to be ever more important to allow for properties to secure better tenants, on better lease terms, with shorter void

periods. ICG Longbow provided several case study examples of investing in improving sustainability in portfolio loans including the **King Edward House loan** (senior secured loan of to finance the acquisition and refurbishment of a mixed-use asset in central Birmingham) where they raised the target for the sustainability accreditation of their office refurbishment to BREEAM 'Excellent' (previously 'Very Good'). ICG Longbow loan structure provides capital expenditure funding to support their ambitions, and they are giving consideration to providing financing to help meet the additional cost of these upgrades. In the meantime, interest and capital on this loan is well secured by long term leases to UK clearing banks and building societies. The sponsor of the **Reading loan** (senior loan secured against one of the premier business parks in the Thames Valley corridor) is targeting a BREEAM 'Excellent' accreditation in its refurbishment programme. These works are on time and on budget, and the sponsor is now seeking planning approval to add solar panels to the asset to further improve sustainability credentials. During renovation works to date, the sponsor / contractor has achieved a 98.8% diversion of waste materials from landfill, which is considered strong.

ICG 2021 ESG Sustainability and People report is available at:
https://www.icgam.com/society/environmental-social-and-governance/sustainability-and-people-report-2022

Multi-Asset Credit

Oakhill Advisors

- ESG integration is an integral component of multi-asset credit manager Oakhill Advisors (OHA) investment process and its approach to seeking long-term value creation. Oakhill 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.

  OHA seeks to use its scale and influence to promote awareness around sustainability and other ESG matters. In doing so, OHA prioritises areas which it believes are material to the credit profile of a particular investment and can vary among companies and industries. Maintaining active dialogue with management teams, sponsors, and other industry participants is a core tenet of OHA's investment process as they believe it leads to a better assessment of a company's long-term business prospects and value. OHA seeks to engage prior to making an investment and on a regular basis thereafter as part of its established investment process. Sustainability matters are discussed and, if relevant, pursued with the company as part of this process, with the purpose of contributing to positive outcomes and value-add creation.

  Oakhill prioritised several initiatives in 2021 that demonstrated the firm's focus on the continuous improvement of its approach to responsible investing and to incorporating ESG and sustainability considerations within its own organization.

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- Committed to aligning portfolios appropriately in relation to the global transition to a lower carbon environment - Became a public supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) and the Transition Pathway Initiative (TPI)
- Conducted an inaugural carbon footprint assessment for the firm and offset 100% of 2019 and 2020 carbon emissions through the purchase of conservation VERs (verified emissions reductions) of a forestry project in Maine
- Partnered with third party carbon accounting platform (Persefoni) to quantify the carbon footprint of OHA's flagship liquid credit fund
- Continued to invest in industry and peer sustainability focused groups
- Submitted its second PRI transparency report
- Became a member of the Institutional Limited Partners Association (ILPA) Diversity in Action Initiative
- Formed new recruitment partnerships focused on attracting diverse talent with Wharton Alliance and Out For Undergrad

Oakhill provided a case study example of investing in **Bluesource**, a leading U.S. corporate climate and energy advisor. Bluesource manages more than 3.1 million acres of forest assets across 77 projects in the U.S. and Canada and has been voted Environmental Finance's Best Project Developer for five consecutive years.

Oakhill committed $500 million to create Bluesource Sustainable Forests Company ("BSFC"). BSFC will fund the acquisition of commercial hardwood timberlands to create a sustainable forestry strategy focused on creating and selling carbon credits. Oakhill believes this investment provides the opportunity to create strong returns with downside protection and multiple upside opportunities as the carbon market develops. Oakhill expects sustainable outcomes to include:

- Material improvements in land management, including long-term certainty that the stocking of its forests with timber will not be reduced
- Long-term environmental benefits such as habitat rejuvenation, soil retention and water management
- Real and permanent reduction in greenhouse gas emissions via generation of carbon credits
- Long-term conservation easements on forests to mitigate harvesting from reaching below an established baseline for at least 30–100 years

This partnership exemplifies OHA's philosophy focused on achieving attractive returns for investors while promoting sustainable practices across markets and the broader economy.

Oakhill Advisors 2021 ESG and Sustainability report is available at: https://www.oakhilladvisors.com/esg/

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's 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 is also currently in the process of implementing the Financial Stability Board's (FSB) Task Force on Climate related Financial Disclosures (TCFD) framework to identify what the climate related risks to the portfolio could be over the short to long term with the purpose of identifying the subsequent mitigating actions against any identified risk. 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 2021.

DTZ provided two ESG case studies for 2021.

- **The Printworks** leisure scheme in Manchester received an **International Green Apple Award for Environmental Best Practice** in 2021. To achieve this DTZ delivered:
  - 29% year on year energy usage reduction since 2017
  - 65% of all waste recycled and 0% waste to landfill
  - Raised £153,000 for local charities since 2017
  - Installed rooftop garden and beehives for local community

- **Co-Living Fund Harrow** partners with the charity crisis to help prevent homelessness. The Harrow development includes:
  - 222 studios, 7000 sq. ft incubator employment zone, restaurant, library, cinema and mindfulness lounge
  - 5 rooms available to people at risk of homelessness
  - Solar PV system, Air Source Heat Pumps, LED lighting
  - BREEAM Excellent design stage certification
  - 30 employees from local community

DTZ also provided the results from the 2021 **Global Real Estate Sustainability Benchmark (GRESB)** annual assessment for the SPF portfolio. The Fund ranked 64th out of 100 in GRESB score and obtained a score of 29/30 for the Management module and 35/70 for the Performance module and 2 Green Stars.

DTZ Investors Responsible Investment Policy is available at:
https://www.dtzinvestors.com/en/about-us/responsible-investment/

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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 2021 report include:
  - Over USD 5 billion invested in renewable power generation.
  - 6.5 GW of renewable energy capacity - enough to power over 4 million homes.
  - Over 5 million tonnes of GHC emissions avoided in 2021.
  - Clean water and wastewater projects serving over 5 million people.
  - Over 23,000 volunteer hours from IIF portfolio companies and USD 2.5m in charitable donations and sponsorship.
  - GBP 2.2 million contributed to wind farms' local communities on behalf of Ventient Energy.
  - 16,000 trees planted through the Sonnedix One Tree partnership.
  - ‘A’ rated for direct infrastructure in the 2021 PRI survey.

  JP Morgan also provided a report on the Infrastructure Investments Fund (IIF) results from the 2021 **Global Real Estate Sustainability Benchmark (GRESB)** annual 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. 2021 marks the sixth year for the GRESB Infrastructure assessment and participation included 106 Funds and 558 assets.

  Key takeaways from the 2021 report include:

  - IIF ranked 30th out of 106 Infrastructure Funds in GRESB score.
  - 6 IIF portfolio companies have a maximum 5-star rating.
  - 12 of 19 IIF portfolio companies with improved score.
  - Ventient Energy and Beacon Rail ranked 8th and 9th respectively (out of 558 assets).
  - 10 IIF portfolio companies ranked in the top 200 assets (out of 558 assets).
  - **Sonnedix** and **Ventient Energy** were sector leaders for the fourth year in a row - each ranked first in their respective sector peer groups.
    - Ventient is a diversified platform of 135 contracted wind farms totalling 2.6 GW across the UK and Europe. https://www.ventientenergy.com/
    - Sonnedix develops and operates utility-scale solar projects across OECD countries, including 6GW of PV plants in operation, construction, and various development stages. https://www.sonnedix.com/

  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 trend.

Appendix B

Sustainalytics Engagement 2021

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) is designed to engage on management gaps in the material ESG Issues among the worst performing 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.

During 2021, MRE increased the number of companies engaged from 176 to 314 – a 78% increase. This is concurrent with the decision to adjust the company selection criteria to fully focus on large- and mid-cap companies. This methodology enhancement was implemented to deliver additional value to clients by covering more portfolio companies and create a broader engagement impact via larger companies with a bigger footprint. Engagement activities are similarly scaling up. Over the last year, MRE conducted 247 meetings and had 1963 email exchanges and phone calls.

In 2021, MRE recorded 225 positive developments (defined as new initiatives that companies implement related to recommendations). The predominant issue in 2021 was climate change/carbon with 51 positive developments. Most companies have developed specific targets for carbon reductions, which is key to assessing a company's commitment to mitigating climate change. Sustainalytics customise suggested actions for climate change to each individual company, but the most common focuses are often on getting the right data, setting targets for carbon reductions, implementing initiatives that make a difference, and keeping investors informed with a relevant framework like the Task Force on Climate-Related Financial Disclosures (TCFD).

Seven engagements were resolved in 2021. An engagement dialogue is considered resolved when a company's ESG Risk Rating score improves to Medium ESG Risk Rating category,

Sustainalytics provide a wealth of information in their 2021 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 German Pharmaceuticals company **Bayer** is on governance, environmental and social impact of products and services and business ethics. In the latest update of the ESG Risk Rating, the management score of Bayer has significantly improved, bringing the company into the top 20% of its industry. The positive developments included:

    - Bayer announced its 2030 Sustainability Goals including a carbon neutral target by 2030.
    - Bayer has been settling outstanding lawsuits
    - The company established a new independent Sustainability Advisory Council that was to report to the CEO and had a remit to advise on improvements regarding sustainability throughout the organization.

