Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Ext: 75186

Item 7

27th November 2024

Investment Update

Purpose of Report:

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

- investment performance to 30th September 2024
- distribution of portfolios and DIP investments as at 30th September 2024
- the Investment Advisory Panel meeting of 14th November 2024
- stewardship activity during Quarter 3 2024.

Recommendations:

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

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

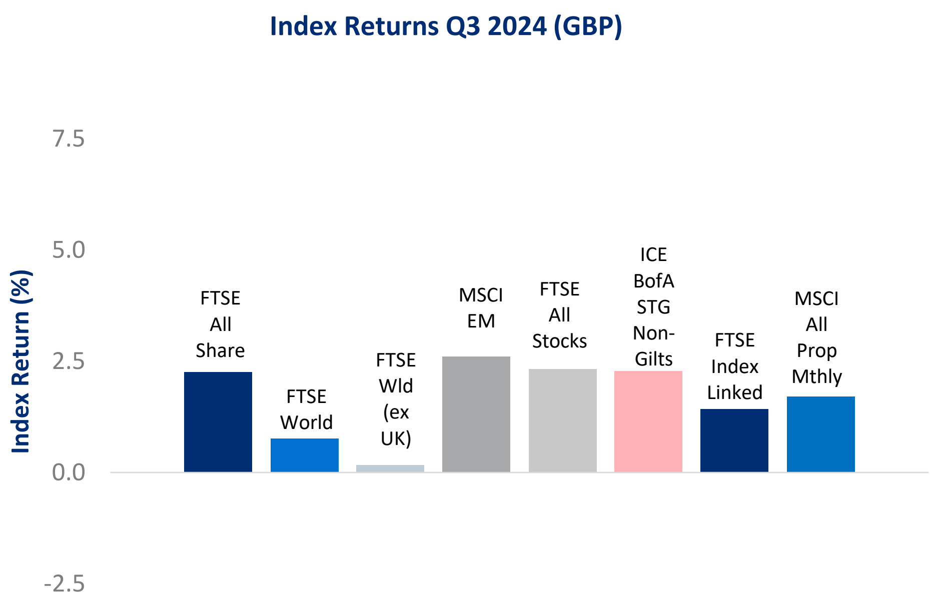
1 Background

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

2 Market Performance

Global equity markets rose over the quarter, rallying to all-time highs by the end of September. The key drivers were easing inflation figures in the US, a 50-basis-point (bps) interest rate cut by the US Federal Reserve and continued optimism over advancements in artificial intelligence. In the US, the S&P 500 traded to new highs, while in Europe shares also rose, chiefly influenced by the positive outlook for the US economy and lower interest rates. UK equities ended the quarter marginally higher but underperformed global equities.

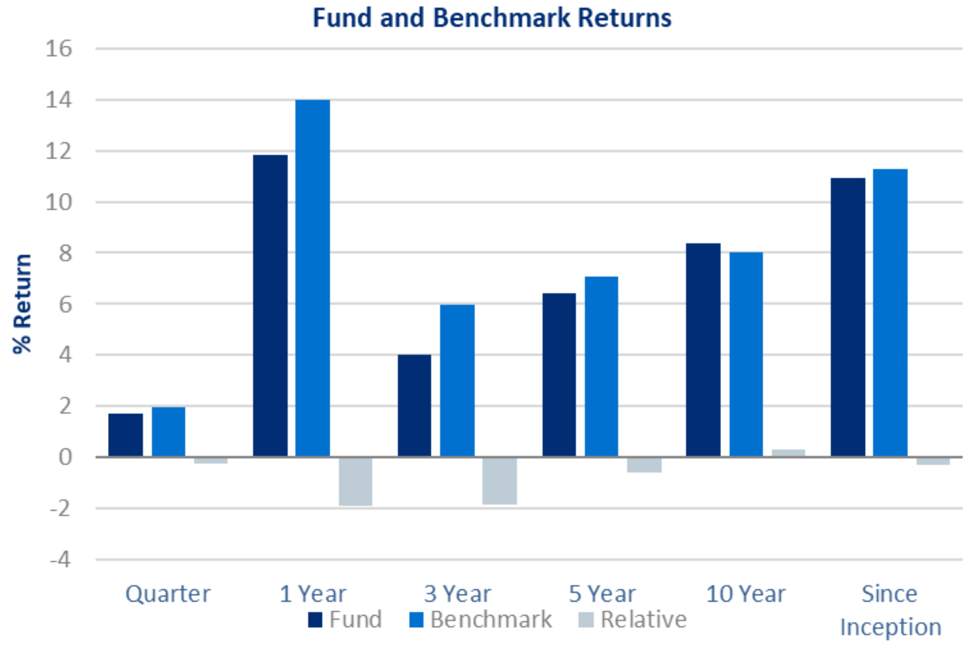
Government bond yields fell and so prices rose. Benchmark 10-year yields in the US, the UK, Germany and Japan all ended the quarter lower. Notably, the US yield curve ended its inversion towards the end of the period, with 10-year treasuries once again yielding more than two-year bonds. The yield on 10-year German bunds fell from 2.46% to 2.06% during the three-month period. Euro area inflation fell to 2.2% in August, and the European Central Bank cut its deposit rate for the second time in September. In the UK, the Bank of England cut interest rates by 25bps in August and left rates unchanged at its September meeting. Inflation was flat at 2.2% in August however consumer confidence fell more than expected in September, ahead of the Autumn budget.



- The **FTSE All Share** Index returned **+2.3%,** the **FTSE World ex UK** index **+0.2%** and the **MSCI Emerging Markets** index **+2.6%**, compared with Q2 returns of **+3.7%**, **+2.7%** and **+5.0%** respectively.
- The **FTSE All Stock Index** returned **2.3%** compared with **-0.9%** in Q2.
- **Sterling** rose by **+1.9%** against the euro and **+6.1%** against the dollar.
- The **MSCI All property monthly return index** returned **+1.3%**. Returns were largely derived from income, with all sectors delivering positive total returns.

3 Fund Performance

The **Fund's value** at 30th September 2024 was **£30,864m**, an increase on the 30th June valuation of **£30,596m**.



The **Fund's total return** for Quarter 3 2024 was **+1.7**%, behind the benchmark return of **+2.0%.** 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 3:

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

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

4 Asset Allocation

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

Asset Class	*30 Jun 2024 (£m)*	*30 Jun 2024 (%)*	30 Sep 2024 (£m)	30 Sep 2024 (%)	Target (%)
Equity	*16,573*	*54.2*	15,381	**49.8**	**47.0**
Hedging & insurance	*1,697*	*5.5*	3,097	**10.0**	**10.0**
Credit	*1,605*	*5.2*	1,680	**5.4**	**5.0**
Short term enhanced yield	*5,329*	*17.4*	5,024	**16.3**	**17.0**
Long Term enhanced yield	*5,392*	*17.6*	5,682	**18.4**	**21.0**
Total	***30,596***	***100.0***	**30,864**	**100.0**	**100.0**

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

- LGIM transitioned 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 second and final trade out of the Ashmore (STEY) mandate was settled on 2 July.
- £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).

Officers are working with active emerging market managers Genesis and Fidelity and new manager RBC GAM to plan the transition between these funds, with the first investments into the RBC core emerging market equity strategy scheduled to completed late in Q4 2024.

Planning of the transition to new Legal and General Buy and Maintain and Low Carbon passive corporate bond mandates is also underway.

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 on14th November 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**.

