Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Ext: 75186

Item 8

11th September 2024

Investment Update

Purpose of Report:

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

- investment performance to 30th June 2024
- distribution of portfolios and DIP investments as at 30th June 2024
- the Investment Advisory Panel meetings of 9th May 2024 and 15th August 2024
- stewardship activity during Quarter 2 2024.

Recommendations:

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

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐

consulted: Yes ☐ No ☐

PLEASE NOTE THE FOLLOWING:

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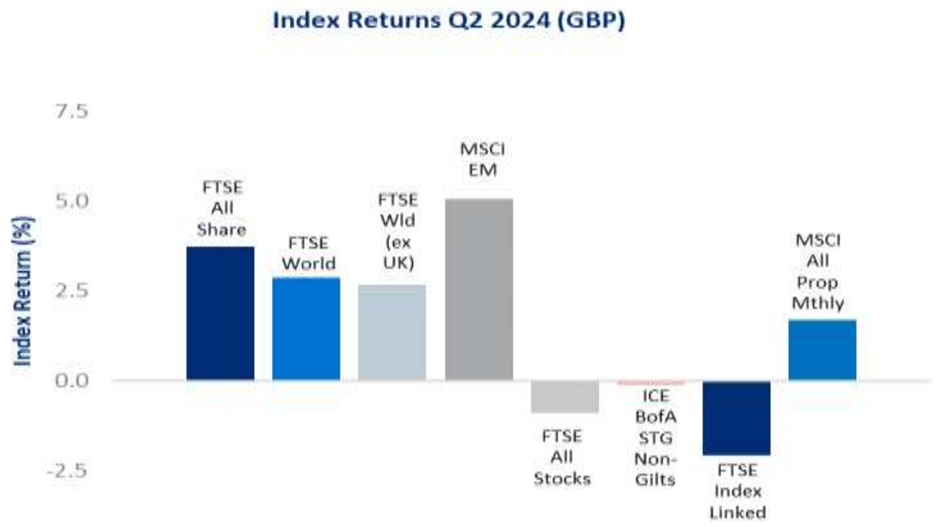
1 **Background**

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**

Overall, global equity markets performed positively over the quarter. The key drivers of performance were earnings momentum, improving inflation figures and optimism about interest rate cuts. In the US both the S&P and Nasdaq reached new highs driven mainly by large technology companies (chip maker Nvidia accounted for 30% of the gains of the S&P). In the UK, the FTSE 100 reached an all-time high supported by lower inflation, which has now reached target. In Europe, markets fell, notably in France due the parliamentary election.

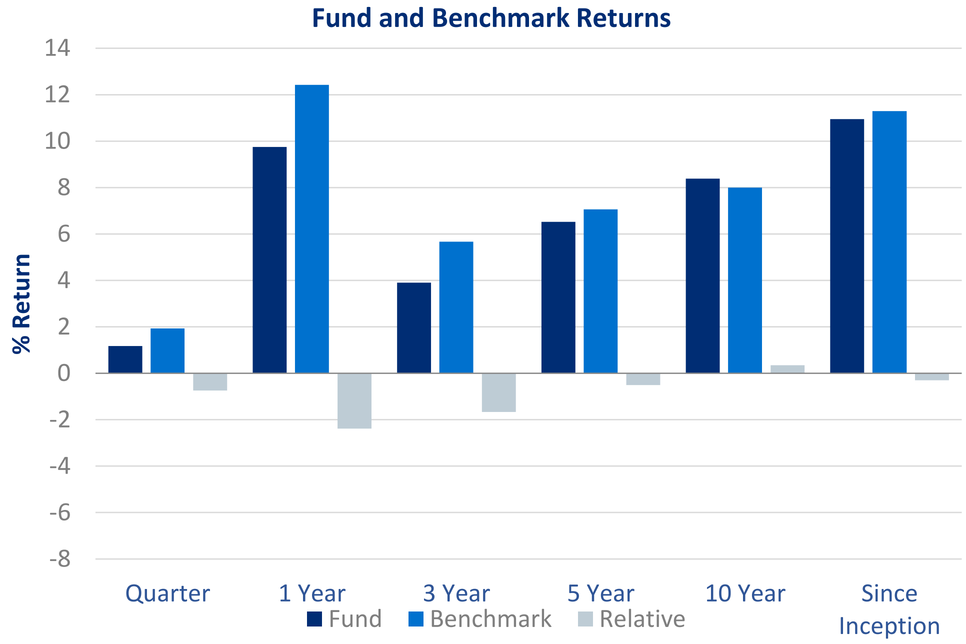
Government bond yields rose and prices fell mildly during the quarter, with 10 year yields in the US, UK, Germany and Japan all ending the quarter higher. In the US the Fed's decision to hold interest rates as inflation remained above target and mixed economic data signalled a weakening economy drove yields lower. In the UK, 10-year Gilt yields rose as economic data was mixed and the Bank of England held interest rates despite inflation falling to target. In the eurozone there were signs that the economy was recovering from weakness in 2023. The yield on the 10-year German Bund rose. In global credit markets, yields in the US and UK rose and credit spreads widened.



- The **FTSE All Share** Index returned **+3.7%,** the **FTSE World ex UK** index **+2.7%** and the **MSCI Emerging Markets** index **+5.0%**, compared with Q1 returns of **+3.6%**, **+9.8%** and **+3.4%** respectively.
- The **FTSE All Stock Index** returned **-0.9%** compared with **-1.6%** in Q3.
- **Sterling** rose by **+0.8%** against the euro and **+0.1%** against the dollar.
- The **MSCI All property monthly return index** returned **+1.4%** as capital returns shifted back into positive territory. The only sector to record negative returns was the office sector.

3 Fund Performance

The **Fund's value** at 30th June 2024 was **£30,596m**, an increase on the 31st March 2024 valuation of **£30,245**.



The **Fund's total return** for Quarter 2 2024 was **+1.2**%, behind the benchmark return of **+1.9%.** 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 2:

- 4 managers outperformed their benchmark; and
- 17 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	*31 Mar 2024 (£m)*	*31 Mar 2024 (%)*	30 Jun 2024 (£m)	30 Jun 2024 (%)	Target (%)
Equity	*17,684*	*58.5*	16,573	**54.2**	**47.0**
Hedging & insurance	*445*	*1.5*	1,697	**5.5**	**10.0**
Credit	*1,615*	*5.3*	1,605	**5.2**	**5.0**
Short term enhanced yield	*5,213*	*17.2*	5,329	**17.4**	**17.0**
Long term enhanced yield	*5,288*	*17.5*	5,392	**17.6**	**21.0**
Total	***30,245***	***100.0***	**30,596**	**100.0**	**100.0**

In March 2024, the SPF Committee agreed a revised investment strategy and structure to be effective from 1 April 2024. The process of transitioning to the revised strategy commenced during Q2. Transition activity to date is outlined below:

- The LGIM RAFI portfolio (Equity) was reduced, with proceeds being re-invested in LGIM index linked funds (Hedging & Insurance).
- LGIM commenced the transition of c.4% of regional market cap equity funds into LGIM gilt and index-linked funds as per the Fund's revised Equity and Hedging/Insurance allocations. The switches are scheduled to complete mid Q3 2024.
- LGIM completed the transition of remaining holdings (c13.9% of total Fund) in regional market cap equity funds into equivalent low carbon transition funds.
- The Ashmore (STEY) mandate was liquidated in two tranches over the quarter, with the final trade being placed on 27 June and settling on 1 July.
- The Barings multi-asset credit mandate (STEY) was reduced by £80m to bring the mandate into line with its revised target allocation (2.25% of total Fund).
- Immediately following quarter end, £180m was invested in the JP Morgan Institutional Infrastructure Fund (LTEY) to bring the mandate into line with the revised target allocation (4.5% of total Fund).

Per the investment strategy agreed in March, the Fund completed three further investment selection exercises during Q2 2024, with Committee agreeing the following at its meeting in June 2024:

- That the Fund's active emerging market allocation (2% of the total Fund) should be invested in the RBC GAM Core Emerging Markets Equity Fund
- That the Fund's passive corporate bond allocation should be invested in LGIM's Low Carbon Transition corporate bond funds
- That the Fund's buy and maintain corporate bond allocation should be invested into LGIM's Future World Net Zero Buy and Maintain corporate bond fund.

Officers are currently working with active emerging market managers Genesis and Fidelity and new manager RBC GAM to plan the transition between funds. Planning of the corporate bond fund transition is also underway with LGIM.

Both the emerging market equity and corporate bond transitions are likely to commence end Q3 24/ start Q4 24 at the earliest.

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

5 Direct Impact Portfolio (DIP)

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

6 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 8th May and 15th August 2024 . A note of the Panel's meetings is set out in **Appendix 6**.

7 Stewardship: Responsible Investment

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

- In May, SPF submitted its 2023 Stewardship Report to the Financial Reporting Council (FRC). At the close of the quarter the Fund was confirmed as one of 72 asset owner signatories to the **UK Stewardship Code** (2020) accepted this year.

- The Fund was selected to lead the **CDP Non-Disclosure Campaign (NDC)** climate disclosures engagement with Indian based multinational conglomerate, **Reliance Industries** and water security and forests disclosure engagement with US based paints and coatings manufacturer, **PPG Industries, Inc.**
- **Sustainalytics** issued its final report for the thematic engagement, **Feeding the Future** which aimed to contribute to more sustainable agricultural practices. Through the course of 3 years of engagement with companies in the food sector, Sustainalytics have seen improvement across a range of performance metrics. Sustainalytics will continue dialogue with most of the companies included in Feeding the Future through a new programme - Biodiversity & Natural Capital (BNC) Thematic Stewardship.

8 Stewardship: Energy Company Assessment Framework

A summary of **SPF** energy company holdings as at 31st March 2024, assessed under the framework agreed by the SPF committee in 2022, is included at **Appendix 8.** Of the 21 energy companies held, none was rated red, 4 were rated amber and 10 green, with a further 7 rated grey due to insufficient data.

9 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	N/a.

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

Climate Impacts:

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

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

10 Recommendation

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

Appendices

Appendix 1	**Investment Objectives and Strategy**
Appendix 2	**Fund and Asset Class Performance**
Appendix 3	**Manager Performance**
Appendix 4	**Portfolio Summary**

Appendix 5	**Direct Impact Portfolio**
Appendix 6	**Investment Advisory Panel**
Appendix 7	**Stewardship Activity**

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 80% funded over the next three years.

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

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

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

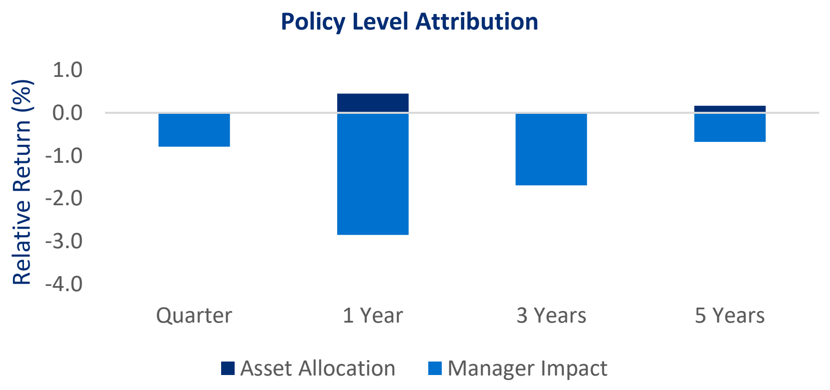
Appendix 2

Fund and Asset Class Performance

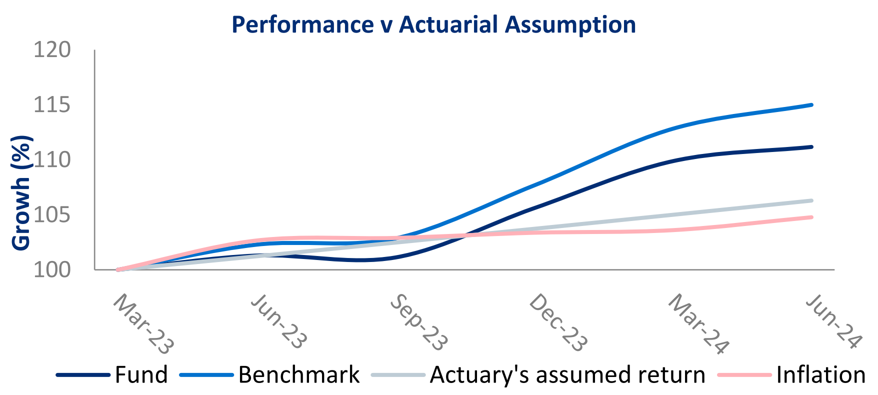
1. Returns by Asset Class

Asset Class	Latest Quarter Fund %	Latest Quarter B'mark %	Latest Quarter Relative %	1 Year Fund %	1 Year B'mark %	1 Year Relative %	3 Years Fund %	3 Years B'mark %	3 Years Relative %	5 Years Fund %	5 Years B'mark %	5 Years Relative %
Equity	1.4	2.7	(1.3)	13.8	18.8	(4.3)	5.0	7.4	(2.2)	9.1	9.7	(0.6)
Hedging & Ins	(1.8)	(2.9)	1.1	(0.1)	(0.1)	(0.0)	0.2	(10.5)	11.9	1.7	(5.2)	7.2
Credit	(0.6)	(0.6)	(0.1)	5.7	5.7	0.0	(5.1)	(5.2)	0.0	(1.1)	(1.2)	0.0
STEY	1.3	1.7	(0.4)	8.1	8.1	0.0	2.7	5.6	(2.7)	3.4	4.8	(1.3)
LTEY	1.1	1.1	(0.0)	0.9	3.3	(2.3)	5.2	5.2	(0.0)	3.6	4.2	(0.6)
Total Fund	1.2	1.9	(0.7)	9.7	12.4	(2.4)	3.9	5.7	(1.7)	6.5	7.1	(0.5)

2. Performance Attribution



3. Performance vs Actuarial Assumption



- In Q2, Equity and STEY underperformed their benchmarks, while LTEY performed in line with benchmark and in absolute terms, all active asset classes delivered positive returns.
- 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 Q2, 1, 3 and 5 years, investment manager performance, particularly in listed equity portfolios, has detracted from Fund return. Over 1 and 5 years, asset allocation has added value.
- Fund performance remains comfortably ahead of the assumed actuarial return and inflation.