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- Bayer re-assessed executive long-term incentives and now ties 20 per cent of executive long-term incentives to environmental and social goals.
- Bayer expanded transparency for investors and enabled access to its pharmaceutical, clinical trials data through a clinical data request portal.

▪ UK based airline, **Wizz Air Holdings**, was engaged on product governance, environmental management, carbon emissions, emergency response program and human capital (freedom of association). In the latest update of the ESG Risk Rating, the management score of Wizz Air has improved by 16 points, bringing the company into the medium risk category and below the 28-point threshold for engagement. The positive developments included:

- Increased awareness of the materiality of ESG risks. The company has gradually developed adequate policies, management systems and transparency around issues, which are supported by the board.
- The company has explained that product governance issues mainly pertained to regulatory issues with authorities in Hungary, and therefore are not based on customer/client complaints. Issues have been resolved.
- WIZZ AIR understands that what is missing is a management system to implement the EMS policy and a transparent monitoring and feedback process to the strategic decision making of the board. The policy now qualifies as 'adequate.'
- The annual report provides information about results on major environmental issues and shows a gradual decrease of CO_2 emissions (per passenger mile), partly caused by 1) the acquisition of newer and more energy-efficient aircraft, 2) a high load factor, and 3) a series of additional measures, clearly explained in an overview of relevant parts/aspects of the aircraft.
- The company has set a target for the reduction of CO_2 emissions by 1/3 (retroactive to 2019).
- The company has publicly announced it adheres to the 'freedom of association' standards.

▪ The engagement focus at South Korean auto manufacturer **Kia Corp** was product governance, carbon product and services, corporate governance and human capital. In the latest ESG Risk Rating update, Kia Corp's risk management score improved by more than 20 points, bringing the company into the medium risk category and below the 28-point threshold for engagement. The positive developments at Kia Corp included:

- Established a new ESG team to drive ESG risk management and improve ESG disclosure.
- Disclosing statistics on the use and outcome of its grievance mechanism.
- Improved product governance disclosure, including coverage for QMS and scope of recalls and the costs associated with recalls.
- Developed more details around intermediate carbon reduction targets for 2030 and 2040 before the final carbon neutrality goal in 2045. The roadmap includes initiatives and capex to achieve the targets.

All **Material Risk Engagement** dialogues are mapped to the 17 **UN Sustainable Development Goals** (SDGs). For each engagement, Sustainalytics highlights the three SDGs most relevant to

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the specific engagement objective(s). In 2021, engagements in the program mapped proportionately higher to SDGs 12, 13 and 16, indicating a strong focus on corporate governance, climate action, and product governance.

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.

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.

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During 2021, the Global Standards Engagement team engaged with 186 companies found to be in violation, or at risk of violating international norms and standards. Throughout the year they successfully ended 16 engagements and archived 36 cases. As a result of closer collaboration with their Global Standards Screening team, they initiated 33 new engagements on 32 companies from across sectors and head-quarter domiciles. 144 milestones were reached of which 79 were significant ones, which is going beyond establishing dialogue with companies.

In total, 2924 contacts were made, where approximately one-third resulted in meaningful content exchange, and 168 engagement meetings were held. In June 2021, Sustainalytics' hosted the Global Standards Engagement Corporate Culture Roundtable with global banks they are engaging with, to share their corporate culture best practices.

The Global Standards Engagement team also closely monitored geo-political developments, in Myanmar as well as in relation to the broader human rights situation in China, particularly on ethnic minorities in the Xinjiang region including Uyghurs, Tibetans and Mongolians. Companies linked to the region, and by extension their shareholders, face additional reputational risks and need to ensure their operations comply with international standards. The Global Standards Screening team has carefully monitored the situation and has assessed allegations made in reports against several companies in the research and engagement universe. As a result, new engagements have commenced with the focus on corporate human rights polices and robust due diligence.

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers and Sustainalytics and aligns with Principle 3 of the Principles of 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 2021.

- Sustainalytics reported efforts to engage with Chinese multinational technology conglomerate company **Tencent Holdings** (Lazard) regarding allegations of surveillance and user content censorship. The Chinese government requires the monitoring, filtering, and censorship of Internet traffic by Internet service providers operating in the country. Tencent operates social media, messaging, gaming, music, and cloud services. Its multi-purpose messaging platform, WeChat, is considered a "super app" and dominates the Chinese market with approximately 1.2 billion monthly active accounts. Tencent reportedly complies with the government's restrictions by censoring private chats, including those of users outside China. Purportedly, authorities have unrestricted access to user communications. While compliance is not unexpected, the absence of human rights due diligence presents a preparedness gap. Sustainalytics will initiate dialogue with the company to understand the steps it is taking to protect the relevant human rights of its users, especially privacy and freedom of expression.

- Sustainalytics reported efforts to engage with US based video game publisher **Activision Blizzard, Inc.** (Lazard) which has been sued for sexual harassment and gender-based discrimination. In July 2021, the California Department of Fair Employment and Housing (DFEH), a US state agency charged with enforcing California's civil rights laws, filed a civil lawsuit in the Los Angeles Superior Court against Activision Blizzard, Inc., King Digital Entertainment Plc. and two other related entities for violations of the state's civil rights and equal pay laws. The DFEH stated that during its investigation it found evidence that Activision Blizzard discriminated against its female employees in terms of compensation, promotion, termination and retaliation, and that female employees were subjected to constant sexual harassment by co-workers, including high-ranking executives. The lawsuit alleges that the company's executives and human resources department failed to address the misconduct. In its initial response, Activision Blizzard denied all the accusations. Following an employee letter criticizing the company's first response, Activision Blizzard's CEO announced an external review of the company's procedures. Sustainalytics will contact the company to better understand its view of the allegations, as well as its current and planned remedial actions. The company should cooperate with ongoing investigations and, if found culpable, compensate the plaintiffs appropriately. Furthermore, the company should reinforce anti-discrimination policies by conducting relevant sensitisation training, ensuring a robust grievance mechanism is in place, and appointing a senior-level anti-discrimination expert to lead such activities with a strong mandate from the executive team and company board, and sufficient resources.

- Sustainalytics reported that it will engage with online retailer **Amazon Inc.** (Baillie Gifford, Lazard and Veritas) regarding accusations of interfering in union elections in Alabama, including adopting several anti-union strategies. In April 2021, the Retail, Wholesale and Department Store Union (RWDSU) filed a complaint with the US National Labor Relations Board (NLRB) alleging that Amazon had interfered with the conditions necessary to conduct a fair union election at a distribution centre in Bessemer, Alabama. Allegedly, Amazon used several anti-union strategies such as issuing a series of threats, reassigning pro-union employees to roles where they are isolated from colleagues, and pressuring workers to cast votes in a mailbox in front of surveillance cameras. Since February 2020, at least 37 charges across 20 cities in the US have been filed with the NLRB against Amazon for interfering with worker's rights to organize, form or join a union. Sustainalytics will reach out to Amazon to initiate dialogue. The focus topic will be to learn more about the allegations, and how the company is working to ensure that no anti-union practices are taking place within its operations. Amazon should ensure its Global Human Rights Principles, addressing ILO standards and freedom of association, are implemented throughout its entire operations. The company should also provide a grievance mechanism for employees to raise potential concerns.

- Sustainalytics also reported efforts to engage with US based scientific instruments supplier **Thermo Fisher Scientific** (Baillie Gifford, Lazard and Veritas) regarding accusations of providing biomedical and bioinformatics technology to the Chinese government, which uses it to conduct compulsory mass DNA collection, expanding its capacity for biometric surveillance and other human rights abuses. The large-scale DNA collection violates the privacy rights of Chinese citizens, who are not given the opportunity to provide informed consent. Additionally, this has led to an expansion of state control over the Uyghurs in Xinjiang and ethnic minorities in other regions. Products supplied by Thermo Fisher contribute to these violations. Sustainalytics will contact the company to establish a dialogue about product governance as well as management of the human rights impacts associated with its products. Throughout the engagement, Sustainalytics will seek to learn more about the steps the company is taking to protect internationally accepted human rights standards. Companies operating in China are in a challenging position with respect to managing human rights risks. Nonetheless, supporting internationally accepted human rights standards as well as norms governing the collection, use and storage of human genetic data remains an expectation. The

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company should improve its human rights due diligence and disclosure, especially in relation to its products, services and business relationships.

- Sustainalytics reported that it will engage with **Meta Platforms Inc.** (Baillie Gifford) regarding human rights impacts on users in certain demographics, in developing countries and in regions with high risks of human rights abuses. Meta Platforms (formerly Facebook) is the world's largest social media platform, making its potential impact on society exceptional among its peers. The company has received criticism for several years concerning its content moderation practices and impacts on democracy, hate speech, misinformation, mental health, and other issues. In 2021, leaked internal documents increased focus on the negative impact that users may face from the company's Facebook and Instagram platforms, and the content shared on them, alongside corporate decisions to disregard potential solutions in the interest of maximising user engagement and profit. Among the concerns identified are Facebook's apparent issues with monitoring misinformation in different languages, particularly affecting developing countries. The leaked reports also flagged issues with monitoring both disinformation and hate speech, with only a fraction of this being removed from the platform, and the company's challenges to implement effective measures. The Sustainalytics engagement will encourage human rights due diligence of Facebook's policies and the business impact on users. The company should increase transparency of how it enforces content moderation policies; ideally it should include detailed insights into the implementation of content policies by country. Finally, Meta should demonstrate both the governance structures and competency to oversee implementation of human rights standards in the company's products and practices.

