Strathclyde Pension Fund

Stewardship Report

Activity and outcomes for the year to 31st December 2022.

Stewardship Report 2022

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 in 2021 and again in 2022.

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 2022 prepared and submitted on behalf of the Strathclyde Pension Fund (SPF) by:

Richard McIndoe, Director..

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Strathclyde Pension Fund

Stewardship Report 2022

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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/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf

The UK Stewardship Code

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

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

The U.K. Stewardship Code 2020.

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

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

The 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 **270,000** members, **160** 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):

https://www.spfo.org.uk/CHttpHandler.ashx?id=57243&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 2022, this was most clearly manifested in the development of our Climate Change Strategy - Climate Action Plan which included a target to deliver a fair share of the 45% or more global reduction in CO_2 emissions by 2030 and net-zero greenhouse gas emissions across the Fund by 2050 or sooner.

Further details are available on the SPF website at:

https://www.spfo.org.uk/index.aspx?articleid=30210

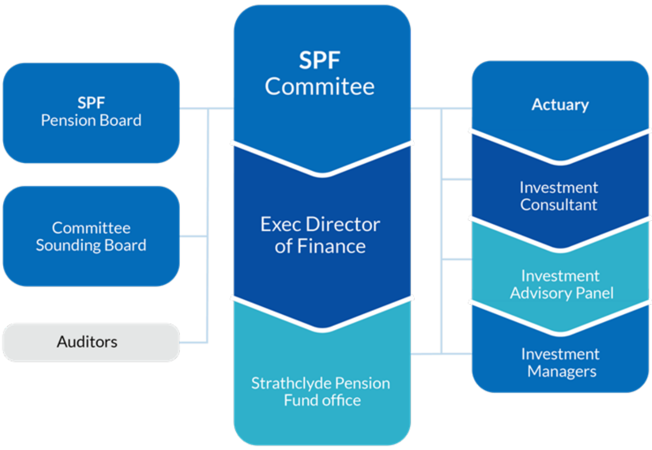
Purpose and Governance

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: https://www.spfo.org.uk/CHttpHandler.ashx?id=58832&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.

SPF Investment Team qualifications and experience include:

Job title	Relevant qualifications	Years experience
Director of Pensions	MA Languages / Chartered Institute of Public Finance and Accountancy	28
Chief Investment Officer	MA Management / MSc Finance / IMC	25
Investment Manager	MSc Investment Analysis / BA Econ / IMC	24
Investment Manager	BA Physics / Charted Institute of Bankers Scotland	32
Assistant Investment Manager	Local Authority Treasury & Banking	26

Purpose and Governance

Diversity

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

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

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

Further information on Equality & Diversity 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 2022/23 training plan is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZLZ3NT0GNT

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 2022 the Committee and Board received training and participated in a series of briefings and workshops investigating strategic and investment management issues. Further detail of the training offered and delivered is available in the Governance section of the Annual Report: https://www.spfo.org.uk/CHttpHandler.ashx?id=58832&p=0

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

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

Purpose and Governance

Incentives

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

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

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

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

SPF

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

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

The SPF Climate Change strategy supports urgent action on climate change and has continued to develop in 2022 with initiatives that include:

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

The SPF Committee also approved four new impact investment proposals by DIP, the SPF's impact portfolio. These spanned renewable energy, UK infrastructure and UK regional growth equity.

- £25m into a Glasgow-based growth equity fund **Panoramic Fund 3** - to invest in growth opportunities for Small & Medium Enterprise Companies.

- £25m into **Palatine Impact Fund II** - to make investments in small and medium sized companies across the UK that demonstrate a clear social or environmental benefit.
- £60m into **Next Power ESG Fund**, which will construct and build a £500m portfolio of new-build, utility scale, ground mounted solar PV projects in the UK.
- £40m into **Beechbrook UK SME Credit III** which will provide £300m of debt financing to creditworthy UK small and medium-sized enterprises.

All committee reports and minutes are available at:

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

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.spfo.org.uk/CHttpHandler.ashx?id=58747&p=0

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

Code of Conduct for Employees

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

https://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/

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

Conflicts Management

In practice, conflicts of interest are rare and there were no potential or actual conflicts of interest during 2022 which required management.

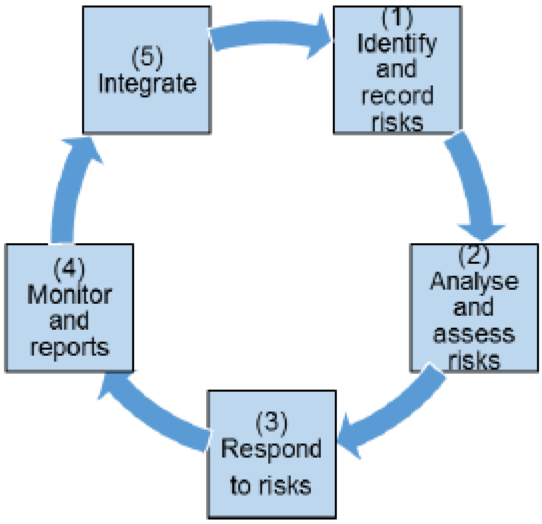
4. Promoting well-functioning markets

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/viewDoc.asp?c=P62AFQDNZLNTNTUT81

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 achieved an important milestone in 2022 with the publication of the concluding report by the LAPFF-supported All-Party Parliamentary Group (APPG) for Local Authority Pension Funds inquiry into responsible investment for a fair and just transition. To further raise the issue of the just transition, the Forum hosted events at the U.K. political party conferences. 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:
  - consultation from the UK's Climate Change Committee (CCC) regarding carbon offsetting.
  - submissions to the Department for Transport on 'jet zero' aviation consultation and its consultation on ending the sale of new, non-zero emission buses, coaches and minibuses.

- responded to a UK government Transition Plan Taskforce (TPT) call for evidence on private sector transition plans. Launched by HM Treasury, the TPT aims to help financial institutions and companies prepare rigorous transition plans.
- responded to the US National Action Plan on Responsible Business Conduct consultation. The Plan seeks to strengthen the US government's role in advancing business conduct among US companies, based on OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

- SPF's engagement partner, **Sustainalytics**, actively participates in public consultations and lobbying across sectors to help shape public policy for better ESG industry standards. Sustainalytics has a strong track record in working with industry associations and government agencies on systemic ESG risks, such as human rights and labour standards. These include: the International Cocoa Organisation and the World Cocoa Foundation on the eradication of child labour; The International Council on Mining and Metals on addressing human rights and environmental issues in the mining sector; the Living Income Community in Practice on addressing root causes to labour rights risks and impacts in food and agricultural supply chains; and continuous knowledge sharing with Shift, a leading centre of expertise on the UN Guiding Principles on Business and Human Rights. Examples of recent consultations responded to include 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. In 2022, SPF supported a Sustainalytics and **Fairphone** collaborative letter to the European Parliament and the European Commission calling on the EU to include living wage and income in the EU corporate sustainability due diligence directive (EU CSDDD). The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance.

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

  SPF is an active member of the Institutional Investors Group on Climate Change (IIGCC). IIGCC's Policy Programme 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. IIGCC is a Founding Partner of the **Investor Agenda** which issues a unified call for action to tackle climate change in the run up to each United Nations Climate Change Conference of the Parties (COP). **The Global Investor Statement to Governments on the Climate Crisis**, published in the run up to COP27 in 2022, was a call from 532 investor signatories representing US $39 trillion in assets for on governments to raise their climate ambition in line with the goal of limiting global temperature rise to 1.5°C. During 2022, IIGCC wrote to governments on several occasions throughout the year calling for action from policymakers, as well as responding to public consultations and running member webinars with key spokespeople.

- **Farm Animal Investment Risk and Return Initiative (FAIRR)**
  SPF has been a long-standing supporter of the FAIRR engagement with investors, companies and policy makers to drive change in the animal agriculture sector. Ahead of the 2022 UN COP27, in Sharm el-Sheikh, the Fund co-signed a FAIRR global investor letter to the Food and Agriculture

Organization of the United Nations (FAO) urging them to set a roadmap for how the food system can align with the Paris Agreement goal of limiting global warming to 1.5°C. The letter, signed by 55 investors representing over US$17 trillion, as well as the UN-convened Net-Zero Asset Owner Alliance (NZAOA), also targets other financially material risks presented by the global food system in its current form, such as deforestation and biodiversity loss, malnutrition, and antimicrobial resistance.

- 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.

Multi-Asset Credit manager, **Oak Hill Advisors**, provides recent examples of an investment manager embedding ESG considerations into investment decisions: https://www.oakhilladvisors.com/wp-content/uploads/2022/12/Oak_Hill_Advisors_ESG__Sustainability_Annual_Report_2021.pdf

and Private equity manager, **Partners Group**, describe how their ESG Investing Framework integrates ESG into all stages of the investment process:
https://www.partnersgroup.com/en/sustainability/responsible-investment/

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 2022 include:

- **Legal &General Investment Management (LGIM)** engaged with the UK government on key ESG issues including, UK Department of Environment, Food and Rural Affairs (DEFRA), to emphasis LGIM's support for the 2021 recommendations of the All-Party Parliamentary Group on Microplastics and in support of ambitious UK primary legislation to mandate companies to carry out human rights and environmental due diligence across their own operations and value chains. In the United States**,** LGIM engaged with the Securities and Exchange Commission (SEC) on the proposed rule on Pay Versus Performance and submitted a letter in support of the SEC proposed rule, 'Enhancement and Standardization of Climate-Related Disclosures for Investors' which seeks to improve existing disclosures on climate-related risks that could have "a material impact on a business, results of operations, or financial condition". As a member of Asia Corporate Governance Association (ACGA) and International Corporate Governance Network (ICGN), LGIM continued engagement in Japan with the Financial Services Agency (FSA), Ministry of Economy, Trade, and Industry and Tokyo Stock Exchange on various governance issues. LGIM was also at the heart of the COP27 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.

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

Climate Change Risk

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

Task Force on Climate-related Financial Disclosures (TCFD)

SPF has committed to reporting on its approach to climate risk using the TCFD framework for asset owners. The 2021/22 annual report provides these disclosures (pages 86-98), 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=58832&p=0

Climate Change Strategy

The SPF Climate Change strategy was amended in 2022 to advance the response to climate change risk and energy transition investment opportunities. A high-level Climate Action Plan was adopted. The updated Strategy and Climate Action Plan are available at:

https://www.glasgow.gov.uk/councillorsandcommittees/submissiondocuments.asp?submissionid=107834

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

The revised Climate Change Strategy also established a process to deliver an assessment of energy companies in SPF equity portfolios to ensure all were meeting minimum standards in relation to the energy transition. The energy company standards framework is an additional portfolio risk analysis tool which recognizes the acute climate-related risks surrounding energy sector investments as the world transitions to a low-carbon future. A report on the initial findings of the assessment is available at:https://www.glasgow.gov.uk/councillorsandcommittees/viewSelectedDocument.asp?c=P62AFQDNZLDNDNZLDN

A summary update report for 2022 (page 13) is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZLNTNTUTZL

ESG Risk

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

This was demonstrated in early in 2022 following the Russian invasion of Ukraine. SPF reviewed all holdings including direct and indirect exposure to Russia and worked with the investment managers and advisors to try and make an early assessment of the likely impacts on the Fund. Where we identified exposure the relevant investment manager was instructed to explore companies' policies and planned actions in light of the war and international sanctions. At the outset of the conflict the Fund owned shares in two Russian companies within one of its global equity portfolios. These holdings were quickly reduced as a result of sales activity and market movements minimizing the impact to the Fund. As at close on 30th June 2022, the combined value of these two positions was less than £0.1m. As Russian shares remain suspended from trading these effectively have zero value. Scheme members and employers were informed via the SPF website of action taken and impact on the Fund.

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

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

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

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

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

Details of Sustainalytics engagements in 2022 can be found in Appendix B.

Class Actions and Litigation

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

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

5. Review and assurance

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

Policies

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

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

SPF's 2022/23 Business Plan included reviews of its Climate Change Strategy and Investment Strategy (including Responsible Investment) together with submission of an annual stewardship report for compliance with the revised UK Stewardship Code.

Assurance

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

Internal Audit

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

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZLZ3NTDXDX

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 2021/22 review found that SPF has appropriate arrangements in place to support good governance and accountability. The plan for audit of the Fund's 2022/23 annual report and financial statements is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZ30GDNDXDX

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 most recent assessment report (2021) is not available due to PRI onboarding of a new scoring methodology and Reporting Framework. 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

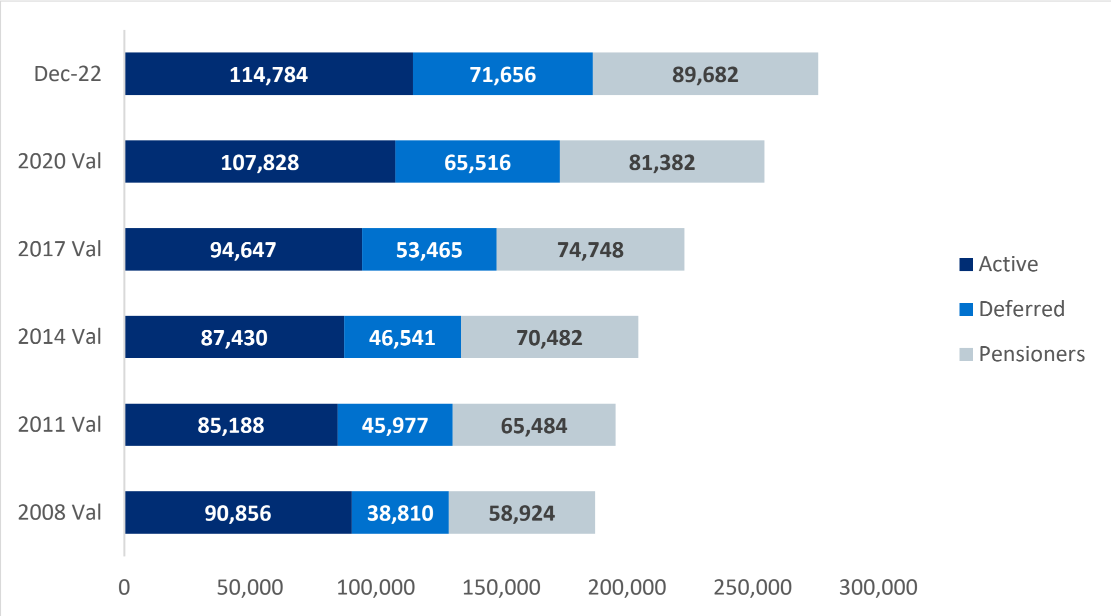
6. Client and beneficiary needs

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 270,000 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.

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

Investment Approach

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

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

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

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

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

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

All SPF employer and trade union contacts are invited to an AGM to receive annual reports on administration, investment, finance, actuarial and scheme developments. The 2022 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 11 requests related to the way we invest, 1 specifically about our Responsible Investment strategy. Committee members and officers also receive regular correspondence from members on stewardship issues, often as part of online campaigning. SPF welcomes comment and feedback from individual members as part of its Communications Policy and we try to respond clearly and openly. The website includes extensive coverage of our stewardship activity:

https://www.spfo.org.uk/index.aspx?articleid=14486

Investment Approach

7. Stewardship, investment and ESG integration

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

Integration

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

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

2000 first Engagement Policy agreed and implemented.

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

Responsible Investment activity is carried out by:

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

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

The Stewardship Code 2020

SPF is a signatory the new UK Stewardship Code (2020). SPF is one of 46 asset owners, including 16 LGPS, to be accepted and was the first Scottish public sector asset owner to be listed. Eleven of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are also signatories.

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

The full list of signatories to the Code is available at:
https://www.frc.org.uk/getattachment/Investors/UK-Stewardship-Code/UK-Stewardship-Code-Signatories/Signatory-list-07-09-2022.pdf

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.

