Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 10

19th March 2025

Investment Update

Purpose of Report:

To provide the Committee with an investment update including a summary of:
- investment performance to 31st December 2024
- distribution of portfolios and DIP investments as at 31st December 2024
- the Investment Advisory Panel meeting of 13th February 2025
- stewardship activity during Quarter 4 2024.

Recommendations:

The Committee is asked **to NOTE** the contents of this report.

Ward No(s): Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

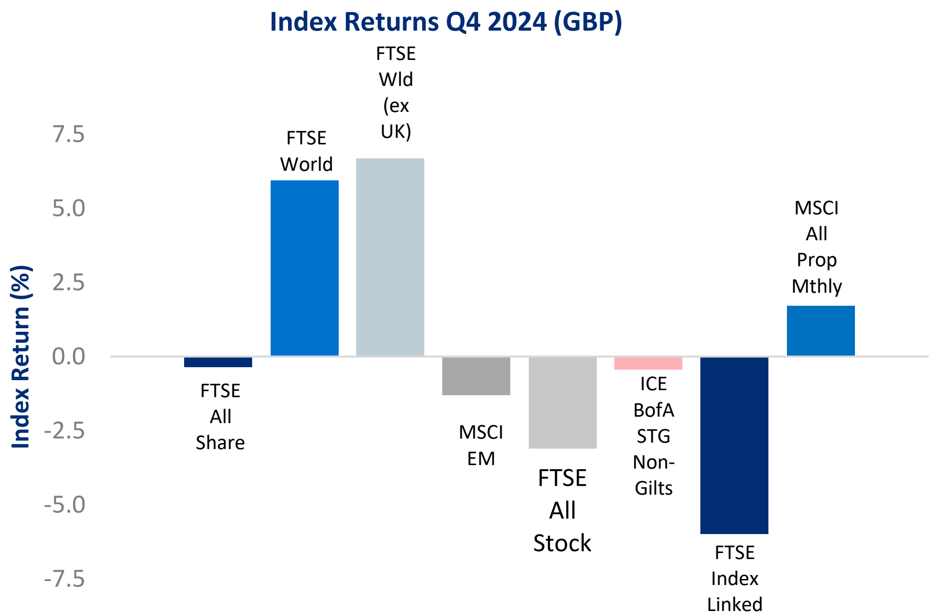
1 Background

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. The Fund's current investment objectives and strategy are detailed in **Appendix 1**. The strategy is reflected in the Fund's strategic benchmark and individual portfolio benchmarks. Investment performance is measured by the Fund's global custodian, Northern Trust.

2 Market Performance

Global equity markets ended 2024 up almost 20% in USD terms. In the final quarter, markets rose in November and early December, before slipping back towards the year end. The US election result had a positive impact as markets anticipated a policy program that would support economic growth, lower taxes and reduce regulation. Conversely, in Europe, the potential for the Trump administration to impose trade tariffs was seen as a risk. Political uncertainty in France and Germany also weighed on markets. UK equities fell into negative territory as inflation rose and the Bank of England made the decision to hold interest rates at its final meeting of the year.

Global Government bond yields rose, with benchmark 10-year yields in the US, the UK, Germany and Japan all higher at the close of the quarter. In the US, yields rose significantly from 3.8% to 4.8% as inflation persisted and the Fed indicated that there would only be two interest rate cuts in 2025. In Germany, yields on 10-year bunds rose from 2.0% to 2.7% as headline inflation and GDP growth protections were revised down. UK 10-year treasury gilt yields increased from 4.0% to 4.5%, the highest rate since March, as inflation rose and GDP fell. In Japan yields rose from 0.9% to 1.1% as the bank of Japan maintained its short-term interest rate and gave little indication as to how soon rates could rise. In the corporate bond market, yields increased and credit spreads tightened.

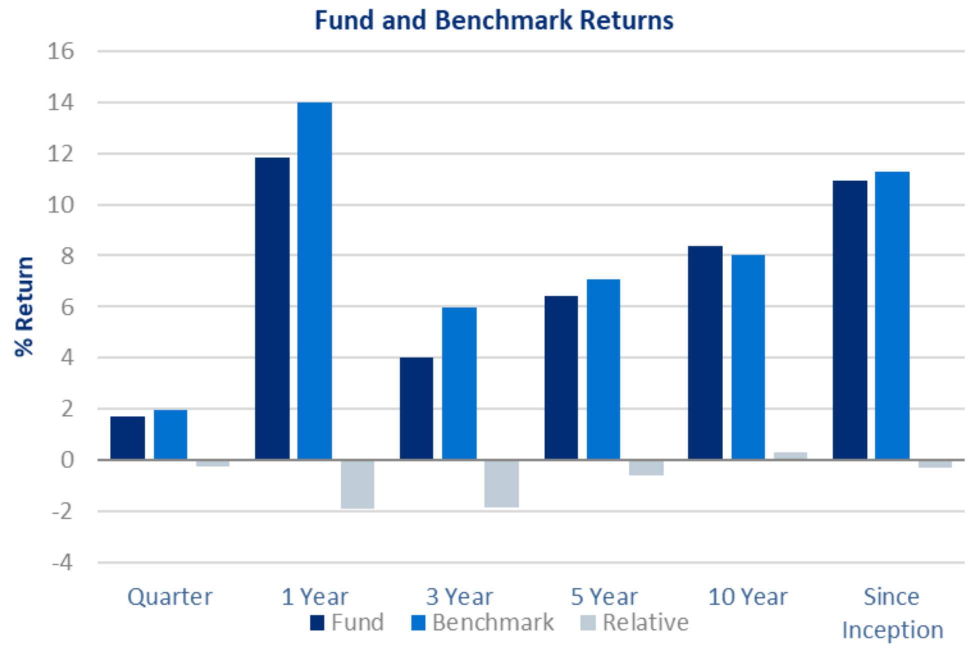


- The **FTSE All Share** Index returned **-0.4%,** the **FTSE World ex UK** index **+6.7%** and the **MSCI Emerging Markets** index **-1.3%**, compared with Q3 returns of **+2.3%**, **+0.2%** and **+2.6%** respectively.
- The **FTSE All Stock Index** returned **-3.1%** compared with **+2.3%** in Q3.
- **Sterling** rose by **+0.6%** against the euro and fell **-6.6%** against the dollar.

- The **MSCI All property monthly return index** returned **+2.6%**, comprised of a capital return of +1.2% and an income return of +1.4%. Industrials, retail and hotels were the strongest performing sectors over the quarter.

3 Fund Performance

The **Fund's value** at 31st December 2024 was **£31,206m**, an increase on the 30th September valuation of **£30,864m**.



The **Fund's total return** for Quarter 4 2024 was **+1.1**%, behind the benchmark return of **+1.7%.** Over 1 year, 3 years and 5 years the Fund's total return has been positive but behind benchmark, while over 10 years it has outperformed. Further analysis of Fund and asset class performance can be found in **Appendix 2**.

Each of the Fund's investment managers has an individual portfolio benchmark. In Quarter 4:

- 6 active managers outperformed their benchmark; and
- 14 active managers underperformed.

Further analysis of manager performance can be found in **Appendix 3**.

4 Asset Allocation

The Fund's asset allocation can be summarised as follows:

Asset Class	*30 Sep 2024 (£m)*	*30 Sep 2024 (%)*	31 Dec 2024 (£m)	31 Dec 2024 (%)	Target (%)
Equity	*15,381*	*49.8*	15,846	**50.8**	**47.0**
Hedging & insurance	*3,097*	*10.0*	2,936	**9.4**	**10.0**
Credit	*1,680*	*5.4*	1,633	**5.2**	**5.0**
Short term enhanced yield	*5,024*	*16.3*	4,933	**15.8**	**17.0**
Long Term enhanced yield	*5,682*	*18.4*	5,858	**18.8**	**21.0**
Total	***30,864***	***100.0***	**31,206**	**100.0**	**100.0**

In March 2024, the SPF Committee agreed a revised investment strategy and structure to be effective from 1 April 2024. The process of transitioning to the revised strategy commenced in Q2 and continued during Q3 and Q4 2024. Transition activity in Q4 2024 includes:

- LGIM transitioned 2.5% of passive corporate bond holdings to the LGIM Future World Net Zero Buy and Maintain Credit fund in two tranches during October and November.
- The Genesis holding was redeemed in 3 tranches during October. The proceeds were invested in the RBC Emerging Markets Equity Fund during December 2024.

The following transition activity is ongoing:

- Officers are working through options for divesting the Fidelity Emerging Markets fund holdings. Proceeds will be invested in the RBC Emerging Markets Equity fund to reach the final target allocation of 2.0% of fund.
- LGIM are working to transition the current UK and US credit funds to Low Carbon Transition credit funds
- In December 2024, the committee approved an additional £200m commitment to ICG Longbow. Officers are working through the legal and subscription process and expect the commitment to be complete late February 2025.

For further details on the Fund's managers and current allocations, see **Appendix 4.**

5 Direct Impact Portfolio (DIP)

A summary of the performance and activity of the Fund's Direct Impact Portfolio and a schedule of current investments can be found at **Appendix 5**.

6 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 13th February 2025. A note of the Panel's meetings is set out in **Appendix 6**.

7 Stewardship: Responsible Investment

A summary of responsible investment activity is included **at Appendix 7**. Highlights include:

- In September, the Fund received the results of its **2024 PRI Assessment**. The Fund submitted information for 4 assessment areas or 'modules' which can receive possible scores from 1 star (lowest) to 5 stars (highest). The Fund scored a maximum 5 stars for 2 of the modules assessed, and 4 stars for the remaining 2 modules.
- Ahead of the **COP 16 United Nations Biodiversity Conference** in Cali Colombia, the Fund co-signed a letter from a global coalition of investors representing over USD 2.5 trillion urging governments to take ambitious policy and regulatory action to halt and reverse global biodiversity loss.
- In October the Fund supported a collaborative **PRI** investor engagement letter to **General Mills, Inc.** regarding forced and child labour in sugar supply chain in India.
- **Sustainalytics** issued its final report for the thematic engagement, **Climate Change - Sustainable Forests and Finance** which aimed to address climate-related risks and advocate for emissions reduction across global food systems. Through the course of 3 years of engagement with companies in the commodities, food and financial sector, Sustainalytics

have seen improvement across a range of performance metrics. Sustainalytics will continue dialogue with most of the companies included in Sustainable Forests and Finance through a new programme - Biodiversity & Natural Capital (BNC) Thematic Stewardship.

8 Policy and Resource Implications

Resource Implications:

Financial:	None. Monitoring report.
Legal:	None.
Personnel:	None.
Procurement:	None

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: ***Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities.*** The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	Equalities issues are addressed in the Fund's Responsible Investment strategy. A summary of responsible investment activity is included **at Appendix 7**.
What are the potential equality impacts as a result of this report?	N/a.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	N/a.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Yes. Strathclyde Pension Fund's Climate Change strategy aligns with Item 34 of the Council's Climate Action Plan. SPF's stewardship activity addresses all of the SDGs to some degree. A summary of responsible investment activity is included **at Appendix 7**.