Sustainalytics reported that they successfully ended 16 engagements with 15 companies and archived 36 cases in 2021. Examples of resolved cases include:

- Sustainalytics concluded engagement with the German vehicle manufacturer company **Volkswagen AG** (Ruffer). Between 2008 and 2015, Volkswagen used illegal software, a so-called "defeat device", in diesel car models to bypass US environmental regulations on nitrogen oxide emissions. Since 2016, the company has paid fines, recalled vehicles, and reached settlements with authorities and customers around the world. More recently, the European Commission (EC) fined Volkswagen for colluding with BMW and Daimler between 2009 and 2014 to avoid adopting the best available technology for reducing nitrogen oxide emissions. The Sustainalytics engagement objective was to ensure that the company had adequate risk management systems and internal controls and that the supervisory board had sufficient oversight, independence and skills to prevent future violations. Furthermore, Volkswagen was expected to demonstrate that it had improved its corporate culture.
  The Dieselgate scandal induced VW to reform its corporate culture through a comprehensive range of measures. The company has adopted Real Driving Emissions testing; advanced with code of conduct training; improved its whistle-blower system reporting and is implementing ESG-tied remuneration for both top and middle managers. Based on the company's willingness to cooperate with the authorities, strong responsiveness to the engagement, and its considerable progress in improving its internal compliance organization and reforming its corporate culture, Sustainalytics decided to conclude the engagement. Dialogue with VW would be resumed if any new serious business ethics incidents occur.

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- Sustainalytics provided a report on concluded engagement with the US electric utility company **Edison International** (Legal & General). Edison International is a parent company of Southern California Edison Company (SCE), one of the largest electric utilities in the US. SCE serves approximately 15 million people in a 50,000 square-mile area of central, coastal and southern California. About a quarter of SCE's service territory is categorised as a high-fire threat area. The company's equipment has allegedly sparked several wildfires, most notably the Thomas fire in December 2017, which resulted in two fatalities and the Woolsey fire in 2018, that led to the evacuation of more than 200,000 people and the deaths of three. The 2017 blaze destroyed the vegetation, which was holding the soil in place, allegedly contributed to mudslides in the town of Montecito a month later. The mudslides led to 21 fatalities and destroyed dozens of homes. Multiple lawsuits related to wildfires and mudslides have been filed against SCE and Edison, including class actions.
  Edison was expected to address the impacts of the incidents and ensure that remedial measures are in place. Additionally, the engagement objective was for the company to develop comprehensive practices to mitigate wildfire and other physical risks, based on a long-term scenario analysis and to report transparently on the progress made to meet clearly defined goals. The company was also expected to establish a broad collaboration with communities, authorities and rescue forces to ensure an integrated effort to minimise the risk of future wildfires.
  Sustainalytics has been in dialogue with Edison since 2019, during which time three conference calls were held and several emails exchanged. The company was open and constructive throughout the engagement, both in conference calls and in the provision of information via email. Additionally, the company's public disclosure, both on its website and through its reporting to the California Public Utility Commission (CPUC), is robust and informative. Edison has demonstrated a clear commitment to mitigating the impacts of wildfires and implementing robust preventative measures in line with or exceeding regulatory requirements.
  In February 2020, Edison filed the 2020-22 Wildfire Mitigation Plan (WMP) to the CPUC. The document details the actions the company plans to take to address wildfire risks and is based on three pillars: increased situational awareness, grid hardening and enhanced operational practices. Some of the improvements the company reports on in the new WMP include: a switch from enterprise-level risk models to asset-level ones, a longer-term horizon in risk analysis, and increased board oversight to evaluate all identified risks. Edison continues to deliver on wildfire mitigation measures and annual targets that were agreed on with the authorities. The company reported that it met or exceeded nearly all the goals in its 2020 Wildfire Mitigation Plan. It transparently reports on incidents that could be potentially related to the company's equipment. Edison's equipment has not been implicated in any wildfires with fatalities or severe impacts on properties during the wildfire season in 2020, which was exceptionally long and intense. In 2021, there has been no major wildfires issues related to Edison's equipment. Therefore, Sustainalytics has decided to resolve the case.

- Sustainalytics concluded engagement with the Italian infrastructure company **Atlantia S.p.A.** (Legal & General). In 2018, the Morandi bridge located in Genoa, Italy, operated by a subsidiary of Atlantia, collapsed, killing at least 43 people and injuring 16 others.
  The engagement objective was to ensure that the company strengthened its quality and safety measures to prevent similar incidents from occurring. Atlantia was expected to assess projects

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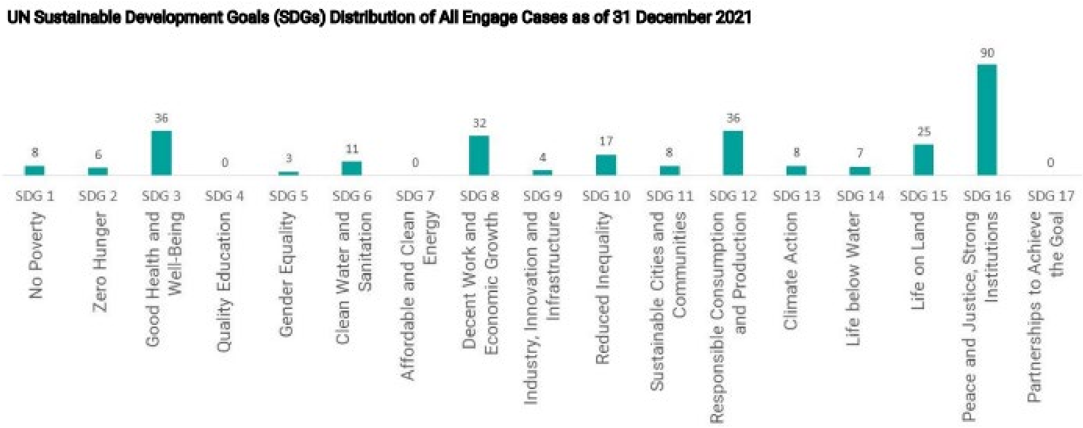
within its control to prevent such failures and to ensure that project monitoring and maintenance systems and emergency procedures were in place. The company was also required to develop a remedial strategy to compensate those affected by the bridge collapse. Sustainalytics has had continuous dialogue with Atlantia and several conference calls were held. The company was very open to discussions and recommendations on how to further strengthen its quality and safety measures and compensate the victims. The dialogue was focused on increased monitoring of infrastructure projects, and investments to improve roads and networks. Another focus was the importance of ensuring that key values, like safety, are embedded throughout the corporate culture.
Atlantia has reinforced measures to strengthen its quality and safety by extending monitoring to double checking its entire infrastructure portfolio of close to 2,000 bridges and tunnels. The company developed a 2020-2023 strategic plan to invest EUR 13.5 billion in the development and improvement of roads and networks. This includes a major digitalisation process and the implementation of cameras and drones for the surveillance of infrastructure projects. To reflect the company's strengthened focus on safety and the new mindset, Atlantia has also made changes in relation to corporate governance; a new CEO has been in place since early 2020, and 80% of top management has been replaced to ensure that the company's leadership is well positioned to manage any challenges. Atlantia has continued to contribute to the rebuilding in Genoa after the collapse, not only by paying compensation to the victims' families but also by making financial contributions to commercial businesses affected by the incident. Considering these developments, Sustainalytics decided to resolve the case.

All **Global Standards Engagement** dialogues are mapped to the 17 **UN Sustainable Development Goals** (SDGs). In 2021, engagements in the program mapped proportionately higher to SDGs 3, 8, 12 and 16, indicating a strong focus on corporate governance.



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

Sustainalytics Engagement 2021

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 improving engaged companies' (proactive) risk and impact management, including 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, Plastics & Circular Economy** and **Child Labour in Cocoa**.

