Glasgow City Council,

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 10

19th March 2024

Investment Update

Purpose of Report:

To provide the Committee with an investment update including a summary of:

- investment performance to 31st December 2023
- distribution of portfolios and DIP investments as at 31st December 2023
- the Investment Advisory Panel meeting of 14th February 2024 and
- stewardship activity during Quarter 4 2023.

Recommendations:

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

Ward No(s): Citywide: ✓

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

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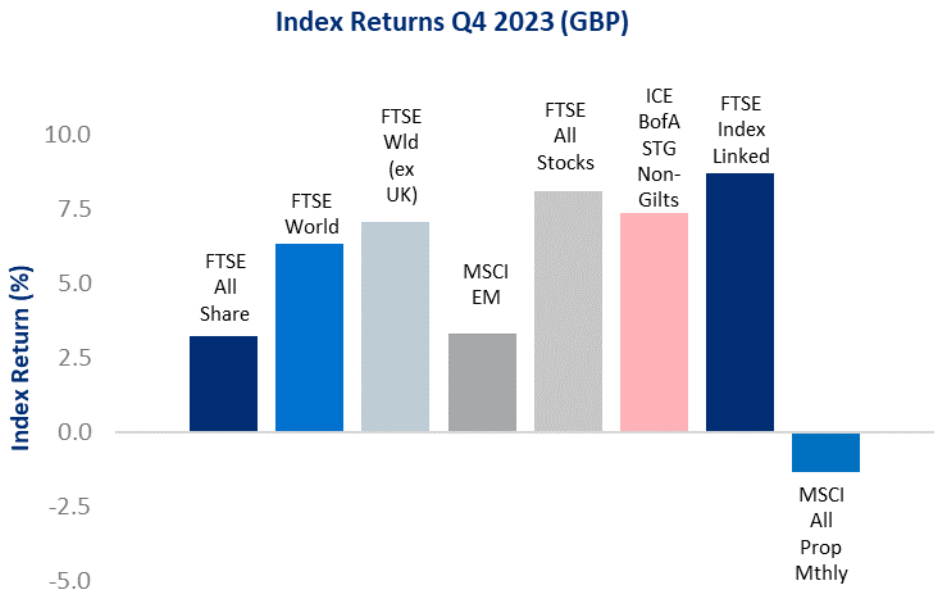
1 Background

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

2 Market Performance

October was a challenging month for global equities amid fears about war in the Middle East and the consequential risks to oil supplies. Markets rallied in November and December buoyed by the prospect that the US Federal Reserve is likely to cut interest rates in 2024, and in fact enjoyed their best year since 2019. The best performing sectors over the quarter were IT and real estate while energy was the worst performer. In 2023, IT was the strongest performing sector, while the worst performing sector was utilities.

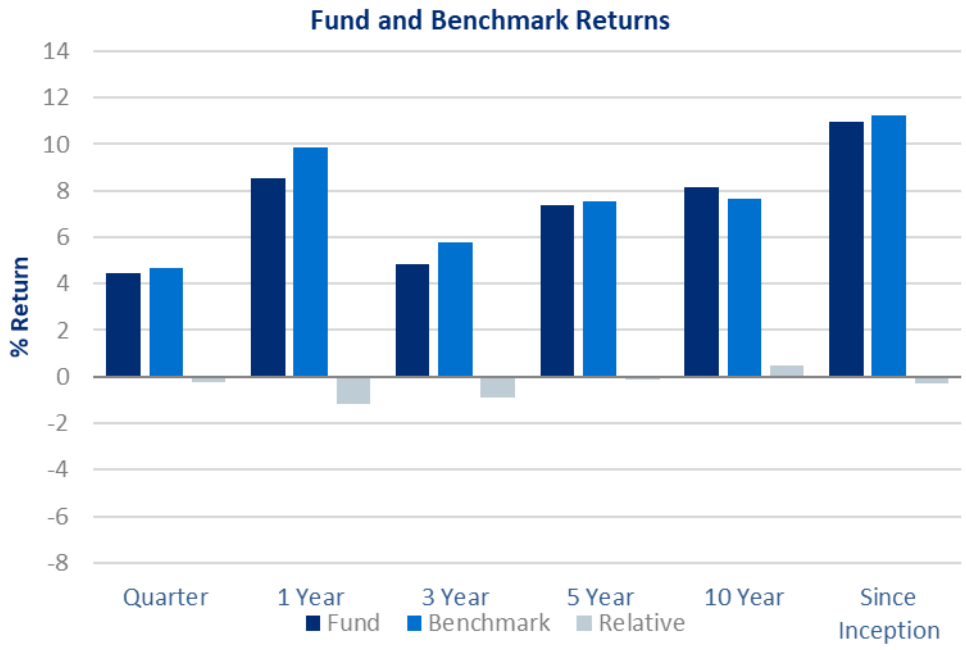
Global government bond yields fell over the quarter. In the UK, inflation fell significantly and the Bank of England held the base rate at 5.25%. Despite hints from the Bank of England that it is too soon to be thinking about reducing interest rates, 10-year bond yields fell. In the US, yields on the 10-year treasury fell as the Fed signalled that it is potentially prepared to cut rates before inflation falls to target. In Europe, the 10-year German bund yield fell as the ECB held interest rates. In global credit markets, yields fell in the US, UK and eurozone and credit spreads tightened.



- The **FTSE All Share** Index returned **+3.2%,** the **FTSE World ex UK** index **+7.1%** and the **MSCI Emerging Markets** index **+3.3%**, compared with Q3 returns of **+1.9%**, **+0.7%** and **+1.3%** respectively.
- The **FTSE All Stock Index** returned **+8.1%** compared with **-0.6%** in Q3.
- **Sterling** rose by **+0.1%** against the euro and **+4.4%** against the dollar.
- The **MSCI All property monthly return index** returned **-1.3%** largely driven by a decline in capital values of -2.6%. Only the industrial sector recorded positive returns, while the office sector was the weakest performer.

3 Fund Performance

The **Fund's value** at 31st December 2023 was **£29,150m**. (Fund value at 30th September 2023 was **£27,988**).



The **Fund's total return** for Quarter 4 2023 was **+4.4**%, behind the benchmark return of **+4.7%.** Over 1 year, 3 years and 5 years the Fund's total return has been positive but behind benchmark, while over 10 years it has outperformed. Further analysis of Fund and asset class performance can be found in **Appendix 2**.

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

- 11 managers outperformed their benchmark; and
- 10 managers underperformed.

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

4 Asset Allocation

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

Asset Class	*30 Sep 2023 (£m)*	*30 Sep 2023 (%)*	31 Dec 2023 (£m)	31 Dec 2023 (%)	Target (%)
Equity	*15,915*	*56.9*	16,624	**57.0**	**52.5**
Hedging & insurance	*0*	*0.0*	0	**0.0**	**1.5**
Credit	*1,901*	*6.8*	2,073	**7.1**	**6.0**
Short term enhanced yield	*4,950*	*17.7*	5,196	**17.8**	**20.0**
Long term enhanced yield	*5,221*	*18.7*	5,258	**18.0**	**20.0**
Total	***27,988***	***100.0***	**29,150**	**100.0**	**100.0**

In November 2023 LGIM were instructed to divest £150m from the market cap equity portfolio, with the proceeds being held in cash. All other changes to asset allocations over the quarter were as a result of market movements or cash flows to and from private market programmes. A summary of allocations to investment manager portfolios at quarter end is provided in **Appendix 4**.

5 Direct Impact Portfolio (DIP)

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

6 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 14th February 2024. A note of the Panel's meeting is set out in **Appendix 6**.

7 Stewardship: Responsible Investment

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

- The Fund received the results of its **2023 PRI assessment** during Quarter 4. The Fund submitted information for 5 assessment areas or 'modules' which can receive possible star scores from 1 star (lowest) to 5 stars (highest). The Fund scored 5 stars for 3 of the modules assessed, and 4 stars for the remaining 2 modules.
- The Fund's infrastructure manager, JP Morgan and UK property manager, DTZ, both reported improved scores from the Global Real Estate Sustainability Benchmark (GRESB) annual assessments. GRESB assesses ESG performance at the asset level for asset operators, fund managers and investors that invest directly in real assets, such as infrastructure and real estate. The JP Morgan company, Sonnedix, which develops and operates utility-scale solar projects globally, ranked 1st of all the 681 assets covered in the infrastructure assessment.

8 Policy and Resource Implications

Resource Implications:

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

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

Equality and Socio-Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	Equalities issues are addressed in the Fund's Responsible Investment strategy. A summary of responsible investment activity is included **at Appendix 7**.

What are the potential equality impacts as a result of this report?	N/a.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	N/a.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	Yes. Strathclyde Pension Fund's Climate Change strategy aligns with Item 34 of the Council's Climate Action Plan. SPF's stewardship activity addresses all of the SDGs to some degree. A summary of responsible investment activity is included **at Appendix 7**.
What are the potential climate impacts as a result of this proposal?	N/a.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.

Privacy and Data Protection Impacts:

Are there any potential data protection impacts as a result of this report Y/N	No.
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a.

10 Recommendation

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

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

Appendix 1

Investment Objectives and Strategy

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

- a greater than 2/3 probability of being 100% funded over the average future working lifetime of the active membership (the target funding period); and
- a less than 10% probability of falling below 70% funded over the next three years.

