



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Ext: 75186

Item 11

1st March 2023

## Investment Update

### Purpose of Report:

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

- investment performance to 31<sup>st</sup> December 2022
- distribution of portfolios and DIP investments as at 31<sup>st</sup> December 2022
- the Investment Advisory Panel meeting of 9<sup>th</sup> February 2023 and
- stewardship activity during Quarter 4 2022.

### Recommendations:

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

Ward No(s):

Citywide: ✓

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

### PLEASE NOTE THE FOLLOWING:

Any Ordnance Survey mapping included within this Report is provided by Glasgow City Council under licence from the Ordnance Survey in order to fulfil its public function to make available Council-held public domain information. Persons viewing this mapping should contact Ordnance Survey Copyright for advice where they wish to licence Ordnance Survey mapping/map data for their own use. The OS web site can be found at <http://www.ordnancesurvey.co.uk> "

If accessing this Report via the Internet, please note that any mapping is for illustrative purposes only and is not true to any marked scale

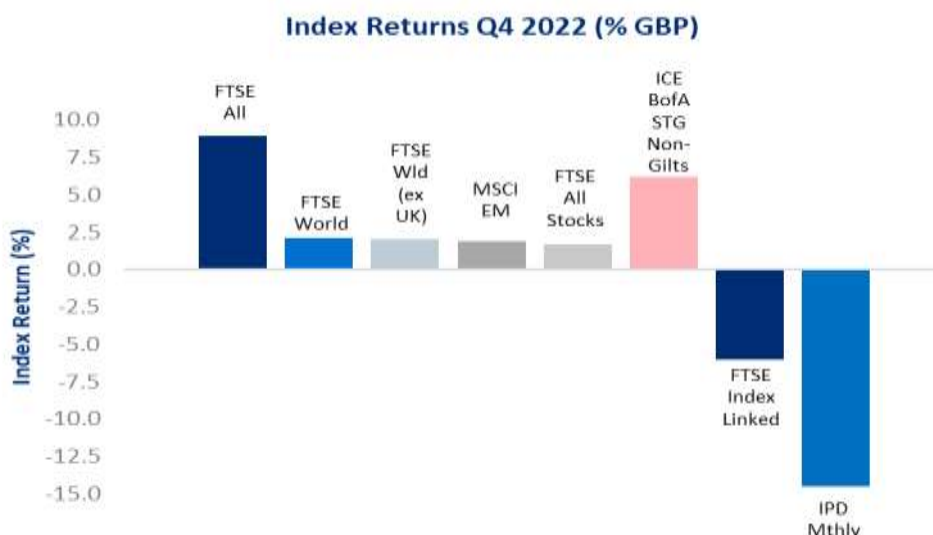
## 1 Background

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

## 2 Market Performance

Global equities rose over the quarter due to increasing optimism about inflation moderating in 2023. Europe was the best performer as gas prices fell and the risks of recession appeared to lessen. The Asia Pacific region also outperformed as China's sudden relaxation of many Covid restrictions led to expectations of a boost in economic activity.

Globally the picture for government bonds was mixed, with UK gilt yields falling, German and Japanese yields rising and US treasuries roughly flat. The Bank of England, the European Central Bank and the Federal Reserve each raised interest rates twice over the quarter.



- The **FTSE All Share** Index returned **+8.9%**, the **FTSE World ex UK** index **+2.1%** and the **MSCI Emerging Markets** index **+1.9%**, compared with Q3 returns of **-3.4%**, **+2.1%** and **-3.6%** respectively.
- The **FTSE All Stock Index** returned **+1.6%**. Having spiked in late September and early October, gilt yields fell back over the quarter.
- **Sterling** fell by **-1.1%** against the euro and rose by **+7.8%** against the dollar.
- The **MSCI All property monthly return index** declined by **-14.5%** over the quarter. Capital values declined over all sectors, but income returns marginally increased.

## 3 Fund Performance

The **Fund's value** at 31<sup>st</sup> December 2022 was **£26,964m**. (Fund value at 30<sup>th</sup> September 2022 was **£26,430m**).