- **Sustainalytics** issued its report for the thematic engagement **Responsible Cleantech**. 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.
  Increased investment in cleantech is essential to meet the climate and energy-access ambitions set out in the Paris Agreement and the Sustainable Development Goals (SDGs). At the same time, the rapidly growing demand for these products poses new environmental and social challenges. By encouraging and enabling the cleantech industry to grow in a more responsible manner, investors can contribute to multiple Sustainable Development Goals. This second biannual report marks the end of the first of three years of engagement. To date, eighteen companies have joined the engagement including **Ford Motor, SunPower**, **Tesla**, and **Vestas Wind Systems**. The engagement program has yielded specific insights about the environmental and social challenges of each of the selected cleantech domains. Sustainalytics' Responsible Cleantech engagement addresses both the environmental and social implications of the growth of selected cleantech domains – electric vehicles, wind turbines and solar panels – and aligns with multiple Sustainable Development Goals, namely: SDG 7 Affordable and clean energy, SDG 8 'Decent work and economic growth', SDG 9 'Industry, innovation and infrastructure', SDG 12 'Responsible consumption and production', and 13 'Climate action'. 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.
  Sustainalytics issued the first report of the Modern Slavery thematic engagement in which they present progress since the baseline assessment in February 2021. The report provides an overview of the engagement process and goes on to provide updates on stakeholder

engagement, COVID-19 and the ongoing human rights situation that Uighurs and other Muslim minorities in China are facing. The report also provides a re-evaluation of the 20 selected companies from the Textile, Apparel and the Construction and Engineering sectors against the KPI framework and describe the engagement interactions. Sustainalytics also shares emerging trends from the engagement and outlines next steps for the remainder of 2021 and into 2022.
Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-modern-slavery

- **The Governance of Sustainable Development Goals (SDGs)** focuses on encouraging companies to define meaningful SDG strategies that align with their business plans and encouraging them 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 2030 Agenda for Sustainable Development recognised the private sector as a key agent in closing the development gap and achieving more a sustainable future by addressing global challenges such as climate change, poverty, environmental degradation and inequality. The SDG framework has provided companies with the tools to translate global needs into business solutions and investors with new investment strategies, opportunities and products. Meaningful SDG strategies aligned with companies' business plans have the potential to produce positive outcomes in line with the 2030 Agenda and contribute to a more stable and sustainable world. Moreover, purposeful SDGs embedded in companies' strategies can link the profit with sustainability.
  SPF received the second report of 2021 which provides an update on conversations with the 21 selected companies in the Financial Services, Consumer Goods and ICT sectors and outlines their progress against the key performance indicators and towards the change objective. Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-governance-of-sdgs

- Sustainalytics issued its first report for the new thematic engagement - **Climate Change - Sustainable Forests and Finance.** This thematic engagement will address 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. At the end of the three-year timeline of this project, the companies should have demonstrated how their management of climate change & forestry-related activities are in line with international disclosure standards and science-based targets aligning with a 1.5-degree transition pathway or beyond, and active involvement in efforts to further SDG goals. On a secondary level, the engagement seeks to promote the integration of nature-related risks and disclosures into reporting, strategic planning and risk management, for long-term value creation in forestry value chains. Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-climate-change-sustainable-forests-and-finance

- **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.

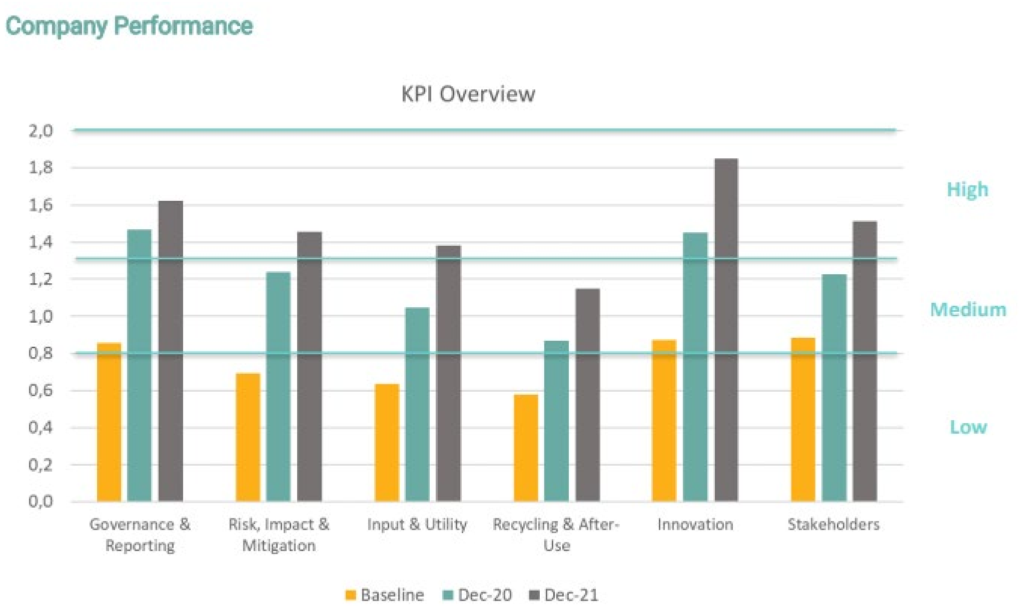
Sustainalytics Engagement 2021

The food sector has a massive environmental footprint and is critically dependent on natural resources. Agriculture is estimated to account for one-quarter of the world's greenhouse gas (GHG) emissions, 80 percent of deforestation, 70 percent of water use and 78 percent of ocean and freshwater pollution. In addition, land conversion can often have significant and irreversible implications for biodiversity. As such, current agricultural practices not only place unsustainable demands on global ecosystem services but also jeopardise the food sector's own future through contributing to the diminishing quality and availability of land and other natural resources. Given the number and variety of material environmental issues affecting the food sector the failure to manage related impacts comes with significant business risks and potential costs. The focus of engagement to date was on understanding the respective companies' current practices and clarifying their disclosure. In most cases, dialogue has been constructive. Many companies were keen to hear an investor perspective about sustainable food production and were receptive to suggestions. To date, the following ten companies have joined the engagement: **Archer Daniels Midland, Bayer CropScience, Carrefour, Cencosud, Central Retail, Fresh Del Monte, Kerry Group, Nestlé, Nutrien, and Sociedad Quimica y Minera.** Throughout the engagement, Sustainalytics assesses the engaged companies on six key performance indicators (KPIs) that cover governance, biodiversity and land use, non-land resources and food waste, sustainable product portfolios, supply chain resilience and stakeholder engagement. Beyond the company engagements, Sustainalytics had introductory calls with two relevant multi-stakeholder initiatives. This provides an avenue to bring relevant expertise into the dialogue and harness synergies where they exist. Biodiversity is certainly an escalating topic as the materiality of the risks imposed are gaining a broader understanding. All companies in the engagement with whom they have had dialogue have expressed a major interest in developing biodiversity-related commitments, accompanied by a frustration of the lack of cohesive standards on how to address this broad and complex topic. The development of the Taskforce for Nature-Related Financial Disclosure (TNFD) is highly anticipated, as it will provide a common framework helping companies to mitigate their exposure to nature-related risks. Looking ahead the coming six months of the thematic engagement will focus on the second round of engagement sessions where Sustainalytics will seek to continue and deepen the dialogue with the companies and wider stakeholders and to enlisting the participation of further companies.
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

- **Sustainalytics** issued its final report for the concluded engagement **Plastics & Circular Economy.**
  The **Plastics & Circular Economy** thematic engagement programme started in January 2019 and has focused on encouraging companies in key sectors exposed to risks associated with plastics – electronics, automotive and packaging and consumer goods - to improve the quality and economics of recycling practices, to shift strategic focus towards redesign and innovation and to increase the reusability of products to enable a transformation of the plastics market towards sustainability. The Sustainalytics engagement strategy has been based on the Ellen MacArthur Foundation's New Plastics Economy initiative which recommends three primary steps for companies and other stakeholders: decouple from fossil feedstocks; create an effective after-use economy; and reduce leakages. These steps are aligned with the concept of a circular economy.

Sustainalytics Engagement 2021

To specify engagement objectives and measure progress throughout the engagement, companies have been assessed on six Key Performance Indicators (KPIs) corresponding to various aspects of plastics use and management. The chart below illustrates the significant advance of average scores for each KPI over the course of the engagement programme with 18 out of 20 companies improving their overall KPI score of 3 points or more from the 2019 baseline, thus meeting the programme change objective.



Sustainalytics believe this mirrors a variety of factors, including legal currents incentivizing circularity, increasing public expectation for companies to manage plastics responsibly and the ability of investors to keep the issue current. However, as illustrated by Recycling & After Use performance, companies across the three sectors find increasing the use of recycled plastics to be a particular challenge. However, this may in turn explain the prodigious innovation in areas such as material and product design and recycling technology evident in all three sectors. Looking ahead Sustainalytics make a number of recommendations for further engagement by investors, including holding companies to account on implementing the circularity component of their long-term sustainability strategies, talking to companies about the development of new business models and tracking and supporting efforts to incorporate recycled plastic and alternative materials into products.
This thematic engagement is also aligned with the Sustainable Development Goals. SDG 12 Responsible Consumption and Production, SDG 13 on Climate Action, SDG 14 Life Below Water and SDG 17 Partnerships for the Goals. Further detail is available at: https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement

- In September 2021, Sustainalytics concluded the second of three years of its revamped thematic engagement on **Child Labour in Cocoa**.
  Ivory Coast and Ghana are the world's leading cocoa producing countries, accounting for almost 70 percent of cocoa production worldwide. However, despite various efforts by the industry, governments and others, child labour remains widespread at the millions of small-scale cocoa farms in these countries. Besides the human costs and the reputational risk that child labour poses on companies and their investors, to attract and retain a workforce and a

Sustainalytics Engagement 2021

stable supply, the cocoa industry also needs to ensure that cocoa farming is lucrative, enabling farmers to sustain themselves and their families.

