



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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**Item 14**

6<sup>th</sup> March 2019

**Responsible Investment – Activity to 31<sup>st</sup> December 2018**

**Purpose of Report:**

To advise the committee of activity during the quarter in respect of the Fund's responsible investment policy.

**Recommendation:**

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

Ward No(s):

Citywide: ✓

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

**PLEASE NOTE THE FOLLOWING:**

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## 1 **Background**

The Fund became a signatory to the United Nations Principles for Responsible Investment in 2008, and has adopted the principles as its responsible investment policy. The principles are set out in full in Appendix 1 together with a summary of the Fund's strategy for applying them in practice.

## 2 **Activity: Quarter 4 2018**

A summary of activity against each of the principles is provided below.

### 2.1 **We will incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes**

#### 2.1.1 **Investment Managers**

The majority of the Fund's investment analysis and decision-making is outsourced to external investment managers. The managers all have different investment philosophies and processes and address ESG issues in different ways. ESG risks and opportunities are considered as part of company analysis, and managers engage regularly with portfolio companies on these issues.

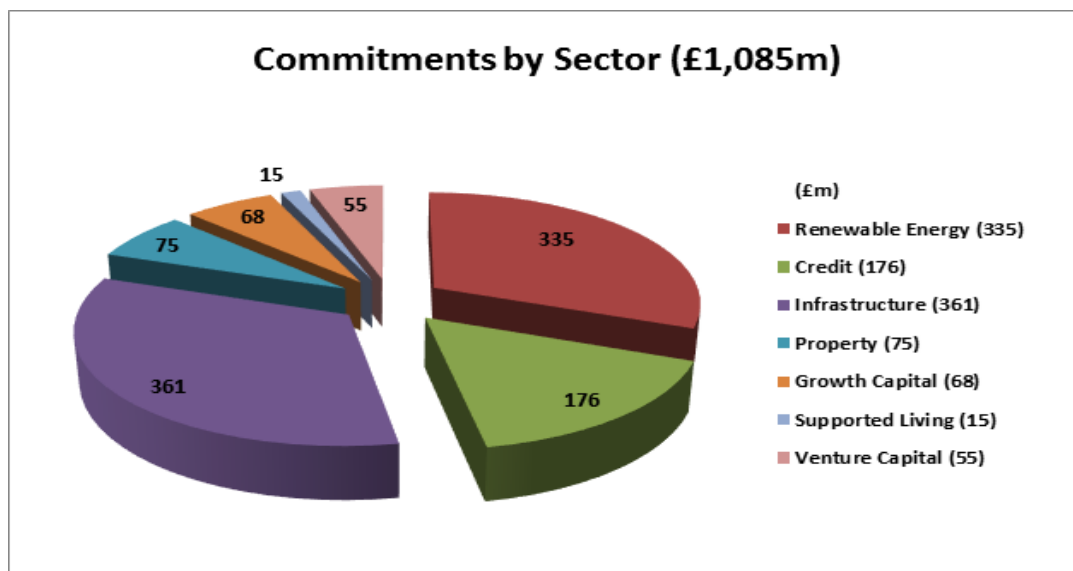
In quarter 4 the Fund's UK property manager, **DTZ Investors**, provided a report on its ESG programme including results of the 2018 **Global Real Estate Sustainability Benchmark** (GRESB) annual assessment and assessment of portfolio compliance with **Minimum Energy Efficiency Standards** (MEES).

Over the past 4 years the Strathclyde portfolio has seen its GRESB performance improve year on year as ESG considerations continue to be imbedded throughout the investment and management processes. In 2018 the portfolio recorded a 12% year on year improvement in benchmark score and exceeded the peer group's average score for first time. DTZ continues to assess and manage any associated risk of non-compliance with the MEES, which were put into effect in April 2018, via site surveys and enhanced Energy Performance Certificates (EPC), including due diligence at acquisition.

*Further details are set out at Appendix 2.*

#### 2.1.2 **Direct Investment Portfolio (DIP)**

The SPF Committee and officers are more directly involved in analysis and decision making in respect of the Fund's Direct Investment Portfolio (DIP). Strong investment fundamentals in proposals for DIP are usually enhanced by a positive local, economic or ESG impact which adds value to the investment rationale. Total commitments by DIP as at 31<sup>st</sup> December 2018 are summarised as follows.



Renewable energy investments span a number of UK sub-sectors including onshore and offshore wind, solar, small scale hydro and community power schemes. Credit allocations are primarily to UK small company debt financing. The property allocation is to the Fund's own Clydebuilt Portfolio which invests within the Strathclyde area.

In quarter 4 a report from portfolio manager **Panoramic Growth Equity** illustrated how the Fund's Direct Investment Portfolio (DIP) is supporting technology and solutions crucial for the transition to a low carbon UK economy. Panoramic provided a report on its recent investment in electric vehicle charging infrastructure specialist **Pod Point**.

*Progress of this and other DIP investments during the quarter is summarised in Appendix 3.*

## 2.2 We will be active owners and incorporate ESG issues into our ownership policies and practices

Main activities in this area are:

- voting at company AGMs and EGMs in respect of listed equity holdings.
- engagement with portfolio companies and
- direct oversight of companies within the DIP and private equity portfolios.

### 2.2.1 Voting

The Fund ensures that the votes attaching to its holdings in all quoted companies are exercised whenever practical. The Fund's voting policy is exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance and Stewardship Codes.

Managers' voting activity during the quarter to 31<sup>st</sup> December 2018 is summarised as follows.

Voting activity to 31st December 2018		
		(%)
<b>Total meetings</b>	<b>630</b>	
<i>Votes for</i>	4,611	84
<i>Votes against</i>	755	14
<i>Abstentions</i>	15	0
<i>Not voted</i>	89	2
<b>No. of Resolutions</b>	<b>5,470</b>	<b>100</b>

Most resolutions involve routine matters of business and the expectation would be for managers to vote for the majority of proposals.

Whilst the overall incidence of votes against may appear low it is carefully targeted. **Legal & General** report that they voted against:

- at least one resolution at 76% of US company meetings.
- 50% of all remuneration resolutions in Japan.
- 77% of Emerging Markets non-salary compensation resolutions.

*Further details of voting activity are set out in Appendix 4.*

### 2.2.2 Engagement

Engagement highlights during the quarter include the following.

- **Legal and General** conducted 80 company meetings during the quarter. Environmental issues were discussed at 37 meetings and Governance topics including remuneration issues were discussed at 52 of those meetings. The environmental issue of coal fired electricity generation was the focus of engagement with Polish utilities **Energa SA** and **Enea SA**. Engagement with multinational consumer goods producer **Unilever Plc** focused on their intention to abandon their dual corporate structure and make the Netherlands the company's country of incorporation.
- The Fund's engagement overlay provider, **GES**, provided engagement reports on a range of recent company engagements including with **Apple Inc.** (Lazard, Legal & General) regarding allegations of labour rights violations in its supply chain; **Chevron Corp.** (Lazard, Legal & General) regarding environmental damage in the Ecuadorian Amazon; **Korea Electric Power Corporation** (Oldfield Partners) regarding corruption scandals in South Korea and **Nestle SA** regarding allegations of labour rights violations in the company's seafood supply chain in Thailand.
- **Oldfield Partners** engaged with **BT Group** to discuss executive remuneration following shareholder opposition to bonus proposals for the outgoing CEO.

*Further details of engagement activity are set out in Appendix 5.*

### **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, GES and various investor forums in which the Fund participates.

- **Baillie Gifford** reported engagement with multinational mining company **Rio Tinto** to discuss climate change, board oversight and employee health and safety.
- In quarter 4 the Fund supported a **GES** collaborative letter to social media and social networking service company **Facebook** regarding data security and privacy (Veritas, Legal & General) and to US fast food company **McDonalds** regarding labour rights at its global restaurant franchises. (Legal & General).

*Further details are set out in Appendix 6.*

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

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

Direct Investment Portfolio manager **Albion Ventures** is the latest to confirm it will become a PRI signatory.

In quarter 4, the Fund received the results of the 2018 **PRI** survey. The Fund achieved a maximum overall **A+** score confirming that it continues to perform in the top tier of global PRI signatories.

*Further details are set out in Appendix 7.*

### **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 like-minded investors. To this end the Fund participates in a variety of industry initiatives and forums. This also involves collaborative lobbying on government and industry policy and regulations regarding ESG issues. The Fund is represented across a range of initiatives working with institutional investors, charities and interest groups on themes as diverse as renewable energy, animal welfare and child labour.

*Further details of these collaborative initiatives are set out in Appendix 8.*

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

The quarterly committee report on responsible investment activity is available on the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk).

- Legal & General, Baillie Gifford, JP Morgan, Henderson, Veritas and Oldfield Partners provided reports on ESG engagement during the quarter. GES provided a full engagement report for the quarter and an engagement progress update on individual portfolio companies.
- The responsible investment charity **ShareAction** provided an update of progress on the **Investor Decarbonisation Initiative** and the **Living Wage** collaborative initiative.
- The **Institutional Investors Group on Climate Change** (IIGCC) reported on the 2018 COP24 climate talks in Poland and an investor letter to European power companies to set out expectations for decarbonisation of the sector consistent with the goals of the Paris Agreement.
- The Fund co-signed the **Farm Animal Investment Risk and Return Initiative** (FAIRR) Cerrado Manifesto Statement of Support which supports global food manufacturing companies in their efforts to halt deforestation and incentivise sustainable land management in Brazil.
- The collaborative initiative **Climate Action 100+** released a joint statement with **Royal Dutch Shell plc** announcing that Shell intends to set carbon emissions targets in 2019 and incorporate these targets into its executive remuneration scheme.