The **Fund's total return** for Quarter 4 2022 was **+2.1%**, behind the benchmark return of **+2.7%**. Over 1 year and 3 years, the Fund has underperformed the benchmark, but over 5 years and 10 years has outperformed. Further analysis of Fund and asset class performance can be found in **Appendix 2**.

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

- 6 managers outperformed their benchmark; and
- 15 managers underperformed.

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

#### 4 Asset Allocation

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

Asset Class	30 Sep 2022 (£m)	30 Sep 2022 (%)	31 Dec 2022 (£m)	31 Dec 2022 (%)	Target (%)
Equity	14,910	56.4	15,096	56.0	52.5
Hedging & insurance	337	1.3	0	0.0	1.5
Credit	1,292	4.9	1,918	7.1	6.0
Short term enhanced yield	4,838	18.3	4,988	18.5	20.0
Long Term enhanced yield	5,052	19.1	4,961	18.4	20.0
Total	26,430	100.0	26,964	100.0	100.0

During the quarter, the Fund:

- Switched out of its holding in short-dated UK gilts in favour of passive credit funds
- Sold £230m from the passive RAFI portfolio to bring that portfolio back to target weight. Proceeds were re-invested in the passive credit portfolio to increase corporate bond exposure to an overweight position.

In addition, £100m was divested from active global equity mandates to fund private market drawdowns.

All other asset allocation changes are a result of market movements or cash flows to and from private market programmes. A summary of allocations to investment manager portfolios at quarter end is provided in **Appendix 4**.

## 5 Direct Impact Portfolio (DIP)

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

## 6 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 9<sup>th</sup> February 2023. A note of the Panel's meeting is set out in **Appendix 6**.

## 7 Stewardship: Responsible Investment

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

- The Fund's global equity manager, **Veritas Asset Management**, provided a progress report on the implementation of its commitment to achieve Net Zero by 2050 for 100% of assets under management.
- Ahead of the **2022 United Nations Climate Change Conference** (COP27) the Fund co-signed a **Farm Animal Investment Risk and Return** Initiative (FAIRR) global investor letter to the **Food and Agriculture Organization of the United Nations** (FAO) urging them to set a roadmap for how the food system can align with the Paris Agreement goal of limiting global warming to 1.5°C.
- In support of the **ShareAction Workforce Disclosure Initiative (WDI)** the Fund wrote to management at 3 companies asking them to be more transparent about their workforce practices and disclose to the WDI survey.
- During the quarter the Fund co-signed the **Investor statement on the UK cost-of-living crisis** in support of the ShareAction **Good Work** investor coalition.
- The Fund co-signed **Good Work** Coalition letters on **Living Hours** to several large UK based employers asking them to consider accrediting to the Living Wage Foundation Living Hours accreditation standard.
- In September the Fund co-signed The Investor Agenda **2022 Global Investor Statement to Governments**. This statement was signed by 602 investors representing over USD \$42 trillion in assets and called on governments to raise their climate ambition and implement robust policies.

## 8 Policy and Resource Implications

### Resource Implications:

*Financial:* None. Monitoring report.

*Legal:* None.

*Personnel:* None.

*Procurement:* None

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

**Equality and Socio-**

## **Economic Impacts:**

*Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.*

Equalities issues are addressed in the Fund's Responsible Investment strategy. A summary of responsible investment activity is included **at Appendix 7.**

*What are the potential equality impacts as a result of this report?*

N/a.

*Please highlight if the policy/proposal will help address socio-economic disadvantage.*

N/a.

## **Climate Impacts:**

*Does the proposal support any Climate Plan actions? Please specify:*

Yes.  
Strathclyde Pension Fund's Climate Change strategy is being developed in line with Item 34 of the Council's Climate Action Plan.  
SPF's stewardship activity addresses all of the SDGs to some degree. A summary of responsible investment activity, including mapping of activity against each of the SDGs is included **at Appendix 7.**

*What are the potential climate impacts as a result of this proposal?*

N/a.

*Will the proposal contribute to Glasgow's net zero carbon target?*

N/a.

## **Privacy and Data Protection Impacts:**

Are there any potential data protection impacts as a result of this report  
Y/N

No.

If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out

N/a.