Investment Approach

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

All of SPF's appointed investment managers are now PRI signatories and 31 of the 34 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 2022 is summarised as follows:

Asset Class	Fund Manager	%	Market Value £000
Passive Equity (Regional Market Cap)	Legal & General	19.80	5,584,096
Passive Equity (RAFI)	Legal & General	6.99	1,970,297
Global Equity	Baillie Gifford	7.55	2,129,215
Global Equity	Lazard	3.18	897,409
Global Equity	Veritas	3.06	863,762
Global Equity	Oldfield	2.88	813,360
Specialist - Equities (UK Small Companies)	Lombard Odier	1.56	438,617
Specialist - Equities (Overseas Small Companies)	JP Morgan	3.14	885,936
Specialist - Emerging Markets	Genesis/Fidelity	1.32	372,051
Specialist - Private Equity	Pantheon	5.18	1,461,160
Specialist - Private Equity	Partners Group	3.19	898,389
Passive Fixed Income	Legal & General	5.51	1,553,554
Specialist - Absolute Return Bonds	PIMCO	3.64	1,026,906
Specialist - Long-only Absolute Return	Ruffer	1.99	562,186
Specialist - Multi-asset Credit	Barings	2.52	712,138
Specialist - Multi-asset Credit	Oak Hill Advisors	1.74	491,782
Specialist - Private Debt	Barings	1.75	494,658
Specialist - Private Debt	Alcentra	1.35	379,908
Specialist - Private Debt	Partners Group	0.78	221,158
Specialist - Private Real Estate Debt	ICG Longbow	0.75	211,590
Emerging Market Debt	Ashmore	1.74	490,890
Specialist - Property	DTZ	9.41	2,650,281
Specialist - Global Real Estate	Partners Group	1.53	432,523
Specialist - Global Infrastructure	JP Morgan	3.02	851,228
Specialist - Direct Investment Portfolio	Various	4.28	1,206,557
Cash	Legal & General	1.22	345,875
Cash	Northern Trust	0.92	258,876
		100.00	**28,204,402**

The majority of the Fund's investments (68% of total Fund at 31st March 2022) are held in pooled fund or limited partnership structures. Based on look throughs of the Fund's segregated mandates, and regional equity mandates with L&G, JP Morgan, Lombard Odier, Fidelity and Genesis (both Emerging Markets) the Fund's investment asset allocation may be further analysed as follows:

Investment Approach

Asset Class Category	31st March 2022 (%)
Equity	
UK	5.42
North America	19.68
Europe ex UK	6.45
Japan	2.89
Asia Pacific ex Japan	2.03
Emerging Markets	6.17
Global (RAFI)	6.20
Other	0.09
Fixed Income	5.53
Absolute Return	5.64
Multi-Asset Credit	4.27
Emerging Market Debt	1.74
Private Equity	8.76
Private Debt	5.05
Real Estate	14.09
Infrastructure	3.02
Cash	2.98
Total	**100**

The SPF annual report provides full strategy details including a breakdown of the Fund's assets by investment manager, mandate type and asset class (the annual report for 2022/23 will be available on the SPF website in July 2023).

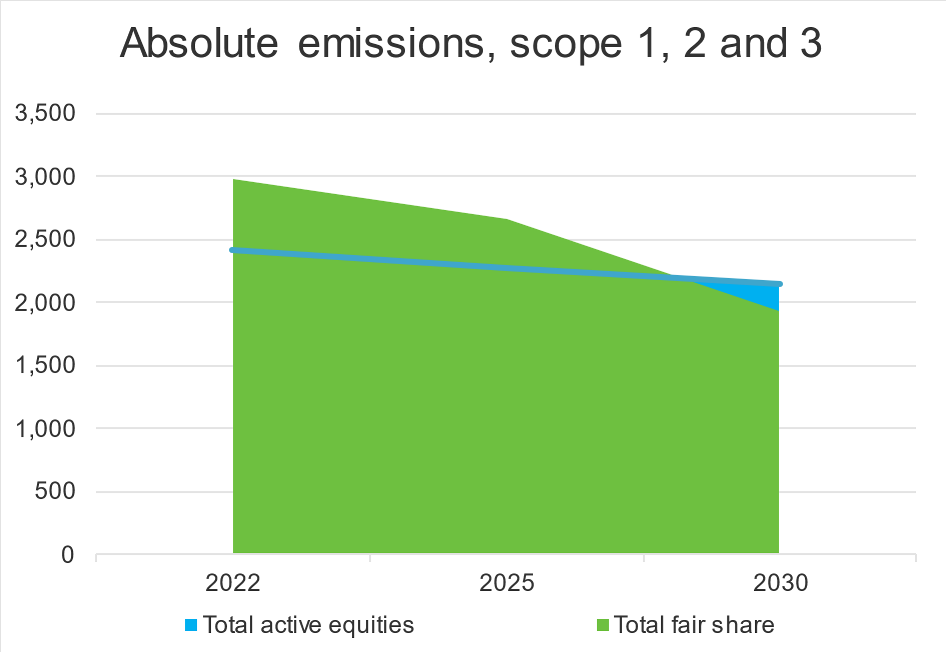
https://www.spfo.org.uk/CHttpHandler.ashx?id=58832&p=0

Priorities

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

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

Investment Approach



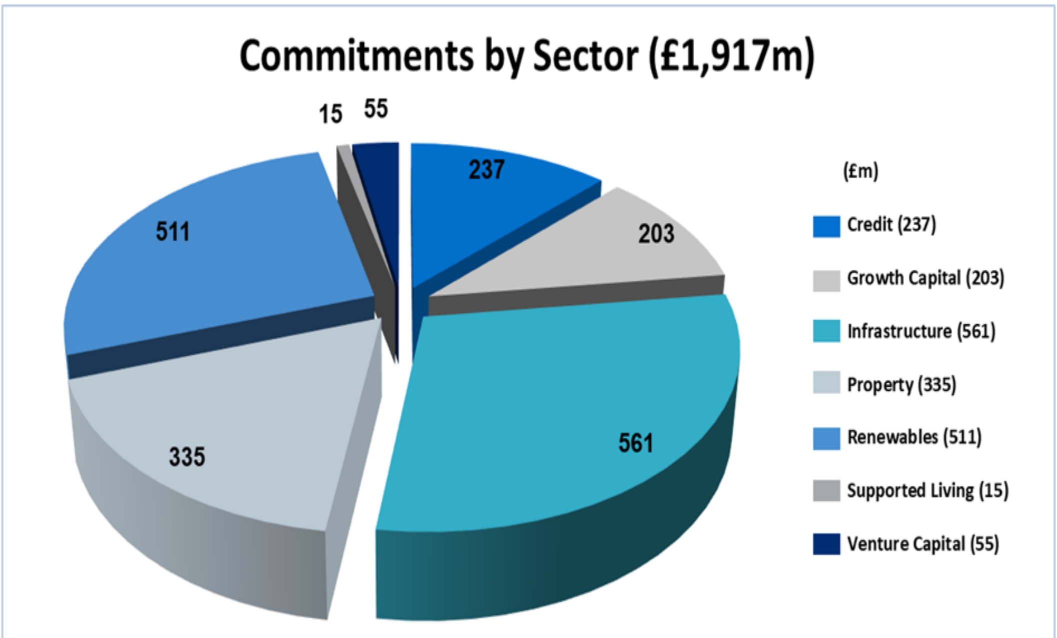
The total active global equity portfolio is estimated to be on track relative to an aggregated "fair share" pathway, with cumulative emissions to 2030 below budget (SPF's share of the remaining carbon budget to limit global warming to 1.5oC).

Strathclyde Direct Impact Portfolio (DIP)

Direct Impact Portfolio

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

Total commitments by DIP as at 31st December 2022 are summarised as follows.



Investment Approach

ESG impact at a sectoral level can be summarised as:

- Renewable energy infrastructure investments which include UK solar funds, specialist onshore and offshore wind funds, generalist renewables and community power funds which includes 177 offshore and onshore wind sites with 1,939 turbines (366 turbines in Scotland).
- Credit, venture, and growth capital allocations are primarily to UK small company financing including 129 loans across credit funds and 155 venture/growth investments.
- Infrastructure commitments include a significant element of social infrastructure.
- The property allocation is to the Fund's own Clydebuilt Portfolio which invests within the Strathclyde area and has a significant bias towards development.

Headline ESG impact of DIP in 2022 can be summarised as:

Impact	2022
Environmental	
Carbon Reduction (tonnes p.a.)	**143,093**
Renewable Energy - sufficient to power homes p.a.	**225,545**
Social	
Infrastructure Projects -investment in	**>15,000 assets**
Governance	
PRI signatories	**31 out of 34**
Local	
Local/Scottish Investments – investment in	
105 Schools	**£202m**
13 hospitals	**£129m**
>1000 Affordable Housing Units	**£139m**
670 Build to Rent units	**£118m**

Investment Approach

8. Monitoring managers and service providers

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

Monitoring arrangements

Investment Advisory Panel

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

SPF Officers

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

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

Rating	Manager	Mandate Start Date	Short-term Performance	Long-term Performance	Comments	Date of Rating Change
	Lazard	Q2 2007	Q4 and 1 year performance ahead of benchmark	3 year, 5 year and since inception performance ahead of benchmark	Rating changed from amber to green due to improved performance	Q1 2019

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

SPF Committee and Board

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

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNZ32UUT81NT

Investment Approach

Annual Due Diligence Reviews

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

Advisory Boards and Committees

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

Property

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

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

Service Review

- **Investment Managers**

  Investment mandates are managed by 20 external institutional investment managers. In addition, a target of 5% of Fund is invested opportunistically within the Fund's Direct Impact Portfolio (DIP). A further 32 investment firms manage specialist funds within DIP.

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

  Amendments implemented following the 2020 actuarial valuation include:

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

Investment Approach

- **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.

- **Hymans Robertson**

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

Engagement

9. Engagement

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

Engagement Activity and Outcomes

Investment Managers

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

Examples of investment manager engagements in 2022 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 362 engagement meetings and exchanged 1803 emails or calls with targeted companies in 2022 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 2022, Sustainalytics engaged with 146 companies within the Norms-based Engagement Service. In total there were 3,238 contacts, 208 meetings and 35 significant milestones with 32 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 and Feeding the Future**. Furthers details of this service can be found on the Sustainalytics website at:
  https://www.sustainalytics.com/thematic-engagement/

  Following Russia's invasion of Ukraine, Sustainalytics ceased engagement with all directly sanctioned Russian companies and paused engagement with all other Russian companies.

  Details of Sustainalytics engagements in 2022 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 2022 are set out in Appendix C.

Sustainalytics

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

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

Engagement

11. Escalation

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

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

https://www.spfo.org.uk/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 direct engagement collaborations and initiatives. In 2022 this included:

- co-signing letters to leading UK Supermarkets including **Aldi**, **Asda**, **Co Op**, **Iceland**, **McColls**, **Waitrose** and **Lidl** regarding real Living Wage and workers' rights.
- wrote to UK airline **EasyJet Plc**., Hong Kong based insurance company **AIA Group** and **Bright Horizons Inc.,** a US based child-care provider, asking them to be more transparent about their workforce practices and disclose to the **WDI** survey this year.
- co-signed **The Investor Agenda 2022 Global Investor Statement to Governments**.

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

Local Authority Pension Fund Forum (LAPFF)

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

Engagement

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

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

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

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

https://lapfforum.org/wp-content/uploads/2022/12/LAPFF_annual-report-final.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.

Strathclyde Pension Fund

Exercising Rights and Responsibilities

12. Exercising rights and responsibilities

Principle 12. Signatories actively exercise their rights and responsibilities.

Expectations, Activity and Outcomes

Voting

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

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

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

SPF Total UK & Overseas Voting in 2022

Manager	No of Meetings	No of AGM	No of EGM	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstain	Not Voted	Proxies Lodged	Proxies Not Lodged
Legal & General	6,061	4,114	1,947	0	70,870	54,586	15,417	867	0	6,061	0
Baillie Gifford	93	87	4	2	1,121	958	59	4	100	85	8
Lazard	105	94	3	8	1,725	1,417	98	2	208	98	7
Oldfield Partners	26	24	1	1	386	308	27	0	51	23	3
Veritas	26	23	0	3	436	346	65	1	24	25	1
Lombard Odier	147	143	4	0	1,626	1,513	25	7	81	141	6
JP Morgan	472	388	73	11	4,477	3,576	471	33	397	448	24
Genesis	123	85	38	0	1,201	1,052	149	0	0	123	0
Total	7,053	4,958	2,070	25	81,842	63,756	16,311	914	861	7,004	49
Total%						78%	20%	1%	1%	99%	1%

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

https://www.spfo.org.uk/index.aspx?articleid=29537

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 2022 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 2022, LGIM cast over 171,000 votes at over 15,750 meetings.

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

LGIM Vote Disclosures (issgovernance.com)

Private Markets - Advisory Boards and Committees

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

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

Class Actions and Securities Litigation

- **Class Actions**

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

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

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

Exercising Rights and Responsibilities

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

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

- **Securities Litigation**

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

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

www.plygemsecuritiessettlement.com

http://www.ozksecuritiesclassaction.com/

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

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

SPF has recovered over GBP£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 2022 totalled $0.2m from 22 settlement funds. SPF is currently investigating opportunities for class actions in other jurisdictions including Canada, Japan, Switzerland, and the Netherlands.

Investment Manager Engagements 2022

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 carried out 1,224 engagements in 2022. This included 361 meetings or calls and 863 written engagements. The team engaged most frequently on climate change.

- LGIM engaged with **Toyota Motor Corporation** (TMC), to seek improvement in their corporate governance and sustainability practices. LGIM expressed concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence, and the company's climate transition strategy and related public policy engagements. Given the company's size and influence at Japan's largest business federation and in industry associations, LGIM have always questioned the company's lobbying stance and its alignment with a 1.5°C world (this is a red line under sector guides for the auto sector in the Legal & General Climate Impact Pledge). LGIM are delighted to see improved transparency from the company when they published their climate policy in late 2021. Nonetheless, corporate transparency is only the first step and LGIM hope that this will enable more in-depth conversations on Toyota's views on climate and how the company plans to shift its strategy. Given a recent controversy at one of Toyota's group companies (Hino), LGIM will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

- LGIM conducted multiple engagements over the year with the American multinational technology company, **Amazon.com Inc.**, both independently and collaboratively, to discuss the company's approach to, and policies on, various human capital topics. One of the risks identified by the company in its Human Rights Impact Assessment (HRIA) is freedom of association. This includes the right to form and join trade unions. In 2021, Amazon had been accused of interfering with efforts by its workers to unionise. Upon investigation, the US National Labor Relations Board declared Amazon's conduct to be inappropriate and not in line with International Labour Organisation (ILO) standards. Amazon workers decided against unionisation at a second, close vote. Nevertheless, ahead of the vote result, in a second collaborative letter LGIM signed in January 2022, they requested the company immediately adopt a global policy of neutrality, commit to negotiate with the union in good faith should workers vote for unionisation, and initiate dialogue with relevant trade unions at a national and global level on implementation of its labour rights commitments.

  LGIM Proxy voting, ESG and Company Engagement reporting is available at: https://www.lgim.com/uk/en/capabilities/investment-stewardship/active-ownership/

Investment Manager Engagements 2022

Listed Equity

Baillie Gifford

- Baillie Gifford engaged with multinational metals and mining corporation **Martin Marietta Materials, Inc.** to learn more about the company's developing climate strategy. The company continues to improve its sustainability disclosures and in the last year has set decarbonisation targets for its scope 2 emissions. Baillie Gifford discussed how the company intends to achieve objectives, including potential bottlenecks on the pathway to net zero. Baillie Gifford encouraged the company to report to the Carbon Disclosure Project and commit to the Science-Based Target initiative. It was pleasing to hear the company acknowledges the positive role investors have played in supporting the progress made to date. The company was also congratulated for achieving another excellent year for employee safety. Furthermore, the company has increased retirement benefits for employees.