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

Target allocations to each of the 5 asset categories are outlined below. The Fund implemented strategy Step 1 between the 2014 and 2017 actuarial valuations. After the 2017 valuation Step 2 was adopted as the strategic target model and retained following a further review of investment strategy alongside the 2020 valuation. Step 3 and Step 4 may be considered alongside the 2023 actuarial valuation.

Asset	Step 1 %	Step 2 %	*Step 3 %*	*Step 4 %*
Equity	62.5	**52.5**	*42.5*	*32.5*
Hedging & insurance	1.5	**1.5**	*1.5*	*1.5*
Credit	6.0	**6.0**	*6.0*	*6.0*
Short term enhanced yield	15.0	**20.0**	*25.0*	*30.0*
Long term enhanced yield	15.0	**20.0**	*25.0*	*30.0*
	100	**100**	***100***	***100***
Return (% p.a.)	**6.0**	**5.9**	***5.8***	***5.5***
Volatility (% p.a.)	**12**	**11**	***10***	***9***

Appendix 2

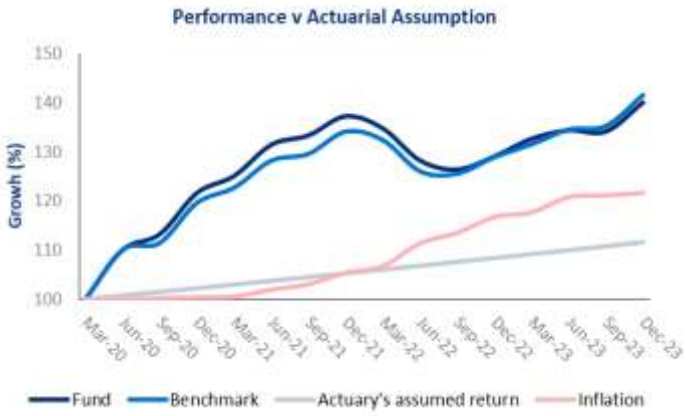
Fund and Asset Class Performance

1. Returns by Asset Class

Asset Class	Latest Quarter			1 Year			3 Years			5 Years		
	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %
Equity	5.6	6.7	(1.0)	11.7	15.6	(3.4)	6.4	7.8	(1.3)	10.3	10.4	(0.1)
Hedging & Ins	-	-	-	-	-	-	-	-	-	-	-	-
Credit	9.0	9.0	0.0	8.1	8.1	(0.0)	(5.6)	(5.6)	0.0	0.7	0.7	0.1
STEY	4.2	2.7	1.5	7.2	8.6	(1.3)	2.5	4.8	(2.2)	3.5	4.6	(1.0)
LTEY	(0.4)	0.4	(0.9)	0.9	(2.2)	3.1	5.5	5.6	(0.1)	3.6	4.3	(0.7)
Total Fund	4.4	4.7	(0.2)	8.5	9.9	(1.2)	4.8	5.8	(0.9)	7.4	7.5	(0.1)

2. Performance Attribution

3. Performance vs Actuarial Assumption



- In Q4, STEY outperformed while Equity and LTEY underperformed. In terms of absolute performance, Credit was the strongest asset class, while LTEY was the weakest due to negative returns on property portfolios.
- Equity has underperformed over 1 year, 3 years and 5 years but in absolute terms it is the best performing asset class over the longer term, mainly due to the performance of private equity portfolios.
- Over Q4, 1, 3 and 5 years, investment manager performance has detracted from Fund return, while asset allocation has added value.
- Fund performance remains comfortably ahead of the assumed actuarial return and inflation.

Manager Performance

1 Equity

1.1 Manager Performance Summary

Equity						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
Baillie Gifford	Actual	8.8	13.4	(1.0)	9.0	8.7
	Relative	2.3	(2.2)	(8.7)	(0.9)	1.0
Lazard	Actual	5.7	9.0	6.9	12.4	9.6
	Relative	(0.6)	(5.5)	(1.3)	0.7	0.8
Oldfield	Actual	3.0	6.7	6.0	4.3	7.9
	Relative	(3.1)	(7.5)	(2.3)	(6.9)	(3.8)
Veritas	Actual	4.8	16.7	6.7	10.5	12.0
	Relative	(1.5)	1.2	(1.4)	(1.0)	0.3
Lombard Odier	Actual	8.1	(3.6)	0.5	10.5	7.0
	Relative	2.4	(1.8)	2.9	6.1	2.7
JP Morgan	Actual	6.2	7.1	(4.1)	8.6	11.4
	Relative	(0.5)	(3.2)	(6.0)	0.6	1.7
Active EM Equity[1]	Actual	5.3	4.5	(6.8)	3.0	8.6
	Relative	1.8	(1.3)	(6.0)	(1.7)	1.2
Pantheon	Actual	(3.4)	(1.7)	16.4	12.4	13.6
	Relative	(9.2)	(14.7)	7.0	5.4	4.9
Partners Group	Actual	1.9	4.0	14.3	13.3	11.8
	Relative	(4.2)	(9.8)	5.1	6.1	5.9
L&G Equity	Actual	7.7	18.6	7.8	10.6	9.5
	Relative	(0.1)	(0.1)	(0.1)	(0.1)	-
L&G RAFI	Actual	6.2	15.1	11.7	10.6	9.7
	Relative	0.1	0.3	0.2	0.1	(0.0)
L&G EM Equity	Actual	2.1	3.0	-	-	(3.5)
	Relative	(0.0)	0.0	-	-	(1.4)
Total	Actual	**5.6**	**11.7**	**6.4**	**10.3**	**8.9**
	Relative	**(1.0)**	**(3.4)**	**(1.3)**	**(0.1)**	**0.5**

[1] Portfolio was originally held in 2 funds managed by Genesis: GEMIC and GEMF. In 2021, Fidelity replaced Genesis as the manager of GEMF and the fund was renamed Fidelity Emerging Markets Limited.

1.2 Manager Performance Commentary

Overall, Equity underperformed the benchmark over the quarter, with 6 out of 9 active managers underperforming. In both relative and absolute terms, **Baillie Gifford** and **Lombard Odier** were the strongest performers, while **Pantheon** and **Partners Group** were weakest.

Over 5 years, **Baillie Gifford, Oldfield, Veritas** and **Active Emerging Markets** (Genesis and Fidelity) are behind benchmark. The allocation to private assets (managed by **Pantheon** and **Partners Group**) has been beneficial. **Lombard Odier** has also performed well over the long term.

Baillie Gifford outperformed the benchmark over the quarter as aggregated earnings growth forecasts for the portfolio as a whole accelerated, and companies that have adapted to the new technological environment are reaping the benefits of efficiency gains from recent investment in growth. The portfolio remains behind the benchmark

over 1, 3 and 5 year periods, reflecting significant underperformance in late 2021 and early 2022.

Lombard Odier outperformed the benchmark over the final quarter of 2023. The market saw a rise in mergers and acquisitions, with the portfolio benefiting from the surprising bid by Mars for Hotel Chocolat at almost a 170% premium. The portfolio is behind benchmark over the year, but comfortably ahead over the longer term.

The most significant underperformers over the quarter were the private equity portfolios, with **Pantheon** underperforming by -9.2% and **Partners Group** by -4.2%. Both managers are behind benchmark for the year but have outperformed over the longer term. The most recent Total Value / Paid In multiples, which compares the total value (funds distributed and residual value) with capital called, were 1.80x for **Pantheon** and 1.77x for **Partners Group**.

As a value investor, **Oldfield** underperformed the benchmark, having little to no exposure to the high growth companies that have dominated market returns over the past quarter and indeed year. Over the longer term, **Oldfield** have underperformed, being the weakest performer over five years and the only active equity manager to underperform since inception.

2 Short Term Enhanced Yield

2.1 Manager Performance Summary

Short term enhanced yield						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
PIMCO	Actual	4.3	6.5	2.2	4.2	2.8
	Relative	2.2	(1.4)	(3.1)	(0.7)	0.0
Ruffer	Actual	2.2	(6.1)	3.5	n/a	5.5
	Relative	0.2	(12.9)	(1.6)	n/a	0.8
Barings (Multi Credit)	Actual	4.5	11.4	2.0	2.9	2.7
	Relative	2.3	2.4	(4.0)	(2.6)	(2.5)
Oak Hill	Actual	4.1	13.9	4.3	4.9	3.9
	Relative	1.9	4.7	(1.8)	(0.7)	(1.4)
Barings (Private Debt)	Actual	2.7	8.8	7.3	5.8	5.6
	Relative	0.5	(0.0)	1.0	0.1	0.3
Alcentra	Actual	2.0	4.0	6.3	6.1	6.4
	Relative	(0.2)	(4.4)	0.1	0.4	1.1
ICG	Actual	1.8	7.7	5.6	n/a	3.7
	Relative	(0.4)	(1.0)	(0.6)	n/a	(2.0)
Partners Group (Private Debt)	Actual	3.8	10.9	6.2	n/a	4.0
	Relative	1.5	1.9	0.0	n/a	(1.8)
Ashmore	Actual	14.7	12.9	(8.0)	(3.4)	(2.9)
	Relative	6.5	3.0	(4.5)	(3.5)	(2.7)
Total	**Actual**	**4.2**	**7.2**	**2.5**	**3.5**	**2.8**
	Relative	**1.5**	**(1.3)**	**(2.2)**	**(1.0)**	**(1.3)**

Manager Performance

2.2 Manager Performance Commentary

Short-term enhanced yield was the only actively managed asset class to outperform the benchmark in Q4, with 7 out of 9 managers outperforming their benchmarks. **Ashmore** was the strongest performer while **Alcentra** and **ICG Longbow** underperformed their benchmarks.