What are the potential climate impacts as a result of this proposal?	N/a.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.
Privacy and Data Protection Impacts:	No.
Are there any potential data protection impacts as a result of this report Y/N	
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a

9 Recommendation

The Committee is asked **to NOTE** the contents of the report.

Appendices

Appendix 1	**Investment Objectives and Strategy**
Appendix 2	**Fund and Asset Class Performance**
Appendix 3	**Manager Performance**
Appendix 4	**Portfolio Summary**
Appendix 5	**Direct Impact Portfolio**
Appendix 6	**Investment Advisory Panel**
Appendix 7	**Stewardship Activity**

Appendix 1

Investment Objectives and Strategy

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. The current objectives of the investment strategy should be to achieve:

- a greater than **80%** probability of being 100% funded over the average future working lifetime of the active membership (the target funding period); and
- a less than 10% probability of falling below 80% funded over the next three years.

The Fund's investment strategy broadly defines the types of investment to be held and the balance between different types of investment. The strategy reflects the Fund's key investment principles, is agreed by the Committee and reviewed regularly. The Fund has adopted a risk-return asset framework as the basis for modelling and agreeing investment strategy.

Strategic asset allocations set following the 4 most recent actuarial valuations, along with the actuary's assumed returns are shown below:

Asset	*2014 %*	*2017 %*	*2020 %*	2023 %
Equity	*62.5*	*52.5*	*52.5*	**47.0**
Hedging & insurance	*1.5*	*1.5*	*1.5*	**10.0**
Credit	*6.0*	*6.0*	*6.0*	**5.0**
Short term enhanced yield	*15.0*	*20.0*	*20.0*	**17.0**
Long term enhanced yield	*15.0*	*20.0*	*20.0*	**21.0**
	100	***100***	***100***	**100**
Return (% p.a.)	***5.9***	***5.1***	***3.0***	**5.0**

Appendix 2

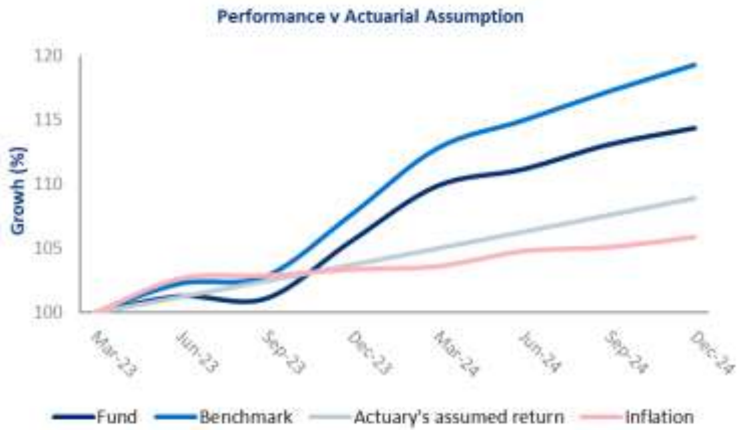
Fund and Asset Class Performance

1. Returns by Asset Class

Asset Class	Latest Quarter Fund %	Latest Quarter B'mark %	Latest Quarter Relative %	1 Year Fund %	1 Year B'mark %	1 Year Relative %	3 Years Fund %	3 Years B'mark %	3 Years Relative %	5 Years Fund %	5 Years B'mark %	5 Years Relative %
Equity	2.5	3.7	(1.2)	12.3	17.6	(4.5)	4.5	7.3	(2.6)	8.6	9.8	(1.0)
Hedging & Ins	(5.2)	(5.2)	0.0	(3.4)	(3.5)	0.1	(0.9)	(13.7)	14.8	1.3	(5.5)	7.2
Credit	(2.6)	(2.9)	0.3	0.8	0.4	0.3	(4.5)	(4.6)	0.1	(1.5)	(1.5)	0.1
STEY	0.8	1.9	(1.1)	5.8	7.6	(1.7)	3.8	6.4	(2.5)	3.4	5.2	(1.7)
LTEY	2.1	1.7	0.4	5.3	4.6	0.6	3.6	4.3	(0.6)	4.0	4.6	(0.5)
Total Fund	1.1	1.8	(0.6)	8.3	10.8	(2.3)	3.4	5.4	(1.9)	6.2	7.1	(0.8)

2. Performance Attribution

3. Performance vs Actuarial Assumption



- In Q4, LTEY and Credit outperformed their benchmarks. In absolute terms, Equity was the strongest performer, while Credit and Hedging and Insurance delivered negative returns.
- Over 1, 3 and 5 years, Equity is the best performing asset class in absolute terms but has underperformed on a relative basis.
- Over Q4, 1, 3 and 5 years, investment manager performance, particularly in listed equity portfolios, has detracted from Fund return. Over 1 and 5 years, asset allocation has added value.
- Fund performance remains comfortably ahead of the assumed actuarial return and inflation.

Manager Performance

1 Equity

1.1 Manager Performance Summary

Equity						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
Baillie Gifford	Actual	4.0	14.1	1.3	6.4	8.9
	Relative	(2.1)	(5.0)	(6.8)	(3.7)	0.8
Lazard	Actual	1.7	8.5	3.7	9.2	9.6
	Relative	(4.1)	(9.3)	(4.2)	(1.9)	0.2
Oldfield	Actual	(1.7)	3.9	3.4	2.5	7.6
	Relative	(7.3)	(13.1)	(4.5)	(8.0)	(4.6)
Veritas	Actual	4.2	14.9	6.3	8.8	12.3
	Relative	(1.7)	(3.9)	(1.8)	(2.3)	(0.0)
Lombard Odier	Actual	(2.6)	9.2	(4.2)	7.3	7.1
	Relative	(1.8)	3.5	3.0	5.6	2.7
JP Morgan	Actual	2.8	10.3	(2.9)	5.7	11.4
	Relative	1.6	1.8	(4.5)	(0.3)	1.7
Active EM Equity[1]	Actual	3.2	13.4	(1.1)	0.9	8.7
	Relative	4.2	3.3	(2.9)	(3.0)	1.3
RBC	Actual	-	-	-	-	(2.4)
	Relative	-	-	-	-	(1.6)
Pantheon	Actual	8.6	5.6	5.3	12.8	13.4
	Relative	2.4	(11.7)	(2.7)	5.6	4.3
Partners Group	Actual	(1.0)	(3.7)	2.1	10.9	10.9
	Relative	(6.6)	(19.5)	(5.6)	3.8	4.3
L&G Equity[(2)]	Actual	2.1	18.3	7.1	9.4	9.9
	Relative	0.1	(0.9)	(0.4)	(0.3)	-
L&G RAFI	Actual	2.6	15.3	9.6	10.0	10.2
	Relative	0.2	0.6	0.5	0.3	0.0
L&G EM Equity	Actual	0.4	13.8	2.9	-	1.8
	Relative	(0.8)	(1.8)	(0.8)	-	(1.5)
Total	**Actual**	**2.5**	**12.3**	**4.5**	**8.6**	**9.4**
	Relative	**(1.2)**	**(4.5)**	**(2.6)**	**(1.0)**	**(0.1)**

1.2 Manager Performance Commentary

Equity underperformed over the quarter; 7 of the 10 active managers underperformed their benchmarks. **Pantheon** outperformed their benchmark and were the strongest performer on absolute terms, while **Active EM Equity** (Genesis and Fidelity) was the strongest performer on a relative basis. **Lombard Odier** underperformed their benchmark and were the weakest performer on an absolute basis. In terms of relative performance, **Oldfield, Lazard** and **Partners Group** were weakest. **RBC** was funded in tranches throughout December; the since inception figure in the table above is behind benchmark.

Over 5 years, **Baillie Gifford, Lazard, Oldfield, Veritas, JP Morgan** and **Active Emerging Markets** (Genesis and Fidelity) are behind benchmark. **Lombard Odier** has been the strongest performer over 5 years and the allocation to private assets (managed by **Pantheon** and **Partners Group**) has been beneficial in the long term.

Manager Performance

Active EM Equity outperformed over the quarter, mainly due to the realised gain on the divestment from the Genesis Emerging Markets fund.

Oldfield underperformed their benchmark, with **Samsung Electronics** and **Heineken** being the main detractors. Over the longer term, Oldfield have significantly underperformed, being the weakest performer over five years and since inception.

Pantheon outperformed and **Partners Group** underperformed over the quarter. Both managers are behind benchmark for the year but have outperformed over 5 years and since inception. The most recent Total Value / Paid In multiples, which compares the total value (funds distributed and residual value) with capital called, were 1.81x and 1.77x respectively.

2 Short Term Enhanced Yield

2.1 Manager Performance Summary

Short term enhanced yield						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
PIMCO	Actual	0.7	6.3	5.7	4.1	3.0
	Relative	(1.2)	(1.8)	(1.3)	(1.5)	(0.1)
Ruffer	Actual	(3.6)	(1.5)	(0.3)	3.8	4.3
	Relative	(5.4)	(8.8)	(6.7)	(1.6)	(0.9)
Barings (Multi Credit)	Actual	1.3	8.9	2.8	3.1	3.4
	Relative	(0.7)	(0.2)	(4.8)	(3.2)	(2.2)
Oak Hill	Actual	0.9	8.1	5.3	4.7	4.4
	Relative	(1.2)	(0.9)	(2.4)	(1.6)	(1.3)
Barings (Private Debt)	Actual	2.1	10.6	8.5	7.0	6.2
	Relative	0.0	1.4	0.6	0.5	0.4
Alcentra	Actual	1.3	4.0	4.7	5.1	6.2
	Relative	(0.8)	(4.6)	(3.0)	(1.3)	0.4
ICG Longbow	Actual	1.1	3.3	4.9	4.4	3.6
	Relative	(1.0)	(5.3)	(2.8)	(1.9)	(2.6)
Partners Group (Private Debt)	Actual	1.6	8.2	7.0	n/a	4.9
	Relative	(0.4)	(0.7)	(0.8)	n/a	(1.5)
Total	**Actual**	**0.8**	**5.8**	**3.8**	**3.4**	**3.2**
	Relative	**(1.1)**	**(1.7)**	**(2.5)**	**(1.7)**	**(1.3)**

2.2 Manager Performance Commentary

Short-term enhanced yield underperformed in Q4 with 7 out of 8 managers underperforming their benchmarks. **Barings Private Debt** was the strongest performer in both absolute and relative terms. **Ruffer** was the weakest performer on both an absolute and relative basis.

The STEY strategy is behind benchmark over 3 and 5 years, with only **Barings Private Debt** outperforming.

The **Barings Private Debt** portfolio performed in line with benchmark over the quarter and has outperformed over 1,3 and 5 years. Performance was driven by the separately managed account (SMA). In Q3 (the latest quarter for which data is available) 4 investments were realised with a total value paid in multiple of 1.3x and IRR and average IRR of 9.6%.