*Details of activity during the quarter are set out in Appendix 9.*

### **3 Other Developments**

Appendix 10 sets out details of other ESG developments during the quarter.

### **4 Conclusion**

The activity reported above confirms further progress and a high level of compliance with the Fund's policy on responsible investment.

### **5 Policy and Resource Implications**

#### **Resource Implications:**

*Financial:* No issues

*Legal:* No issues

*Personnel:* No issues

*Procurement:*

**Council Strategic Plan:** Not applicable

**Equality and Socio-Economic Impacts:**

*Does the proposal support the Council's Equality Outcomes 2017-22*

Equalities issues are a frequent subject of engagement with investment managers and portfolio companies as part of the Responsible Investment strategy.

*What are the potential equality impacts as a result of this report?*

Recent engagement on equalities issues is described in this report.

*Please highlight if the policy/proposal will help address socio economic disadvantage.*

**Sustainability Impacts:**

*Environmental:*

Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.

*Social, including Article 19 opportunities:*

Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.

*Economic:*

Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.

**Privacy and Data Protection impacts:**

None.

## 6 Recommendation

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

<b>Appendices</b>	
<b>1.</b>	<b>Responsible investment policy and strategy</b>
<b>2.</b>	<b>ESG in Analysis and Decision-Making: DTZ Investors</b>
<b>3.</b>	<b>DIP activity: quarter to 31<sup>st</sup> December 2018</b>
<b>4.</b>	<b>Voting activity: quarter to 31<sup>st</sup> December 2018</b>
<b>5.</b>	<b>Engagement activity: quarter to 31<sup>st</sup> December 2018</b>
<b>6.</b>	<b>Disclosure on ESG Issues: quarter to 31<sup>st</sup> December 2018</b>
<b>7.</b>	<b>UNPRI signatories</b>
<b>8.</b>	<b>Collaborative initiatives</b>
<b>9.</b>	<b>Collaborative initiatives: activity during the quarter</b>
<b>10.</b>	<b>Other developments during the quarter</b>

# Responsible Investment Policy and Strategy

## Policy

The Fund has adopted the United Nations Principles for Responsible Investment as its investment policy. The text of the principles is set out below.

### UN Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles

We encourage other investors to adopt the Principles.

## Strategy

Responsible Investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Global Engagement Services (GES), a specialist responsible investment engagement overlay provider appointed by the Fund in 2012 and again in 2014; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other ad hoc alliances.

A quarterly committee report on responsible investment activity is available on the Fund's website at: [www.spfo.org.uk](http://www.spfo.org.uk)

### ESG in Analysis and Decision-Making

In quarter 4 the Fund's UK property manager, **DTZ Investors**, provided a report on its ESG programme including results of the 2018 **Global Real Estate Sustainability Benchmark** (GRESB) annual assessment and assessment of portfolio compliance with **Minimum Energy Efficiency Standards** (MEES).

With increasing scrutiny of the environmental performance of buildings from occupiers and investors alike, DTZ believe that the sustainable credentials of buildings will make an increasing difference to the long-term obsolescence and investment performance of property. DTZ specific policies are, as a minimum, compliant with UK statutory requirements and EU directives, including: the Carbon Reduction Commitment Energy Efficiency Scheme (CRC), the European Savings Opportunity Scheme (ESOS), the Minimum Energy Efficiency Standards (MEES) and the Heat Network Metering and Billing Regulations 2014. Beyond this DTZ aim to lead in best practices in the real estate industry.

In June 2018, the Strathclyde Pension Fund UK property portfolio made its 4th annual submission to the Global Real Estate Sustainability Benchmark (GRESB). The GRESB is an annual assessment in ESG performance of real estate portfolios globally. In September 2018 the fund received its absolute score in ESG performance for the 2017/18 period; scores are benchmarked against other real estate portfolios that are composed of similar asset types and gross asset value (GAV).

Over the past 4 years the Strathclyde portfolio has seen its ESG performance improve year on year, reflective of the dedication to embed ESG considerations throughout the investment and management processes.

The fund's primary achievements for 2017/18 are:

- 12% (+7 point) improvement on 2017.
- 'Green Star'\* for the second year running.
- Exceeding the peer group's average score for first time.

Comparing Strathclyde Pension Fund's score against the peer group average helps inform where the portfolio has performed well and where it can improve. The GRESB 'Green Star' is a rating of absolute performance where entities are awarded high scores on both Management & Policy and Implementation. The portfolio has exceeded the peer group average in four of the seven aspects of GRESB most notably in 'management' of ESG where the fund achieved the highest score possible (100 out of 100). The scores across all aspects are particularly encouraging because there are clear areas where the fund can continue to grow its ESG programme, and have the improvements reflected in 2019's ESG performance.

Key areas of focus for 2019 include:

- Improvements in public disclosure of environmental performance.
- Improvements in employee and occupier engagement through the annual employee and occupier surveys.

### ESG in Analysis and Decision-Making

- Deployment of a defined community and occupier engagement programme.
- Continuing in the development of monitoring and reporting of carbon emissions, energy, waste & water against set targets.

DTZ continues to assess any associated risk of non-compliance with the Minimum Energy Efficiency Standards (MEES) which were put into effect in April 2018. Risk is managed via site surveys and enhanced Energy Performance Certificates (EPC), including due diligence at acquisition. For all 'currently at risk' properties action plans have been prepared to mitigate risk of non-compliance. As a percentage of the Estimated Rental Value (ERV) of the portfolio this equates to only 5.5% of the total.

**DIP Activity: Quarter to 30<sup>th</sup> December 2018**

Progress of DIP investments during the quarter included the following:

- **Panoramic Growth Equity** (Fund Management) invests into established UK businesses across a broad range of sectors including those in the low carbon energy space. In July 2018 Panoramic invested in electric vehicle (EV) charging infrastructure specialist **Pod Point**. The investment marked Panoramic's sixth investment from its second fund.

London based **Pod Point** is the UK's leading provider of electric vehicle charging. Since forming in 2009, Pod Point has manufactured and sold over 40,000 charging points and developed one of the UK's largest public networks, connecting EV drivers with thousands of charging stations nationwide. Through Pod Point's network of smart home, workplace and public charging points the Company has powered over 44 million miles of EV motoring. Pod Point charging solutions are compatible with all plug-in vehicle brands for customers of many major automotive brands and their public charging stations can be found at sites across the UK including Sainsbury's, Heathrow, The National Trust and David Lloyd's.

Funding from Panoramic will allow Pod Point to continue its rapid expansion throughout the UK and Europe with additional investment in sales, product development and working capital as the business continues to scale.

- In the quarter to December 2018 the DIP portfolio also completed the legal process in respect of a commitment of £50million to the **Greencoat Solar II** fund. This fund seeks to acquire majority or controlling stakes in operating UK ground mounted solar farms to benefit from long term inflation linked revenues supported by the Government's renewable energy subsidies using what is generally regarded as low risk (and maintenance) solar technology.
- In December 2018, approval was obtained from the SPF Committee for a £15million investment in **Epidarex Fund III**.

Epidarex Capital Management was established in Edinburgh in 2010, to invest in early-stage life science & health technology companies. These are mainly spin-outs from leading regional research universities located out with the Oxford/Cambridge/London triangle where the UK life science industry is heavily concentrated.

Epidarex focuses specifically out with this region, in other areas of the UK where university research is strong but the availability of venture capital much less so, with a particular focus on Scotland and the North of England. These regions have many outstanding research universities and other institutions in respect of scientific discovery, invention and innovation but are lacking in access to risk capital. In their previous two funds to date, the majority of Epidarex investments have been university spin-outs of intellectual property / technology relating to new drug developments, based on research from the respective universities of Glasgow, Strathclyde, Edinburgh, Aberdeen, Sussex and Kings College (London).

## Voting Activity: Quarter to 31<sup>st</sup> December 2018

### 1. UK Activity

Managers' voting activity in respect of the Fund's **UK equity** holdings in the quarter to 31<sup>st</sup> December 2018 is summarised in the table below. The expected norm would be for an investment manager, having invested in a company, to support that company's management in all but exceptional cases. The table below shows how votes were actually cast. Votes against management and abstentions are analysed in more detail in the voting record schedule which is available on the Fund's website at [www.spfo.org.uk](http://www.spfo.org.uk)

**Voting Results**  
**Q4 2018**  
**United Kingdom**

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	0	0	0	0	32	32	0	0	0	0	0
Genesis	1	1	0		5	5	0	0	0	1	0
Henderson	0	0	0	0	140	139	1	0	0	0	0
JP Morgan	2	2	0	0	34	34	0	0	0	2	0
Lazard	1	0	1	0	2	2	0	0	0	1	0
Legal & General	130	78	52		1,253	1,139	114			130	0
Legal & General - Segregated Portfolio	0	0	0	0	0	0	0	0	0	0	0
Oldfield Partners	0	0	0	0	0	0	0	0	0	0	0
Veritas	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>134</b>	<b>81</b>	<b>53</b>	<b>0</b>	<b>1,466</b>	<b>1,351</b>	<b>115</b>	<b>0</b>	<b>0</b>	<b>134</b>	<b>0</b>
						92%	8%	0%	0%	100%	0%

### 2. Overseas Activity

Managers' voting activity in respect of the Fund's **overseas equity** holdings in the quarter to 31<sup>st</sup> December 2018 is summarised in the table below.

