



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 9

3rd March 2021

Investment Update

Purpose of Report:

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

- investment performance to 31st December 2020
- portfolios as at 31st January 2021
- the Investment Advisory Panel meeting of 11th February 2021 and
- responsible investment activity during Quarter 4 2020.

Recommendations:

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

Ward No(s):

Citywide: ✓

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

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1 **SPF Response to COVID-19**

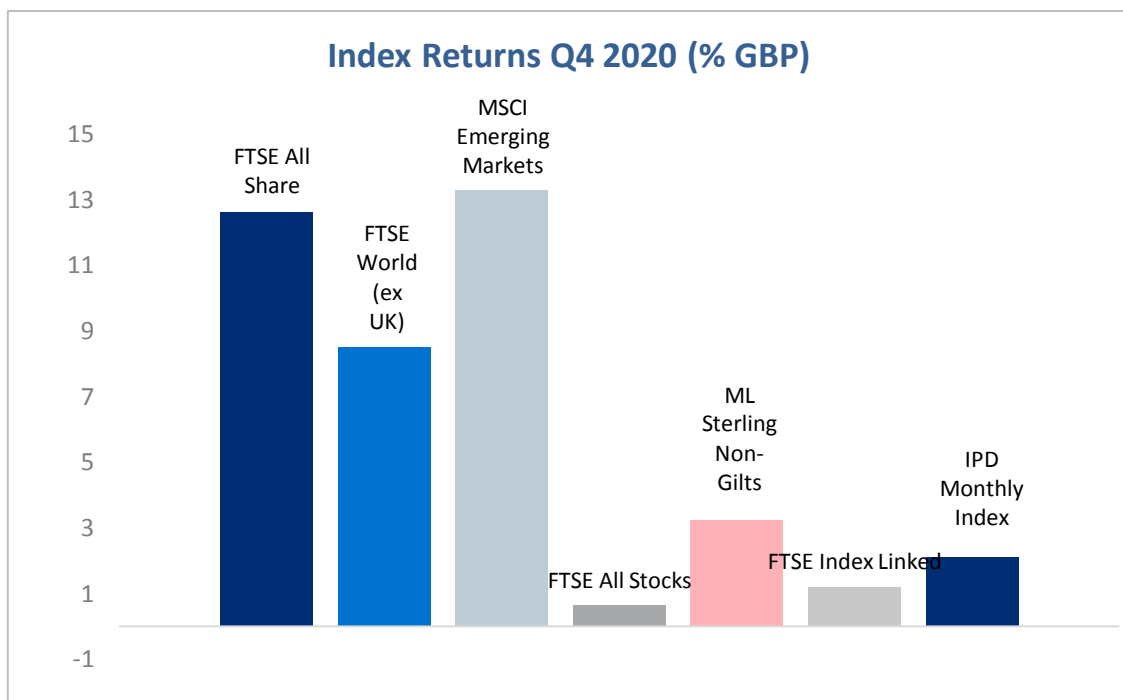
The SPF investment team commenced working from home in late March 2020 and will continue to do so for the foreseeable future.

The Fund's investment managers and other providers all switched to contingency arrangements in March. Investment activity has continued since then without interruption.

COVID-19 continues to impact investment markets, portfolios and performance. This remains a focus of management attention and SPF monitoring activity.

2 **Market Performance**

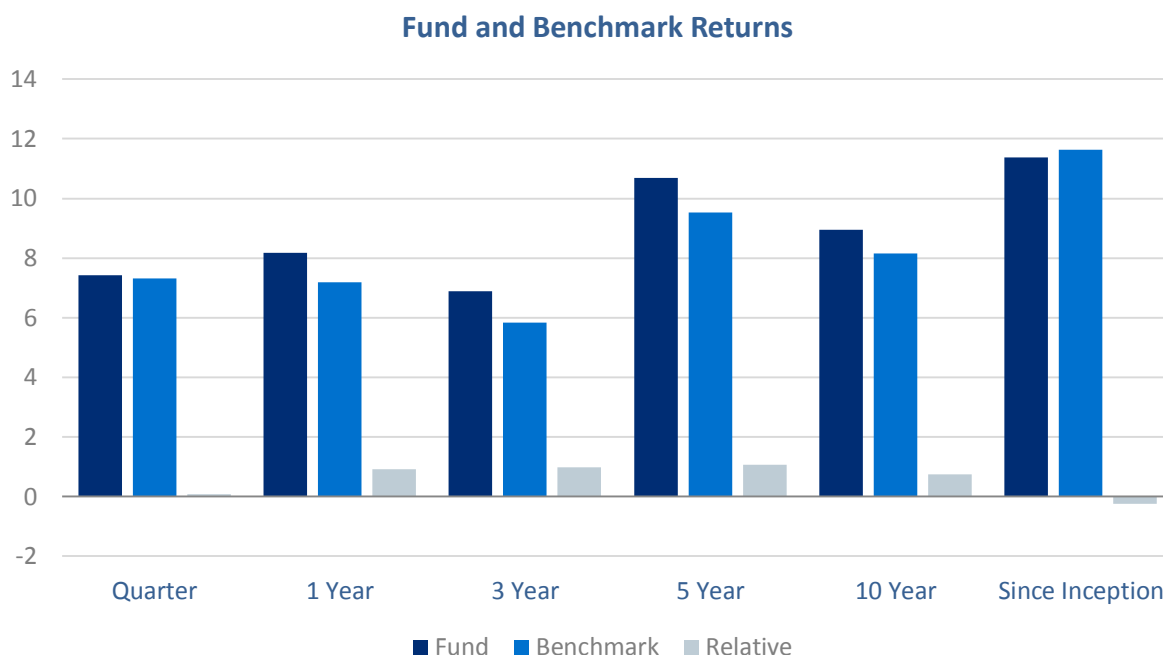
Global markets recorded their best fourth quarter performance since 2003. As with the rest of the year, coronavirus risk drove market behaviour. Positive vaccine news and continued government stimulus buoyed investor confidence in near term economic recovery despite the current challenging macro environment.



- The **FTSE All Share** Index returned **+12.6%**, the **FTSE World ex UK** index **+8.5%** and **MSCI Emerging Markets** index **13.3%**, compared with Q3 2020 returns of -2.9%, +3.6% and +4.8% respectively.
- The **FTSE All Stock Index** returned **+0.6%**. Fears of a no-deal Brexit and new lockdown measures drove yields down over the quarter, although this was somewhat offset by optimism around the news of COVID vaccines.
- **Credit markets** had a positive quarter, outperforming government bonds as both investment grade and high-yield stocks delivered strong positive returns.
- **Sterling** gained against both the Dollar and the Euro over the quarter, ending the year up against the Dollar but down against the Euro.
- Improved **property market** performance over the quarter was reflected in the **IPD Monthly Index** return of **+2.1%**. The best performance came from the industrial sector, while unsurprisingly the retail and leisure sectors declined.

3 Total Fund Performance

The Fund's total return for Quarter 3 2020 was **+7.4%**, ahead of the benchmark return of **+7.3%**.



The Fund's value at 31st December 2020 was **£25,460m**. (Fund value at 30th September was **£23,701m**).

4 Performance Analysis

Further performance analysis is set out in Appendix 1.

5 Portfolio Summary as at 31st January 2021

As at 31st January the Fund's value had decreased to **£25,380m**.

A summary of investment manager portfolios as at 31st January is set out in **Appendix 2**.

6 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 11th February 2021 via MS Teams.

A note of the Panel's meeting is set out in Appendix 3.

7 Responsible Investment

Activity in respect of the Fund's Responsible Investment policy continued throughout the period. Company AGMs and EGMs were held virtually and engagement activity was carried out remotely.

Highlights this quarter included:

- the **JP Morgan Infrastructure Investment Fund** in which SPF has **c.£540m** ranked 12th out of 75 infrastructure funds in the 2020 Global Real Estate Sustainability Benchmark (GRESB) annual assessment;

- the Carbon Disclosure Project (**CDP**) provided the results from its **2020 Non-Disclosure Campaign**. This is a global investor-led campaign to drive enhanced corporate transparency around climate change;
- in quarter 4 the Fund co-signed letters organised by the **Institutional Investors Group on Climate Change (IIGCC)** to 36 of Europe's largest companies highlighting the importance of ensuring they publish 'Paris-aligned' accounts;
- during the quarter **Sustainalytics** issued
 - the second biannual report for its **Plastics and Circular Economy Engagement**; and
 - its second biannual report on **Child Labour in Cocoa**; and
- in October, **The Task Force on Climate-related Financial Disclosures (TCFD)** published its **2020 Status Report** reviewing 1,700 companies' reports. It concluded that disclosure of climate-related financial information aligned with the TCFD recommendations has steadily increased

Further details of these and other activity are set out in Appendix 4.

8 Policy and Resource Implications

Resource

Implications:

Financial: None

Legal: None

Personnel: None

Procurement: None

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 2017-22 Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.

What are the potential equality impacts as a result of this report? No specific equalities impacts.

Please highlight if the policy/proposal will help address ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

*socio economic
disadvantage.*

Sustainability Impacts:

Environmental: ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

Social, including opportunities under Article 20 of the European Public Procurement Directive: ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

Economic: ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

Privacy and Data Protection impacts: None.

9 RECOMMENDATIONS

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

Appendices

Appendix 1 Performance Analysis

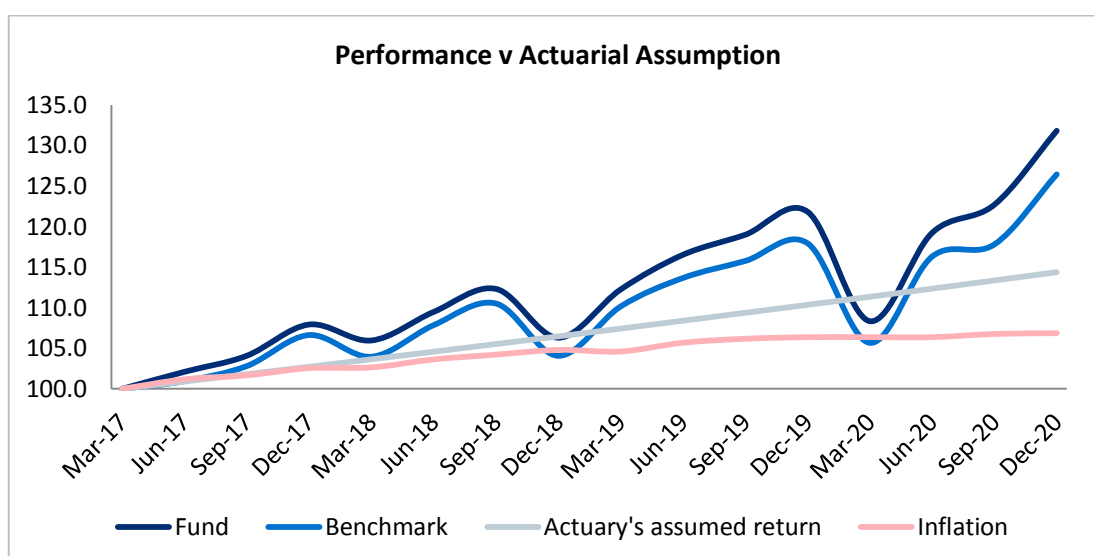
Appendix 2 Portfolio Summary as at 31st January 2021

Appendix 3 Note of Investment Advisory Panel meeting on 11th February 2021

Appendix 4 Summary of Responsible Investment Activity

Performance Analysis

1 Investment Performance vs Actuarial Assumption



As at the end of Quarter 4 2020, the Fund had achieved a return greater than the actuarial assumed return of **+3.5%** per annum since the 31st March 2017 valuation. The Fund is in the process of completing its latest actuarial valuation as at 31st March 2020.

2 Performance by Asset Category

Asset Class	Latest Quarter			1 Year		
	Fund %	Bench mark %	Relative %	Fund %	Bench mark %	Relative %
Equity	11.0	12.9	(1.7)	11.8	8.1	3.4
Hedging & insurance	1.4	1.4	0.0	12.4	12.4	0.0
Credit	2.9	2.9	0.1	9.7	9.6	0.1
Short term enhanced yield	4.5	1.6	2.9	3.9	4.0	(0.1)
Long term enhanced yield	(0.5)	0.3	(0.8)	(1.5)	1.5	(2.9)

3 Performance by Investment Managers

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

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

Equity was the best performing asset class in Quarter 4 in absolute terms, returning **+11.0%**, however this return fell below the benchmark of **+12.9%**. Only Oldfield and Genesis outperformed their benchmarks, while the main contributors to underperformance were Pantheon and Partners Group (private equity) due to the time lag in private market valuations.

Short term enhanced yield returned **+4.5%** over the quarter, outperforming its benchmark. The only manager to underperform was ICG Longbow as they continue with the build-up of the Fund's private real estate debt portfolio.

Long term enhanced yield returned **-0.5%** over the quarter, underperforming the benchmark by **-0.8%**. All managers in this asset class, with the exception of DTZ (UK property), underperformed their benchmark.

4 **Direct Investment Portfolio (DIP)**

As at the end of December 2020, DIP comprised **47** investment commitments, totalling **£1,585m**. During Quarter 4 2020, **net distributions** from DIP amounted to **£16m**. These brought the **Net Asset Value** of DIP to **£879m** at the end of the quarter.

Portfolio performance to 31st December is as follows.

	Q4 2020 (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
DIP	-2.0	-1.4	2.9	4.8	7.1
DIP Benchmark*	0.9	3.8	3.2	2.1	1.5
SPF Total Fund	7.4	8.2	6.9	10.7	11.4

Source: Northern Trust

* CPI +3% pa from 2019; previously LIBOR

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

- **37** investments are rated **green** (increase of 1)
- **5** are **amber** (decrease of 1) and
- **None red.**
- **5** are in legals

The focus of all managers remains on the impact of Covid-19 and on protecting the value of their respective investments, although managers are also positioning their funds to take advantage of opportunities as they arise, in respect of both existing portfolio assets and new investments.

Portfolio Summary as at 31st January 2021

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	6,738	26.5%	349	1.4%	1,438	5.7%					8,525	33.6%	31.5%
Baillie Gifford	2,379	9.4%									2,379	9.4%	7.5%
Lazard	830	3.3%									830	3.3%	2.5%
Oldfield	674	2.7%									674	2.7%	2.5%
Veritas	741	2.9%									741	2.9%	2.5%
Lombard Odier	412	1.6%									412	1.6%	1.0%
JP Morgan	1,063	4.2%							543	2.1%	1,605	6.3%	5.5%
Genesis	529	2.1%									529	2.1%	1.5%
Pantheon	1,123	4.4%									1,123	4.4%	5.0%
Partners Group	799	3.1%					112	0.4%	363	1.4%	1,275	5.0%	6.0%
PIMCO							1,204	4.7%			1,204	4.7%	5.0%
Ruffer							235	0.9%			235	0.9%	1.0%
Barings (multi-credit)							706	2.8%			706	2.8%	2.8%
Oak Hill Advisors							472	1.9%			472	1.9%	1.8%
Barings (private debt)							362	1.4%			362	1.4%	1.3%
Alcentra							332	1.3%			332	1.3%	1.3%
ICG Longbow							129	0.5%			129	0.5%	1.0%
Ashmore							506	2.0%			506	2.0%	2.5%
DTZ									2,147	8.5%	2,147	8.5%	10.0%
DIP	53	0.2%					106	0.4%	731	2.9%	891	3.5%	7.0%
Cash							305	1.2%			305	1.2%	1.0%
Total	15,340	60.4%	349	1.4%	1,438	5.7%	4,470	17.6%	3,784	14.9%	25,380	100.0%	100.0%
Target		52.5%		1.5%		6.0%		20.0%		20.0%		100.0%	

Investment Advisory Panel

MINUTES OF MEETING ON Thursday 11th February 2021
Held via MS Teams

PRESENT:	Richard McIndoe	Director
	Prof. Geoffrey Wood	Investment Advisor
	Eric Lambert	Investment Advisor
	Iain Beattie	Investment Advisor
	David Walker	Hymans Robertson
	Andy Green	Hymans Robertson (part meeting only)
	Nell McRae	Hymans Robertson (part meeting only)
	Jacqueline Gillies	Chief Investment Officer
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Sweeney	Assistant Investment Manager
	Veronica Antonucci	Investment Assistant

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meetings on 5th and 25th November 2020 were agreed to be an accurate record.

2 Monitoring

2.1 Quarterly Investment Performance Review (Main Fund)

The Fund's return for Q4 2020 was positive (+7.4%), and above benchmark (+0.1%). Performance for the year to 31st December 2020 was positive (+8.2%), and above benchmark (+0.9%). Both absolute and relative performance had been positive over the three and five year periods.

2.2 Manager Ratings

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

- 19 of the Fund's managers were rated green
- 2 rated amber and
- None red.

2.3 Direct Investment Portfolio Monitoring Report

The Panel reviewed the quarterly monitoring report for the Direct Investment Portfolio (DIP). DIP investment managers had continued to provide detailed updates on the effect of coronavirus on their respective assets/ investee companies and reported portfolio impact assessments had been in line with expectations. Overall the portfolio and most of its investments are still progressing well. On a Red, Amber, Green (RAG) analysis:

- 37 investments were rated green
- 5 amber and
- None red.

3 Investment Strategy and Structure

3.1 Investment strategy review: updated asset liability modelling results

Investment Advisory Panel

Hymans Robertson had carried out extensive asset liability modelling and presented initial results to the Panel at its meeting on 25th November 2021. The modelling had considered the current strategy and alternative strategies with a decreased exposure to risk assets, and from the results the Panel had concluded that, subject to some minor amendments to investment management structure, the current strategy should be maintained. While not expected to change this conclusion, for completeness the Panel had requested that Hymans model strategies with increased exposure to risk assets.

Hymans re-ran results on that basis and presented them to the Panel, together with a comparison of results for the current strategy at 31st March and 30th September 2020. Results of these analyses showed:

- Re-risking into equities would slightly reduce the probability of reaching full funding by 2033. This result further supports the conclusion that the Fund should maintain its current strategy.
- The recovery in growth and credit markets following March 2020 meant the funding position had improved by end September. As expected, the likelihood of achieving full funding by 2033 improved at September relative to March. Downside risk was also marginally reduced in the September modelling.

3.2 Investment strategy review

At its meetings on 5th November and 25th November, the Panel had completed its review of the Fund's equity strategy and the conclusions and recommendations from this review were summarised in a draft committee paper. The mandate structure of other asset categories were summarised in the committee paper and the Panel reviewed each of these in turn.

3.2.1 Long term enhanced yield (LTEY)

Portfolio	Alt 2 Target (%)
UK Property - DTZ	10.0
Global Property – Partners Group	2.5
DIP	5.0
Global Infrastructure – JP Morgan	2.5
Total LTEY	20.0

The 5% allocation to DIP is equivalent to DIP's entire target allocation. While 5.0% of total Fund had been allocated to DIP LTEY, the net asset value of these investments was 2.9% of total Fund at end December 2020.

The 2.5% allocation to the JP Morgan International Infrastructure Fund (IIF) was agreed in 2018 as part of Alt 2 implementation. The allocation is now fully

Investment Advisory Panel

funded. The Panel agreed that the IIF has performed well to date and its structure and management suggest it should continue to do so in the longer term. The Panel agreed that a re-allocation of **1%** from DIP to the JP Morgan global infrastructure fund would achieve a better overall balance for the LTEY structure.

3.2.2 Short term enhanced yield (STEY)

Portfolio	Alt 2 Target (%)
Absolute Return	6.0
PIMCO	5.0
Ruffer	1.0
Multi Asset Credit	4.5
Barings	2.75
Oak Hill	1.75
Private Corporate Debt	3.5
Barings	1.25
Alcentra	1.25
Partners Group	1.0
Private Real Estate Debt	1.0
ICG Longbow	1.0
EM Debt	2.5
Ashmore	2.5
DIP	1.5
Cash	1.0
Total STEY	20.0

The Ruffer allocation was approved in 2018 as part of the Alt 2 implementation. The Committee report proposed a **1%** initial allocation and clearly indicated that the balance between PIMCO and the new allocation might be adjusted at a later date.

The Panel agreed that Ruffer have performed well to date (and previously for the No.3 Fund) and that their investment process remains attractive. They agreed that a re-allocation of **1%** from PIMCO to Ruffer would achieve a better overall balance for the STEY structure.

3.2.3 Hedging & Insurance and Credit

At an early stage in the review the Investment Advisory Panel had questioned whether the relatively small allocation to Index Linked Gilts (the only asset in the Hedging & Insurance asset category) made any significant contribution to the overall investment strategy or whether it could be better deployed elsewhere, most likely in corporate bonds (currently the only holding in the Credit asset category).

Hymans asset liability modelling supported the sale of the index linked gilts. They presented a further paper outlining a relative value framework for switching between index linked gilts, corporate bonds, nominal gilts and cash over time. The Panel agreed that further work should be carried out on the relative value

Investment Advisory Panel

framework, but that in the meantime the index linked holding should be sold for cash.

4 Allocation

4.1 Private Market Allocations

The Panel reviewed a schedule of estimated cash flows for the Fund's private market investment programmes - private equity, global real estate, the Direct Investment Portfolio, and private debt commitments. Totals as at 31st December 2020 were as follows.

	2020 Estimate (£m)	2020 Actual YTD (£m)	2021 Estimate (£m)
Distributions	328	380	643
Calls	-820	-722	-1,070
Net	-492	-341	-427

The net cash flows for 2020 were **(£341m)**, **£151m less than had been estimated**. The projected net cash flows to private markets programmes in 2021 is **(£427m)**. The Fund's private debt and Direct Investment portfolios are still building their investment exposure and drawdowns to these investments are expected to exceed distributions from them. The Pantheon private equity and the Partners Group private equity and real estate programmes are mature portfolios and distributions will largely cover the anticipated drawdowns to more recent fund commitments.

The Fund's central cash balance at 31st December 2020 was **£203m**. This had decreased by **£101m** since September 2020. During Quarter 4 2020, **£95m** was received from the sale of equities from the JP Morgan portfolio, which had exceeded the target allocation range for this mandate. Cash balances were reduced by **(£6m)** which was transferred to DTZ to finance the purchase of a new property and **(£190m)** net drawdowns to private market programmes.

4.2 Re-balancing Strategy

The Panel reviewed a re-balancing report as at 31st December 2020.

The Fund's allocation to equity remains above target. The allocation to the Baillie Gifford global ex US equity portfolio and the JP Morgan small cap equity portfolios had exceeded their target allocation ranges. The allocation to Genesis was also marginally above target. The Panel agreed that the Baillie Gifford and JPM portfolios should be trimmed by 0.4% and 0.2% respectively of total Fund in order to bring these allocations back within their target ranges. Proceeds of the sale will be held in cash.

The Fund's allocation to short-term enhanced yield is underweight but the Panel

Investment Advisory Panel

agreed that no additional action is required as unfunded commitments should be sufficient to increase the weight back to target.

The Fund's allocation to long-term enhanced yield remains underweight. Global real estate was under its target allocation, but unfunded commitments should be sufficient to increase the mandate weight back to target. The DTZ portfolio remains under its target allocation. The Panel agreed that DTZ should continue to re-invest rental income should suitable investment opportunities arise.

4.3 Investment income 10-Year Forecast

A paper providing an updated analysis of current and future investment income had been circulated and was discussed.

The analysis separately identified:

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

Main conclusions from the updated analysis were that:

- The Fund's investments currently distribute much more income than is required to pay pensions.
- Distributed income will be more than adequate to pay pensions for the foreseeable future.
- Should this change, up to 92% of income which is currently re-invested could be made available for distribution to the Fund.
- Less than 20% of distributed income is currently required to pay pensions, but this will increase and may be in the region of 33% (net of managers' fees) within 10 years.
- Ongoing consideration therefore needs to be given to which portfolios should be the source of funds.

5 Governance

5.1 Strathclyde Pension Fund Committee

The Panel noted the draft agenda for the next committee meeting on Wednesday 3rd March 2021.

6 Manager Reviews

The following investment managers attended the Investment Advisory Panel.

- Ruffer
- DTZ
- JP Morgan IIF

Performance of each of the managers was reviewed.

Ruffer

Investment Advisory Panel

The Ruffer absolute return portfolio is currently valued at £234m, or 0.9% of total Fund, versus a target weight of 1.0%. Ruffer provided an update on the Fund's existing investment.

DTZ

The DTZ UK property portfolio is currently valued at £2,126m, or 8.4% of total Fund, versus a target weight of 10.0%. DTZ provided an update on the Fund's existing portfolio including the most recent transactions, together with an outline of investment objectives for the forthcoming year.

JP Morgan IIF

JP Morgan IIF portfolio is currently valued at £543m, or 2.1% of total Fund, versus a target weight of 2.5%. JP Morgan provided an update on the Fund's investment.

7 AOCB

Responsible Investment Activity: Quarter 4 2020

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 4, the Fund's Infrastructure manager **JP Morgan** provided a report on the Infrastructure Investments Fund (IIF) results from the 2020 Global Real Estate Sustainability Benchmark (GRESB) annual assessment.

GRESB is an industry-driven organization committed to assessing the ESG performance of real assets around the globe. The GRESB infrastructure assessment allows investors to compare ESG-related performance as well as provide actionable information and tools for companies to improve their ESG initiatives. 2020 marks the fifth year for the GRESB Infrastructure assessment and participation included 75 Funds and 406 assets.

Key takeaways from the report include:

- IIF ranked 12th out of 75 Infrastructure Funds in GRESB score.
- 10 IIF portfolio companies ranked in the top 100 assets (out of 406 assets).
- 5 IIF portfolio companies moved into the 5-star rating.
- Beacon Rail received GRESB's 2020 Most Improved award - moving from three stars to five stars and doubled score over last year. (Beacon Rail is a rolling stock leasing company which operates in the freight and passenger train markets both in the UK and Continental Europe.)
- Sonnedix and Ventient received GRESB Sector Leader awards for the third year in a row - each ranked first in their respective sector peer groups. (Ventient is a diversified platform of 134 contracted wind farms totalling 2.6 GW across the UK and Europe. Sonnedix develops and operates utility-scale solar projects globally, including 1.2 GW of installed capacity, 335 MW of projects in construction and 422 MW of capacity in documentation and development stages.)

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

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 31st September 2020 is summarised as follows.

Responsible Investment Activity: Quarter 4 2020

Voting activity to 31st December 2020		
		(%)
Total meetings	1,008	
Votes for	7,420	82
Votes against	1,462	16
Abstentions	152	2
Not voted	66	1
No. of Resolutions	9,100	100

Voting activity in the quarter included:

- **Legal & General** voted for a shareholder proposal requesting a report on efforts to eliminate deforestation at **The Procter & Gamble Company (P&G)**. P&G uses both forest pulp and palm oil as raw materials within its household goods products. Palm oil and forest pulp are leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions. The resolution received the support of 68% of shareholders. Also, in the US Legal & General voted against a compensation resolution at **Cardinal Health** due to concerns over the remuneration structure not comprising a sufficient proportion of awards assessed against the company's performance. At **Fast Retailing Co. Limited** in Japan, Legal & General voted against the re-election of Director Yanai Tadashi at the company's annual shareholder meeting because of the company's failure to address the lack of diversity on the board. Japanese companies in general have trailed behind European and US companies in ensuring more women are appointed to their boards. Legal & General opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, to signal that the company needed to act on this issue.
- **Oldfield Partners** voted against the re-election of Dr Anastasia Lauterbach as a Director at **EasyJet**. Dr Lauterbach was a member of the supervisory board of Wirecard AG, the German financial services company which collapsed in a series of high-profile accounting scandals earlier in 2020, also sitting on the audit committee and chairing the risk and compliance committee. The events at Wirecard raise concerns about her ability to effectively oversee management and serve the best interests of shareholders at easyJet.
- **Baillie Gifford** opposed the new remuneration policy for incoming CEO Matthew Maloney at **Just Eat Takeaway.com** due to concerns around the structure of the long-term incentive and severance plans.
- **Lombard Odier** voted against executive remuneration at **Galliford Try Holdings Plc.** as the levels of pay are excessive for the market capitalisation of the Company.
- **Genesis** opposed the remuneration policy at **3SBio, Inc.** as the share award scheme performance conditions have not been disclosed.

Responsible Investment Activity: Quarter 4 2020

2.2 Engagement

Engagement highlights during the quarter include the following.

- **J.P. Morgan Asset Management** met with the Chairman of Netherlands based **BE Semiconductor** regarding their CEO's remuneration. J.P. Morgan voted against their proposed remuneration policy at this year's AGM as the CEO was receiving 7.3x the median pay and discretionary payments. BE Semiconductor have now engaged a third-party corporate governance consulting firm to assist with a review of their remuneration policies. All discretionary pay awards have now been replaced with 70% of pay linked to various and defined financial targets and 30% of pay linked to non-financial / strategic targets, including a link to ESG metrics. BE Semiconductor's CEO's median pay is now at a far less alarming 2.2x.
- **Oldfield Partners** reported continued engagement with **Lloyds** bank with regards to the company's remuneration policy. Oldfield believe that there is still room for improvement in certain aspects of the policy. Following the AGM Oldfield have engaged with Lloyds on various aspects of remuneration such as the quantum of award with regards to restricted shares, simplification, and visibility of the scorecard, and how to allow for qualitative and quantitative factors, particularly for items such as strategy and ESG. Oldfield will review the scorecard and metrics, as well as the detail associated with the underpins, when the final remuneration policy is released.
- **Baillie Gifford** engaged with Taiwanese semiconductor manufacturer **TSMC** to discuss climate change. Having identified TSMC as a priority for further engagement on climate risk, Baillie Gifford had a call with the company to discuss this and supply chain management. TSMC has integrated sustainability across the company rather than siloed within a sustainability department, and the call confirmed that TSMC remains a leader in many areas of ESG and helps to drive its industry forward. Baillie Gifford discussed how it manages the physical risk from a changing climate to its facilities in Taiwan, and that its biggest challenge for meeting emissions reduction targets is the energy mix of the Taiwanese grid. Nevertheless, the company has ambitions to address this, and in 2020 signed the world's largest renewables corporate power agreement with Orsted.
- **Legal & General** engaged with the Korean engineering and construction company **Samsung C&T**, regarding construction of coal fired power plants. In quarter 4 Legal & General became aware Samsung C&T was considering becoming one of the engineering and construction contractors of a new planned Vung Ang 2 coal power fired plant in Vietnam. Given the climate and health impacts of coal power, companies involved in the project face significant reputational and/or financial risks. Legal & General wrote to Samsung C&T urging the company to reconsider its involvement in Vung Ang 2 and to commit to no involvement in the construction of new coal plants without carbon capture and storage. Following significant pressure from Legal & General and

Responsible Investment Activity: Quarter 4 2020

other like-minded shareholders, the company announced with immediate effect, that it will no longer participate in coal-fired power generation projects in any capacity, including investment or construction. However, the company reaffirmed its participation in the Vung Ang 2 as its final coal project. In response Legal & General will be sanctioning the board at its next AGM.

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.

- **Legal & General** have been engaging with electric utility **Korea Electric Power Corporation (KEPCO)** since early 2017. In 2019, due to the company's continued plans to expand thermal coal power generation and poor climate risk disclosure, Legal & General made the decision to implement voting sanctions. Following this decision Legal & General have had four meetings with the company and to further increase pressure on the company, Legal & General's Head of Sustainability and Responsible Investment outlined their concerns in an interview with a leading Korean daily newspaper in 2020. In October, KEPCO publicly pledged it would make no further investments in overseas coal projects. The company announced it would focus on renewables and natural gas in the future, and that all currently planned thermal coal projects, except for two plants in Indonesia and Vietnam, will either be converted to liquefied natural gas or called off.
- **Oldfield Partners** have also continued their engagement with **KEPCO**. Oldfield wrote to the CEO of KEPCO making him aware of the Climate Action 100+ latest initiative on benchmarking – the Net Zero Company Benchmark. The benchmark builds on the TCFD recommendations, with more guidance on specific company actions and disclosures of most relevance to investors' decisions. Oldfield received a formal response from the company, with a commitment to disclose further information in its sustainability report in accordance with the recommendations of the TCFD. The company also stated that net-zero emissions target will be aligned with those of the Korean government. 2020 has been a year of significant progress in terms of coal phase-out in Korea. In October 2020, the South Korean government committed to achieve net-zero emissions by 2050, pledging to spend US\$7bn on green-focused growth. Investors were referenced repeatedly in the National Assembly when Ministers were being questioned on KEPCO's overseas coal projects. As KEPCO owns most of the coal-fired power plants in South Korea, this plan is likely to have a significant impact in the reduction of their GHG emissions. Oldfield's engagement with KEPCO in 2021 will focus on obtaining further clarity on coal plant closures as per the government's directive, phase-out timeline of overseas coal plants and commitment to the full alignment of corporate disclosure with TCFD recommendations.

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- **Baillie Gifford** engaged with Irish building material company **CRH** to discuss corporate governance and sustainability. Baillie Gifford discussed the company's efforts to improve efficiency and reduce its carbon emissions. In September, the Global Cement and Concrete Association, of which CRH is a member and its CEO is president, announced a joint ambition to achieve carbon neutrality by 2050. Concrete is the world's most widely used material, it is essential to social and economic development and its production is carbon intensive. Baillie Gifford were encouraged to learn that CRH is working with industry bodies to ensure technological solutions are developed. Investment in new infrastructure, carbon capture technologies and collaboration provide the best chance of delivering on this long-term objective. Baillie Gifford recognise the environmental impact of CRH's business but believe the company aspires to lead the industry in striving for a more sustainable future.

Baillie Gifford also engaged with mining company **Rio Tinto** on the Juukan Gorge disaster. In May 2020, two ancient rock-shelters were destroyed in the Pilbara region of Western Australia. A recent study of the Juukan Gorge dated one rock shelter as more than 46,000 years old and was the only one in the country to show continuous human occupation since the last Ice Age. Baillie Gifford have written to the board with their concerns and to encourage improved corporate governance. They will continue to monitor Rio Tinto's response to the disaster and will focus on minimising the risk of any similar incident in future, including seeking stronger governance practices and corporate culture to respect stakeholder interests and create sustainable long-term value.

- **Sustainalytics** have requested a conference call with **Rio Tinto** to confirm the actions it has taken since the Juukan Gorge incident. They will ask about whether the company intends to restructure its operations to ensure that operational decisions are discussed in advance with the local community and indigenous peoples' so that decisions on mine activities cannot be undertaken without relevant input.

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 principles and 20 of the 25 managers within the Direct Investment Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles. However, for some this will be less appropriate due to the specialised nature of their activities.
- In quarter 4, the Fund received its results from the **2020 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.

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The Fund achieved a maximum overall A+ score and the following scores from 4 assessed modules with bands A –E.

- Strategy and Governance: A (29 out of a maximum 30 from 10 indicators). The median outcome for this module was band A from 2,127 signatories assessed.
- Listed equity: A+ (42 out of a maximum 42 from 14 indicators). The median outcome for this module was band A from 572 signatories assessed.
- Property: A+ (39 out of a maximum 39 from 13 indicators). The median outcome for this module was band B from 264 signatories assessed.
- Listed equity-active ownership: A (28 out of a maximum 30 from 10 indicators). The median outcome for this module was band B from 1086 signatories assessed.

The 2020 assessment represents the Fund's best PRI survey outcome, since adopting the Principles in 2008, scoring the maximum possible A+ in three modules. Comparison with the median scores for each module confirms that the Fund continues to perform in the top tier of global PRI signatories.

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).

- **CDP provided the results from its 2020 Non-Disclosure Campaign.** This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. Since its inception in 2017, the campaign has seen an average 25% yoy increase in both the number of participating investors and the number of companies engaged as the need for comprehensive, comparable, TCFD-aligned environmental data becomes ever more necessary. In 2020, Strathclyde was one of 108 institutional investors from 24 countries, representing US\$12 trillion in assets, that signed up to this campaign and selected to engage 1,025 previously non-disclosing companies. These companies, based across 49 countries, represent USD 21 trillion in market capitalization and almost 5 billion tCO₂e in emissions. This is a 23% increase in participating investors and a 59% increase in the number of companies engaged from 2019. Of the 1,025 companies engaged, 839 were requested to respond to CDP's climate change questionnaire, 148 on forests and 219 on water security. This represents over a quarter of all non-disclosers – 27% of climate change, 16% of forests and 30% of water security. The campaign had an overall

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response rate of 20% - the highest in the campaign to date and demonstrated that companies were 2.2 times more likely to disclose when engaged directly by investors. The full report is available on the CDP website: <https://www.cdp.net/en>

CDP provided its latest **CDP Forest Program** investor research report, [Zeroing-in on Deforestation](#). The CDP Forest Program engages companies to disclose their exposure to five forest risk commodities – cattle products, bio fuels, soy, palm oil and timber and is supported by 380 signatories with assets of US\$29 trillion. The report ranks 29 of the largest and highest impact producers on how they are managing deforestation risks and opportunities within their supply chains. The report finds that these companies in four sectors – cattle, soy, palm oil and timber, responsible for 80% of deforestation globally – are not employing practices needed to prevent ongoing deforestation. Soy and cattle producers including companies such as **Glencore Agriculture**, **Minerva Foods** and **JBS**, the largest meat processor in the world, fare very poorly. The companies assessed in this report are key suppliers to the Consumer Goods sector and if that sector is relying on this part of the supply chain to meet their net zero deforestation ambitions – a lot more work needs to be done. The report concludes that bold and urgent action from these companies is the critical first step in tackling deforestation throughout the supply chain. The full report is available on the CDP website: <https://www.cdp.net/en>

CDP also provided an update of progress on the **RE100** collaborative initiative. At the close of quarter 4 there were 260 corporate members of RE100. The collective electricity demand of the 260 companies is over 278 terawatt hours per year (TWh/yr). On average, RE100 members are sourcing 41% of their electricity from renewables and 53 members have now achieved their 100% renewable energy target. The RE100 annual report is available from: <https://www.there100.org/growing-renewable-power-companies-seizing-leadership-opportunities>

- In quarter 4 the Fund co-signed letters organised by the **Institutional Investors Group on Climate Change (IIGCC)** to 36 of Europe's largest companies highlighting the importance of ensuring they publish 'Paris-aligned' accounts. The Paris-aligned accounts letter and accompanying IIGCC briefing paper outline why financial statements must be adjusted to take account of material climate risks. The letter and briefing paper cover the steps companies and their auditors need to take to ensure they reflect the implications of global commitments to limit temperature increases to well below 2°C, and ideally to 1.5°C in their financial statements. The companies that received the letter include EDF, Lafarge-Holcim, Airbus and BMW. Building on pre-existing engagement BP, CRH, Eni, Rio Tinto, Shell and Total received an amended letter, reflecting previous engagement on the topic.

The letter and IIGCC briefing paper are available at:

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<https://www.iigcc.org/download/iigcc-letter-to-european-companies-on-paris-aligned-accounts/?wpdmdl=4006&masterkey=5fab9c5af24f>

- At the close of quarter 4 the **Climate Action 100+** (CA100+) initiative published its **2020 Progress Report**. The report reveals that investor action has helped over half of the 167 companies engaged to establish commitments to reach net zero emissions by 2050 or sooner.

Highlights from the 2020 report include:

- Net zero commitments secured at 37 European companies.
- All European oil and gas majors including **BP**, **Shell** and **Total** now working to net zero goals.
- New net-zero commitments from companies in hard to decarbonise sectors like **Volvo Trucks** and **ArcelorMittal**.
- Near-zero emissions target by 2050 for **PetroChina** and plans to invest in wind and solar power.
- Net carbon zero by 2035 for Indian conglomerate **Reliance Industries**.
- Near-zero emissions objective by 2050 for Texas electric utility **Vistra Energy** along with plans for new renewables/storage and the retirement of its entire Midwest coal fleet.
- **Walmart** target of zero emissions across global operations by 2040.
- **ConocoPhillips** net-zero-by-2050 target for scope 1 and 2 emissions and zero-flaring-by-2025.

The full report is available at:

<https://www.climateaction100.org/wp-content/uploads/2020/12/CA100-Progress-Report.pdf>

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

- Lazard, 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.
- In November **Sustainalytics** issued the second 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. As well as summarising the overall experiences from engagement dialogues, the biannual report outlines the status of individual companies, including their progress against the key performance indicators.
 - Automotive

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Over the last six months, Sustainalytics has held calls with **Valeo** and **Continental** and had a substantive written exchange with **Suzuki Motor**. **General Motors** has been less responsive during this period, but Sustainalytics are hopeful of continuing the dialogue soon given the strategic commitments made by the company recently. Sustainalytics have observed a continuation of the trend where companies are refreshing and strengthening the strategic basis for their circularity efforts. Both General Motors and Toyota Motor have updated their materiality assessments and classified issues relevant to developing a circular economy such as design for the environment, waste reduction and appropriate treatment of end-of-life vehicles. Sustainalytics have also seen an emergence of new sustainability strategies giving the circular economy a central role. For example, the Chairman of the BMW Board of Management has announced initial details of a new 'strategic direction', with a circular economy component, including increasing the share of 'secondary material' in vehicles and work on tracking raw materials from mine to smelter. A further, practical example of this interplay can be seen in the application of circularity principles to electric vehicles. For example, General Motors states in its latest sustainability report that it will continue to enable 100 % reuse or recycling of electric vehicle batteries. Over the next six months, Sustainalytics will continue engagement with these and other companies with a focus on their efforts to meet a range of new and existing circularity targets. To this end, the dialogue with a number of the companies will concentrate on the operational elements of their approach, including input into the production process, recycling practices and after-use treatment of vehicles.

- Electronics

In this sector, Sustainalytics are engaging with six manufacturers of consumer electronics, home appliances, and electrical equipment. Sustainalytics have observed that many companies have now integrated circular economy more explicitly into their environmental strategies. For example, **Hitachi** incorporated a specific approach to transitioning to a circular economy as part of its Environmental Action Plan for 2021. It plans to develop closed-loop recycling and circular business models to improve the environmental impact of its products and services. In the case of **Electrolux** and **Whirlpool**, the former continues its efforts at managing plastics and employing circular economy business models as part of its Better Solutions strategy while the latter has recently developed circular economy targets for 2025 and 2030. However, the main challenge continues to be the lack of availability and quality of recycled plastics that meet the specific requirements for electronics products such as televisions, washing machines and refrigerators. Many of the companies also continue taking steps to improve the design phase of product development and incorporate recycled plastics wherever is possible. For example, **Sony** maintained its target to reduce the use of virgin plastic materials in all products by 10% in the new environmental strategy for 2025. In the case of **Schneider Electric**, it has already achieved 22% of its target to double the volume of recycled plastics in

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products by 2025. But it also struggles to find quality recycled materials to move forward. Sustainalytics still considers **HP** as a leading company in its approach to managing plastics and integrating circular economy principles. For example, the company is targeting 30% postconsumer recycled content plastic across its personal systems and print product portfolio by 2025. Overall, Sustainalytics are positive that the industry is moving slowly in the right direction. There is a need for more collaboration between companies and suppliers to develop innovative solutions to tackle the challenge of recycled materials. Sustainalytics will continue engagement with these companies with a focus on their efforts to meet a range of circularity targets. Sustainalytics will also seek to leverage their relationship with other stakeholders to bring value to the discussions with companies.

- Packaging and Consumer Goods

Against the backdrop of COVID the International Solid Waste Association estimates that the use of single-use plastics in 2020 may have grown 250-300% in the United States alone. While the need for “safety-first” is paramount, this will put even greater onus on society and companies to strengthen plastic and circular economy initiatives in the packaging and consumer goods sector, Sustainalytics is engaging with seven companies in this sector and held five conference calls in the second half of 2020. All packaging companies in this engagement have joined the Ellen MacArthur Foundation (EMF) Global Commitment and therefore received an early boost in scoring based on the pledge to achieve 100% recyclable plastics by 2025.

Kellogg has indicated that while 79% of its plastic packaging is technically recyclable most of this packaging is not currently recycled 'in practice and at scale'. The percentage decreased to 47% at **Amcor** due a product portfolio is heavily weighted toward flexible packaging structures that are not recyclable, however Amcor is making progress to adapt the portfolio to recyclable products. With respect to innovation, Amcor and **Nestlé** have jointly developed breakthrough technology and the first global solution to recycle “retort” flexible packaging. **Danone** has launched 100% recycled PET bottles in four European countries and plans to reach all major water markets by 2021. **Colgate-Palmolive** introduced a first-of-its-kind recyclable toothpaste tube, the first oral tube to be recognized by the Association of Plastic Recyclers and Plastic Recyclers Europe. The company has indicated that it intends to offer the technology to the makers of plastic tubes for a broad range of products.

Berry Global has recently partnered with Bhoomi to launch a 100% sugarcane-based bottle and is also offering cosmetics jars featuring a removable inner section, allowing consumers to retain the jar and replacing the empty inner section with a new full one, which can be bought separately. Kellogg is working on changing cereal pouches to a recycle-ready material that will remove an estimated 480 tonnes of non-recyclable packaging from supply chains each year. In the prelude to **COP 26**, Amcor, Colgate-Palmolive and Danone have also joined the recently formed U.S. Plastics Pact, working with governments, NGOs, cities, recycling associations and other stakeholders, while Berry Global

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is a member of the UK Plastics Pact. Amcor and Colgate-Palmolive have, in addition, joined the EMF in calling for a United Nations global treaty on plastic pollution and government recycling investment. Sustainalytics will be encouraging further integration of post-consumer recycled content, and development of governance structure alongside parallel developments in science-based targets. Sustainalytics have initiated discussions to understand the impact of COVID on single-use plastics at the engagement companies and expect to continue this conversation in 2021.

The biannual report can be found at:

<https://www.sustainalytics.com/esg-blog/plastics-material-issue-for-investors/>

The EMF 2020 Global Commitment Progress Report is available at:

[Ellen MacArthur Foundation publish the Global Commitment 2020 Progress Report](#)

- In quarter 4 **Sustainalytics** provided its second biannual report on **Child Labour in Cocoa**.

Together with a group of institutional investors (including Strathclyde), Sustainalytics have engaged major cocoa and chocolate companies in three focus areas: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers.

Most companies currently apply child labour monitoring and remediation systems (CLMRS), or similar, and are continuing rollouts in line with a pledge by the industry organization World Cocoa Foundation to have CLMRS, or equivalent systems, in all cocoa-growing communities in Ivory Coast and Ghana by 2025. Some companies are ahead of schedule to meet the pledge and several companies have initiated roll-out beyond Ivory Coast and Ghana. While efforts are strengthened against child labour this is overshadowed by the recently released large-scale survey on the status of child labour in cocoa-growing communities in Ivory Coast and Ghana conducted by the University of Chicago. The results suggested that more than 1.5 million children are still involved in child labour in cocoa production in the two countries.

On a more positive note, the report stated that school attendance among children in agricultural households increased from 58 percent to 80 in Ivory Coast and from 89 to 96 percent in Ghana. A separate study by the same university, commissioned by the World Cocoa Foundation, has assessed the effects of the industry's interventions on child labour and suggests that hazardous child labour has been reduced by one-third in communities where company programmes are in place.

With regards to living income, Sustainalytics has followed up on its previous investor statement on living income and living wages sent to more than 40 food & beverage companies and food retailers including cocoa and chocolate companies. Progress is continuing with regards to companies' uptake of living income. Some of the cocoa and chocolate companies have strategies in place to improve income for cocoa-growing farmers and are explicitly measuring farmer income as part of monitoring their farmer programmes in West Africa, including data collection to

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understand what types of interventions are effective. In recent dialogues with companies, Sustainalytics have also seen insightful studies being commissioned by cocoa and chocolate companies, as well as promising pilot interventions.

Further engagement effort will be undertaken with the cocoa industry on the above matters, until the conclusion of this investor effort in the latter part of 2022.

- In October, **The Task Force on Climate-related Financial Disclosures (TCFD)**, established by the Financial Stability Board (FSB), published its **2020 Status Report**. Reviewing 1,700 companies' reports the Task Force found that disclosure of climate-related financial information aligned with the TCFD recommendations has steadily increased since the recommendations were published in 2017. Industries considered most exposed to material climate risk have led with the highest levels of TCFD disclosure. To date, more than 1,500 organizations have expressed their support for the TCFD recommendations, representing an increase of over 85% since the 2019 status report. However, despite the significant momentum, the 2020 Status Report highlights the continuing need for progress in improving levels of TCFD-aligned disclosures given the urgent demand for consistency and comparability in reporting. In particular, disclosure of the potential financial impact of climate change on companies' businesses and strategies remains low. Key findings from the report include:
 - On average 42% of companies with a market capitalization greater than \$10 billion disclosed at least some information in line with each TCFD recommendation in 2019. Furthermore, disclosure levels for these companies exceeded 50% for certain information under the Task Force's recommendations related to strategy and climate-related metrics.
 - Nearly 60% of the world's 100 largest public companies support the TCFD, report in line with the TCFD recommendations, or both.
 - Energy companies and materials and buildings companies are leading on disclosure, with an average level of TCFD-aligned disclosures of 40% for energy companies and 30% for materials and buildings companies in fiscal year 2019.
 - Expert users of disclosure identified the impact of climate change on a company's business and strategy as the "most useful" information for financial decision-making.
 - Asset manager and asset owner reporting to their clients and beneficiaries is likely insufficient.

The full 2020 Status Report is available on the TCFD website.

<https://www.fsb-tcfid.org/>

The Task Force will deliver its next status report to the FSB in September 2021.