Manager Performance

1 Equity

1.1 Manager Performance Summary

Equity						
Manager		**Current Quarter (%)**	**1 Year (% p.a)**	**3 Years (% p.a.)**	**5 Years (% p.a.)**	**Since Inception (% p.a)**
Baillie Gifford	Actual	0.3	14.3	(0.3)	6.9	8.9
	Relative	(2.6)	(5.2)	(8.7)	(2.6)	0.9
Lazard	Actual	0.6	10.4	6.0	9.5	9.7
	Relative	(2.2)	(8.0)	(2.4)	(1.2)	0.5
Oldfield	Actual	(1.3)	6.8	2.7	3.1	7.8
	Relative	(4.0)	(11.1)	(5.4)	(7.1)	(4.4)
Veritas	Actual	(1.7)	13.4	6.0	8.6	12.2
	Relative	(4.3)	(5.6)	(2.4)	(2.0)	(0.1)
Lombard Odier	Actual	4.5	10.4	(3.6)	11.5	7.3
	Relative	(1.5)	0.7	2.8	7.5	2.8
JP Morgan	Actual	(1.8)	10.2	(4.0)	6.0	11.4
	Relative	(1.1)	(1.3)	(4.5)	0.0	1.8
Active EM Equity[1]	Actual	4.8	15.1	(5.4)	1.2	8.8
	Relative	(0.1)	0.5	(4.7)	(2.9)	1.2
Pantheon	Actual	2.1	5.1	10.5	12.5	13.5
	Relative	(0.7)	(12.5)	1.7	5.6	4.5
Partners Group	Actual	2.1	2.8	8.1	12.0	11.4
	Relative	(0.7)	(14.4)	(0.4)	5.1	5.0
L&G Equity	Actual	2.6	18.8	7.1	9.8	9.8
	Relative	(0.8)	(1.0)	(0.4)	(0.3)	-
L&G RAFI	Actual	1.2	17.9	9.4	9.9	10.1
	Relative	0.1	0.4	0.3	0.2	(0.0)
L&G EM Equity	Actual	5.3	13.9	-	-	0.4
	Relative	(0.5)	(0.6)	-	-	(1.4)
Total	Actual	**1.4**	**13.8**	**5.0**	**9.1**	**9.5**
	Relative	**(1.3)**	**(4.3)**	**(2.2)**	**(0.6)**	**0.1**

[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; all 9 managers underperformed their benchmarks. **Oldfield** and **Veritas** were the weakest performers in both absolute and relative terms. Lombard Odier and Active Emerging Markets (Genesis & Fidelity) delivered the strongest absolute returns.

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

Although underperforming in Q2, **Lombard Odier** have performed well over the longer term. The strongest contribution to returns came from IQE, a specialist in compound semi-conductors as final results for the year were ahead of expectations. Following a

Manager Performance

strong start to the year, Silence Therapeutics was the weakest performer as Q2 a quieter period for news flow set shares adrift.

Pantheon and **Partners Group** underperformed over the quarter and 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**.

Veritas was the weakest performer in Q2 in both absolute and relative terms, and relative performance since inception is now behind benchmark. As the Magnificent 7 continue to dominate market returns, Veritas' relative underweight in this theme makes it difficult to outperform the market.

As a value investor, **Oldfield** significantly 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 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	0.9	7.0	3.3	4.4	2.9
	Relative	(1.1)	(1.4)	(2.8)	(0.8)	(0.1)
Ruffer	Actual	0.7	1.3	0.8	4.8	4.9
	Relative	(1.3)	(6.4)	(5.0)	(0.2)	(0.1)
Barings (Multi Credit)	Actual	2.0	11.4	1.6	2.8	3.1
	Relative	(0.2)	2.0	(5.1)	(3.1)	(2.3)
Oak Hill	Actual	1.9	12.4	4.6	4.6	4.2
	Relative	(0.3)	2.9	(2.3)	(1.3)	(1.3)
Barings (Private Debt)	Actual	2.9	10.9	7.9	6.6	6.0
	Relative	0.7	1.5	0.8	0.5	0.4
Alcentra	Actual	1.2	6.7	6.1	6.2	6.5
	Relative	(1.0)	(2.4)	(1.0)	0.1	0.9
ICG	Actual	(0.0)	4.1	4.7	n/a	3.5
	Relative	(2.2)	(4.7)	(2.2)	n/a	(2.5)
Partners Group (Private Debt)	Actual	2.5	11.1	6.7	n/a	4.6
	Relative	0.2	1.7	(0.4)	n/a	(1.5)
Ashmore	Actual	(1.2)	9.1	(8.0)	(5.4)	(2.9)
	Relative	(0.8)	4.1	(4.8)	(4.1)	(2.7)
Total	**Actual**	**1.3**	**8.1**	**2.7**	**3.4**	**3.0**
	Relative	**(0.4)**	**0.0**	**(2.7)**	**(1.3)**	**(1.3)**

2.2 Manager Performance Commentary

Short-term enhanced yield underperformed in Q2 with only 2 out of 9 managers outperforming their benchmarks, although only **Ashmore** (which was liquidated during the quarter) delivered a negative absolute return. On a relative basis, the **Barings** and **Partners Group** private debt portfolios were the strongest performers, while **ICG** was the weakest performer.

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

The **Barings Private Debt** portfolio outperformed the benchmark over Q2 and was also the strongest performer in absolute terms. Over 5 years, the portfolio has performed well and is ahead of benchmark. All 4 funds continue to distribute income and the manager expects that most investments will be realised at par. The inception to date IRRs reported by Barings range from 7% to 8%.

Ruffer underperformed the benchmark during Q2. Exposure to the Japanese yen hurt performance as the central bank's cautious exit from zero interest rates has allowed carry trades to weaken the yen further. Exposure to precious metals and industrial commodities was positive for performance as gold remained near all-time highs and copper and oil benefited from robust economic data. Although long term performance is behind the Fund's benchmark, the portfolio has achieved the manager's stated aim of not losing money in any rolling 12 month period and of generating returns meaningfully ahead of the return on cash.

ICG Longbow underperformed in Q2 and is behind benchmark over 3 years and since inception. One fund has now reached the end of its investment period and the managers are pressing borrowers for exit strategies in respect of investments with upcoming maturities. All funds continue to distribute income.

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	2.0	0.5	2.6	2.2	6.0
	Relative	1.5	1.5	1.6	1.4	0.2
Partners Group RE (2)	Actual	(1.5)	(13.5)	0.5	(1.1)	5.2
	Relative	(3.4)	(20.3)	(9.1)	(8.7)	(3.3)
JP Morgan IIF	Actual	2.9	10.8	8.9	7.7	7.2
	Relative	1.0	2.6	0.9	(0.3)	(0.7)
Total	**Actual**	**1.1**	**0.9**	**5.2**	**3.6**	**4.9**
	Relative	**(0.0)**	**(2.3)**	**(0.0)**	**(0.6)**	**(0.1)**

3.2 Manager Performance Commentary
Overall, the performance of the long-term enhanced yield allocation performed in line with benchmark in Q4 with only **Partners Group** underperforming. In absolute terms, **JP Morgan IIF** was the strongest performer.

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

Manager Performance

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 regulated water and wastewater company completing a merger, with the new merged entity having operations over 20 US states and 2 Canadian provinces; a European independent liquid bulk storage provider agreeing the disposal of non-core assets allowing the company to monetise non-strategic assets and refocus management's time on core activities; and a power company acquiring a 49 megawatt solar PV operating portfolio in Portugal.

DTZ outperformed the benchmark in Q2 with the income yield from the portfolio being the main driver of returns. Individual asset returns were polarised, with the top performing asset returning 9.2% and the worst performing asset returning -8.8%. Longer term, the portfolio has outperformed over 5 years and 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 in line with the FTSE/EPFA NAREIT Total Return Index reported by the manager. The portfolio has a Total Value / Paid In multiple of 1.18x.

Appendix 4

Portfolio Summary 30th June 2024

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	7,205	*23.5%*	1,697	*5.5%*	1,605	*5.2%*					**10,507**	***34.3%***	*33.0%*
Baillie Gifford	2,424	*7.9%*									**2,424**	***7.9%***	*7.5%*
Lazard	975	*3.2%*									**975**	***3.2%***	*2.5%*
Oldfield	834	*2.7%*									**834**	***2.7%***	*2.5%*
Veritas	924	*3.0%*									**924**	***3.0%***	*2.5%*
Lombard Odier	435	*1.4%*									**435**	***1.4%***	*1.0%*
JP Morgan	907	*3.0%*							1,209	*4.0%*	**2,115**	***6.9%***	*7.5%*
Active EM Equity	363	*1.2%*									**363**	***1.2%***	*0.0%*
RBC GAM	0	*0.0%*									**0**	***0.0%***	*2.0%*
Pantheon	1,443	*4.7%*					0	*0.0%*			**1,443**	***4.7%***	*5.8%*
Partners Group	937	*3.1%*					313	*1.0%*	546	*1.8%*	**1,795**	***5.9%***	*5.5%*
PIMCO							1111	*3.6%*			**1,111**	***3.6%***	*4.0%*
Ruffer							540	*1.8%*			**540**	***1.8%***	*2.0%*
Barings (multi-credit)							690	*2.3%*			**690**	***2.3%***	*2.3%*
Oak Hill Advisors							557	*1.8%*			**557**	***1.8%***	*1.8%*
Barings (private debt)							432	*1.4%*			**432**	***1.4%***	*1.8%*
Alcentra							292	*1.0%*			**292**	***1.0%***	*0.0%*
ICG Longbow							323	*1.1%*			**323**	***1.1%***	*1.0%*
Ashmore							233	*0.8%*			**233**	***0.8%***	*0.0%*
DTZ									2,348	*7.7%*	**2,348**	***7.7%***	*9.0%*
DIP	127	*0.4%*					125	*0.4%*	1,290	*4.2%*	**1,541**	***5.0%***	*7.5%*
Cash							713	*2.3%*			**713**	***2.3%***	*1.0%*
Total	**16,573**	**54.2%**	**1,697**	**5.5%**	**1,605**	**5.2%**	**5,329**	**17.4%**	**5,392**	**17.6%**	**30,596**	**100.0%**	**100.0%**
Target		**47.0%**		**10.0%**		**5.0%**		**17.0%**		**21.0%**		**100.0%**	

Direct Impact Portfolio

1 Portfolio Summary

The portfolio can be summarised as follows.

	Since Inception (£m)	Current Portfolio (£m)
Total Commitments Agreed	**2,239**	**2,141**
Amounts Drawn Down by Managers	**1,753**	**1,677**
+ Increase in Value	**560**	**514**
- Received Back in Distributions	**663**	**663**
- Realisations	**122**	**-**
= Total Net Asset Value (NAV)	**1,528**	**1,528**

Based on a current total Fund value of **£30,385m**, DIP's **5%** target allocation is a NAV of **£1,529m**.

The portfolio comprises **63** separate investments. In addition, a co-investment program of £200m was approved at the March 2022 meeting of the SPF Committee. To date, 2 co-investments (each for £15m) have been invested. The remaining £170m is yet to be allocated and is not included in the above table.

In Q4, total drawdowns and distributions amounted to **£74m** and **£38m** respectively.

2 Performance

Portfolio performance to 30 June 2024 is as follows:

	Q4 2023 (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
DIP	-0.7	0.6	8.6	5.9	7.4
DIP Benchmark*	1.3	7.1	9.5	7.4	3.2
SPF Total Fund	1.1	9.7	3.9	6.5	11.0

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

Positive Drivers (longer term returns):

- strong returns from the predominantly inflation-linked revenues underpinning the majority of the LTEY investments, such as the infrastructure (Infra), renewable energy (RE) & housing funds, which form the bulk of DIP;
- strong historical performance from the multiple private equity (PE) funds, and to a lesser extent also the private debt funds, although the overall total amount invested in these asset classes is smaller than in Infras & RE.