The strategy is behind benchmark over the longer term, with only **Ruffer**, **Alcentra** and **Barings Private Debt** outperforming since inception.

Ashmore outperformed over the quarter. External debt and local currency contributed positively to returns while corporate debt detracted. The top performing countries were Venezuela, Argentina, and Mexico. Over the longer term, **Ashmore's** performance has been disappointing, being the only manager to deliver a negative absolute return since inception.

Private debt manager **Alcentra** and real estate debt manager **ICG Longbow** underperformed their benchmarks over the quarter. However, **Alcentra** reports that despite subdued market activity, they continue to have access to high quality deals and that they are exploring exit options for older investments. **ICG Longbow** expect that private capital providers are likely to see attractive investment opportunities with high market volatility reducing companies' access to public market funding.

3 Long Term Enhanced Yield

3.1 Manager Performance Summary

Long term enhanced yield						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
DTZ	Actual	(2.5)	(3.9)	2.5	1.7	6.0
	Relative	(1.9)	9.5	0.4	0.6	(0.1)
Partners Group RE [2]	Actual	(1.4)	(11.9)	3.7	1.4	6.2
	Relative	(2.0)	(16.9)	(5.7)	(6.4)	(2.3)
JP Morgan IIF	Actual	2.7	9.6	8.5	6.7	6.7
	Relative	0.8	1.5	0.5	(1.2)	(1.2)
Total	**Actual**	**(0.4)**	**0.9**	**5.5**	**3.6**	**5.1**
	Relative	**(0.9)**	**3.1**	**(0.1)**	**(0.7)**	**(0.1)**

3.2 Manager Performance Commentary

Overall, long term enhanced yield underperformed the benchmark in Q4. The only manager to deliver positive absolute performance and outperform the benchmark was the **JP Morgan Infrastructure Investments Fund**. **DTZ** and **Partners Group** produced negative returns and underperformed their benchmarks.

The strategy has underperformed over the longer term, with only **DTZ** outperforming the benchmark over 5 years.

The **JP Morgan Infrastructure Investments Fund** outperformed the benchmark over the quarter and is ahead of benchmark over 1 year. The fund further diversified its

exposure across sectors and geographies through platform investments. Portfolio highlights include a US energy services company commencing a joint venture to construct, own and operate facilities to capture naturally occurring biogas from landfill and upgrade to meet the required quality for sale; and a power company entering into an agreement to acquire 4 large scale solar projects in Chile.

DTZ underperformed the benchmark over the quarter as overall capital values declined by -3.8%. This decline was partially offset by an income return of +1.0%. Individual asset values were polarised, with the top performing asset returning 2.8% and the worst performing asset returning -19.1%. Longer term, the portfolio has outperformed over 5 years but has underperformed since inception.

Partners Group are behind their strategic benchmark (8% per annum adjusted for currency movements) over all time periods but over 3 years are ahead of the FTSE/EPFA NAREIT Total Return Index reported by the manager. The portfolio has a Total Value / Paid In multiple of 1.26x.

Appendix 4

Portfolio Summary 31st December 2023

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	7,660	*26.3%*	0	*0.0%*	2,073	*7.1%*					**9,733**	***33.4%***	*31.5%*
Baillie Gifford	2,215	*7.6%*									**2,215**	***7.6%***	*7.5%*
Lazard	915	*3.1%*									**915**	***3.1%***	*2.5%*
Oldfield	818	*2.8%*									**818**	***2.8%***	*2.5%*
Veritas	861	*3.0%*									**861**	***3.0%***	*2.5%*
Lombard Odier	392	*1.3%*									**392**	***1.3%***	*1.0%*
JP Morgan	859	*2.9%*							1,141	*3.9%*	**2,000**	***6.9%***	*6.5%*
Active EM Equity	361	*1.2%*									**361**	***1.2%***	*1.5%*
Pantheon	1,445	*5.0%*									**1,445**	***5.0%***	*5.0%*
Partners Group	972	*3.3%*					294	*1.0%*	541	*1.9%*	**1,807**	***6.2%***	*6.0%*
PIMCO							1,083	*3.7%*			**1,083**	***3.7%***	*4.0%*
Ruffer							541	*1.9%*			**541**	***1.9%***	*2.0%*
Barings (multi-credit)							736	*2.5%*			**736**	***2.5%***	*2.8%*
Oak Hill Advisors							533	*1.8%*			**533**	***1.8%***	*1.8%*
Barings (private debt)							463	*1.6%*			**463**	***1.6%***	*1.3%*
Alcentra							341	*1.2%*			**341**	***1.2%***	*1.3%*
ICG Longbow							321	*1.1%*			**321**	***1.1%***	*1.0%*
Ashmore							475	*1.6%*			**475**	***1.6%***	*2.5%*
DTZ									2,352	*8.1%*	**2,352**	***8.1%***	*10.0%*
DIP	125	*0.4%*					126	*0.4%*	1,224	*4.2%*	**1,475**	***5.1%***	*6.0%*
Cash							284	*1.0%*			**284**	***1.0%***	*1.0%*
Total	**16,624**	**57.0%**	**0**	**0.0%**	**2,073**	**7.1%**	**5,196**	**17.8%**	**5,258**	**18.0%**	**29,150**	**100.0%**	**100.0%**
Target		**52.5%**		**1.5%**		**6.0%**		**20.0%**		**20.0%**		**100.0%**	

Direct Impact Portfolio

1 Portfolio Summary

The portfolio can be summarised as follows.

	Since Inception (£m)	Current Portfolio (£m)
Total Commitments Agreed	**2,183**	**2,047**
Amounts Drawn Down by Managers	**1,603**	**1,526**
+ Increase in Value	**572**	**526**
- Received Back in Distributions	**598**	**598**
- Realisations	**123**	**-**
= Total Net Asset Value (NAV)	**1,454**	**1,454**

Based on a current total Fund value of **£29,150bn**, DIP's **5%** target allocation is a NAV of **£1,458m**.

The portfolio comprises **60** separate investments. In addition, a co-investment program of £200m was approved at the March 2022 meeting of the SPF Committee with the first investment of £15m committed in the quarter. The remaining £185m is yet to be allocated and is not included in the above table.

In Q4, total drawdowns and distributions amounted to **£45m** and **£19m** respectively.

2 Performance

Portfolio performance to 31st December 2023 is as follows:

	Q4 2023 (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
DIP	**1.0**	**8.7**	**10.3**	**6.4**	**7.8**
DIP Benchmark*	**1.7**	**10.4**	**9.3**	**7.3**	**3.1**
SPF Total Fund	**4.4**	**8.5**	**4.8**	**7.4**	**11.0**

Performance continues to be positive, although an element of headwind is now building. The main drivers are:

- strong returns from the predominantly index-linked revenues underpinning most of the LTEY investments, which form the majority of the DIP portfolio;
- stronger power prices over the past couple of years were initially positive for the valuations of the renewable energy funds, however power prices have now eased and assets are experiencing some easing of valuations;
- managers are increasingly reporting that increased discount rates, resulting from the increase in the return on "risk free" assets, is resulting in a softening of valuations, particularly of infrastructure and renewable assets, while private equity managers are also reporting lower valuation multiples applying in their markets, despite the generally strong financial performance of the vast majority of underlying portfolio companies;
- both factors lead DIP to anticipate a softening of asset valuations and fund/DIP returns in the coming quarters.

Appendix 5

Direct Impact Portfolio

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

- **54** investments are rated **green;**
- **5** (increase of 1) are **amber**;
- **1** in legals;
- **None red**.