- Baillie Gifford engaged with **Microsoft Corp.** to obtain disclosure on its approach to data privacy, as it is an ESG risk that, if compromised, could significantly impact Microsoft's long-term business prospects and trust in management. The engagement provided insights into the rules, processes and teams that determine decisions related to artificial intelligence (AI) at Microsoft - which, as a subset of data privacy, helps understand human rights issues in development and data storage. It also offered examples of Microsoft's advocacy in regulating this space. However, while it provided evidence of independent analysis of human rights risks at Microsoft, Baillie Gifford were not reassured fully on its management of conflicts of interest between short-term business gains and data privacy concerns. Microsoft is demonstrating a lot of leadership in the data privacy and human rights arena - its reporting, governance structures, expertise and examples of turning down government requests to protect customers are strongly indicative of a company taking its responsibility seriously. However, given how dynamic this ESG risk is, Baillie Gifford will continue to monitor the company's approach.

- Baillie Gifford participated in an investor outreach discussion organised by **Thermo Fisher Scientific Inc.** to hear shareholders' views on its governance and executive pay practices. Baillie Gifford used the meeting to outline the rationale for opposing the executive compensation resolution at this year's AGM. Baillie Gifford also discussed the use of Thermo's DNA equipment products in Xinjiang. The company halted sales of its DNA technology in the Chinese region in 2019 following reports that it was being used for surveillance and profiling of the Uyghur population. The company's ban on sales is still in place, and Baillie Gifford learned that Thermo's Bioethics and Science & Technology Committees ensure ethical business practices and standards across its operations. Finally, Baillie Gifford were pleased to hear that good progress is being made towards Thermo's long-term emissions reduction targets. The company aims to cut scope 1 and 2 emissions by 30 per cent by 2030, by setting science-based targets for 90 per cent of suppliers and aims to achieve net-zero emissions by 2050.

- Baillie Gifford engaged with **Ryanair Holdings plc.** to learn more about how Ryanair's sustainability initiatives are supporting the business's long-term strategy. Baillie Gifford attended Ryanair's sustainability event at Trinity College Dublin, where they heard from senior

Investment Manager Engagements 2022

management and business partners about the company's partnership with **Royal Dutch Shell** to develop sustainable aviation fuel. Baillie Gifford also spoke with representatives from **Boeing** and **Safran**, Ryanair's aircraft and engine manufacturers, about technology developments that improve fuel efficiency and noise reduction. Discussion was also had on the potential for battery technology and hydrogen to provide scalable solutions to the aviation industry's environmental impact within the next 20 years. Baillie Gifford came away from this event with greater confidence in Ryanair's commitment to sustainability. The company is an industry leader in terms of the environmental impact of its business operations and has set out an ambitious strategy to improve over time. Baillie Gifford will maintain their dialogue with management and the board in support of continued progress.

- Baillie Gifford met with **SiteOne Landscape Supply, Inc.** to discuss SiteOne's ongoing work on environmental, social and governance topics. With some recent uplift in staff turnover management has responded by reviewing employee pay, particularly for its drivers, increasing base salary and implementing a new bonus plan which is subject to safety and profitability goals. Baillie Gifford were pleased to learn that the company's ongoing diversity and inclusion plan is making steady progress, including recruiting and promoting bilingual associates, women and minorities. Finally, Baillie Gifford encouraged the company to improve its climate disclosures and develop a long-term climate strategy. While climate is not currently a material risk for the business, it is prudent for the business to take steps now to ensure preparedness for future eventualities. Baillie Gifford will continue to monitor developments and remain a supportive shareholder of management.

- Baillie Gifford met with the stock exchange located in São Paulo, Brazil, **B3 S.A.**, to learn more about the company's sustainability ambitions. Baillie Gifford wanted to speak to B3's sustainability team to understand the drive behind its efforts. They also wanted to know how the overall exchange integrated ESG into strategic decision-making, understand the appetite for ESG products in Brazil, and ask the team what it thought the future of ESG in the region looked like and what its role was supporting its development. B3 outlined its sustainability strategy, emphasising that the exchange recognised its role and responsibility to promote ESG but that currently, in the market, a lack of data was pervasive and hindering more widespread adoption. Gender inequity, generally, would appear to be a strategic priority for B3. In 2021, the exchange became the world's first to issue a Sustainability Linked Bond. It is committing to the creation of a diversity index for the Brazilian market to promote companies listed to set gender in leadership diversity and other (yet to be defined) targets by 2024 and increasing the percentage of women in leadership positions within the exchange to 35 per cent from 2020's 27.2 per cent baseline by 2026. B3 are also working on developing a carbon market - the exchange estimating Brazil could provide for 15 per cent of the global offset market.

The Baillie Gifford Investment Stewardship Activities Report is available at:

https://www.bailliegifford.com/en/uk/intermediaries/literature-library/miscellaneous/investment-stewardship-activities-report/

Investment Manager Engagements 2022

Oldfield Partners

- Oldfield Partners engaged with US Oilfield services and equipment provider **NOV Inc.** regarding board diversity. Following identification that only two of NOV's ten board directors were women, Oldfield engaged to outline what they believe to be global best practice, encouraging NOV to accelerate their move towards 30% female representation. Oldfield were assured that this is an objective that the company is working towards, and dialogue will be maintained to understand the actions being taken, and the timeframe to achieve this.

- During the year Oldfield Partners accelerated activity on their engagement priorities. These engagement campaigns are focused on achieving thirty percent female representation on boards, as well as effective disclosure of greenhouse gas emissions, and a science-based Net Zero target. With a 75% response rate, Oldfield were encouraged by the level of interaction and feedback with companies on the topic of female representation on their Boards. With 11 of the 23 investee companies targeted not yet meeting a target of 30% they engaged with 8 of them during the year. These included **Samsung Electronics**, **Nomura** and **Southwest Airlines**. Oldfield learnt that several companies are either close to this objective, actively looking to address the issue in the natural cycle of board turnover or improving and leading within regions where average representation is far below the target, for example in Japan. For these reasons, Oldfield have not adopted a blanket approach to voting on this issue, instead continuing to push on collaborative discussions and providing feedback on voting decisions and timeframes for progress. Oldfield also engaged with 10 companies on climate related issues. They initially focused on the 5 companies that have yet to make a public commitment to Net Zero by 2050, including **NOV**, **Alibaba** and **ENI**. Oldfield then turned their attention to targets that are not yet science-based, and in this second category they prioritised the companies with the highest impact on real world emissions, or where they believe they can add value, these included **Southwest Airlines** and **EasyJet**.

- Oldfield's engagements explored the **EasyJet** and **Southwest Airlines** approach to their progress on target setting. EasyJet outlined an emissions reduction target of 78% by 2050 with the remaining 22% captured through Carbon Capture, Utilisation and Storage (CCUS). Alongside this target, which has achieved SBTi verification, EasyJet announced a shift in their strategy which saw the focus move from carbon offsetting to investment in technology. EasyJet explained that their nearer term reduction target to 2035 relies purely on fleet renewal, which is consistent with what other airlines are saying. They are however more optimistic on the role of hydrogen longer-term and through partnerships such as those with Rolls Royce and Airbus, are investing in several exploratory projects. Oldfield are encouraged by SBTi's oversight of EasyJet's targets and their position on the working group. As the evolution and results of their investments will take time, Oldfield will continue to discuss any progress or changes, in the normal course of their engagements with the company.
  Engagement with Southwest Airlines highlighted a pragmatic but more pessimistic view. Southwest explained that the optimisation of their fleet was a key driver of their near-term decarbonisation strategy. Whilst they appear to have made progress on strategy in recent years, they could not get comfortable with the targets outlined by SBTi, arguing that the intensity reduction expectations were unrealistic. Their view around the scalability of new technologies was more sceptical and their focus is on the procurement of sustainable aviation

Investment Manager Engagements 2022

fuel (SAF) which they suggest will require significant shifts in policy to scale to the levels required. They are working closely with the government and local states, as well as key industry bodies such as Airlines for America. With productive open dialogue with the company, Oldfield will continue to engage on their strategy as they look to make progress on areas where they believe they have greater control.

During 2022, Oldfield joined a collaborative engagement for **Berkshire Hathaway** through Climate Action 100+. Although Berkshire Hathaway has made progress with its railroad and energy businesses setting emission reduction targets, Oldfield's concerns relate to the lack of transparency into the governance and oversight of climate risks, particularly relative to peers. Having long been admirers of Warren Buffett and with an investment approach influenced by his style, Oldfield hope to bring a constructive voice to the discussion whilst acknowledging the urgency of change.

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

Veritas Asset Management

- Veritas Asset Management engaged with US Healthcare provider, **Catalent, Inc.**, as the company had been accused of failing to disclose environmental information and had failed to commit to introducing and disclosing science-based emission reduction targets with a coherent emissions reduction strategy. Veritas are comfortable that the company gives environmental stewardship appropriate concern and confirmed that submissions to CDP's climate change, water and forests questionnaires had been made in 2022. Veritas were also able to confirm that in 2021, Catalent has signed a letter of commitment with the Science-Based Target initiative (SBTi), joining a growing list of companies setting actionable, science-based, greenhouse gas emission reduction targets to limit global warming. This commitment includes calculating and reducing direct and indirect emissions as the Company continues to evolve and grow. Veritas' direct engagement with the company further revealed an initial 10-year commitment for a 42% reduction in Scope 1 & 2 emissions, as of July 2021. Catalent have 2-years to validate these targets in accordance with the timescales stipulated by SBTi.

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

JP Morgan Asset Management (Global Smaller Companies)

- JP Morgan engaged with **Dunelm**, the UK based home furnishing retailer. The meeting addressed a broad range of ESG topics, including employee wellbeing and engagement, sustainability, diversity, labour, and environmentally friendly sourcing of materials. The discussion with the CEO, CFO, and Investor Relations confirmed that the company has begun training its managers on supporting employees physical, mental, and financial wellbeing. JP Morgan noted strong detailing and reporting regarding employee engagement, which was a positive sign. The company's efforts on diversity are also constructive – notably, that most executives are women. Areas of improvement include better transparency of labelling and sustainable product use – reportedly, the company have wanted to pursue this for several

Investment Manager Engagements 2022

years but have only now got around to it. Additionally, JP Morgan asked the company to disclose staff turnover to check their claim that employee retention was strong versus industry peers. Lastly, JP Morgan wanted to make sure that ethical sourcing had been rolled out further down their supply list, in that all Tier 1 suppliers also disclosed ethical sourcing with their respective Tier 2 suppliers. JP Morgan will follow up with management to keep the company accountable regarding sourcing and labelling and ensure, with the help of an external auditor, that there are no ongoing child labour practices in any of their supplier partner networks.

- JP Morgan met with **Beazley**, the UK-based specialist insurer, to seek disclosure on how the company is incorporating climate risk into underwriting and to know more about the eligibility criteria they use. The company confirmed that qualification is based on scores from S&P, Sustainalytics or RepRisk and that they currently do not offer a discount for clients with a better ESG score. In terms of estimating climate risk, the company is building tools to look at this and is set to make further progress this year. Beazley currently has a 2050 Net Zero target, together with near-term reduction targets. However, JP Morgan anticipates more disclosure, especially Science Based Targets, which they are building out now. JP Morgan questioned the company around their carbon reduction targets for this year and next year and expect them to look at formalised five-to-ten-year net zero targets.

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)

For two decades the Lombard Odier Volantis UK Smaller Companies team has directly addressed the ESG agenda on behalf of the Strathclyde Pension Fund through good stewardship and active engagement. They have reported fully on all voting decisions taken directly by the investment team on a quarterly basis. They have also reported on three/four active engagements with companies per quarter on matters ranging from remuneration, governance, capital allocation, balance sheet structure, strategy, reputation and risk, wider stakeholder engagement and environmental matters.

It has been a persistent theme of the Lombard Odier Smaller Companies commentary that Social, Technological, Environmental and Political (“STEP”) change is advancing and shaping the real and investment worlds. Common to these changes is inequity, and a kick back by those disenfranchised by (or in the case of the environment on behalf of) the forces of globalisation. Lombard Odier have argued that the transition already embarked on, and which is now accelerating, is in general a greater challenge for large cap companies. By contrast they believe the solutions demanded, in general, exist in small cap companies.

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 and 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.

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- 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 where we acknowledge there are **Unresolved Debates**. This for example is where most direct carbon exposure lies.

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 direct from a well-established investment process, including high levels of corporate engagement and translate into a quantitative picture of the portfolio. The highlights of which are:

Enablers make up 55% of the portfolio, of which:

- 5% are Environmental Enablers.
- 29% are Social Enablers.
- 21% are Technology Enablers.

Adaptors make up 26% of the portfolio. Taken together the proportion of the portfolio making an active positive sustainability contribution is 81%. Unresolved debates make up only 4% of the portfolio and are dominated by resources companies of various commodities but includes gaming amongst other industries.

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. Ultimately of course 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 also 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. This company provides energy procurement and assurance functions. This is an area where the reporting obligations of public companies is escalating rapidly, complicated by a proliferation of different standards from different bodies in different regions. The company has leveraged its energy software platform to aggregate and standardise all the various ESG regulatory reporting requirements and then match corporate energy consumption data to a dashboard or template for sharing with investors. Lombard Odier made a number of introductions to help them meet their public markets disclosure requirements.

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

Appendix A

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Private Markets

Partners Group

- Private equity and debt manager, Partners Group, operates within the responsible investment/ESG integration to philanthropy end of the spectrum in addition to screening and excluding investments whose products, services or practices pose significant social or environmental harm. Partners Group ESG strategy is anchored in their ESG & Sustainability Directive which describes their overall approach to responsible investment and is available at: https://www.partnersgroup.com/fileadmin/user_upload/Files/Legal_Compliance_PDFs/20210309_ESG___Sustainability_Directive_vFV.pdf

  KinderCare Education is an example of how Partners Group work with portfolio companies to achieve long-term ESG progress. KinderCare Education is the largest for-profit provider of early childhood education and care services in the US.

  Initiatives undertaken to improve energy efficiency include a USD 5.1 million investment in 2022, which updated 161 centres with LED lighting. These enhancements have led to the reduction of 12’229 tons of CO2 across the updated centres and brought the total number of centres with LED lighting to 315 out of 1’500 (21% of the total). Meanwhile, older HVAC units have been replaced with high efficiency units that are up to 40% more efficient. This is significant, as HVAC energy usage is the single largest source of energy consumption within the centres. KinderCare Education also invested in centralized energy management systems in 114 centres in 2022. These enhancements led to the reduction of 13’412 tons of CO2 annually and increased the total number of centres with energy management systems installed to 315. Together, all these initiatives brought more than USD 1.8 million in energy savings.

  Partners Group worked with a specialist consultant to develop a three-year Diversity & Inclusion strategy for KinderCare Education employees. Since then, the company has made two significant hires to support the development and implementation of the strategy. It also launched five employee resource group programs (Black Heritage, Access Ability, Hispanic Organization for Leadership Advancement, LGBTQIA+, and Women), with a combined total of 800 members. Last year, KinderCare Education earned the WELL Health-Safety Rating from the International WELL Building Institute, making it the largest education provider and only national provider of early childhood education and childcare to receive this distinction. The assessment addressed how well KinderCare had dealt with health threats such as COVID-19.

  As outlined in Partners Group Sustainability Strategy, the first step at KinderCare Education was to appoint ESG responsibility at the board, executive, and operational level. In 2022, the company conducted an ESG materiality assessment to understand the most salient ESG issues within the business. Results from this assessment identified relevant experts who will serve on the recently launched ESG Steering Committee and shaped its structure. KinderCare Education assesses enterprise risks annually, the results of which are used to develop a risk-based audit plan. Risk assessment results and the audit plan are shared with management and the Audit Committee for approval.