8 Policy and Resource Implications

Resource Implications:

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

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

Equality and Socio-Economic Impacts:

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

Climate Impacts:

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

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

9 Recommendation

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

Appendices

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

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

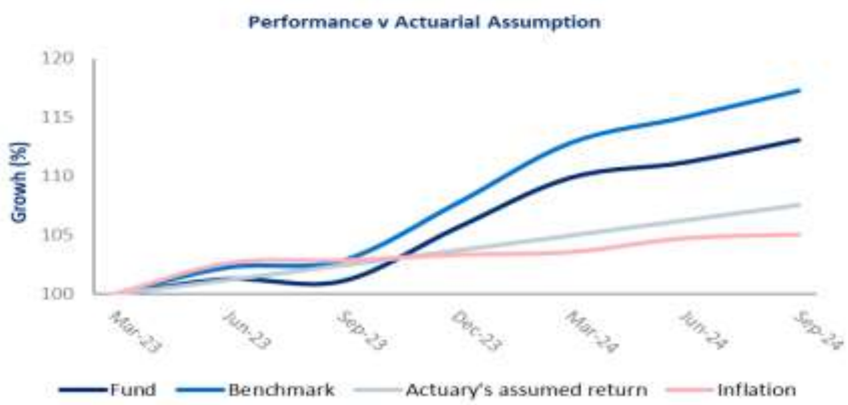
Fund and Asset Class Performance

1. Returns by Asset Class

	Latest Quarter			1 Year			3 Years			5 Years		
Asset Class	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %
Equity	1.3	1.9	(0.6)	15.7	21.0	(4.4)	4.9	7.8	(2.7)	8.9	9.7	(0.8)
Hedging & Ins	2.1	1.9	0.1	1.9	1.8	0.1	0.9	(10.6)	12.8	0.4	(6.4)	7.2
Credit	4.7	4.7	(0.0)	12.7	12.7	0.0	(3.5)	(3.5)	0.0	(1.0)	(1.0)	0.0
STEY	2.1	2.0	0.1	9.4	8.5	0.8	3.3	6.0	(2.6)	3.7	5.1	(1.3)
LTEY	1.6	1.3	0.3	2.6	3.3	(0.7)	4.8	4.7	0.1	3.7	4.2	(0.5)
Total Fund	1.7	2.0	(0.2)	11.8	14.0	(1.9)	4.0	6.0	(1.9)	6.4	7.1	(0.6)

2. Performance Attribution

3. Performance vs Actuarial Assumption



- In Q3, Equity underperformed, while STEY and LTEY portfolios outperformed benchmark. In absolute terms, all asset classes delivered positive returns.
- Over 1, 3 and 5 years, Equity is the best performing asset class in absolute terms but has underperformed on a relative basis.
- Over Q3, 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.

Appendix 3

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	19.4	0.0	6.6	8.8
	Relative	(0.3)	(0.8)	(8.0)	(2.6)	0.9
Lazard	Actual	0.0	12.8	5.1	8.8	9.6
	Relative	(0.4)	(5.9)	(2.9)	(1.3)	0.4
Oldfield	Actual	3.8	8.9	4.3	3.6	7.9
	Relative	3.3	(9.2)	(3.7)	(6.0)	(4.1)
Veritas	Actual	2.7	15.5	6.1	8.3	12.2
	Relative	2.2	(3.6)	(2.0)	(1.8)	0.1
Lombard Odier	Actual	1.3	21.2	(3.5)	11.2	7.3
	Relative	1.2	8.0	3.8	6.8	2.9
JP Morgan	Actual	1.6	13.9	(4.0)	6.1	11.4
	Relative	(1.2)	(0.3)	(5.0)	(0.4)	1.7
Active EM Equity[1]	Actual	0.9	15.6	(3.3)	1.1	8.7
	Relative	(1.5)	0.9	(4.9)	(3.7)	1.2
Pantheon	Actual	(5.9)	(6.1)	4.2	9.6	13.2
	Relative	(6.3)	(21.7)	(3.8)	3.0	4.3
Partners Group	Actual	(1.1)	(0.9)	4.1	10.8	11.2
	Relative	(1.6)	(17.4)	(3.8)	4.1	4.8
L&G Equity[(2)]	Actual	3.7	24.7	8.4	10.3	9.9
	Relative	(0.2)	(1.1)	(0.4)	(0.3)	-
L&G RAFI	Actual	2.7	19.3	10.1	10.1	10.2
	Relative	0.1	0.4	0.4	0.2	(0.0)
L&G EM Equity	Actual	4.3	15.8	-	-	1.8
	Relative	(0.5)	(1.0)	-	-	(1.4)
Total	**Actual**	**1.3**	**15.7**	**4.9**	**8.9**	**9.3**
	Relative	**(0.6)**	**(4.4)**	**(2.7)**	**(0.8)**	**0.1**

1.2 Manager Performance Commentary

Equity underperformed over the quarter; 6 of the 9 active managers underperformed their benchmarks. **Oldfield** and **Veritas** were the strongest performers in both absolute and relative terms, and the **Lombard Odier** portfolio also outperformed. Weakest performers were private equity managers **Pantheon** and **Partners Group**, while specialist smaller companies manager **JP Morgan** and **Active Emerging Markets** underperformed.

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

After being the weakest performer in Q2 in both absolute and relative terms, **Veritas** outperformed in Q3 2024, nudging since inception performance back above benchmark. **Unilever** was the strongest performing stock, as the company continues

Manager Performance

to benefit from restructuring, while **Alphabet** was the largest detractor largely due to the company losing an antitrust case in the US.

Oldfield outperformed their benchmark, with **Alibaba** and **Fresenius** the strongest contributors in the quarter. Over the longer term, Oldfield have significantly underperformed, being the weakest performer over five years and since inception.

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

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	3.0	10.1	4.4	4.7	3.0
	Relative	1.0	1.6	(2.2)	(0.8)	(0.0)
Ruffer	Actual	2.4	4.4	1.4	4.7	5.1
	Relative	0.5	(3.4)	(4.8)	(0.5)	0.0
Barings (Multi Credit)	Actual	2.8	12.3	2.2	3.2	3.4
	Relative	0.6	2.8	(5.0)	(2.9)	(2.2)
Oak Hill	Actual	2.5	11.5	5.2	5.0	4.4
	Relative	0.3	2.2	(2.2)	(1.2)	(1.2)
Barings (Private Debt)	Actual	2.7	11.3	8.3	6.9	6.1
	Relative	0.5	1.9	0.7	0.6	0.4
Alcentra	Actual	(0.7)	4.8	4.9	5.7	6.2
	Relative	(2.9)	(4.0)	(2.5)	(0.5)	0.5
ICG Longbow	Actual	1.1	4.0	4.3	n/a	3.6
	Relative	(1.0)	(4.7)	(3.0)	n/a	(2.6)
Partners Group (Private Debt)	Actual	1.8	10.5	6.9	n/a	4.8
	Relative	(0.4)	1.2	(0.6)	n/a	(1.5)
Total	**Actual**	**2.1**	**9.4**	**3.3**	**3.7**	**3.2**
	Relative	**0.1**	**0.8**	**(2.6)**	**(1.3)**	**(1.2)**

2.2 Manager Performance Commentary

Short-term enhanced yield outperformed in Q3 with 5 out of 8 managers outperforming their benchmarks, On a relative basis, **PIMCO** was the strongest performer**,** while **Alcentra** was the weakest performer.

The STEY strategy is behind benchmark over 3 and 5 years, with only **Barings Private Debt** outperforming. Overall STEY performance is in line with benchmark since inception.

The **PIMCO** portfolio outperformed the benchmark over Q3 and was also the strongest performer in absolute terms. Q3 performance was driven mainly by contributions from duration and currency strategies. Spread strategies were also slightly positive. PIMCO performance remains behind benchmark over 3 and 5 years and in line with benchmark since inception.

Manager Performance

The **Barings Multi-Asset Credit** portfolio outperformed over Q3 and was also one of the strongest STEY performers in absolute terms. Each underlying credit strategy within the portfolio contributed to positive performance, as historically attractive coupons, moderating inflation and resilient issuer fundamentals provided a favourable environment for high yield credit. Over 3 and 5 years and since inception, portfolio performance remains behind benchmark.

Alcentra underperformed in Q3 and is behind benchmark over all time periods except since inception. The separately managed account (SMA) is the strongest performing portfolio of the Fund's 3 investments with Alcentra, while Alcentra fund II is the weakest performer. At the 2023/24 investment strategy review, the Fund decided to let the Alcentra portfolio wind down over time.