Direct Impact Portfolio

Detractors (shorter term returns):

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

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

- **54** investments are rated **green;**
- **7** are **amber**;
- **2** 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	14	6	0	14
Corran Environmental Fund II	2024	Growth Capital	Equity	20	9	11	0	9
Epidarex Fund II	2013	Venture Capital	Equity	5	5	0	3	5
Epidarex Fund III	2019	Venture Capital	Equity	15	11	4	0	11
Foresight Regional Investment V LP	2023	Growth Capital	Equity	30	4	26	0	3
Maven Regional Buyout Fund	2017	Growth Capital	Equity	20	18	2	17	8
Palatine Impact Fund II	2022	Growth Capital	Equity	25	8	17	0	8
Palatine Private Equity Fund IV	2019	Growth Capital	Equity	25	15	10	13	14
Palatine Private Equity Fund V	2024	Growth Capital	Equity	30	0	30	0	0
Panoramic Enterprise Capital Fund 1 LP	2010	Growth Capital	Equity	3	3	0	9	1
Panoramic Growth Fund 2 LP	2015	Growth Capital	Equity	13	12	1	16	5
Panoramic SME Fund 3 LP	2022	Growth Capital	Equity	25	5	20	0	4
Par Equity Northern Scale-Up Fund	2023	Venture Capital	Equity	25	6	19	0	5
Pentech Fund III	2017	Venture Capital	Equity	10	7	3	0	8
SEP II	2000	Venture Capital	Equity	5	5	0	4	0
SEP III	2006	Growth Capital	Equity	5	5	0	18	0
SEP IV LP	2011	Growth Capital	Equity	5	5	0	7	4
SEP V LP	2016	Growth Capital	Equity	20	20	0	11	28
SEP VI LP	2021	Growth Capital	Equity	30	10	20	0	9
Total as at 30/06/2024	**Q2**			**331**	**159**	**171**	**99**	**136**

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	42
Alpha Social Long Income Fund	2015	Support Living	LTEY	15	15	0	5	19
Capital Dynamics Clean Energy Infrastructure VIII	2019	Renewables	LTEY	40	36	4	4	36
Capital Dynamics Clean Energy UK Fund	2023	Renewables	LTEY	60	1	59	0	0
Clydebuilt Fund II LP	2021	Property	LTEY	100	68	32	1	68
Clydebuilt Fund LP	2014	Property	LTEY	75	75	0	72	17
Dalmore Capital Fund 3 LP	2017	Infrastructure	LTEY	50	50	0	14	53
Dalmore Capital Fund 4 LP	2021	Infrastructure	LTEY	50	50	0	4	51
Dalmore II 39 LP	2021	Infrastructure	LTEY	50	30	20	3	31
Dalmore PPP Equity PiP Fund	2014	Infrastructure	LTEY	50	50	0	36	43
Equitix Fund IV LP	2015	Infrastructure	LTEY	30	30	0	13	29
Equitix Fund V LP	2018	Infrastructure	LTEY	50	50	0	13	52
Equitix Fund VI LP	2020	Infrastructure	LTEY	50	50	0	4	52
Equitix Fund VII LP	2024	Infrastructure	LTEY	50	0	50	0	0
Equitix MA 19 LP (Co-Investment Fund)	2020	Infrastructure	LTEY	50	50	0	7	54
Funding Affordable Homes	2015	Property	LTEY	30	30	0	0	31
Greencoat Solar Fund II LP	2017	Renewables	LTEY	50	50	0	15	45
Hermes Infrastructure Fund II	2017	Infrastructure	LTEY	50	42	8	12	46
Iona Environmental Infrastructure LP	2011	Renewables	LTEY	10	10	0	4	6

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 Renewable Infrastructure LP	2017	Renewables	LTEY	14	14	0	1	15
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	4	76
Macquarie GIG Renewable Energy Fund I	2015	Renewables	LTEY	80	80	0	63	64
Man GPM RI Community Housing Fund	2021	Property	LTEY	30	24	6	0	25
NextPower UK ESG Fund	2022	Renewables	LTEY	60	26	34	1	27
NTR Wind I LP	2015	Renewables	LTEY	39	35	4	41	34
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	Infrastructure	LTEY	130	120	10	58	84
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	Property	LTEY	45	35	10	2	39
Quinbrook Renewables Impact Fund	2020	Renewables	LTEY	50	48	2	0	52
Resonance British Wind Energy Income Ltd	2013	Renewables	LTEY	10	10	0	7	9
Temporis Impact Strategy V LP (TISV)	2021	Renewables	LTEY	50	36	14	3	41
Temporis Operational Renewable Energy Strategy (TORES)	2017	Renewables	LTEY	30	28	2	7	51
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	Renewables	LTEY	30	30	0	8	39
Total as at 30/06/2024	**Q2**			**1,549**	**1,292**	**257**	**417**	**1,237**

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	21	19
Beechbrook UK SME Credit III Fund	2021	Credit	STEY	40	30	10	3	30
Healthcare Royalties Partners III LP	2013	Credit	STEY	20	19	0	19	7
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	Credit	STEY	20	14	6	14	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	40	21
Scottish Loans Fund	2011	Credit	STEY	6	6	0	7	0
TDC II (prev Tosca Debt Capital Fund II LP)	2017	Credit	STEY	30	24	6	17	13
TDC III (prev Tosca Debt Capital Fund III LP)	2019	Credit	STEY	30	21	9	10	24
Total as at 30/06/2024	**Q2**			**231**	**195**	**36**	**146**	**125**
Co-investment Programme								
Schroders Greencoat Glasgow Terrace	2023	Renewables	LTEY	15	15	0	0	15
Temporis (TISV Co-invest1 LP)	2024	Renewables	LTEY	15	15	0	0	15
DIP Portfolio Total								
Total as at 30/06/2024	**Q2**			**2,141**	**1,677**	**465**	**663**	**1,528**
Total as at 31/03/2024	**Q1**			**2,046**	**1,602**	**444**	**625**	**1,490**

Appendix 6

Investment Advisory Panel Meeting May and August 2024

MINUTES OF MEETING ON Thursday 9th May 2024

PRESENT:	**Richard McIndoe**	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	Alistair Sutherland	Investment Advisor
	David Walker	Hymans Robertson
	Ben Farmer	Hymans Robertson
	Jacqueline Gillies	Chief Investment Officer
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager
	Syed Muslim	Assistant Investment Manager
	Moira Gillespie	Investment Assistant

1. Minutes from Last Meeting & any Matters Arising

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

2 Monitoring

2.1 Market and Inflation Update

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

2.2 Quarterly Investment Performance Review

The Fund's return for Q1 2024 was **+4.1%**, behind the benchmark return of **+4.8%**. Performance for the year to 31st March 2024 was positive (+**9.9%)**, but below benchmark (**+12.8%)**. 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**
- 3 rated **amber**
- 3 were rated **red** following the Committee decision to review the emerging market equity portfolio and to terminate the emerging market debt mandate.

2.4 Barings Update

The current allocation to Barings private debt is 1.25% of total Fund. A proposal to increase this allocation to 1.75% was included as part of the recent review of investment strategy.

In March 2024, Barings announced that their Global Private Finance team had suffered a significant number of key senior departures. This was a completely unexpected development and one of the largest "lift-outs" of a team in the alternatives space. The departures constituted Key Person events and so contributions to Barings funds are currently suspended.

Hymans presented a paper to the Panel summarising the changes within the Barings private debt team. The Panel discussed the changes and agreed, since contributions have been suspended, to wait for Barings to provide further updates and for the Hymans research team to fully assess the situation.

Hymans will provide an update to the IAP at the August meeting on the conclusions of their assessment, when the proposed STEY allocation to private debt managers will also be reviewed.

2.5 Energy Company Analysis

The SPF Committee has agreed a climate change strategy for the Fund focussed on achieving net zero by 2050. In March 2022, the Committee agreed a minimum standards framework to support the climate change strategy by identifying companies that the Fund holds within the Energy sector which are not adequately considering climate change risk, the impact of climate change on their business and how to transition their business towards a low carbon economy, recognising the potential for ongoing policy and regulatory change.

In addition to agreeing the framework, the Committee agreed the following timeline for its application:

- Hymans Robertson apply the assessment to current Fund holdings – March/April
- IAP reviews outcomes - May
- Officers implement actions or instruct managers to do so – June to September
- Director reports results back to the committee – September/December

Hymans completed the third assessment of Fund holdings at end March 2024:

- **21** companies were held at 31st March 2024
- **12** of the companies held during the prior assessment had improved scores.
- No companies rated red overall and all **4** companies that rated amber overall showed significant year on year improvement. Of the companies rated green overall: **2** rated amber in at least one category; **one** rated red in one category.
- **7** of the companies have poor data coverage and could not be properly assessed.

2 holdings from the prior assessment were not included in this analysis as they are no longer held with 5 new companies now being assessed. Portfolio turnover is a consideration particularly when setting engagement actions.

The Panel noted the improvement in data coverage across companies since the previous assessment, indicating that engagement encouraging disclosure had made a positive impact.

Officers forwarded details of the assessment to portfolio managers and requested initial comments on:

- the business case for companies with an overall rating of amber
- how to address specific areas of weakness identified, particularly for 3 companies whose scores had decreased and
- improving data availability for those companies rated grey.

Investment manager responses will be collated and circulated to the Panel for review and discussion at the August Panel meeting.

Investment Advisory Panel Meeting May and August 2024

2.6 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:

- **55** investments are rated **green;**
- **5** are **amber**;
- **None red**.

2.7 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of March 2024 was estimated to have increased to **157%**, 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 March 2024 were as follows.

	2024	
	Estimate (£m)	**Actual (£m)**
Distributions	802	107
Calls	-587	-134
Net	**+215**	**-27**

The Fund's central cash balance at 31st March 2024 was +**£271m.** Additional cash will be raised during Quarter 2 2024 (net **+£360m**), as the Fund begins implementation of its revised investment strategy and divests from Ashmore, rebalances the Barings Multi-Asset Credit portfolio and increases its commitment to the JP Morgan international infrastructure fund.

The benefits account balance at 31st March 2024 was **+£230m**. This should be sufficient to cover benefit cash flows in Q2 and early Q3 2024 without transfers from investments.

The IAP will revisit investment cash balances, private market flows and potential sources of cash to meet benefit payments for the remainder of 2024 at its August meeting.

3.2 Rebalancing Strategy

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

The Fund has begun the process of implementing its revised investment strategy. The transition is anticipated to take place over Q2 and Q3 2024.

The Panel agreed that no immediate action was required pending the conclusion of the transition to the new investment strategy and structure.

3.3 Relative Value Framework

A relative value framework was approved by the Committee in September 2021 and relative positioning in gilts, index linked gilts, credit and cash has subsequently been reviewed by the Investment Advisory Panel on a quarterly basis.

At its meeting in March 2024, the Committee agreed that the relative value framework should be retained but that, given the changes in allocation to gilts, index-linked gilts and credit as part of the revised investment strategy, the framework is adapted to operate within narrower or clearly defined ranges around the new target allocations.

Hymans will review the framework and present their conclusions at the August meeting of the Investment Advisory Panel.

4 Investment Strategy and Structure

4.1 Transition Update

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

Asset	Proposed Allocation %
Equity	47
Hedging & insurance	10
Credit	5
Short term enhanced yield	17
Long term enhanced yield	21
	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. The Panel reviewed a paper setting out a timeline of the changes required at asset class and manager level.

The majority of changes would occur during Q2 20024, including:

- A phased reduction of the Fund's allocation to Equity and the increase in allocation to Hedging/ Insurance.
- The switch from the L&G market cap passive equity portfolio to Low Carbon Transition funds.
- The reduction in the Fund's allocation to the L&G RAFI strategy, including the sale out of the RAFI Emerging Markets fund.
- Termination of the investment mandate with Ashmore; reduction in the Barings multi-asset credit allocation.
- Increased allocation to global infrastructure/ the JPM international infrastructure fund.

The remainder of changes required to complete the strategy implementation are scheduled for Q3 2024. They are dependent on selection exercises and include:

- Selection and transition to a new passive corporate bond strategy.
- Selection and transition to a new Buy and Maintain corporate bond fund.
- Selection and transition to a new active emerging market equity fund

Following changes within the Barings private debt team, the STEY private debt manager allocations proposed as part of the strategy review will also be reviewed by the Panel at its August meeting.

4.2 Credit

Under the new strategy, the Fund's Credit allocation is set to reduce from 6% to 5%. All of the Fund's Credit exposure is currently invested using a passive approach managed by Legal and General Investment Management (LGIM), and split 50/50 between UK and US corporate bonds.

The following revised structure for the Credit allocation was agreed by the Committee at its March 2024 meeting.

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

The Committee also agreed at its March meeting to move the remaining LGIM Passive Corporate Bond allocation to an ESG/ climate-tilted passive corporate bond investment strategy, which also included coverage of BBB securities.

Hymans presented a paper reviewing options for the Fund's corporate bond allocation. In addition, the Panel received a presentation on the different options from Legal and General.

4.2.1 L&G Passive Corporate Bond Allocation

Hymans prepared a paper presenting two options from LGIM for the passive corporate bond fund allocation:

- The LGIM Future World corporate bond fund
- Passive Low Carbon Transition (LCT) UK and US corporate bond funds. These funds would be set up by LGIM with the Fund as the cornerstone investor, then also offered to other clients.
  LGIM's proposed Low Carbon Transition credit index funds are largely similar to the Carbon Transition equity index funds that have been adopted by SPF for the Fund's passive equity allocation.

Following the presentation from L&G, the Panel discussed both options. The Panel agreed that the LGIM UK and US LCT credit index funds would meet the Fund's requirements in accessing investment grade credit markets and would provide alignment with the Fund's climate objectives.

Simulated / model portfolios had already been generated by the index provider (Solative) to ensure required carbon reduction objectives can be met. Subject to Committee approval of the allocation to these funds at its meeting on 26th June 2024, Officers will work with L&G as they conclude the process required for product launch and SPF transition to the new funds. This is estimated to take a minimum of 12 weeks to complete.

4.2.2 Buy and Maintain Corporate Bonds

The Panel reviewed three options from LGIM for the Buy and Maintain allocation:

- **LGIM Buy and Maintain fund.**
- **Future World Net Zero Buy and Maintain fund.**
- **The creation of a bespoke Buy and Maintain Low Carbon Transition fund.**

Following detailed discussion, the Panel agreed that the LGIM Future World Net Zero Buy and Maintain Fund is a suitable solution, meeting the Fund's strategic aims as well as its climate objectives.

A recommendation will be made to Committee at its June meeting that SPF invest 2.5% of total Fund (c£750m) in LGIM's Future World Net Zero Buy and Maintain fund.

4.3 Emerging Market Equity

Under the new strategy, the Fund's Equity allocation is set to reduce from 52.5% to 47%. Within this, an alternative structure for the Fund's allocation to emerging market active equity was agreed by the Committee at its March 2024 meeting.