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

Appendix 5

Direct Impact Portfolio

3 DIP Investments

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: Equity								
Clean Growth Fund	2020	Venture Capital	Equity	20	11	9	0	11
Corran Environmental Fund II	2023 (Legals)	Growth Capital	Equity	20	0	20	0	0
Epidarex Fund II	2013	Venture Capital	Equity	5	5	0	3	6
Epidarex Fund III	2019	Venture Capital	Equity	15	10	5	0	10
Foresight Regional Investment V LP	2023	Growth Capital	Equity	30	2	28	0	1
Maven Regional Buyout Fund	2017	Growth Capital	Equity	20	18	2	13	11
Palatine Impact Fund II	2022	Growth Capital	Equity	25	8	17	0	7
Palatine Private Equity Fund IV	2019	Growth Capital	Equity	25	14	11	8	18
Panoramic Enterprise Capital Fund 1 LP	2010	Growth Capital	Equity	3	3	0	9	1
Panoramic Growth Fund 2 LP	2015	Growth Capital	Equity	13	12	1	16	6
Panoramic SME Fund 3 LP	2022	Growth Capital	Equity	25	3	22	0	3
Par Equity Northern Scale-Up Fund	2023	Venture Capital	Equity	25	3	22	0	3
Pentech Fund III	2017	Venture Capital	Equity	10	7	3	0	10
SEP II	2000	Venture Capital	Equity	5	5	0	4	0
SEP III	2006	Growth Capital	Equity	5	5	0	18	0
SEP IV LP	2011	Growth Capital	Equity	5	5	0	7	4
SEP V LP	2016	Growth Capital	Equity	20	20	0	9	29
SEP VI LP	2021	Growth Capital	Equity	30	4	26	0	3
Total as at 31/12/2023	**Q4**			**301**	**134**	**167**	**87**	**123**

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: LTEY								
Albion Community Power LP	2015	Renewables	LTEY	40	40	0	14	40
Alpha Social Long Income Fund	2015	Support Living	LTEY	15	15	0	4	18
Capital Dynamics Clean Energy Infrastructure VIII	2019	Renewables	LTEY	40	36	4	3	37
Capital Dynamics Clean Energy UK Fund	2023	Renewables	LTEY	60	0	60	0	0
Clydebuilt Fund II LP	2021	Property	LTEY	100	30	70	0	30
Clydebuilt Fund LP	2014	Property	LTEY	75	75	0	70	23
Dalmore Capital Fund 3 LP	2017	Infrastructure	LTEY	50	50	0	12	55
Dalmore Capital Fund 4 LP	2021	Infrastructure	LTEY	50	50	0	4	51
Dalmore II 39 LP	2021	Infrastructure	LTEY	50	30	20	2	31
Dalmore PPP Equity PiP Fund	2014	Infrastructure	LTEY	50	50	0	34	45
Equitix Fund IV LP	2015	Infrastructure	LTEY	30	30	0	11	31
Equitix Fund V LP	2018	Infrastructure	LTEY	50	50	0	11	50
Equitix Fund VI LP	2020	Infrastructure	LTEY	50	50	0	2	50
Equitix MA 19 LP (Co-Investment Fund)	2020	Infrastructure	LTEY	50	50	0	4	55
Funding Affordable Homes	2015	Property	LTEY	30	2	28	0	2
Greencoat Solar Fund II LP	2017	Renewables	LTEY	50	50	0	14	46
Hermes Infrastructure Fund II	2017	Infrastructure	LTEY	50	42	8	12	47
Iona Environmental Infrastructure LP	2011	Renewables	LTEY	10	10	0	4	8
Iona Renewable Infrastructure LP	2017	Renewables	LTEY	14	14	0	1	15

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Iona Resource and Energy Efficiency (Strathclyde) LP	2021	Renewables	LTEY	6	6	0	0	7
Legal & General UK Build to Rent Fund	2016	Property	LTEY	75	75	0	3	81
Macquarie GIG Renewable Energy Fund I	2015	Renewables	LTEY	80	80	0	60	64
Man GPM RI Community Housing Fund	2021	Property	LTEY	30	24	6	0	24
NextPower UK ESG Fund	2022	Renewables	LTEY	60	26	34	1	27
NTR Wind I LP	2015	Renewables	LTEY	41	36	5	31	44
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	Infrastructure	LTEY	130	120	10	54	94
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	Property	LTEY	45	39	6	2	39
Quinbrook Renewables Impact Fund	2020	Renewables	LTEY	50	40	10	0	44
Resonance British Wind Energy Income Ltd	2013	Renewables	LTEY	10	10	0	6	10
Temporis Impact Strategy V LP	2021	Renewables	LTEY	50	27	23	3	34
Temporis Operational Renewable Energy Strategy (TORES)	2017	Renewables	LTEY	30	28	2	7	54
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	Renewables	LTEY	30	30	0	8	47
Total as at 31/12/2023	**Q4**			**1,501**	**1,214**	**287**	**381**	**1,205**

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: STEY								
Beechbrook UK SME Credit II Fund	2016	Credit	STEY	30	29	1	17	22
Beechbrook UK SME Credit III Fund	2021	Credit	STEY	40	22	18	3	22
Healthcare Royalties Partners III LP	2013	Credit	STEY	20	20	0	18	7
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	Credit	STEY	20	14	6	13	10
Muzinich UK Private Debt Fund	2015	Credit	STEY	15	15	0	15	0
Pemberton UK Mid-Market Direct Lending Fund	2016	Credit	STEY	40	37	3	36	24
Scottish Loans Fund	2011	Credit	STEY	6	6	0	7	0
TDC II (prev Tosca Debt Capital Fund II LP)	2017	Credit	STEY	30	8	22	15	14
TDC III (prev Tosca Debt Capital Fund III LP)	2019	Credit	STEY	30	27	3	7	26
Total as at 31/12/2023	**Q4**			**231**	**178**	**52**	**131**	**126**
Co-investment Programme								
Schroders Greencoat Glasgow Terrace	2023	Renewables	LTEY	15	0	15	0	0
DIP Portfolio Total								
Total as at 31/12/2023	**Q4**			**2,047**	**1,526**	**521**	**598**	**1,454**
Total as at 30/09/2023	**Q3**			**2,034**	**1,481**	**538**	**579**	**1,438**

Appendix 6

Investment Advisory Panel Meeting February 2024

MINUTES OF MEETING ON Wednesday 14th February 2024

PRESENT:	**Richard McIndoe**	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	Alistair Sutherland	Investment Advisor
	David Walker	Hymans Robertson
	Nell McRae	Hymans Robertson
	Jacqueline Gillies	Chief Investment Officer
	Ian Jamison	Investment Manager
	Lorraine Martin	Assistant Investment Manager
	Moira Gillespie	Investment Assistant

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 9th November 2023 were agreed to be an accurate record.

Officers provided an update on the latest round of commitments to the Pantheon private equity programme which were agreed by the Panel at its November meeting:

- The £125m commitment to primaries was finalised during the first week of February 2024.
- The commitment to PGCO VI is expected to close at the end of February.
- The commitment to PGSF VIII is expected to be finalised during Q2 2024.

2 Monitoring

2.1 Market and Inflation Update

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

2.2 Quarterly Investment Performance Review

The Fund's return for Q4 2023 was +**4.4%**, behind the benchmark return of **+4.7%**. Performance for the year to 31st December 2023 was positive (+**8.5%)**, but below benchmark (**+9.9%)**. The Fund's return is positive on an absolute basis over five years but marginally behind benchmark and positive on both an absolute and relative basis over ten years.

2.3 Manager Ratings

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

- 17 of the Fund's managers were rated **green**
- 4 rated **amber**
- None **red**.

2.4 Direct Impact Portfolio Monitoring Report

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

- **54** investments are rated **green;**
- **5** (increase of 1) are **amber**;
- **1** in legals;

- **None red**.

2.5 Overseas Currency Hedge

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

The Panel reviewed a monitoring report that indicated:

- The Fund's overseas hedge ratio at end December was 35.1% vs its target of 33%.
- The currency hedge had added value to the Fund in the 12 months to 31st December because of the appreciation in Sterling versus the US dollar, and to a lesser extent due to Sterling appreciation against other major currencies.
- Since the inception of the hedging strategy, total Fund gains from currency had been reduced mainly as a result of the depreciation of Sterling against the US dollar.

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

2.6 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of December 2023 was estimate to have increased to **150%**, compared with the funding level of **147%** at the last valuation date, 31st March 2023.

3 Allocation

3.1 Cash flow

The Panel reviewed a schedule of estimated cash flows for the Fund's private market investment programmes - private equity, global real estate, the Direct Impact Portfolio, and private debt commitments. Totals as at 31st December 2023 were as follows.

	2023		**2024**
	Estimate (£m)	***Actual (£m)***	**Estimate (£m)**
Distributions	*500*	*375*	869
Calls	*-466*	*-305*	549
Net	***+34***	***+70***	**+320**

The Fund's central cash balance at 31st December 2023 was **£284m.** This included **£150m** that had been withdrawn from the Legal and General market cap passive portfolio in November 2023 for transfer to the benefits cash account during H1 2024.

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report as at 31st December 2023. The Panel

discussed the detail of the report, which showed:

- short term enhanced yield was below its target range (16.8% *vs* 20.0%) due to its relatively weak performance and outstanding commitments.
- At a portfolio level, emerging market debt was below its target range (1.6% vs 2.5%) due to poor performance. The global real estate portfolio was below its target range (1.9% vs 2.5%) and the Direct Impact Portfolio's LTEY investments were over their target weight (4.2% vs 4%).

The Panel agreed that no immediate action was required pending the conclusion of the current review of investment strategy and structure.

3.3 Relative Value Framework

The Panel reviewed a relative value report from Hymans Robertson as at 31st December 2023, which showed:

- UK investment-grade credit spreads have tightened further over Q4 and are now sitting below median levels.
- A fall in nominal gilt yields has slightly decreased their attractiveness versus Hymans' assessment of fair value and valuations and overall ratings for nominal gilts have been downgraded slightly since last quarter. Current supply/demand dynamics continue to present a technical challenge.
- Declining inflation reduces the fundamental support for index-linked gilts, but real yields remain at reasonable levels to lend support to Hymans' assessment of index-linked gilts. However, from a valuation perspective implied inflation is still above levels that would support moving to a neutral allocation and results in a preference for nominal versus index-linked gilts.

The Fund's total Hedging and Insurance and Credit allocation (7.5%) is currently invested in corporate bonds. The Panel agreed that the updated metrics support reducing Credit back to the neutral allocation of **6%** of total Fund. The remaining **1.5%** should be switched into nominal gilts given the current levels of implied inflation.