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	2.1	3.2	2.0	2.4	6.1
	Relative	0.8	3.2	1.7	1.5	0.3
Partners Group RE (2)	Actual	(1.1)	(12.1)	(0.9)	(1.8)	5.0
	Relative	(1.7)	(16.6)	(9.5)	(8.8)	(3.3)
JP Morgan IIF	Actual	1.7	10.7	10.0	7.9	7.2
	Relative	(0.2)	2.5	1.8	(0.1)	(0.7)
Total	**Actual**	**1.6**	**2.6**	**4.8**	**3.7**	**5.0**
	Relative	**0.3**	**(0.7)**	**0.1**	**(0.5)**	**(0.1)**

3.2 Manager Performance Commentary

Performance of the long-term enhanced yield allocation was ahead of benchmark in Q3 2024. **Partners Group and JP IIF underperformed**, but the **DTZ** UK property portfolio performed positively in absolute and relative terms.

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

DTZ outperformed in Q3, when the UK property portfolio's total return comprised a capital return of 0.7% and an income return of 1.1%. This compared to a capital and income return of 0.2% and 1.4% respectively for the MSCI Monthly Index. Asset total returns were polarised over the quarter, ranging from +9.9% to –14.3%. Longer term, the portfolio continues to outperform despite the cost associated with a trebling in size since 2012.

Partners Group are behind their strategic benchmark (8% per annum adjusted for currency movements) over all time periods but are ahead of the FTSE/EPFA NAREIT Total Return Index reported by the manager over 3 years and since inception. The portfolio has a Total Value / Paid In multiple of 1.18x.

Appendix 4

Portfolio Summary 30th September 2024

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	6,065	*19.7%*	3,097	*10.0%*	1,680	*5.4%*					**10,843**	***35.1%***	*33.0%*
Baillie Gifford	2,430	*7.9%*									**2,430**	***7.9%***	*7.5%*
Lazard	976	*3.2%*									**976**	***3.2%***	*2.5%*
Oldfield	865	*2.8%*									**865**	***2.8%***	*2.5%*
Veritas	949	*3.1%*									**949**	***3.1%***	*2.5%*
Lombard Odier	440	*1.4%*									**440**	***1.4%***	*1.0%*
JP Morgan	922	*3.0%*							1,413	*4.6%*	**2,334**	***7.6%***	*7.5%*
Active EM Equity	367	*1.2%*									**367**	***1.2%***	*0.0%*
Pantheon	1,317	*4.3%*					0	*0.0%*			**1,317**	***4.3%***	*5.8%*
Partners Group	916	*3.0%*					319	*1.0%*	572	*1.9%*	**1,806**	***5.9%***	*5.5%*
PIMCO							1,145	*3.7%*			**1,145**	***3.7%***	*4.0%*
Ruffer							553	*1.8%*			**553**	***1.8%***	*2.0%*
Barings (multi-credit)							709	*2.3%*			**709**	***2.3%***	*2.3%*
Oak Hill Advisors							571	*1.9%*			**571**	***1.9%***	*1.8%*
Barings (private debt)							421	*1.4%*			**421**	***1.4%***	*1.8%*
Alcentra							272	*0.9%*			**272**	***0.9%***	*0.0%*
ICG Longbow							317	*1.0%*			**317**	***1.0%***	*1.0%*
DTZ									2,390	*7.7%*	**2,390**	***7.7%***	*9.0%*
DIP	133	*0.4%*					113	*0.4%*	1,307	*4.2%*	**1,553**	***5.0%***	*7.5%*
Cash							604	*2.0%*			**604**	***2.0%***	*1.0%*
Total	**15,381**	**49.8%**	**3,097**	**10.0%**	**1,680**	**5.4%**	**5,024**	**16.3%**	**5,682**	**18.4%**	**30,864**	**100.0%**	**98.0%**
Target		**47.0%**		**10.0%**		**5.0%**		**17.0%**		**21.0%**		**100.0%**	

Appendix 5

Direct Impact Portfolio

1 Portfolio Summary

The portfolio can be summarised as follows.

	Since Inception (£m)	Current Portfolio (£m)
Total Commitments Agreed	**2,312**	**2,214**
Amounts Drawn Down by Managers	**1,784**	**1,707**
+ Increase in Value	**581**	**536**
- Received Back in Distributions	**699**	**699**
- Realisations	**122**	**-**
= Total Net Asset Value (NAV)	**1,544**	**1,544**

Based on a current total Fund value of **£30,864m**, DIP's **5%** target allocation is a NAV of **£1,543m**.

The portfolio comprises **65** separate investments. In addition, a co-investment program of **£200m** was approved at the March 2022 meeting of the SPF Committee. To date 3 co-investments, each for £15m, have been invested, with the remaining **£155m** yet to be allocated which is not included in the table above.

In Q3, total drawdowns and distributions amounted to **£30m** and **£36m** respectively.

2 Performance

Portfolio performance to 30 September 2024 is as follows:

	Q3 2024		3 Year		5 Year		Since Inception [1]	
	DIP % (p.a.)	SPF % (p.a.)	DIP % (p.a.)	SPF % (p.a.)	DIP % (p.a.)	SPF % (p.a.)	DIP % (p.a.)	SPF % (p.a.)
Equity	1.9	1.3	10.0	4.9	15.4	8.9	15.3	-
LTEY	2.0	1.6	8.4	4.8	5.2	3.7	3.9	-
STEY	2.9	2.1	8.3	3.3	7.0	3.7	2.8	-
TOTAL FUND	**2.1**	**1.7**	**8.5**	**4.0**	**6.0**	**6.4**	**7.4**	**7.8**

[1] **total is from DIP's inception date in 2001**

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

Factors that have contributed positively over the longer term include:

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

Direct Impact Portfolio

Factors that have detracted over the short term include:

- stronger power prices over the past couple of years were initially positive for renewable energy 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;
- Private equity 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:

- **57** investments are rated **green**;
- **7** are **amber**;
- **1** in **legals**;
- **None red**.

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

Appendix 5

Direct Impact Portfolio

3 DIP Investments

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: Equity								
Clean Growth Fund	2020	Venture Capital	Equity	20	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	4
Epidarex Fund III	2019	Venture Capital	Equity	15	11	4	0	11
Foresight Regional Investment V LP	2023	Growth Capital	Equity	30	7	23	0	5
Maven Regional Buyout Fund	2017	Growth Capital	Equity	20	18	2	17	8
Palatine Impact Fund II	2022	Growth Capital	Equity	25	10	15	0	7
Palatine Private Equity Fund IV	2019	Growth Capital	Equity	25	17	8	16	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	6
Par Equity Northern Scale-Up Fund	2023	Venture Capital	Equity	25	6	19	0	7
Pentech Fund III	2017	Venture Capital	Equity	10	8	2	0	8
SEP II	2000	Venture Capital	Equity	5	5	0	4	0
SEP III	2006	Growth Capital	Equity	5	5	0	18	0
SEP IV LP	2011	Growth Capital	Equity	5	5	0	7	4
SEP V LP	2016	Growth Capital	Equity	20	20	0	12	28
SEP VI LP	2021	Growth Capital	Equity	30	10	20	0	9
Total as at 30/09/2024	**Q3**			**331**	**168**	**163**	**103**	**142**