Ruffer underperformed the benchmark over the quarter and is behind benchmark over the longer term. Absolute returns are negative over the quarter and 1, 3 and 5 years. The fund's aim of having a balance between protection and growth assets was frustrated as Trump's election victory drove investor optimism in the US to extreme highs, while at the same time holdings in the yen, gold miners and inflation linked bonds suffered.

3 Long Term Enhanced Yield

3.1 Manager Performance Summary

Long term enhanced yield						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
DTZ	Actual	2.6	8.6	0.6	2.8	6.2
	Relative	1.2	6.4	1.2	1.7	0.4
Partners Group RE (2)	Actual	(2.1)	(12.7)	(2.9)	(1.6)	4.8
	Relative	(5.4)	(19.5)	(11.9)	(10.0)	(3.6)
JP Morgan IIF	Actual	2.6	10.6	9.2	7.8	7.3
	Relative	0.6	2.4	1.1	(0.2)	(0.6)
Total	**Actual**	**2.1**	**5.3**	**3.6**	**4.0**	**5.1**
	Relative	**0.4**	**0.6**	**(0.6)**	**(0.5)**	**(0.0)**

3.2 Manager Performance Commentary

Performance of the long-term enhanced yield allocation was ahead of benchmark in Q4 2024. The **DTZ** UK direct property portfolio and **JP Morgan Institutional Infrastructure Fund** outperformed their benchmarks, while **Partners Group** underperformed**.**

The strategy has underperformed over the longer term, with only **DTZ** outperforming the benchmark over 5 years and since inception. **JP Morgan IIF** has delivered the strongest absolute return over 3 and 5 years and since inception.

DTZ outperformed in Q4. The portfolio benefited from capital growth of £25.5m driven mainly by the industrial assets in the portfolio as a result of increasing rental values and improving yields.

Partners Group are behind their strategic benchmark (8% per annum adjusted for currency movements) over all time periods and are behind FTSE/EPFA NAREIT Total Return Index reported by the manager over 3 years and since inception. The portfolio has a Total Value / Paid In multiple of 1.15x.

Appendix 4

Portfolio Summary 31st December 2024

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	6,135	*19.7%*	2,936	*9.4%*	1,633	*5.2%*					**10,704**	***34.3%***	*33.0%*
Baillie Gifford	2,526	*8.1%*									**2,526**	***8.1%***	*7.5%*
Lazard	992	*3.2%*									**992**	***3.2%***	*2.5%*
Oldfield	850	*2.7%*									**850**	***2.7%***	*2.5%*
Veritas	989	*3.2%*									**989**	***3.2%***	*2.5%*
Lombard Odier	429	*1.4%*									**429**	***1.4%***	*1.0%*
JP Morgan	947	*3.0%*							1,449	*4.6%*	**2,396**	***7.7%***	*7.5%*
Active EM Equity	120	*0.4%*									**120**	***0.4%***	*0.0%*
Pantheon	1,419	*4.5%*					0	*0.0%*			**1,419**	***4.5%***	*5.8%*
Partners Group	878	*2.8%*					324	*1.0%*	587	*1.9%*	**1,788**	***5.7%***	*5.5%*
RBC	424	*1.4%*									**424**	***1.4%***	*2.0%*
PIMCO							1,153	*3.7%*			**1,153**	***3.7%***	*4.0%*
Ruffer							533	*1.7%*			**533**	***1.7%***	*2.0%*
Barings (multi-credit)							719	*2.3%*			**719**	***2.3%***	*2.3%*
Oak Hill Advisors							576	*1.8%*			**576**	***1.8%***	*1.8%*
Barings (private debt)							404	*1.3%*			**404**	***1.3%***	*1.8%*
Alcentra							259	*0.8%*			**259**	***0.8%***	*0.0%*
ICG Longbow							330	*1.1%*			**330**	***1.1%***	*1.0%*
DTZ									2,443	*7.8%*	**2,443**	***7.8%***	*9.0%*
DIP	136	*0.4%*					110	*0.4%*	1,379	*4.4%*	**1,625**	***5.2%***	*7.5%*
Cash							525	*1.7%*			**525**	***1.7%***	*1.0%*
Total	**15,846**	**50.8%**	**2,936**	**9.4%**	**1,633**	**5.2%**	**4,933**	**15.8%**	**5,858**	**18.8%**	**31,206**	**100.0%**	**100.0%**
Target		**47.0%**		**10.0%**		**5.0%**		**17.0%**		**21.0%**		**100.0%**	

Direct Impact Portfolio

1 Portfolio Summary

The portfolio can be summarised as follows.

	Since Inception (£m)	Current Portfolio (£m)
Total Commitments Agreed	**2,312**	**2,214**
Amounts Drawn Down by Managers	**1,827**	**1,751**
+ Increase in Value	**635**	**589**
- Received Back in Distributions	**733**	**733**
- Realisations	**122**	**-**
= Total Net Asset Value (NAV)	**1,607**	**1,607**

Based on a current total Fund value of **£31,206m**, DIP's **5%** target allocation is a NAV of **£1,560m**.

The portfolio comprises **65** separate investments. In addition, a co-investment program of was approved at the March 2022 meeting of the SPF Committee and increased to £300m at the November 2024 meeting. To date 3 co-investments, each for £15m, have been invested, with the remaining **£255m** yet to be allocated which is not included in the table above.

In Q4, total drawdowns and distributions amounted to **£30m** and **£36m** respectively.

2 Performance

Portfolio performance to 31st December 2024 is as follows:

	Q4 2024		3 Year		5 Year	
	DIP	SPF	DIP	SPF	DIP	SPF
	% (p.a.)	% (p.a.)	% (p.a.)	% (p.a.)	% (p.a.)	% (p.a.)
Equity	-1.8	2.5	6.3	4.5	15.3	8.6
LTEY	2.8	2.1	8.0	3.6	5.6	4.0
STEY	2.6	0.8	8.5	3.8	7.3	3.4
TOTAL	**2.4**	**1.1**	**7.8**	**3.4**	**6.4**	**6.2**

Performance continues to be positive over the longer-term periods (3 years+) but with a marked softening over the past 12 months.

Performance continues to be positive over the longer-term periods (3 years+) but with a softening over shorter periods. The main drivers are:-

Positive Drivers (longer term returns): -

- strong returns from the mainly inflation-linked revenues underpinning the majority of the LTEY investments, such as the infrastructure (Infra), renewable energy (RE) & housing funds, which form the bulk of DIP;

Direct Impact Portfolio

- strong historical performance from the multiple private equity (PE), and to a lesser extent also the private debt funds, although the overall total amount invested in these asset classes is smaller than in Infra & RE.

Detractors (shorter term returns): -

- stronger power prices over the past couple of years were initially positive for RE asset valuations and therefore fund returns, however power prices have now largely reverted to more historical norms and asset valuations are experiencing an element of easing;
- increased discount rates, resulting from the increase in the return on “risk free” assets, plus added margins for risk and illiquidity, is resulting in a weakening of valuations and therefore fund returns;
- lower valuation multiples applying in PE markets, despite the generally satisfactory financial performance of the vast majority of underlying portfolio companies. This is primarily due to initial and follow-on fundraising markets being materially tighter, resulting in portfolio companies becoming more focused on cashflow and profitability at the expense of growth (on which valuations are closely based).

Overall, the portfolio has performed well as have the majority of individual investments. On a RAG analysis:

- **58** investments are rated **green**;
- **7** are **amber**;
- **None red**.

A complete list of current DIP investments and their progress to date is shown below.

Direct Impact Portfolio

3 DIP Investments

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: Equity								
Clean Growth Fund	2020	Venture Capital	Equity	20	14	6	0	15
Corran Environmental Fund II	2024	Growth Capital	Equity	20	13	7	0	13
Epidarex Fund II	2013	Venture Capital	Equity	5	5	0	3	4
Epidarex Fund III	2019	Venture Capital	Equity	15	11	4	1	10
Foresight Regional Investment V LP	2023	Growth Capital	Equity	30	10	20	0	8
Maven Regional Buyout Fund	2017	Growth Capital	Equity	20	18	2	17	10
Palatine Impact Fund II	2022	Growth Capital	Equity	25	10	15	0	8
Palatine Private Equity Fund IV	2019	Growth Capital	Equity	25	17	8	16	16
Palatine Private Equity Fund V	2024	Growth Capital	Equity	30	0	30	0	0
Panoramic Enterprise Capital Fund 1 LP	2010	Growth Capital	Equity	3	3	0	9	1
Panoramic Growth Fund 2 LP	2015	Growth Capital	Equity	13	12	1	17	4
Panoramic SME Fund 3 LP	2022	Growth Capital	Equity	25	7	18	1	6
Par Equity Northern Scale-Up Fund	2023	Venture Capital	Equity	25	7	18	0	8
Pentech Fund III	2017	Venture Capital	Equity	10	8	2	0	8
SEP II	2000	Venture Capital	Equity	5	5	0	4	0
SEP III	2006	Growth Capital	Equity	5	5	0	18	0
SEP IV LP	2011	Growth Capital	Equity	5	5	0	7	3
SEP V LP	2016	Growth Capital	Equity	20	20	0	12	24
SEP VI LP	2021	Growth Capital	Equity	30	10	20	0	9
Total as at 31/12/2024	**Q2**			**331**	**179**	**152**	**106**	**149**

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: LTEY								
Albion Community Power LP	2015	Renewables	LTEY	40	40	0	19	35
Alpha Social Long Income Fund	2015	Support Living	LTEY	15	15	0	5	19
Capital Dynamics Clean Energy Infrastructure VIII	2019	Renewables	LTEY	40	37	3	4	41
Capital Dynamics Clean Energy UK Fund	2023	Renewables	LTEY	60	11	49	0	11
Clydebuilt Fund II LP	2021	Property	LTEY	100	68	32	3	67
Clydebuilt Fund LP	2014	Property	LTEY	75	75	0	72	17
Dalmore Capital Fund 3 LP	2017	Infrastructure	LTEY	50	50	0	14	53
Dalmore Capital Fund 4 LP	2021	Infrastructure	LTEY	50	50	0	5	51
Dalmore II 39 LP	2021	Infrastructure	LTEY	50	30	20	3	31
Dalmore PPP Equity PiP Fund	2014	Infrastructure	LTEY	50	50	0	37	43
Equitix Fund IV LP	2015	Infrastructure	LTEY	30	30	0	13	28
Equitix Fund V LP	2018	Infrastructure	LTEY	50	50	0	15	53
Equitix Fund VI LP	2020	Infrastructure	LTEY	50	50	0	4	54
Equitix Fund VII LP	2024	Infrastructure	LTEY	50	28	22	0	49
Equitix MA 19 LP (Co-Investment Fund)	2020	Infrastructure	LTEY	50	50	0	7	58
Funding Affordable Homes	2015	Property	LTEY	30	30	0	0	27
Greencoat Solar Fund II LP	2017	Renewables	LTEY	50	50	0	17	45
Hermes Infrastructure Fund II	2017	Infrastructure	LTEY	50	42	8	12	44
Iona Environmental Infrastructure LP	2011	Renewables	LTEY	10	10	0	4	6
Iona Renewable Infrastructure LP	2017	Renewables	LTEY	14	14	0	1	15