Investment Advisory Panel Meeting May and August 2024

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 manager			**1.5**	**2.0**
Total		***4.4***	**4.45**	**4.4**

The Fund completed the sale out of the EM RAFI allocation in May 2024.

The revised structure includes an allocation to a new active emerging markets investment manager, as well as a short and long-term allocation to account for the time required to select the new active emerging markets equity fund and to complete the restructure between mandates.

4.3.1 Selection Process

The Fund's investment consultants, Hymans Robertson, were asked to carry out a process to identify a suitable manager for the active emerging market allocation. Hymans presented their shortlist of 4 recommended active EM equity solutions at the February 2024 IAP meeting. Following discussion, 3 managers were selected to present to the IAP at its meeting in May 2024.

Based on presentations from the 3 managers, the Panel concluded that either of the following 2 strategies could meet the Fund's requirements:

- **Aikya Global Emerging Market Equity Fund**
- **RBC GAM Core Emerging Market Equity Fund**.

Aikya and RBC GAM will be invited to present to the Committee Sounding Board with a view to making an investment recommendation to Committee at its meeting on 26th June 2024.

5 Governance

5.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 26th June 2024.

Appendix 6

Investment Advisory Panel Meeting May and August 2024

MINUTES OF MEETING ON Thursday 15th August 2024

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

2. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 9th May 2024 were agreed to be an accurate record.

2 Monitoring

2.1 Market and Inflation Update

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

2.2 Quarterly Investment Performance Review

The Fund's return for **Q2 2024** was +**1.2%**, behind the benchmark return of **+1.9%**. Performance for the year to 30th June 2024 was positive (+**9.7%**), but below benchmark (**+12.4%**). 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 Local Authority Pension Fund Performance

The Panel noted the PIRC 2024 annual review of local authority pension fund performance.

2.4 Manager Ratings

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

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

2.5 Direct Impact Portfolio Monitoring Report

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

- **54** investments are rated **green;**
- **7** are **amber**;
- **2** are in legals;
- **None red**.

Investment Advisory Panel Meeting May and August 2024

2.6 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of June 2024 was estimated to have increased to **165%**, compared with the funding level of **147%** at the last valuation date, 31st March 2023.

2.7 Annual Fee Review

The Panel reviewed a summary of investment management expenses for the financial year 2023/24 alongside 1- and 5-year manager performance data.

Total expenses for 2023/24 were **£184m** (*2022/23: £160m*) as reported in the unaudited financial statements. Expenses include all invoiced fees, together with estimates of pooled fees, performance fees, transaction costs and other expenses in accordance with CIPFA guidance.

The total represented **0.63%** of average investment value (*2022/23: 0.57%*).

Overall, the Panel was comfortable that the fees and costs incurred in 2023/24 were largely as expected for a fund of Strathclyde's size and structure. The Panel was reassured to see that there was some correlation between fees and performance.

2.8 Energy Company Analysis

At its May meeting, the IAP had reviewed Hymans' assessment of Fund holdings as at end March 2024. The Panel noted the improvement in data coverage across companies since the previous assessment, indicating that engagement encouraging disclosure had made a positive impact.

Officers subsequently forwarded details of the assessment to portfolio managers during May and requested initial comments on:

- the business case for companies with an overall rating of amber
- how to address specific areas of weakness identified and
- improving data availability for those companies rated grey.

Manager responses had been collated into a paper which the Panel reviewed. Manager responses were satisfactory.

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 30th June 2024 were as follows.

Investment Advisory Panel Meeting May and August 2024

	2024	
	Estimate (£m)	**Actual (£m)**
Distributions	795	284
Calls	-579	-253
Net	**+216**	**31**

The Fund's central cash balance at 30th June 2024 was +**£713m.** This increased during the quarter as the Fund began implementation of its revised investment strategy, divesting from the Ashmore Emerging Market Debt portfolio and rebalancing the Barings Multi-Asset Credit portfolio. This balance was sufficient to cover the increased commitment to the JP Morgan international Infrastructure fund (**£180m)** which was drawn on **1st July 2024**. A further **£130m** will be required to fund the emerging market equity portfolio transition later in the year.

The benefits account cash balance was **£130m** at 30th June 2024. **£100m** had since been transferred from investments to the benefits account (July 2024). Total forecasted benefits net cash requirement for **2024/25** is **£498m.** Detailed forecasting indicates further transfers from investments of **£100m** at end of Q3 2024, Q4 2024 and Q1 2025 will be required.

The IAP will revisit investment cash balances, private market flows and potential sources of cash to meet benefit payments for the remainder of 2024/25 at its November meeting.

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report showing Fund allocations vs new strategy allocations as at 30th June 2024.

The Fund has begun the process of implementing its revised investment strategy and is expected to complete implementation by the end of 2024.

The Panel agreed that no immediate rebalancing action was required pending the conclusion of the transition to the new investment strategy and structure.

4. Manager Reviews

3 investment managers attended the Investment Advisory Panel:

- **PIMCO**
- **Ruffer**
- **Barings (private debt)**

Performance of each of the managers was reviewed.

4.1 PIMCO

The PIMCO dynamic bond portfolio is currently valued at £1,111m, or 3.6% of total Fund, versus a target weight of 4%. PIMCO provided an update on the current portfolio and performance.

4.2 Ruffer

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The Ruffer long only absolute return portfolio is currently valued at £540m, or 1.8% of Fund versus a target weight of 2.0%. Ruffer provided an update on the current portfolio and performance.

4.3 Baring private debt

The Barings private debt portfolio is currently valued at £432m, or 1.4% of total Fund vs a target of 1.25%.

In March 2024, Barings announced that their Global Private Finance team had suffered a significant number of key senior departures. The departures constituted Key Person events and so contributions to the Barings funds in which SPF invests were currently suspended.

Barings provided the Panel with an update on the steps taken to ensure proper monitoring of existing investments, retention of key remaining personnel and recruitment of replacement team members. The steps taken had ensured Barings had been able to continue to access and complete investment transactions in both the US and Europe.

In addition, Barings provided an update on the Fund's portfolio and performance.

5 Investment Strategy and Structure

5.1 Transition Update

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

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

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

Changes that had begun or been completed in Q2 2024 included:

- A phased reduction of the Fund's allocation to Equity and the increase in allocation to Hedging/ Insurance (began May 2024, completed August 2024).
- A switch from the L&G market cap passive equity portfolio to Low Carbon Transition funds (June 2024).
- The reduction in the Fund's allocation to the L&G RAFI strategy, including the sale out of the RAFI Emerging Markets fund (Q2 2024).

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- Termination of the investment mandate with Ashmore; reduction in the Barings multi-asset credit allocation (May/ June 2024)
- Increased allocation to global infrastructure/ the JPM international infrastructure fund (subscription completed in April 2024, drawn down July 2024).

During Q2 2024, Committee approved the following:

- Investment in a new passive corporate bond strategy, the LGIM Low Carbon Transition corporate bond funds.
- Investment in a new Buy and Maintain corporate bond fund, the LGIM Future World Net Zero Buy and Maintain funds.
- Investment in a new active emerging market equity fund, the RBC GAM Core Emerging Markets fund.

Planning for the transition to these new mandates is underway and is expected to complete by the end of 2024. In addition, legal diligence is underway for the new allocation to private debt secondaries with Pantheon.

5.2 Relative Value Framework

A relative value framework was approved by the Committee in September 2021 and relative positioning in gilts, index linked gilts, credit and cash has subsequently been reviewed by the Investment Advisory Panel on a quarterly basis.

At its meeting in March 2024, the Committee agreed that the relative value framework should be retained but that, given the changes in allocation to gilts, index-linked gilts and credit as part of the revised investment strategy, the framework should be adapted to operate within narrower or clearly defined ranges around the new target allocations.

Hymans had reviewed the framework and presented their conclusions to the Investment Advisory Panel. The Panel discussed the paper and agreed the following changes in principle:

- The allocation to a Buy and Maintain corporate bond fund, a semi active strategy, should be excluded from the framework.
- The framework should be applied to the Fund's holdings in passive corporate bonds, gilts and index-linked gilts, with the option to hold cash.
- Ranges around each of the neutral strategic targets for these assets should be as follows:
    - Index-linked gilts, range 2.5%-7.5%, neutral target 5%
    - Nominal gilts, range 2.5%-7.5%, neutral target 5%
    - Passive credit, range 0-5%, neutral target 2.5%
    - Cash, range 0-5%
- With the exception of a 0.5% increase in the inflation triggers for index-linked gilts, no changes were proposed to the triggers used to prompt consideration of switching allocation between asset types.

5.3 Short term enhanced yield (STEY) private credit allocation

The Fund reviewed the strategic allocation to private debt as part of the 2023/24 review of investment strategy. A proposal to alter manager allocations, including allowing the Alcentra allocation to run off, increasing the Barings allocation to 1.75% and allocating 0.75% of Fund to a new private debt secondaries mandate with Pantheon, was approved by the SPF Committee at its March meeting. However, it was noted that the revised private credit allocation would be subject to further review following the announcement of personnel departures from Barings.

Hymans presented a paper outlining the current and future NAV profile of the private debt allocation, together with its current assessments of the Fund's private debt managers.

The Barings portfolio had been invested up to capacity prior to the suspension of new contributions in March 2024 and new investment with Alcentra remained suspended. The Partners Group and ICG portfolios were also at, or close, to new investment capacity, meanwhile the new allocation to private debt secondaries would take time to build up.

Overall the flow of distributions back from existing investments would far exceed new contributions over the short and medium term. As a result, Hymans forecast that the Fund's allocation to private debt would fall significantly below target from 2025 onwards, unless new investments are made with either an existing or with a new investment manager.

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

- the Alcentra mandate should still be run down.
- Barings had raised and invested new capital since the team departures in March and had made good progress in back filling vacancies, stabilising the situation at the firm. The Panel decided that Barings should be permitted to make new investments, up to the level of distributions back from the existing portfolios.
- ICG should be invited to the November Panel to review possible investment in new funds with them.
- Partners Group should also be invited to attend the November meeting to provide a review of their portfolio.

Hymans would work with officers and managers ahead of the November Panel meeting to update cash flow projections for the private debt allocation in light of the decision to allow limited new investment with Barings. In addition to manager presentations, these updated projections would inform a revised proposal for the Fund's strategic allocation to private debt managers and mandates.

6 Governance

6.1 Investment Advisory Panel Objectives

The CMA requires that the Fund sets objectives for its investment consultants. In 2019, the Fund agreed IAP objectives in response to the CMA order.

At its meetings in May and August 2022, the IAP reviewed the strategic objectives. A number of areas were identified which required some update and a new set of objectives was agreed.

The objectives agreed in 2022 were circulated to the Panel for discussion. The Panel agreed that the objectives remained appropriate and that no changes were required.

Appendix 6

Investment Advisory Panel Meeting May and August 2024

6.2 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 11th September 2024.

Appendix 7

Stewardship: Responsible Investment Activity

Responsible Investment: Quarter 2 2024
A summary of activity against each of the six United Nations Principles for Responsible Investment is provided below.

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

In quarter 2 the Fund's passive equity and bond manager, **Legal & General Asset Management**, published highlights from their **Climate Impact Pledge** 2024 results.

In 2016, Legal & General launched their Climate Impact Pledge in the belief that policymakers and companies can still mitigate the systemic risks from climate change. The Climate Impact Pledge aims to raise market standards and encourage companies to play their part in achieving the goals of the Paris Agreement. Over the years Legal & General have seen progress, but their view is that the transition needs to accelerate. On behalf of their clients, Legal & General assess over 5,000 companies across 20 'climate critical' sectors and engage directly with over 100 large, 'dial-mover', companies they have identified as having the potential to galvanise action in their sectors. Legal & General can also apply Climate Impact Pledge exclusions in their funds representing almost £176 billion of assets.

At the end of June 2024, Legal & General published their results from the latest cycle of Climate Impact Pledge engagement. Highlights include:

1. Quantitative assessment: 5,000+ companies in climate-critical sectors
    - Legal & General communicated with over half of the 5,000+ companies assessed in April 2024, the largest campaign to date.
    - During the 2024 proxy season, 455 companies were identified as subject to voting sanctions. Of these, 106 were companies in emission-intensive sectors that do not meet Legal & General's new baseline expectations.
    - The sectors with the highest proportion of companies lagging the Climate Impact Pledge minimum standards were oil and gas, electric utilities and property.

2. Qualitative assessment: 100+ dial-movers
    - A further 37 companies were identified as being subject to vote sanctions (down from 43 in 2023), indicating notable progress in the group of companies with which Legal & General meet directly.
    - In addition to 14 companies remaining on Legal & General's divestment list, they will divest from an additional two companies in certain funds – TJX* and Glencore* – for failing to meet expectations.
    - Although Legal & General did not reinstate any companies this year, some have demonstrated good progress, as showcased in Legal & General's 'Improvers list' in the report.

Stewardship: Responsible Investment Activity

The full report and further detail of the **Legal & General Climate Impact Pledge** is available at: https://www.lgim.com/uk/en/responsible-investing/climate-impact-pledge/

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

2.1 Voting

Managers' voting activity during the quarter to 30th June 2024 is summarised as follows.