**Voting Results**  
**Q4 2018**  
**Overseas**

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	5	3	1	1	41	29	1	1	10	5	0
Genesis	32	8	24		300	234	56	10	0	32	0
Henderson	4	4	0	0	20	19	1	0	0	4	0
JP Morgan	32	23	9	0	196	176	20	0	0	32	0
Lazard	7	3	2	2	63	36	4	0	23	7	0
Legal & General	367	179	188	0	2,887	2,360	523	4	0	367	0
Legal & General - Segregated Portfolio	42	33	9	0	448	361	31	0	56	42	0
Oldfield Partners	2	0	2	0	3	3	0	0	0	2	0
Veritas	5	3	1	1	46	42	4	0	0	5	0
<b>Total</b>	<b>496</b>	<b>256</b>	<b>236</b>	<b>4</b>	<b>4,004</b>	<b>3,260</b>	<b>640</b>	<b>15</b>	<b>89</b>	<b>496</b>	<b>0</b>
						81%	16%	0%	2%	100%	0%

Managers generally do not vote proxies in markets where tendering shares to vote entails their being blocked from trading during the voting periods. All of the overseas proxies were lodged this quarter, with **81%** of votes in support of company management.

### 3. Consolidated Activity

Consolidated Activity for **Quarter 4 2018** is shown below

Voting Activity: Quarter to 31<sup>st</sup> December 2018

Voting Results  
Q4 2018  
Total UK &  
Overseas

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	5	3	1	1	73	61	1	1	10	5	0
Genesis	33	9	24	0	305	239	56	10	0	33	0
Henderson	4	4	0	0	160	158	2	0	0	4	0
JP Morgan	34	25	9	0	230	210	20	0	0	34	0
Lazard	8	3	3	2	65	38	4	0	23	8	0
Legal & General	497	257	240	0	4,140	3,499	637	4	0	497	0
Legal & General - Segregated Portfolio	42	33	9	0	448	361	31	0	56	42	0
Oldfield Partners	2	0	2	0	3	3	0	0	0	2	0
Veritas	5	3	1	1	46	42	4	0	0	5	0
<b>Total</b>	<b>630</b>	<b>337</b>	<b>289</b>	<b>4</b>	<b>5,470</b>	<b>4,611</b>	<b>755</b>	<b>15</b>	<b>89</b>	<b>630</b>	<b>0</b>
						84%	14%	0%	2%	100%	0%

#### 4. Executive Remuneration

The table below shows the total number of resolutions from the last quarter which related specifically to executive remuneration. Of the **5,470** resolutions voted by managers **657** related to executive remuneration – either through seeking approval of remuneration reports or the approval of long-term incentive schemes. As can be seen **458** resolutions or **70%** of votes cast were in support of the resolutions. So, the majority of awards are supported by the Fund's external investment managers, but less so than on other non-remuneration issues. Some areas of concern regarding executive pay are reported below.

Voting Results  
Q4 2018  
Resolutions on  
Executive  
Remuneration

	No of Resolutions	Votes For	Votes Against	Abstentions
Baillie Gifford	8	7	1	0
Genesis	49	49	0	0
Henderson	8	8	0	0
JP Morgan	34	32	2	0
Lazard	2	1	1	0
Legal & General	509	322	187	0
Legal & General - Segregated Portfolio	42	34	8	0
Oldfield Partners	0	0	0	0
Veritas	5	5	0	0
<b>Total</b>	<b>657</b>	<b>458</b>	<b>199</b>	<b>0</b>
		70%	30%	0%

Voting Activity: Quarter to 31<sup>st</sup> December 2018

## 5. Manager Commentary

- **J.P. Morgan** voted against 2 resolutions on executive remuneration in quarter 4. In the US, J.P. Morgan voted against the compensation report at **Axos Financial Inc.** because of ongoing concerns with the quantum of pay and with the range of targets in the short-term and long-term incentive plans. In addition, J.P. Morgan withheld votes on the chairman's re-election due to an inadequate response following votes against the compensation report in 2017. In Japan, J.P. Morgan voted a stock option plan at **CyberAgent Inc.** as non-executive directors may participate and receive incentives. J.P. Morgan was also involved in 19 consultations over long-term incentive arrangements.
- **Lazard** voted against the Directors' Remuneration Report at Oracle as the compensation committee did not demonstrate adequate responsiveness to last year's failed 'say-on-pay' vote - the sixth consecutive failed vote. The company's disclosure around board responsiveness mirrors last year and reflects pay program modifications that were already decided and disclosed (and considered by investors) prior to the 2017 failed 'say-on-pay' vote. As such, the proxy proposal did not indicate any new changes made to address shareholders' ongoing concerns, as evidenced by the most recent vote outcome.
- **Baillie Gifford** opposed the implementation of the remuneration policy at **Discovery Ltd.** as they had concerns with the overall structure and implementation of the policy. (resolution approved by 68%).
- **Legal & General** voted against 195 resolutions on executive remuneration in quarter 4. The most notable was a vote against 'Golden Parachutes' for the board at US based multinational computer technology company **Dell Inc.** Executives' golden parachute benefits consist entirely of very large equity acceleration benefits that are the result of the board's recent decision to amend the vesting provisions of executives' outstanding performance options. This will result in extremely large benefits, which may be viewed as a windfall by investors. Legal & General opposed advisory votes to ratify named executive officers' compensation at US sportswear and apparel company **Nike Inc.** and courier delivery services company **FedEx Corp.** Votes against were applied as compensation proposals did not allow for a sufficient portion of awards to be assessed against performance conditions to ensure alignment of remuneration with performance.
- **Veritas** voted for a shareholder resolution asking for Gender Pay Gap disclosure at US multinational computer technology corporation **Oracle**. Veritas believe it is in the best interests of Oracle shareholders (in recruiting and retaining talent) that they provide more disclosure on the gender pay gap, in line with other technology peers. Management had recommended shareholders oppose this resolution. Oracle is currently subject to a lawsuit by US Department of Labor, which alleges Oracle underpaid thousands of women and minority employees a total of \$401 million over a four year period. (resolution defeated).

### Voting Activity: Quarter to 31<sup>st</sup> December 2018

- In Australia, **J.P. Morgan** supported a shareholder proposal at electric utility **Origin Energy Ltd.** that sought additional information on the company's advocacy on climate change. The shareholder resolution filed by **The Australasian Centre for Corporate Responsibility (ACCR)**, asked that Origin Energy Ltd conduct a review of lobbying memberships and report on whether lobbying groups (including industry associations) are obstructing action on climate change. The ACCR resolution secured the largest vote for any shareholder proposal in Australian corporate history receiving 46% proxy support despite the fact that it was not supported by the board. Though ultimately unsuccessful, Origin has nevertheless committed to providing greater disclosure of its membership of industry associations, including describing processes for engagement and the company's contribution to policy advocacy, in its future annual sustainability reports.

**Engagement Activity: Quarter to 31<sup>st</sup> December 2018**

- **Oldfield Partners** engaged with **BT Group** following significant shareholder opposition to a bonus for the outgoing CEO. Oldfield held a call with the company to provide their views on remuneration at BT. They spoke with both the Head of Corporate Governance and the newly appointed Director of Reward, Employee Relations, Pensions and Occupational Health & Wellbeing. BT were open to understanding different compensation structures that could better align management incentives with shareholders' interests. They also shared some of the challenges of incentivising and retaining management in a low growth environment, where a narrow target range could lead to extreme outcomes on compensation. Subsequent to this meeting a new CEO has been hired, although this is with no amendments to the pre-existing compensation formulae. Oldfield will continue to engage with the company on this topic.
- **Legal & General** engaged with state-run Polish utilities **Energa SA** and **Enea SA** regarding their announcement of joint plans to build a large new coal power station at Ostrołęka C. The announcement came just as Poland was due to host the annual UN climate change negotiations. LGIM are very clear in their approach to this issue -burning coal to generate electricity has severe impacts on human health and is a major driver of climate change. With a history of uneven support from the Polish government, the project had not secured financing when the two utilities approved it. Described by ratings agency Fitch as 'credit-negative', the coal project is under pressure from tightening EU regulations and cleaner, cheaper technologies. Through its index funds, Legal & General is by default invested in Enea and Energa and judged the decision to go ahead as a financial risk for shareholders, in addition to having negative environmental and health effects. Legal & General opposed the proposal to build the plant, when it was put to a vote at Enea's extraordinary general meeting in September 2018. Legal & General then coordinated an institutional investor letter to the two Polish utilities reiterating opposition to the plans. Even as their competitors pivot to renewable energy, the two utilities appear to remain committed to the coal project. Legal & General therefore decided to speak out publicly about its environmental and financial risks, receiving press coverage from major news agencies. In a world first, in late October 2018 an environmental group launched a lawsuit against Enea. Citing Legal & General's concerns, the group claim Energa SA and Enea SA directors are failing in their duty to manage climate related financial risks. Legal & General will continue to engage and monitor the situation as it develops.

Legal & General engaged with multinational consumer goods producer **Unilever Plc** regarding their intention to abandon their dual UK and Dutch corporate structure and make the Netherlands the company's country of incorporation. Following an unsolicited bid from US company Kraft Heinz in 2017, Unilever initiated a strategic review - the outcome of that review was the announcement in March 2018 of the change in domicile. Legal & General believed this would have had a number of material implications for many investors. Due to the Plc shares no longer being eligible for inclusion in FTSE UK Indices, Legal & General would have been forced sellers across many of

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UK index funds and Life funds, and, additionally, reinvestment into the single Dutch entity would have had stamp duty and dividend withholding tax

implications. Legal & General engaged privately with the Unilever board on a number of occasions and also collectively with other investors through the Investor Forum. Each time, emphasising Legal & General's long-term interest and support for the company and asking them to safeguard the ability of clients to maintain their investment in Unilever and benefit from its continued success. The board remained resolute in their decisions which led Legal & General to vote against the restructuring, voice their concerns in public and declare their voting intention publicly in advance of the shareholder meeting. The board of Unilever subsequently decided to withdraw the resolutions to simplify the company's dual structure shortly before the shareholder meeting. They took into account that a significant group of shareholders had expressed concerns. Legal & General will be meeting with the Chairman of the company in 2019 to discuss the matter further.