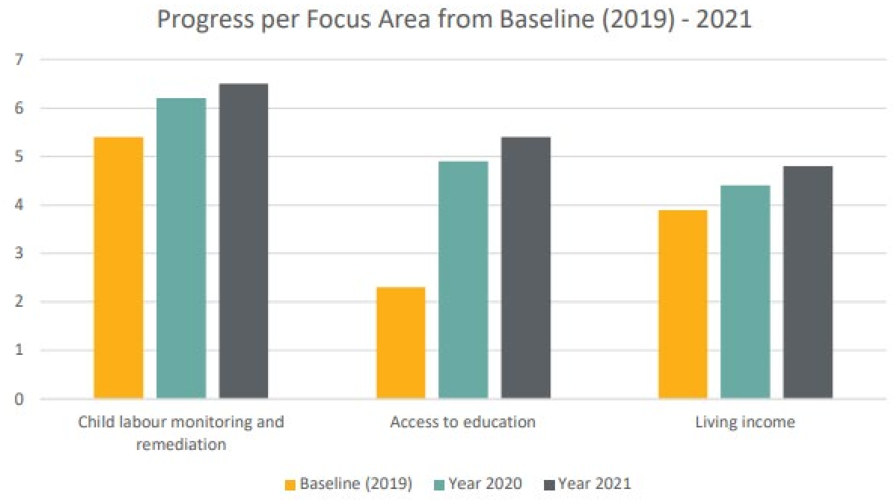
A 2021 report by the ILO and UNICEF on the status of global child labour notes the first increase in child labour in 20 years. According to the report, there are 160 million children in child labour in the world, an increase by 8.4 million since 2016. As before, most child labour happens in the agricultural sector, more than two-thirds is family-based, and most child labour occurs in Sub-Saharan Africa. A large portion of the increase is explained by the economic downturn following the COVID-19 pandemic, in particular income losses among vulnerable families. School closures is another related impact from the pandemic. This together with an impact on poverty levels from the pandemic, makes the situation dire for many cocoa-growing farmers.

Together with a group of institutional investors (including Strathclyde), Sustainalytics have engaged major cocoa and chocolate companies in three focus areas: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers.

In 2021, Sustainalytics engaged with seven cocoa and chocolate companies. There were 46 outgoing emails, 25 incoming emails and a total of 10 conference calls. Apart from the roundtable and bilateral meetings with the companies, Sustainalytics also provided feedback to recently drafted corporate policy documents by chocolate companies, on children's rights and on living income. Moreover, Sustainalytics reconnected with several key stakeholders and initiated an investor endorsement of corporate living income and living wage roadmaps, led by the multistakeholder organization IDH.

Aligned with recommendations made by the ILO and UNICEF, the Child Labour in Cocoa Thematic Engagement has continued to focus on improved income for cocoa-growing farmers, as well as access to school. The topic of living income has picked up speed among cocoa and chocolate companies with serious thinking and efforts being rolled out not only focusing on increased productivity among farmers but looking at farm-level interventions from the income lens. Drawing from dialogues with the companies, there is also more and more of a convergence in how the companies approach living income, with productivity, diversification, access to finance, land tenure and size, premiums and farmer organisation being seen as the income drivers by the industry, generally. Engaged companies also continue to report further roll-out of child labour monitoring and remediation systems (CLMRS). Most companies are currently well above 50 percent roll-out of CLMRS, or similar, in cocoa-growing communities in Ivory Coast and Ghana. There is also an industry level commitment by the sustainable cocoa industry organization the World Cocoa Foundation (WCF) to have CLMRS, or similar systems, rolled out by 2025 or earlier.

Sustainalytics Engagement 2021



In 2022, Sustainalytics will continue engaging the companies for further roll-out of CLMRS, and more efforts from the industry to enable access to education for children in cocoa-growing communities and living income for cocoa-growing farmers.

Collaborative Engagement – Activity During 2021

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)

- In advance of the **COP26** UN Climate Change Conference in Glasgow, **SPF** co-signed the **Investor Agenda 2021 Global Investor Statement to Governments on the Climate Crisis** which was sent to global heads of state. This statement delivers the strongest-ever investor call for governments to raise their climate ambition and implement robust policies. This statement, coordinated by the seven Founding Partners of The Investor Agenda including the **Institutional Investors Group on Climate Change (IIGCC)**, was signed by 733 investors representing over USD $52 trillion in assets (representing around 50% of global AUM). The joint statement to all world governments urges a global race-to-the-top on climate policy and warns that laggards will miss out on trillions of dollars in investment if they aim too low and move too slow. The statement also sets out five actions governments need to urgently undertake:
    - Strengthen Nationally Determined Contributions for 2030 in line with limiting warming to 1.5°C.
    - Commit to a mid-century net zero emissions target with clear sectoral decarbonisation roadmaps.
    - Ensure ambitious pre-2030 policy action including strengthened carbon pricing, phasing out fossil fuel subsidies and thermal coal-based power, avoiding new carbon-intensive infrastructure (no new coal power plants) and developing just transition plans.
    - Ensure COVID-19 economic recovery plans support the transition to net zero emissions.
    - Commit to implementing mandatory climate risk disclosure requirements.

  The full statement and list of current signatories is available at:
  https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf

- **IIGCC** reported on the outcome of the **COP26** UN Climate Change Conference negotiations in Glasgow. After two weeks of intense negotiations over 90% of world GDP is now covered by net zero commitments, 153 countries have put forward new 2030 emissions targets (NDCs) and the Paris Rulebook has been finalised. Countries also agreed to come back next year with new strengthened commitments and a new UN climate programme on mitigation ambition. To deliver on these stretching targets, commitments have been made to move away from coal power, halt and reverse deforestation, reduce methane emissions and speed up the switch to electric vehicles. In the area of finance, thirty-four countries and five public finance institutions will stop international support for the unabated fossil fuel energy sector next year and private financial institutions and central banks are moving to realign trillions towards global net zero.
  The final agreement is remarkable for its recognition of the need for 'accelerating efforts to phase down unabated coal power and phase out inefficient fossil fuel subsidies. Notably, this included a climate cooperation declaration between the world's two biggest CO2 emitters – the US and China – which calls for increased efforts to close the 'significant gap' that stands in

the way of achieving the goals of the Paris Agreement. Whilst it is disappointing that the specific wording relating to coal power was watered down in final negotiations, its inclusion still represents considerable progress from previous national commitments. Ambition has also stepped up in relation to adaptation, with developed countries being urged by their developing counterparts to double adaptation finance by 2025.

IIGCC ensured a strong investor presence at COP26, undertaking an extensive programme of events, bilateral meetings with senior national delegates and wider stakeholders, members and media work. IIGCC's focus was on highlighting investor action on climate change and setting out the policy frameworks that are required to scale this up.

CDP

- **CDP** provided their new report, From Action to Impact: How Companies are Reducing Emissions at Scale with Science-Based Targets. This is the first study to look at how setting science-based targets correlates with corporate emissions reductions and the extent to which companies are delivering on those targets. The findings include:
    - The typical company with science-based targets has reduced its direct emissions by 6.4% per year from 2015-2019 since setting its target.
    - The rate of adoption of science-based targets doubled in 2020 versus the period 2015-2019.
    - Corporate ambition is rising, with 1.5C the new goal: 41% of all companies with science-based targets have 1.5°C-aligned scope 1 and 2 targets.

  In 2020 **SPF** joined with 137 other financial institutions to back the CDP campaign for 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. More than 1,800 companies were targeted and combined they are the source of Scope 1 and 2 emissions equivalent to 25% of total global emissions. The Action to Impact Report is available at: https://sciencebasedtargets.org/resources/files/SBTiProgressReport2020.pdf

- SPF is an active supporter of the **CDP Non-Disclosure Campaign.** This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. CDP's Non-Disclosure Campaign 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. In 2021, **SPF** was one of 168 financial institutions signing up to the annual campaign. With a combined AUM of US$17 trillion, and engagement with over 1,300 companies this is the strongest participation to date. The companies targeted in the campaign were from 77 countries representing over US$29 trillion in market capitalization and over 4.9 billion tCO2 e in combined scope 1 & 2 emissions. There was a notable increase in the engagement levels across all three themes. The number of companies targeted on climate rose 21% from 839 in 2020 to 1,011 in 2021. Forests had a 99% increase from 148 to 295 companies, and the number targeted on water security rose 67% from 219 to 366. Global water use, storage and distribution contributes to 10% of global emissions and deforestation/ forest degradation is responsible for 15% of global emissions. This increased engagement shows that financial institutions understand the growing importance of comparable data across multiple themes.