Voting activity to 30th June 2024		
		(%)
Total meetings	**9,318**	
Votes for	79,331	75
Votes against	23,866	23
Abstentions	685	1
Not voted	1,138	1
No. of Resolutions		**100**

Voting activity in the quarter included:

- **Legal & General** voted against the election of the Board Chair and a resolution to approve the Climate Transition Action Plan and 2023 Progress Report at the **Woodside Energy Group** AGM. Despite the significant proportion of shareholder votes (49%) against the company's climate report at their 2022 AGM no material changes were incorporated in their most recent climate transition plan. Legal & General remain concerned about the emissions targets, lack of quantifiable disclosure on climate related risks and the quantum of capital to be allocated to low-carbon solutions (the election of the Board Chair passed but the resolution to approve the Climate Transition Action Plan and 2023 Progress Report was defeated by 58%). Legal & General also voted against climate transition plans at **TotalEnergies**, **Repsol** and **Shell**. Legal & General note the good progress these companies have made against their emissions targets, coupled with substantive allocations of capital to low carbon solutions and strong commitments made around renewable capacity growth and climate-related disclosure. Nevertheless, in order for net zero to become a reality, companies will have to make real, and in some cases significant, changes to their operations. Legal & General believe that plans need to be sufficiently ambitious to result in a positive impact upon the environment, while also retaining the credibility of being achievable, both operationally and financially. Legal & General co-filed a shareholder resolution at **Nippon Steel** in Japan asking the company to disclose climate-related and decarbonisation-related policy positions and lobbying activities globally and review these for alignment with the Company's goal of carbon neutrality by 2050. The resolution sent a strong message to the company that investors expect greater transparency on climate-related policy engagement activity. This was also one of the highest levels of support recorded for a climate-related shareholder resolution in Japan (resolution achieved 28% support). Legal & General supported a shareholder resolution at **Restaurant Brands International Inc.**, asking the company to comply with WHO guidelines on the use of medically important antimicrobials in food-producing animals throughout companies' supply chains. Globally, most antibiotics are used not for humans, but for animals. The overuse of antibiotics is known to exacerbate Antimicrobial Resistance (AMR). Legal & General expect companies to be transparent about their AMR strategy, the actions taken to implement it, and steps taken to monitor implementation (resolution achieved 11% support). At **Tesla, Inc.** Legal & General voted against a management resolution to ratify performance-based stock options to Elon Musk. The total award value remains excessive, even given the company's success. In addition, the grant appeared to have failed to achieve the board's other original objectives of focusing Musk on the interests of Tesla shareholders, as opposed to other business endeavours, and to aligning his financial interests more closely with those of Tesla stockholders. Lastly, there are forward-looking concerns that remain unaddressed, including a lack of clarity on the board's plan for Musk's future compensation programme and the potential for significant economic dilution (resolution passed by 76%).

- **Baillie Gifford** opposed two resolutions at the **Woodside Energy Group** AGM. The election of the Board Chair and the Company's Climate Transition Action Plan and 2023 Progress Report as the company lags behind expectations regarding setting emissions reductions targets. Climate risk poses a material financial risk for the long-term business development of the company and long-term shareholder value creation. Improved disclosure and stronger reduction targets are in the best long-term interest of shareholders. (The election of the Board Chair passed but the Climate Transition Action Plan and 2023 Progress Report was defeated by 58%). Baillie Gifford have now sold out of Woodside Energy. Baillie Gifford supported a range of shareholder stewardship and sustainability resolutions at **Amazon** including: requesting a report on how the company's climate strategy is consistent with a 'just' transition; providing additional emissions reporting; requesting a report on plastic use; a more thorough examination of the compliance of the company's policies and practices with international fundamental rights including freedom of association; requesting an independent report on lobbying and a report on gender/racial pay gap reporting (resolutions did not pass despite significant shareholder support). At **Adobe Systems**, Baillie Gifford opposed a shareholder resolution requesting a report on the hiring of persons with arrest or incarceration records. Adobe does not automatically exclude candidates with a criminal background and has a number of initiatives aimed at increasing representation within its workforce of underrepresented groups. Baillie Gifford do not believe that that the report requested would be additive to the information already available and therefore do not believe that it would be a good use of company time and resources (resolution failed). At **Meta Platforms Inc**., Baillie Gifford supported a shareholder resolution requesting a report on child safety and harm reduction and a shareholder resolution regarding lobbying alignment with the company's climate goals (resolution failed). At **LVMH**, Baillie Gifford opposed five resolutions relating to executive compensation. Baillie Gifford continue to have concerns with a lack of disclosure of performance targets and believe better disclosure would allow shareholders to assess the stringency of target setting and ultimately the alignment between pay and performance. Furthermore, the company's lack of response to minority shareholder dissent to executive compensation at recent annual general meetings is concerning. Baillie Gifford opposed executive remuneration at **Thermo Fisher Scientific.** Baillie Gifford have ongoing concerns with the structure of the long-term incentive plan. Performance is measured over one year which they do not believe is appropriate. Further, the annual bonus plan is based on performance over the same time horizon and same metric which will lead to executives being rewarded or penalised twice for the same performance (resolution passed by 79%).

- **Lazard** opposed management at the **Amazon** AGM by voting against executive remuneration, as it was deemed not to be in the best long-term interests of shareholders and for a shareholder resolution to commission a third-party audit on working conditions. At **Alphabet Inc.**, Lazard opposed management by supporting shareholder resolutions that included requests for: a report on lobbying payments and policy; a report on risks related to AI generated misinformation and disinformation; publish a human rights risk assessment on AI-driven targeted ad policies and adopt targets evaluating YouTube child safety policies. At **Broadcom Inc.**, Lazard voted against the advisory vote to ratify named executive officers' compensation as pay policies that are not considered to be aligned with the interests of long-term shareholders. At **Honeywell International Inc.**, Lazard supported a shareholder resolution to require an independent Board Chair. The presence of an independent chairman fosters the creation of a thoughtful and dynamic board, not dominated by the views of senior management. Lazard supported a shareholder resolution at **Texas Instruments Inc.**, seeking a report on due diligence efforts to trace end-user misuse of company products and at **NextEra Energy, Inc.**, Lazard opposed management by supporting shareholder resolutions requiring the company to disclose board skills and diversity matrix and report on climate lobbying.

- **Oldfield Partners** voted against the re-election of Board members at **The Walt Disney Company**. Oldfield supported the attempts of an activist shareholder to unseat two existing Board members, replacing them with alternatives. Their argument centred around the ability to positively influence Disney's governance and strategic direction. Oldfield believe that the current Board has historically not illustrated the ability to hold CEO and Chairman Bob Iger to account. Oldfield also wrote to Disney to outline their reasoning (resolutions failed).
- **Veritas** opposed management at the **Alphabet Inc.** AGM by voting for a shareholder resolution to publish a human rights risk assessment on AI-driven targeted ad policies. Veritas believe an independent human rights assessment on the impacts would help shareholders better evaluate the company's management of risks related to the human rights impacts of its targeted advertising policies and practices. At the **Amazon** AGM, Veritas supported a shareholder resolution requesting a report on plastic use as shareholders would benefit from additional information on how the company is managing risks related to the creation of plastic waste and at **Charter Communications,**

Inc., Veritas supported a shareholder resolution requesting a report on political contributions and expenditures.

- **Lombard Odier** voted against executive compensation at **Synthomer Plc.** where a cash bonus was proposed despite the Company requiring a highly dilutive rights issue. At **Trellus Health Plc.**, Lombard Odier voted against accepting the financial statements and statutory reports as there is insufficient independent representation on the Board, the Audit and Remuneration Committees are not fully independent and the annual report does not include a clear breakdown of individual remuneration components paid to the Directors during the year under review.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Baillie Gifford** spoke with the sustainability team and chief financial officer at Dutch payment technology provider **Adyen N.V.** to discuss progress and developments in their climate strategy and to provide input into Adyen's materiality exercise to identify the most significant ESG issues for the business.

  The Climate engagement improved Baillie Gifford's knowledge of Adyen's emissions reduction approach, and they in turn provided the company with guidance on what they think is best practice. Baillie Gifford encouraged Adyen to take a bottom-up approach to target setting and hope to see targets soon. Disappointingly, Adyen has rolled back its work on engaging customers on emissions after seeing little demand for its offset at the point of payment trial. Baillie Gifford suspect this has also been influenced by the criticism it received for previously offering low-quality offsets through a well-known environmental consultancy.

  This was the second year Baillie Gifford provided an investor perspective on Adyen's ESG materiality exercise. Baillie Gifford were encouraged to see the company respond to the feedback offered last year. The backdrop to this request is the EU's latest sustainability disclosure regulation, the Corporate Sustainability Reporting Directive (CSRD), which requires companies to assess and prioritise ESG issues for reporting purposes against the two dimensions of impact (defined as 'how the company affects people and the environment') and financial materiality (described as 'effects that flow through to the company's bottom line'). CSRD introduces complex and onerous reporting requirements, so Baillie Gifford were eager to understand how internal processes have adapted in response.

  Baillie Gifford engaged with mining company **BHP** to assess progress in addressing the aftermath of the 2015 Samarco mine dam failure in Brazil, focusing on social, environmental and legal remediations.

  Significant progress was noted across social remediations. The Renova Foundation, which was set up to administer the compensation and resettlement, is nearing the completion of resettlement and cash compensation programmes. Despite the absence of a fixed deadline, a considered approach has been taken, involving multiple stakeholders to ensure a durable administration of the process. The variety of resettlement options reflects a flexible approach to meeting the needs of the affected communities. Environmental remediation has largely been successful, with water quality restored to pre disaster levels in 2018 and long-term projects underway to rejuvenate fish populations and riverbank ecosystems. Legal remediation presents a mixed picture, with ongoing negotiations with the Brazilian government and a significant UK civil case expected to continue until 2029. Samarco Social License to Operate (SLO) shows signs of improvement, with efforts to engage the community in the mine reopening process and changes implemented to the tailings management strategies to improve trust. Baillie Gifford will continue to monitor progress, with more milestones expected to be completed by the end of the 2024 calendar year.

Baillie Gifford engaged with the US pharmaceutical and biotechnology company **Moderna** ahead of their 2024 AGM to better understand the board's approach to refreshment and executive compensation.

While there have been recent rotations between board committees, Moderna informed Baillie Gifford that they can expect board refreshment within the next 12 months. Following an external board review, it is looking for pharmaceutical expertise and is interested in experience in responsible AI and government affairs. Baillie Gifford agreed that more expertise in these areas will be essential for the company's ambitions in the next five years. Again, Baillie Gifford expect to see further improvement and long-termism in executive compensation in the next plan. Finally, Baillie Gifford discussed Moderna's approach to equal pay, ESG, and its work with suppliers to reduce their emissions. Baillie Gifford questioned the company’s approach to climate risk, on which it has done a company-wide assessment in 2023.

Baillie Gifford met with Singapore based technology conglomerate **Sea Ltd.** to continue discussing board composition and remuneration and hear an update on the company's developing climate strategy.

The engagement focused on board recruitment, including management's considerations and efforts in recruiting new board members, focusing on finding individuals with the correct skill set. Baillie Gifford also discussed remuneration, particularly a recent executive compensation cap. Sea Ltd clarified its remuneration approach and reassured that employee pay is competitive. The meeting also provided an opportunity to question the company's climate change strategy. While there are no immediate plans to set decarbonisation targets, Sea Ltd has considered climate and has published scope 1 and scope 2 emissions data, indicating relatively low emissions. Future emissions reductions are expected to result from broader operational improvements.

- **Oldfield Partners** continued engagement with **Southwest Airlines** on their decarbonisation commitments.

This year's sustainability report evidenced progress in areas previously covered in Oldfield discussions with the company. Firstly, greater transparency into Southwest's lobbying activities and secondly, the verification of their decarbonisation targets by the third-party Transition Pathway Initiative (TPI), represents an important step.
Progress towards their targets is contingent on the procurement of sustainable aviation fuel (SAF). The sustainability and scalability of different types of SAF vary widely depending on their feedstocks and production pathways. Whilst in the longer-term e-fuels made from green hydrogen, appear the highest integrity option, today production relies on biofuels such as waste fats, oils, and agricultural and forestry residues. It is critical that the scaling of SAF does not come at the expense of deforestation or food production. As a highly regulated sector, Southwest referred to several industry assessment standards which they adhere to. Oldfield expect to continue discussions with the company later this year to better understand these.

Oldfield Partners engaged with Hong Kong based multinational conglomerate **CK Hutchison Holdings Ltd.** on their climate change and biodiversity policies.

As a multinational conglomerate with distinct divisions progress has been impressive with science-based targets now approved for all divisions with the exception of Infrastructure where work continues with the more complex subsidiaries. The annual call with the company covered their approach to investing in hydrogen and how they consider the cost/benefit trade-off, alongside supportive policy, which has influenced their focus on the UK and Australia. During the meeting, Oldfield also discussed the development of their biodiversity policy. CK Hutchison have to date evidenced a strong governance framework with objectives set by the Board and a structure that leverages implementation expertise within the different divisions. Oldfield think this has been significant in driving progress for climate targets and discussed how the development of a biodiversity policy in 2023 is another example of a top-down approach that has been customised by each group. CK Hutchison initial nature related assessments are based on the concepts of protect, conserve and restore. Oldfield are encouraged by progress made and intend to monitor this annually.

- **J.P. Morgan** met with **Nippon Gas** to discuss Board diversity, environmental impact/risks and social risks.

  J.P. Morgan asked whether the company intended to change its structure from an audit board to an audit committee and increase outside directors. Given the scale of the company, Nippon Gas prefers to have mostly inside directors on the board for swift decision making and the current corporate structure ensures appropriate oversite as auditors are given the sole authority in discharging responsibility. J.P. Morgan also discussed the company's process to oversee director remuneration where two independent consultants provide the basis for director evaluations to ensure fairness. It was suggested to the company that they add an outside director. J.P. Morgan also questioned the responsibilities of the ESG Management Promotion Committee, which overseas issues related to succession planning, key personal remuneration and sustainability issues. It appears the Committee is charged with too many tasks, and J.P. Morgan advised that they need a clearer picture as to how the committee is involved in the nomination or remuneration process. JP Morgan flagged that the company's attrition rate has risen to 10% and they scored low on employee engagement. Nippon Gas said their attrition rate was within the acceptable range but acknowledged that the engagement score is low due to inadequate work life balance and wage levels. The company has raised salary by 5% this year and introducing measures to increase the use of paid leave. JP Morgan noted the appointment of the first female director with expertise in human capital management and requested she engage with shareholders.