## **9 Recommendation**

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

<b>Appendix 1</b>	<b>Investment Objectives and Strategy</b>
<b>Appendix 2</b>	<b>Fund and Asset Class Performance</b>
<b>Appendix 3</b>	<b>Manger Performance</b>
<b>Appendix 4</b>	<b>Portfolio Summary</b>
<b>Appendix 5</b>	<b>Direct Impact Portfolio</b>
<b>Appendix 6</b>	<b>Investment Advisory Panel</b>
<b>Appendix 7</b>	<b>Stewardship Activity</b>

## Investment Objectives and Strategy

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

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

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



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

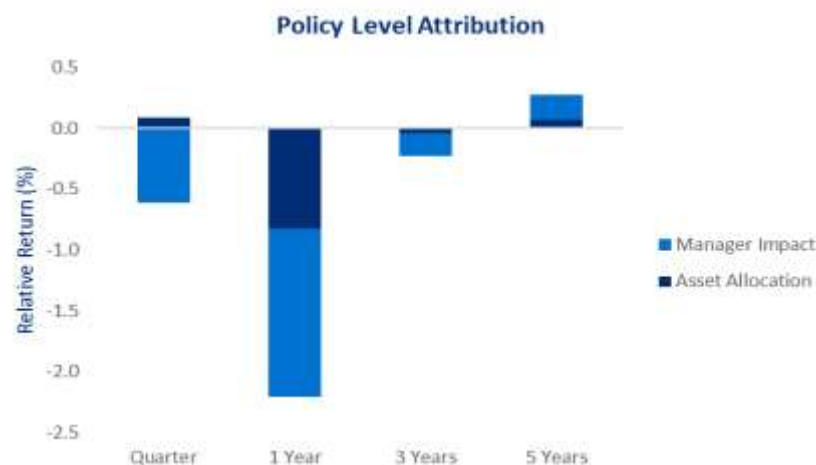
Asset	Step 1 %	Step 2 %	Step 3 %	Step 4 %
Equity	62.5	52.5	42.5	32.5
Hedging & insurance	1.5	1.5	1.5	1.5
Credit	6.0	6.0	6.0	6.0
Short term enhanced yield	15.0	20.0	25.0	30.0
Long term enhanced yield	15.0	20.0	25.0	30.0
	100	100	100	100
Return (% p.a.)	6.0	5.9	5.8	5.5
Volatility (% p.a.)	12	11	10	9