- The Fund's engagement overlay provider, **GES**, engaged with **Apple Inc.** (Lazard, Legal & General) regarding recurring allegations of labour rights violations in the company's supply chain. Since 2009, NGOs such as China Labor Watch and Students and Scholars Against Corporate Misbehaviour (SACOM) have been reporting on poor working conditions at the company's suppliers mainly in China and Taiwan. The alleged violations included triggering a number of workers' suicides, bonded labour, forced unpaid leave, cancelling statutory holidays, not compensating for overtime, and laying off workers illegally, as well as causing negative impacts on the environment and peoples' health. In addition, Apple was also listed among the companies which sources cobalt from the Democratic Republic of the Congo, where child labour is widespread.

Due to Apple's leading position in the technology sector, which has come under intense public scrutiny in the last few years, Apple's practices have also been thoroughly examined. Since the first NGO reports surfaced, Apple's responsiveness to its labour rights issues has been remarkable. Over the course of the engagement, the company managed to eliminate many problems and it became a leader in tackling some of the most persistent issues within the electronics industry, such as the sourcing of minerals or bonded labour. Apple has now paid USD 30 million in reimbursements to over 35,000 employees affected by excessive recruitment fees in cases that date back to 2008. In 2017, Apple returned an additional USD 1.9 million to 1,558 people affected by bonded labour.

Apple's response to the recurring concerns has been thorough and adequate. As a member of all the relevant industry initiatives, the company has led many collaborative efforts to improve the working conditions in electronics. Nonetheless, those actions have not fully translated into a decreased number of incidents. As is the case for all the companies in the technology sector, Apple's complex supply chain issues are ever-growing and rely on factors such as market fluctuations and political changes. Despite Apple's engagement with

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governments and peers on various issues, some of the problems such as the use of student labour in China are not easily solved.

Apple is fully aware of the need for collaborative action, but it has also been strengthening its own policies and processes. By implementing its Supplier Code of Conduct (the Code) and Supplier Responsibility Standards (Supplier Standards), which are arguably the most complete set of standards and expectations in the electronics industry, Apple has set up the highest standards for its suppliers and partners exceeding local, regional, and countries' laws.

Due to the company's extensive efforts and high level of preparedness to address and improve labour rights in its supply chain, GES considers that Apple has fulfilled its obligations and therefore considers the case to be resolved.

- **GES** engaged with **Chevron Corp.** (Lazard, Legal & General) regarding environmental damage in the Ecuadorian Amazon caused by Texaco, a company it acquired in 2001. From 1972 to 1992, Texaco Petroleum Company (Texaco), was the developer and 37.5 per cent owner of extensive oilfields in the Lago Agrio region of the Ecuadorian Amazon. The company operated four fields with some 300 wells drilled. During its operations, Texaco reportedly released some 80 billion litres of crude oil, drilling mud, 'produced water' and other toxic wastes into the Ecuadorian environment. The wastes contain a variety of chemicals, including benzene, toluene, ethylbenzene, xylene, biocides and metals, such as chromium, barium, cadmium and lead. Studies on the consequences of these waste disposal practices indicate a correlation between soil and water contamination and serious health impacts, such as cancer, birth defects and miscarriages. In 1993, lawyers for the indigenous residents of Lago Agrio commenced legal action in the US against Texaco to recover damages for the pollution.

In response to the legal action, a tripartite agreement to address the pollution was signed between Texaco, Petroecuador (the Ecuadorian state-owned oil company with over overall operational control) and the Ecuadorian government in 1995. They agreed that each company would clean up the contamination proportionate to their ownership share of the joint venture, following which the companies would be released from further claims. Texaco therefore agreed to clean up 40 per cent of the historic contamination. The company commissioned international environmental consultants to undertake remedial works and spent some USD 40 million to cap more than 200 pits and build schools and medical centres between 1995 and 1997. The Ecuadorian government oversaw the works and certified the clean-up in 1998, releasing the company from further liability. Despite this, legal action against Texaco, later Chevron, continued, which eventually resulted in the Ecuadorian courts fining Chevron USD 18 billion in February 2011. The fine was reduced to USD 9.5 billion by an Ecuadorian court in November 2013. Clean-up of the remaining 60 per cent was the agreed responsibility of Petroecuador. Limited remedial works were only started by Petroecuador in 2006 and were reportedly stopped by the government shortly after commencement.

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Although Texaco and Chevron have never denied that historic contamination remains, Chevron has always stated that the 1998 Government release from further liability indemnifies it. In addition, Chevron has argued that the 2011 ruling was obtained fraudulently, a finding upheld by a federal court in the US. This was confirmed in September 2018 when the Permanent Court of Arbitration in The Hague issued a ruling in favour of Chevron and Texaco, finding that Ecuador had violated its obligations under international treaties, investment agreements and international law. The tribunal unanimously held that the judgment rendered against Chevron in Ecuador in 2011 was fraudulent; it also held that it was Ecuador which had breached its obligations under the 1998 settlement agreement releasing Texaco and its affiliates from public environmental claims.

Given the recent judgement, GES considers that Chevron has fulfilled its obligations and therefore considers the case to be resolved.

- **GES** engaged with **Korea Electric Power Corporation** (Oldfield Partners) regarding a number of high-level corruption scandals in South Korea. Korea Electric Power Corporation (KEPCO) is an integrated electric utility company in South Korea. Its segments include transmission and distribution, nuclear power generation, and thermal power generation. It is a majority state-owned enterprise, approximately 37.3 per cent of its stock is publicly owned. Between 2012 and 2015, KEPCO and/or its subsidiaries suffered a number of high-level corruption scandals.

In 2012, over 20 personnel including executives and managers at Korea Hydro Electric Nuclear Power (KHNP), a wholly-owned subsidiary of KEPCO, were indicted for corruption. They allegedly received at least KRW 2.22 billion (USD 1.94 million) in exchange for helping vendors and suppliers to secure lucrative deals with the company. It was then later revealed that KHNP had received numerous faulty parts between 2003 and 2012 through these corrupt supply deals, which resulted in two reactors being temporarily shut-down, and ultimately in the resignation of KEPCO's president and CEO. In 2015, several high-ranking officials of KEPCO were arrested on charges of taking bribes from a supplier. According to the prosecutors, ten of KEPCO's executives were allegedly offered about USD 320,000 in kickbacks in exchange for providing various kinds of assistance in the bidding process between 2008 and 2014. In 2015, KHNP punished four of its high-ranking managers for alleged corruption. Also, in 2015, the South Korean Authorities launched an investigation into the corruption at KEPCO and its subsidiaries and that same year, the US Securities and Exchange Commission commenced investigations into allegations of corruption at several KEPCO subsidiaries. In 2017, the New South Wales Government in Australia similarly began an investigation into historic corruption at KEPCO.

KEPCO has engaged constructively with GES through an ongoing dialogue that has included several face-to-face meetings at their offices in Korea.

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Following the number of allegations that arose during 2015, the Korean government passed the Solicitation and Graft Act, which came into force in

2016. As a result, the company has improved its anti-bribery and corruption protocols and procedures, including an Ethical Management System (EMS). One of the most significant changes was the implementation of a corruption reporting system, with several reporting channels for stakeholders. During the 2017 meeting, KEPCO disclosed that it had established a new policy to prevent the abuse of power between employees and a code of conduct to create value for society. The company furthermore indicated that it was constantly improving its EMS. The company's 2018 sustainability report provides greater clarity on some of the initiatives enacted to address corruption. The Anti-Corruption and Civils Rights Commission awarded KEPCO the highest rating in the 2017 Anti-Corruption Measures Evaluation since 2012.

GES acknowledges that KEPCO has implemented several anti-bribery and corruption initiatives. Although disclosure could be improved, for a state-owned company the openness of the dialogue and improved levels of reporting should be commended. GES, therefore, considers the case to be resolved.

- **GES** engaged with **Nestlé SA** regarding allegations of labour rights violations in the company's seafood supply chain in Thailand. GES has been engaging with Nestlé since 2015 in relation to allegations of labour rights violations in the company's seafood supply chain. In 2015, a company supplying fish to Thai Union Group, a supplier to Nestlé, was reportedly abusing its workers. The alleged violations included payment issues and forced overtime shifts, as well as involuntary detention and fatalities caused by improper working conditions. Nestlé stated that such practices were unacceptable and launched an internal investigation in its supply chain to identify any potential wrongdoings. The key findings were presented in a Thailand Action Plan for the Responsible Sourcing of Seafood, detailing the company's commitment to eliminating labour and human rights abuses in the seafood supply chain in Thailand.

Over the course of the engagement, GES held conference calls with Nestlé to discuss traceability enhancement, supplier risk assessment, grievance mechanisms and education programmes provided to migrants as well as collaboration with all relevant stakeholders. Between January 2016 and December 2017, Nestlé implemented the Action Plan, which aimed at improving labour conditions and eliminating human rights abuses in its supply chain. Nestlé, Thai Union Group, the Thai government, and Thailand's Shrimp Sustainable Supply Chain Task Force, introduced a supply chain traceability system that enables traceability of seafood ingredients from fishing vessels through the supply chain to finished products. This includes the implementation of a fishing vessel verification programme that covers third-party verified audits of randomly selected boats. Currently, 99 per cent of the seafood ingredients that Nestlé sources from its seafood supply chain in Thailand are traceable back to fishing vessels and farms. Back in 2015, the company's traceability was only nine per cent. Nestlé, in cooperation with a number of stakeholders, developed an education programme for factories, primary processors and fish

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farms to help end unfair practices, and tools to support the inspection of fishing vessels to identify where forced and child labour is taking place. The training programme has already been introduced to a number of port and boat workers. The first group that underwent training was informed about how to use a grievance mechanism. In December 2017, the company launched a demonstration boat that acts as part of an education programme focused on training migrant workers in the fishing industry. The idea of the demonstration boat is to show what it is like to have a boat that complies with all international requirements including the ILO Convention on Human Rights at Sea. Currently, Nestlé is using this boat as a training facility and it invites boat captains onto the boat to make them aware of the requirements that they should abide by. Nestlé also trains them on good working conditions and health and safety requirements.