Collaborative Engagement – Activity During 2021

The disclosure rate for companies targeted by participants rose from 21% in the 2020 campaign to 25% in 2021. Across all three CDP themes, companies that were engaged by financial institutions were 2.3 times more likely to disclose than those that were not targeted. The full report is available on the CDP website: https://www.cdp.net/en

ShareAction

- In support of ShareAction's **Good Work Investor Coalition**, **SPF** co-signed letters to the leading UK Supermarkets including **Sainsbury's, Tesco, Morrisons, M&S** and **Ocado** regarding real Living Wage and workers' rights.
  Supermarkets are one of the largest employers of low paid workers in the UK – with 45% of supermarket workers 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 18 months 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 been accredited. The letters argue that many low paid workers have 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 is long overdue. The Good Work investor coalition represents 38 investors with over £4.6 in assets under management.
  https://shareaction.org/investor-initiatives/good-work-coalition

- **SPF** is an active supporter of ShareAction's **Workforce Disclosure Initiative (WDI)** which aims to improve corporate transparency and accountability on workforce issues, provide companies and investors with comprehensive and comparable data and help increase the provision of good jobs worldwide. The WDI investor coalition is made up of 68 institutions, with $10 trillion in assets under management. Through an annual survey and engagement programme WDI generate new data on workforce practices and practical insights on how to address pressing workforce issues. In 2021, 173 global companies took part in the Initiative, demonstrating their commitment to transparency – a 23 per cent increase on 2020.

  In August **SPF** co-signed a **Workforce Disclosure Initiative (WDI)** collaborative letter to US based video game company **Activision Blizzard Inc.** asking it to be more transparent about its workforce practices and disclose to the WDI survey this year. The Workforce Disclosure Initiative is a project to advance investor understanding and in turn consideration of the people behind the largest publicly listed companies, from those directly employed to those employed in the supply chain. The WDI is run by ShareAction and is supported by a coalition of 53 institutions, with $8 trillion in assets under management. The initiative is also supported by the Pensions and Lifetime Savings Association (PLSA) and the Department for International Development. Activision Blizzard is a one of the most successful standalone interactive entertainment and gaming corporations globally, and yet in 2021 it is being sued for discrimination and sexual harassment against its female employees. WDI believe this demonstrates the mismanagement of the company's responsibilities to its workers and will have a strong negative impact, not only on people's lives and livelihoods, but the organisation's reputation, bottom line and future profitability. These issues are therefore of direct consequence to shareholders, not to mention the wider communities in which the company operates.

Climate Action 100+

- The **Climate Action 100+** (CA100+) initiative published its **2021 Progress Report**. The report reveals that investor action from 615 signatories responsible for a record USD $65 trillion in assets under management has helped 167 of the world's biggest listed corporate emitters drive faster corporate climate action in line with the global goal of reaching net-zero emissions by 2050 or sooner. Highlights from the 2021 report include:
    - **Enel**, the world's largest utility company headquartered in Italy, became the first utility to commit to an exit from natural gas generation by 2040. It has set an absolute net zero emissions target for 2040, which it will achieve through producing energy exclusively from renewables and not relying on any offsets or negative emissions removal technologies.
    - **Ford Motor Company**, **General Motors**, and **PACCAR**, three of the major North American automobile and truck manufacturers, each set medium-term SBTi verified targets which include Scopes 1, 2, and 3. Both Ford's and General Motors' Scope 1 and 2 emissions targets are aligned with 1.5°C.
    - **KEPCO**, the largest electric utility in South Korea, and its six subsidiaries have committed to carbon neutrality and a complete phase out of coal by 2050, following the development of national plans by the South Korean Presidential Committee on Carbon Neutrality.
    - **LyondellBasell**, one of the world's largest plastics, chemicals and refining companies, announced its ambition to achieve net zero emissions from its global operations by 2050, and to achieve an absolute reduction of 30% in Scope 1 and 2 emissions by 2030.
    - **Nissan Motors**, a Japanese multinational automobile manufacturer, has set goals to achieve carbon neutrality across the company's operations and the life cycle of its products by 2050, investing USD 17.6 billion over the next five years to speed up electrification of its products. The company also aims to have 100% of all new vehicle offerings in key markets to be electrified by the early 2030s, which will comprise a 50% electrification mix by 2030
    - **Phillips 66**, the Texas-headquartered multinational energy company, announced plans to reduce the greenhouse gas emissions intensity from its operations and energy products by 2030: it aims to reduce Scope 1 and 2 emissions intensity from operations by 30% and Scope 3 emissions intensity of its energy products by 15%, below 2019 levels. Phillips 66 is the first US refiner and only the second US oil company to set emissions reduction targets that include Scope 3. Rio Tinto, the world's second-largest metals and mining corporation, has more than tripled its medium-term 2030 target, setting a new target to reduce absolute Scope 1 and 2 emissions by 50% by 2030.
    - **Sasol**, the global integrated fuels and chemicals company and fifth largest company in South Africa2, committed to net zero emissions by 2050. Sasol also strengthened a previous 2030 Scope 1-2 emissions reduction target from 10% to 30% and established

Collaborative Engagement – Activity During 2021

a new target to reduce Scope 3 emissions from the company's energy business, aiming for a 20% reduction by 2030.

- **Rolls-Royce**, a leading FTSE100 aerospace and defence company, mapped out detailed decarbonisation plans, with clearer short- and medium-term targets. It committed to making all its civil aero-engines compatible with 100% Sustainable Aviation Fuel (SAF) by 2023 and embedded this target into its executive remuneration policy.
- **Sinopec**, one of the largest national oil companies in China, has committed to achieving carbon neutrality by 2050, 10 years ahead of the China's initial national decarbonisation target of 2060. The company is also aiming to peak its emissions prior to the national timeline of 2030 and pivoting the business towards hydrogen and biofuels in the long run.

The full report is available at:
https://www.climateaction100.org/wp-content/uploads/2022/03/Climate-Action-100-2021-Progress-Update-Final.pdf

Local Authority Pension Fund Forum (LAPFF)

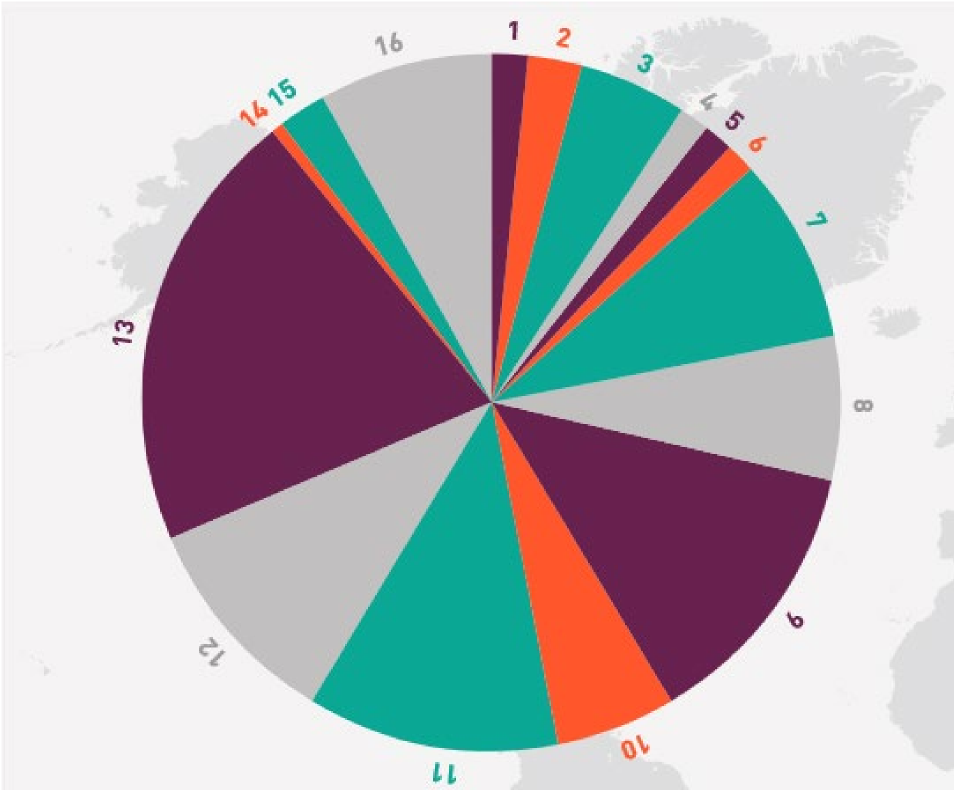
- LAPFF engagement activity in 2021 has been extensive and LAPFF continued to be at the vanguard of seeking accountability for ESG impacts from companies and better outcomes. Climate change continues to be the most pressing issue for the Forum to address. **SPF** participated in a range LAPFF meetings and events during 2021.
  Highlights from **LAPFF** engagement activity in 2021 include:
  - Engagement with **Shell**, pushing for a clearer transition path towards net zero by 2050. In May a Dutch Court concluded that Shell's plans were inadequate on each of the points that LAPFF had highlighted.
  - 'Say on Climate' engagement, with a number of resolutions being put forward to company AGMs this year including **Shell, ArcelorMittal, Exxon Mobil** and **Mitsubishi UFJ Financial Group**
  - Mining and Human Rights engagement and attendance at AGMs including **Rio Tinto**, **Anglo American**, **Glencore** and **BHP**. Community engagement around these issues has also continued, particularly with those affected by the Mariana and Brumadinho dam collapses in Brazil.
  - Continued engagement with **National Grid** as joint-lead investor in the Climate Action 100+ engagement and attendance at the AGM to encourage robust decarbonization plans.
  - Engagement with **SSE** to discuss the company's 'say on climate' resolution ahead of the AGM. LAPFF and SSE have a long-standing dialogue on environmental, social, and governance issues, including a just transition.
  - LAPFF met with **Standard Chartered** to ascertain how the company is progressing working with clients on climate change to reduce emissions and align with the bank's net zero by 2050 policy.
  - LAPFF issued a voting alert to oppose the climate plan at the **BHP** AGM. While BHP has undoubtedly made progress on climate the plan is not aligned with the goals of the Paris Agreement and given the pressing nature of the climate crisis LAPFF