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Iona Resource and Energy Efficiency (Strathclyde) LP	2021	Renewables	LTEY	6	6	0	0	7
Legal & General UK Build to Rent Fund	2016	Property	LTEY	75	75	0	5	76
Macquarie GIG Renewable Energy Fund I	2015	Renewables	LTEY	80	80	0	69	58
Man GPM RI Community Housing Fund	2021	Property	LTEY	30	26	4	0	27
NextPower UK ESG Fund	2022	Renewables	LTEY	60	31	29	2	33
NTR Wind I LP	2015	Renewables	LTEY	39	34	4	36	35
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	Infrastructure	LTEY	130	120	10	61	83
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	Property	LTEY	45	40	5	4	46
Quinbrook Renewables Impact Fund (QRIF1)	2020	Renewables	LTEY	50	44	6	-3	50
Quinbrook Renewables Impact Fund (QRIF2)	2024	Renewables	LTEY	60	14	46	0	14
Resonance British Wind Energy Income Ltd	2013	Renewables	LTEY	10	10	0	8	8
Temporis Impact Strategy V LP (TISV)	2021	Renewables	LTEY	50	32	18	9	41
Temporis Operational Renewable Energy Strategy (TORES)	2017	Renewables	LTEY	30	20	10	12	48
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	Renewables	LTEY	30	30	0	11	38
Total as at 31/12/2024	**Q2**			**1,609**	**1,343**	**265**	**452**	**1,311**

Direct Impact Portfolio

Asset Category: STEY								
Beechbrook UK SME Credit II Fund	2016	Credit	STEY	30	29	1	25	17
Beechbrook UK SME Credit III Fund	2021	Credit	STEY	40	34	6	9	30
Healthcare Royalties Partners III LP	2013	Credit	STEY	19	18	0	18	6
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	Credit	STEY	20	14	6	15	9
Muzinich UK Private Debt Fund	2015	Credit	STEY	15	15	0	15	0
Pemberton UK Mid-Market Direct Lending Fund	2016	Credit	STEY	40	37	3	46	18
Scottish Loans Fund	2011	Credit	STEY	6	6	0	7	0
TDC II (prev Tosca Debt Capital Fund II LP)	2017	Credit	STEY	30	24	6	18	13
TDC III (prev Tosca Debt Capital Fund III LP)	2019	Credit	STEY	30	21	9	18	16
Total as at 31/12/2024	**Q2**			**230**	**198**	**32**	**171**	**110**
Co-investment Programme								
Schroders Greencoat Glasgow Terrace	2023	Renewables	LTEY	15	15	0	1	16
Temporis (TISV Co-invest1 LP)	2024	Renewables	LTEY	15	15	0	3	23
Temporis (TISV Co-invest1 LP TISV 2)	2024	Renewables	LTEY	15	0	15	0	0
DIP Portfolio Total								
Total as at 31/12/2024	**Q4**			**2,214**	**1,751**	**464**	**733**	**1,607**
Total as at 30/09/2024	**Q3**			**2,214**	**1,707**	**507**	**699**	**1,547**

Appendix 6

Investment Advisory Panel Meeting February 2025

MINUTES OF MEETING ON Thursday 13th February 2025

PRESENT:	**Richard McIndoe**	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	Alistair Sutherland	Investment Advisor
	David Walker	Hymans Robertson
	Ben Farmer	Hymans Robertson
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Martin	Assistant investment Manager
	Moira Gillespie	Investment Assistant
	David Warren	Investment Administrator

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 14th November 2024 were agreed to be an accurate record.

2 Monitoring

2.1 Market and Inflation Update

The Panel noted investment market and inflation updates from Hymans Robertson.

2.2 Quarterly Investment Performance Review

The Fund's return for **Q4 2024** was +**1.1%**, behind the benchmark return of **+1.7%**. Performance for the year to 31st December 2024 was positive (+**8.3%**), but below benchmark (**+10.8%**). The Fund's return is positive on an absolute basis over five years but behind benchmark and positive on both an absolute and relative basis over ten years.

2.3 Manager Ratings

Current officer assessments of the Fund's investment managers had been circulated, together with Hymans Robertson's manager update. The Panel discussed the ratings. On a Red, Amber, and Green (RAG) analysis:

- 15 of the Fund's managers were rated **green**
- 5 rated **amber**
- 2 were rated **red** following the Committee decision to review the emerging market equity portfolio.

2.4 Overseas Currency Hedge

In September 2017, the Strathclyde Pension Fund Committee agreed that the Fund would hedge 33% of its currency exposure arising from overseas equity by switching investments in LGIM passive index funds to currency hedged alternatives. In March 2021 and again in 2024, as part of the Fund's triennial review of investment strategy, the Committee agreed to maintain currency hedging of overseas equity exposure.

The Panel reviewed a monitoring report that indicated that:

- the Fund's overseas hedge ratio at end December was **35.1%** vs its target of **33%**.

- the currency hedge had added value to the Fund in the 12 months to 31st December due to the appreciation in Sterling against the US dollar and other major currencies.
- since the inception of the hedging strategy, total gains from currency had been reduced by the hedge, mainly as a result of the depreciation of Sterling against the US dollar.

The Panel remained supportive of the current hedging target weight of **33%** of overseas listed equity.

2.5 Direct Impact Portfolio Monitoring Report

The Panel reviewed the quarterly monitoring report for the Direct Impact Portfolio (DIP). Overall the portfolio and most of its investments are progressing well. On a Red, Amber, Green (RAG) analysis:

- **58** investments are rated **green**;
- **7** are **amber**;
- **None red**.

2.6 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of December 2024 was estimated to have increased to **178%**, compared with the funding level of **147%** at the last valuation date, 31st March 2023.

2.7 Investment Cost Monitoring

The Panel reviewed a benchmarking report produced by CEM covering the period to 31st March 2024. Main findings included:

- **34%** of SPF assets rated as high cost versus a global peer group average of **29%**
- SPF cost of **70.8bps** was above the CEM LGPS universe cost of **69.4bps**
- SPF 5-year net total return of **+6.9% p.a.** was above the LGPS median of **+6.6% p.a.**
- SPF 5-year benchmark return of **+7.3% p.a.** was above the LGPS median of **+6.3% p.a.**
- SPF 5-year net value added of **-0.4% p.a.** was below the LGPS median of **+0.4% p.a.**
- SPF benchmarked costs had fallen from **83.4bps** in 2020 to **70.8bps** in 2024
- SPF 10-year realized Sharpe ratio of **0.8** was above the LGPS median of **0.74**

The Panel concluded that the CEM report provided some assurance and no real surprises regarding SPF costs.

3 Allocation

3.1 Cash flow

The Panel reviewed a schedule of estimated cash flows for the Fund's private market investment programmes - private equity, global real estate, the Direct Impact Portfolio and private debt commitments.

Main points were that:

- 2025 forecasted net cash flow is **+£343m**

- 2024 actual net cash flow from private markets was **+£159m –** see table below

	2024	
	Estimate (£m)	**Actual (£m)**
Distributions	646	539
Calls	-515	-380
Net	**+131**	**+159**

- central cash balance at 31st December 2024 was +**£525m**
- this had decreased by **£77m** during the quarter as the Fund continued implementation of its revised investment strategy
- a transfer from investments of **£100m** in Q1 2025 will be required to cover benefit payments.

The IAP will revisit investment cash balances, private market flows and potential sources of cash to meet benefit payments for 2025/26 at its May meeting.

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report showing Fund allocations vs new strategy allocations as at 31st December 2024.

As a result of the transition activity carried out during the year, allocations were generally very close to the new strategic targets agreed at the conclusion of the investment strategy review.

There were no breaches of ranges and the Panel agreed that no rebalancing action was required.

3.3 Relative Value Framework

The relative value framework was introduced following the 2020/21 review of investment strategy to generate additional value and reduce the risk of capital losses by varying implementation of the Fund's allocation held in protection assets. The framework was reviewed following the 2023/24 investment strategy review to account for revised strategic allocations to Hedging and Insurance and Credit assets.
Decisions to move away from the new strategic – or neutral - allocation of 2.5% Passive Credit (50/50 UK/US investment grade) and 10.0% Hedging and Insurance (50/50 UK gilts and index-linked gilts) allocation are based on pre-defined metrics.

The quarterly relative value report from Hymans Robertson provided the following summary assessment of the framework metrics at 31st December 2024:

- Spreads on both US and UK investment grade credit are substantially below 20-year medians. Global credit spreads are significantly below the 25th percentile levels. This supports reducing passive credit.

- Nominal gilt yields are now attractive relative to Hymans' assessment of fair value based on long-term growth and inflation forecasts, across all maturities. This supports overweight allocation to nominal gilts.
- Real yields are still attractive out beyond 10 years. However, implied inflation is expensive when assessed against the framework terms. This supports holding a lower allocation in favour of nominal gilts.

The Panel discussed the report's assessment of the latest metrics, which were supportive of moving to an underweight position in investment grade credit and index-linked gilts and a consequent overweight in gilts. The Panel agreed to proceed with the allocation changes as indicated subject to checking implementation feasibility and any impact on strategy review changes to the LGIM passive corporate bond mandate which are still to be completed.

4. Manager Reviews

4 investment managers attended the Investment Advisory Panel:

- **DTZ**
- **Baillie Gifford**
- **Lombard Odier**
- **JP Morgan (Global Small Cap)**

Performance of each of the managers was reviewed.

4.1 DTZ

The DTZ UK property portfolio is currently valued at **£2,355m**, or **7.6%** of total Fund, versus a target weight of 9%. DTZ provided an update on the current portfolio and performance together with an outline of investment strategy for 2025 and a progress update on their climate change and net zero strategy.

4.2 Baillie Gifford

The Baillie Gifford global equity portfolio is currently valued at **£2,526m**, or **8.1%** of total Fund, versus a target weight of 7.5%. Baillie Gifford provided an update on the current portfolio and performance including the most recent transactions, together with an explanation of their revised approach to climate change and net zero.

4.3 Lombard Odier

The Lombard Odier UK Smaller Companies equity portfolio is currently valued at **£429m**, or **1.4%** of total Fund, versus a target weight of 1.0%. Lombard Odier provided an update on the current portfolio, performance and investment markets together with an outline of their approach to active engagement and sustainability.

4.4 JP Morgan (Global Small Cap)

The JP Morgan equity portfolio is currently valued at **£947m**, or **3%** of total Fund, versus a target weight of 3%. JP morgan provided an update on the current portfolio, performance and regional investment markets together with an outline of their approach to managing portfolios.

5 Investment Strategy and Structure

5.1 Transition Update

Appendix 6

Investment Advisory Panel Meeting February 2025

At its meeting on 19th March 2024, the Committee agreed that the investment strategy summarised below should be adopted as the strategic target model for the Fund.

Asset	Previous Allocation %	Revised Allocation %
Equity	*52.5*	47
Hedging & insurance	*1.5*	10
Credit	*6*	5
Short term enhanced yield	*20*	17
Long term enhanced yield	*20*	21
	100	**100**

Implementation of the proposed new strategy requires changes to the underlying investment structure within each of the 5 asset classes. The Panel reviewed a paper setting out changes and implementation progress.