## Fund and Asset Class Performance

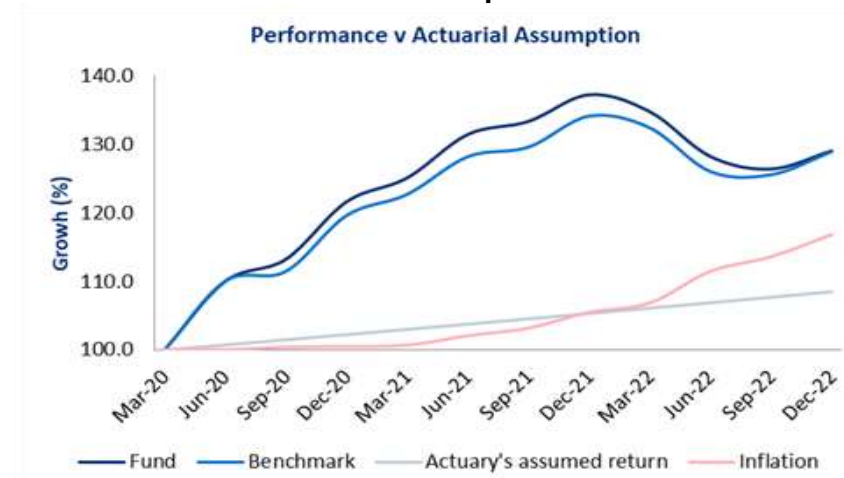
### 1. Returns by Asset Class

Asset Class	Latest Quarter			1 Year			3 Years			5 Years		
	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %	Fund %	B'mark %	Relative %
Equity	3.6	4.1	(0.5)	(8.9)	(9.1)	0.2	6.5	5.5	1.0	7.1	5.9	1.2
Hedging & Ins	3.1	(0.7)	3.9	0.6	(33.4)	51.1	3.3	(7.9)	12.2	3.3	(3.7)	7.2
Credit	4.7	4.7	0.0	(20.0)	(20.0)	0.1	(5.1)	(5.2)	0.1	(1.5)	(1.6)	0.1
STEY	2.2	2.5	(0.3)	(1.5)	3.2	(4.5)	1.4	3.3	(1.8)	1.9	3.4	(1.5)
LTEY	(2.9)	(1.2)	(1.7)	4.8	10.8	(5.4)	4.7	6.9	(2.1)	5.0	6.4	(1.3)
Total Fund	2.1	2.7	(0.5)	(6.0)	(3.9)	(2.2)	4.7	4.9	(0.2)	5.3	5.0	0.3

### 2. Performance Attribution



### 3. Performance vs Actuarial Assumption



- In Q4, credit was the strongest performing asset class in absolute terms, while the poor performance of the UK property market was reflected in the negative return of long-term enhanced yield.
- Equity has outperformed over 1, 3 and 5 years and remains the best performing asset class over 3 and 5 years, largely due to the outperformance of private equity portfolios.
- Over Q4, 1 and 3 years, investment manager performance has detracted from Fund return, but over 5 years both manager performance and asset allocation have added value.



## Manager Performance

### 1 Equity

#### 1.1 Manager Performance Summary

Equity						
Manager		Current Quarter (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford	Actual	2.1	(19.6)	1.8	3.8	8.5
	Relative	0.1	(12.9)	(3.8)	(1.1)	1.2
Lazard	Actual	3.8	(5.6)	9.4	10.6	9.7
	Relative	1.9	2.7	1.9	2.6	1.2
Oldfield	Actual	11.5	(0.3)	0.7	2.1	8.0
	Relative	9.4	8.5	(6.4)	(5.6)	(3.5)
Veritas	Actual	(1.0)	(10.5)	4.3	7.4	11.6
	Relative	(2.8)	(2.6)	(2.9)	(0.3)	0.2
Lombard Odier	Actual	14.4	(16.5)	10.6	9.7	7.5
	Relative	8.6	7.4	8.8	8.7	2.9
JP Morgan	Actual	1.9	(22.4)	3.8	5.4	11.5
	Relative	(1.9)	(11.6)	0.0	1.6	1.9
Active EM Equity <sup>1</sup>	Actual	5.3	(18.4)	(4.0)	0.0	8.7
	Relative	3.9	(10.1)	(5.5)	(1.6)	1.3
Pantheon	Actual	(8.9)	12.4	20.7	17.4	14.1
	Relative	(10.5)	22.3	20.4	15.5	5.5
Partners Group	Actual	4.7	6.4	18.7	15.9	12.3
	Relative	2.8	15.8	18.5	14.0	7.0
L&G Equity	Actual	6.2	(12.5)	3.7	5.4	9.1
	Relative	(0.0)	(0.2)	(0.2)	0.2	-
L&G RAFI	Actual	6.5	(0.8)	6.7	6.0	9.1
	Relative	0.0	0.5	0.2	0.0	(0.1)
L&G EM Equity	Actual	0.6	(6.9)	-	-	(9.1)
	Relative	(0.2)	(0.5)	-	-	(2.7)
Total	Actual	3.6	(8.9)	6.5	7.1	8.5
	Relative	(0.5)	0.2	1.0	1.2	1.2

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

#### 1.2 Manager Performance Commentary

In Q4, 3 out of 9 active equity managers outperformed their benchmarks. **Oldfield** (global equity) was the standout performer, while **Pantheon** was the worst performer. Over 5 years, **Baillie Gifford**, **Oldfield**, **Veritas** and **Genesis** (active emerging markets) are behind but the allocation to private assets (managed by **Pantheon** and **Partners Group**) has been beneficial.

**Oldfield** was the strongest performer over Q4 on a relative basis due to the manager's bias towards value stocks, which outperformed over the year. The value bias that led to outperformance in Q4 has been a drag on performance over the longer term.

**Lombard Odier** outperformed the benchmark and was the strongest performer in Q4 on an absolute return basis. Recognition of corporate operational performance in

### Manager Performance

valuations was the main driver of returns. Over the longer term, Lombard Odier has outperformed the benchmark significantly.