  Notable environmental and governance milestones in Partners Group’s own ESG Journey in 2022 included publishing their first Task Force on Climate-Related Financial Disclosures (TCFD) report and the development of a 13-year Direct Air Capture (DAC) agreement to contribute to

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our goal of achieving net zero corporate greenhouse gas emissions by 2030. The TCFD Change report can be viewed at:

https://www.partnersgroup.com/fileadmin/user_upload/Files/ESG_and_Corporate_Responsibility_PDFs/20220428_PG_TCFD_Report.pdf

Partners Group corporate sustainability report is available at: https://www.partnersgroup.com/fileadmin/user_upload/Files/ESG_and_Corporate_Responsibility_PDFs/20230425_PG_Corporate_Sustainability_Report_2022.pdf

Pantheon Ventures

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

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

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

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

  Examples of positive impacts from portfolio companies can be found in the Pantheon ESG and Corporate Responsibility reports which are available at:

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

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

Barings reported engagement with a global automotive manufacturer that is currently excluded from mandatory emissions reductions under European legislation. From 2030, the company is expected to be captured by regulatory requirements in line with larger automotive OEMs. Barings views this as a credit risk for the company given its potential to impact demand dynamics and upcoming capital investment requirements. The company previously carried a 4 (Poor) / Stable Outlook environmental rating under Barings' ESG ratings methodology. During multiple interactions directly with the company's senior management representatives, Barings requested improvements to governance of environmental risks and the implementation of specific emissions reduction targets. In April 2022, the company announced its commitment to the Science Based Targets initiative (SBTi) Net-Zero Standard. The business is now targeting a net zero manufacturing footprint by 2030 and a net zero supply chain by 2039. The company also announced a path towards electrification with the launch of its first plug-in hybrid vehicle expected in 2024 and the first fully electric vehicle in 2025. The success of this engagement gave Barings comfort to continue to hold investments in the company's debt facilities and resulted in an upgrade to Improving Outlook for the environmental ESG rating.

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

Oak Hill Advisors

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

  Oak Hill seeks to use its scale and influence to promote awareness around sustainability and other ESG matters. In doing so, Oak Hill prioritizes 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 Oak Hill's investment process as they believe it leads to a better assessment of a company's long-term business prospects and value. Oak Hill 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.

One of the highlights of 2022 for Oak Hill was being selected as Private Debt Investor's (PDI) 2022 Responsible Investor of the Year Americas (PDI is a private debt news and analysis platform that tracks institutions, funds and transactions shaping the private debt markets). Highlights from Oak Hill's submission include:

- The evolution of OHA's ESG program.
- Oak Hill's investment in a 1.7-million-acre timberland portfolio through Blue Source Sustainable Forests Company which aims to improve forestry management for climate action.
- Oak Hill's leadership role in collaborative industry initiatives to promote transparency and disclosure (ESG Integrated Disclosure Project and iCI Private Credit Working Group).
- Continued to invest in industry and peer sustainability focused groups.

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

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. ICG Longbow Debt programmes now include dedicated Green Loans with underlying borrowers, which have pricing reductions available for meeting defined sustainability targets or accreditations and financial penalties triggered if the borrower does not meet certain ESG standards.
  Green Loan Framework (GLF) supports the transition of a dated office buildings to modern standards with strong sustainability credentials. A refurbishment saves approximately 60% of new embodied carbon emissions associated with the construction of a new building. ICG are able to make additional capital available to borrowers to replace legacy energy technologies with environmentally better alternatives with the goal of achieving Net Carbon Zero and EPC A. Since the inception of the strategy, 80% of committed capital has been in green loans to projects that have made clear commitments to sustainability. The investment team has actively engaged with borrowers and sponsors, typically at the time of investment, to identify value-add opportunities for improvement.
  This has included:
    - Supporting a borrower's commitment to refurbish a central London office with the aim to deliver a Net Zero Carbon building, which among other things will include pursuing an EPC A rating and replacing gas boilers with an electric air source heat pump system. The property will seek an Excellent BREEAM certification in demonstration of its holistic approach to sustainability.
    - A facility to finance a 48,000 sqm / Office /Leisure / Retail campus in Berlin. Seeking DGNB certification (German Sustainable Building Council) through additional EV charging points, energy efficient window systems, improvements to wastewater

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management and insulation, expanding cycle facilities and the creation of roof garden / roof terrace spaces.

First Green Loan investment

Through Real Estate Debt Fund VI , ICG provided an €85.8 million mezzanine facility supporting the off-market acquisition and light capex business plan of a 48,000m² office campus in the centre of Berlin, Germany.

Using the six eligibility criteria of the fund's Green Loan Framework, assessed by an independent party, the **campus has commitments in place to contribute to the reduction of energy consumption by**

57%▼

and corresponding carbon emissions by

58%▼

in line with the Goals of the Paris Agreement. The building will seek to achieve a **DGNB Gold green building certificate**, requiring top marks across the three sustainability areas of ecology, economy and sociocultural issues. It will also demonstrate 'best practice' in water efficiency, achieve EPC B rating and will incorporate its own green travel plan.

ICG 2022 ESG Sustainability and People report is available at:
https://www.icgam.com/wp-content/uploads/2023/01/ICG-Sustainability-and-People-Report-2022.pdf

Real Estate

DTZ Investors

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

DTZ 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 2022.

To further support their commitment to net-zero, DTZ have become a signatory of the **Better Building Partnerships Climate Commitment**. As a signatory, DTZ Investors commit to publishing progress against the net-zero target, develop comprehensive climate resilience strategies and support the development of best practice within the sector. Commitments such

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as these are crucial to ensure that net-zero can be delivered at both a sector and global scale and further reinforces DTZ Investors' strategy to have an impact beyond the four walls of their real estate.

A 2022 DTZ ESG case study is the 148,240 Sq. Ft / Industrial / Distribution facility at Trafford Park, Manchester. This asset improvement scheme set to achieve BREEAM Excellent and an EPC A+ rating through the incorporation of 1,700 sq m of PV panels (generating 295,700 kWh per annum), 14 EV individual charging points, a rainwater harvesting tank and half hourly water metering and sub-metering.

DTZ also provided the results from the 2022 **Global Real Estate Sustainability Benchmark (GRESB)** annual assessment for the SPF portfolio. The 2022 GRESB real estate benchmark saw 1,820 entities participate across 74 countries, covering $7.4trn. This represented the largest year on year growth in entities since GRESB began. Within the UK over 260 entities participated and 80 of these were within SPF's peer group.

DTZ key takeaways from the 2022 report include:

- A score of 70 in the 2022 submission, an increase of 6 marks compared to the previous year. This has brought the SPF portfolio in line with the peer average and demonstrates a significant improvement in performance.
- 30 out of 30 score in the management section, demonstrating that a clear governance in structure is in place to manage ESG.
- The performance score saw a significant increase this year with 40 out of 70 achieved. The key aspects within the performance section include energy consumption, GHG emissions, water use and waste management, which make up 32% of the overall GRESB score. Tenant emissions make up over 90% of the overall footprint and so capturing tenant data is critical to achieving and maintaining high GRESB scores. In 2022, a large focus on tenant engagement and tenant data capture enabled significant improvements in these areas and this will continue to be a priority in 2023.

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 2022 report include:
  - Over USD 7 billion invested in renewable power generation.
  - 9.4 GW of renewable energy capacity - enough to power over 4 million homes.
  - Over 4 million tonnes of GHG emissions avoided in 2021.
  - 20% reduction in NAV gross emissions intensity.
  - Clean water and wastewater projects serving over 3 million people.
  - Over 15,000 people employed in local communities by IIF portfolio companies.
  - Over 1,000 new jobs created in 2022.
  - Over 30,000 volunteer hours from IIF portfolio companies and over USD 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 2022 **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.

  Key takeaways from the report include:
  - IIF ranked 43rd out of 117 Infrastructure Funds in GRESB score.
  - 7 IIF portfolio companies have a maximum 5-star rating.
  - 14 of 18 IIF portfolio companies with improved score.
  - Ventient Energy, Summit Utilities and Beacon Rail ranked in the top 30 assets.
  - Ventient received the GRESB Sector Leader award for the fifth year in a row; for the first year, achieved a GRESB score of 100.

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

Sustainalytics Engagement 2022

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 2022, MRE reached an important milestone having engaged with more than 500 companies since the beginning of the service. MRE closed 2022 with the highest number of active engagements, virtual and in-person meetings, including four engagement trips to India, the US, the UK, and Brazil, as well as the lowest level of non-responsive cases (12%) since launch. MRE increased the number of companies engaged from 314 to 363 with 285 meetings and 1803 email exchanges and phone calls.

In 2022, MRE recorded 308 positive developments (defined as new initiatives that companies implement related to recommendations). The predominant issue in 2022 was climate change/carbon with 76 engagements which reflects the tremendous focus on this issue among investors and companies. Climate-related positive developments increased 53% between 2021 and 2022, a much higher increment compared to the other top ESG issues. Most companies have developed specific targets for carbon reductions, which is key to assessing a company's commitment to mitigating climate change. Sustainalytics customize 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 2022. An engagement dialogue is considered resolved when a company's ESG Risk Rating score improves to a Medium ESG Risk Rating category.

Sustainalytics provide a wealth of information in their 2022 MRE Annual Report, the following summaries reported to SPF provide only a limited snapshot of the activity undertaken in the year.

- The engagement focus at the Indian financial services company, **ICICI Bank,** was Human Capital, ESG Integration, Business Ethics, Corporate Governance, Effluents, Water and Waste. In the latest ESG Risk Rating assessment, ICICI Bank has improved its ESG risk management score by 15.2 points, bringing it into the medium risk category. The positive developments included:
    - ICICI has scaled up ESG integration at all levels of the company; ranging from introductory training for all staff, to Executive Committee and Managerial functions where ESG has become an integral part of their biweekly coordination meeting.
    - ESG Disclosures, specifically annual reporting and quarterly investor reports, have become streamlined, robust, quantitative, and prevalent.

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    - Waste Management has been a key area of focus in ICICI's environmental impact activities, having made strong improvements in reporting, actions, and capacity building. In addition, ICICI has made notable improvements with financial investments on technical developments and changes.
    - ICICI has completed Scope 1 and Scope 2 reporting and assurances and has initiated a Scope 3 Road Map and planning (including a pilot) which will now be included as part of the role of the procurement team, evolving beyond just the legal department.

- US based Home Improvement company, **Leggett & Platt, Inc.**, was engaged on Product Governance, Corporate Governance, Business Ethics, Emissions, Effluents and Waste. In the latest update of the ESG Risk Rating, Leggett & Platt has improved its ESG risk management score by more than 19 points, bringing it into the medium risk category. The level of unmanaged ESG risks was further reduced due to an industry reclassification, reducing the company's overall risk exposure. The positive developments included:

    - Leggett & Platt has published its first sustainability report with reference to the SASB standard in 2021, improving transparency of ESG management.
    - Leggett & Platt has established managerial responsibility for ESG issues, including business ethics governance.
    - Leggett & Platt has disclosed its environmental management system, the scope of the ISO 14001 environmental management certifications, as well as ISO 9001 and LP 9000 (an internal standard) quality management standards. There is also transparency on the list of raw materials and their responsible use.
    - Leggett & Platt has started to report on safety performance metrics for the most recent 3 years, broken out by employees and contractors. Overall performance shows a positive trend.

- The engagement focus at German auto manufacturer **Volkswagen AG** was Materiality and ESG Governance, Carbon – Products and Services, Business Ethics, Product Governance and Human Capital. In the latest ESG Risk Rating update, Volkswagen AG has improved its ESG risk management score by 7.3 points, bringing it into the medium risk category. The positive developments at Volkswagen included:

    - Volkswagen AG has established a robust ESG governance structure with oversight, responsibility, and reporting lines at the Management Board level with ultimate responsibility sitting with the Chairman of the Board of Management. ESG performance is prominently and explicitly tied to variable pay for members of Board of Management.
    - The company has placed Transformation in Human Resources at the core of its new Group strategy "Transform to Tech", which was rolled out at the end of 2021. Human capital management metrics are measured and reported on. The company is assessed to have a robust infrastructure for meeting the shifting needs of its workforce.
    - Volkswagen is investing around €52 billion in electric mobility across the Group by 2026 with the aim to grow EV's share in sales in the core markets of the EU, the US, and China to more than 50% by 2030.
    - Volkswagen's whistleblowing mechanism is now aligned with best practice, and investors are provided with a detailed overview of the compliance organization.

Furthermore, there is comprehensive reporting on statistics, including number of reports received, types of misconduct and measures taken.

- Volkswagen's Product Safety Committee, with direct oversight by the CEO and COO, is responsible for ensuring product quality and safety. The company reports statistics on product quality and safety including product recalls.

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 the specific engagement objective(s). In 2022, 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

Sustainalytics Engagement 2022

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.

During 2022, the Global Standards Engagement team engaged with 146 companies found to be in violation, or at risk of violating international norms and standards. Throughout the year they successfully ended 10 engagements and archived 23 cases. As a result of closer collaboration with their Global Standards Screening team, they initiated 22 new engagements on 22 companies from across sectors and head-quarter domiciles. 73 milestones were reached of which 35 were significant ones, which is going beyond establishing dialogue with companies.

In total, 3,238 contacts were made, where approximately one-third resulted in meaningful content exchange, and 208 engagement meetings were held. In November 2022, Sustainalytics' hosted its second Global Standards Engagement roundtable event. The purpose of the 2022 Roundtable was to bring international banks and institutional investors together to discuss why corporate culture matters, to share best practices on how culture supports the execution of growth strategies and improves engagement with stakeholders and share lessons on how culture is at the foundation of decision-making and risk management.

In response to Russia's invasion of Ukraine at the end of February 2022, Sustainalytics assigned a 'Disengage' status to a number of Russian and Belarusian entities at the end of May. Sustainalytics focused mainly on Russian and Belarusian controlled or state-owned enterprises (SOEs) in sectors identified to be playing a central role in the conflict, as those have been linked to aiding, abetting or enabling the invasion, in violation of international law. Companies' responses to the crisis were closely monitored by several stakeholders, including publication of Yale CELI List of Companies Leaving and Staying in Russia by the Yale Chief Executive Leadership Institute, which exposed companies to reputational risks if they took no action.

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers and Sustainalytics and aligns with Principle 3 of the Principles for 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 2022.

- Sustainalytics reported efforts to engage with **Tesla Inc.** (Baillie Gifford) regarding accusations workplace racial discrimination and harassment. Over the past few years, employees from Tesla's Fremont, California plant in the US have accused the company of repeated workplace racial discrimination and harassment. Workers have reported discrimination in job assignments, discipline, pay and promotion. There are also individual lawsuits alleging female workers experienced sexual harassment. In August 2021, a former employee at the plant won a court ruling and received more than USD 1 million, after claiming that his supervisors had

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regularly referred to him using a racial slur. In October 2021, a jury ruled that Tesla must pay USD 137 million to a contractor who said he had suffered racist abuse while working at the plant in 2015 and 2016. In February 2022, following an investigation, the California Department of Fair Employment and Housing (DFEH) said it had received complaints from hundreds of workers and found evidence that Tesla's Fremont plant is a 'racially segregated workplace.' As a result, the agency filed a lawsuit against Tesla alleging systematic racial discrimination and harassment. Tesla is expected to have the incidents investigated by an independent third party with which it should fully participate. Tesla should reinforce anti-discrimination policies by conducting related sensitization training to move towards a culture of gender equality, diversity and inclusion. The company should also enact a grievance mechanism and appoint senior-level anti-discrimination and human resource experts. Sustainalytics will request a conference call with Tesla to discuss the discrimination issues and the changes we would like to see the company make.