In July 2018, Nestlé published a new Responsible Sourcing Standard that replaced previous versions of the Nestlé Supplier Code. The document describes the policies and requirements which Nestlé applies within its supply chain. Given that the measures taken by Nestlé to address human and labour concerns have been satisfactory, GES regards the case as resolved.

### Disclosure on ESG issues: Quarter to 30<sup>th</sup> December 2018

- In quarter 4 the Fund supported a **GES** collaborative letter to Mark Zuckerberg, the Chairman and CEO of social media and social networking service company **Facebook**, regarding data security and privacy. (Veritas, Legal & General).

In April 2018 Facebook confirmed that the data of at least 87 million users worldwide was improperly obtained by Cambridge Analytica (CA). In 2014 the data analytics firm acquired personal information of Facebook users without proper authorisation and used it to build a system to profile and manipulate the behaviour of US voters. In May and June 2018 more instances of Facebook failing to protect its users' privacy came to light, including sharing sensitive information with third parties and giving device makers around the world unauthorised access to data.

Facebook has been subject to claims that it knew about the Cambridge Analytica data harvesting as long ago as 2015; however, it took only limited steps to secure the improperly obtained information. Furthermore, despite providing information to users who it confirmed were affected by CA, the company reportedly said that it would not compensate those whose data was leaked. In addition, to date, the company has not announced any personnel changes in relation to the scandal. At this year's AGM a significant number of shareholders opposed the reappointments of Facebook's CEO and COO to the board. Prior to the AGM Facebook announced a number of governance changes, including appointing two new independent directors to the audit committee, responsible for the risk oversight at the company. However, so far, neither an executive nor a single board member has been held accountable for the lack of oversight and inadequate management of cybersecurity risks.

Over the past several months, GES has been trying to organise a conference call with Facebook's investor relations department to discuss concerns about the management of the recent privacy controversies. While assurances have been received from the investor relations department that Facebook has been addressing the issues stemming from the Cambridge Analytica situation, GES remain concerned with the subsequent reports about the improper protection of users' sensitive information, data-sharing partnerships with the device makers, security issues at the platform, and the recent fine imposed by UK's Information Commissioner's Office indicating the company's failure to protect users' privacy and secure data.

GES recognise Facebook have taken some actions to address the issues related to privacy, safety and security of the platform, such as signing the voluntary Code of Practice on Online Disinformation, responding to the Corporate Accountability Index Results, inviting relevant stakeholders to discuss the company's work in the area of digital human rights and calling on the US government to adopt EU-style privacy laws. It is positive that Facebook recognises the risks related to privacy and information security management and that it acknowledges that maintaining and enhancing Facebook's products and brand depends largely on the company's ability to continue providing useful, reliable and trustworthy services. However, GES believe that more should be done to reassure investors and the public that the commitments to protect users'

### Disclosure on ESG issues: Quarter to 30<sup>th</sup> December 2018

privacy, freedom of expression and the security of information have been taken seriously.

- In quarter 4 the Fund supported a **GES** collaborative letter to Elizabeth Kluge, Director of Investor Relations at **McDonald's** Corporation, regarding labour rights at its global franchises. (Legal & General).

For several years now GES has been trying to engage with McDonald's over alleged labour rights violations at the company's franchisees in several countries of operations. McDonald's has not been willing to constructively discuss this issue with GES; instead, the company has continuously indicated it does not have any influence over labour rights practices at its franchisees as these are considered independent. This position is clearly in conflict with the OECD's Guidelines for Multinational Enterprises, which states that companies have a responsibility to promote responsible business conduct throughout its entire business model, also including franchisees. In 2017, McDonald's informed GES it will no longer do any individual investor calls as this is considered too time-consuming. Instead, all ESG matters will be handled through its corporate sustainability website, which to date unfortunately does not provide any relevant information in this area. Based on this, GES organised a collaborative letter to McDonald's, in which they requested a conference call with the company. In the letter GES expressed concerns over the issues mentioned above, as well as the need to strengthen dialogue with concerned investors and stakeholders.

GES have followed the ESG work carried out by McDonald's and appreciate McDonald's new ESG website reporting section and detailed performance data, in terms of both quantity and quality. McDonald's membership of the Roundtable for Sustainable Palm Oil and commitment to use only RSPO-certified palm oil by 2020 is very welcome. McDonald's can also be commended for the Beef Sustainability Commitment and Program, to contribute to more socially and environmentally responsible production and its commitment to replace plastic straws with paper ones in UK and Ireland restaurants by September 2018.

At the same time, concerns remain about protecting and promoting fair labour rights practices throughout McDonald's entire business chain. Over the years, there have been several labour rights rulings against McDonald's franchisees in the US and other countries regarding issues such as wages, working hours and under-age workers. For institutional investors, it is key that investee companies are in compliance with international norms. The responsibility to respect international norms is also applicable to companies where there is a business model based on franchisees, as in the case of McDonald's. This is in particular emphasised in the OECD Guidelines for Multinational Enterprises, which state: "...enterprises should also encourage business partners to apply principles of responsible business conduct compatible with the Guidelines. The OECD further clarifies that companies' own activities include activities in the supply chain and that relationships in the supply chain can take a variety of forms including, among others, franchising." As investors, we would like to see McDonald's using its leverage to ensure all operations (including those of

### Disclosure on ESG issues: Quarter to 30<sup>th</sup> December 2018

franchisees) are in line with international guidelines and conventions. In addition to this, the company should promote labour rights among both operations and its franchisees. This is especially important as more than 90 per cent of the company's restaurants are currently owned and operated by independent franchisees.

The letter concluded with a request for a conference call with McDonald's to discuss the issues above and elaborate on what we see as the key next steps for McDonald's and the industry at large. GES also took the opportunity to encourage McDonald's to strengthen its direct dialogue with concerned investors and stakeholders.

- **Baillie Gifford** joined **Rio Tinto** for an environmental, social and governance (ESG) investor forum - the first time executive and non-executive directors had come together for discussions with investors in this format. Topics discussed covered all areas of ESG but focused on climate change, board oversight and employee health and safety. Initiatives highlighted included efforts to reduce the environmental impact of the company's operations such as increasing renewable electricity use and a breakthrough project targeting carbon free aluminium production. The challenge of reducing emissions from wider energy use was also raised. Following several incidents in the past 12 months, the company's commitment to zero fatalities was also reiterated and underlined by continued investment in health and safety. Baillie Gifford had spoken to the company earlier in the year over the need to improve environmental disclosures. The CEO stated that improvements can be expected next year. The meeting demonstrated a change in tone at Rio Tinto regarding ESG matters. The company appears to be taking the issues seriously and recognises the need to be more explicit in communicating the work it is doing. Baillie Gifford will continue to monitor its efforts in this area.

## UNPRI Signatories

Manager	PRI Signatory	If not, manager's explanation
Alcentra	Yes	
Ashmore	Yes	
Baillie Gifford	Yes	
Barings	Yes	
DTZ	Yes	
Genesis	Yes	
Henderson	Yes	
JP Morgan	Yes	
Lazard	Yes	
Legal and General	Yes	
Oak Hill Advisors	Yes	
Oldfield	Yes	
Pantheon	Yes	
Partners Group	Yes	
PIMCO	Yes	
Ruffer	Yes	
Veritas	Yes	
<b>No.3 Fund</b>		
Ruffer	Yes	
Legal and General	Yes	
<b>Direct Investment Portfolio</b>		
Aberdeen Asset Management	Yes	
Albion Ventures LLP	No	Albion has committed to joining PRI.
Alpha Real Capital LLP	No	Currently in the process of reviewing PRI and other established alternative accredited bodies.
Ediston Properties Ltd (Clydebuilt)	No	Consideration is given to ESG factors when investing in properties.
Epidarex Capital Mgt. Ltd	No	Manager believes PRI is not applicable to a life science venture capital fund.
Equitix Investment Mgt. Ltd	Yes	
UK GIB Financial Services Ltd	Yes	
Healthcare Royalty Management LLC	No	Currently in the process of evaluating the PRI principles.
Hermes GPE	Yes	
Iona Capital LTD	No	Iona is currently progressing towards becoming a signatory.