Changes that had begun or been completed in Q4 2024 included:

- A phased reduction of the Fund's allocation to Equity and the increase in allocation to Hedging/ Insurance (completed August 2024).
- A switch from the L&G market cap passive equity portfolio to Low Carbon Transition funds (June 2024).
- The reduction in the Fund's allocation to the L&G RAFI strategy, including the sale out of the RAFI Emerging Markets fund (Q2 2024).
- Termination of the investment mandate with Ashmore; reduction in the Barings multi-asset credit allocation (May/ June 2024).
- Increased allocation to global infrastructure/ the JP Morgan International Infrastructure Fund (drawn down July 2024).
- A switch from the L&G passive corporate bond portfolio to L&G Future World Net Zero Buy and Maintain Credit fund (Q4 2024).
- Completed first phase of transition of emerging market equity mandates. Transition between Genesis and RBC completed (Q4 2024).
- Commitment to the Pantheon Private Debt Fund completed (Q4 2024) and will be drawn down over time.

Transition to new emerging market equity, corporate bond and private real estate debt mandates are required to complete the re-structuring of the Fund's investments:

- Transition of emerging market equity mandates still to complete, with the second phase – transition between Fidelity and RBC expected to begin in early 2025.
- Transition to new Low Carbon Transition buy and passive corporate bond mandates with LGIM will complete in early 2025.
- Commitment to ICG Longbow real estate debt fund VII will complete during Q1 2025 and be drawn down over time.

5.2 Value Equity Manager Overview

Hymans Robertson provided a follow-up paper to previous discussions regarding the Oldfield global equity mandate.

Investment Advisory Panel Meeting February 2025

The Panel had previously discussed the long-term feasibility of the Oldfield strategy and agreed that it would be prudent for the Fund to gain an understanding of other global equity value investment products.
Hymans Roberson presented a paper that provided a recap on recent developments at Oldfield and explored the wider global value equity universe with a comparative analysis of some alternative managers.

The Panel discussed the conclusions of the Hymans analysis and agreed the following:

- The Panel will keep Oldfield under review and ask them to attend the next meeting of the Panel in May.
- Officers will work with Hymans to further explore alternative strategies and procurement options.

6 Governance

6.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 19th March 2025.

Appendix 7

Stewardship: Responsible Investment Activity

Responsible Investment: Quarter 4 2024

A summary of activity against each of the six United Nations Principles for Responsible Investment is provided below.

1. We will incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes

1.2 In quarter 4, the Fund's Infrastructure manager **JP Morgan** provided a report on the Infrastructure Investments Fund (IIF) 2024 **Global Real Estate Sustainability Benchmark (GRESB)** Annual Infrastructure Asset Assessment.

GRESB assesses ESG performance at the asset level for real estate and infrastructure asset operators, fund managers and investors that invest directly in real assets. The assessment offers high-quality ESG data and advanced analytical tools to benchmark ESG performance, identify areas for improvement and engage with companies. 2024 marks the eighth year for the GRESB infrastructure assessment and participation included 167 Funds and 694 assets.

Key takeaways from the 2024 report include:

- The IIF portfolio received 4 stars and a score of 94, an improvement of 1 point from the 2023 survey.
- IIF ranked 29th out of 116 Infrastructure Funds in GRESB score. (31st out of 119 Infrastructure Funds in 2023).
- 6 IIF portfolio companies have a maximum 5-star rating and 15 IIF companies received a score of 90 an above.
- 16 of 19 IIF portfolio companies improved score their score.
- 9 IIF portfolio companies are ranked in the top 200 assets (out of 694 assets).
- Sonnedix ranked 14th of all the 694 assets covered in the assessment with a score of 100 and was recognised as a GRESB sector leader. Sonnedix develops and operates utility-scale solar projects globally, including 3.7 GW of installed capacity (2.8 GW in 2023), 1.0 GW of projects in construction and 6.1 GW of capacity in documentation and development stages.

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.

1.3 UK direct property portfolio manager **DTZ** received results for the SPF portfolio's 2024 submission to **GRESB**. The Fund received 2 stars and a score of 74/100 and remains above the peer average score. DTZ also provided a 2024 update on progress against the SPF portfolio's decarbonisation objectives. Absolute emissions (tCO2e) are 28% lower and emissions intensity (tCO2e/m2) has reduced by 57% since the 2019 baseline. The portfolio remains on target for a 2040 net zero with a consistent reduction of emissions intensity across Landlord (scope 1&2) and Tenant (scope 3).

2. We will be active owners and incorporate ESG issues into our ownership policies and practices

2.1 Voting

Managers' voting activity during the quarter to 31st December 2024 is summarised as follows.

Voting activity to 31st December 2024		
		(%)
Total meetings	**2,268**	
Votes for	10,093	75
Votes against	2,779	21
Abstentions	493	4
Not voted	78	1
No. of Resolutions		**100**

Voting activity in the quarter included:

- **Legal & General** voted against the resolution to approve the Remuneration Implementation Report at the **African Rainbow Minerals Ltd** AGM. For companies in high-risk sectors, where the health and safety of employees is key, Legal & General would expect a health and safety modifier to be introduced to the annual incentive to ensure that board members are held accountable for any loss of life within the workplace. The report offered limited disclosure on the manner the bonuses were determined, and the upward adjustment by the safety modifier was a cause for concern considering the fatality recorded during the year. Legal & General therefore voted against the resolution (approved by 95%). Legal & General opposed management and voted for a shareholder resolution asking for a report on AI data sourcing accountability at **Microsoft**. The company is facing increased legal and reputational risks related to copyright infringement associated with its data sourcing practices. While the company has strong disclosures on its approach to responsible AI and related risks, shareholders would benefit from greater attention to risks related to how the company uses third-party information to train its large language models. (resolution passed by 76%).

- **Baillie Gifford** opposed a resolution which sought authority to issue equity at UK housebuilder **Bellway,** because the potential dilution levels are not in the interests of shareholders (resolution passed by 90%). At **Microsoft Inc.**, Baillie Gifford opposed the ratification of the auditor because of the length of tenure. It is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls (resolution supported by 36%).

Stewardship: Responsible Investment Activity

- **Lazard** opposed management at the **Estee Lauder Companies Inc.** AGM by voting against named executive officers' remuneration, as it was deemed not to be in the best long-term interests of shareholders (resolution passed).

- **Veritas** opposed management at the **Microsoft Inc.** AGM by voting for two shareholder resolutions. The first resolution requested a report on risks of operating in countries with significant human rights concerns. Veritas believe shareholders would benefit from increased disclosure regarding how the company is managing human rights-related risks in high-risk countries. The second resolution asked for a report on AI data sourcing accountability. A vote for this resolution was warranted as the company is facing increased risks related to copyright infringement. Although it discloses information about its assessment of AI risks generally, shareholders would benefit from greater attention to risks related to how the company uses third-party information to train its large language models.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Legal & General** engaged with **Colgate-Palmolive** as part of their commitment to using best efforts to tackle commodity-driven deforestation impacts in investment portfolios by 2025.

  Legal & General have been engaging with Colgate-Palmolive since November 2022, just after the initial publication of the Legal & General deforestation policy. In addition to written communications, they have met with company representatives twice (in 2022 and 2024). The engagements have been focused on Colgate's deforestation approach as well as challenges and opportunities in meeting their deforestation commitments. Legal & General have engaged with the Chief Sustainability Officer and explored how the company is ensuring supplier compliance and increased traceability across commodities as well as grievance mechanisms robustness and key escalations for non-compliance. Legal & General have also sought to encourage increased board oversight of deforestation and prioritisation of this issue within the company's risk management agenda.

  Colgate-Palmolive meets the minimum expectations on deforestation, as set out above. They have also demonstrated further progress. In addition to appreciating responsible sourcing as a critical issue, they have been building relationships and furthering engagement with their suppliers, including ending relationships with those found to be non-compliant. In terms of monitoring, they have introduced satellite imaging and are undertaking the complex process of mapping palm oil derivatives. Additionally, the company has a 'grievance log' for palm oil for 2023. In terms of oversight, the frequency of board-level updates on deforestation has increased.

  The next engagement with the company will focus on traceability progress across key commodities, collaborations and work done with their peers to eliminate deforestation. Legal & General will also continue to discuss the company's work on mapping and addressing deforestation risks across their supply chain.

- **Baillie Gifford** met with the **Amazon.com** ESG team to discuss several ongoing sustainability concerns. The areas of discussion included employee engagement, supply chain transparency, human rights implications with cloudhosting, AI governance and commitment to decarbonisation.

  The discussion enabled Baillie Gifford to understand the company's position on a variety of subjects. For each concern raised, Baillie Gifford were provided with evidence to robustly defend the company's position and counter suggestions of unsustainable practices. Baillie Gifford heard about various company-wide initiatives to support employee engagement, including the company's 'Dragonfly' software tool that records employee safety-related feedback to turn into measurable action - over 200,000 observations were actioned in 2023. The company's efforts to meaningfully improve working conditions have reduced recorded injury rates to substantially below the industry average. Baillie Gifford also learned about efforts to engage and monitor the company's vast supply chain to reduce the risk of human rights abuses. Baillie Gifford were informed about the company's continued, substantial decarbonisation ambitions, including contracting 28GW of renewable power in 2023, equivalent to more than 50 per cent of the installed capacity in the whole of the UK. Finally, the company highlighted the recent board appointment of Stanford University adjunct professor Dr. Andrew Ng. He was previously the head of Google Brain, Baidu's chief scientist and is currently the managing partner of an AI venture fund. His appointment will help to inform the board's perspective on the opportunities and challenges that AI presents from both a social and commercial perspective.

  Given the scale and complexity of the company's operations, Baillie Gifford expect to continue regularly engaging with the company on several sustainability challenges. Unlike some of Amazon's technology peers, the company continues to listen and engage with long-term investors on challenging topics. Baillie Gifford were able to hear the company's thoughts on different subjects that have regularly appeared on shareholder proposals and will continue to constructively engage and thoughtfully vote on each proposal.

  Baillie Gifford engaged with mining company **BHP** to discuss and evaluate BHP's revised Climate Transition Action Plan (CTAP) ahead of the October annual general meeting (AGM). The focus was on assessing improvements in shareholder engagement, scenario disclosure, and decarbonisation commitments since the initial 2021 CTAP.
  While the new CTAP has not increased the 2030 target for operational emissions reduction, progress towards the goal continues and has been accompanied by more granular disclosure of emissions and partnerships across the scope 3 value chain. That said, with only \$75m indicated for projects exploring options for iron-to-steel decarbonisation over the next five

years, transparency on the future for this core part of the business remains limited. Baillie Gifford spent time discussing the construction and use of the company's planning scenarios noting that more sophisticated incorporation of physical risks might encourage more ambition in policy lobbying and capex. Other commodity companies are showing more leadership in this area.