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	10	41
Alpha Social Long Income Fund	2015	Support Living	LTEY	15	15	0	5	19
Capital Dynamics Clean Energy Infrastructure VIII	2019	Renewables	LTEY	40	37	3	4	39
Capital Dynamics Clean Energy UK Fund	2023	Renewables	LTEY	60	0	60	0	0
Clydebuilt Fund II LP	2021	Property	LTEY	100	68	32	2	66
Clydebuilt Fund LP	2014	Property	LTEY	75	75	0	72	16
Dalmore Capital Fund 3 LP	2017	Infrastructure	LTEY	50	50	0	14	52
Dalmore Capital Fund 4 LP	2021	Infrastructure	LTEY	50	50	0	5	50
Dalmore II 39 LP	2021	Infrastructure	LTEY	50	30	20	3	30
Dalmore PPP Equity PiP Fund	2014	Infrastructure	LTEY	50	50	0	36	44
Equitix Fund IV LP	2015	Infrastructure	LTEY	30	30	0	13	28
Equitix Fund V LP	2018	Infrastructure	LTEY	50	50	0	15	52
Equitix Fund VI LP	2020	Infrastructure	LTEY	50	50	0	4	52
Equitix Fund VII LP	2024	Infrastructure	LTEY	50	31	19	0	29
Equitix MA 19 LP (Co-Investment Fund)	2020	Infrastructure	LTEY	50	50	0	7	57
Funding Affordable Homes	2015	Property	LTEY	30	30	0	0	29
Greencoat Solar Fund II LP	2017	Renewables	LTEY	50	50	0	16	45
Hermes Infrastructure Fund II	2017	Infrastructure	LTEY	50	42	8	12	44
Iona Environmental Infrastructure LP	2011	Renewables	LTEY	10	10	0	4	6
Iona Renewable Infrastructure LP	2017	Renewables	LTEY	14	14	0	1	15

Appendix 5

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: LTEY (cont'd)								
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	67	61
Man GPM RI Community Housing Fund	2021	Property	LTEY	30	25	5	0	26
NextPower UK ESG Fund	2022	Renewables	LTEY	60	27	33	1	30
NTR Wind I LP	2015	Renewables	LTEY	39	34	4	34	37
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	Infrastructure	LTEY	130	120	10	58	86
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	Property	LTEY	45	40	5	4	40
Quinbrook Renewables Impact Fund (QRIF1)	2020	Renewables	LTEY	50	42	8	0	47
Quinbrook Renewables Impact Fund (QRIF2)	2024	Renewables	LTEY	60	0	60	0	0
Resonance British Wind Energy Income Ltd	2013	Renewables	LTEY	10	10	0	8	8
Temporis Impact Strategy V LP (TISV)	2021	Renewables	LTEY	50	30	20	9	39
Temporis Operational Renewable Energy Strategy (TORES)	2017	Renewables	LTEY	30	21	9	11	49
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	Renewables	LTEY	30	30	0	11	38
Total as at 30/09/2024	**Q3**			**1,609**	**1,313**	**296**	**431**	**1,260**

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	24	17
Beechbrook UK SME Credit III Fund	2021	Credit	STEY	40	33	7	7	32
Healthcare Royalties Partners III LP	2013	Credit	STEY	19	18	0	18	6
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	Credit	STEY	20	14	6	15	9
Muzinich UK Private Debt Fund	2015	Credit	STEY	15	15	0	15	0
Pemberton UK Mid-Market Direct Lending Fund	2016	Credit	STEY	40	37	3	41	18
Scottish Loans Fund	2011	Credit	STEY	6	6	0	7	0
TDC II (prev Tosca Debt Capital Fund II LP)	2017	Credit	STEY	30	24	6	18	13
TDC III (prev Tosca Debt Capital Fund III LP)	2019	Credit	STEY	30	21	9	17	17
Total as at 30/09/2024	**Q3**			**230**	**197**	**33**	**162**	**113**
Co-investment Programme								
Schroders Greencoat Glasgow Terrace	2023	Renewables	LTEY	15	15	0	1	16
Temporis (TISV Co-invest1 LP)	2024	Renewables	LTEY	15	15	0	2	13
Temporis CIP (BESS)	2024 (in legals)	Renewables	LTEY	15	0	15	0	0
DIP Portfolio Total								
Total as at 30/09/2024	**Q3**			**2,214**	**1,707**	**507**	**699**	**1,544**
Total as at 30/06/2024	**Q2**			**2,141**	**1,677**	**465**	**663**	**1,528**

Appendix 6

Investment Advisory Panel Meeting November 2024

MINUTES OF MEETING ON Thursday 14th November 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
	Syed Muslim	Assistant Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Martin	Assistant investment Manager

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 15th August 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 **Q3 2024** was +**1.7%**, behind the benchmark return of **+2.0%**. Performance for the year to 30th September 2024 was positive (+**11.8%**), but below benchmark (**+14.0%**). The Fund's return is positive on an absolute basis over five years but behind benchmark and positive on both an absolute and relative basis over ten years.

2.3 Manager Ratings

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

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

2.4 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:

- **57** investments are rated **green**;
- **7** are **amber**;
- **1** in **legals**;
- **None red**.

2.5 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of September 2024 was estimated to have increased to **166%**, 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 30th September 2024 were as follows.

	2024	
	Estimate (£m)	**Actual (£m)**
Distributions	716	420
Calls	-519	-301
Net	**+198**	**+119**

The Fund's central cash balance at 30th September 2024 was +**£602m.** This decreased during the quarter as the Fund continued implementation of its revised investment strategy and +**£200m** was transferred to cover benefits cash flow. Detailed forecasting indicates further transfers from investments of **£100m** at end of Q4 2024 and Q1 2025 will be required to cover benefit payments. A further **£130m** will be required to fund the emerging market equity portfolio transition later in the year.

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 and 2025/26 at its February meeting.

3.2 Rebalancing Strategy

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

As a result of the ongoing restructuring of the Fund's investment strategy, emerging market equity, secondary private debt and corporate bond allocations were outwith new strategy allocations at end September 2024.

All other asset class, mandate and manager allocations were within target ranges. The Panel agreed that no immediate rebalancing action was required pending the conclusion of the transition to the new investment strategy and structure.

3.3 Relative Value Framework

The relative value framework was introduced following the 2020/21 review of investment strategy to generate additional value and reduce the risk of capital losses by varying implementation of the Fund's allocation held in protection assets. The framework was reviewed following the 2023/24 investment strategy review to account for revised strategic allocations to Hedging and Insurance and Credit assets.

Decisions to move away from the new strategic – or neutral - allocation of 2.5% Passive Credit (50/50 UK/US investment grade) and 10.0% Hedging and Insurance (50/50 UK gilts and index-linked gilts) allocation are based on pre-defined metrics.

The quarterly relative value report from Hymans Robertson provided the following summary assessment of the framework metrics at 30th September 2024:

- Spreads on both US and UK IG credit are substantially below 20-year medians.
- Despite a small fall in yields over the quarter, nominal gilt yields remain attractive relative to assessment of fair value based on long-term growth and inflation forecasts. This supports an allocation to gilts relative to cash.
- Real yields are still attractive as you look out beyond 15 years. However, implied inflation is expensive when assessed against the framework terms and would therefore suggest holding a lower allocation of index-linked gilts in favour of nominal gilts.

The Panel discussed the report's assessment of the latest metrics, which were supportive of moving to an underweight position in index-linked gilts and a consequent overweight in gilts. Given the time take to move to updated neutral positions as part of the recent strategy review, and the several weeks it would take to unwind these positions again, the Panel decided that it would be more pragmatic to maintain the current allocations and review again in Q1 2025.

3.4 Investment Income and Cash Flow

Analysis and modelling of current and future investment income cash-flows is updated annually and reviewed by the IAP to ensure that the Fund can meet its benefits cash flow requirements.

Income analysis separately identifies:

- Income that is currently distributed within portfolios and available for drawdown;
- Income that is earned within portfolios but not currently distributed ("re-invested income");

An updated 10 Year benefits cash flow forecast was reviewed by the Panel alongside the latest income forecasts. The funding strategy agreed at the 2023 actuarial valuation has resulted in a significant reduction in income from employer contributions in 2024/25, 2025/26 and 2026/27.

The main conclusions from the latest income and benefits cash flow analyses were as follows:

- Reductions in employer contribution rates over the current and next two financial years mean that the projected shortfall in benefits cash flow will exceed distributed investment income in 2024/25 and 2025/26.
- During 2024/25, the Fund has managed to ensure that sufficient cash is available from existing cash balances and from the sale of investments as part of the restructuring of mandates following the investment strategy review.

- Distributed income is currently predicted to be slightly less than the projected shortfall in funds from member transactions in 2025/26.