- Sustainalytics reported efforts to engage with global mining group, **Rio Tinto Ltd.** (Baillie Gifford) regarding Community Relations and rights of Indigenous Peoples. Sustainalytics held four conference calls with Rio Tinto in 2022. During the year, the company updated its Social Performance Standard and disclosed its performance towards its commitments regarding the Juukan Gorge remediation plan. In 2023, Sustainalytics will focus the engagement on how Rio Tinto safeguards the intangible cultural heritage of indigenous peoples.

- Sustainalytics reported ongoing engagement with Chinese internet and technology company, **Tencent Holdings Ltd.** (Lazard) regarding involvement with entities violating human rights. Sustainalytics held two conference calls with Tencent in 2022. The company showed a willingness to engage but took time to understand internally how to respond to engagement requests. It also expressed a preference for speaking directly with Sustainalytics and for keeping its engagement with investors separate. In 2023, the dialogue will continue to probe the company's human rights due diligence and content moderation practices.

Sustainalytics reported that they successfully ended 10 engagements and archived 23 cases in 2022. Examples of resolved cases include:

- Sustainalytics provided a report on concluded engagement with the chemical company **Dow Inc.** The company was involved in several controversies related to the health impacts of its crop protection and other products, including the pesticide chlorpyrifos. The chemical is classed as a potential carcinogen and has been subject to several class actions because of its presence (at significant levels) in drinking water at several locations in the US.
  Chlorpyrifos is no longer produced nor purchased by Dow, resulting in a complete removal of associated health and safety and waste management risks. In general Dow adopts a lower acceptable level of contaminants in effluent discharge than required by the regulator. Dow has also committed to producing chemicals that are 'sustainable for people and planet', meaning that it is focusing on the production of benign chemicals, which although still posing a risk, indicate a move towards a greater degree of awareness and responsibility for managing hazardous chemicals. In terms of risk management, the company adopts a hands-on approach to ensure products are managed appropriately cognizant of the health and safety risks. This includes banning certain products, training of suppliers and subsequent auditing to ensure compliance with the required practices. Internally, the company employs strong product

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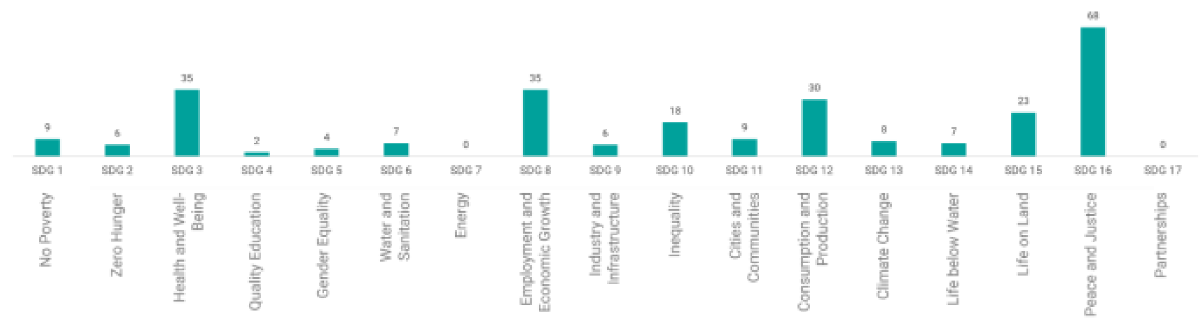
stewardship with decision making for the release of new chemicals involving a number of company ‘gatekeepers’, sustainability being one of the key measures.

- Sustainalytics reported that engagement with **DuPont de Nemours, Inc.** had also been concluded. The company had been involved in the systematic under-reporting of several long-term pollution incidents arising from their operational practices, which might have adversely affected public health. DuPont has provided a significant level of disclosure. The company has committed to green chemistry principles for delivery by 2030 and is compliant not only with the American Chemical Council but also the European REACH organization, providing oversight of the use of chemicals of concern in the products DuPont produces. The company has disclosed a robust approach to product stewardship and risk assessment, activities that are third party audited. The company confirmed that all its contamination liabilities sit with another entity arising from the de-merger, Corteva (Chemours). Furthermore, it does not produce PFAS (the main family of chemicals of concern). The company has also disclosed a strong internal ‘responsible care management system’, which is externally audited. It has also adopted an internal risk screening process to evaluate and screen out products that are considered to have an unacceptable impact on the environment and human health.

- Sustainalytics reported on concluded engagement with the chemical company **Olympus Corp.** (Baillie Gifford & Lazard) regarding the quality and safety of its gastrointestinal endoscopes. Olympus had significantly reduced deaths and complications associated with contamination of its duodenoscopes over the past few years. Deaths in the last twelve months have been nil with 14 reported potential complications. The company has demonstrated concrete steps to remedy the quality and safety concerns associated with its duodenoscopes, via comprehensive training to health care professionals on how to properly sterilize duodenoscopes, developing and launching a new duodenoscope with a fixed end cap that effectively addresses contamination concerns, and demonstrating appropriate QMS, incident tracking and other internal policies and processes.

All **Global Standards Engagement** dialogues are mapped to the 17 **UN Sustainable Development Goals** (SDGs). In 2022, engagements in the program mapped proportionately higher to SDGs 3, 8, 12 and 16, indicating a strong focus on corporate governance.

UN Sustainable Development Goals (SDGs) Distribution of All Engage Cases as of 31 December 2022



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

Appendix B

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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 the related disclosure, as well as their resilience and strategic positioning. At the same time, through parallel engagement activities, the intended impact extends beyond targeted companies. The themes strive for creating positive change on company, sector, system and issue level. SPF is a subscriber and active supporter of the following Sustainalytics thematics; **Responsible Cleantech, Modern Slavery, The Governance of Sustainable Development Goals (SDGs), Climate Change - Sustainable Forests and Finance and Feeding the Future.** Sustainalytic's thematic, **Child labour in Cocoa**, concluded during 2022.

- Sustainalytics issued a final report for the thematic engagement, **Child labour in Cocoa.**
  Ivory Coast and Ghana are the world's leading cocoa producing countries, accounting for almost 70% of cocoa production worldwide. However, it is estimated that in these countries combined, over 1.5 million children work in hazardous conditions in the cocoa supply chain alone.
  This issue is not new, but it is persistent. The Harkin-Engel protocol (a commitment from the cocoa industry to combat child labour in its supply chain) was introduced in 2001 and in 2010, the industry reaffirmed its commitment in a joint declaration to reduce the worst forms of child labour by 70% by 2020. Various programmes aimed at increasing productivity and improving the livelihood of cocoa-growing farmers have been scaled up over the years and targeted measures to combat cases of child labour have been developed. Across the supply chain, the cocoa industry, governments and others continue to deploy significant efforts. Despite these developments, child labour remains widespread at the millions of small-scale farms involved in cocoa farming in West Africa and efforts must therefore continue, and be scaled up, so that commitments to eradicate child labour can be met.
  Investee companies linked to child labour represent a reputational risk, not only for the companies themselves, but also for their investors. This is particularly the case in cocoa production, where there are widespread and well documented instances of child labour. Cocoa and chocolate companies must also secure a stable farmer base. In recent years, macro trends such as urbanization and aging farmer population in cocoa-producing countries have put a strain on the sector. To attract and retain a workforce and a stable supply, the cocoa industry needs to ensure that cocoa farming is lucrative by paying farmers adequately so that they can sustain themselves and their families.
  The Sustainalytics' thematic engagement on Child Labour in Cocoa started in Q3 2019. Together with a group of more than 30 institutional investors, they engaged major cocoa and chocolate companies in the three focus areas of this engagement: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers. Since 2019, Sustainalytics conducted more than 40 engagement meetings, aligned more than 30 global institutional investors to sign and support investor letters on, and an investor endorsement of, corporate living income and living wage roadmaps. In addition, they organized a roundtable named 'Accelerating Farmer Livelihoods' as well as webinars on living income, all with very good level of participation by companies and leading topic experts.
  It is probably fair to say that the challenges the world is facing are probably larger today, than they were three years ago at the inception of this thematic engagement, not the least negative global developments with regards to poverty and child labour. On the latter, a June 2021

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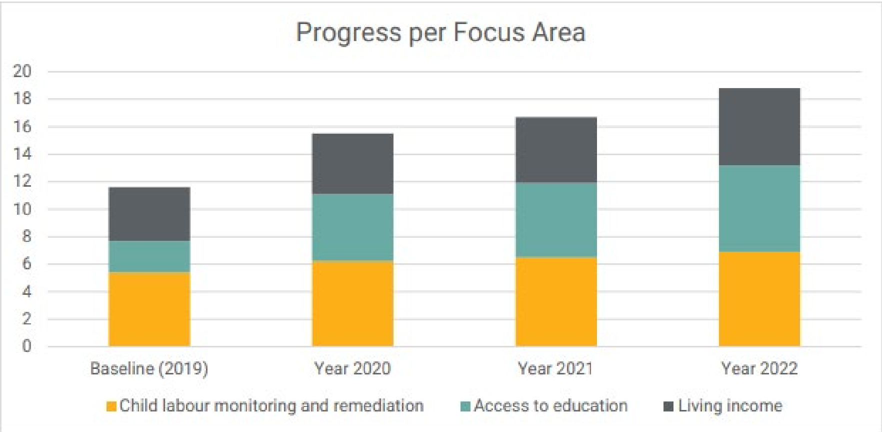
report from the ILO and UNICEF points to the first increase in child labour in 20 years. According to the statistics, there are 160 million children in child labour in the world, accounting for nearly 10% of the world's children. Most, 70%, of child labour happens in the agricultural sector. Child labour is increasingly concentrated to Sub-Saharan Africa. A large portion, but not all, 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. According to the ILO, there is also a knock-on effect on child labour when poverty levels increase. Based on historical data, a 1% increase in poverty equals to at least a 0.7% increase in child labour. According to estimates by the World Bank, poverty levels are increasing globally. It estimates that an additional 75 million to 95 million people could be living in extreme poverty in 2022 compared to pre-COVID-19 projections. With the correlation between poverty and child labour, it means increases in poverty globally will lead to an estimated increase in child labour globally of about 52 million to 67 million children.

A child labour in cocoa specific survey was also released during the course of this thematic engagement, commissioned by the US Department of Labour and conducted by the University of Chicago and released in October 2020. It concludes that the number of children working in cocoa farming in Ivory Coast and Ghana has not decreased but remained stable amid an increase in cocoa production. On a positive note, the report states that school attendance among children in agricultural households increased. A separate study, commissioned by the World Cocoa Foundation (WCF), suggested that hazardous child labour has been reduced by one-third in communities where company programs are in place.

At the time of the baseline assessment in November 2019, the overall KPI fulfilment rate for all companies combined was at 43%. By the time of the final report in August 2022, this had improved to 70%. As shown in the chart below, all three KPIs/focus areas: child labour monitoring and remediation, access to education and living income, improved.



Average score per KPI for all companies in this engagement. Development from baseline 2019 to August 2022.

In terms of child labour monitoring and remediation, companies have improved both on effectiveness, i.e., having a robust methodology in implementing CLMRS, and in terms of scale of CLMRS roll-out. With regards to access to education, a major announcement was made in spring 2020, with several cocoa companies committing to support two new programmes by the Jacobs Foundation in Ivory Coast. The main programme aims to reach five million children in cocoa-growing areas and beyond, focusing on access to quality primary education.

Lastly, on living income, living income benchmarks are in place, conducted by ISEAL, GIZ and the Sustainable Food Lab, and have been updated during the course of the engagement. Some

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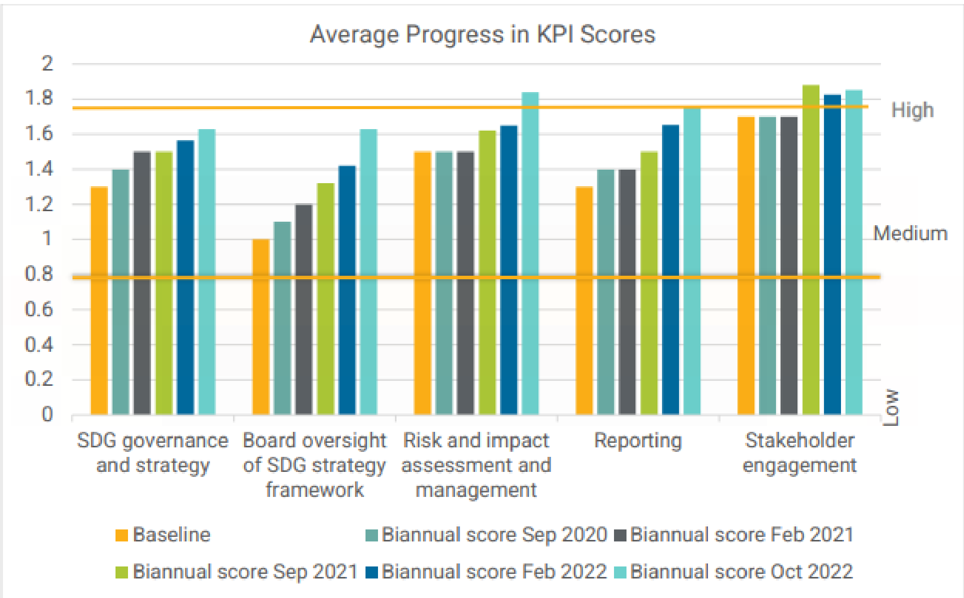
companies have living income commitments in place and all companies engaged with communicated several activities in relation to the enablement of living income for cocoa-growing farmers. Several companies are explicitly measuring farmer income as a part of monitoring their respective farmer programmes in West Africa and some companies have reported initial income related data of farmers in communities reached by their farmer programmes.
As part of its recently initiated Human Rights Accelerator Thematic Engagement, Sustainalytics will continue engaging the cocoa sector on the issues of child labour and living income.
This thematic engagement seeks to directly contribute to the Sustainable Development Goals. SDG 1 on No Poverty, SDG 2 on Zero Hunger, SDG 4 on Quality Education, SDG 8 on Decent Work and Economic Growth, SDG 12 on Responsible Consumption and Production and SDG 17 Partnerships for the Goals. It is indirectly connected to several others. Further detail is available at: https://connect.sustainalytics.com/combatting-child-labour

- **The Governance of Sustainable Development Goals (SDGs)** focuses on encouraging companies to define meaningful SDG strategies that align with their business plans and encouraging companies to seek out opportunities that produce positive outcomes in line with the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. The goal is to ensure that the companies' decision making considers SDG impacts, guides culture, maintains their license to operate, and is geared towards achieving concrete impacts by turning SDG-related goals into competitive advantages.
Since the last biannual update in March 2022, Sustainalytics continued to hold conversations with companies in the Consumer Goods, Information and Communications Technology (ICT), and Financial sectors.