Baillie Gifford welcomed the advances in the revised CTAP but noted continuing concerns regarding capital allocation for downstream decarbonisation, inadequate scenario integration, and weak policy advocacy. Baillie Gifford will continue to engage with management on these points.

Baillie Gifford engaged with the Japanese digital advertising company **CyberAgent, Inc.** to understand their approach to problem gambling, particularly in their expanding keirin betting business, and to discuss their succession planning strategy.

CyberAgent sees potential in integrating gambling with their AbemaTV platform. This business currently represents less than 10 per cent of overall group revenues. However, they currently lack a comprehensive strategy for addressing potential problem gambling, especially since many Winticket users are first-time gamblers. Problem gambling, also known as gambling addiction or compulsive gambling, is characterised by continued gambling despite the negative impact it may have on an individual's life. Initial consideration is being given to using artificial intelligence analysis to identify incidents of problem gambling, although this initiative is still in its infancy. Current efforts are primarily focused on disclosing information concerning addiction. This somewhat contrasts their approach in mobile gaming, where more protections are in place due to a younger audience demographic.

Succession planning is also an ongoing priority. Founder Fujita-san is working to identify a successor in the coming years. The process is currently centred on internal candidates who are undergoing training and attending seminars, with Fujita-san personally mentoring them on various business topics.

CyberAgent's approach to problem gambling is currently limited, and so will remain an engagement priority going forward.

- **Lazard** hosted a call with **Microsoft** to discuss the company’s views regarding shareholder proposals filed relating to reporting on risks of using external data via artificial intelligence and misinformation and disinformation of AI. Lazard also additionally sought clarity on board composition concerning over boarding concerns.

  The company highlighted its $13 billion investment in AI partnerships, integration of ChatGPT into Copilot, and public disclosures on AI governance and data sourcing practices. It also published a Privacy Report detailing its efforts to protect privacy and manage data. On board composition, one director holds several directorships at other businesses. The company noted the skills and expertise of this director are regarded highly, bringing value to the board despite their other board commitments. This engagement informed Lazard's voting position ahead of the AGM and future engagement will focus on broader sustainability issues and the company's commitments to enhanced reporting in 2025, as well as board composition.

- **Oldfield Partners** continued engagement with **Eni S.p.A** on their decarbonisation commitments.

  As an integrated energy company, many of Eni's decarbonisation targets are ambitious relative to competitors. Their comparative flaring data however is significant. Flaring is the process of burning off excess methane gas, typically at oil and gas production sites. Oldfield spoke with Eni to better understand their data here as an inconsistency with their target of zero routine flaring by 2025, five years prior to that of the expectation outlined by World Bank. They emphasised that progress will not always be linear and there are two key country specific reasons for the flaring data:
  1) Libya contributes to half of their reported flaring. A significant project is currently underway in the region, and its successful completion is expected to enable Eni to meet their zero routine flaring target by the end of 2025.
  2) A local partner in Iraq accounts for a portion of the data attributed by third parties. Eni disputes this as being directly attributable to them due to their role as a technical partner. Despite this, Eni has actively worked to influence the situation, achieving a 40% reduction in flaring in 2022.

  Eni's situation highlights the complexities of operating in regions with geopolitical and infrastructure constraints, reflecting the nuanced efforts required to meet ambitious decarbonisation goals. Nonetheless, Oldfield were reassured by their oversight and will look to see whether they deliver on their 2025 target for evidence of this approach.

- **J.P. Morgan** met with **Jet2** to discuss its decarbonisation strategy amidst increasing regulatory pressures in the UK and Europe.

  The conversation highlighted Jet2's commitment to reducing carbon intensity per revenue passenger kilometre by 35% by 2035, compared to 2019 levels. The company plans to achieve this through acquiring more fuel-efficient aircraft, increasing the use of Sustainable Aviation Fuel (SAF) to a minimum of 15% by 2035, and leveraging airspace modernization initiatives by the UK and EU.

  Jet2 acknowledges the challenges posed by dependencies on government actions for SAF availability and airspace improvements, emphasizing the need for policy support. The company has invested in SAF production facilities, although current UK production is lacking, necessitating potential imports. The company has shifted its focus from offsetting residual emissions through the voluntary carbon market to exploring carbon removals from 2025, aligning with evolving market sentiments and regulatory frameworks. Financially, the company is cautious about disclosing detailed cost projections due to uncertainties in SAF production and potential regulatory changes. In 2024, 90% of its Scope 1 emissions were covered by the UK and EU Emissions Trading Schemes, costing approximately £125 million. The company anticipates rising costs as free allowances are phased out by 2026, potentially impacting travel affordability.

J.P Morgan will continue to monitor Jet2's progress in obtaining SBTI validation and encourage enhanced disclosure on decarbonisation costs over time.

2.3 We will seek appropriate disclosure on ESG issues by the entities in which we invest

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers and Sustainalytics.

- Legal & General engaged with Luxembourg-based multinational steel manufacturer **Arcelor Mittal** to seek disclosure around decarbonisation technologies.

  Legal & General have been engaging with Arcelor Mittal on climate change since 2020 and have been in regular contact with the company, regarding the steps they are taking to decarbonise their business. The Legal & General Investment Stewardship team was invited, alongside other investors, to attend a site visit to Arcelor Mittal's Sestao steel plant, to learn about and observe their decarbonisation technologies, and gain a deeper understanding of the steps they are taking, and the challenges they face as a company and as part of the steel industry in reaching net zero. The plant produces low-carbon-emissions steel, which has a significantly lower CO2 footprint than traditional steelmaking and uses the Electric Arc Furnace processes. In addition to seeing these processes in action, including the thin slab direct casting process, the company representatives enabled insightful discussions among the investor attendees.

  Seeing this scale of engineering in person put the company's decarbonisation efforts, and the challenges they face, into perspective. One of Legal & General's key 'take-aways' was the role of policy and demand creation in shaping decarbonisation efforts, which emphasises the importance of continuing to broaden investor engagement across value chains, and of continuing to use influence as an asset manager to encourage effective decarbonisation at the policy level.

- **Lazard** engaged with luxury group **LVMH** to seek disclosure around its supply chain processes following investigations at small sites in Italy where forced labour was discovered.

  Lazard reviewed the incident and the company's response, as well as meeting with management. The meeting discussed the company's risk management processes, partnerships with industry groups and supply chain audit providers, and senior leadership accountability and governance. LVMH acknowledged responsibility for the issues found and emphasized its robust supply chain due diligence programs, including zero-tolerance rules for suppliers failing audits. While Tier 1 and 2 subcontractors had signed the code of conduct and been audited satisfactorily, the company recognized the need for additional oversight. The company has also opened a training centre in Europe for sustainability training and is increasing internal management accountability and governance practices on supplier auditing. A new team has been established for supply chain auditing, and a partnership with Italian authorities and the fashion federation aims to create a national certification system for suppliers.

The engagement increased confidence in the company's management of supply chain risks, and Lazard plans to monitor the progress of these initiatives.

- **Oldfield** met with the CEO of **NOV** to seek improved emissions disclosure, as well as seeking clarity around their transition strategy.

  Addressing disclosure, NOV acknowledged the challenges posed by divergent U.S. and EU expectations, especially in relation to scope 3 emissions. While committed to meeting regulatory requirements, they described reporting as a shareholder cost. In addition, NOV highlighted their enthusiasm for innovation and their ability to contribute to decarbonisation within the sector, focusing currently on geothermal, carbon capture, and nuclear opportunities. On energy policy, they expressed a pragmatic outlook, noting that state-level decisions play a greater role than federal policies in shaping the US energy landscape, and did not expect an increase in the rig count because of a change in political leadership.

- Oldfield wrote to the team at **Samsung** to understand if Samsung had seen an increase in consumer or shareholder expectations to follow a similar path to Google and Amazon publicly investing in nuclear projects and if so, how they were responding to this.

  Samsung reiterated their commitment to transitioning to 100% renewable energy by 2050 and sooner for their overseas operations (2027). Their intention is to continue to diversify their procurement methods both domestically and internationally and their greatest challenge remains in South Korea where they are reliant on availability of renewables in their local market. As a founding member of the Asia Clean Energy Coalition (ACEC), Samsung look to address the current limited availability. Oldfield highlighted what they believe to be an over reliance today on renewable energy certificates to meet their objectives and look to see how they transition over time towards alternative sources that they outline including hydrogen, carbon capture, utilisation and storage (CCUS).

2.4 We will promote acceptance and implementation of the Principles within the investment industry

Appendix 7

Stewardship: Responsible Investment Activity

- Currently all the Fund's investment managers are signatories to the PRI principles and 31 of the 33 managers within the Direct Investment Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles. However, for some this will be less appropriate due to the specialised nature of their activities.

- The Fund is a signatory the new **UK Stewardship Code** (2020). The Fund also encourages its external investment managers and service providers to demonstrate their commitment to effective stewardship by complying with the UK Stewardship Code. Currently sixteen of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are signatories. The full list of signatories to the Code is available at: https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-signatories.

- The Fund received the results of its **2024 PRI assessment** during Quarter 4. This year, over 3,000 signatories submitted their reports, including more than 1,600 organisations that chose to report voluntarily. These reporters not only benefit from a clear and comprehensive assessment of their responsible investment practices but also gain valuable insights into how their performance compares with peers in the industry.
  The Fund submitted information for 4 assessment areas or 'modules' which can receive possible star scores from 1 star (lowest) to 5 stars (highest). The Fund scored 5 stars for 2 of the modules assessed, and 4 stars for the remaining 2 modules.

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

Manager	Net Zero Policy	Net Zero Asset Manager Alliance (NZAM)	UK Stewardship Code	PRI Signatory	Other Initiatives
Legal & General	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Baillie Gifford*	Net Zero 2050	No	Yes	Yes	TCFD, FAIRR, IIGCC, CDP
Lazard	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Oldfield	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC

Stewardship: Responsible Investment Activity

Veritas	Net Zero 2050	Yes	Yes	Yes	TCFD, SDG's, CDP
Lombard Odier	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC, CDP
JP Morgan	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
RBC	Net Zero 2050	No	Yes	Yes	TCFD, CA100+, TPI, CDP, FAIRR
Fidelity	Net Zero 2050	Yes	Yes	Yes	TCFD, IIGCC, CA100+
Pantheon	No	No	No	Yes	TCFD
Partners Group	Manage assets towards Paris 2050	No	No	Yes	TCFD, SDG's
PIMCO	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Ruffer	Net Zero 2050	Yes	Yes	Yes	TCFD, CDP, CA100+
Barings	Manage assets towards Paris 2050	No	Yes	Yes	UNGC, SDG's, TCFD
Oakhill	No	No	No	Yes	TCFD
Alcentra	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, IIGCC
ICG	Net Zero by 2040	Yes	Yes	Yes	CDP, TCFD
DTZ	Operational Net Zero 2030. Portfolio Net Zero 2040	No	No	Yes	TCFD, IIGCC, GRESB, BBP

***** Baillie Gifford withdrew from the Climate Action 100+ (CA100+) and the Net Zero Asset Managers (NZAM) initiatives in Q4 2024.