The Panel agreed that at its February 2025 meeting consideration should be given to tthe most appropriate source of funds, whether that is further investment rebalancing or investment income, to cover the shortfall in benefits cash flow during 2025/26.

4. Manager Reviews

3 investment managers attended the Investment Advisory Panel:

- **Oldfield**
- **ICG**
- **Partners Group**

Performance of each of the managers was reviewed.

4.1 Oldfield

The Oldfield global equity portfolio is currently valued at **£865m**, or **2.8%** of total Fund, versus a target weight of 2.5%. As well as an update on portfolio performance, Oldfield provided an update on its investment management business and on recent staff changes, including the departure of the two lead managers of the global equity strategy. Business and personnel developments at the firm were also the subject of a separate paper by Hymans Robertson.

The performance of the Oldfield portfolio, while positive on an absolute basis, is below benchmark since inception. This can largely be explained by the underperformance of the value investment style over the period as well as the concentrated nature of the Oldfield portfolio. The Panel has always been supportive of a balance between value and growth managers for its equity allocation and the Oldfield portfolio plays an important part in ensuring that balance is achieved. The Panel agreed, however, that it would be prudent for the Fund to gain an understanding of other global equity value investment products. Hymans will prepare a summary research paper for the Panel's November meeting.

In the meantime, officers will ask Oldfield to provide quarterly business updates to the Fund in addition to performance reporting.

4.2 ICG

The ICG private real estate debt portfolio is currently valued at **£317m**, or **1.0%** of Fund versus a target weight of 1.0%. ICG provided an update on the current portfolio and performance.

The ICG portfolio is currently at its target weight of 1.0% of total Fund. Cash flow forecasts show that realisations anticipated during 2025 will mean that the portfolio size will drop to 0.8% of total Fund by the end of 2025 and 0.3% of total Fund by the end of 2026, a materially underweight position. ICG recommended

- a new commitment of £200m to its latest fund, ICG Fund VIII, in Q1 2025, and
- a possible follow-on commitment in 2026

to stabilise the portfolio size at 1.0% of total Fund.

Investment Advisory Panel Meeting November 2024

The Panel considered the recommendation and agreed that the Fund should commit £200m to ICG Fund VIII in early 2025. The Panel will keep the requirement for any follow-on commitments in 2026 and beyond under review.

4.3 Partners Group

The Partners Group private equity portfolio is currently valued at **£916m** – **3.0%** of Fund versus a target weight of 2.5%. The private real estate portfolio is currently valued at **£571m** – **1.9%** of total Fund versus a target weight of 2.0%. The private debt portfolio is currently valued at **£319m** – **1.0%** of total Fund versus a target weight of 1.0%. Partners Group updated the Panel on the performance of the Fund's private equity, private real estate and private debt investments.

.

The private equity portfolio is currently over the Fund's target weight and as a result, no new commitments are required. The private real estate portfolio is currently slightly under target weight. However, drawdown of existing commitments is expected to increase allocation to the Fund's target weighting by the end of 2024 and to stay at target during 2025.

The private debt portfolio is fully invested and is currently at target weight. The Panel agreed that commitment to the portfolio should be increased in order to maintain target weight. Officers will work with Partners to forecast future cash flows and adjust the total debt portfolio commitment accordingly.

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

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

Changes that had begun or been completed in 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).
- 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).

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

- Transition of emerging market equity mandates with Genesis and Fidelity to RBC are still to complete, with the first phase– transition between Genesis and RBC – expected to take place towards the end of Q4 2024.
- Commitment to the Pantheon Private Debt Fund will complete in Q4 2024 and will be drawn down over time.
- Transition to new buy and maintain and passive corporate bond mandates with LGIM will complete during Q4 2024 and early 2025 respectively.

5.2 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.

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 agreed 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, although progress in the European team had been slower. The Panel decided that
    - Barings should be permitted to make new investments, up to the level of distributions back from the existing portfolio, but in the US and Asia only until such time as the European team had been sufficiently rebuilt.

  - The Fund's commitment to its separate managed account (SMA) with Barings would be raised to £400m in order to accommodate the re-investment of distributions.
  - The strategic allocation to Barings of 1.75% of Fund that was agreed as part of the investment strategy review should be adopted, but kept under review as Barings continues to re-build its investment team.
- The Fund should make a £200m commitment to ICG Fund VII to ensure that this portfolio remained at its target weight of 1.0% of total Fund.
- The value of the Partners Group private debt portfolio is currently at its target weight of 1% of total Fund. The Panel agreed that commitment to the portfolio should be increased in order to maintain target weight. Officers will work with Partners to forecast future cash flows and adjust the total debt portfolio commitment accordingly.

5.3 Direct Impact Portfolio Investment Strategy

The Panel reviewed a summary of the changes proposed following this year's review of the Direct Impact Portfolio.

The Panel were supportive of the conclusions of the review, which are outlined in detail in a separate paper to Committee.

6 Governance

6.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 27th November 2024.

Appendix 7

Stewardship: Responsible Investment Activity

Responsible Investment: Quarter 3 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 3 the Fund's equity manager, Veritas Asset Management, reported on how it uses the **United Nations Global Compact Screen ("UNGC")** to ensure international norms and standards are addressed in the investment process.
  The UNGC screen identifies companies involved in controversies where the company's alleged actions constitute a violation of one or more of the ten principles that cover environmental, anti-corruption, human rights and labour standards. On a monthly basis, utilising MSCI ESG research data and 'RAG' rating alert system, Veritas reviews all investee companies to determine if a company fails any of the global compact principles. If there are notable changes during the month, the Veritas system will distribute an email alert to the Investment Team, Compliance Team, and ESG Team. Veritas will identify which principle has been violated, assess the materiality of the violation, and engage with the business if required.

Fail	The company is implicated in one or more controversy cases where there are credible allegations that the company or its management inflicted serious large-scale harm in violation of global norms.
Watch List	The company is implicated in one or more controversy cases that are serious and warrant ongoing monitoring. However, based on information available to date, it does not constitute a significant breach of global norms according to the methodology.
Pass	According to the methodology, the company has not been implicated in any controversy case constituting a significant breach of global norms within the last three years.

  During quarter 3, no companies held in the SPF portfolio "Failed" the UN Global Compact screen. Three companies in the Fund (14.5%) were listed on the Global Compact "Watchlist" including **Amazon.com,** for a potential breach of Principle 3 – "Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining", specifically concerning warehouse employees staging strikes with the Verdi trade union demanding better salary and working conditions.

  Veritas will continue to monitor the company's progress in this area. Should this flag escalate to a "Fail", they will engage. Further detail is available in the Veritas ESG Framework at:
  https://www.vamllp.com/assets/VAM-LLP-ESG-Framework-June-2023.pdf

- The Fund's global infrastructure manager **JP Morgan** and UK property manager **DTZ** included high level results from the 2024 **Global Real Estate Sustainability Benchmark** (GRESB) annual asset assessment in their Q3 quarterly reports.

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

In the 2024 assessment, the JP Morgan Infrastructure Investment fund ranked 6^{th} in its peer group of 27 globally diversified private infrastructure funds. 6 IIF portfolio companies received a 5 star rating and 5 portfolio companies received a 4 star rating.

The DTZ UK portfolio obtained a score of 74/100 (30/30 for the Management module and 44/70 for the Performance module) and 2 Green Stars.

Full details of each manager's 2024 results will be provided in their Q4 reports,

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 September 2024 is summarised as follows.

Voting activity to 30th September 2024		
		(%)
Total meetings	**4,383**	
Votes for	25,603	77
Votes against	7,215	22
Abstentions	99	-
Not voted	349	1
No. of Resolutions	**33,266**	**100**

Voting activity in the quarter included:

- **Legal & General** voted against the election of the Board Chair at the **Hindalco Industries Ltd** AGM. This vote against management is in line with Legal & General's Climate Impact Pledge engagement escalation, whereby they vote against the re-election of the chair of the Board at companies lagging their minimum expectations on climate change. This is the second consecutive year Legal & General applied vote sanctions against the company on this basis. Disclosure of a forward-looking, coherent and quantified transition plan is still absent from the report, therefore falling short of expectations. Legal & General also note Hindalco has pushed back its short-term scope 1 and 2 emission intensity reduction target from 2025 to 2027. Despite three engagement meetings and multiple email exchanges, Legal & General are still unclear on a) Hindalco's plans to develop existing disclosure into a coherent transition plan, b) the process, accountability structures and resources in place to develop it over 2024 and c) timings of a planned disclosure. (the election of the Board Chair passed by 77%). Legal & General supported two shareholder resolutions at **General Mills**., asking the company to disclose regenerative agriculture practices within the supply chain and report on efforts to reduce plastic use. Legal & General believe additional disclosure as to regenerative agriculture practices, particularly the use of pesticides, throughout the value chain would be beneficial to more greatly understand health, climate and nature-related risks and impacts, and recommend the company report in line with the guidance from the Taskforce for Nature-related disclosures. Improving the recyclability of products will have a positive impact on climate change and biodiversity. (resolutions achieved 28% and 40% support respectively). Legal & General supported a shareholder resolution at **Darden Restaurants Inc**., asking the company to comply with World Health Organization Guidelines on Antimicrobial Use Throughout Supply Chains. Legal & General's Health Policy states their expectation that companies within the restaurant/out-of-home sector (e.g. fast-food companies) should require all their meat suppliers to comply with the WHO guidelines. Globally, most antibiotics are used not for humans, but for animals. The overuse of antibiotics is known to exacerbate AMR. Legal & General expect them to be transparent about their AMR strategy, the actions taken to implement it, and steps taken to monitor implementation. (resolution achieved 10% support).

- **Baillie Gifford** opposed a resolution to ratify the auditor at the **Advanced Drainage Systems** AGM. The ratification of the auditor was opposed because of the length of tenure. Baillie Gifford believe it is best practice for the auditor to be rotated regularly as this works to ensure independent oversight of the company's audit process and internal financial controls. (The resolution passed by 89%). At **Chewy**, Baillie Gifford opposed the executive compensation due to concerns with the structure of the policy which they do not believe are aligned with shareholders' best interests. (resolution passed). At **Prosus N.V**., Baillie Gifford opposed two resolutions relating to executive compensation. Baillie Gifford continue to have concerns with quantum and misalignment between pay and performance. Their concern also relates to the stretch of targets under the long-term incentive plan, all of which they do not deem to be in the best interest of long-term shareholders. Furthermore, a special 'moonshot' award for the CEO, in addition to the regular long-term incentive plan does not promote appropriate pay for performance. (resolutions passed). Baillie Gifford opposed executive remuneration at **Richemont.** Baillie Gifford opposed the approval of executive variable remuneration due to ongoing concerns with remuneration practices which they do not believe are in the best long-term financial interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent. (resolution passed by 76%). At **AeroVironment** Baillie Gifford abstained on the election of a director who is also a member of the audit committee due to ongoing concerns that the company's climate reporting is lagging behind its peers.

- **Veritas** opposed management remuneration proposals at **Richemont** due to lack of disclosures explaining variable pay outcomes, a lack of transparency on qualitative performance metrics and achievements, failure by the company to directly address significant shareholder dissent from last year's vote and because the board retains considerable discretion in the overall compensation framework.

- **JP Morgan** voted against executive compensation at **Sanlorenzo** where an EGM was called to approve an incentive plan for a newly appointed CEO of the group's subsidiaries. JP Morgan's concerns with the incentive plan were around a lack of disclosure on the performance conditions that would ultimately determine the overall size of the award. There were also several other aspects of the award that were unclear, including the methodology to used to calculate the initial price of the shares to be granted and whether or not the CEO would concurrently benefit from the existing long-term incentive plan.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Baillie Gifford** visited the **Ryanair Holdings plc** company HQ to better understand the skills of the new board appointees and to seek clarity on decarbonisation planning especially with regards to sustainable aviation fuel (SAF) and to explore supply chain disruption.

  The Chair justified recent board nominees in the context of operational execution. The sustainability team clarified SAF contracts and other measures targeting emissions reductions are embedded in their 2050 NZ plan. The COO introduced Ryanair LABS and discussed some of the supply chain bottlenecks currently facing the company.

  A thorough update was obtained on the business across operational, sustainability and supply chain matters. These meetings should help Baillie Gifford better calibrate the opportunity in the next few years and boost their confidence that Ryanair has a tangible edge in sustainability versus its LCC peers and long-haul carriers.

  Baillie Gifford engaged with French semiconductor company **Soitec SA** to encourage simplification of executive pay plans and the strengthening of minimum ownership requirements for executives.

  Baillie Gifford spoke to the chair of the remuneration committee, Delphine Segura Vaylet, following this year's AGM. On the call, they outlined reservations over the complexity of executive pay plans. Baillie Gifford also queried the suitability of some non-financial performance metrics included in the latest policy. The chair explained that the committee adopts a benchmarking approach each year but acknowledged Baillie Gifford concerns. She added that the non-financial metrics discussed would be reviewed by the committee. Finally, Baillie Gifford sought to understand the board's thinking on building executive ownership. Baillie Gifford noted levels of executive ownership and corresponding requirements are both relatively low. She agreed that this was a topic the board could pay more attention to going forward.

The chair appeared open to the feedback provided, intimating that action would be considered by the remuneration committee. She also asked if Baillie Gifford could share their updated remuneration principles, which they have committed to doing. Baillie Gifford look forward to being consulted on executive pay going forward and will monitor related developments.

- **Oldfield Partners** engaged with **Sanofi** regarding a court case that they and Bristol-Myers Squibb are facing in Hawaii with respect to the antiplatelet medication Plavix.

  This relates to the warning label of Plavix not being adjusted to reflect the appropriate safety and efficacy risks of the drug, specifically that around 30% of patients might have a reduced response to Plavix, particularly those of East Asian and Pacific Islander descent. Sanofi and BMS are appealing the ruling and argue that they provided appropriate information about the risks and benefits of Plavix, including regarding genetic variations that may affect the drug's efficacy for some populations. They are appealing based on the stance that they did not mislead healthcare providers or patients in Hawaii and that the penalties are excessive. Currently the suit will cost Sanofi $458m and raises the risk that another state could pursue a new case. Experience has highlighted the need to approach litigation in the pharmaceutical sector with extreme caution. In this instance, Oldfield are more comfortable that this relates to an initial filing that dates back to 2014 and Sanofi argue that while it is possible a new state could pursue a case, the events and circumstances would be from many years ago. Importantly, this represents a government enforcement action, rather than a product liability case brought by patients.

- As a household and healthcare company, there are several potentially material sustainability considerations associated with **LGH&H**, including the safety of their products, the evolution of their packaging, as well as the environmental and social impacts of their palm oil supply chain. Whilst the company continues to make progress in all three outlined areas, **Oldfield** engagement with them during the quarter highlighted that their domicile in South Korea and expectations of the local consumer base does have implications on progress relative to peers. When Oldfield questioned what prevented them from setting more specific medium- and longer-term targets for recycled and recyclable packaging, they argued that whilst overseas countries have a long history of using recycled plastics, with strong supply stability and consumer awareness, Korea is just getting started and with legal standards that keep changing, they are challenged to disclose longer-term goals. Similarly, their targets related to sustainable palm oil lag other regions and whilst they are working on what they describe as a realistic and practical plan to achieving 100% sustainably sourced palm oil, they do not currently have a timeframe to do so as they balance expense, sourcing availability etc. Accounting for regional nuance is an important part of Oldfield’s assessment of companies and in this instance, the manager encouraged LGH&H to set ambitious longer-term targets as the broader context allows.

Stewardship: Responsible Investment Activity

- **Oldfield Partners** engaged with **Tesco** on potential supply chain issues in relation to the Uyghur population in China.

  This quarter, prior allegations of Tesco's exposure in their seafood supply chain resurfaced. As a long-term investor in Tesco, Oldfield have over the years engaged with the team on the complexity of their supply chain and their oversight of various issues. Perhaps unsurprisingly, as the UK's biggest supermarket, they have always demonstrated comprehensive practices supported by thorough policies and procedures to ensure they adhere to consumer and regulatory expectations. Similarly, in this instance, they confirmed that they were no longer associated with the suppliers in question and pointed to their current work aimed at addressing specific challenges that heighten the risk of modern slavery in the fishing sector. During the engagement, Oldfield took the opportunity to explore Tesco's approach to incoming deforestation regulation, the EUDR (The European Union Deforestation Regulation). Acknowledging that the main driver of deforestation is the expansion of agricultural land that is linked to the production of commodities like cattle, cocoa, soy, palm oil and coffee, the regulation aims to ensure deforestation free products with an enhanced focus on traceability throughout the supply chain. With other distributors, Oldfield have seen that the requirement for increased traceability will result in significant initial cost to put the necessary frameworks in place. The Tesco team are well positioned to implement new regulation, having made significant progress with commodities such as palm oil in the recent past. Oldfield remain impressed by Tesco's overall approach. From a governance perspective, their sustainability teams are integrated into the commercial function, which supports their engagement with suppliers on sustainability matters alongside commercial considerations. Oldfield will continue dialogue where required.

- **J.P. Morgan** met with Spanish Real Estate company, **Merlin Properties** to discuss their strategic expansion plans for data centres and their approach to sustainability and corporate governance.

  Earlier this year, Merlin Properties raised 920 million euros to develop their existing landbank into data centres. Noting that data centre growth is expected to lead to exponential increases in power and water demand, JP Morgan engaged with the company to understand how they are navigating the competing priorities of energy and water availability, low carbon credentials and meeting the sustainability credentials of their hyperscale clients, such as Meta and Microsoft. The company confirmed that using renewable power is a requirement for their clients, but they are not willing to pay more for it. Their clients also require that their Power Usage Effectiveness (PUE) is low. Merlin's Spanish data centres have a market leading PUE of 1.15, helped by their joint venture partnership with Edged Energy. Merlin aims to be Net Zero for Scope 1 and 2 emissions by 2030 and in an effort to report its Scope 3 emissions, includes green clauses in contracts to encourage tenants to share energy consumption data. Unusually, Merlin's data centres consume no water for cooling. Their cooling solution is a closed loop circuit, which is particularly important in a high-water stress country like Spain. The company appears well positioned to deliver low carbon, low water usage data centres to its hyperscale clients in Spain and Portugal. JP Morgan will monitor industry uptake of closed-circuit colling systems as the company delivers on its data centre growth plans and monitor their plans to expand into new territories.

- **J.P. Morgan** engaged with **SAF-HOLLAND,** a German company that specialises in manufacturing axles and suspension systems for trucks and trailers. The objective of the engagement was to understand the viability of SAF-HOLLAND's Environmental, Social, and Governance (ESG) targets and their exposure to the broader automotive market's weaknesses, with many market peers revising down their ESG and battery electric vehicle penetration targets. Regarding end-market demand weakness, SAF-HOLLAND's revenue is not heavily reliant on truck Original Equipment Manufacturers (OEMs), with only 14% coming from the truck business, making them more exposed to the trailer market. Both the truck and trailer markets are currently normalizing after a few strong years, particularly in Europe, the Middle East, and Africa (EMEA) and North America. Regarding carbon targets and reduction, the company works with their customers hand in hand and aims to achieve net zero emissions by 2050. They are also considering applying to the Science Based Targets initiative (SBTi). Furthermore, SAF-HOLLAND is working on an electrified axle with an engine for trailers and an autonomous coupling solution for trucks and harbours. Both are in their pilot phase. On the governance side, following a significant cyber attack in 2023, they have implemented enhanced security measures.

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.

- Baillie Gifford engaged with US-based e-commerce company **Coupang, Inc** to encourage reporting of scope 1 and 2 emissions to better understand its climate exposure and material risks.

  Climate considerations are crucial to Coupang's success for two main reasons: urban pollution and regulatory compliance. Coupang operates in densely populated areas of Korea, with 70 per cent of the population living within seven miles of a fulfilment centre. Seoul, known for its narrow streets and high vehicle usage, ranks among the worst cities globally for air pollution. Additionally, as a company listed in the US, Coupang must adhere to the latest SEC requirements to disclose scope 1 and 2 emissions. Currently, the company prioritises recycling and green packaging over emissions disclosure. Baillie Gifford recommended that Coupang begin disclosing its scope 1 and 2 emissions but advised against setting targets until the company has a clearer understanding of its carbon footprint. Furthermore, Baillie Gifford offered the support of their Climate Team and agreed to provide examples of companies in similar sectors. Following the meeting, the company indicated it is evaluating internally whether to include its scope 1 and 2 emissions in its forthcoming ESG report. Baillie Gifford look forward to studying the report once published.

Baillie Gifford engaged with **Petroleo Brasileiro S.A. (Petrobras)** to better understand how Petrobras' operational emissions reductions and governance controls are being implemented and to continue to encourage further progress.

Baillie Gifford met with Petrobras' head of governance and head of climate in Brazil, followed by a meeting with the chief financial officer (CFO) in London. Petrobras has environmental targets, including greenhouse gas emissions associated with oil and gas production. However, over the years, Baillie Gifford have encouraged the company to be more ambitious. The company highlighted that its reservoirs have enabled low-cost and lower carbon barrels, it has also invested in technologies for further emissions reduction. Examples of this would include new floating production, storage, and offloading (FPSO) vessels that have decarbonisation technologies. The company is resolutely focused on efficiency, identifying opportunities to go even further in eliminating flaring and improving energy consumption and supply. Of course, efficiency gains will become incrementally harder, so the company aims to stay abreast with new technology that can enable further improvement. Petrobras has one of the largest carbon capture and storage (CCS) programmes globally in the context of offshore oil and gas production, and this expertise is being extended to onshore CCS hubs. Petrobras has a strong safety record, but Baillie Gifford discussed how the company addresses governance and sustainability standards in new markets, where they highlighted new compliance and controls. While the company has embarked on energy transition projects, these remain a small part of its overall business. Management sees its expertise in biofuels and sustainable aviation fuels (SAF), as long-term opportunities for the business, but the CFO reiterated the focus of the company's mission, which is replacing oil reserves through ongoing exploration to underpin long-term production growth at the company. The meetings with Petrobras and other experts in Brazil helped Baillie Gifford better understand the company's governance and sustainability practices in the local context.

- **Oldfield** met with cooking equipment manufacturer, **Middleby** to better understand their approach to supporting the environmental goals of their clients.

  As a manufacturer of cooking equipment for the commercial, residential, and industrial foodservice market, Middleby are not a material emitter within the portfolio. They do however play an important role in the supply chain to brands with net zero commitments such as McDonalds. Oldfield were therefore interested to better understand their approach to innovation to support the environmental goals of their clients. Middleby shared that sustainability initiatives increasingly shape their strategic decisions however whilst they collaborate with clients, their main pressure to make progress here comes from shareholders. Their stated objectives include the reduction in energy consumption and the electrification of their products was a main theme of the discussion and an area of heightened interest. They also support clients in the reduction of water usage and food waste and these objectives are balanced alongside other factors such as product performance, safety and food quality. Going forward, Oldfield expect to see incremental improvements in Middleby's sustainability approach and their commitment to science-based targets and enhanced reporting suggests a gradual shift towards a more strategic approach to innovation. This should allow them to better address both the risks and opportunities of sustainable practices for their customers and Oldfield expect to continue dialogue with the team on this annually.

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.

- In 2024, the Fund 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.

- 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.

- 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 overleaf.

Appendix 7

Stewardship: Responsible Investment Activity

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
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

Stewardship: Responsible Investment Activity

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).