**Pantheon** was the weakest performer in Q3 in both absolute and relative terms as fund valuations were written down. However, over the longer term, Pantheon is one of the Fund's best performing managers.

**Veritas** underperformed their benchmark over the quarter and are behind the benchmark over 1,3 and 5 year periods. The portfolio has no exposure to energy stocks, which have performed well over the past year while some healthcare companies in the portfolio underperformed as revenues from COVID declined.

Although **Baillie Gifford** marginally outperformed the benchmark in Q4, significant underperformance over 2022 has brought relative returns into negative territory over 1,3 and 5 years.

## Manager Performance

### 2 Short Term Enhanced Yield

#### 2.1 Manager Performance Summary

Short term enhanced yield						
Manager		Current Quarter (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
PIMCO	Actual	1.1	4.3	2.6	2.5	2.5
	Relative	(0.5)	(0.8)	(1.4)	(1.6)	0.1
Ruffer	Actual	5.0	7.1	9.1	n/a	8.7
	Relative	3.4	2.1	5.1	n/a	4.6
Barings (Multi Credit)	Actual	2.3	(10.6)	(1.4)	0.3	1.3
	Relative	0.5	(15.5)	(6.0)	(4.3)	(3.3)
Oak Hill	Actual	3.3	(5.3)	0.8	1.7	2.3
	Relative	1.5	(10.5)	(3.9)	(3.0)	(2.3)
Barings (Private Debt)	Actual	1.4	6.2	5.3	5.1	5.1
	Relative	(0.4)	0.3	0.4	0.2	0.3
Alcentra	Actual	1.7	6.1	5.8	6.7	6.8
	Relative	(0.1)	0.2	0.9	1.8	1.9
ICG	Actual	(4.2)	3.8	3.7	n/a	2.4
	Relative	(5.9)	(1.9)	(1.1)	n/a	(2.3)
Partners Group (Private Debt)	Actual	0.5	2.1	n/a	n/a	1.6
	Relative	(1.2)	(3.6)	n/a	n/a	(3.1)
Ashmore	Actual	9.8	(22.7)	(11.8)	(7.1)	(5.4)
	Relative	2.2	(9.2)	(6.3)	(4.3)	(3.7)
Total	Actual	2.2	(1.5)	1.4	1.9	2.1
	Relative	(0.3)	(4.5)	(1.8)	(1.5)	(1.3)

#### 2.2 Manager Performance Commentary

Manager performance was mixed in Q4 with 4 managers outperforming and 5 managers underperforming. Since mandate inception, PIMCO, Ruffer, Alcentra and Barings Private Debt are ahead of benchmark, while all other manager returns are behind benchmark.

In Q4 **Ashmore** outperformed their benchmark and was the best performer in absolute terms. China, Russia and Argentina were the largest contributors to returns, while the largest detractor was Brazil. The allocation to local currency was also a key driver of performance. Despite performing well in Q4, Ashmore has significantly underperformed over the longer term.

In relative terms **Ruffer** was the strongest performer in Q4 and returns are significantly ahead of benchmark over 1 year, 3 years and since inception. The value bias of the equity allocation and avoidance of large tech stocks, Japanese interest rate options and yen exposure boosted performance.

**ICG** was the weakest performer over the quarter. The investment periods for ICG ICG Real Estate VI and ICG Real Estate Senior Debt V are still in the build-up phase, where drawdowns exceed distributions and performance tends to be below benchmark.

## Manager Performance

The **Partners Group** private debt portfolio underperformed the benchmark in Q4 and over 1 year. The portfolio is still in the investment phase and portfolio build up remains healthy. Funds drawn in the quarter amounted to £7.4m.