2.5 We will work together to enhance our effectiveness in implementing the Principles

The Fund seeks to improve the effectiveness of company engagement and voting by acting collectively with other institutional investors, charities, and interest groups. Working with ShareAction and others, the Fund has carried out direct collaborative engagement across a range of initiatives. It is also a member of industry collaborative forums including the Local Authority Pension Fund Forum, the Institutional Investors Group on Climate Change and the Carbon Disclosure Project (CDP).

- At the close of the quarter the **CDP Non-Disclosure Campaign** (NDC) published its 2024 report. The report highlights the campaign's impact, key outcomes, and how engagement efforts have driven corporate transparency among non-disclosing companies. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. 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. These companies emit more than 4,300+ megatonnes of carbon dioxide annually. Highlights from the 2024 report include:

- 276 signatories representing over US$21 trillion in assets participated in the 2024 Non-Disclosure Campaign, with 149 acting as lead participants and 127 as co-signers only.
- A record 1,998 companies were targeted by the participants out of 9,557 non-disclosers. This is a 26% increase on the number of companies targeted from the previous year.
- Of all companies targeted, 1,329 were specifically targeted to disclose on climate change and 373 on forests.
- Companies were 2.5 times more likely to disclose when targeted by investors through the 2024 campaign, reinforcing the NDC's consistent success.
- The campaign saw a record of 1,029 high-impact companies requested to disclose water related impacts and risks – marking a 122% increase from the previous year.
- The NDC campaign achieved notable results in Asia ex-Japan. 474 companies were targeted and there was an 83% increase in distinct company disclosures compared to last year.
- The food, beverage and agriculture sector had the highest disclosure rate of 32%.

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

SPF has been an active supporter of the NDC since its inception in 2017. In the 2024 campaign the Fund was selected to lead the initiative's climate disclosures engagement with Indian based multinational conglomerate, **Reliance Industries** and water security and forests disclosure engagement with US based paints and coatings manufacturer, **PPG Industries, Inc.**, SPF organised collaborative letters to both companies encouraging them to provide information by completing the CDP Climate, Water Security and Forests questionnaires.

- Ahead of the **COP 16 United Nations Biodiversity Conference** in Cali Colombia, the Fund co-signed a letter from a global coalition of investors representing over USD 2.5 trillion urging governments to take ambitious policy and regulatory action to halt and reverse global biodiversity loss. The letter, co-ordinated by the Church of England Pensions Board and signed by investors from Australia, Canada, Denmark, the Netherlands, Sweden, Switzerland, the United States and the United Kingdom, calls on governments to set ambitious national targets, including sector transformation plans; implement mandatory disclosure on nature for companies; establish regulation that addresses the five drivers of biodiversity loss; and develop and scale financial mechanisms for nature.

The letter is available on the Church of England website at: https://www.churchofengland.org/media/finance-news/cop16-investors-worth-usd-25-trillion-call-governments-take-bold-action-biodiversity

- In October the Fund supported a collaborative **PRI** investor engagement letter to **General Mills, Inc.** regarding forced and child labour in sugar supply chain in India. The letter, supported by investors representing $1.05 trillion in assets and co-ordinated by the Michigan based UAW Retiree Medical Benefits Trust, expressed concern about the human rights risks in the General Mills sugar supply chain in Maharashtra, India, particularly for women and children.

  Recent reports in the New York Times have raised serious concerns about the food industry's efforts to protect the rights and well-being of sugarcane workers, with harrowing accounts of forced hysterectomies, among other abuses. Based on the reports, women often undergo hysterectomies to avoid menstruation-related health issues that interfere with their work. This extreme measure is driven by the need to continue working without interruption to repay debts to labour contractors. Of approximately 82,000 female sugarcane workers from Maharashtra's Beed district, about one in five had hysterectomies due to a lack of sanitation and quality public health facilities. In addition, approximately 200,000 children below the age of 14 migrate annually with their families to help harvest sugarcane. These children engage in back-breaking work and are kept from regular school attendance by the nomadic nature of sugarcane work. The conditions violate several international human rights conventions, including the International Labour Organization's (ILO) Convention No. 1823 on the Worst Forms of Child Labour and the Convention No. 29 on Forced Labour4, as well as the United Nations Convention on the Rights of the Child.

  General Mills classifies responsible sourcing as a significant issue for its business and its Supplier Code of Conduct prohibits forced labour and child labour. Unfortunately, the Code of Conduct applies only to Tier 1 direct suppliers and not to indirect and Tier 2+ suppliers. Considering that human rights risks increase further down the supply chain the company's ability to identify and address the grievances faced by the most vulnerable groups is in doubt. The gap between abuses uncovered through internal company auditing mechanisms and those identified through external, stakeholder-informed research raises substantial concerns for investors about General Mills' knowledge of and oversight over suppliers across the supply chain. While General Mills may audit compliance with its Code of Conduct, the effectiveness of these audits is in question. The reliance on supplier-paid audits and the inability of suppliers to act promptly to correct violations as per General Mills' satisfaction might not fully capture or address the more insidious and systemic human rights abuses occurring deeper within the supply chain, particularly those affecting vulnerable groups, such as women sugarcane workers in Maharashtra.

  The letter urges General Mills to enhance its due diligence and auditing processes to better detect and mitigate these risks, ensuring the protection of workers' rights throughout its entire supply chain and to engage directly with shareholders on this issue.

- ShareAction's **Good Work Investor Coalition**, currently representing over $7 trillion in assets under management, continues to focus engagement on the risks of low pay and insecure work, particularly in the UK retail sector. In support of this, the Fund co-signed a letter to the Rt Hon Angela Rayner MP, Deputy Prime Minister and Secretary of State for Housing, Communities & Local Government regarding the Government's workers' rights agenda. The letter expressed support for the ambitious new policies which the government has announced to address the alarming public health and economic impacts of unfair employment practices. Specifically, the letter called for:

    - a minimum wage that accounts for low-paid workers' cost of living.
    - ambitious policies which make work more secure and make sick pay fairer.
    - an increase in the rate of Statutory Sick Pay (SSP) from the current rate of £109.40 per week
    - at least a four week notice period for any changes in shift with compensation for shifts cancelled within this period.

- The Fund also co-signed **Good Work Investor Coalition** letters on Living Hours to several large UK based employers including **B&M**, **Greggs**, **Next**, **Tesco** and **Sainsbury's** 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.

- In quarter 4 the **Farm Animal Investment Risk and Return Initiative** (FAIRR) released its latest report: Tracing Risk and Opportunity: The Critical Need for Traceability in Today's Seafood Supply Chains. This report discusses learnings and insights from Phase 1 of FAIRR's **Seafood Traceability** engagement, supported by 35 investors with US $6.5 trillion in combined assets and delivered in partnership with World Wildlife Fund (WWF-US), Planet Tracker, the World Benchmarking Alliance (WBA) and UNEP FI's Sustainable Blue Economy Finance Initiative.

    As global demand for seafood continues to grow and seafood supply chains become increasingly complex, transnational, and opaque, the sector must enhance efforts to address persistent and serious environmental and social issues including Illegal, Unreported, and Unregulated (IUU) fishing, forced labour and human rights violations, and the growing impacts of climate change, all of which expose seafood businesses and their stakeholders to material risks. Improved transparency about the origin and production methods of seafood is a critical first step towards eliminating these issues across supply chains. Supply chain traceability is an essential tool that can enable this transparency.

Key findings from the report include:

- Traceability is critical for seafood companies to mitigate a multitude of environmental and social risks – such as Illegal, Unreported and Unregulated (IUU) fishing, overfishing and human rights abuses. Currently, around 20% of the global wild-caught seafood supply originates from IUU fishing, costing the global economy between US $15-36 billion annually.
- Out of the seven companies assessed, only two, **Thai Union** and **Charoen Pokphand Foods,** have traceability commitments covering all seafood operations and aquaculture feed procurement, but implementation is limited.
- Companies rely on certifications for sustainability claims, but these do not ensure full-chain, digital and interoperable traceability.

- The Local Authority Pension Fund Forum (LAPFF) provided a Quarterly Engagement Report. The report highlights include:

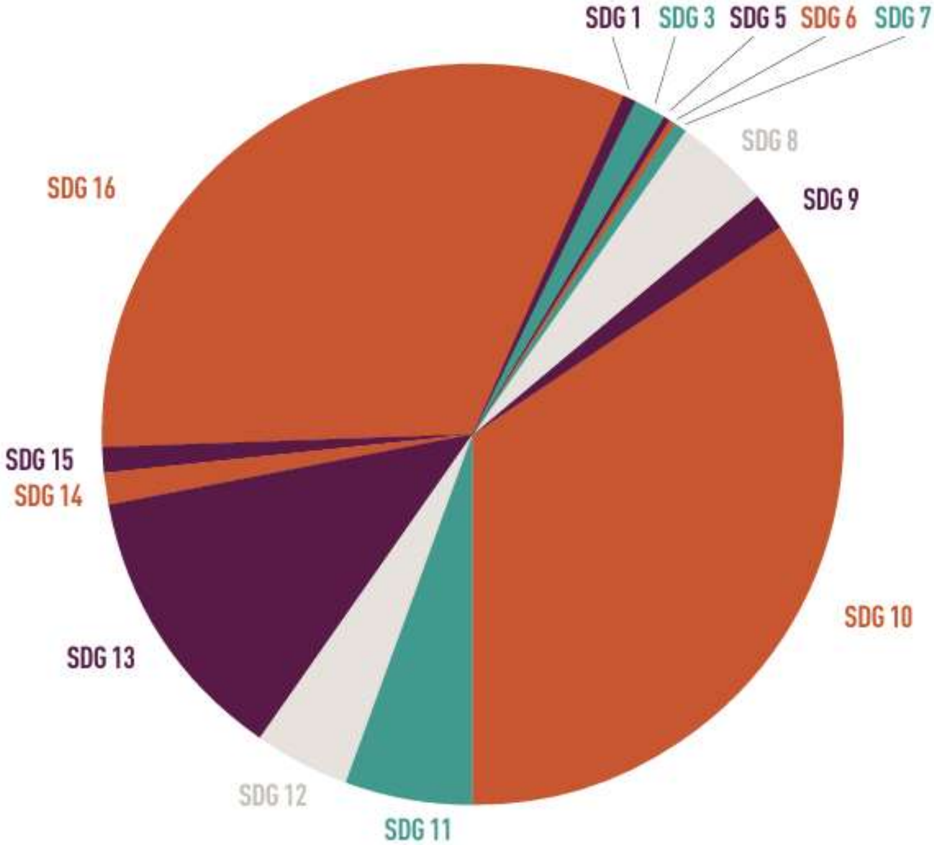
    - LAPFF held 24 meetings with companies during Q4. In addition, LAPFF received 38 responses from companies regarding their climate transition plans.
    - Letter to FTSE 100 Companies: LAPFF requested disclosures on company approaches to operating in, or having links to, conflict-affected and high-risk areas, to better understand corporate risk mitigation and due diligence.
    - Engagement with EV Manufacturers: Discussions with **Mercedes**, **Ford**, **VW**, **BMW**, and **GM** on their human rights due diligence processes within critical mineral supply chains, particularly in conflict-affected and high-risk areas (CAHRAs).
    - **Booking Holdings** & **Motorola Solutions**: Engagements focused on heightened human rights due diligence conflict-affected and high-risk areas, including the Occupied Palestinian Territory (OPT).
    - London Stock Exchange & Market Standards: Follow-up letters to the **LSEG** Chair, challenging the weakening of listing standards and calling for evidence-based decision-making to protect investor interests.
    - Housebuilders & Zero-Hours Contracts: Meetings with **Persimmon** on board governance and climate strategy, alongside engagements with **Hollywood Bowl** and **IHG** on the implications of the UK's proposed Employment Rights Bill and the phasing out of zero-hours contracts.
    - **Drax Group** & **BECCS**: Continued engagement on Drax's sustainability claims, subsidy reliance, and carbon capture feasibility, following its £25m settlement with Ofgem over misreporting biomass data.
    - Airline Sector & Decarbonisation: Discussions with **Wizz Air** and **IAG** on their net-zero pathways, SAF adoption, and operational challenges, building on Q3 engagements with **Ryanair**.
    - Tobacco & Single-Use Plastics: Engagement with **BAT** on plastic waste in cigarette filters and vaping products, highlighting slow progress in addressing regulatory and environmental risks.