- **Sustainalytics** reported engagement with US based **UnitedHealth Group Inc.** (Baillie Gifford, Lazard and Veritas) regarding data privacy and security.

  In February 2024, a cybercriminal group carried out a ransomware attack on Change Healthcare Inc.'s online systems, encrypting them and blocking the company's access to its medical claims processing platform. UnitedHealth Group, Inc. (United) acquired Change Healthcare Inc. (Change) in October 2022. The hackers had allegedly used compromised login credentials to access Change's Citrix server, which did not have multi-factor authentication (MFA) in place. Citrix is an application used to provide remote access to desktops. The cybercriminals spent nine days extracting data from Change's systems before deploying the ransomware, at which point the breach was discovered by the company. The hacker group claimed to have obtained 6 terabytes of data in the breach. According to the CEO of UnitedHealth, it may take several months of investigation to determine the extent of the breach, the type of data compromised, and the number and identity of the individuals affected. However, the company has confirmed that it identified files containing protected health information (PHI) and personally identifiable information (PII) among the data exposed in the breach. The data breach is estimated to have impacted around a third of US citizens, more than 100 million people. Change's system remained offline for several weeks after the attack, which had extreme short-term impacts. During this time, pharmacies, hospitals and healthcare providers throughout the US were unable to access the system, through which they submit medical claims and receive payment, while patients experienced delays in care and were unable to fill their prescriptions. Change processes around 50% of all medical claims in the US, and the incident allegedly resulted in USD 14 billion in delayed medical claims. In March 2024, the US Department of Health and Human Services' Office for Civil Rights announced that it had launched a federal investigation into the incident.

  Change Objective: UnitedHealth Group, Inc. should remediate the impacts of the breach and collaborate with investigating authorities. It should implement comprehensive data privacy and data security programmes and governance structures that ensure adequate internal control systems and risk management procedures to manage cybersecurity risks across all operations, including acquisitions, and provide transparent disclosure on all these measures.

Sustainalytics concluded engagement with Irish based fackaged Foods, and company **Glanbia Plc.** (JP Morgan). Glanbia had previously registered a low ESG score based on product governance, environmental and social impact of products and services and land use and biodiversity in their supply chain.

In the latest ESG Risk Rating update, Glanbia's score improved by 15 points, bringing it into the medium risk category and below the 28-point threshold for engagement. Positive development highlights include:

- Glanbia provided details on external certifications, clarifying that each of its sites is audited annually by internationally recognized third-party schemes such as the Global Food Safety Initiative and the National Sanitation Foundation.
- Glanbia disclosed its approach, governance, management, and responsible practices concerning responsible labelling and ethical marketing across both its B2B and consumer-facing segments.
- The company disclosed a robust ESG strategy that is firmly embedded in its core business. A comprehensive double materiality assessment identified and prioritized material topics, which are effectively managed and reported.

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

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

- **Oldfield** met with Zurich based global insurance group, **Chubb** to seek further disclosure on the evolution of its climate strategy.

  Oldfield held their second discussion with Chubb to better understand the evolution of their strategy in the past 12 months. From a risk perspective, Chubb reaffirmed their coal-based restrictions, as well as the evaluation of oil and gas clients on methane reduction efforts during renewals, indicating that poor methane management often correlates with broader risks. The additional pillars of their strategy include a focus on underwriting clean technologies and renewable energy, with the practice growing 30% last year, as well as an offering that supports clients in better understanding their physical climate resilience. Chubb’s lack of ownership or direct control over client activities, ultimately limits the influence that they have on associated emissions. With this in mind, Oldfield discussed the reporting of scope 3 emissions, the topic of an upcoming shareholder resolution at this year’s AGM. Chubb does not believe scope 3 reporting is a foregone conclusion, citing their assessment of materiality within EU regulation, as well as ongoing legal disputes in the US. As a result, they argue that time and resource spent calculating scope 3 emissions takes away from initiatives described above. Chubb argue that they can have greater impact in aligning initiatives such as their methane reduction efforts, to broader priorities, in this case the Global Methane Pledge. These efforts allow for greater focus than addressing scope 3 emissions. Whilst Oldfield support the need for this multi-stakeholder approach, they insisted on the need for a more consistent and transparent approach to reporting their initiatives. Scope 3 provides a cross-industry reporting metric that incentivises progress and in the absence of this Oldfield encourage clearer metrics for more consistent and measurable feedback. Oldfield agreed to speak with Chubb again in the coming 12 months as they improve this.

Oldfield engaged with UK based multinational hotel and restaurant company **Whitbread Holdings** to seek disclosure on their approach to employee relations.

Following a recent challenge by Unite, the largest trade union in the UK, Oldfield looked to gain comfort into Whitbread's handling of potential job cuts due to restructuring of their underlying businesses. There have been significant tensions in the hospitality industry, particularly following the pandemic, and as the owner of the largest hotel chain in the UK, Premier Inn are understandably exposed to greater scrutiny. During the communication and for greater clarity on their approach, Oldfield discussed the living wage, staff turnover, and their approach to housekeeping and contract cleaning, as areas they have identified and prioritised for human rights risks. Whitbread point to strong policies that underpin their approach, as well as positive indicators such as an average increase in staff tenure over the past 12 months. Oldfield do not believe that Whitbread face material risk today, however they will continue to take an interest in personnel matters, particularly with the changing political environment in the UK and any knock-on impact to unions.

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

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

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

Appendix 7

Stewardship: Responsible Investment Activity

In May, SPF submitted its 2023 Stewardship Report to the Financial Reporting Council (FRC) and at the close of the quarter was again confirmed as a signatory to the **UK Stewardship Code** (2020). Of the 72 asset owners accepted this year, 28 are LGPS including 3 Scottish Funds.

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

Manager	Net Zero Policy	Net Zero Asset Manager Alliance (NZAM)	UK Stewardship Code	PRI Signatory	Other Initiatives
Legal & General	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Baillie Gifford	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC, CDP
Lazard	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Oldfield	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Veritas	Net Zero 2050	Yes	Yes	Yes	TCFD, SDG's, CDP
Lombard Odier	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC, CDP
JP Morgan	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
Genesis	Net Zero 2050	No	Yes	Yes	TPI, CDP, FAIRR
Fidelity	Net Zero 2050	Yes	Yes	Yes	TCFD, IIGCC, CA100+
Pantheon	No	No	No	Yes	TCFD
Partners Group	Manage assets towards Paris 2050	No	No	Yes	TCFD, SDG's
PIMCO	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC

Stewardship: Responsible Investment Activity

Ruffer	Net Zero 2050	Yes	Yes	Yes	TCFD, CDP, CA100+
Barings	Manage assets towards Paris 2050	No	Yes	Yes	UNGC, SDG's, TCFD
Oakhill	No	No	No	Yes	TCFD
Alcentra	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, IIGCC
ICG	Net Zero by 2040	Yes	Yes	Yes	CDP, TCFD
Ashmore	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
DTZ	Operational Net Zero 2030. Portfolio Net Zero 2040	No	No	Yes	TCFD, IIGCC, GRESB, BBP

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

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

- SPF is an active supporter of the **CDP Non-Disclosure Campaign (NDC)**. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. CDP's NDC targets those companies that continually decline to disclose, as well as providing a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. The 2024 campaign was launched in May with 276 financial institutions from 31 countries, representing US$29 trillion in assets, signed up to this campaign. During the 2024 Non-Disclosure Campaign, a total of 1,998 companies that have never disclosed through CDP before are called on to disclose. This marks a 26% increase in the number of companies targeted in the previous year:
  - **1,329** companies are targeted to disclose on climate.
  - **373** companies are targeted to disclose on forests.
  - **1,029** companies are targeted to disclose on water.

  This year the Fund was selected to lead the initiative's climate disclosures engagement with Indian based multinational conglomerate, **Reliance Industries** and water security and forests disclosure engagement with US based paints and coatings manufacturer, **PPG Industries, Inc.**, SPF has organised collaborative letters to both companies encouraging them to

provide information by completing the CDP Climate, Water Security and Forests questionnaires.
Further details are available on the CDP website: https://www.cdp.net/en

- In support of **CDP's Mandatory Plastic Data Disclosure Campaign**, the Fund co-signed an open letter to policymakers and the global community on the importance of addressing plastic pollution and the need for comprehensive plastic-related corporate disclosure. Plastic pollution is detrimental to global ecosystems, economies and communities. This CDP letter to global governments requests mandatory corporate disclosure of plastics data in the Global Plastics Treaty. 48 Financial Institutions with over US$3.5 trillion in assets under management and 37 global companies representing US$270 billion in global market capitalization have publicly endorsed this letter. By publicly supporting CDP's letter, these institutions and companies will send a powerful signal to policymakers and the global community regarding the vital role of corporate disclosure and action in tackling the plastic crisis. This letter follows an earlier CDP-led open letter to governments calling for mandatory corporate disclosure. The letter and list of current signatories is available at:
https://www.cdp.net/en/plastics/corporate-open-letter-to-governments-on-plastics-crisis

- **SPF** is an active supporter of **Climate Action 100+ (CA100+)** which is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. In May, the Fund signed an investor statement in support of **Climate Action 100+** in response to recent news of the departure of a small number of signatories to the initiative and a challenging climate in the US. The statement emphasized three clear messages that the investment community remains committed to addressing:
    - Further action to address systemic risk is essential: virtually all companies – and thus investors – are affected by climate risk and the transition to a net zero emissions economy. Managing climate-related risk therefore requires action by a coalition of the world's governments, businesses, investors and communities. All investors should be able to articulate clearly how they are addressing climate change as a systemic risk.
    - Addressing significant investment risks, including climate risk, is a fiduciary imperative: all investors, including asset owners and asset managers, have an obligation to protect the value of assets for beneficiaries. Different types of asset owners and managers may approach addressing climate risk differently, but all should conduct their fiduciary duties with a factual understanding of risk. It is important for all investors to provide clarity and transparency around how they are meeting their fiduciary duty to address climate-related investment risks.
    - Collaborative engagement remains a vital tool: conducting climate engagements collaboratively, in keeping with all regulatory and legal requirements, enables greater efficiency and effectiveness in managing risks for investors of varying size and across different geographies.

Stewardship: Responsible Investment Activity

- In support of ShareAction's **Workforce Disclosure Initiative (WDI)** the Fund signed a public letter to management at **Amazon** regarding trade union recognition and Amazon's response to organizing at its Coventry fulfilment centre. As investors we are committed to international standards, including the International Labour Organization (ILO) Core Conventions, the ILO Declaration on Fundamental Principles and Rights at Work, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the UN Sustainable Development Goals. Therefore, we expect companies to meet the expectations set out therein, including that workers should be free to exercise their rights to freedom of association and to collective bargaining.
  Concerns had been raised over activity by Amazon in response to workers' organizing at the Coventry facility that contradicts the company's Global Principles on Human Rights. A group of investors had previously written encouraging Amazon to voluntarily recognise the GMB union, citing concerns including managers' behaviour and negative dialogue around the GMB. It is disappointing that Amazon did not voluntarily recognise the union. The letter asked Amazon to take immediate measures to implement its stated commitment to the ILO Core Conventions, the ILO Declaration on Fundamental Principles and Rights at Work and the UN Universal Declaration of Human Rights, as articulated in Amazon's Global Human Rights Principles. Examples of how this can be achieved at the Coventry warehouse facility were also given in the letter. The letter further asked for an explanation of Amazon's approach to respecting the fundamental rights of freedom of association and collective bargaining and how its policies and procedures are implemented in practice at the Coventry facility.

- Ahead of the UK general election the **Institutional Investors Group on Climate Change (IIGCC)** published a call to action for the UK government in 2024. Investors are looking for a supportive policy environment that provides the confidence and certainty needed to make long-term investments in the UK's transition to net zero. There is an urgent need to move ahead with swift implementation of key pieces of legislation and the general election was an opportunity to shift gears and pivot permanently towards decarbonisation. Ahead of the UK general election in June, IIGCC published key policy recommendations for the next government. Developed in collaboration with investor members, this Call-to-Action outlines how a new government can unlock investment for a green and competitive UK. It prioritises policy action in five key areas:
    - Develop a whole-of-government approach with a centralised strategy to facilitate delivery of net zero targets.
    - Devise a comprehensive green industrial strategy that supports the decarbonisation of the UK economy and boosts economic competitiveness.
    - Increase the UK's adaptation and resilience to growing climate impacts.
    - Embed the delivery of a nature-positive transition into the UK policy framework.

Stewardship: Responsible Investment Activity

- Implement a supportive financial regulatory environment which facilitates capital flows towards climate and nature goals.