4 Manager Reviews

2 investment managers attended the Investment Advisory Panel:

- **DTZ**
- **JP Morgan (Infrastructure)**

Performance of each of the managers was reviewed.

4.1 DTZ

The DTZ UK property portfolio is currently valued at £2,366m, or 8.1% of total Fund, versus a target weight of 10%. DTZ provided an update on the current portfolio and performance together with an outline of investment strategy over 2024 and its approach to climate change and net zero.

4.2 JP Morgan

The JP Morgan Infrastructure portfolio is currently valued at £1,141m, or 3.9% of Fund versus a target weight of 3.5%. JP Morgan provided an update on the current portfolio and performance.

5 Investment Strategy and Structure

A review of investment strategy in conjunction with the actuarial valuation of the Fund as at 31st March 2023 is one of the major items in the SPF 2023/24

business plan. The Panel considered the following as part of the ongoing review:

- Updated Asset Liability Modelling Results
- Review of Short Term Enhanced Yield Allocation
- Fixed Income Implementation Options
- Emerging Market Equity Funds

5.1 Presentation of Asset Liability Modelling Results

At its meeting in November 2023, the Panel reviewed results of asset liability modelling based on the 31st March 2023 valuation results. The strong position at 31st March 2023 gives the Fund lots of flexibility to consider changes to investment strategy and initial modelling showed that there was not a huge differentiation between 4 alternative strategies from a quantitative perspective.

The Panel discussed the modelling at some length and agreed that, whilst there was no absolute imperative to make strategic changes, the very strong funding level did present an opportunity to do so, and that it would be prudent to reduce equity risk. A reduction in listed equity would fund an increased allocation to traditional fixed income assets, where yields have increased significantly since the last valuation, and an increased allocation to infrastructure assets, which play a key role in achieving the Fund's climate action plan.

Hymans had re-run modelling based on a reduction in equities in favour of fixed income and infrastructure. There was not a huge differentiation in the two alternative strategies modelled from a quantitative perspective. The Panel agreed that the following strategic allocation provided an appropriate balance between equity risk reduction and increased exposure to fixed income.

Asset	Proposed Allocation %
Equity	47.0
Hedging & insurance	10.0
Credit	5.0
Short term enhanced yield	17
Long term enhanced yield	21.0
	100
Return (% p.a.)	**3.9**

Implementation of the proposed new strategy will require changes to the underlying investment structure within each of the 5 asset classes.

5.1.2 Equity allocation

The Panel agreed that the following Equity structure will maintain an appropriate combination of passive, active and specialist mandates but with a reduced allocation to passive mandates and a marginal increase in exposure to specialist mandates.

Portfolio	*Current Target (Fund %)*	*Current Target (Equity %)*	Proposed Target (Fund %)	Proposed Target (Equity)
L&G Market Cap	*18.0*	*34.25*	13.9	29.6
L&G RAFI	*6.0*	*11.4*	4.1	8.7
Baillie Gifford	*7.5*	*14.3*	7.5	16.0
Lazard	*2.5*	*4.75*	2.5	5.3
Oldfield	*2.5*	*4.75*	2.5	5.3
Veritas	*2.5*	*4.75*	2.5	5.3
Lombard Odier	*1.0*	*1.9*	1.0	2.1
JP Morgan	*3.0*	*5.7*	3.0	6.4
Active Emerging Markets	*1.5*	*2.9*	2.0	4.3
Pantheon (PE)	*5.0*	*9.5*	5.0	10.6
Partners (PE)	*2.5*	*4.75*	2.5	5.3
DIP	*0.5*	*0.95*	0.5	1.1
Total Equity	***52.5***	***100***	**47.0**	**100**
Other Assets	*47.5*	-	*53.0*	-
Total Fund	***100.0***	***100***	**100**	**100**

5.1.3 LTEY allocation

The Panel were supportive of the following revisions to the LTEY structure.

Portfolio	*Current Target (%)*	Proposed Target (%)
UK Property - DTZ	***10.0***	**9.0**
Global Property – Partners Group	***2.5***	**2.0**
DIP	***4.0***	**5.5**
Global Infrastructure – JP Morgan	***3.5***	**4.5**
Total LTEY	***20.0***	**21.0**

The Panel agreed that modest reductions in the allocations to UK and Global real estate would achieve a better overall balance in the LTEY structure between infrastructure, property and the Direct Impact Portfolio (DIP).

A key priority in the Fund's 2024/25 business plan is the review of DIP. The increased allocation to LTEY would support a further increase in DIP's capacity, should this be considered appropriate following the DIP review.

A **3.5%** allocation to the JP Morgan International Infrastructure Fund (IIF) was agreed as part of the 2020/21 investment strategy review and the allocation has been fully funded since the start of 2022. JP Morgan presented an update on the Fund's investment in IIF to the Panel. The Panel agreed that the IIF has performed well to date and its structure and management suggest it should continue to do so in the longer term. The Panel were therefore supportive of an increased allocation of **3.5%** to **4.5%** to JP Morgan Global Infrastructure.

Recommended mandate structures for STEY, Hedging and Insurance and Credit are discussed in paras 5.2 and 5.3 below.

5.2 Review of Short-Term Enhanced Yield Allocation

The recommended changes to investment strategy include a decrease in STEY allocation from **20%** to **17%**. A review of the STEY structure and investment strategies was a priority of the current review and was discussed at the Panel's meetings in August and November 2023. Based on discussions at those meetings and accounting for the reduced strategic allocation, Hymans presented a paper summarising the changes to individual STEY mandates and modelling a revised STEY structure:

Portfolio		*Current Target (%)*	Proposed Target (%)
Absolute Return		***6.0***	**6.0**
PIMCO		***5.0***	**5.0**
Ruffer		***1.0***	**1.0**
Multi Asset Credit		***4.5***	**4.0**
Barings		***2.75***	**2.25**
Oak Hill		***1.75***	**1.75**
Private Corporate Debt		***3.5***	**3.5**
Barings		***1.25***	**1.75**
Alcentra		***1.25***	**-**
Partners Group		***1.0***	**1.0**
Pantheon		***-***	**0.75**
Private Real Estate Debt		***1.0***	**1.0**
ICG Longbow		***1.0***	**1.0**
EM Debt		***2.5***	
Ashmore		***2.5***	**-**
DIP		***1.5***	**1.5**
Cash		***1.0***	**1.0**
Total STEY		***20.0***	**17.0**

5.2.1 STEY Mandate Changes

The Panel were supportive of the following changes to STEY mandates:

- **Multi-asset credit** The STEY review highlighted the complementary nature of the Fund's existing strategies with Barings and Oakhill. A small reduction to the strategic allocation to multi-asset credit from **4.5%** to **4.0%** is proposed and provides an opportunity to target a more balanced split between the two managers, with a small bias to Barings (**2.25%**) given the more diversified and global focus of this strategy versus Oakhill (**1.75%**), which is a more concentrated portfolio with a US focus.
- **Private debt** The Panel agreed that the **4.5%** allocation to private debt should be maintained, split **3.5%** to corporate debt and **1%** to private real estate**.**

  While the strategic allocation to private corporate debt will be maintained at **3.5%**, the private debt market and manager allocations were reviewed in detail by the Panel. The Panel were supportive of the following changes:
  - Since 2016, the Fund has invested in 2 Alcentra European direct lending funds and in 2020 the manager was appointed to manage a separate account. The manager has experienced significant personnel and corporate change since their appointment. The Panel

agreed that the strategic allocation of **1.25%** to Alcentra should be removed.

- The Alcentra allocation should be re-allocated in part to Barings, whose private debt portfolio has performed particularly well for the Fund. The allocation to Barings private debt will increase from **1.25%** to **1.75%**.
- The allocation of **1%** Partners Group private debt should be retained.
- The remaining **0.75%** of the private credit allocation should be allocated to private credit secondaries, a market which has become increasingly significant over recent years. Pantheon, the Fund's longstanding private equity manager, are one of Hymans' preferred managers for this type of investment strategy. The Panel reviewed investment due diligence prepared by Hymans on the latest Pantheon private debt secondaries fund and were supportive of a **0.75%** allocation.

- **Emerging market debt** An allocation to emerging market debt was agreed following the 2014/15 review of investment strategy. The manager, Ashmore, has not added value since inception of the mandate in 2017. The strong funding position means the Fund can afford to reduce risk. The Panel agreed that the **2.5%** strategic allocation to Emerging Market Debt should be removed.

5.3 Fixed Income Implementation Options

Hymans Robertson presented a paper which reviewed the Fund's current fixed income allocation. The paper analysed potential investment options based on an increased allocation as part of the current strategy review and the objectives of the Fund's climate action plan.

5.3.1 Hedging and Insurance

Given the material change in the yield environment since the last strategy review, the Panel was supportive of an increased allocation to hedging and insurance assets. They agreed that the Fund should increase the **Hedging and Insurance** allocation to **10.0%**, split equally between UK nominal gilts and UK index linked gilts.

Portfolio	*Current Target (%)*	Proposed Target (%)
LGIM Index Linked Gilts	***1.5***	**5.0**
LGIM Gilts	**-**	**5.0**
Total Hedging & Insurance	***1.5***	**10.0**

5.3.2 Credit

The Panel reviewed the Credit allocation as part its detailed review of fixed income implementation options.