Stewardship: Responsible Investment Activity

- Financial Institutions & Transition Finance: Meetings with **Mizuho**, **SMBC**, and **MUFG** as part of the Asia Research & Engagement group, assessing their alignment with a 1.5°C pathway.

The LAPFF Quarterly Engagement Report is available at:
https://lapfforum.org/publications/category/quarterly-engagement-reports/

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



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	5
SDG 4: Quality Education	0
SDG 5: Gender Equality	1
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	2
SDG 8: Decent Work and Economic Growth	15
SDG 9: Industry, Innovation, and Infrastructure	6
SDG 10: Reduced Inequalities	121
SDG 11: Sustainable Cities and Communities	19
SDG12: Responsible Production and Consumption	15
SDG 13: Climate Action	43
SDG 14: Life Below Water	4
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	113
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

Stewardship: Responsible Investment Activity

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.

2.6 We will report on our activities and progress towards implementing the Principles

- Legal & General, Lazard, Baillie Gifford, JP Morgan, Lombard Odier, Veritas, Barings and Oldfield Partners provided reports on ESG engagement during the quarter. Sustainalytics provided a full engagement report for the quarter and an engagement progress update on individual portfolio companies.

- **Sustainalytics Global Standards Engagement** Quarterly Report summarizes the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies. Sustainalytics map these Global Standards Engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 124 Engage and Resolved cases in quarter 4 can be attributed to the following SDGs (as percentage of total cases).

Stewardship: Responsible Investment Activity

Sustainable Development Goals - Mapping Engagements

All engagements are mapped to the 17 UN Sustainable Development Goals (SDGs). The mapping is done by Morningstar Sustainalytics and refers to the focus and objective(s) of the engagements.

1 No Poverty	10%	10 Reduced Inequality	12%
2 Zero Hunger	6%	11 Sustainable Cities and Communities	9%
3 Good Health and Well-Being	27%	12 Responsible Consumption and Production	16%
4 Quality Education	2%	13 Climate Action	6%
5 Gender Equality	5%	14 Life Below Water	6%
6 Clean Water and Sanitation	6%	15 Life on Land	18%
7 Affordable and Clean Energy	0%	16 Peace and Justice, Strong Institutions	40%
8 Decent Work and Economic Growth	23%	17 Partnerships to Achieve the Goal	0%
9 Industry, Innovation and Infrastructure	7%		

- **Sustainalytics** issued its final report for the thematic engagement, **Climate Change – Sustainable Forests and Finance**.

  The **Climate Change—Sustainable Forests and Finance Thematic Engagement** aimed to address climate-related risks and advocate for emissions reduction across global food systems. Building on insights gained from Sustainalytics' Climate Transition engagement (2018 to 2021), the thematic engagement targeted companies across the agriculture value chain – from commodities to retailers, restaurants and the financial sector. The engagement objective focused on companies' management of decarbonization which should be in line with international disclosure standards and science-based targets aligning with a 1.5-degree pathway or beyond. In addition, companies should integrate their nature-related risks and forestry commitments into risk management, strategic planning, and disclosure.

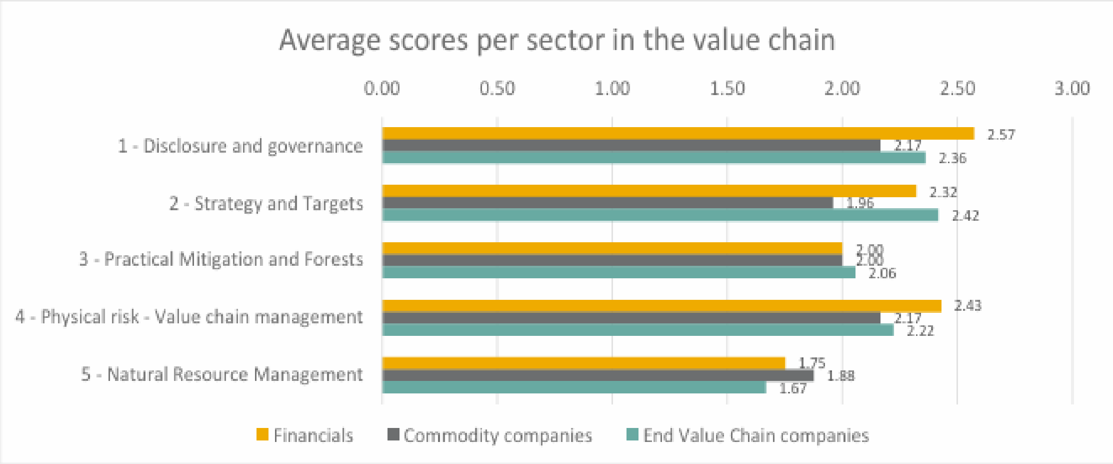
The engagement began in September 2021 and concluded in September 2024. The report summarized the progress made between the timeframe with an update on engagement efforts, high-level insights and outcomes and looking ahead. Over the 3 years of the engagement, Morningstar Sustainalytics held 114 meetings including 3 in-person meetings in the Netherlands and Singapore and conducted 1 field trip to Malaysia and Singapore. They also joined 20 company held events such as annual general meetings (AGMs) and webinars to update company's ESG and climate progress.

Throughout the past three years, the dialogues shifted from building relationships and developing more ambitious emissions reduction roadmaps to deepening the conversation around companies' forestry-related policies and due diligence approaches and their preparedness on upcoming regulatory requirements, such as the EU Deforestation Regulation (EUDR), Corporate Sustainability Reporting Directive (CSRD) and others. For the financial sector, besides their financed emissions mapping and portfolio decarbonization, the engagement also explored its sectoral policies and environmental and social risk assessments to eliminate negative impacts. For the soft commodities sector and end-value-chain companies, setting the Science Based Targets initiative's (SBTi) Forest, Land and Agriculture (FLAG) targets, supplier engagement and enhancing traceability were key focus areas. Specifically, the requirement of zero deforestation by 2025 as part of the SBTi FLAG guidance, was the most challenging part for companies to comply with. Nevertheless, we are pleased to see that three companies in the theme have renewed and verified their climate targets by SBTi, which Sustainalytics have cited as leading practices in dialogues with their peers. The implications of the EUDR have also been a focal point in the dialogues. Most companies are confident that they can comply with the regulations, however many highlighted that further clarifications would be needed from the EU and more work would need to be done on documentation to prove compliance.

One key engagement activity in the past three year is the engagement field trip Sustainalytics conducted to Malaysia and Singapore in March 2024. In addition to an in-person meeting with a Singaporean bank, Sustainalytics and a few investors also visited a palm oil company in Malaysia. They met with experts in climate transition, natural conservation, tree planting and human-animal conflict management. Besides learning their net zero journey experience and natural conservation efforts, Sustainalytics have built up a strong relationship with the companies.

Stewardship: Responsible Investment Activity

To specify engagement objectives and measure progress throughout the engagement, companies have been assessed on five Key Performance Indicators (KPIs) corresponding to various aspects across the agriculture value chain. The chart below gives the average scores per sector for financial companies, commodity companies and end value chain companies such as retailers and restaurants.



Disclosure and governance continues to score the highest among all KPIs. Sustainalytics have observed steady progress on KPI 2 (Strategy and Targets) and KPI 4 (Physical risk – Value chain management). Companies are disclosing further information regarding its strategies to meet their climate ambitions and their analysis on climate-related physical risks. KPI 5 on natural resource management is still the most challenging to improve on, especially for end value chain companies and financials due to complex value chains and portfolios. KPI 3 has proven to be the second most challenging as there are still some gaps in companies' current forestry-related commitments and policies. With the emerging attention on nature and upcoming regulatory requirements such as the EUDR, companies should further enhance their forestry-related due diligence and policy implementations.

In terms of insights by sectors, for financiers, KPI 2 shows the biggest progress over the three years of engagement. This is driven by various net zero initiatives, e.g., Net Zero Banking Alliance (NZBA) and Glasgow Financial Alliance for Net Zero (GFANZ), as six out of seven financiers Sustainalytics engaged with have already set targets and strategies for portfolio-based emissions reductions. KPI 3 and 5 continues to be the most challenging ones and therefore, Sustainalytics encouraged them to strengthen their sectoral policies, as well as expand their risk assessment to consider not only the project but also the clients' profile and potential impacts across supply chains. Some banks have mentioned that they are reviewing relevant policies to ensure alignment with their nature and biodiversity related commitments.

In terms of mid-value chain company's KPI performance, KPI 3 and 5 score highly because commodity companies have mostly conducted nature-related risk assessments, such as High Conservation Value (HCV) and High Carbon Stock (HCS) and often have better forestry-related commitments and strategies in place. One key topic with commodity companies is the implication of the EUDR. While most companies are confident that they can meet European regulatory requirements, it is still unclear from the EU side what documentation is needed to prove the alignment. Companies with higher certification rates and traceability find themselves well-prepared compared to their peers. Due to complicated supply chains, end-value chain companies face challenges in assessing their scope 3 emissions and nature-related risks. Nevertheless, Sustainalytics engagement has encouraged the companies to leverage their purchasing power, such as publicly disclosing their responsible sourcing policies and supplier expectations, to influence suppliers to comply with higher environmental and social standards and disclose further data across supply chain.

This report marks the last report for the Climate Change – Sustainable Forests and Finance Thematic Engagement. All the engagement dialogues with the current 22 companies have been transferred to the ongoing Biodiversity and Natural Capital Thematic Stewardship Programme. As climate and biodiversity topics are inextricably connected, Sustainalytics we will continue to drive systemic impacts with companies across the agricultural value chain by focusing on biodiversity and nature together.

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. Further detail is available at: https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement