Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 14

4th March 2020

Responsible Investment – Activity to 31st December 2019

Purpose of Report:

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

Recommendation:

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

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

1 Background

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

2 Activity: Quarter 4 2019

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

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

The Fund's ongoing work to incorporate long-term environmental, social, and governance (ESG) factors into investment analysis and decision-making processes was recognised by the **United Nations Principles for Responsible Investment** through inclusion in the (PRI) 2019 Leaders' Group. As part of a 10-year blueprint for responsible investment, the PRI has committed to showcasing leadership and increasing accountability, with a view to raising standards of responsible investment amongst all signatories. The PRI Leaders' Group 2019 showcases PRI signatories that demonstrate both a breadth of responsible investment excellence, and that excel specifically in the 2019 theme: selection, appointment and monitoring of external managers. The PRI evaluation focused specifically on listed equity and private equity and identified those leading signatories that seek investment managers with robust governance frameworks for ESG integration, across multiple elements of governance, investment decision-making processes and investor reporting.

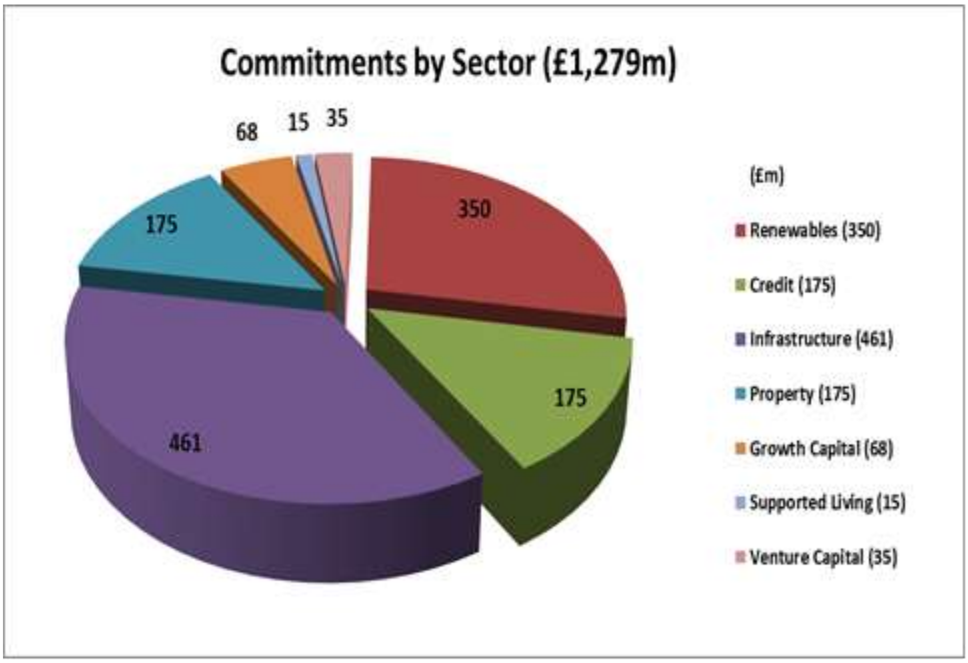
The 2019 Leaders Group comprises 47 asset owner signatories - equivalent to the top 10% of PRI asset owner signatories. Strathclyde Pension Fund is one of two LGPS to be included among the 47 Leaders.

2.1.1 Investment Managers

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

2.1.2 Direct Investment Portfolio (DIP)

The SPF Committee and officers are more directly involved in analysis and decision making in respect of the Fund's Direct Investment Portfolio (DIP). DIP has an explicit objective of adding value through investments with a positive local, economic or ESG impact. Total commitments by DIP as at 31st December 2019 are summarised as follows.



In terms of ESG impact at a sectoral level:

- DIP commitments to Renewable Energy were achieving a carbon reduction of more than 87,000 tonnes per annum in 2018. This figure continues to grow with increasing deployment and new investments.
- Credit, venture, and growth capital allocations are primarily to UK small company financing.
- Infrastructure commitments include a significant element of social infrastructure.
- The property allocation is to the Fund's own Clydebuilt Portfolio which invests within the Strathclyde area and has a significant bias towards development.

Progress of these and other DIP investments during the quarter is summarised in Appendix 2.

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

Main activities in this area are:

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

2.2.1 Voting

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

Managers' voting activity during the quarter to 31st December 2019 is summarised as follows.

Voting activity to 31st December 2019		
		(%)
Total meetings	**784**	
Votes for	5,308	79
Votes against	1,178	18
Abstentions	75	1
Not voted	130	2
No. of Resolutions	**6,691**	**100**

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

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

- at least one resolution at 88% of US company meetings.
- 12% of all remuneration resolutions in Asia Pacific.
- at least one resolution at 50% of Japanese company meetings.

Further details of voting activity are set out in Appendix 3.

2.2.2 Engagement

Engagement highlights during the quarter include the following.

- **Legal and General** conducted 146 company meetings during the quarter. Environmental issues were discussed at 67% of the meetings with climate change the primary agenda item. Legal and General also began the third yearly cycle of their Climate Impact Pledge engagements with letters sent to some of the world's largest companies, highlighting areas for improvement, around 50 follow up meetings were held. Since then some significant progress has been noted. Hong Kong-based electric utility **CLP** announced in December that it will not invest in any additional coal fired generation capacity and will phase out its existing coal-plants by 2050. Additionally, **Commonwealth Bank of Australia** announced that it will only finance new oil & gas projects if they are demonstrated to be compatible with the goals of the Paris Agreement.
  Product safety was the focus of engagement with Swiss based pharmaceuticals company **Novartis**. Legal & General met with the company to discuss allegations of data manipulation during the approval process for its spinal muscular atrophy drug Zolgensma.

- During the quarter, **Sustainalytics (**formerly GES), provided engagement reports on a range of recent company engagements including with **Uber Technologies Inc.** (Legal & General) regarding data security practices and alleged misuse of customers and drivers data. Sustainalytics also reported a concluded engagement case with **Royal Dutch Shell**

- **Baillie Gifford** engaged with building materials business **CRH Plc.** regarding board composition, remuneration, and the company's approach to emissions.

Further details of engagement activity are set out in Appendix 4.

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, Sustainalytics and various investor forums in which the Fund participates.

- **Sustainalytics** reported engagement with multinational conglomerate **3M**. (Legal & General) to discuss alleged environmental pollution, Swiss banking group **Credit Suisse Group AG** to seek disclosure on risk management systems following allegations of money laundering, **Boeing** (Legal & General) regarding commercial aircraft quality and safety and Californian utility company **Edison International** regarding public safety and wildfire mitigation.

Further details are set out in Appendix 5.

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

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

- In quarter 4, the Fund received the results of the 2019 PRI survey. The Fund achieved a maximum overall A+ score confirming that it continues to perform in the top tier of global PRI signatories.

- Direct Investment Portfolio managers **Alpha Real Capital**, **Ediston Properties Ltd** (Clydebuilt), **Iona Capital**, **Pemberton Asset Mgt**., **Pentech Ventures** and **Tosca Debt Fund** are the latest to confirm they have become PRI signatories.

Further details are set out in Appendix 6.

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

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

Further details of these collaborative initiatives are set out in Appendix 7.

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

The committee reports on responsible investment activity are available on the Fund's website at www.spfo.org.uk.

- Legal & General, Baillie Gifford, JP Morgan, Henderson, Veritas 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.

- The **Institutional Investors Group on Climate Change (IIGCC)** reported on their attendance at the COP25 climate negotiations in Madrid and the publication of an update to its Global Investor Statement to Governments on Climate Change.

- The Fund co-signed the **Farm Animal Investment Risk and Return Initiative** (FAIRR) open letter to the Brazilian government requesting it uphold the **2006 Amazon Soy Moratorium** and ensure that soy production in the Amazon region only occurs on existing agricultural land.

- The Fund's engagement overlay provider, **Sustainalytics** provided the first biannual report for its new engagement initiative, **Plastics and the Circular Economy**. The report provided an overview of progress including a summary of engagement dialogues and also introduced the engagement agenda for the year ahead.

Details of activity during the quarter are set out in Appendix 8.

3 Other Developments

Appendix 9 sets out details of other ESG developments during the quarter.

4 Conclusion

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

5 Policy and Resource Implications

Resource Implications:

Financial:	No issues
Legal:	No issues

Personnel:	No issues
Procurement:	
Council Strategic Plan:	Strathclyde Pension Fund aligns with the theme of a well governed city.
Equality and Socio-Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2017-21	Equalities issues are a frequent subject of engagement with investment managers and portfolio companies as part of the Responsible Investment strategy.
What are the potential equality impacts as a result of this report?	Recent engagement on equalities issues is described in this report.
Please highlight if the policy/proposal will help address socio economic disadvantage.	
Sustainability Impacts:	
Environmental:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.
Social, including opportunities under Article 20 of the European Public Procurement Directive.	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.
Economic:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.
Privacy and Data Protection impacts:	None.

6 Recommendation

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

Appendices	
1.	**Responsible investment policy and strategy**
2.	**DIP activity: quarter to 31st December 2019**
3.	**Voting activity: quarter to 31st December 2019**
4.	**Engagement activity: quarter to 31st December 2019**
5.	**Disclosure on ESG Issues: quarter to 31st December 2019**
6.	**UNPRI signatories**
7.	**Collaborative initiatives**
8.	**Collaborative initiatives: activity during the quarter**
9.	**Other developments during the quarter**

Appendix 1

Responsible Investment Policy and Strategy

Policy

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

UN Principles for Responsible Investment

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

1. We will incorporate ESG issues into investment analysis and decision-making processes.

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

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

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

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

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

We encourage other investors to adopt the Principles.

Strategy

Responsible Investment activity is carried out by:

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

A quarterly committee report on responsible investment activity is available on the Fund's website at: *www.spfo.org.uk*

Appendix 2

DIP activity: quarter to 31st December 2019

- In quarter 3 the SPF Committee approved an investment of £50m in **Equitix Fund VI**. This infrastructure fund will target total commitments of £1bn with which to fund the acquisition of a portfolio of 40 to 50 equity investments in the small to mid-market segment of the infrastructure market. The Fund will target assets in the healthcare, education, social housing, transportation, telecommunications, utilities, student and government accommodation, energy from waste, and renewable energy sectors.
  Equitix is periodically also presented with other attractive opportunities which are too large for their funds due to concentration restrictions. In these situations, Equitix offers the balance of such stakes to co-investors, who actively want to have increased exposure to such assets. In quarter 3 the SPF Committee also approved a £50m investment in the **Equitix SPF Co-investment Fund** to take advantage of the co-investment opportunities in infrastructure presented by Equitix.

- In Quarter 4 the Funds' £25m commitment into the **Places for People Scottish Mid-Market Rent Fund** (affordable homes) was formally agreed. The fund has now also confirmed a significant commitment from the Nationwide Building Society Pension Fund. This, combined with loan funding from the Scottish Government, gives the fund critical mass and it now has clear visibility of the total targeted number of homes in what is a relatively short investment period. The fund aims to develop 1,000+ affordable homes, mainly in Glasgow and Edinburgh, by March 2021.