- **L&G Corporate Bond Funds.** All of the Fund's credit exposure is currently invested using a passive approach, split 50/50 between UK and US corporate bonds. The sterling corporate bond market is fairly well diversified relative to others and a passive exposure to US credit as well as to the UK provides access to high quality securities, overseas diversification and increased liquidity relative to a sterling only portfolio. The L&G passive US fund excludes BBB rated credit however and BBBs currently make up half of the US market leading to some loss of opportunity set.

More recently, a number of investment managers have overlaid these approaches with ESG tilted strategies, some of which have a particular focus on positive impact from a climate objective and emissions reduction perspective.
The Panel agreed that there was merit in proposing that the Fund consider moving the passive exposure to an ESG/ climate tilted corporate bond investment strategy, which also included coverage of BBB securities.

- **Buy and Maintain Credit**
  The Panel's review of fixed income implementation options included consideration of the 3 broad approaches to corporate bond investment:
  - Passive funds. Passive, high quality credit funds provide low cost and low governance access to large, liquid credit markets. They have certain potential limitations, such as giving more weight to the most indebted companies, the potential for significant sector bias and limits on the investable universe.
  - Active funds. An active approach to corporate bond management can add value through more diversified security and regional positioning. Active strategies have higher fees and turnover compared with a passive investment approach.
  - Semi-passive or 'Buy and Maintain' funds. Here, a manager seeks to avoid the drawbacks of a true passive approach by limiting unwanted sector concentration risk and bias by actively selecting credits through research and not according to an index. These securities are then held until maturity, leading to low portfolio turnover and lower management fees compared with an actively managed fund.

The Panel agreed that there was merit in proposing that the Fund introduce a 'Buy and Maintain' mandate to sit alongside the passive allocation. This portfolio would be invested globally to ensure a more diversified exposure to the corporate bond market but at a lower cost than an active mandate.

The Panel agreed that the Credit allocation should be split **2.5%** to a passive ESG tilted corporate bond investment strategy and **2.5%** to a Buy and Maintain investment strategy:

Portfolio	*Current Target (%)*	Proposed Target (%)
L&G Corporate Bonds	***6.0***	**2.5**
Buy and Maintain Credit	**-**	**2.5**
Total Credit	***6.0***	**5.0**

The Panel will investigate investment options for the new allocation at a future meeting.

5.4 Emerging market equity funds

At its meeting in November, the Panel reviewed the Fund's emerging market equity exposure and agreed the following revised structure:

Fund	*Current Target Allocation %*	Proposed Target Allocation (short term) %	Proposed Target Allocation (long term) %
EM passive market cap	*2.2*	**2.2**	**2.4**
EM RAFI	*0.7*	**-**	**-**
Genesis	*1.5*	**-**	**-**
Fidelity		**0.75**	**-**
New manger		**1.5**	**2.0**
Total	***4.4***	**4.45**	**4.4**

Selection of a new active mandate was discussed at the Panel, where Hymans presented a shortlist of 4 preferred emerging market equity funds. The Panel discussed in detail the merits of each of the shortlisted funds and agreed that 3 of the 4 were potentially suitable for the Fund. They agreed that these 3 managers should present to the Panel and to the Committee Sounding Board for review prior to the recommendation of a preferred fund to SPF Committee.

6 Governance

6.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Tuesday 19th March 2024.

Responsible Investment: Quarter 4 2023
A summary of quarterly activity against Principles for Responsible Investment is provided below.

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

1.1 Strategy Review
A key focus of the current review of the Fund's investment strategy and structure is the incorporation of further measures aimed at carbon reduction in line with the SPF Climate Action Plan.

The conclusions of the investment strategy review are summarised in a separate paper to Committee and include a recommendation to move the Fund's passive market cap equity exposure to LGIM's Low Carbon Transition Index funds. Analysis showed that this index series was aligned with the Fund's objectives and that the switch should have a significant positive impact on carbon metrics of the Equity portfolio.

1.2 In quarter 4, the Fund's Infrastructure manager **JP Morgan** provided a report on the Infrastructure Investments Fund (IIF) results from the 2023 **Global Real Estate Sustainability Benchmark (GRESB)** Annual Infrastructure Asset Assessment.

GRESB assesses ESG performance at the asset level for real estate and infrastructure asset operators, fund managers and investors that invest directly in real assets. The assessment offers high-quality ESG data and advanced analytical tools to benchmark ESG performance, identify areas for improvement and engage with companies. 2023 marks the eighth year for the GRESB infrastructure assessment and participation included 172 Funds and 687 assets.

Key takeaways from the 2023 report include:

- The IIF portfolio improved its overall score by 4 points from the 2022 survey.
- IIF ranked 31st out of 119 Infrastructure Funds in GRESB score.
- 7 IIF portfolio companies have a maximum 5-star rating.
- 9 of 21 IIF portfolio companies improved score their score.
- 11 IIF portfolio companies are ranked in the top 200 assets (out of 681 assets).
- Sonnedix ranked 1st of all the 681 assets covered in the assessment. Sonnedix develops and operates utility-scale solar projects globally, including 2.8 GW of installed capacity, 1.0 GW of projects in construction and 6.2 GW of capacity in documentation and development stages.

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

1.3 UK direct property portfolio manager **DTZ** received results for the SPF portfolio's 2022/23 submission to **GRESB**. The Fund obtained a score of 77/100, an improvement of 7 points from last year and remains above the peer average score.

Principle 2

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

2.1 Voting Activity

Managers' voting activity during the quarter to 31st December 2023 is summarised as follows.

Voting activity to 31st December 2023		
		(%)
Total meetings	**2,264**	
Votes for	10,057	73
Votes against	3,407	25
Abstentions	209	2
Not voted	43	-
No. of Resolutions	**13,716**	**100**

Voting activity in the quarter included:

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

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

- **Legal and General** voted for the re-election of a director at **Charter Hall Group**. L&G had considered voting against this resolution prior to the vote, as they had identified the company as lagging the minimum expectations of its climate change policy. However, ahead of the vote the company responded to L&G's concerns with further information establishing that they do indeed meet minimum requirements, underlining the importance of direct engagement with companies to supplement quantitative assessments. L&G voted against a management resolution for the election of a new director at Australian logistics firm **Qube Holdings Ltd** due to lack of board diversity at the company. L&G expect the board of Australian companies to comprise at least one third women and Qube only has one woman on its board. L&G voted against the resolution at **Microsoft** on AI risks and disclosure, as they consider the company to be a leader in the disclosure, governance and mitigation of risks posed by generative AI operations. Finally, L&G voted in favour of re-election of the incumbent board at **Mediobanca**, a boutique Italian investment bank.

2.2 Engagement

Engagement during the quarter include the following.

- **Baillie Gifford** sought to deepen its understanding of **Contemporary Amperex Technology Co. Limited's (CATL)** pathway towards newly released carbon-neutral targets through a visit to a net zero factory in Yibin, Sichuan province, the first zero-carbon battery factory in the world. Baillie Gifford have long been monitoring CATL's net zero path, not only because it is a large greenhouse gas emitter but also because of its potential on the battery supply chain to unlock a meaningful energy transition. Discussion at the zero-carbon factory development at Sichuan included methods for reducing scope 1 and 2 emissions. For example, Baillie Gifford learnt in more detail how CATL works with its natural gas providers for carbon-neutral gas and whether the measures can be replicated in other factories. They also touched upon CATL's contribution to global battery passport rulemaking and the acknowledgement of green energy under the new EU Batteries Regulation. Finally, the company answered questions from upstream material suppliers on the verification of carbon-neutral products. Baillie Gifford believe that that CATL will play an important role over the next decade and that the company is committed to mitigating the inevitable environmental and social impacts of battery making. Given the challenges discussed, they believe the company should reinforce supplier training and communication through the procurement department to have a real net zero impact on the supply chain. Next steps include the unfolding of digital battery passports and resulting enhanced transparency on carbon footprint.
- **Baillie Gifford** met with **Reliance Industries Limited** to assess the company's ambitions, targets, succession planning and future growth opportunities. Their first meeting focused on a range of topics across telecoms, retail, media and energy, and a follow-up discussion (as part of a wider group) provided further understanding of the New Energy business and the company's climate strategy. Reliance's business areas

are energy-hungry, including data centres for telecoms and refineries for the oil-to-chemical business. The company's decarbonisation commitments (Net Carbon Zero by 2030) sit alongside its New Energy investments via integrated solar manufacturing with energy storage, electrolyser manufacturing and green hydrogen production. The company is reviewing round-the-clock power opportunities for each business user, which can include combinations of solar and other green energy. The company sees opportunities to significantly reduce its energy costs once its captive renewable energy is ready. The solar PV manufacturing facility is expected to be ready within the year, and by early 2027, both solar and battery facilities are expected to be operational and fully integrated. Overall, the discussions provided Baillie Gifford with the opportunity to assess and calibrate the company's ambition, strategy and targets given poor disclosures on some topics.