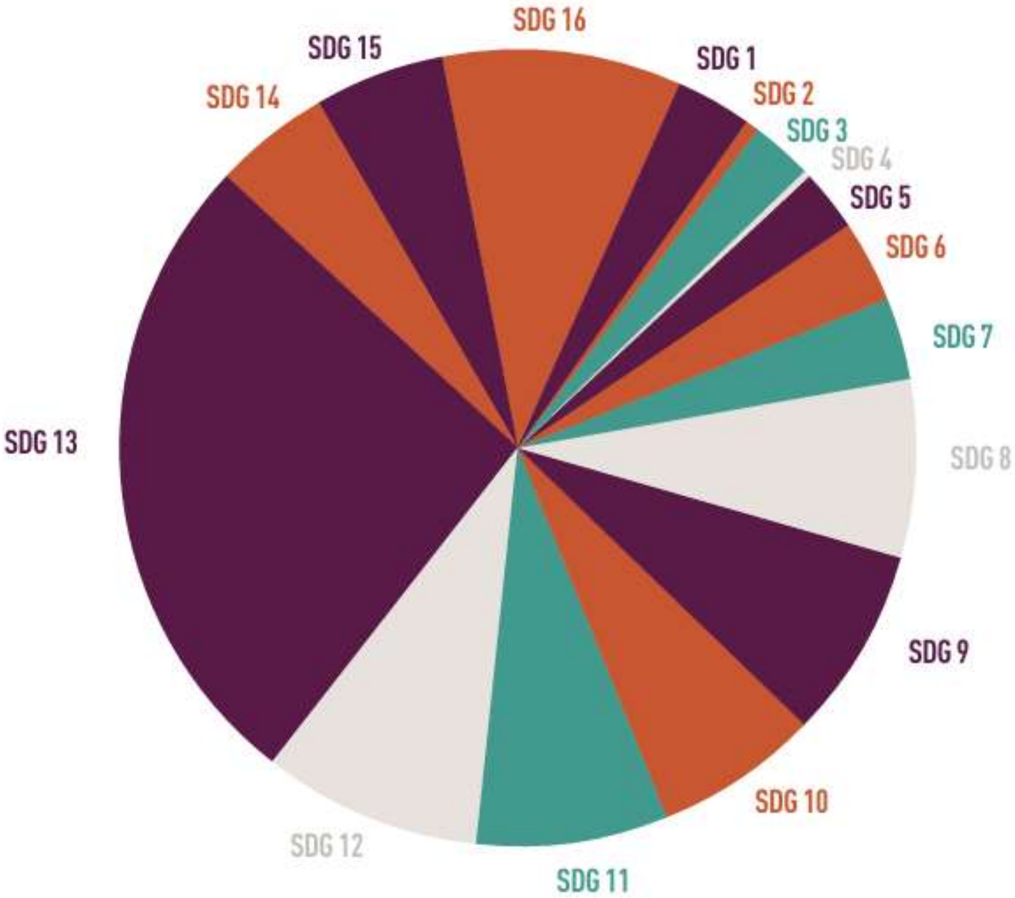
- The Local Authority Pension Fund Forum (LAPFF) provided a Quarterly Engagement Report. The report highlights include:

  - Engagement with UK water utility companies **United Utilities** and **Pennon Group** regarding concerns about the pollution of rivers and coastal areas caused by storm overflows.
  - LAPFF engaged with **Chipotle** on its approach to water stewardship.
  - LAPFF engaged with **HSBC** to understand the risk to the business of lending to a declining energy sector with the risk of stranded assets creating collateral risk and the risk of bad debts.
  - LAPFF met with three of the largest Canadian banks: **Bank of Nova Scotia, Royal Bank of Canada, and Toronto Dominion** to outline LAPFF's views to the companies, understand their positions, and assess the prospect for further engagement.
  - Engagement with **United Overseas Bank (UOB)** to help understand the company's transition pathway and the regulatory landscape in which it is operating.
  - LAPFF continued engagement with **Shell** and **BP** to test the companies claims of decarbonisation based on existing business models and to challenge the viability of the current business.
  - LAPFF engaged with shipping company, **Maersk** to understand the challenges it is facing in relation to operating in conflict zones.
  - LAPFF met with **BAE**, to discuss governance as well as their approaches on human rights due diligence in the context of ongoing global conflict.
  - LAPFF was invited to present at this year's **OECD Forum on Responsible Mineral Supply Chains** to share its work on mining and human rights.
  - LAPFF has been engaging with water companies and having identified issues with the model of water regulation decided to research and engage on the issue with **Ofwat** the regulator.
  - As part of its work to help investors understand how social issues are financially material, LAPFF partnered with **IndustriALL** to host a webinar on a pilot employment injury scheme in Bangladesh. Investors heard about how the cost of this programme was tolerated by corporates as a means to improve worker health, and therefore their work performance and longevity.
  - LAPFF released voting alerts covering 49 climate-related resolutions during the quarter. Of the 42 resolutions voted upon at the time of the report, proposals received an average of 22% support. There was a solid baseline of support, with over three quarters of proposals receiving more than 10% and well over half of proposals receiving 20% or more support. Of those proposals receiving single digit support, the majority had a controlling shareholder in opposition and as such diluting the efficacy of the independent vote. The most significant shareholder dissenting votes were at **Quest Diagnostics** (42% support), **Markel Corporation** (36% support) and **Centene Corp** (36% support).

Stewardship: Responsible Investment Activity

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

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



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	8
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	6
SDG 4: Quality Education	1
SDG 5: Gender Equality	6
SDG 6: Clean Water and Sanitation	8
SDG 7: Affordable and Clean Energy	8
SDG 8: Decent Work and Economic Growth	17
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	19
SDG12: Responsible Production and Consumption	21
SDG 13: Climate Action	64
SDG 14: Life Below Water	11
SDG 15: Life on Land	13
SDG 16: Peace, Justice, and Strong Institutions	23
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

Stewardship: Responsible Investment Activity

The **2030 Agenda for Sustainable Development**, adopted by all United Nations Member States in 2015, recognised the private sector as a key agent in addressing global challenges such as climate change, poverty, environmental degradation and inequality. Meaningful SDG strategies aligned with companies' business plans can link profit with sustainability and contribute to a more stable and sustainable world.

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

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

- **Sustainalytics Global Standards Engagement** Quarterly Report summarizes the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies. Sustainalytics map these Global Standards Engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 138 Engage and Resolved cases in quarter 2 can be attributed to the following SDGs (as percentage of total cases).

Stewardship: Responsible Investment Activity

Sustainable Development Goals - Mapping Engagements

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

SDG	%	SDG	%
1 No Poverty	8%	10 Reduced Inequality	12%
2 Zero Hunger	6%	11 Sustainable Cities and Communities	8%
3 Good Health and Well-Being	24%	12 Responsible Consumption and Production	16%
4 Quality Education	2%	13 Climate Action	6%
5 Gender Equality	5%	14 Life Below Water	5%
6 Clean Water and Sanitation	6%	15 Life on Land	15%
7 Affordable and Clean Energy	0%	16 Peace and Justice, Strong Institutions	45%
8 Decent Work and Economic Growth	20%	17 Partnerships to Achieve the Goal	0%
9 Industry, Innovation and Infrastructure	6%		

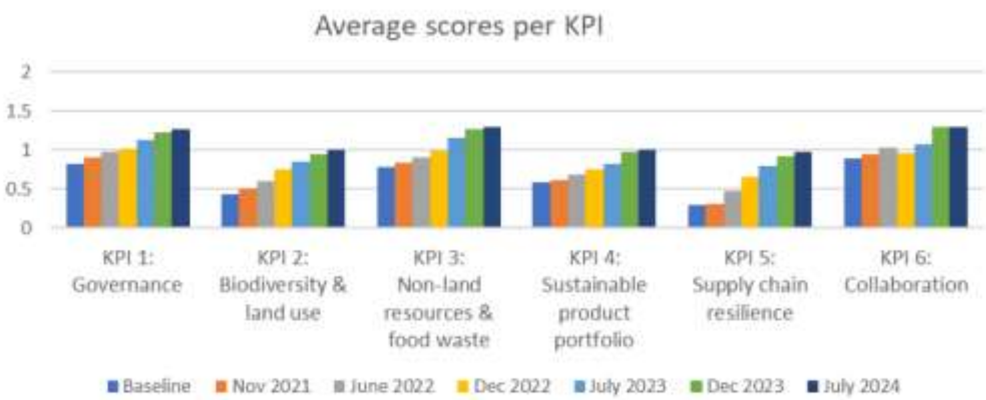
- **Sustainalytics** issued its final report for the thematic engagement, **Feeding the Future**.
    - **Feeding the Future** is a three-year engagement targeting approximately twenty companies in the food sector with the focus on how companies are transforming their business models to address the new realities for production and consumption.

Stewardship: Responsible Investment Activity

Sustainalytics' Feeding the Future Thematic Engagement has aimed to contribute to a more sustainable food system by focusing on contingency planning, science-based scenario analysis, land stewardship, eliminating food waste and shifting consumer trends. It has targeted the entire value chain including companies from the agriculture, agricultural chemicals, packaged foods, and food retail sectors. This engagement was initiated in Q2 2021 and has now run for three years. Through this engagement, Sustainalytics have sought to contribute to a sector-wide transition to more sustainable agriculture practices.

Since the start of the thematic engagement, Sustainalytics and investors have held 84 conference calls with companies, averaging 28 calls per year. They have also exchanged over 1,300 emails with companies and made 53 telephone calls to keep the dialogues progressing. Since the preparation of the January 2024 biannual report, Sustainalytics have held nine conference calls and organized a roundtable on regenerative agriculture in May 2024, in which seven companies and eleven institutional investors took part. Over the course of the engagement, Sustainalytics have regularly evaluated companies' progress on their KPI framework, covering their governance, strategy, practices and targets in relation to material and interconnected sustainability issues, such as climate change, biodiversity and land stewardship. As of July 2024, eight of the 20 engaged companies (35%) have a high-range overall score, ten (50%) have a medium-range score and two (10%) have a low-range score. The eight companies with an average KPI score in the high band are distributed across the four focus sectors.

The chart below breaks down these overall scores into average scores for each of the 6 KPs.



KPI 1: Governance includes the company's commitment to promote sustainable agriculture, but also reflects the company's assessment of risks, dependencies, and impacts. This has been a frequent topic of discussion during dialogues, and there has been a marked improvement over the last three years. While Taskforce on Climate-related Financial Disclosures (TCFD) reporting was well-established in 2021, the main evolution has related to evaluation of companies' relationship with nature. Some companies have been motivated by the crystallization of

the Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations over the last three years to conduct or commission their own assessment, while others have taken a more cautious approach and are only now considering how to proceed, following the publication of the TNFD Final Recommendations in September 2023. Responsible stewardship of land and other natural resources is linked to KPIs 2 and 5 in the evaluation framework and has been the dominant in theme dialogues with companies in all four sectors. This helps to explain the increase in the average score on both KPIs from the low scoring range to the medium scoring range. Companies have displayed a range of biodiversity-related projects and programmes, including surveys of operational areas and restoration initiatives, but need to build these into comprehensive strategies. While target-setting in relation to nature is in its infancy, many companies in the engagement group have drawn on their carbon footprint analysis to set timebound emissions targets, contributing to improvement on KPI 3: management of non-land resources & food waste.

Sustainalytics have also sought to understand whether companies have a strategy for product development and innovation which aligns with their sustainability goals and considers regulatory changes and consumer demands. The convergence between consumer interests, regulatory developments and sustainability strategy takes various, overlapping forms, including organic, locally sourced, vegetarian and sustainability-certified foods and alternative protein. Although the average score on the relevant sub- indicator has remained within the medium scoring band since the baseline, it has increased by 64%, signifying a proliferation of marketing initiatives by different companies. KPI 5: Supply chain resilience covers companies' evaluation, support and monitoring in relation to sustainable practices among their suppliers. This issue is important for agricultural sector companies, where even primary producers may also rely on third-party growers, and for packaged food and food retail companies, which are completely dependent on their agricultural and processing supply chains. Accordingly, it has been a pervasive topic dialogues, inextricably bound up with the theme of land stewardship. The improvement of average scores in this KPI has been based on evidence of companies' systems to assess supply chain resilience and support farmers, including small-scale producers, in building more sustainable farming practices, particularly in the packaged food and food retail sectors. However, Sustainalytics would like to see this work backed up by additional measures to monitor the effectiveness of companies' interventions. KPI 6 on peer and stakeholder collaboration serves as a proxy for engagement companies' progress on driving systemic change. It has been a key area of focus during the second half of this engagement and, along with developments in public reporting, this has resulted in an increase in the average score for KPI 6 by 20%. However, performance on the various aspects of stakeholder collaboration is not uniform. While companies are comfortable engaging with the academic community and participating in multi-stakeholder initiatives, they have a less ready appetite for dialogue with their peers on pre-competitive sustainability issues. They may benefit from a greater exchange of ideas with other companies on present and challenging questions such as navigating the EU Deforestation Regulation, measuring scope 3 carbon emissions and assessing biodiversity risk.

Sustainalytics will continue dialogue with most of the companies included in Feeding the Future through a new programme - Biodiversity & Natural Capital (BNC) Thematic Stewardship.

Feeding the Future thematic engagement directly contributes to SDG 2 on Zero Hunger, SDG 6 on Clean Water and Sanitation, SDG 12 on Responsible Consumption and Production, SDG 13 on Climate Action, SDG 14 on Life Below Water and SDG 15 on Life on Land. Further detail is available at:
https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement

Appendix 8

Stewardship: Energy Company Assessment Framework

1 Assessment as at 31st March 2024

Results of Hymans Robertson's overall assessment are summarised as follows.

Holdings	Companies	Score (%)	Prev Score (%)	Difference
0	-	-	-	-
4	Reliance Industries	46	*11*	+35
	Technip FMC	48	*11*	+37
	Pharos Energy	36	*9*	+27
	SM Energy	42	*33*	+9
10	Woodside Energy	81	*50*	+31
	Koninklijke Vopak	73	*60*	+13
	Aker Solutions	87	*n/a*	n/a
	Royal Dutch Shell	82	*70*	+12
	Saipem	69	*n/a*	n/a
	BP	82	*67*	+15
	ENI	72	*73*	-1
	TotalEnergies	72	*66*	+6
	Vallourec	57	*n/a*	n/a
	Equinor	56	*73*	-17
	Co.s with insufficient data coverage	**Data Coverage (%)**	**Prev Data Coverage (%)**	
7	Chord Energy Corp	18	*5*	
	National Oilwell Varco	31	*19*	
	Matador Resources	13	*3*	
	Cactus	10	*13*	
	GTT	5	*n/a*	
	China Oilfield Services	2	*n/a*	
	Max Petroleum	0	*0*	

Conclusions

- **21** companies were held at 31st March 2024. **2** companies previously held (in March 2023 when a previous assessment was carried out) were no longer held. **5** new companies had been added to portfolios.
- **12** of the companies held during the prior assessment had improved scores.
- No companies rated red overall and all **4** companies that rated amber overall showed significant year on year improvement. Of the companies rated green overall: **2** rated amber in at least one category; **one** rated red in **one** category.
- **7** of the companies have poor data coverage and could not be properly assessed.

Engagement with Investment Managers

Officers forwarded details of the assessment to portfolio managers during May and requested initial comments on:

- the business case for companies with an overall rating of amber
- how to address specific areas of weakness identified and
- improving data availability for those companies rated grey.

Stewardship: Energy Company Assessment Framework

Investment manager responses in respect of the amber and grey rated companies are summarised below.

Baillie Gifford

Holdings	
0 1 1 0	**Reliance Industries** - (A) Reliance is rated Amber overall in the Hymans framework, this compares to the previous year's Grey rating based on a lack of disclosure. The investment thesis for Reliance is based on the company investing the proceeds from its highly cash generative refining and petrochemicals business into new avenues of growth, namely retail, telecommunications and renewable energy. Reliance Jio (telecoms) now has close to 500m users and carries 60% of India's broadband data traffic. Its retail arm is growing at 20% per annum and is 3x the size of the next three biggest Indian retailers. The New Energy division, encompassing solar power, battery storage, electrolysers and fuel cells, repeats the Reliance playbook whereby deep competitive moats are established (in polyester in the 1980s, in petrochemicals and refining in the 1990s, and in retail and telecoms in the 2000s) through capital spend, technological leadership and superb execution. India has the lowest PV solar installation cost in the world (8% below that of China), and, at over 300 days of sunshine, is perfectly located for this energy source. Reliance is committed to a US$10bn capex investment into solar, battery, fuel cells and electrolyser manufacturing with a target of establishing 100 Giga Watt (GW) of Solar by 2035. In Baillie Gifford's view, sustainability scores attributed to Reliance miss the company's potential to be a positive social, environmental, and economic force going forward, improving hundreds of millions of lives. However, Baillie Gifford have identified the same disclosure issues flagged by the SPF minimum standards analysis and are pressing on the reporting of methane emissions, scope 3 green house gas (GHG) emissions and, more broadly, greater detail on the interim steps towards their 2035 Net Zero endpoint. Baillie Gifford hope to see more progress on these topics later in the year.

JP Morgan

Holdings	**Technip FMC** - (A) Technip is rated Amber overall in the Hymans framework. This compares to the previous year's Grey rating based on a lack of disclosure.
0 2 4 5	Technip is a leading provider of Oil & Gas subsea production systems, capital equipment and integrated service offerings for full field lifecycle management. Technip's New Energy division leverages offshore and onshore project integration expertise and capabilities to be a key enabler of the energy transition. Technip are winning contracts in offshore floating renewables – both wind and tidal energy – and they are developing opportunities in greenhouse gas removal and hydrogen generation, storage and electrification.

Stewardship: Energy Company Assessment Framework

	Technip aims to decrease scope 1 and scope 2 GHG emissions by 50 percent by 2030 by reducing fuel consumption, purchased energy and by using energy from renewable sources. Technip intends to increase usage of renewable energy to 60 percent from a 2023 baseline by the end of 2026. GHG emissions are down by 20 percent over the past three years. **SM Energy** - (**A**) SM Energy is rated Amber overall in the Hymans framework, their rating has improved year on year. SM Energy is a US based independent upstream oil and gas company that carries out the acquisition, exploration, development, and production of crude oil, natural gas and natural gas liquids. The company has well-located assets with a long depth of inventory relative to small cap peers and a well-regarded management team. SM Energy has a target of 50% reduction in scope 1 and 2 GHG emissions intensity by 2030 with 2019 as the base year and zero routine flaring at all SM Energy operations and non-routine flaring not to exceed 1% of natural gas production, each by year-end 2023. **Chord Energy Corporation** - (**G**) Chord Energy is rated Grey overall in the Hymans framework, their rating has improved year on year. Chord Energy is an independent exploration and production company that focuses on the acquisition and development of unconventional oil and natural gas resources in the United States. The company continues to make progress in reducing scope 1 GHG emissions, improving safety performance, and making advancements in community engagement, workforce diversity, and climate-related governance. Chord are voluntarily working to align with the World Bank's Zero Routine Flaring initiative. **Matador Resources** - (**G**) Matador Resources is rated Grey overall in the Hymans framework, their rating has improved year on year. Matador is an independent energy company engaged in the exploration, development, production and acquisition of oil and natural gas resources in the United States. It has strong cash generation and intentions to increase cash returns to shareholders in a programmatic way. The company continues to make progress in sustainability by focusing on improving their water efficiency through midstream investments as well reducing the number of trucks on the road and dual fuel rigs where gas increasingly replaces diesel. **Cactus** - (**G**) Cactus is rated Grey overall in the Hymans framework, their rating shows a small decline year on year.

<table>
<tr><td></td><td>Cactus is the leading manufacturer of US onshore wellheads with around 40% market share. Cactus should see robust growth along with rig count recovery, further domestic share gains, and emerging international growth opportunities in the Middle East and South America.

JP Morgan have engaged with Cactus on climate disclosures. JP Morgan discussed proxy voting guidelines regarding climate risk and encouraged the company to provide disclosures aligned with the TCFD framework. Cactus explained how they were building their reporting capabilities, which includes a roadmap to audited scope 1 and 2 GHG emissions data. They also emphasized how the fundamental business purpose of the company is efficient products that save drill time and therefore emissions. JP Morgan encouraged them to emphasize that story in their reporting.

GTT - (G) GTT is rated Grey overall in the Hymans framework. This is a new holding.

GTT provides services relating to the building of liquefied natural gas storage and transport facilities. GTT is continually working on new LNG containment technologies, as well as on solutions for use with other liquefied gases. GTT is continuing to expand its offerings focusing on developing new containment systems for the maritime transportation of low-carbon energy and manufacturing electrolyzers for the production of green hydrogen.

This year for the first time, GTT published its Corporate Social Responsibility (CSR) roadmap covering the period 2024-2026, outlining a plan of action to reduce GHG emissions (scope 1, 2 and 3). These targets have been submitted and are awaiting Science Based Targets Initiative (SBTI) Validation. The roadmap also details the aim to decarbonize the maritime sector by developing innovative containment systems for alternative fuels, as well as by developing digital services.

China Oilfield Services - (G) JP Morgan have recently sold out of China Oilfield Services.

JP Morgan acknowledge that companies rated grey (G) do need to improve disclosures, and they will engage with companies on this.</td></tr>
</table>

Lazard

<table>
<tr><th>Holdings</th><td rowspan="6">Reliance Industries - (A) Reliance is rated Amber overall in the Hymans framework, this compares to the previous year's Grey rating based on a lack of disclosure.

Reliance is currently held within Lazard's Empowered Consumer theme. Reliance is a conglomerate with multiple divisions today, including legacy energy sector businesses. Lazard's forward-facing investment emphasis focuses on the group's consumer business</td></tr>
<tr><td>0</td></tr>
<tr><td>1</td></tr>
<tr><td>4</td></tr>
<tr><td>0</td></tr>
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</table>

Stewardship: Energy Company Assessment Framework

	activities that they anticipate will drive future stock performance. Reliance is combining its telecom network JIO with a platform of technology apps and a legacy as one of India's largest traditional retailers. The company is in transition, moving to a more consumer facing business mix with lower carbon emissions. More than half of Reliance's operating profit comes from the consumer, telecom, and digital e-commerce businesses, which is also growing at a faster rate than the legacy hydrocarbon-based businesses. Cash flow from the legacy business is being used to fund new ventures and which is improving Reliance's net carbon emission profile. This omni-channel (physical + digital) strategy has potential to grow new businesses and take market share through merger of online and offline worlds. Reliance's Oil to Chemical (O2C) business also offers additional cash flows to fund future growth opportunities both in adjacent businesses such as plastic recycling and innovative downstream chemicals, and broader corporate ambitions in hydrogen and alternative energy. Reliance is committed to more than US$10bn capex investment to "New Energy" ventures such as battery production for electric vehicles (EVs) /energy storage systems and solar module manufacturing capacity. The cashflows from current hydrocarbon-based O2C division are being used to fund these growth initiatives. Reliance passes Lazard's Sustainability Framework threshold test. An input into this assessment is the company's rating of 'Committed to Aligning' under Lazard's proprietary Climate Alignment Assessment (CAA) framework. Lazard recognize that Reliance needs to improve its disclosure of ESG related categories: emissions, effluents, energy usage and waste discharge. However, they are encouraged that some progress is being made with Reliance reporting under the TCFD framework in its 2023 Annual Report, including the governance pillar where the company flagged establishing a dedicated ESG committee at the Board level in FY 2022-23.

Lombard Odier

Holdings	
0 1 0 0	**Pharos Energy** - (A) Pharos Energy is rated Amber overall in the Hymans framework, this compares to the previous year's Grey rating based on a lack of disclosure. Pharos Energy is an Oil producer with the main producing assets in Egypt and Vietnam. The investment rationale is based on shareholders' desire for the company to dispose of the two assets over the next two years. The shares have made progress in 2024, demand for which has enabled a material reduction in the holding from 1.42% at the end of March 2023 to 0.34% at the end of March 2024. Pharos is a relatively low-cost producer that has committed to improving their ESG disclosures in line with the TCFD guidelines.

Stewardship: Energy Company Assessment Framework

	Pharos is committed to achieve net zero GHG emissions from all their assets by no later than 2050. Their Net Zero target includes scope 1 (direct) and scope 2 (indirect) emissions from all their assets. In addition, the net zero target applies to their existing as well as their future assets. As they evaluate any potential development of their business, such as licence extensions and acquisitions, they will take this commitment into account in their decision-making and it will fall under their Net Zero target. In December 2023, they also published a detailed net zero roadmap with short and medium-term targets. As Pharos have non-controlling equity stakes in assets and are predominantly non-operating, they do not have direct control to change their emissions inventory but they do have influence through their partnership with the Joint Operating Companies (JOC's). They will use their net zero roadmap to continue to engage them on reducing emissions where possible through the options identified. **Max Petroleum** – (G) is a dead legacy asset carried at zero.

Oldfield

Holdings	
0 0 1 1	**National Oilwell Varco (NOV Inc.) -** (G) NOV is rated Grey overall in the Hymans framework, their rating has improved year on year. NOV is a leading US oil services company providing equipment and consumables to the oil and gas exploration and production industry. Its scale and breadth are key advantages, as is its aftermarket business which appeals to customers looking for reliable single source providers that can meet most or all their equipment and related service needs. The company is well positioned to capitalise on demand for advanced systems to increase drilling and production efficiency and develop renewable energy capacity. The outlook for NOV continues to improve with a large increase in capital expenditure by oil and gas producers required for the supply of hydrocarbons to match demand in the coming years. NOV views the transition to renewable energy as a business opportunity due to significant overlap with their existing expertise and client base. They are taking a two-pronged approach to this. Firstly, given their position within the oil and gas value chain, a crucial contribution to reducing the industry's carbon footprint will be through minimising emissions from core oil and gas operations. Management have focussed on providing more efficient products that reduce the energy intensity of drilling such as the electrification of engines. This is seen by the International Energy Agency as a first-order priority. Secondly, NOV is leveraging its core competencies to provide solutions for emerging alternative energy markets in partnership with oil majors, who make up a large part of their client base. NOV are keen to leverage their existing capabilities, for example they highlight capabilities in

	offshore wind installation as an overlap with rig technology, as a strategic priority. NOV's 2023 sustainability report outlines two measurable points of progress. Firstly, a reduction in their emissions intensity (scope 1 and 2) of 13% compared to 2022; and secondly, an increase in their renewable energy-related revenue, a 16% increase from 2022. Their remuneration structure continues to support decarbonisation initiatives, with 10% of eligible employees' target bonus opportunity linked to energy transition initiatives, and an additional 10% tied to Health, Safety, and Environment (HSE)-related measures. Since the 2023 Energy Company Assessment Oldfield have engaged with the team at NOV on two occasions. Oldfield continue to pursue better disclosure, encouraging reporting using a TCFD framework for increased transparency on strategy, risk, metrics & targets and governance.

Veritas

Holdings	Veritas hold no energy sector stocks.
0	
0	
0	
0	

SPF Supporting Actions

- **Reliance Industries** has been highlighted as a priority engagement target by SPF's **Net Zero Investment Framework** assessment of companies operating in high impact sectors.

- **SPF** is an active supporter of the **CDP Non-Disclosure Campaign (NDC).** This initiative targets those companies that continually decline to disclose, as well as providing a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. The 2024 campaign was launched in May with a record 288 financial institutions from 31 countries, representing US$29 trillion in assets, signed up to this campaign and selected to engage 1,600+ companies on CDP disclosure. This year SPF was selected to lead the initiative's climate, water and forest disclosures engagement with **Reliance Industries**. SPF has organised a collaborative letter to the company encouraging them to provide information by completing the CDP Climate, Water Security and Forests questionnaires.

- **SPF** is subscribed to the **Sustainalytics Net Zero Transition Stewardship Programme**. The programme targets 100 national and multinational companies to encourage sound management of climate-related (i.e., decarbonization-specific) risks and opportunities. Ongoing engagements include **BP**, **Equinor**, **Shell** and **Reliance Industries.**

Engagement with the investment managers and with Hymans Robertson and Sustainalytics on the various issues raised will be ongoing.

The assessment will be repeated as at 31st March 2025.