Appendix 3

Voting Activity: Quarter to 31st December 2019

1. UK Activity

Managers' voting activity in respect of the Fund's **UK equity** holdings in the quarter to 31st December 2019 is summarised in the table below. The expected norm would be for an investment manager, having invested in a company, to support that company's management in all but exceptional cases. The table below shows how votes were actually cast. Votes against management and abstentions are analysed in more detail in the voting record schedule which is available on the Fund's website at www.spfo.org.uk

Voting Results
Q4 2019
United Kingdom

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	3	2	1	-	39	20	-	-	19	3	-
Genesis	-	-	-	-	-	-	-	-	-	-	-
JP Morgan	4	3	1	-	60	42			18	4	-
Lazard	1	-	1	-	2	2	-	-	-	1	-
Legal & General	121	78	43	-	1,298	1,199	99	-	-	121	-
Legal & General - Segregated Portfolio	1	1	-	-	14	12	2	-	-	1	-
Lombard Odier	19	12	7	-	180	165	-	1	14	19	-
Oldfield Partners	-	-	-	-	-					-	-
Veritas	-	-	-	-	-					-	-
Total	**149**	**96**	**53**	-	**1,593**	**1,440**	**101**	**1**	**51**	**149**	-
						90%	**6%**	**0%**	**3%**	**100%**	**0%**

2. Overseas Activity

Managers' voting activity in respect of the Fund's **overseas equity** holdings in the quarter to 31st December 2019 is summarised in the table below.

Voting Results
Q4 2019
Overseas

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	7	3	4	-	51	49	1	1	-	7	-
Genesis	24	2	22	-	174	156	18	-	-	24	-
JP Morgan	36	24	12	-	225	178	23	2	22	36	-
Lazard	5	3	2	-	60	46	11	-	3	5	-
Legal & General	513	194	319	-	4,063	3,068	937	58	-	513	-
Legal & General - Segregated Portfolio	40	35	5	-	452	303	84	11	54	40	-
Lombard Odier	7	5	2	-	44	40	2	2	-	7	-
Oldfield Partners	1	-	1	-	7	7	-	-	-	1	-
Veritas	2	2	-	-	22	21	1	-	-	2	-
Total	635	268	367	-	5,098	3,868	1,077	74	79	635	-
						76%	21%	1%	2%	100%	0%

Managers generally do not vote proxies in markets where tendering shares to vote entails their being blocked from trading during the voting periods. All of the overseas proxies were lodged this quarter, with **76%** of votes in support of company management.

3. Consolidated Activity

Voting Activity: Quarter to 31st December 2019

Consolidated Activity for **Quarter 4 2019** is shown below

Voting Results Q4 2019 Total UK & Overseas

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	10	5	5	-	90	69	1	1	19	10	-
Genesis	24	2	22	-	174	156	18	-	-	24	-
JP Morgan	40	27	13	-	285	220	23	2	40	40	-
Lazard	6	3	3	-	62	48	11	-	3	40	-
Legal & General	634	272	362	-	5,361	4,267	1,036	58	-	6	-
Legal & General - Segregated Portfolio	41	36	5	-	466	315	86	11	54	634	-
Lombard Odier	26	17	9	-	224	205	2	3	14	41	-
Oldfield Partners	1	-	1	-	7	7	-	-	-	7	-
Veritas	2	2	-	-	22	21	1	-	-	1	-
Total	784	364	420	-	6,691	5,308	1,178	75	130	803	-
						79%	18%	1%	2%	100%	0%

4. Executive Remuneration

The table below shows the total number of resolutions from the last quarter which related specifically to executive remuneration. Of the **6,691** resolutions voted by managers **701** related to executive remuneration – either through seeking approval of remuneration reports or the approval of long-term incentive schemes. As can be seen **487** resolutions or **69%** of votes cast were in support of the resolutions. So, the majority of awards are supported by the Fund's external investment managers, but less so than on other non-remuneration issues. Some areas of concern regarding executive pay are reported below.

Voting Results Q4 2019 Resolutions on Executive Remuneration

	No of Resolutions	Votes For	Votes Against	Abstentions
Baillie Gifford	9	9	-	-
Genesis	64	62	2	-
JP Morgan	29	26	3	-
Lazard	3	1	2	-
Legal & General	530	345	185	-
Legal & General - Segregated Portfolio	41	22	19	-
Lombard Odier	20	17	1	2
Oldfield Partners	1	1	-	-
Veritas	4	4	-	-
Total	701	487	212	2
		69%	30%	0%

Voting Activity: Quarter to 31st December 2019

5. Manager Commentary

- **J.P. Morgan** voted against 3 resolutions on executive remuneration in quarter 4. In Japan J.P Morgan voted against payment of a retirement bonus to a non-executive at **Nissei ASB Machine Co. Ltd.** as this is inappropriate practice and against two restricted share plans at **Raksul Inc.** as outside directors can participate in the plan. In Australia, J.P. Morgan voted against the award of shares to the CEO at **Wix.com Ltd.** due to excessive quantum.

- **Lombard Odier** voted against the director's remuneration report at **Fulcrum Utility Services** in quarter 4. Lombard Odier abstained on two Executive remuneration resolutions at **BATM Advanced Communications Ltd.** as the US based structures were deemed to be inappropriate. Management have engaged with shareholders hence abstain votes were warranted.

- **Lazard** opposed 2 resolutions on executive remuneration at company meetings in North America during quarter 4. These were the advisory remuneration or 'say on pay' votes at **Microsoft Corporation** (approved 77%) and **Oracle Corporation.** (approved 58%)
  Also at the Microsoft AGM (its first-ever virtual annual shareholders meeting) a proposal to put a rank-and-file employee on the company's board of directors was defeated by 95%. This shareholder resolution stemmed from Microsoft's perceived unresponsiveness to employee concerns over issues like government contracts and sexual harassment. Lazard supported a separate proposal that would have required the company to prepare a report on its global median gender pay gap. This resolution was also rejected by Microsoft shareholders (defeated 70%).