The KPI's illustrate the steady progress towards the programme's goals across all sectors as companies' average performance rose from medium (1.4/2) to high (1.7/2). Sustainalytics determine that most companies in the programme now exhibit satisfactory governance of SDGs. However, the purpose of this engagement is also to produce positive outcomes in line with the 2030 Agenda, contributing to a more stable, long-term operating environment for business. Therefore, Sustainalytics have decided to extend this thematic engagement to

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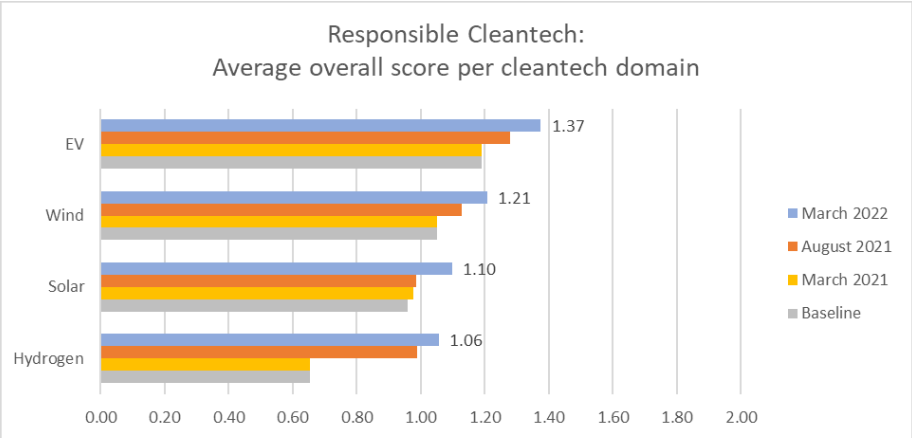
discuss with the programme companies firstly how measuring their impact on the SDGs can be improved, and second, how their impact can be maximized.
Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-governance-of-sdgs

- **Responsible Cleantech** is a three-year engagement aiming to strengthen target companies' strategic management of environmental and social considerations related to the processes around cleantech products. 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.
The third biannual report accounts for the progress made between September 2021 and March 2022. There has been active dialogue with 18 companies including **Ford Motor**, **Johnson Matthey**, **Vestas Wind Systems** and **Tesla**. The engagement program has yielded specific insights about the environmental and social challenges of each of the selected cleantech domains. Throughout the engagement, Sustainalytics assesses the engaged companies on five key performance indicators (KPIs) that cover governance, operational management, supply chain management, circularity, and stakeholder engagement. A scoring scale from 0.00 up to 2.00 is used for this purpose. The chart below illustrates how the EV domain continues to lead, followed by the wind domain. The solar domain reduced its backlog (mainly resulting from one company having published its first sustainability report). The hydrogen domain is singled out here for the first time. The underlying scores at the company level mainly serve to structure the dialogues.



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

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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 corporate responsibility to respect human rights. Yet studies find that many businesses are not taking sufficient action to address these impacts. Investors may therefore be more exposed to the risks of modern slavery than they are currently aware. The 2022 reports of the Modern Slavery thematic engagement present progress since the baseline assessment in February 2021. The reports provide an overview of the engagement process and go 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 reports also provide 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 2022 and into 2023. Further detail is available at:
https://connect.sustainalytics.com/thematic-engagement-modern-slavery

- **The Governance of Sustainable Development Goals (SDGs)** is a three-year engagement on the Governance of SDGs with approximately 21 companies in the financial services, consumer goods and ICT sectors. The objective of this engagement is to encourage companies to clearly identify which SDGs are the right ones for them to prioritise, demonstrate that their decision-making considers SDG impacts, guides culture and maintains their license to operate, and is geared towards achieving concrete impacts. The biannual report provides an update on Sustainalytics' conversations with the selected companies and outlines their progress against the key performance indicators and towards the change objective. Since the last biannual update in September 2021, Sustainalytics has continued conversations with companies in the consumer goods, information and communications technology (ICT), and financial sectors. They have arranged 12 meetings and exchanged written communication (121 emails) with all the companies in the programme. The financial and ICT sectors continue to be responsive and open to discussing various aspects of SDGs. However, consumer goods companies remain the least eager to agree to meetings on this topic. The most positive developments relate to increasingly enhanced Climate-related efforts and disclosures (SDGs 7, 12 and 13). The Task Force on Climate-related Financial Disclosures (TCFD) recommendations seem to have become a universal reporting standard. All 17 SDGs have been deeply affected by the COVID-19 crisis, and the need to achieve the SDGs is more vital than ever. The key conclusion of the 2021 UN Sustainable Development Goals Report is that the pandemic threatened decades of development gains and further delayed the transition to a more sustainable world. The effects of the COVID-19 pandemic and response to the crisis continue to be included in conversations with engaged companies. However, the discussion around how the pandemic has impacted companies' risk assessments and materiality analyses has not been an easy topic on which to engage; most of the companies are still assessing those impacts. Overall, there have been numerous positive developments across the sectors. The total score of all companies in the programme improved to 8.1 from 6.8 at the beginning of the engagement in April 2020 (the maximum being 10). Sustainalytics are confident that pushing for accelerating SDG efforts will continue to yield results against the outcomes framework of the engagement. Further information is available at:
  https://connect.sustainalytics.com/thematic-engagement-governance-of-sdgs

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- **Climate Change - Sustainable Forests and Finance** thematic engagement addresses climate risk and advocates 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.
  The first bi-annual report covers the period of engagement that took place between September 2021 and February 2022, following the publication of the baseline report in September 2021. Sustainalytics has been actively pursuing company participation in this initiative, through introductory and initial engagement meetings. The focus of initial engagement calls was on understanding the respective companies' current practices and clarifying their disclosure, advising in relevant cases investor expectations on developing material issues, on climate, nature and deforestation. Many companies were keen to hear an investor's perspective and were receptive to suggestions.
  Throughout the engagement, Sustainalytics assesses the engaged companies on 5 key performance indicators (KPIs) - Disclosure and governance, Strategy, Forests & mitigation, Physical risk and Natural resource management. Sustainalytics have observed some improvement in scoring across the board, at this stage it was largely driven by increased disclosure, announcements and commitments in the run-up to and during COP 26 last November, with three companies laying out strategies for reaching climate targets, while another increased the ambition of its science-based target. There has also been increases in ambition and strategic direction on tackling the issue of deforestation in engaged companies through collaborative efforts, via initiatives such as the Soft Commodities Forum (SCF). Looking ahead this engagement will focus on deepening the dialogue with the companies and wider stakeholders and to enlist the participation of further companies. In particular, the dialogue will be focusing on science-based targets, including targets relating to deforestation and importantly how companies will establish transparent strategies to achieve such targets. This thematic engagement seeks to directly contribute to the Sustainable Development Goals. SDG 12 on Responsible Consumption and Production, SDG 13 on Climate Action, SDG 15 on Life on Land and SDG 17 Partnerships for the Goals. It is indirectly connected to several others.
  Further detail is available at:
  https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement

- **Feeding the Future** is a three-year engagement targeting approximately twenty companies in the food sector with the focus on how companies are transforming their business models to address the new realities for production and consumption. The objective of this engagement programme is to encourage food companies to embark on a transition towards more sustainable practices and develop holistic responses to the environmental challenges and contribute to a more sustainable trajectory for the future of food. The measures companies are expected to implement cover contingency planning (including science-based scenario analysis), responsible stewardship of land and other natural resources, eliminating food waste, aligning with shifting consumer trends and supporting a sector-wide transition to more sustainable business models.
  In the first half of 2022 Sustainalytics has sought to continue and/or commence dialogue with all 20 companies in the engagement programme. They have exchanged 229 emails, made 16 telephone calls and sent two investor letters, resulting in 12 introductory and content-based calls with engagement companies. There has been an improvement in the average score for all KPIs in the framework, as illustrated in the chart below.

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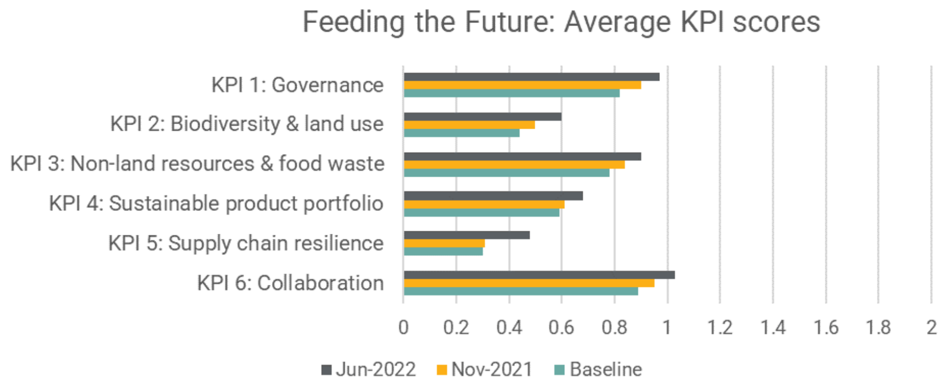


The three KPIs demonstrating the best performance are Governance (1), Non-land resources and food waste (3) and Collaboration (6), which all have a medium average score.
Sustainalytics are seeing encouraging examples of high-level commitments to sustainable agriculture, which are in turn linked to board-level responsibility and executive pay structures. Similarly, companies are taking a proactive approach to GHG management. Collaboration is the best-performed KPI, suggesting that companies are seeing the benefits of working with stakeholders in multiple categories, such as civil society organizations and sectoral peers, to deal with the complexities of sustainable food production. Biodiversity and land use (2), sustainable product portfolio (4) and supply chain resilience (5) all exhibit a low average score. March 2022 saw the publication of the beta version of the Taskforce on Nature-related Financial Disclosures (TNFD) framework and it is anticipated that this framework will help to drive transparency, which should in turn incentivize improvements to systems for monitoring and managing biodiversity impacts. Supply chain resilience remains the most under-performed KPI on the framework, indicating that companies have up till now prioritized the sustainability of their own operations. Looking ahead to the next six months, Sustainalytics will continue previously established dialogues and, where appropriate, move from broad-based information-gathering to a deeper exploration of specific, material topics and recommendations for improvement. They will also track emerging currents, such as responses to the TNFD beta, and gather further examples of stakeholder collaboration, given its importance to embedding sustainability in complex value chains.
This thematic engagement seeks to directly contribute to the Sustainable Development Goals. SDG 2 on Zero Hunger, SDG 6 on Clean Water and Sanitation, SDG 12 on Responsible Consumption and Production, SDG 13 on Climate Action, SDG 14 on Life Below Water and SDG 15 on Life on Land. It is indirectly connected to several others. Further detail is available at:
https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement

Appendix C

Collaborative Engagement – Activity During 2022

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

Institutional Investors Group on Climate Change (IIGCC)

- Ahead of the **COP27 UN Climate Change Conference** negotiations in Sharm el-Sheikh the Fund co-signed **The Investor Agenda 2022 Global Investor Statement to Governments**.
  This statement delivered 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 602 investors representing over US $42 trillion in assets. The joint statement to all world governments urged a global race-to-the-top on climate policy and warned that laggards will miss out on trillions of dollars in investment if they aim too low and move too slow. The statement also set out five actions governments need to urgently undertake:
    - Ensure that the 2030 targets in their Nationally Determined Contributions align with the goal of limiting global temperature rise to 1.5°C.
    - Implement domestic policies across the real economy and take early action to ensure that their 2030 greenhouse gas emissions are aligned with the goal of keeping global temperature rise to 1.5°C.
    - Contribute to the reduction in non-carbon dioxide greenhouse gas emissions and support the effective implementation of the Global Methane Pledge to reduce emissions by at least 30 percent from 2020 levels by 2030.
    - Scale up the provision of climate finance from the public and the private sector for mitigation, and for adaptation and resilience, with a particular focus on the needs of developing countries.
    - Strengthen climate disclosures across the financial system.

  The full statement and list of current signatories is available at:
  https://theinvestoragenda.org/wp-content/uploads/2022/08/2022-Global-Investor-Statement-.pdf

- **IIGCC** reported on the outcome of the COP27 UN Climate Change Conference negotiations in Sharm el-Sheikh.
  The defining moment from COP27 was the agreement amongst national governments to create a 'loss and damage' fund to aid vulnerable countries to deal with the impacts of climate change. While there was a lack of detail about the proposed loss and damage fund, a transitional committee representing 24 countries was set up with the task of establishing how the fund will work and where the money will come from. Recommendations will be presented at COP28.
  Another major theme throughout COP27 was adaptation, including a key focus on the finance needed to help vulnerable communities adapt to climate change through concrete adaptation solutions. Most significantly, the negotiators agreed to produce a report for the COP28 meeting on progress towards doubling adaptation finance by 2025.

Collaborative Engagement – Activity During 2022

For institutional investors, there was a specific mention in the COP27 Sharm el-Sheikh Implementation Plan. This relates to the required transformation of the financial system to deliver the US$4 trillion per year needed to be invested in renewable energy up until 2030 to be able to reach net zero emissions by 2050. Importantly, this was the first specific mention of 'institutional investors' in such COP documentation.

Often what doesn't happen is just as important as what does – in this regard COP27 was no different. Critically, there was no significant progress on closing the 'ambition gap' and keeping a rise in global temperatures to 1.5°C possible. Some countries pushed for the final COP27 agreement to reference 'peaking emissions in 2025' but this did not make it in the final text. Similarly, there were no significant new steps since Glasgow's COP26 on reducing dependence on fossil fuels and reducing emissions this decade. In this regard, the world's major emitters made no notable new commitments on climate mitigation.

While COP27 may have thrown up some uncertainties, what is clear is that investors have a major role to play in addressing the climate crisis.

In particular, while there are questions over whether a credible global pathway to 1.5°C can be achieved, investors have a vital role in trying to make this a reality. This puts the number of net zero commitments, such as the Net Zero Asset Managers initiative and the Paris Aligned Asset Owners into sharper focus, as they are vital for driving the large-scale change in investment and capital allocation needed.

Finally, IIGCC conclude that governments need to step up their policy ambition, even if there wasn't consensus in Egypt. That's why initiatives such as the above mentioned annual Global Investor Statement to Governments on the Climate Crisis remains critical, as until policy ambition is high and aligned with policies for the real economy, then investors will not be able to provide the investment needed to finance the transition of the global economy to net zero.

CDP

- SPF is an active supporter of the **CDP Non-Disclosure Campaign (NDC)**. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. CDP's NDC targets those companies that continually decline to disclose, as well as providing a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. The 2022 campaign was launched in June with a record 263 financial institutions from 29 countries, representing US$31 trillion in assets, signed up to this campaign and selected to engage 1,400+ companies on CDP disclosure. These companies represent over US$24 trillion in market capitalization and emit more than 4,800 megatonnes of carbon dioxide annually. The campaign has seen an average 38% year-on-year growth in participation from financial institutions, since inception in 2017, with a 57% uplift compared to last year. This year's campaign also saw significant growth in the number of companies requested to disclose to CDP's water and forest questionnaires, with a 51% and 37% rise in the number of companies engaged on these themes compared to last year.

  This year the Fund was selected to lead the initiative's deforestation disclosure engagement with two UK companies. The Fund organised collaborative letters to pet supplies retailer, **Pets at Home** and logistics provider **Stobart**, encouraging them to provide information by completing the CDP Forests questionnaire. The letter reminded them that addressing deforestation and forest degradation, which account for approximately 10-15% of the world's annual greenhouse gas emissions, is a key component of climate change mitigation and that

Collaborative Engagement – Activity During 2022

commitments to end deforestation were announced in Glasgow, at COP26, in November 2021 where 133 world leaders, responsible for around 90% of the world's forests, promised to end and reverse deforestation by 2030. As both companies declined to disclose in the past, to support our request 41 investors, representing US$7.5 trillion in AUM co-signed the letters.

The Fund was also co-signed letters on climate and water disclosures to eight companies including **NIKE Inc.**, **BP**, **Shell** and **Reliance Industries**. Further details are available on the CDP website: https://www.cdp.net/en

- At the close of 2022 the **CDP Non-Disclosure Campaign** (NDC) published its 2022 report. Highlights from the 2022 report include:
  - An overall increase to a 27% disclosure rate, with 388 out of the 1,466 companies targeted through the campaign responding. This is up from 25% last year. Companies were 2.3 times more likely to disclose after being targeted by the NDC.
  - Companies targeted on forests were over 3.2 times more likely to respond following engagement.
  - Over 550 companies were engaged on water security, a 50% increase on last year. Of these companies a record 104 disclosed as a result, 60% more than last year.
  - Companies in the high emitting transportation and power generation sectors were 4.6 and 4.4 times more likely to disclose after engagement. 41% of companies in the transport sector disclosed to CDP, including shipping and air freight companies. Increasing disclosure rates in high emitting sectors is a vital part of companies setting credible transition plans.
  - Companies based in Asia were 2.6 times more likely to disclose if targeted through the campaign. 141 companies from across Asia disclosed for the first time after participants engaged with them, more than in any other region. Within Asia, companies from China were four times more likely to disclose after being targeted through the NDC.
    The full report is available on the CDP website: https://www.cdp.net/en

- **CDP** announced that it will expand its global environmental disclosure system to help solve the plastic pollution problem. Despite the scale of the plastic pollution problem and extent of its impacts, many companies still have a limited understanding of how they contribute to it and their exposure to related commercial, legal, and reputational risks. However, plastic pollution has been shown to be an important issue for companies and capital markets. Responding to a consultation run by CDP in 2022:
  - 88% of companies said plastic was a relevant issue.
  - A third (32.5%) did not have plastic-related targets.
  - 81% said that the information requested by CDP on plastics would be useful to inform financial or procurement decisions.

  This expansion will include the addition of questions and metrics on plastics into CDP's annual disclosure questionnaires, beginning with a pilot in 2023. The full details of CDP's first year of plastics disclosure, including which companies will be requested to disclose initially, will be released in early 2023, prior to the April launch of the disclosure platform. This is a significant step forward in delivering CDP's 2025 strategy, announced last year, which will see the not-for-profit widen its scope to cover planetary boundaries, including oceans, land use, biodiversity, food production and waste.

  Further detail is available on the CDP website at: https://www.cdp.net/en/plastics

Collaborative Engagement – Activity During 2022

ShareAction

- In support of **ShareAction's** Good Work investor coalition the Fund co-signed letters to the leading UK Supermarkets including **Aldi, Asda, Co Op, Iceland, McColls, Waitrose** and **Lidl** regarding real Living Wage and workers' rights. This is the second-round letters to Supermarkets, the Fund supported similar letters in 2021 to **Sainsbury's, Tesco, Morrisons, M&S** and **Ocado**. Supermarkets are one of the largest employers of low paid workers in the UK – with 45% of supermarket worker's earning less than the real Living Wage. ShareAction's Good Work investor coalition have been engaging with supermarkets on the topic of the Living Wage since 2013 and over the last two years it has been a key focus sector. The coalition have raised the topic of the Living Wage through AGM questions, letters, meetings as well as hosting a sector roundtable earlier this year. Through this engagement we have seen some supermarkets make movement towards the Living Wage rates, but no supermarket has 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 are long overdue. The Good Work investor coalition represents 38 investors with over £4.6 trillion in assets under management. The Fund also co-signed Good Work Coalition letters on Living Hours to several large UK based employers including **GSK**, **ITV**, **Smith & Nephew** and **Ashtead Group** asking them to consider accrediting to the **Living Wage Foundation** Living Hours accreditation standard. The standard presents an opportunity for Living Wage employers to go further and commit to providing security and stability for their workers and those working for their businesses on behalf of third-party contractors. 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.
  In support of WDI the Fund wrote to management at the UK airline **EasyJet Plc**., Hong Kong based insurance company **AIA Group** and **Bright Horizons Inc.,** a US based child-care provider, asking them to be more transparent about their workforce practices and disclose to the WDI survey this year. The WDI is run by ShareAction and is supported by a coalition of 68 institutions, with US$10 trillion in assets under management. The WDI annual survey and engagement programme generates new data on workforce practices, which signatories integrate into their investment analysis, 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. EasyJet Plc., AIA Group and Bright Horizons Inc., had not responded to a WDI request to disclose for the 2022 survey. SPF wrote to each company pointing out that shareholders expected the highest standards of work force practice and that this be disclosed through channels such as the WDI. AIA Group and Bright Horizons Inc. responded immediately and completed the WDI survey as requested. Engagement with EasyJet was constructive despite the company not completing the survey this year. EasyJet acknowledged the value of the survey to investors and that as first-time

Collaborative Engagement – Activity During 2022

responder they preferred to wait until they could generate the resource and time to do a submission justice. EasyJet confirmed WDI would be firmly on their agenda for 2023.

- In November 2022, the Fund co-signed the **Investor statement on the UK cost-of-living crisis** in support of the ShareAction **Good Work** investor coalition. The statement was an outreach to 100 of the UK's largest listed employers to enquire about the support being provided to their lowest-paid workers during the cost-of-living crisis. Backed by 17 investors including Aviva, Brunel Pension Partnership, and Legal & General Investment Management the statement urged companies to:
    - Prioritise providing support for the lowest paid employees including uplifting pay and the provision of one-off cost of living support.
    - To consider meeting the new real Living Wage rates.
    - Work in good faith with workers and unions to reach agreements on pay claims and avoid potential disruption.
    - Proactively engage with third-party contractors to ensure support is being provided for staff working on the company's premises.
    - Be cognisant of pricing of key goods and services upon which people are reliant.

  The full statement and list of current signatories is available at:
  https://www.ccla.co.uk/sustainability/driving-change/cost-of-living

- Also, in 2022 the Fund supported a **Sustainalytics** and **Fairphone** collaborative letter to the European Parliament and the European Commission calling on the EU to include living wage and income in the EU corporate sustainability due diligence directive (EU CSDDD). Earlier in 2022 the European Commission adopted a proposal for a Directive on corporate sustainability due diligence. The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance. The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe. In the draft Directive, living wage is mentioned explicitly as a human right. In particular, the draft Directive states companies are to ensure that "an adequate living wage" is not withheld, including in their supply chains. The European Parliament is now further developing this legislation. The signatories called on the Members of the European Parliament, the European Commission and the member states to ensure living wages and incomes are included as a human right in the final Directive and not to compromise on the definitions of living wage and income. The letter was supported by 63 companies, investors and initiatives of different industries, countries and sizes, including **Unilever**, **L'Oréal** and **Nestlé** as well as initiatives such as UN Global Compact and Fairtrade. The letter is available at: https://www.fairphone.com/wp-content/uploads/2022/05/Letter-Inclusion-Living-Wage-Income-in-EU-CSDDD.pdf

Collaborative Engagement – Activity During 2022

Farm Animal Investment Risk and Return (FAIRR)

- The Fund co-signed a **Farm Animal Investment Risk and Return Initiative (FAIRR)** global investor letter to the Food and Agriculture Organization of the United Nations (FAO) urging them to set a roadmap for how the food system can align with the Paris Agreement goal of limiting global warming to 1.5°C. The letter, signed by 33 investors representing over US$6.7 trillion, as well as the UN-convened Net-Zero Asset Owner Alliance (NZAOA), also targets other financially material risks presented by the global food system in its current form, such as deforestation and biodiversity loss, malnutrition, and antimicrobial resistance. The call echoes the net-zero roadmap for the energy sector published by the International Energy Agency (IEA) in May 2021. However, unlike in the energy sector, there is a lack of consensus on what a pathway to 1.5°C looks like for the agriculture and land-use sector. The letter is a follow up to a FAIRR global investor statement presented to the COP26 UN Climate Change Conference in Glasgow calling on G20 nations to disclose specific targets for reducing agricultural emissions. The statement asked all G20 nations to disclose specific targets for emissions reduction in agriculture within or alongside their NDC commitments at COP26. The statement and letter are available on the FAIRR website at: https://www.fairr.org/article/investor-letter-fao-roadmap/

Local Authority Pension Fund Forum (LAPFF)

- LAPFF engagement activity in 2022 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 of LAPFF meetings and events during 2022.
  Highlights from **LAPFF** engagement activity in 2022 include:
  - Continued engagement with **Vale**, **Rio Tinto** and **Glencore**, to discuss governance, climate, and human rights. A special LAPFF report on the mining sector is available on the LAPFF website at: https://lapfforum.org/wp-content/uploads/2022/04/LAPFF-Mining-and-Human-Rights-Report.pdf
  - Engagement with **Standard Chartered** to determine how the company was progressing its work with clients on carbon emission reductions and aligning them with its approach to the energy transition.
  - Continued engagement with **BP** and **Shell** to highlight the need for Paris-aligned transition plans.
  - Engagement with **Barclays** to better understand progress made on the company's climate change strategy, as well as how the company was addressing identified gaps.
  - Engagement with **Booking Holdings** and **General Mills** to continue to push for them to undertake human rights impact assessments with regards to the Occupied Palestinian Territories (OPT) and to publish them.
  - LAPFF reached out to car manufacturers, **BMW** and **Mercedes-Benz** to discuss their approaches to raw material sourcing and how they ensure that this is done in a responsible manner.
  - LAPFF met with the **London Stock Exchange Group** to gain a better perspective of how the company can shape and promote the adoption of best practice Climate Transition Plans and to provide challenge on targets for 'real zero' for the group and for companies in its influence.
  - LAPFF attended the **ArcelorMittal** AGM, in its role as joint lead investor with CA100+, to ask about company ambitions for a carbon emissions reduction target aligned with

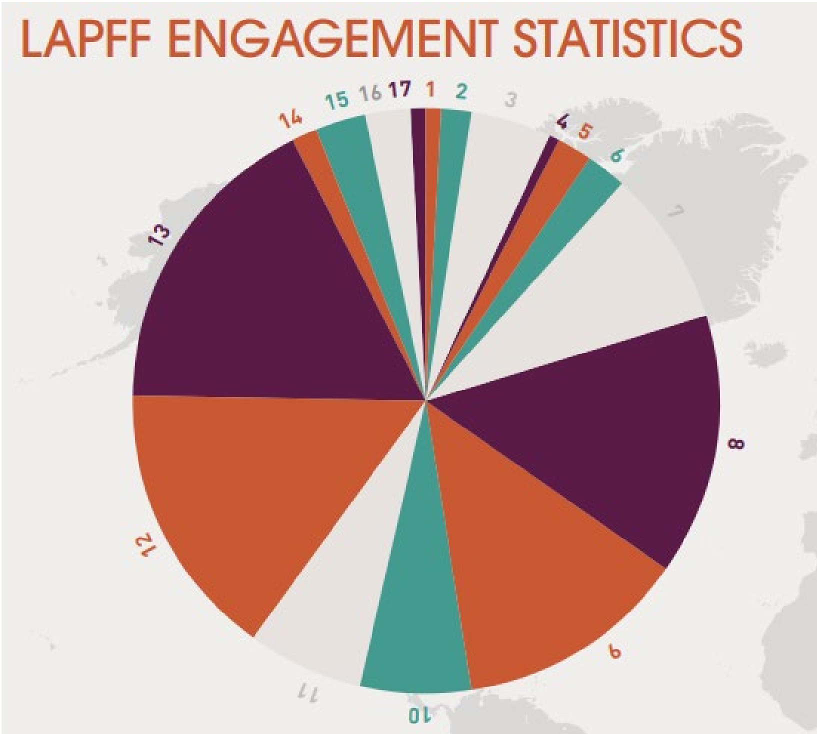
Collaborative Engagement – Activity During 2022

a 1.5°C scenario, for a commitment to a short-term reduction target, and to put the zero-carbon strategy to shareholders for approval at the 2023 AGM.

- Engagement with **Novartis** to understand if and how the Covid pandemic has changed its business strategy and model. The company's approach to the war in Ukraine was also discussed.
- LAPFF joined a collaborative call with **Nestle** to discuss the company's approach to plastic packaging and how it was working to reduce the environmental impacts that plastics have.
- Engagement with **Mizuho** to determine how the company was progressing its work on carbon emission reductions and on the transitional pathway and strategy Mizuho has developed to achieve these targets.
- Engagement with **Ford Motors** to discuss its approach to human rights and responsible mineral sourcing.
- LAPFF has continued to investigate issues of Uyghur forced labour in Xinjiang and other regions of China. After two engagements with companies earlier in the year, LAPFF has been looking at potential ways forward through collaborative engagement on the issue.
- Following meetings with **Sainsbury** in Q1 and Q2 2020, LAPFF has maintained an interest in ShareAction's Good Work Coalition which looks at the living wage and insecure work, amongst other issues.
- LAPFF joined a collaborative call, organised by ShareAction, with **Marks & Spencer** representatives to discuss the company's approach to pay.
- LAPFF continued engagement on the role food producers play on public health and in August met with **Kellogg's** for the second time under this engagement.
- In support of the 30% Club Investor Group LAPFF joined several investors in writing to **Charter Communications**, **Liberty Media** and **Transdigm Group** to start engagement on board diversity in the USA.
- LAPFF has continued its engagement with electric vehicle manufacturers to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. LAPFF met with **Renault**, **General Motors** and **Mercedes** on this issue.
- LAPFF met with **Tesco** to discuss its exit from Myanmar and to gain insight into the company's global supply chain due diligence.
- LAPPF held meetings with Asian financial institutions and coal-exposed power companies in collaboration with investors in the Asia Transition Platform.
- LAPFF continued to play a key role in **CA100+** collaborative engagement. Discussions and meetings were held with **Lyondell Bassell**, **ArcelorMittal** and **National Grid** on decarbonisation strategies and Science-Based Targets.
- In conjunction with investment manager Sarasin, LAPFF co-signed correspondence to the audit committee chairs of **Equinor**, **CRH**, **Air Liquide** and **Rio Tinto** setting out investor expectations on 1.5°C aligned accounting and audit disclosures.
- LAPFF met with **The Home Depot** as part of the Investor Alliance for Human Rights (IAHR). This collaborative effort engages companies with alleged Uyghur forced labour in their supply chains.

Collaborative Engagement – Activity During 2022

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



LAPFF SDG ENGAGEMENTS

Goal	
1 No Poverty	10
2 Zero Hunger	14
3 Good Health and Well-Being	42
4 Quality Education	5
5 Gender Equality	20
6 Clean Water and Sanitation	20
7 Affordable and Clean Energy	81
8 Decent Work and Economic Growth	137
9 Industry, Innovation, and Infrastructure	120
10 Reduced Inequalities	57
11 Sustainable Cities and Communities	61
12 Responsible Production and Consumption	144
13 Climate Action	163
14 Life Below Water	13
15 Life on Land	26
16 Peace, Justice, and Strong Institutions	24
17 Partnership for the Goals	6

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 2022

- **LAPFF** also provided responses to consultations and calls for evidence during 2022 including:
    - Response to the US government's consultation on its 2016 National Action Plan (NAP) on responsible business conduct (RBC). Among suggestions from LAPFF include a request that the US clarify the extent to which it will use hard law legislative initiatives versus soft law voluntary initiatives to create an enabling environment for RBC. There is also a suggestion to make environment and climate change more integral parts of the NAP; to date, environment has been tangential to the NAP and climate has not featured at all.
    - Responded to the Climate Change Committee's call for evidence. Following on from its 2020 report 'Role of Business in Delivering the UK's Net Zero Ambition', the Committee is looking to develop a more in-depth study and has asked for feedback from concerned parties. The Committee aligns itself with the principles that the UK's carbon 'budget' should be met domestically, and not passed by 'offsetting' to other nations.
    - Responded to the Department for Transport's consultation on ending the sale of new, non-zero emission buses, coaches and minibuses. LAPFF strongly supports ending the sale of new non-zero emission busses, coaches and minibuses by 2025. The response sets out the view that the switch to electric vehicles should support a fair and just transition to a net zero carbon economy. Government, companies and investors must work together to mitigate any negative impacts and make the most of new opportunities for jobs and growth from electric vehicle manufacturing.
    - Responded to a UK government Transition Plan Taskforce (TPT) call for evidence on private sector transition plans. Launched by HM Treasury, the TPT aims to help financial institutions and companies prepare rigorous transition plans. LAPFF's response draws upon the Forum's experience of engaging with private sector companies on climate plans and a just transition and sets out expectations that there should be a principle-based transition plan template. Different sectors can then apply existing and developing guidance in identifying risks and opportunities, and setting strategy, targets and timeframes aligned with remaining objectives within the scientifically identified global carbon budget. Principles that LAPFF wishes to see embedded include coverage of Scopes 1-3 emissions, inclusion of short, medium and long-term targets; a focus on actual emission reductions (real zero) rather than offsetting and carbon capture (net zero); and the inclusion of the social dimension, aiming for a fair and just transition. The TPT will initially report by the end of 2022.