- **Baillie Gifford** held discussions with **Texas Instruments'** on climate strategy and how the company are ensuring a resilient supply of electricity given challenges relating to Texas's energy grid. The company confirmed work is underway on a post-2025 decarbonisation target (its current one expires in 2025). They explained that this area is of interest to their customers, who are thinking about how they will meet their own climate targets. There may be a risk that, without having a suitable decarbonisation plan, some customers will choose to procure analogue semiconductors from peers who have stronger climate commitments. From a resilience perspective, Texas Instruments highlighted the multiple mechanisms they have in place, such as positioning fabrication plants at the grid intersection of various power generation facilities. It was clear that Texas Instruments is thinking about how its approach to climate will impact its customers and that they have a strategy in place to ensure that operations can continue in the event of future grid failure or outage.
- **Oldfield** spoke to **Sanofi**, a French domiciled pharmaceutical company, in relation to two drugs, depakine and dengvaxia. Depakine is an anti-epilepsy drug that was first marketed in the 1960s. Following identification in the 1980s that the drug could have adverse impacts in when taken during pregnancy, a complex interaction between the company and the French state ensued. Sanofi believe that once the risk was identified, they acted appropriately, informing health authorities and requesting label updates, with the updates made everywhere except in France. Today, this interaction is still seeking resolution in the courts, with compensation being sought by victims. Another drug, Dengvaxia, is an anti-dengue vaccine launched in 2016. Sanofi do not accept accusations that the vaccine has resulted in the death of some recipients and point to the vaccination programme in Brazil (over 300,000 people vaccinated) and findings from the World Health Organisation in support of their position. With the legal system, governmental and intergovernmental bodies already involved, Oldfield do not believe they have the ability to influence a better outcome as a shareholder and will therefore continue to monitor the situation rather than take any further immediate action.

- In December, **Oldfield** held discussions with **Eni S.p.A** an Italian multinational integrated energy company. Oldfield have spoken to the company in the past about their decarbonisation efforts, but this conversation related to an ongoing controversy at Eni's Nigeria Agip Oil Company (NAOC) which has faced opposition from indigenous groups over the company's alleged denial of privileges to local communities. Oldfield are aware that Eni have signed an agreement to sell NAOC subject to government approval but nevertheless wanted to better understand the policies in place with reference to global frameworks such as the UN Guiding Principles on Business and Human Rights, as well as the extent to which the ongoing respect for human rights and the level of required oversight had been considered as part of the agreement to sell NAOC. Oldfield expect to hold a follow-up discussion with the team in the first quarter of 2024.
- **J.P. Morgan** met with US biotechnology company, **REGENXBIO** to discuss board diversity. The company has a nine person board with three women, but the board lacks racial/ ethnic diversity. The company is focussed on identifying a diverse candidate with various committees and directors involved in the process but hasn't been successful to date. J.P. Morgan will evaluate the company's board composition at the next annual meeting.
- Under their Climate Impact Pledge, **L&G** select c.100 'dial-mover' companies for in-depth engagement, using a qualitative framework set out in sector-specific guides. 'Dial-mover' companies are chosen on their size and potential to galvanise action in their sectors, reflecting L&G's aim of driving market-level improvements. Steel is one sector pivotal to the energy transition and in quarter 4, one of L&G's 'dial-mover' companies, **Nucor**, the largest steel producer in the US with whom L&G has engaged extensively, announced a net-zero emissions commitment with interim targets and published a decarbonisation plan.
- **Volkswagen** is one of the largest automotive manufacturers in the world, with production facilities across multiple regions. Volkswagen has a particularly large presence in China, where it has been present since the 1980s. China comprised just under 40% of the company's global vehicle deliveries in 2022. Volkswagen opened a plant in Urumqi, Xinjiang in 2013 via one of its joint ventures ('JV'). Over recent years, multinational corporations have faced allegations of using forced labour in their operations in this region. In late 2022, MSCI responded to allegations of forced labour by assigning a red controversy flag to Volkswagen.
  L&G have engaged with Volkwagen over several years, and following multiple discussions with them and other investors, Volkswagen resolved to obtain an independent audit of its JV plant in Xinjiang, which was conducted in December 2023. This audit appears to address the main concerns around operations at the plant and resulted in MSCI removing its red controversy flag. L&G will continue to engage with Volkswagen on the subject of human rights and other governance topics, including the long-term future of the plant in Xinjiang.
- **Rolls Royce** hired a new CEO at the start of 2023, who entered the role with the mandate of imposing major structural changes to the business. **L&G** have engaged with the CEO since his appointment to understand

how Rolls Royce will manage its relations with key labour stakeholders while undertaking any strategic decisions as well as to communicate to the company the importance of positioning for long-term climate trends while also addressing short-term challenges Following these discussions, L&G believe the strategic review announced in November 2023 appears well balanced without sacrificing options for the company to remain an active participant in the carbon transition.

- **L&G** sent engagement letters to 16 large-cap UK and US companies that have no women on their executive leadership team. L&G's expectation is for these companies to have at least one woman in their executive leadership team, increasing to 40% over time. L&G have also started to send out engagement letters to mid-cap companies in the UK (FTSE 250 index) and the US (Russell 1000 index) that do not meet their expectation to have at least one person from an ethnic minority background on their board. L&G set out this expectation in 2021 and have been engaging since then to encourage companies to meet this ambition or face voting sanctions in the future. L&G anticipate that they shall engage with 75 companies in total across these indices. In Europe, the latest regional 30% Club Investor Group has launched in Germany. LGIM will be an active member of this collaborative engagement group which will engage with DAX40 and MDAX companies on their plans to reach 30% women on their management boards by 2030. Finally, diversity remains a priority for L&G in Japan and in quarter 4 they were invited to a dialogue with the Japan Association of Corporate Directors (JACD) where they highlighted their policies.

Principle 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, Sustainalytics, and many of the investor coalitions in which the Fund participates.

These include **Climate Action 100+**, which published a list of 10 companies to be assessed against the **Net Zero Standard for Oil and Gas (NZS O&G)** in November 2023**:**

- The NZS O&G was published by IIGCC in April 2023 and provides a comprehensive assessment framework for investors to assess oil and gas company disclosures and the alignment of their transition plans with a 1.5 degree climate scenario. Development of the standard followed a two-year consultation process led by IIGCC with support from Transition Pathway Initiative Centre (TPI Centre), investors and regional investor groups.
- The NZS O&G metrics have been designed to complement the Disclosure Framework of the **Climate Action 100+ Net Zero Company Benchmark**. The initiative also recently announced the launch of the **Net Zero Standard for Diversified Mining** (NZS DM). Both standards are designed to support and complement global sector strategies engagement. The assessments do not require or seek collective decision-making or action with respect to the acquiring, holding, disposing and/or voting of securities but were developed to

help inform investors' corporate engagement priorities and escalation strategies, whilst also helping them better understand the transition risk in their portfolios.

- The assessments, undertaken by the TPI Centre and the London School of Economics and Political Science, have now been carried out for the following 10 companies: Exxon Mobil, Shell plc, Chevron, TotalEnergies SE, ConocoPhillips, BP, Occidental Petroleum, Eni S.p.A, Repsol S.A. and Suncor Energy. Analysis of the data generated will be publicly available later in Q1 2024.

Other activity in quarter 4 2023 included:

- The Fund was one of 49 financial institutions with a total of $3.5 trillion in assets under management to co-sign a CDP letter to policymakers and the global community on the importance of addressing plastic pollution and the need for comprehensive plastic related disclosure.
- In the November 2023**,** the **Transition Plan Taskforce ('TPT')** was launched in the UK by HM Treasury, with the aim to develop a 'gold standard' framework for private sector climate transition plans. Despite numerous net-zero commitments in recent years, there is still a lack of the information needed to assess credible progress towards these at scale. Filling this gap, the TPT's disclosure framework and supporting materials will enable consistent and comparable reporting of transition plans and drive tangible progress towards net-zero commitments.
  The framework was developed in consultation with a wide group of stakeholders including business, regulators, investors, and academia, including **L&G**. L&G believe the framework is critical to delivering on its own climate commitments, supporting clients transitioning their portfolios to net zero, and making more informed decisions about how to allocate capital. They will continue to work with the TPT and will be advocating for widespread market adoption of the framework.
- Ahead of its November AGM, **Baillie Gifford** spoke with **BHP Group Ltd** to discuss climate-related issues. Unlike last year, there were no specific climate related resolutions, but Baillie Gifford had specific concerns regarding the extent of the company's scope 3 ambitions and the use of scenarios. With improved climate-related disclosure in this year's annual report, Baillie Gifford were able to have a constructive discussion on the development of scenario analysis. Of particular note is the introduction of more robust physical risk scenarios, which the company has been able to use to explore near-term asset and labour resilience. Baillie Gifford would like to see this work better integrated into the transition scenarios used for strategic planning and further disclosure of assumptions in the financial statements. On emissions, Baillie Gifford continue to press BHP for more information on the development of the downstream iron-to-steel value chain. It was useful to discuss the challenges in reducing methane emissions from the remaining coal mines and positive to hear of the specific R&D efforts for better monitoring and control. The first battery-driven mine truck is expected in 2024, with fleet replacement over the following decade. Baillie Gifford also discussed improved disclosure of lobbying activities and pushed for a better definition of materiality and alignment. Baillie Gifford will speak to the company again before a revised Climate Transition Plan is put to shareholders in 2024.