Collaborative Engagement – Activity During 2021

- expects all climate plans to be Paris-aligned at this stage. As the alert stated, climate change is not a negotiation.
- LAPFF attended **Sainsbury's** 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'.
- Engagement with companies identified last year as operating in the Occupied Palestinian Territories (OPT). The long-term objective is to have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT.
- LAPFF continued to engage with other investors in the **30% Club**, the Investors for **Opioid and Pharmaceutical Accountability (IOPA)** and the **'Financing a Just Transition Alliance'**. It is also continuing to work with **CA100+** on carbon reduction at widely held companies, and with **Sarasin** on Paris-aligned auditing of accounts. LAPFF also continues to participate in investor collaborations to combat modern slavery.
- Continued engagement with **BP** to discuss detailed aspects of the company's energy transition plan.
- Engagement with **Lyondell Basell** to discuss progress against the CA100+ benchmark and to identify short-term actions to improve the score and what further commitments could be provided.
- Engagement with **Barratt Developments** about plans towards achieving net zero for homes and for their operations.
- LAPFF wrote to pharmaceutical companies including **Roche**, and **Johnson & Johnson** to request engagement meetings to discuss Covid driven changes to business models and strategies.
- Continued engagement with **Chipotle** regarding the company's approach to water stewardship.
- LAPFF wrote to the constituent companies of the **FTSE All-share** to ask that boards set out their strategy to manage the transition to a net zero emissions business and to provide annual provision for shareholders to vote on such plans.

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

Collaborative Engagement – Activity During 2021



LAPFF SDG ENGAGEMENTS

Goal	
1 No Poverty	18
2 Zero Hunger	23
3 Good Health and Well-Being	47
4 Quality Education	11
5 Gender Equality	15
6 Clean Water and Sanitation	11
7 Affordable and Clean Energy	81
8 Decent Work and Economic Growth	63
9 Industry, Innovation, and Infrastructure	119
10 Reduced Inequalities	52
11 Sustainable Cities and Communities	110
12 Responsible Production and Consumption	92
13 Climate Action	194
14 Life Below Water	3
15 Life on Land	22
16 Peace, Justice, and Strong Institutions	74

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/

Collaborative Engagement – Activity During 2021

- The LAPFF supported **All-Party Parliamentary Group (APPG)** for local authority pension funds issued the final report of its inquiry into responsible investment for a just transition to Net Zero. **SPF** participated in the APPG consultation undertaken during 2021 which examined the role investors can play, with the support of government, in ensuring the transition to net zero considers the social implications for employees, consumers, communities and supply chains. The inquiry found that just transition presented investors with financial risks. The consensus view from the inquiry was that if the transition to net zero is seen as unfair and unjust there would be public resistance and a lack of co-operation. As such, failing to consider the uneven impact of climate action on people and places risks support for decarbonising the economy. That in turn would create economy wide and company specific risks for investors. The report, **'Ensuring Responsible Investment for a Just Transition to Net Zero'**, covered actions investors can take individually and collectively, including having a commitment on the issue in policy documents, understanding the risks and opportunities through quantitative metrics and qualitative evidence from affected stakeholders, importance of setting expectations and engaging companies on them, how capital allocation can help mitigate the risks and maximise the opportunities, and how funds can report impact. The report also set out what governments could do to support investors, such as having a clear and comprehensive just transition commitment, requiring greater company disclosure, identifying and supporting investment opportunities, and establishing a just transition commission. The report is available at:
  http://www.appglocalpensionfunds.org/wp-content/uploads/2021/10/Responsible-Investment-for-a-Just-Transiiton-report.pdf

SPF

- In September **SPF** joined the **Food Emissions 50** campaign which aims to accelerate progress towards a net zero future in the food and agriculture sector by engaging the 50 of the highest-emitting public food companies in North America to improve greenhouse gas emissions disclosures, set ambitious emission reduction targets, and implement credible climate transition action plans in line with Paris Agreement. The effort is coordinated by **Ceres** and will involve institutional investors from around the world who are committed to taking a set of key actions that will drive the necessary and transparent corporate climate action.
  Recognizing that effective change in this sector demands sector wide action, Food Emissions 50 has established a common high-level agenda for companies to reduce emissions across the food supply chain. Specifically, investors are seeking commitments from the focus companies' boards and senior management to:
  - Disclose greenhouse gas emissions across their entire value chain and set science-based emission reduction targets aligned with 1.5 °C.
  - Develop and disclose comprehensive climate transition action plans for reducing emissions in line with what is needed to limit warming to 1.5 °C.
  - Implement the actions identified in those plans and disclose progress

  The Ceres Food Emissions 50 report is available at:
  https://www.ceres.org/resources/reports/food-emissions-50-company-benchmark

  In advance of the **COP26 UN Climate Change Conference** in Glasgow, **SPF** co-signed a **Farm Animal Investment Risk and Return Initiative (FAIRR)** global investor statement calling on G20 nations to disclose specific targets for reducing agricultural emissions. The IPCC's 'Special Report on Climate Change and Land found that an estimated 23% of total anthropogenic greenhouse gas emissions in the period 2007-2016 came from agriculture, forestry and other land use. Recent research has put this at a third of global GHG emissions. Global meat production is currently around 340 million tonnes per year, more than three times the quantity of 50 years ago, whilst meat consumption worldwide is expected to increase 1.4% annually through to 2023 with rising incomes and a growing global population. Current production processes to meet this growth in demand is also responsible for record levels of destruction of important natural biomes on the planet through deforestation and biodiversity loss. Climate action on food systems, such as bold and effective national targets for agricultural emissions has the potential to deliver 20% of the global emissions reductions needed by 2050. The COP26 process, and each country's Nationally Determined Contributions (NDCs) in particular, are key to meeting this challenge as 90%+ of current NDCs fail to account for the whole food system. The statement asks all G20 nations to disclose specific targets for emissions reduction in agriculture within or alongside their NDC commitments at COP26. The full statement from investors is available at: https://www.fairr.org/wheres-the-beef/

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 2021.

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/index.aspx?articleid=16040

Full disclosure of LGIM voting activity for the SPF pooled index funds, with the rationale for all votes cast against management, can be found at:

LGIM Vote Disclosures (issgovernance.com)

Q1 2020

- **Oldfield Partners** voted against incumbent directors Byung-gook Park, Jeong Kim and Sun-uk Kim at **Samsung Electronics**, as they collectively failed to remove criminally convicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company (The resolutions failed to get majority support although approval of each director was significantly lower than previous years). Oldfield Partners also opposed management at **Siemens** by voting for a proposal to allow shareholder questions during virtual meetings. Oldfield voted for this proposal and against management because the proposed article amendment would have a positive impact on shareholder rights (The resolution failed to get majority support).

- **J.P. Morgan** and **Baillie Gifford** voted for a shareholder proposal at Danish transport and logistics company **DSV Panalpina A/S**, requesting the company to increase disclosure on how it manages financially material climate risks and opportunities. The company was asked to report under the Taskforce on Climate Related Financial Disclosure (TCFD) framework. The board are supportive of this shareholder proposal and note the company have been working to improve their reporting in this area and plan to do more. **SPF** expects all external investment managers to vote in support of companies disclosing how they will report on climate risk through the TCFD framework (The shareholder proposal was approved).

- **Baillie Gifford** opposed the re-election of a non-executive director at **Ping An Insurance** as he is a shareholder representative and sits on the Audit Committee, which should be comprised entirely of independent directors.

- **Legal & General** voted against management in the advisory vote to ratify named executive officer's compensation at **Walgreens Boots Alliance, Inc.** The company's compensation committee applied discretion to allow a long-term incentive plan award to vest when the company had not even achieved a threshold level of performance. This is an issue because investors expect pay and performance to be aligned. Exercising discretion in such a way during a year in which the company's earnings per share (EPS) declined by 88% caused a significant misalignment between pay and performance. (The resolution failed to get a majority support as 52% of shareholders voted against). Legal & General also voted against approving the remuneration report and approving remuneration policy at **Imperial Brands plc** as a new CEO in 2020 was granted a significantly higher base salary than his predecessor.

An incoming CEO with no previous experience in the specific sector, or CEO experience at a FTSE 100 company, should have to prove her or himself beforehand to be set a base salary at the level, or higher, of an outgoing CEO with multiple years of such experience. Further, the company did not apply best practice in relation to post-exit shareholding guidelines as outlined by both LGIM and the Investment Association. (Both resolutions were approved although the remuneration report received 40% votes against).