## UNPRI Signatories

Maven Capital Partners UK LLP	No	Maven adheres to PRI standards as they are deemed industry best practice.
Muzinich & Co. Limited	Yes	
NTR	No	NTR takes a responsible investment approach to its business and is currently considering signing up to UNPRI.
Panoramic Growth Equity	Yes	
Pemberton Asset Mgt. S.A	No	Pemberton has an ethical investment policy in place. Although not currently a signatory to PRI this will be considered over the lifetime of the fund.
Pentech Ventures LLP	No	Pentech acts in accordance with the Principles. At this stage they do not believe it would be beneficial to Pentech for it to become a signatory to PRI but will keep under review.
PIP (Dalmore Capital Limited)	Yes	
PiP Manager Limited	Yes	
GAM International Management Ltd (Renshaw Bay)	Yes	
Resonance Asset Mgt. Ltd "RAM"	Yes	
Scottish Equity Partners LLP(SEP)	No	SEP has considered PRI in forming its responsible investment procedures.
Tosca Debt Fund	No	Tosca is committed to PRI and assumes the principals in its decision making.
Scottish Loan Fund (Maven Capital Partners UK LLP)	No	Maven adheres to PRI standards as they are deemed industry best practice.
Temporis Capital Limited	Yes	

In quarter 4, the Fund received its results from the 2018 **PRI** survey. The annual PRI assessment report is compulsory for all asset owner and investment manager signatories and demonstrates how a signatory has progressed in its implementation of the Principles year-on-year. The Fund achieved a maximum overall A+ score and the following scores from 4 assessed modules with bands A –E.

- **Strategy and Governance:** A (28 out of a maximum 30 from 10 indicators). The median outcome for this module was band A from 1,460 signatories assessed.

### UNPRI Signatories

- **Listed equity:** A+ (42 out of a maximum 42 from 14 indicators). The median outcome for this module was band B from 466 signatories assessed.
- **Property:** A (36 out of a maximum 39 from 13 indicators). The median outcome for this module was band B from 273 signatories assessed.
- **Listed equity-active ownership:** A+ (27 out of a maximum 27 from 11 indicators). The median outcome for this module was band B from 726 signatories assessed.

The 2018 assessment represents the Fund's best PRI survey outcome, since adopting the Principles in 2008, scoring the maximum possible A+ in two modules. Comparison with the median scores for each module confirms that the Fund continues to perform in the top tier of global PRI signatories.

## Collaborative Initiatives

### ShareAction

ShareAction is a London based registered charity that promotes responsible investment. ShareAction aims to improve corporate behaviour on environmental, social and governance issues. The charity has launched numerous campaigns, with support from savers, charities, unions, faith groups and other civil society organisations to engage with investors to bring about change. ShareAction's work recognises that the money individuals and organisations put into the investment system funds global corporations, who in turn have the power to change business practices that are harmful to people or the environment. The Fund has been supportive of the work of ShareAction for several years and ShareAction has been successful in raising awareness of issues and in lobbying for change.

- **Living Wage**

Strathclyde Pension Fund became involved with the living wage theme in early 2013 when the Convener co-signed a letter to the Financial Times in collaboration with 12 other UK pension funds and foundations to support the ShareAction JustPay! Campaign. The letter called on UK publicly listed companies to embed social sustainability in their businesses by paying employees and contracted staff the Living Wage. The second stage of the campaign commenced in early 2014 and involved sending collaborative letters to the constituents companies of the FTSE 100 index. The letters called on these companies to pay employees and contracted staff the Living Wage. Letters have gone out to each FTSE100 company prior to their AGM and the campaign is now in its fifth year. There are currently 37 companies in the FTSE 100 accredited by the Living Wage Foundation, A further 10 have committed to full compliance with the Living Wage standard but have not yet taken the step to commit to accreditation. This means that, in practice, 47 of the FTSE 100 are currently fully compliant with the Living Wage standard.

- **The Workforce Disclosure Initiative**

The Workforce Disclosure Initiative (WDI) is a project to advance investor understanding and in turn consideration of the people behind the largest publicly listed companies, from those directly employed to those employed in the supply chain. The WDI is run by ShareAction and is supported by a coalition of 100 institutional investors representing more than \$12 trillion in assets. The initiative is also supported by the Pensions and Lifetime Savings Association (PLSA) and the Department for International Development.

Through the WDI, investor signatories come together to request that companies provide comparable data on the workforces in their operations and supply chain on an annual basis. Improved transparency will help investors gain crucial insights into how companies are managing their workforces, and how they compare with peers. The data collected will also inform investor engagement with companies to encourage better employment policies and practices. Ultimately, the goal of the WDI is to improve the quality of jobs for employees in companies' global operations and workers in their supply chains.

The level of comparability in this area of corporate reporting is currently poor. The WDI is modelled on the Carbon Disclosure Project. It involves an annual investor-led survey of multinational companies which asks companies to report

## Collaborative Initiatives

on key areas like the composition of the workforce, workforce stability, workforce development and worker engagement. Both direct employees and those throughout the supply chain are covered. The initiative then coordinates collaborative engagement efforts by interested investors with these companies to encourage higher standards.

- **Investor Decarbonisation Initiative**

Investor Decarbonisation Initiative brings together institutional investors to encourage companies to set ambitious climate targets in line with goals of the Paris Agreement. The initiative delivers coordinated company engagement, promoting proactive emissions reductions at the rate required to avoid dangerous climate change. This initiative mobilises investor support for science-based emissions targets and complementary commitments to renewable electricity (RE100), energy productivity (EP100), and electric mobility (EV100).

- **RE100 Renewable Energy**

RE100 is a collaborative initiative that supports companies that make a public pledge to switch to 100% renewable electricity for their international operations by an agreed date. RE100 was launched in 2014 and is now being rolled out in India and China in addition to Europe and the US. The initiative is supported by 50 institutional investors representing more than \$1 trillion in assets and is coordinated by ShareAction. Founding members of the investor initiative include Aviva Investors, Environment Agency Pension Fund, French pension fund ERAFP and Norwegian fund KLP. The investor engagement programme, supported by ShareAction, engages with companies through letters, meetings and AGMs, to encourage them to switch to 100% renewable energy. By sending investor-endorsed letters, asking questions at company AGMs and talking through the challenges and benefits of renewable electricity procurement with these companies, the RE100 initiative has helped to push sustainable power up the corporate agenda. Corporate members of RE100 with goals to achieve 100% renewable electricity span a wide variety of industries and operate in a broad range of countries across the world. They include: Apple, BMW Group, Diageo, IKEA Group, Johnson & Johnson, Marks & Spencer, Nestlé, Philips, Starbucks, Unilever and Walmart.

- **EP100 Energy Productivity**

EP100 is a global, collaborative initiative of influential businesses that pledge to double their energy productivity. The EP100 initiative is a companion to RE100, through which businesses commit to 100% renewable power. Together the two campaigns offer companies a low cost decarbonisation pathway. By doubling the economic output from every unit of energy consumed, companies set a bold target, demonstrating climate leadership while reaping the benefits of lower energy costs. Business accounts for around half of the electricity used worldwide. By focusing on energy productivity outcomes, corporates can reduce their own energy demand and significantly contribute to reducing energy demand globally. By doubling energy productivity, corporations are also enhancing their resilience and boosting competitiveness, all while reducing greenhouse gas emissions, creating jobs, and improving energy security. Corporate members of EP100 pledged to double their energy productivity span

### Collaborative Initiatives

a wide variety of industries and operate in a broad range of countries across the world. They include: H&M, Danfoss, Schneider Electric, Swiss Re, Mahindra & Mahindra, and Dalmia Cement.

- **EV100 Electric Mobility**

EV100 is a global initiative bringing together companies committed to accelerating the transition to electric vehicles (EVs) and making electric transport the new normal by 2030. The transport sector is the fastest-growing contributor to climate change, accounting for 23% of global energy-related greenhouse gas (GHG) emissions. Electric transport offers a major solution in cutting millions of tons of greenhouse gas emissions per year, as well as curbing transport related air and noise pollution. With businesses owning over half of all registered vehicles on the road, it is crucial that companies lead the shift to electric vehicles. Through their investment, and influence on millions of staff and customers worldwide, they can address rising global transport emissions. They can also significantly enhance mass demand for electric vehicles. By setting out their future EV purchasing requirements on an ambitious timescale, companies can drive mass roll-out and make electric cars more rapidly affordable for everyone around the world. Corporate members of EV100 include: Air New Zealand, Baidu, Deutsche Post DHL, EDF, Ikea and Unilever.

### **Farm Animal Investment Risk and Return (FAIRR)**

Established by Collier Capital the initiative is now supported by institutional investors representing more than \$3.3 trillion in assets including Aviva Investors, Boston Common Asset Management and Joseph Rowntree Charitable Trust. It aims to encourage analysis and engagement around the long-term risks that factory farming poses to portfolios. The animal factory farming sector is becoming a high-risk sector for investors, and is exposed to numerous sustainability-related factors. In many cases these risks are already showing evidence of significant value destruction. Factory farming alone contributes 30 percent of global methane emissions and 65 percent of nitrous oxide emissions. Today, livestock farming produces more global greenhouse gases (15 percent) than the transport sector (14 percent). Similarly, about 75 percent of soybean production, which is a major contributor to deforestation and climate change, is used to feed livestock. Therefore factory farming leaves itself and its investors critically exposed to potential new climate legislation in the transition to a more carbon constrained world.

The main involvement of SPF to date has been collaborative letters to food and restaurant companies regarding the use of antibiotics in their meat and poultry supply chain. FAIRR, in partnership with The Interfaith Centre on Corporate Responsibility (ICCR), brought together a coalition of 60 institutional investors worth \$2.2 trillion to ask companies to take action on the systemic overuse of antibiotics.

### **Fire and Building Safety in Bangladesh Initiative.**

Following the collapse of Rana Plaza in Dakar where nearly 1,200 garment factory workers lost their lives, the Interfaith Centre on Corporate Responsibility (ICCR) organized a coalition of over 200 global institutional investors representing 12 countries and \$3.1 trillion in assets to promote reform of the global apparel sector to guarantee the safety and well-being of workers. The initiative works to encourage apparel

**Collaborative Initiatives**

companies to sign The Bangladesh Accord on Fire and Building Safety, a multi-stakeholder initiative that includes global brands, trade unions, civil society organizations and a representative of the International Labor Organization as the independent chair. Accord signatories agree to binding commitments to make the changes necessary to ensure worker safety. ICCR is a coalition of faith and values-driven institutions who view the management of their investments as a powerful catalyst for social change. The Fund has worked collaboratively with ICCR on a range of responsible investment issues over the years including the Fire and Building Safety in Bangladesh Initiative and the FAIRR antibiotics initiative.