- **Legal & General** voted against 204 resolutions on executive remuneration in quarter 4.

- In quarter 4**, Genesis** voted against resolutions on executive remuneration at Turkish discount retailer **Sok Marketler Ticaret AS**. Proposals to ratify director appointments and approve their remuneration were opposed as the company had failed to disclose the names of the candidates and the proposed board fees.

Appendix 4

Engagement activity: quarter to 31st December 2019

- **Legal & General** engaged with multinational pharmaceutical company **Novartis** regarding allegations of data manipulation during the approval process for its spinal muscular atrophy drug Zolgensma.

  In May 2019, Novartis received approval from the US Food and Drug Administration (FDA) for a drug called Zolgensma, which was developed by its subsidiary, AveXis. The drug is approved for children up to two years of age suffering from the deadly muscle wasting disease spinal muscular atrophy. It is to date the world's most expensive drug (USD 2.1 million per treatment). In March 2019, Novartis via AveXis, was alerted to allegations of data manipulation in a subset of data and an internal investigation was undertaken. Novartis did not alert the FDA of its initial findings until the end of June 2019. The FDA conducted on-site inspections in July/August, following which it issued a so-called 483 form 3 which outlined concerns over the timing of self-disclosure to the FDA. It is to be noted that the FDA has continued to support the use of the drug.
  Legal & General contacted Novartis to convey their concern that the company had not considered it necessary to immediately alert the FDA when it discovered the internal data manipulation. This sends the wrong message from the very top of the organisation, especially in light of the chief executive's commitment that Novartis must hold itself to the "highest ethical standards and always aim to win and maintain the trust of society and its many stakeholders". Soon after the publication of the FDA letter, Legal & General met with Novartis to communicate their disappointment over the lack of urgency in alerting the FDA and also to share their concerns that this showed poor judgement from management and sent the wrong signals throughout the organisation. Legal & General have also made clear to Novartis that they expect this issue to be reflected in executive pay.
  The company has now publicly committed to the FDA that it will now notify the authority within five business days after receipt of "any credible allegation" related to data integrity during a filing. Legal & General will monitor the publication of Novartis' annual report and will analyse the remuneration report and pay awards granted for financial year 2019 and take into account any actions taken in this regard when voting at the 2020 annual general meeting.

- During the quarter, **Sustainalytics** engaged with **Uber Technologies Inc.** (Legal & General) regarding data security practices and alleged misuse of customers and drivers data.

  Uber Technologies Inc., operates as a technology platform for the mobility of people and goods. The firm offers multi-modal passenger transportation, restaurant food delivery, and connects freight carriers and shippers. In November 2017, Uber disclosed a data breach that had taken place in late 2016 and that had compromised the personal information (names, emails and phone numbers) of 57 million users, as well as the driver's licence information of 600,000 US drivers.
  In September 2018, Uber agreed to pay USD 148 million in settlements to 50 US states for the breach, and in July 2019 in Colombia, Uber was ordered to install a third-party monitor to oversee its data security practices and to improve

them due to the 2016 breach. Uber has also been criticised for misusing the data of its customers and drivers through internal software tools.

From a company management perspective, Uber has made important privacy management changes, including the introduction of its first Chief Privacy Officer in 2018. As part of its settlement with the US Federal Trade Commission (FTC), Uber will conduct independent audits of its privacy program every two years. The company has also introduced privacy impact assessments and relaunched its own Privacy Champions Programme to build-up a culture of respect for privacy. However, the effectiveness of these measures is still of high concern given the company's business model and the elevated impact of FTC penalties in the case of new violations.

The company was very responsive to Sustainalytics' engagement request and an initial call with Uber's Chief Privacy Officer was held in November 2019. Sustainalytics will continue the dialogue with the company to confirm that its data privacy and security programme have been adequately improved to mitigate future violations.

- **Sustainalytics** successfully concluded engagement with six companies during the quarter including a long running engagement with **Royal Dutch Shell** (Lazard) over its controversial activities in Nigeria.

  The company was accused of extensive oil pollution in the Niger Delta region and was involved corrupt practices. In relation to oil pollution, a range of recommendations was made by specialists from the United Nations Environmental Programme (UNEP). In Sustainalytics engagement dialogue with the company, Shell has shown progress against around 75 per cent of the relevant UNEP recommendations and confirmed that it is on track to fulfil the remaining ones. As a result, the case was resolved. Furthermore, the disclosure engagement with the company over corrupt practices in Nigeria dating back to 2011 was also concluded due to the company providing a significant volume of information about its anti-corruption framework.

- **Baillie Gifford** engaged with Irish building materials business **CRH Plc.** regarding board composition, remuneration, and the company's approach to emissions. While cement accounts for only 10% of CRH's revenue, carbon produced from cement represents 80% of the company's Co2 emissions. Baillie Gifford are satisfied that CRH has worked to reduce emissions at every stage of production and encouraged to hear that the company is now investigating carbon capture and storage technology to help improve efficiencies and reduce carbon emission further. The transparency of its reporting is industry leading and Baillie Gifford intend to follow up with a site visit in 2020. Baillie Gifford also held a call with the new company chairman to discuss board composition and remuneration.

Appendix 5

Disclosure on ESG issues: Quarter to 31st December 2019

- In quarter 4 **Sustainalytics** reported engagement with multinational conglomerate **3M**. (Legal & General) to discuss alleged environmental pollution. For several years, 3M has faced numerous lawsuits brought by US states, local authorities and communities over alleged environmental pollution. The lawsuits relate especially to the pollution of surface and ground water with harmful contaminants stemming from past activities and products.
  The allegations relate to the chemicals perfluorooctanesulfonic acid (PFOS) and perfluorooctanoic acid (PFOA), two types of perfluoroalkyl and polyfluoroalkyl substances (PFAS) used as surfactants in numerous applications. PFAS are a group of manmade chemicals that includes PFOA, PFOS, GenX, and many other chemicals. PFAS have been manufactured in the US since the 1940s and have been widely used in a variety of industries globally. PFOA and PFOS have been the most extensively produced and studied of these chemicals. Both chemicals are very persistent in the environment and can bioaccumulate (i.e. exposure to PFAS can lead to adverse human health effects.)
  The company has been relatively proactive in regard to PFAS. It states that it was the first manufacturer to cease the production of PFOS and PFOA in the early 2000s and reportedly provided several hundred studies to the US Environmental Protection Agency on PFAS. The company has recently launched a PFAS Stewardship webpage, which details the history of PFAS, health science, testing methods and remediation technologies suitable for PFAS removal.
  Sustainalytics is engaging with the company to seek more details on its PFAS stewardship and to see how it can make greater use of its history on PFAS in order to address the legacy of widespread water source pollution, particularly in the US. Sustainalytics are also asking whether the company has informed its overseas customers about this issue and is able to provide them with assistance in the identification, evaluation and remediation of any legacy PFAS pollution outside the US.

- Sustainalytics reported engagement with Swiss banking group **Credit Suisse Group AG** to seek disclosure on risk management systems following allegations of money laundering.
  Credit Suisse routinely faces regulatory action regarding its internal processes to prevent money laundering, corruption, bribery, market manipulation and related business ethics issues. In September 2018, the Swiss Financial Market Supervisory Authority (FINMA), said that Credit Suisse had failed to adhere to anti-money laundering due diligence obligations in relation to suspected corruption cases linked to the football organisation FIFA and Venezuelan, as well as Brazilian, state oil companies. FINMA identified several shortcomings which had occurred repeatedly between 2006 and 2014, such as failures to properly identify clients and perform enhanced due diligence.

  The problems, as identified by regulators are largely structural and have been addressed by Credit Suisse through a range of changes including hiring 800 compliance specialists, separating the legal and compliance departments,

creating a Group Compliance and Regulatory Affairs function, with the Head sitting on the board and reporting directly to the CEO.
The fact, however, that the Swiss regulators have imposed a three-year, third-party monitor suggests that they are not entirely convinced that the changes will be implemented properly by the company in a way to prevent future regulatory breaches.
Sustainalytics has decided to engage Credit Suisse in order to address how the company is implementing the changes it has announced, address the culture of non-compliance at the company and seek more information on further steps to strengthen internal processes.

- Sustainalytics recently initiated dialogue with **The Boeing Company** (Legal & General) regarding commercial aircraft quality and safety.
  Since October 2018, two Boeing 737 MAX aircraft have crashed, reportedly caused by the malfunctioning of an automated flight control system. All crew and passengers died, 346 in total. All 737 MAX aircraft have been temporarily grounded globally since March 2019. In addition, in April 2019, the New York Times made allegations of poor quality aircraft and weak safety processes at Boeing's 787 Dreamliner manufacturing facility in South Carolina, US.
  Boeing has been reassuring its customers, authorities and the flying public that safety has always been and continues to be at the core of everything it does. It has been collaborating with the authorities to return the 737 MAX to commercial flight. Strong market demand is driving Boeing to increase productivity and to deliver more fuel-efficient aircraft. However, pressure on the workforce can be counter-productive, at least in the short term. The claims that Boeing has been downplaying or ignoring the concerns of whistle-blowers at its South Carolina facility (where the 787 Dreamliner is made), have not helped in restoring confidence.
  Sustainalytics will engage with Boeing on commercial aircraft quality and safety. Specifically on the safe return of the 737 MAX aircraft to commercial flight and the adoption of a robust precautionary approach to product quality management at all of its commercial aircraft manufacturing facilities.

- Sustainalytics also reported engagement with Californian utility company **Edison International** regarding public safety and wildfire mitigation.
  Edison International's subsidiary, **Southern California Edison Company** (SCE), is a public utility that serves approximately 15 million people in the area of central, coastal and Southern California. About a quarter of SCE's service territory is categorised as a high-fire threat area. The company's equipment has allegedly sparked several wildfires, most notably the Thomas fire in December 2017, which resulted in two fatalities and the Woolsey fire in 2018, that led to the evacuation of more than 200,000 people and the deaths of three. The 2017 blaze destroyed the vegetation which was holding the soil in place, allegedly contributed to mudslides in the town of Montecito a month later. The mudslides

led to 21 fatalities and destroyed dozens of homes. Multiple lawsuits related to wildfires and mudslides have been filed against SCE and Edison, including class actions.

According to the company's reporting, it has been taking actions to prevent wildfire risks for years, including vegetation management activities, operational practices and collaborative partnerships with fire agencies. In 2017, SCE started a Climate Adaptation and Severe Weather Program which evaluates the impacts of climate change on the company's assets and infrastructure, business processes, policy development, and stakeholders. The company has filed the Wildfire Mitigation Plan to the California Public Utility Commission. It includes clearly defined goals and target dates which have been approved by the authorities.

Sustainalytics will monitor Edison's progress with the Wildfire Mitigation Plan whilst focusing the engagement on two main aspects: how Edison predicts and incorporates long-term risks into its general safety strategy, and how the company collaborates with local stakeholders to achieve the highest possible level of safety and satisfactory progress against the goals set in the Wildfire Mitigation Plan.

Appendix 6

UNPRI Signatories

Manager	PRI Signatory	If not, manager's explanation
Alcentra	Yes	
Ashmore	Yes	
Baillie Gifford	Yes	
Barings	Yes	
DTZ	Yes	
Genesis	Yes	
Henderson	Yes	
ICG Longbow	Yes	
JP Morgan	Yes	
Lazard	Yes	
Legal and General	Yes	
Oak Hill Advisors	Yes	
Oldfield	Yes	
Pantheon	Yes	
Partners Group	Yes	
PIMCO	Yes	
Ruffer	Yes	
Veritas	Yes	
No.3 Fund		
Ruffer	Yes	
Legal and General	Yes	
Direct Investment Portfolio		
Albion Ventures LLP	Yes	
Alpha Real Capital LLP	Yes	
Capital Dynamics	Yes	
Ediston Properties Ltd (Clydebuilt)	Yes	
Epidarex Capital Mgt. Ltd	No	Manager believes PRI is not applicable to a life science venture capital fund.
Equitix Investment Mgt. Ltd	Yes	
UK GIB Financial Services Ltd	Yes	
Healthcare Royalty Management LLC	No	Currently in the process of evaluating the PRI principles.
Hermes GPE	Yes	
Iona Capital LTD	Yes	
Maven Capital Partners UK LLP	No	Maven adheres to PRI standards - planning to join PRI in 2020.
Muzinich & Co. Limited	Yes	
NTR	Yes	
Panoramic Growth Equity	Yes	

UNPRI Signatories

Pemberton Asset Mgt. S.A	Yes	
Pentech Ventures LLP	Yes	
PIP (Dalmore Capital Limited)	Yes	
PiP Manager Limited	Yes	
Places for People	Yes	
GAM International Management Ltd (Renshaw Bay)	Yes	
Resonance Asset Mgt. Ltd "RAM"	Yes	
Scottish Equity Partners LLP(SEP)	No	SEP has considered PRI in forming its responsible investment procedures.
Tosca Debt Fund	Yes	
Scottish Loan Fund (Maven Capital Partners UK LLP)	No	Maven adheres to PRI standards - planning to join PRI in 2020.
Temporis Capital Limited	Yes	

In quarter 4, the Fund received its results from the 2019 **PRI** survey. The annual PRI assessment report is compulsory for all asset owner and investment manager signatories and demonstrates how a signatory has progressed in its implementation of the Principles year-on-year. The Fund achieved a maximum overall A+ score and the following scores from 4 assessed modules with bands A –E.

- **Strategy and Governance**: A (28 out of a maximum 30 from 12 indicators). The median outcome for this module was band A from 1,728 signatories assessed.
- **Listed equity**: A+ (42 out of a maximum 42 from 22 indicators). The median outcome for this module was band A from 468 signatories assessed.
- **Property**: A+ (39 out of a maximum 39 from 15 indicators). The median outcome for this module was band B from 195 signatories assessed.
- **Listed equity-active ownership**: A (25 out of a maximum 30 from 11 indicators). The median outcome for this module was band B from 729 signatories assessed.

The 2019 assessment represents the Fund’s best PRI survey outcome, since adopting the Principles in 2008, scoring the maximum possible A+ in two modules. Comparison with the median scores for each module confirms that the Fund continues to perform in the top tier of global PRI signatories.

Collaborative Initiatives

ShareAction

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

- **Living Wage**

  Strathclyde Pension Fund became involved with the living wage theme in early 2013 when the Convener co-signed a letter to the Financial Times in collaboration with 12 other UK pension funds and foundations to support the ShareAction JustPay! Campaign. The letter called on UK publicly listed companies to embed social sustainability in their businesses by paying employees and contracted staff the Living Wage. The second stage of the campaign commenced in early 2014 and involved sending collaborative letters to the constituents companies of the FTSE 100 index. The letters called on these companies to pay employees and contracted staff the Living Wage. Letters have gone out to each FTSE100 company prior to their AGM and the campaign is now in its fifth year. There are currently 37 companies in the FTSE 100 accredited by the Living Wage Foundation, A further 7 have committed to full compliance with the Living Wage standard but have not yet taken the step to commit to accreditation. This means that, in practice, 47 of the FTSE 100 are currently fully compliant with the Living Wage standard.

- **The Workforce Disclosure Initiative**

  The Workforce Disclosure Initiative (WDI) is a project to advance investor understanding and in turn consideration of the people behind the largest publicly listed companies, from those directly employed to those employed in the supply chain. The WDI is run by ShareAction and is supported by a coalition of 100 institutional investors representing more than $14 trillion in assets. The initiative is also supported by the Pensions and Lifetime Savings Association (PLSA) and the Department for International Development.

  Through the WDI, investor signatories come together to request that companies provide comparable data on the workforces in their operations and supply chain on an annual basis. Improved transparency will help investors gain crucial insights into how companies are managing their workforces, and how they compare with peers. The data collected will also inform investor engagement with companies to encourage better employment policies and practices. Ultimately, the goal of the WDI is to improve the quality of jobs for employees in companies' global operations and workers in their supply chains.
  The level of comparability in this area of corporate reporting is currently poor.
  The WDI is modelled on the Carbon Disclosure Project. It involves an annual investor-led survey of multinational companies which asks companies to report

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

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

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

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

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

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

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

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

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

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

Institutional Investors Group on Climate Change (IIGCC)
In December 2016 the Fund joined this network of nearly 631 members, including many of the largest pension funds and asset managers in Europe, who represent over €37 trillion in assets and take a pro-active approach to managing risks and opportunities related to climate change. The IIGCC provides investors with the collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change. To deliver on its objectives, IIGCC operates a number of programmes that commission research, produce reports and engage with various stakeholders.

Local Authority Pension Fund Forum (LAPFF)
The Fund is a member of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group which brings together 80 local authority pension funds and investment pools from across the UK with combined assets of over £230 billion. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Much of the Forum's work is in ensuring that companies have the right policies and right people in place to create value for shareholders over the long term. LAPFF's policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. Therefore the Forum considers that issues such as climate change and employment standards require as much investor attention as more traditional concerns such as corporate governance and executive remuneration. In some aspects of its work, LAPFF adopts a more high-profile and interventionist approach to shareholder engagement. It has led investor criticism of accounting standards that can misrepresent the capital position of financial institutions, and spoken out publicly against poor standards and excessive pay at the banks. It has also been an integral part of an investor grouping encouraging a positive response by companies to climate risk by filing supportive shareholder resolutions.

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

Collaborative Initiatives

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

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

Carbon Action is a CDP initiative supported by over 329 signatories which works with investors and corporations to encourage companies to take action to reduce their Green House Gas emissions by making investments in emissions reduction activities that have a satisfactory financial return. To date over 1,305 companies targeted in heavy emitting industries, $313bn invested in emissions reduction activities with 3,886 reported projects and reduced emissions of 522 million metric tonnes CO2e reported.

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

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

Climate Action 100+

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

Appendix 8

Collaborative Initiatives – activity during the quarter

- In December the **Institutional Investors Group on Climate Change** (IIGCC) presented an update to their **Global Investor Statement to Governments on Climate Change.** The updated statement signed by 631 investors representing more than USD $37 trillion in assets was presented to the COP25 climate negotiations in Madrid. The Statement set a new record as the single largest investor intervention on climate change. It reiterated the call for full and urgent implementation of the Paris Agreement and associated policy priorities at a vital time in the global multilateral process to address climate change. The statement reiterated investor support for the Paris Agreement and urged all governments to implement the actions that are needed to achieve the goals of the Agreement, with the utmost urgency. The statement calls on governments to:
    - Achieve the Paris Agreement's goals;
    - Accelerate private sector investment into the low carbon transition; and
    - Commit to improve climate-related financial reporting.
    - The statement will also form the basis of future engagements with governments in 2020. The investor statement can be found at https://www.iigcc.org/resource/final-global-investor-statement-to-governments-on-climate-change/

- In quarter 4 the Fund co-signed the **Farm Animal Investment Risk and Return Initiative** (FAIRR) open letter to the Brazilian government requesting it uphold the **2006 Amazon Soy Moratorium** and ensure that soy production in the Amazon region only occurs on existing agricultural land. The letter was signed by 84 investors and companies including Marks & Spencer, Tesco and Sainsburys.
  Brazil is one of the world's major producers of soy. In 2006, a vital agreement known as the Amazon Soy Moratorium (ASM) was established to ensure that soy production in the Amazon region only occurs on existing agricultural land. The letter calls for the protection of the 2006 agreement to ensure that soy production in the Amazon region only occurs on existing converted agricultural land and not through deforestation of native vegetation. Since the implementation of the Moratorium, soy-related deforestation has decreased while Amazonian soy production has increased by 400%, showing that agricultural output can be increased while protecting tropical forests. However, deforestation in the Amazon from other causes (mostly cattle ranching) has continued to grow. Brazilian Government data recently published shows that, since 2012, deforestation has increased from 460 thousand hectares to almost 1 million in 2019. These deeply concerning figures reinforce the importance of continuing to uphold the ASM. Yet some parties are now questioning whether it should continue. The Amazon is fundamentally important, it hosts over 10% of all biodiversity and promotes climate stability through its role as a carbon sink. It also plays a vital role in regulating rainfall, which is essential for agriculture – both within Brazil and beyond. The letter offers support to the Brazilian government and farming community to continue their leadership and show that economic development and environmental protection can go hand in hand.

Appendix 8

Collaborative Initiatives – activity during the quarter

- In November **Sustainalytics** issued the first biannual report for its **Plastics and Circular Economy Engagement**.

  Since the baseline report presented in March 2019, Sustainalytics together with four participating investors (Strathclyde, Nomura Asset Management, OP Asset Management and NN Investment Partners) have engaged with the majority of the 21 target companies representing the automotive, electronics and packaging & consumer goods sectors. Fourteen conference calls were held and meaningful exchanges in writing were also conducted with a number of other companies. The interactions demonstrated a general openness and willingness to enter into dialogue with investors on the plastics and circular economy.

  Beyond the company engagement, Sustainalytics have also been in contact with external stakeholders, including the Ellen McArthur Foundation, ClientEarth (a non-profit environmental law organisation) and As You Sow (a non-profit foundation chartered to address environmental and social concerns). The stakeholder dialogues provide information on ongoing initiatives in relation to plastics and the circular economy and align the engagements asks with good practice efforts and point companies towards them, both to learn from and to join in.

- Automotive
  The seven automotive companies selected have responded positively to engagement requests. A first substantive meeting or call took place with five of the companies and for the other two, BMW and Suzuki Motor, meaningful additional information was received by e-mail. The focus of the discussions so far has been on the governance of plastic risk management, as Sustainalytics consider this to be fundamental to sound planning and operational performance. However, in practice the engagements have been quite expansive. Some companies, such as **Suzuki Motor** and **Toyota Motor**, have outlined how their vehicle design process takes into account life cycle considerations. Others have provided examples of projects related to the development of recyclable and renewable materials. Several companies display specific targets associated with a reduction in raw materials use and/or recycling. Companies also provide quantitative reporting on performance. For instance, in its home market of Japan, Suzuki Motor maintains a recycling rate for 'Automotive Shredder Residue' (waste leftover from shredding vehicles, mainly urethane materials) of 70% or higher; indeed, the figure was 98.1% in 2017. However, the nature of quantitative reporting across the engagement companies remains limited and inconsistent.
  Finally, automotive companies have been willing to share additional information on their stakeholder collaboration activities. An example is **General Motors**, which is participating in the 'Next Wave' collaboration on ocean-bound plastics.
- Electronics
  In this sector, Sustainalytics are engaging with seven manufacturers and distributors of electronics and home appliances. Sustainalytics held an introductory call with four of the companies and are in continuous dialogue with another two, **Amazon** and **Apple**, to arrange conference calls. It is interesting and somewhat surprising to note that one of the companies, **Sony**, stated that Sustainalytics is one of the first investors to engage on this topic.

Collaborative Initiatives – activity during the quarter

In general terms, all targeted electronics companies are working to address plastics and/or plastic waste within their own operations and supply chains. Most of the companies defined their own circular economy principles that help them to reduce the overall environmental footprint of their products, including the reliance on virgin plastic materials. The companies are reducing their reliance on virgin plastic by integrating post-consumer recycled plastics into their products rather than considering alternative sustainable materials to plastics. Furthermore, several companies have joined a variety of external initiatives and pledges tackling plastics and/or plastic pollution, such as the Ellen MacArthur Foundation's New Plastic Economy, the European Strategy for Plastics, and multi-stakeholder initiatives such as Next Wave2 or the Japan Clean Ocean Material Alliance.

Overall, the outlook for this industry seems very positive considering the current performance of all the companies engaged with. However, not many companies address the plastic waste issue at the end-of-life of products or at least do not disclose information on related considerations. Sustainalytics will focus the engagement to understand how companies are working to achieve their general commitments to incorporate recycled plastics into their products while at the same time increasing plastics recycling at the end-of-life of products.

- Packaging

In the packaging and consumer goods sector Sustainalytics engaged with nine companies through conference calls.

Since the baseline scoring in March 2019, the average score in this sector has gone up mainly due to better disclosure in public materials and additional communication from the companies on engagement calls. It can be also attributed to more concrete improvements introduced by the companies. All of the packaging and consumer good companies are now signatories of the New Plastics Economy Global Commitment which endorses the common vision of a circular economy for plastic. The companies are in the process of translating their commitments into initial action plans and roadmaps. This is also visible in investments, innovations, and transformation programmes packaging and consumer good companies are commencing.

Through the dialogue Sustainalytics have learnt that all participating companies have committed to making 100% of their plastic packaging reusable, recyclable, or compostable by 2025. The companies also disclose targets to help build a circular economy model for plastics, and most of them present efforts to change the design of their packaging to increase recyclability. This has included replacing certain hard-to-recycle materials and formats, investing in research into alternatives, and introducing new packaging design guidelines. For example, **Colgate-Palmolive** reported a number of projects underway which are expected to transform its packaging portfolio in 2019 and 2020. These include transitioning from opaque to clear PET bottles, redesigning multi-material films and improving the recyclability of dispensing systems. The companies also engage in industry-wide initiatives that aim at minimising plastic waste and pollution.

Still, the companies need to be more transparent about the management of the materials incorporated in products or used in manufacturing processes. More disclosure is required on certain quantitative metrics on plastics usage including the percentage of plastic packaging volumes that are reusable, recyclable or compostable, and the percentage of post-consumer recycled content used in plastic packaging. The companies should also begin setting explicit targets to reduce virgin plastic consumption which will drive decoupling from finite resources.

Other developments during the quarter

- In October **The Financial Reporting Council (FRC)** published a revised **UK Stewardship Code**. The UK Stewardship Code 2020 is a substantial and ambitious revision to the 2012 edition of the Code and takes effect from 1 January 2020.
  The UK Stewardship Code 2020 sets high stewardship standards for asset owners and asset managers, and for service providers that support them.
  In particular, the new Code establishes a clear benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. There is a strong focus on the activities and outcomes of stewardship, not just policy statements. There are new expectations about how investment and stewardship is integrated, including environmental, social and governance (ESG) issues. The Code asks investors to explain how they have exercised stewardship across asset classes. For example, for listed equity, fixed income, private equity, infrastructure investments, and in investments outside the UK.
  The Code consists of 12 Principles for asset managers and asset owners, and six Principles for service providers. These are supported by reporting expectations which indicate the information that should be publicly reported in order to become a signatory.
  Organisations wanting to become signatories to the Code will be required to produce an annual Stewardship Report explaining how they have applied the Code in the previous 12 months. The FRC will evaluate Reports against an assessment framework, and those that meet the reporting expectations will be listed as signatories to the Code. To be included in the first list of signatories, organisations must submit a final report to the FRC by 31 March 2021.
  The Strathclyde Pension Fund business plan for 2020/21 includes a review of the revised Stewardship Code and the publication of a revised Statement of Compliance.

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

  The Fund frequently holds securities that are the subject of individual and class action securities litigation and has recovered over US$8m since 2007 including individual settlements against **Countrywide Financial Corporation** for US$1.1m, the **Royal Bank of Scotland Group** for £1.2m, **Tesco** for £544,211 and **Treasury Wine Estates Ltd.** for AUD$513,000. Distributions from US class actions in 2019 totalled $358,268 from 21 settlement funds.

The Fund concluded its first case as lead plaintiff in 2018 by obtaining a class settlement of USD$25.9m against **PlyGem Holdings Inc**. and currently serves as lead plaintiff in US class actions against **Bank OZK** and **Dentsply Sirona Inc.**

Officers of the Fund are currently investigating opportunities for class actions in other jurisdictions including Canada, Japan, Switzerland and the Netherlands.