### 3 Long Term Enhanced Yield

#### 3.1 Manager Performance Summary

Long term enhanced yield						
Manager		Current Quarter (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
DTZ	Actual	(9.5)	(2.4)	3.2	3.9	6.8
	Relative	(5.5)	(11.0)	(2.3)	(1.4)	(0.8)
Partners Group RE <sup>(2)</sup>	Actual	1.3	18.8	6.2	6.5	7.8
	Relative	2.2	2.1	(4.2)	(3.0)	(1.0)
JP Morgan IIF	Actual	5.2	7.4	6.3	n/a	6.0
	Relative	3.2	(0.5)	(1.6)	n/a	(1.8)
Total	Actual	(2.9)	4.8	4.7	5.0	5.8
	Relative	(1.7)	(5.4)	(2.1)	(1.3)	(0.7)

#### 3.2 Manager Performance Commentary

Long term enhanced yield underperformed overall in Q4. At a manager level, the DTZ portfolio underperformed, while JP Morgan and Partners Group outperformed. All managers have underperformed over the longer term.

The **JP Morgan Infrastructure Investments Fund** outperformed the benchmark over the quarter, but over the longer term is behind benchmark. The manager further diversified the portfolio across sectors and geographies through platform investments, including Adven and Onward Energy.

**DTZ** underperformed the 3-month lagged IPD index reported by Northern Trust, but outperformed the final Q4 IPD monthly index by c5%. The capital value of the portfolio fell by 10%, offset by a slight increase in income yield. The best performing investment was the Co-Living Fund, which increased in value by 3%. A key contributor to negative return was performance of industrial assets.

## Portfolio Summary 31 December 2022

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	6,649	24.7%	0	0.0%	1,918	7.1%					8,567	31.8%	31.5%
Baillie Gifford	1,954	7.2%									1,954	7.2%	7.5%
Lazard	839	3.1%									839	3.1%	2.5%
Oldfield	767	2.8%									767	2.8%	2.5%
Veritas	738	2.7%									738	2.7%	2.5%
Lombard Odier	407	1.5%									407	1.5%	1.0%
JP Morgan	803	3.0%							901	3.3%	1,704	6.3%	6.5%
Active EM Equity	348	1.3%									348	1.3%	1.5%
Pantheon	1,533	5.7%									1,533	5.7%	5.0%
Partners Group	953	3.5%					260	1.0%	550	2.0%	1,763	6.5%	6.0%
PIMCO							1,017	3.8%			1,017	3.8%	4.0%
Ruffer							576	2.1%			576	2.1%	2.0%
Barings (multi-credit)							661	2.5%			661	2.5%	2.8%
Oak Hill Advisors							468	1.7%			468	1.7%	1.8%
Barings (private debt)							480	1.8%			480	1.8%	1.3%
Alcentra							370	1.4%			370	1.4%	1.3%
ICG Longbow							293	1.1%			293	1.1%	1.0%
Ashmore							421	1.6%			421	1.6%	2.5%
DTZ									2,384	8.8%	2,384	8.8%	10.0%
DIP	105	0.4%					131	0.5%	1,126	4.2%	1,363	5.1%	6.0%
Cash							311	1.2%			311	1.2%	1.0%
<b>Total</b>	<b>15,096</b>	<b>56.0%</b>	<b>0</b>	<b>0.0%</b>	<b>1,918</b>	<b>7.1%</b>	<b>4,988</b>	<b>18.5%</b>	<b>4,961</b>	<b>18.4%</b>	<b>26,964</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Target</b>		<b>52.5%</b>		<b>1.5%</b>		<b>6.0%</b>		<b>20.0%</b>		<b>20.0%</b>		<b>100.0%</b>	

## Direct Impact Portfolio

### 1 Portfolio Summary

The portfolio can be summarised as follows.

	Since Inception (£m)	Current Portfolio (£m)
<b>Total Commitments Agreed</b>	<b>2,014</b>	<b>1,917</b>
Amounts Drawn Down by Managers	1,497	1,421
+ Increase in Value	433	388
- Received Back in Distributions	460	460
- Realisations	121	-
<b>= Total Net Asset Value (NAV)</b>	<b>1,349</b>	<b>1,349</b>

Based on a current total Fund value of **£26.964bn**, DIP's **5%** target allocation is a NAV of **£1,348m**.

The portfolio comprises **57** separate investments.

In Q4, drawdowns amounted to **£77m** and distributions amounted to **£22m**.

In addition, a co-investment program of £200m which is not reflected in the table above has been approved but is as yet unallocated.