Voting - Activity During 2022 — Appendix D

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 2022.

SPF Total UK & Overseas Voting in 2022

Manager	No of Meetings	No of AGM	No of EGM	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstain	Not Voted	Proxies Lodged	Proxies Not Lodged
Legal & General	6,061	4,114	1,947	0	70,870	54,586	15,417	867	0	6,061	0
Baillie Gifford	93	87	4	2	1,121	958	59	4	100	85	8
Lazard	105	94	3	8	1,725	1,417	98	2	208	98	7
Oldfield Partners	26	24	1	1	386	308	27	0	51	23	3
Veritas	26	23	0	3	436	346	65	1	24	25	1
Lombard Odier	147	143	4	0	1,626	1,513	25	7	81	141	6
JP Morgan	472	388	73	11	4,477	3,576	471	33	397	448	24
Genesis	123	85	38	0	1,201	1,052	149	0	0	123	0
Total	7,053	4,958	2,070	25	81,842	63,756	16,311	914	861	7,004	49
Total%						78%	20%	1%	1%	99%	1%

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

https://www.spfo.org.uk/index.aspx?articleid=16040

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

Q1 2022

- **Oldfield Partners** voted against the remuneration policy, the restricted share plan and the chair of the remuneration committee at **EasyJet**, as incentives for executives are not aligned with the interests of shareholders. (The resolutions were approved). Oldfield Partners also voted against incumbent directors Kim Han-jo and Kim Jong-hun at **Samsung Electronics**, as they collectively failed to remove convicted and indicted directors from the board. The inaction is indicative of a material failure of governance and oversight at the company (The opposition failed to get majority support).

- **J.P. Morgan** opposed management at Japanese internet service provider, **GMO Internet** by voting against a proposed amendment to allow virtual only AGMs as this proposal would disregard the constraints of shareholders' equitable access with top management. (The proposal was approved).

- **Baillie Gifford** opposed the election of the chairman at **Hoshizaki Corp** due to the absence of a shareholder vote on the dividend (The proposal was approved).

- **Legal & General** opposed management at **Apple Inc.** by supporting shareholder proposals calling for a Civil Rights Audit Report. A vote in favour was applied as LGIM supports proposals related to diversity and inclusion policies as they consider these issues to be a material risk to companies. LGIM engaged with the company prior to the annual meeting and communicated their policies and how they were likely to vote. 53.55% of the votes were in favour of the resolution. Apple shareholders have generally sided with management in recent past. The reversal of that trend for such a proposal indicates a shift in preferences amongst shareholders and highlights the potential impact such resolutions can have. LGIM together with **ShareAction**, other asset owners and asset managers, co-filed a shareholder resolution calling on **Sainsbury's** to become a living-wage accredited employer by its AGM in 2023. LGIM decided to co-file this resolution because of Sainsbury's decision to split its London employees into 'inner' and 'outer' London, with those in 'outer' London paid less than the real living wage of £11.05 per hour ('outer' London employees were offered £10.50 per hour). In April 2002, Sainsbury's announced that it would increase the wages of their 'outer' London employees to match their 'inner' London employees.

- **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 and Company**. A vote for this proposal was warranted as a lower threshold would enhance the current shareholder right to call a meeting (The proposal was approved).

Q2 2022

- **Legal & General** opposed management at **Exxon Mobil** by supporting shareholder proposals calling on Exxon to set a credible net zero plan in alignment with the 1.5°C trajectory. LGIM supported this resolution in the absence of reductions targets for emissions associated with the company's sold products and insufficiently ambitious interim operational targets. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope 1, 2 and material scope 3 GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with the 1.5°C goal. (27% of investors supported the resolution). In the UK, proposals to set targets for emissions associated with the use of their products were also voted at oil majors **BP** and **Shell**. At BP, LGIM supported a resolution accepting management's 'Net Zero – from ambition to action' report. Having strengthened its ambition to achieve net-zero emissions by 2050 and to halve operational emissions by 2030, BP has also expanded its scope 3 targets, committed to a substantial decline in oil and gas production, and announced an increase in capital expenditure to low-carbon growth segments (resolution approved). LGIM voted against Shell's Energy Transition Progress Update. While the company has made substantial progress in strengthening its operational emissions reduction targets by 2030, LGIM remain concerned about the disclosed plans for oil and gas production (resolution approved). At Swiss building materials company **Holcim,** LGIM voted in favour of the company's Climate Report. This vote reflects Holcim's industry-leading position and its efforts made in setting a science-based target initiative-approved (SBTi-approved) net-zero target including its extensive disclosure of scope 1, 2 and 3 emissions, improved level of scenario analysis and green capital expenditure targets (resolution approved). In the US, LGIM supported a series of shareholder resolutions at banks requesting that they adopt financing policies in line with the IEA's 'Net Zero 2050 Scenario'. LGIM considered each shareholder resolution on a case-by case and supported the proposals at **Citigroup, Wells Fargo, JP Morgan Chase** and **Bank of America**. (Citigroup gained 13% support, Wells Fargo 11% support, and JP Morgan Chase 10% support). Also in the US, LGIM voted against the election of director Maria Singer at **Universal Health Services Inc.** due to a lack of ethnic diversity on the company board. LGIM began engaging on ethnic diversity with the largest companies in the UK and US in September 2020, with the expectation for one ethnically diverse person to be added to the board by the end of 2021. As part of the campaign, they set out that they would vote against the chair of the board or the chair of the nomination committee from 2022 where this expectation had not been met. Therefore, a vote against was applied because of a lack of progress on ethnic diversity on the board. 63% of shareholders voted against Singer's election, however, the board refused to remove her stating that that she brings gender diversity and relevant expertise to the board. In Japan, LGIM supported two shareholder proposals at **Mitsubishi UFJ Financial Group** calling for the company to adopt and disclose plans to align its businesses with the goals of the Paris Agreement and to disclose measures to be taken to make sure that the company's lending and underwriting are not used for expansion of fossil fuel supply or associated infrastructure. (support for the resolutions was 27% and 10% respectively).

- **Baillie Gifford** supported shareholder resolutions at **Amazon.com** relating to freedom of association, lobbying and gender/racial pay gaps. Considering several recent high profile controversies regarding freedom of association Baillie Gifford believe that shareholders would benefit from a more thorough examination of the compliance of the company's policies and practices with international fundamental rights (resolution received 39% support). Baillie Gifford believe that the company's political expenditures and lobbying disclosure is lagging that of its peers, and greater transparency would enable shareholder to assess alignment with Amazon's values and corporate goals. (resolution received 47% support). It appears that women and minorities are underrepresented in leadership positions compared with the broader workforce and reporting the unadjusted median gap would help to assess structural bias regarding job opportunity and pay. (resolution received 29% support). Baillie Gifford also supported a range of shareholder proposals at **Meta Platforms Inc. (Facebook)** including calling for a report on child exploitation and resolutions regarding lobbying, equal voting rights, risks of the use of concealment clause and a resolution requesting a report covering failures of community standards enforcement (None of the resolutions passed). Baillie Gifford also unsuccessfully supported shareholder resolutions for reports on lobbying payments and policy at **Netflix Inc**. and **Charles Schwab.** Baillie Gifford opposed the executive compensation policy at multinational insurer **AJ Gallagher & Co** because they did not believe the performance conditions to be sufficient (resolution received 92% support). At **Booking Holdings Inc.** executive compensation was opposed due to concerns with adjustments made to the plan and the granting of retention awards (resolution received 68% support). At US pharmaceutical and biotechnology company, **Moderna Inc.**, Baillie Gifford opposed a shareholder resolution to commission a third-party report analysing the feasibility of transferring intellectual property. Moderna's leadership has deeply explored the feasibility of safely licensing its technology in consultation with stakeholders, such as the WHO. Baillie Gifford do not believe that there is a requirement for a third-party report into this (resolution received 24% support). Baillie Gifford opposed the climate action plan at Anglo-Australian multinational metals and mining corporation **Rio Tinto**. Baillie Gifford believe the company should make more ambitious commitments, including on its scope 3 emissions.

- **Oldfield Partners** voted against remuneration for executive officers at **Bayer** in response to inappropriate short-term incentives, pension entitlements for certain executives that can be considered excessive and are not aligned with the wider workforce or market practice and LTI targets and performance metrics that are not sufficiently challenging. In the US Oldfield supported a shareholder proposal at **Berkshire Hathaway** for a report on Climate-Related Risks and Opportunities. An assessment of the company's management of Climate-related risks and opportunities would allow shareholders to better understand how the company is managing systemic risks posed by climate change and the transition to a low carbon economy. Oldfield also supported a second shareholder resolution for a report on Effectiveness of Diversity Equity and Inclusion Efforts and Metrics. A vote for this resolution was warranted due to the absence of information regarding comprehensive company diversity-related policies, programs or metrics and the potential benefits for shareholders of increased reporting of diversity-related efforts and program effectiveness. Also, in the US at **Citigroup** Oldfield supported a shareholder proposal for a report on Respecting Indigenous Peoples' Rights. The bank and its shareholders are likely to benefit from increased transparency regarding due diligence around Indigenous Peoples' rights in project-related financing and clients' activities, for existing and future business. Oldfield voted against remuneration for executive officers at Netherlands based industrial software provider **Exor** due to inappropriate pay packages and LTI awards.

- In the US, **Veritas** supported a shareholder proposal at **Alphabet Inc.** to commission third party assessment of company's management of misinformation and disinformation across platforms. An independent assessment would help shareholders better evaluate the company’s management of these human rights risks. Also in the US, Veritas voted for a shareholder proposal to report on effectiveness of diversity, equity and inclusion efforts and metrics at **Charter Communications Inc** and at the **Unilever** AGM in the UK Veritas voted against the re-election of Nils Andersen as they are unhappy with how the business is performing and believe the executive management needs to be replaced.

- **Lombard Odier** voted against executive remuneration at **SThree Plc.** due to material governance failings in respect of executive severance practices and remuneration committee oversight. The remuneration report was opposed at **The Restaurant Group Plc.** where targets have been lowered materially compared to previous years and there is no disclosure of the non-financial element. Payments are excessive given shareholder returns. At **Sporttech Plc.** Lombard Odier opposed accepting the financial statements and statutory reports including the remuneration report because certain executive directors received transaction-related bonuses during the year. The financial statements and statutory reports were also opposed at **Savannah Resources Plc.** as the Company has not disclosed any performance conditions. The remuneration policy **IP Group Plc**. was opposed because it included inappropriate rewards for zero NAV growth over the next 3 years. Lombard Odier also opposed remuneration at **PureTech Health Plc.** where the remuneration committee used its discretion to increase the bonus pay out from 100% of target bonus to 150% of target and bonus disclosures remain opaque and significantly lagging market practice for a FTSE 250 firm.

Q3 2022

- **Baillie Gifford** successfully opposed executive compensation at US medical device technology company **Abiomed Inc.,** due to concerns with the structure of the plan including short term performance targets within the long-term plan (resolution opposed by 64%). At **Tesla Inc.** Baillie Gifford supported a resolution requesting additional disclosure on the company's efforts to address harassment and discrimination in the workplace. Quantitative disclosure would help shareholders understand and monitor the company's efforts (resolution received 47% support). Also at Tesla, Baillie Gifford opposed a shareholder resolution requesting a report on how the company's corporate lobbying is aligned with the Paris Climate Agreement.

Given Tesla's core mission is to accelerate the world's transition to sustainable energy and its entire business strategy is in alignment with the Paris Agreement, additional disclosures would be a burden with no real benefit to shareholders (resolution opposed by 65%). At Switzerland-based luxury goods holding company **Richemont**, Baillie Gifford opposed a management resolution to approve variable remuneration for the executive committee due to a lack of clarity and clear alignment with shareholder interests (resolution received 75% support).

- **Legal & General** voted against a resolution to approve the climate strategy at financial services company **Ninety-One Plc.** This was a management proposed 'Say on Climate' vote, relating to the net zero transition. LGIM believed the proposed strategy did not go far enough. LGIM expects companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of scope one, two and material scope three GHG emissions and short, medium and long-term GHG emissions reduction targets consistent with the 1.5°C goal (resolution received 98% support). LGIM voted against the re-election of a director at **Royal Mail Plc.** due to a lack of gender diversity on the executive committee. Since 2022, LGIM have applied voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of 33% over time (resolution received 93% support).

- **Oldfield Partners** voted against remuneration for executive officers at **BT Group** in response to an adjustment to the long-term incentive plan for extra capex the company did not foresee at the time the plan was approved.

- In Germany, **Lazard** voted against ratifying named executive officers' compensation and the remuneration report at **Linde Plc.** Lazard also voted against a range of executive remuneration resolutions at **NIKE, Inc**., in the US and French spirits group **Remy Cointreau SA**.

- **Lombard Odier** voted against executive remuneration at **Norcros Plc.** The quantum of the raises is excessive and without supportive rationale. The remuneration report was opposed at **Ted Baker Plc.** Despite the continued use of the furlough scheme in FY2021/22, the Company paid bonuses to executives and has not yet repaid the furlough loans. At **Fulcrum Utility Services Ltd.** Lombard Odier voted against approving the remuneration report as the Company has not provided an explanation in the annual report for the payment made to the former CEO as compensation for loss of office; and the annual report does not include a clear breakdown of the individual remuneration components paid to the Directors during the year under review. The remuneration report was also opposed at **DWF Group Plc.** as the dilution limit of 10% is being exceeded with the outstanding share awards at over 12%. Lombard Odier also voted against the re-election of Malcolm Groat as Director at **Harland & Wolff Group Holdings Plc**: He is over boarded and can't possibly give appropriate attention to each of his positions.

- At **Cosmos Pharmaceutical Corporation** in Japan, **JP Morgan** voted against a proposed amendment to articles of association to authorise the board to determine income allocation without shareholders' approval. The company believed it would be beneficial to receive an earlier dividend payment and it could also prevent non-payment of dividend when AGM is not held such as in case of the pandemic. A vote against was warranted as the significance of the shareholders' approval process at the AGM should be weighted more than the timing of dividend payments.

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- **Baillie Gifford** supported a resolution at Australian based multinational mining company **BHP Group Ltd** calling for climate accounting as they believe that there is scope for improvement in the level of transparency regarding policy, price, volume and asset life assumptions (resolution received 19% support). At **Microsoft** Baillie Gifford supported a resolution requesting an independent report on whether government use of its technology contributes to violations of the company's human rights and ESG policies and principles. Baillie Gifford believe shareholders would benefit from additional transparency around the considerations made by the company in evaluating the appropriateness of military contracts (resolution received 20% support). At US-based multinational cosmetics company **Estee Lauder**, Baillie Gifford opposed executive remuneration due to continued practice of granting sizable one-off awards (resolution received 95% support).

- **Legal & General** also supported the climate accounting resolution at **BHP Group Ltd** and a second shareholder resolution requesting that the company proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C (resolution received 12% support). LGIM voted against the election of Director Satya Nadella at **Microsoft Inc.** to express opposition to the company's decision to recombine the roles of chair and CEO, without seeking prior shareholder approval. LGIM expects companies to have a separate chair and CEO on account of risk management and oversight considerations, and because the roles are substantially different and require different skills (resolution received 94% support).

- In France, **Lazard** voted against approving the compensation of Alexandre Ricard, Chairman and CEO at **Pernod Ricard SA.** due to a lack of clarity and clear alignment with shareholder interests (resolution approved).

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Local Government Pension Scheme