- **Oldfield** held discussions during the quarter with **NOV Inc**, a global energy services company, domiciled in the US. This was their fourth discussion with the company, as they continue to pursue better climate disclosure, encouraging reporting via the TCFD framework for increased transparency on strategy, metrics and targets. Progress to date has been incremental and this conversation reflected more of the same. Oldfield will now aim to broaden discussions to other members of the team that can provide better insight into the delay, as well as to understand the position of other major shareholders.
- **JP Morgan** reported the results of its 2023 annual Diversity, Equality and Inclusion (DEI) survey of IIF portfolio companies. While improvement had been made since last year, including in the tracking of retention and promotion across diverse groups, the survey concluded that portfolio companies could better understand the data they already collect in order to use it more effectively and that they should assess existing initiatives and the ongoing suitability of their DEI objectives, including expanding diversity focus to include age, socio-economic background and veteran status. The IIF porfolio's annual board effectiveness survey, while highlighting many areas of board strength and effective functioning across companies, also concluded that additional focus is necessary on diversity of boards with respect to race and ethnicity, though generally there were no issues with regard to skills, background, gender identity and expression and diversity of thought.

Principle 4
We will promote acceptance and implementation of the Principles within the investment industry

- The Fund is a signatory the new **UK Stewardship Code** (2020). The Fund also encourages its external investment managers and service providers to demonstrate their commitment to effective stewardship by complying with the UK Stewardship Code. Following the most recent assessment fourteen of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are signatories.
- An up-to-date list of signatories to the Code is available at: https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code-signatories/
- The Fund received the results of its **2023 PRI assessment** during Quarter 4. The Fund submitted information for 5 assessment areas or 'modules' which can receive possible star scores from 1 star (lowest) to 5 stars (highest). The Fund scored 5 stars for 3 of the modules assessed, and 4 stars for the remaining 2 modules.
- Currently all the Fund's investment managers are signatories to the PRI principles and 31 of the 33 managers within the Direct Investment Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles. However, for some this will be less appropriate due to the specialised nature of their activities.

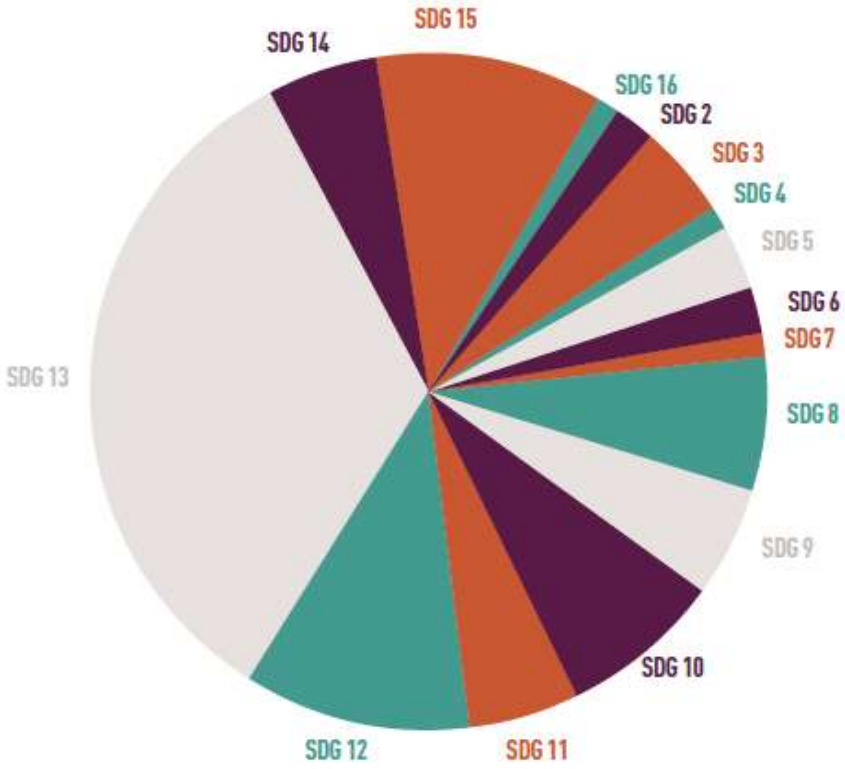
Principle 5
We will work together to enhance our effectiveness in implementing the Principles

- The Fund seeks to improve the effectiveness of company engagement and voting by acting collectively with other institutional investors, charities, and

interest groups. Working with ShareAction and others, the Fund has carried out direct collaborative engagement across a range of initiatives. It is also a member of industry collaborative forums including the Local Authority Pension Fund Forum, the Institutional Investors Group on Climate Change and the Carbon Disclosure Project (CDP).

- In December 2024, the Fund co-signed a letter to Sainsbury's as part of Shareaction's Good Work Investor Coalition. All of Sainsbury's directly employed staff and security guards are paid the real Living Wage but investors asked the company for clarity on the distribution of Sainsbury's third-party contracted workforce, the proportion of each job type that are paid below the real Living Wage and the minimum hourly pay rate for each job type.
- In Quarter 4, the Local Authority Pension Fund Forum (LAPFF) provided a Quarterly Engagement Report, which is available at https://lapfforum.org/wp-content/uploads/2023/10/LAPFF-QR4.pdf

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



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	0
SDG 2: Zero Hunger	2
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	4
SDG 5: Gender Equality	3
SDG 6: Clean Water and Sanitation	2
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	6
SDG 9: Industry, Innovation, and Infrastructure	5
SDG 10: Reduced Inequalities	7
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	10
SDG 13: Climate Action	31
SDG 14: Life Below Water	5
SDG 15: Life on Land	10
SDG 16: Peace, Justice, and Strong Institutions	1
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

Principle 6

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

- Legal and General, Baillie Gifford, JP Morgan, Lombard Odier, Veritas, Barings and Oldfield Partners provided reports on ESG engagement during the quarter.
- Sustainalytics provided a full engagement report for 2023 summarising the shareholder engagement activities performed on behalf of investor clients during quarter 4 and throughout the year and including updates on individual portfolio companies. Sustainalytics map these Global Standards Engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. In total there were 171 engagements during 2023, of

which 142 were active at year end. 2023 engagements can be attributed to the following SDGs (as percentage of total cases).

Sustainable Development Goals – Mapping Engagements

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

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

In all, Sustainalytics completed 56 meetings and 532 emails and phone call exchanges on behalf of its clients during quarter 4 2023. 17 engagement milestones were achieved.

5 engagements were resolved during quarter 4:

- **3MCo.** For several years this US industrials conglomerate faced intense scrutiny over widespread environmental pollution stemming from past activities and products which were linked to severe health impacts. Sustainalytics engaged with the objective of getting the company to provide greater clarity and disclosure on its PFAS (chemicals) stewardship initiative and how it was mitigating potential liability from the historic sale/ use of its products outside the US. In addition the company was asked to explain how it was applying lessons learnt to its product development. Since the engagement began, the company has worked on the development of sustainable chemicals and on discontinuing the production of PFAS by 2025. It has invested in technology to remove up to 99% of contaminants from its waste-water discharges and has also developed a PFAS dedicated section on its website to inform others of how to ensure effective product stewardship. Finally, 3MCo has set aside USD 10 billion to deal with historical litigation claims arising from PFAS contamination of drinking water supplies.
- **Barclays plc**. Over the past few years, Barclays plc was implicated in significant allegations of business ethic-related misconduct. Sustainalytics engaged to ensure the on-going implementation of whistle-blower policies, practices and procedures as mandated by regulators as well as relevant international organisations and global banking industry best practice. Barclays retained an outside third-party to conduct a full review of its whistleblower policies, programmes, processes and controls. Afterward, it implemented strong whistleblower policies, independent grievance mechanisms, and good reporting on grievance mechanism statistics. Finally, Barclays has taken various steps to reinforce a corporate culture that prioritises ethical conduct and compliance.
- **BRF SA.** Brazilian food producer BRF has faced allegations of distributing contaminated meat products and bribing health inspectors to conceal the wrongdoing. The objective of engagement was to ensure that BRF investigated the failure to meet food standards due to bribery thoroughly and that food quality and safety policies and management systems were properly implemented, monitored and reported. The company has since improved its food safety and product quality performance. It has updated relevant policies and food safety and quality remain material topics in its sustainability strategy. Finally, food safety and quality issues are supported by an executive committee and incentivised with targets for senior management.
- **Rio Tinto Ltd**. In 2020, Rio Tinto was involved in destroying an Aboriginal heritage site of high archaeological and cultural value in Australia. The company was also involved in other community relations controversies in several countries. Rio Tinto has met Sustainalytics engagement objectives with the following actions: They have agreed on a compensation package with the PKKP, the traditional owners of the lands on which the company operates and completed the physical rehabilitation of the destroyed rock shelters; the company has established suitable community relations mechanisms across all its operations and to maintain the relationship on which the consent is based; finally, Rio Tinto's heritage and community relations teams have become fully integrated into its operations to ensure an integrated decision-making process.

- **Toshiba**. In the past, Toshiba was involved in the falsification of accounts affecting its employees and shareholders. The issue appeared to be systemic and pre-incident internal controls were poor. Since engagement began in 2020, the company has established an effective risk management and compliance system, made changes to its board and executive team and improved board oversight. It has also implemented 'segregation of duties', fraud detection and prevention measures. Finally, Toshiba have increased the size of the audit committee and expanded the use of independent fraud and compliance professionals.