### 2 Performance

Portfolio performance to 31<sup>st</sup> December 2022 is as follows:

	Q4 2022 (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
DIP	2.8	11.9	6.7	6.1	7.7
DIP Benchmark*	3.2	12.0	7.1	5.4	2.6
SPF Total Fund	2.1	-5.9	4.7	5.3	11.0

Performance continues to be very positive. Main drivers have been:

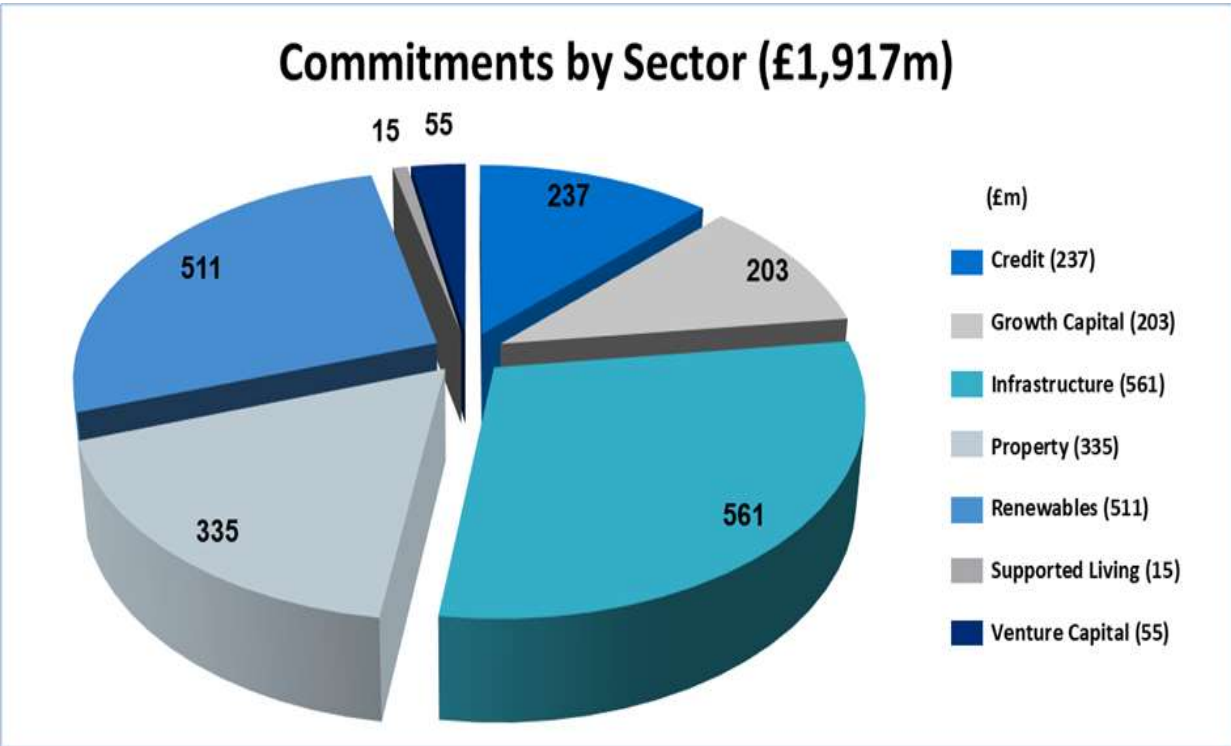
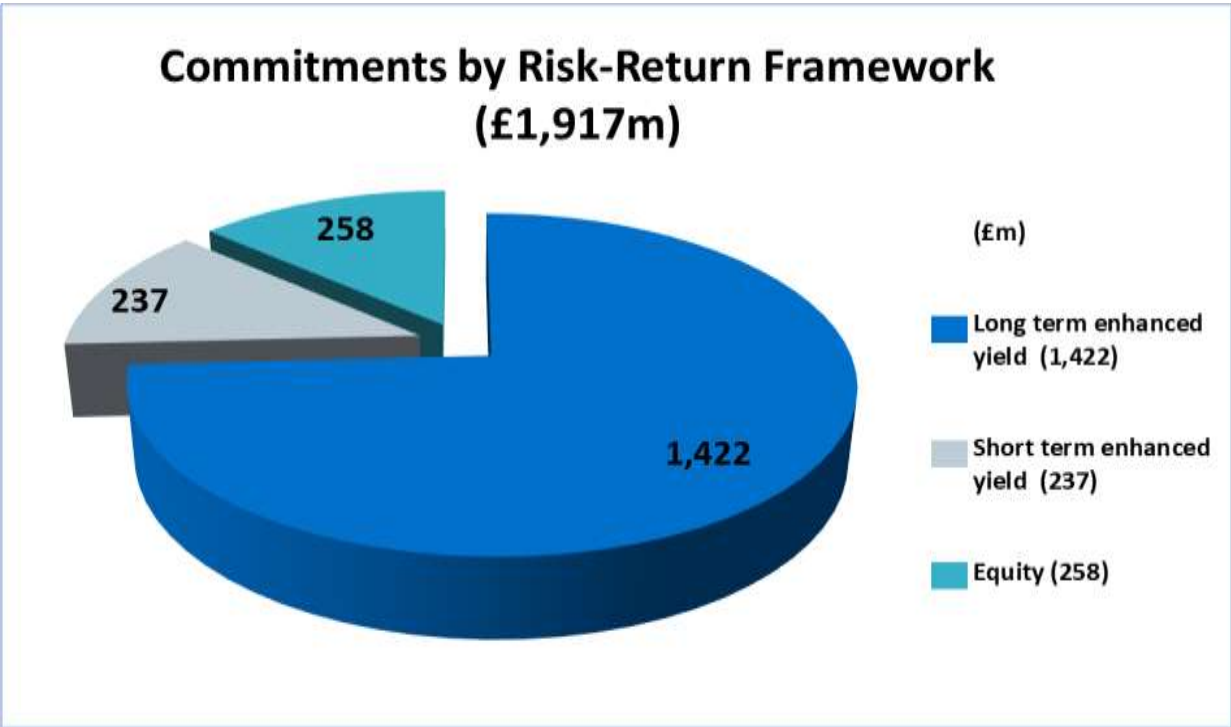
- strong returns from the LTEY investments which form the majority of the DIP allocation;
- in particular, the ongoing effect of stronger power prices has been positive for the valuations of the renewable energy funds; and
- the DIP equity portfolio has also performed very well.