- In September the Fund co-signed The Investor Agenda **2024 Global Investor Statement to Governments on the Climate Crisis.** This is the most comprehensive investor call for climate action yet, demanding a whole-of-government approach with policy implementation at all levels of government and urging enactment of policies that will unlock the private capital flows needed for a just transition to a climate-resilient, nature-positive, net-zero economy. This statement, coordinated by the seven Founding Partners of The Investor Agenda including the **Institutional Investors Group on Climate Change (IIGCC)**, was signed by 534 investors representing over USD $29 trillion in assets. The joint statement to all world governments urges a global race-to-the-top on climate policy and warns that laggards will miss out on trillions of dollars in investment if they aim too low and move too slow. The Statement calls for a whole-of-government approach across five critical policy groupings:
    - enacting economy-wide public policies;
    - implementing sectoral strategies, especially in high-emitting sectors;
    - addressing nature, water and biodiversity-related challenges contributing to and stemming from the climate crisis;
    - mandating climate-related disclosures across the financial system; and
    - facilitating further private investment into climate mitigation, resilience, and adaptation activities in emerging markets and developing economies.

  The full statement and list of current signatories is available at: https://theinvestoragenda.org/wp-content/uploads/2024/08/2024-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf

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

    - 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 their current business.
    - Engagement with UK power producer, **Drax,** regarding concerns about the continuation of government subsidy and significant issues with claims of net zero as well as continuity of supply of imported wood pellets.

Stewardship: Responsible Investment Activity

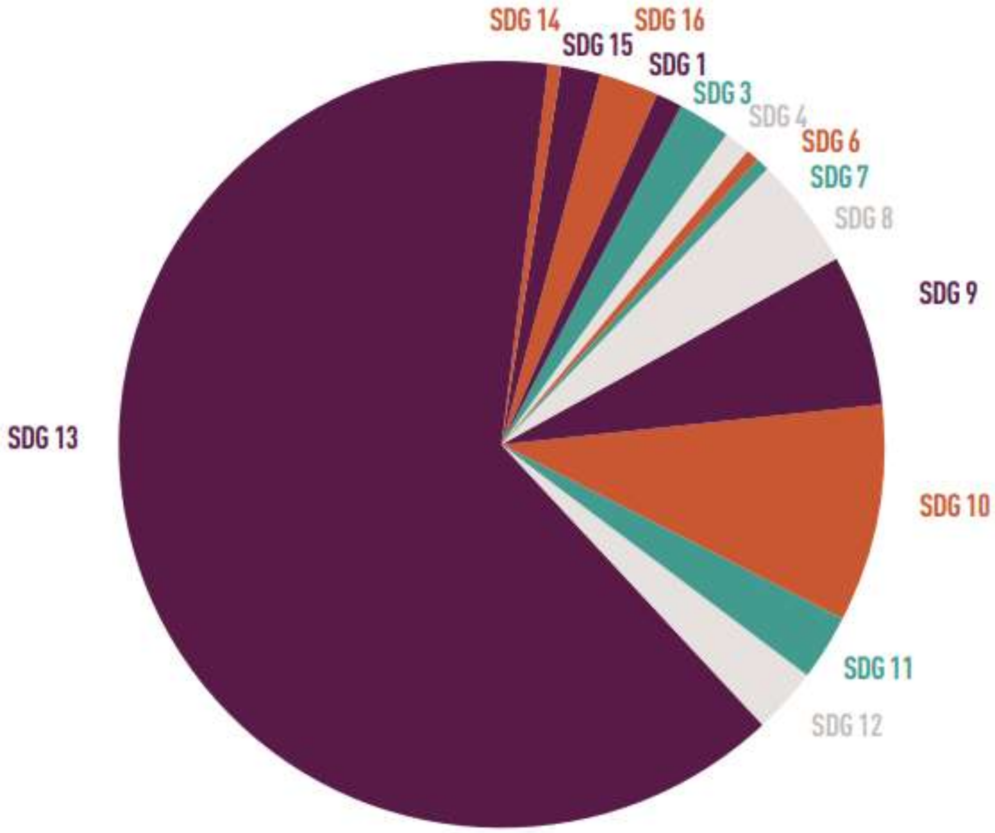
- LAPFF engaged with international steel producers **SSAB & ThyssenKrupp** on transition plans and on developing alternatives to coal/coke-based steel production.
- LAPFF met with **Kasikorn Bank**, one of the major financial institutions in Thailand, to discuss progress on its approach to sustainable finance.
- LAPFF engaged with cement company, **CRH** to discuss its actions towards achieving net zero.
- LAPFF met with three of the largest tobacco companies, **Philip Morris, Imperial Brands,** and **Japan Tobacco Inc.** to discuss single-use plastics in their product ranges. LAPFF is set to meet **British American Tobacco** in October to discuss these same issues.
- LAPFF engaged with shipping company, **Maersk** to for a second time to discuss heightened human rights due diligence and the company's approach to global conflict zones.
- LAPFF continued to engage the largest UK housebuilders on their climate transition strategies. In the quarter, LAPFF met the chair of **Bellway** to discuss its approach to decarbonisation and met with the Chief Operating Officer and the Group Company Secretary at **Vistry Group** to discuss the company's sustainability initiatives, its approach to reducing Scope 3 emissions, planning and pilots to be ready for the Future Homes Standard.
- As part of its support for the **Nature Action 100** (NA100) initiative LAPFF engaged with the Danish Pharmaceutical company **Novo Nordisk.**
- To achieve wider support for climate transition plan votes, LAPFF alongside **CCLA** organised a letter to FTSE 100 companies that have not provided such a vote over the past three years. The letter outlined the case for companies providing shareholders the opportunity to have a say on the company transition plan.
- LAPFF has been concerned about the weakening of standards relating to new entrants to the London listed companies' market, which has included, **Aston Martin Lagonda**, **NMC Health**, **Finablr** and **Quindell**, The LAPFF Executive convened a 'Capital Markets Working Group' in the light of a recent concerted campaign by some interests to further weaken the standards of the listing regime. That campaign has included the Capital Markets Industry Taskforce, which is just that, it is a coalition of "fee earning" interests rather than shareholder interests, including issues of investor protection. It is chaired by the CEO of the London Stock Exchange.
- LAPFF held meetings with **AstraZeneca**, **Pearson** and **Synthomer** to discuss the high levels of shareholder dissatisfaction. This included a meeting with the Chair of AstraZeneca, Michel Demaré, to discuss the company's approach to Executive compensation following opposition of 35.6% to the remuneration report at the 2024 AGM.

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

Stewardship: Responsible Investment Activity

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

ENGAGEMENT DATA



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	0
SDG 3: Good Health and Well-Being	4
SDG 4: Quality Education	2
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	1
SDG 7: Affordable and Clean Energy	1
SDG 8: Decent Work and Economic Growth	8
SDG 9: Industry, Innovation, and Infrastructure	11
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	5
SDG12: Responsible Production and Consumption	5
SDG 13: Climate Action	111
SDG 14: Life Below Water	1
SDG 15: Life on Land	3
SDG 16: Peace, Justice, and Strong Institutions	4
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.

- Officers of the Fund completed the annual **PRI** reporting and assessment survey in quarter 3. This online questionnaire is compulsory for all asset owner and investment manager signatories and contains questions covering implementation of the Principles and responsible investment activities. An assessment report is expected in quarter 4. This report will demonstrate how a signatory has progressed in its implementation of the Principles year-on-year and relative to peers across asset classes.

- **Sustainalytics Global Standards Engagement and Material Risks Engagement** Quarterly Reports summarize the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies. Sustainalytics map these engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 785 engagement cases in quarter 3 can be attributed to the following SDGs (as percentage of total cases).

Appendix 7

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 engagement.

1 No Poverty	4%	10 Reduced Inequality	9%
2 Zero Hunger	2%	11 Sustainable Cities and Communities	10%
3 Good Health and Well-Being	27%	12 Responsible Consumption and Production	55%
4 Quality Education	4%	13 Climate Action	51%
5 Gender Equality	6%	14 Life Below Water	8%
6 Clean Water and Sanitation	10%	15 Life on Land	14%
7 Affordable and Clean Energy	22%	16 Peace and Justice, Strong Institutions	38%
8 Decent Work and Economic Growth	25%	17 Partnerships to Achieve the Goal	4%
9 Industry, Innovation and Infrastructure	28%		