- **Veritas** opposed management by voting for a proposal to reduce the ownership threshold for shareholders to call a Special Meeting at US Health Care provider **Becton Dickinson**. A vote for this proposal was warranted as a lower threshold would enhance the current shareholder rights (The resolution failed to get majority support).

Q2 2020

- **Legal & General** supported successful shareholder proposals at **Exxon Mobil** for alternative directors, as the proposed candidates would make a positive contribution to board effectiveness and oversight as the company was falling behind global peers by failing to act on climate change. Legal & General also voted against the chair of the remuneration committee who was not reappointed to the board. Shareholder proposals to set targets for emissions associated with the use of their products were also supported at oil majors **Chevron** and **ConocoPhillips**. At the **General Electric** AGM, Legal & General voted for a shareholder resolution requesting that the company report on its progress towards achieving a target of net zero greenhouse gas emissions by 2050 (98% of investors supported the resolution). Also in the US, Legal & General supported a shareholder proposal at **McDonald's Corp** for a Report on Antibiotics and Public Health Costs. The proposed study will inform shareholders and other stakeholders of the negative ramifications of sustained use of antibiotics in the company's supply chain and signal the importance of this topic to the company's board of directors (11% of shareholders supported the resolution and LGIM will continue to engage with the company and monitor progress). At **AT&T** Legal & General voted against remuneration for executive officers as the awards and payments made did not meet expectations of fair and balanced remuneration (A majority of investors (52%) voted against the advisory resolution). In Japan, Legal & General supported shareholder proposals at **Sumitomo Corporation** and **Mitsubishi UFJ Financial Group** calling for the companies to adopt and disclose plans to align their businesses with the goals of the Paris Agreement. In the UK, Legal & General voted against approving the remuneration report at **Rio Tinto.** as further reductions in the exit package awarded to the outgoing CEO would have been appropriate given the destruction of the heritage site at Juukan Gorge (A majority of shareholders opposed the remuneration report). Also in the UK, Legal & General supported a resolution at **HSBC Holdings** to strengthen climate change policies and disclosure. The resolution commits HSBC to work towards a net-zero future and to set, disclose and implement short and medium-term targets and implement a phase-out policy for financing new fossil fuel projects (The resolution received overwhelming support with 99.7% of votes cast in support).

- **Baillie Gifford** opposed two resolutions relating to remuneration at multinational food-products company **Danone** because they did not believe the performance conditions to be sufficient. At the French corporate service company, **Edenred,** Baillie Gifford opposed the remuneration policy due to low performance targets and the remuneration report which attempted to retrospectively amend targets without shareholder consultation. Baillie Gifford also opposed the remuneration reports at **Kingspan Group** and **Rio Tinto** due to concerns regarding the treatment of executive severance payments. In the US, Baillie Gifford supported a shareholder resolution requesting a climate transition report at US travel technology company **Booking Holdings Inc.** Baillie Gifford engaged with the company ahead of the AGM explaining to them the need to disclose emissions data and outline targets and a strategy to reduce its carbon footprint (The resolution passed with 56 per cent support).

- **Oldfield Partners** voted against remuneration for executive officers at **ENI** in response to inappropriate COVID-related changes to the 2020 performance objectives and termination payments (The resolution failed to get majority support).

- In June the **Local Authority Pension Fund Forum (LAPFF)** issued a voting alert for the **Mitsubishi UFJ Financial Group** AGM. The alert recommended that LAPFF members support a shareholder proposal for a plan to align financing with the Paris Agreement. **SPF** and **Oldfield** discussed this proposal and agreed that it was necessary that the company 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 22% support and was rejected). However, whilst this amendment to their Articles of Association was unsuccessful, we noted that the company has committed to joining the UN's Net Zero Banking Alliance and to pursue net zero by 2050.

- In the US, **Veritas** supported a shareholder proposal at **Facebook** to require an independent board chair. The recent data privacy incidents and subsequent controversies suggest that shareholders would benefit from the most robust form of independent board oversight, in the form of an independent board chair. 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.

- **J.P. Morgan** voted against approving the management incentive plan at UK retailer **Boohoo Plc.** due to the potential significant pay-out opportunity for management while its Agenda for Change Programme is still in its premature stage.

- **Lombard Odier** voted against executive remuneration at **Oxford Biomedica Plc.**, **PureTech Health Plc.** and **Medica Group Plc.** as their remuneration approaches and alignment with shareholder's interests is not sufficient.

Q3 2020

- **Legal & General** voted against a resolution to receive and adopt the report & accounts at **Frasers Group Plc** as the company did not meet the requirements of the Modern Slavery Act 2015. Section 54 of the Act requires companies to provide a statement setting out the steps they have taken to ensure that slavery and human trafficking is not taking place in their own operations or within their supply chain. In addition, the statement should be signed by the board of directors. Legal & General not only considers the failure to provide this statement to be a serious governance failing, but they also see this as both a humanitarian crisis and a risk to a company's operating model. However, only 0.4% of the shareholders voted against this resolution - over 64% of the company's issued share capital is owned by the founder of the company. In Germany, Legal & General voted against the annual formal discharge of the management board and supervisory board at **Volkswagen AG**. While Legal & General notes the progress made by the company in its strategy towards the transition to a lower emission world, they remain concerned about the company's handling of the diesel emissions scandal of 2015 and its overall governance structure. (99% of shareholders supported the resolutions.)

- **Baillie Gifford** voted against executive remuneration at multinational medical devices company **Abiomed** due to concerns with one-off equity awards granted during the year. (The resolution passed with 51 per cent support).
- **Oldfield Partners** voted against remuneration for executive officers at **BT Group** on the grounds that the remuneration policy continues to reward management for poor financial performance. (The resolution passed with 90 per cent support).
- **J.P. Morgan** voted against the re-election of the chair of the remuneration committee at UK retailer **JD Sports Fashion Plc.** due to long-standing concerns regarding executive compensation practices. (A majority of shareholders voted against, and the remuneration committee chair was removed).
- **Lombard Odier** voted against executive remuneration at **Active Energy Group Plc.** as their remuneration approaches and alignment with shareholder's interests is not sufficient. The Executive Directors are eligible to receive excessive termination payments in the event of a change in control which is excessive. Additionally, the CEO received a significant increase during the year with no explanation.
- **Lazard** voted against CEO remuneration and stock option plans at **Remy Cointreau**. The CEO's base salary is not disclosed and disclosure on bonus does not make a link between pay and performance. The stock option plans were opposed due to a lack of information on the performance conditions.

Q4 2020

- **Legal & General** voted against resolutions to re-elect CEO Satya Nadella, and John Thompson (Nomination Committee Chair and Lead Independent Director at **Microsoft Corp.** as the company recently re-combined the chair and CEO roles, after having these separate for several years. Legal & General has set out expectations for all companies to have a separate chair and CEO. This recombination of the roles during 2021 at Microsoft was particularly disappointing as it has had a separation of the roles for many years and did not seek prior shareholder approval for the move. While engagement with the company has been fruitful over the years, Legal & General believe voting against the resolutions was an effective way to convey their disappointment at this governance change.
- **Baillie Gifford** opposed the Climate Transition Action Plan at the Anglo-Australian multinational mining company**, BHP Group**. While satisfactory progress has been made with their approach to climate and climate-related goals, Baillie Gifford are concerned that their targets miss out a sizeable proportion of their emissions and believe they need to be more ambitious in their target setting (The resolution passed with 85 per cent support). Also, at BHP Baillie Gifford supported a shareholder resolution requesting the company strengthen its review of industry associations to ensure that it identifies areas of inconsistency with the Paris Agreement (This resolution passed with 99 per cent support). In the US, Baillie Gifford supported a shareholder resolution at **Tesla Inc** requesting a report on the company's use of arbitration to resolve employee disputes. Additional disclosure and transparency on this provision would clarify Tesla's workplace practices (The resolution failed with 45 per cent support). Also, in the US at cosmetics manufacturer **Estee Lauder**, Baillie

Gifford opposed an executive compensation resolution due to continued practice of granting sizable special equity awards and providing guaranteed pay which is not aligned with shareholders' best interests (The resolution passed with 91 per cent support). Baillie Gifford also opposed the executive compensation at California-based medical device company, **ResMed**. The inclusion of a retesting provision within the long-term incentive plan is inappropriate. (The resolution passed with 90 per cent support).

- In the US, **Veritas** supported three shareholder proposals at **Microsoft Corp**. The proposed report on Gender and Racial Pay Gap would allow shareholders to compare and measure the progress of the company's diversity and inclusion initiatives. A report on Effectiveness of Workplace Sexual Harassment Policies was supported as the company faces potential controversies related to workplace sexual harassment and gender discrimination and a report on Lobbying Activities Alignment with Company Policies would provide shareholders needed information about reputational risks that may arise from publicity around perceived inconsistencies.
- **J.P. Morgan** voted against executive remuneration at **Breville Group**., **CINT Group AB**. and **Plaid Inc.** as their remuneration approaches and alignment with shareholder's interests are not sufficient.
- **Lombard Odier** abstained on the vote to approve executive remuneration at **Keir Group Plc.** While engagement is ongoing on this matter Lombard Odier could not agree to support the proposal given the size of the proposed increases or the performance criteria.

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