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

In December 2016 the Fund joined this network of nearly 140 members, including many of the largest pension funds and asset managers in Europe, who represent over €18 trillion in assets and take a pro-active approach to managing risks and opportunities related to climate change. The IIGCC provides investors with the collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change. To deliver on its objectives, IIGCC operates a number of programmes that commission research, produce reports and engage with various stakeholders.

**Local Authority Pension Fund Forum (LAPFF)**

The Fund is a member of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group which brings together 72 local authority pension funds and investment pools from across the UK with combined assets of over £200 billion. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Much of the Forum's work is in ensuring that companies have the right policies and right people in place to create value for shareholders over the long term. LAPFF's policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. Therefore the Forum considers that issues such as climate change and employment standards require as much investor attention as more traditional concerns such as corporate governance and executive remuneration. In some aspects of its work, LAPFF adopts a more high-profile and interventionist approach to shareholder engagement. It has led investor criticism of accounting standards that can misrepresent the capital position of financial institutions, and spoken out publicly against poor standards and excessive pay at the banks. It has also been an integral part of an investor grouping encouraging a positive response by companies to climate risk by filing supportive shareholder resolutions.

**CDP**

CDP, formerly the Carbon Disclosure Project, is an international not-for-profit organisation that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. CDP represents institutional investors with assets of US\$100 trillion, helping to leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts; whilst also providing insights into corporate environmental performance for investors. Over 5,800 companies with some 60% of global market capitalisation disclosed environmental data through CDP in 2016 alongside 500 cities and 100 states and regions, making

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CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change

The Fund is a signatory to **Carbon Action** and the **Water** and **Forest** programs of CDP.

**Carbon Action** is a CDP initiative supported by over 329 signatories which works with investors and corporations to encourage companies to take action to reduce their Green House Gas emissions by making investments in emissions reduction activities that have a satisfactory financial return. To date over 1,305 companies targeted in heavy emitting industries, \$313bn invested in emissions reduction activities with 3,886 reported projects and reduced emissions of 522 million metric tonnes CO<sub>2</sub>e reported.

The **CDP Forest** program engages companies to disclose their exposure to five forest risk commodities – cattle products, bio fuels, soy and timber, supported by 380 signatories with assets of US\$29 trillion.

The **CDP Water** program engages companies to disclose their exposure to water risks and opportunities, supported by 639 signatories with assets of US\$69 trillion.

#### **Climate Action 100+**

Climate Action 100+ was launched in December 2017 with the support of 225 investors representing \$26.3 Trillion in assets. Entities backing the project include many of the UK's local authority schemes, and some of the most influential Australian, Canadian and US public pension funds. Co-ordinators include the **Institutional Investors Group on Climate Change (IIGCC)**, and **Principles for Responsible Investment (PRI)**. The five year initiative will use carbon mapping data to target the worst climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The 100-strong list of top emissions generators, drawn up with CDP data and developed through a collaborative process from investor and partner organisations, compiles both companies' direct and indirect emissions. It names obvious polluters such as ExxonMobil, Coal India, China Petroleum & Chemical Corporation and Gazprom, plus groups linked to greenhouse gas emissions in the making or use of their products, including Toyota, United Technologies, Korea Electric Power Corporation, and Nestlé. Pressure will be brought to bear through robust engagement. The goal: to cut global emissions by 80 per cent by 2050.

## Collaborative Initiatives – activity during the quarter

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.

- The responsible investment charity **ShareAction** provided an update of progress on the **Investor Decarbonisation Initiative**. Two target companies, **Mazda Motor Corporation** and **Campbell Soup Company** committed to set Science Based Targets (SBTs) during quarter 4. The Mazda Motor Corporation intend to set science-based targets, following involvement with a related initiative set up by the Japanese Ministry of the Environment. They are also aware of RE100 and EP100 through contact with CDP in Japan. The Campbell Soup Company's 2025 Scope 1 and 2 GHG emissions targets are already informed by science and once they have set their Scope 3 target they will then seek target approval by the Science Based Targets initiative.

ShareAction engaged with energy infrastructure company **Sempra Energy** regarding the EV100. Sempra are actively supporting the transition to EVs in their San Diego service territory, having installed 3,000 new charging stations, and they are considering various methodologies for target-setting, including science-based targets.

German steel producer **Salzgitter** is unable to make any climate-related commitments due to the intrinsic carbon-intensity of the steelmaking process. However, they are actively investigating low-CO2 steelmaking technologies. ShareAction have responded suggesting a call alongside CDP and The Climate Group to further explore the challenges and opportunities they are facing.

ShareAction spoke to the Global Director of Environmental Sustainability at **HeidelbergCement** to follow up on an investor letter and AGM question earlier in the year. HeidelbergCement are currently focused on innovations in CCS technology, which in some cases requires a doubling of energy input. Their key challenges are around how to reduce emissions while increasing energy use, and how to fund the necessary changes to their cement plants. ShareAction will revisit this discussion after the publication of their CO2 Strategic Plan.

ShareAction attended the **Morrisons** AGM and asked a question to follow up on a recent investor letter. Morrisons are currently in the process of developing SBTs and are considering trialling electric vehicles. A meeting is being sought with senior management to continue the discussion.

**Sainsbury's** were asked about SBTs at their AGM and a response to the investor letter sent to them in February. Sainsbury's advised that they are working to develop a science-based target.

Following the investor letter and a meeting earlier this year with **Royal Mail**, ShareAction attended the AGM to ask for an update on their progress towards setting an SBT. Royal Mail hope to make an SBT-related announcement in 2019 and they are actively trialling electric vehicles.
- ShareAction** provided a progress report on the **Living Wage** collaborative initiative. There are currently 37 accredited companies in the FTSE 100 and

## Collaborative Initiatives – activity during the quarter

a further 10 which state they are compliant with the Living Wage for all of their operations, but are not yet accredited. **Smiths Group** accredited with the Living Wage Foundation in quarter 4. The role of investors in driving progress on the Living Wage has been significant. Positive steps forward in dialogue with companies across the FTSE100 continues to develop as a result of engagement by the initiative. ShareAction reported Living Wage meetings with **Persimmon** and **Barratt Developments** during the quarter and Investors jointly sent letters to 4 FTSE100 companies: **Severn Trent**, **Smiths Group** (to acknowledge their accreditation), **United Utilities** and **Vodafone**. **International Consolidated Airlines Group** (IAG) remains the only FTSE100 unwilling to engage on the Living Wage. Investor letters were also sent to 5 FTSE 250 companies: **Balfour Beatty**, **Bellway**, **Bovis Homes**, **Crest Nicholson** and **Dunelm Group**. ShareAction is currently working on the development of a programme aiming to address wider UK workforce practices building on Living Wage engagements to encourage companies both within the FSTE100 and FTSE250 to accredit as Living Wage employers.

The Living Wage Investor Coalition also welcomed two new investors in during the quarter: the **National Employment Savings Trust** (NEST) and **Candriam**.

- In quarter 4 the **Institutional Investors Group on Climate Change (IIGCC)** reported on the 2018 **COP24** climate talks in Poland and organised an investor letter to European power companies to set out expectations for decarbonisation of the sector consistent with the goals of the Paris Agreement.

The stated aim of COP24 was for countries to agree the ‘Paris rulebook’, i.e. the detailed implementation plan that will allow the Paris Agreement to function and to guide parties in fulfilling these commitments. The COP succeeded in adopting the rulebook and while certain elements have been deferred to 2019, in general the rules agreed are more wide-ranging than expected given the challenging politics dynamics at play. On the positive side, the rules agreed will operationalise the goals of the Paris Agreement for when it enters into force in 2020. They set out the responsibilities that countries have in tackling climate change, how they should report on their progress, and the process for raising ambition in the coming decades. There was a clear effort to balance the views of global heavyweights with smaller, climate-vulnerable states – as a result, the text contains more predictability on financial aid and a hook to recognise the “loss and damage” caused by climate change. Adversely, the text only welcomes the “timely completion” of the recently published IPCC Special Report on 1.5 Degrees, and not its findings, following resistance from the US, Saudi Arabia, Russia and Kuwait. Agreement on the section relating to the global trading of carbon credits has also been deferred to 2019 after it became obvious that a deal would not be possible. The full text of the agreement is available at: [https://unfccc.int/sites/default/files/resource/Informal%20Compilation\\_proposal%20by%20the%20President\\_rev.pdf](https://unfccc.int/sites/default/files/resource/Informal%20Compilation_proposal%20by%20the%20President_rev.pdf)

## Collaborative Initiatives – activity during the quarter

In December an IIGCC letter to power companies set out expectations for decarbonisation of the sector consistent with the goals of the Paris Agreement. With the COP taking place in Poland and much discussion regarding coal in Germany, IIGCC see this letter as fundamental to making the investor perspective clear to both companies and policymakers. This letter follows on from the publication of the oil and gas FT letter earlier this year and takes the view that these letters are a crucial intervention at this time because of the new European policy announcement that the European Commission is aiming to achieve carbon neutrality by 2050 and extension and delays to the development of a final policy recommendation regarding coal phase out in Germany and ongoing uncertainty regarding the ambition level that is likely to be pursued. 95 IIGCC members, including Strathclyde, asked firms to demonstrate they are implementing business strategies aligned with the goals of the Paris Agreement. The letter will feed into engagement through Climate Action 100+. The letter is available at:

[http://www.iigcc.org/files/publication-files/Investor\\_expectations\\_of\\_the\\_power\\_sector\\_-\\_20.12.18.pdf](http://www.iigcc.org/files/publication-files/Investor_expectations_of_the_power_sector_-_20.12.18.pdf)

- In quarter 4 the Fund co-signed the **Farm Animal Investment Risk and Return Initiative (FAIRR) Cerrado Manifesto Statement of Support** which supports global food manufacturing companies in their efforts to halt deforestation and incentivise sustainable land management in the Brazilian Cerrado.

Home to 5% of the planet's biodiversity, and the birthplace of many of South America's most important rivers, the Cerrado savannah in Brazil is one of the world's most important ecosystems. This savannah has lost 50% of its original area to agricultural expansion, primarily driven by expanding production of beef and soy, a key animal feed ingredient. If this rate of destruction in the Cerrado continues, it will drive changes in the region's rainfall patterns, impacting agricultural productivity. The destruction of a third of the remaining pristine land would equate to the loss of around 8.5 billion tonnes of carbon dioxide sequestration. In September 2017, over 60 Brazilian NGOs, including WWF-Brazil and Greenpeace Brazil released the Cerrado Manifesto, a call for "immediate action in defense of the Cerrado by companies that purchase soy and meat from within the biome, as well as by investors active in these sectors." In October 2017, 23 global brands, led by Tesco, Marks & Spencer, McDonald's, Unilever and Walmart, signed the Statement of Support for the objectives of the Cerrado Manifesto. The Statement recognised the need to prevent further deforestation in the Cerrado to mitigate future risks associated with climate change and agricultural resilience in this important agricultural production region. Since the launch of the statement, over 70 global brands have signed on in support of the Manifesto's objectives. FAIRR is now calling on investors to join companies and send a clear market signal that there is widespread industry support to halt deforestation in the Cerrado, adopt sustainable land management practices and mitigate financial risks associated with deforestation and climate change.

## Collaborative Initiatives – activity during the quarter

The Cerrado Manifesto is available at:

[https://d3nehc6yl9qzo4.cloudfront.net/downloads/cerradomanifesto\\_september2017\\_atualizadooutubro.pdf](https://d3nehc6yl9qzo4.cloudfront.net/downloads/cerradomanifesto_september2017_atualizadooutubro.pdf)

- In December the collaborative initiative **Climate Action 100+** released a joint statement with **Royal Dutch Shell plc** (Shell) and a leadership group of institutional investors announcing Shell's intention to set carbon emissions targets in 2019 and incorporate these targets into its executive remuneration scheme. In 2017, Shell was the first international oil and gas company to introduce an ambition to reduce the Net Carbon Footprint of the energy products it sells. These include emissions from its own operations, from the use of the energy products by its customers, as well as those generated by third parties in its supply chains. Shell fully supports the Paris Agreement and recognises that it has an important role to play and intends to respond to society's needs for more and cleaner energy. Shell aims to grow its business in areas that will be essential in the energy transition, and where it sees growth in demand over the next decades. Shell believes its Net Carbon Footprint ambition has positioned the company well for the future as it underpins and enables the execution of its strategic ambitions. Shell now intends to take the following steps:
  - 1. Public short-term Net Carbon Footprint targets**  
Shell aims to reduce its Net Carbon Footprint by around half by 2050 and by around 20% by 2035 as an interim step. Shell will start setting specific Net Carbon Footprint targets for shorter-term periods (three or five years) starting from 2020 and will run to 2050.
  - 2. Targets linked to remuneration**  
Shell will incorporate a link between energy transition and long-term remuneration as part of its revised Remuneration Policy, which will be subject to a shareholder vote at the 2020 Annual General Meeting (AGM). The policy will include a Net Carbon Footprint-related measure, as well as other measures, over a three or five-year performance period.
  - 3. Review of progress**  
Shell will publish an annual update on its progress towards lowering its Net Carbon Footprint and will seek third-party assurance of its reported Net Carbon Footprint and assurance statements will be published on the Shell website. Shell will also continue to work closely with reputable institutions, such as the Transition Pathway Initiative (TPI), to help in their assessment of Shell's progress.
  - 4. Alignment with the TCFD recommendations**  
Shell will continue to disclose at relevant intervals in line with the TCFD recommendations. This includes the disclosure of its metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
  - 5. Corporate climate lobbying**  
Shell acknowledges the "IIGCC Investor Expectations on Corporate Climate Lobbying" and recognises the importance of ensuring that its membership in relevant trade associations does not undermine its support

## Collaborative Initiatives – activity during the quarter

for the objectives of the Paris Agreement on climate change. Shell is undertaking a review of these memberships to assess alignment with the company's stated positions.

The full statement is available at: <https://www.shell.com/media/news-and-media-releases/2018/joint-statement-between-institutional-investors-on-behalf-of-climate-action-and-shell.html>

### Other developments during the quarter

- In quarter 4 **GES** launched its second benchmark report on child labour in the cocoa supply chain. The report is a part of GES Business Conduct Engagement and aims to convey investor expectations on the issue of child labour in the cocoa supply chain in West Africa.

In 2017 the International Labour Organisation (ILO) estimated that over 100 million child labourers are working in agriculture worldwide. Two million of those are found in the worlds' two top cocoa producing countries, Côte d'Ivoire and Ghana.

GES has engaged the cocoa industry for many years to push for increased efforts in tackling the issue of child labour. As a part of its long-term engagement, GES produced its second public report on the issue, including investor expectations and a corporate benchmark of leading cocoa and chocolate companies. Last year's report, which was first of its kind, on the topic, was backed by more than 60 institutional investors world-wide supporting GES' call for increased efforts by the cocoa industry to combat widespread child labour in its supply chain. The new report includes an updated benchmark and further reflections on key developments during the last year. Key findings from the report point to a considerable developments in the roll-out of child labour monitoring and remediation systems (CLMRS) in cocoa-growing communities in the past year and that these have become a mainstream practice among larger cocoa and chocolate companies.

In terms of tackling poverty, a root cause of child labour, the report confirms that movement towards living incomes for cocoa-growing farmers is slow. Although the reality for cocoa-growing farmers is challenging, there is a greater recognition of, and efforts to promote, a living income from the industry compared to previous years. Recent studies have provided important data on actual levels of farmer income and living income in cocoa-growing communities and one study points to actual income levels in Côte d'Ivoire being at an average 37 per cent of a living income. More studies are underway and focus on the issue from the cocoa industry has notably increased. Investors are expecting concrete measures to be taken, and for child labour in cocoa to decrease and ultimately be eliminated. A large-scale survey commissioned by the US Department of Labor, from 2015, showed the prevalence of two million child labourers in cocoa in Côte d'Ivoire and Ghana. In the upcoming harvest season 2018/19 the follow-up survey will be conducted and this will be the litmus test that shows if efforts from the cocoa industry and others have, in fact, been effective.

The full report is available at:

<https://www.gesinternational.com/wp-content/uploads/2018/10/GES-Progress-report-on-investor-expectations-and-corporate-benchmark.pdf>

- In December officers of the Fund attended the **Local Authority Pension Fund Forum (LAPFF)** annual conference in Bournemouth. The Conference sadly took place without LAPFF stalwarts, Cllrs Kieran Quinn and Ian Greenwood, both of whom passed away during the year. The Conference,

## Other developments during the quarter

entitled 'The Financial Aspects of Corporate Governance', reflected significant content on LAPFF's work to highlight the failings of the UK's Financial Reporting Council and its impact on auditing, company performance and economic performance more broadly. Keynote speakers included Lord Davies who spoke about his work on gender diversity and James Bloodworth, who introduced his book 'Hired' and delved into his experience working at an Amazon warehouse and driving for Uber.

- An important part of the Fund's active ownership is litigation aimed at companies whose illegal activities have resulted in financial losses. The Fund would prefer to resolve disputes without resorting to litigation, however in certain circumstances this is unavoidable and necessary to obtain damages and to promote good corporate governance and sound business practices. Legal proceedings can be brought in various ways. The main forms are direct action, i.e. bringing independent legal proceedings against a company, or a form of collective action such as a class action in the United States.

The Fund frequently holds securities that are the subject of individual and class action securities litigation and has recovered over US\$8m since 2007 including individual settlements against **Countrywide Financial Corporation** for US\$1.1m and the **Royal Bank of Scotland Group** for £1.2m. Distributions from US class actions in quarter 4 totalled \$95,234 from eight settlement funds.

In quarter 4 the Fund concluded its first case as lead plaintiff by obtaining a class settlement of USD\$25.9m against **PlyGem Holdings Inc.** The Fund's share of the settlement was USD \$73,000 plus a court award of \$12,000 to cover officers time. The Fund currently serves as lead plaintiff in a US class action against **Bank OZK**.

In quarter 4 the Fund secured compensation from **Tesco Plc** of £544,211. In March 2018 Tesco established a compensation scheme for certain shareholders and bondholders to compensate those affected by Tesco's trading misstatement of 29th August 2014.

In 2018 officers of the Fund investigated litigation and class action opportunities in Australia. Class actions in Australia are well established in the Federal Court of Australia and the Supreme Courts of Victoria, New South Wales and Queensland. They operate a similar 'opt out' model to the US whereby potential claimants who fall within the definition of the class automatically become members of the class on the filing of the claim and can claim a share of settlement proceeds without taking any active role in a case. To date 7 class action claims have been made in Australia. Settlements received in 2018 include AUD\$513,000 against **Treasury Wine Estates Ltd.** Officers of the Fund are currently investigating opportunities for class actions in other jurisdictions including Canada, Japan and the Netherlands.