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

- 52 investments are rated **green**
- 4 are rated **amber**
- None are rated **red**
- 1 is in legals

DIP's asset class and sector allocation at 31<sup>st</sup> December 2022 is shown below.

Direct Impact Portfolio



Investment Advisory Panel Meeting 9<sup>th</sup> February 2022

## INVESTMENT ADVISORY PANEL

MINUTES OF MEETING ON Thursday 9<sup>th</sup> February 2023

<b>PRESENT:</b>	<b>Richard McIndoe</b>	Director
	<b>Prof. Geoffrey Wood</b>	Investment Advisor
	<b>Iain Beattie</b>	Investment Advisor (via MS Teams)
	<b>Alistair Sutherland</b>	Investment Advisor
	<b>Nell McRae</b>	Hymans Robertson
	<b>Jacqueline Gillies</b>	Chief Investment Officer (via MS Teams)
	<b>Richard Keery</b>	Investment Manager
	<b>Ian Jamison</b>	Investment Manager
	<b>Lorraine Martin</b>	Assistant Investment Manager

**1. Minutes from Last Meeting & any Matters Arising**

The minutes of the Panel meeting on 10<sup>th</sup> November 2022 were agreed to be an accurate record.

**2 Monitoring****2.1 Market and Inflation Update**

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

**2.1 Quarterly Investment Performance Review (Main Fund)**

The Fund's return for Q4 2022 was **+2.1%**, below a benchmark returns of **+2.7%**. Performance for the year to 31<sup>st</sup> December 2022 was negative **(-6.0%)** and below benchmark **(-3.9%)**. The Fund's return is behind benchmark over 3 years, but positive on an absolute and relative basis over the five-year period.

**2.2 Manager Ratings**

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

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

**2.3 Direct Impact Portfolio Monitoring Report**

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

- **52** investments are rated **green**
- **4** are **amber**
- **1** is in legals
- **None red.**

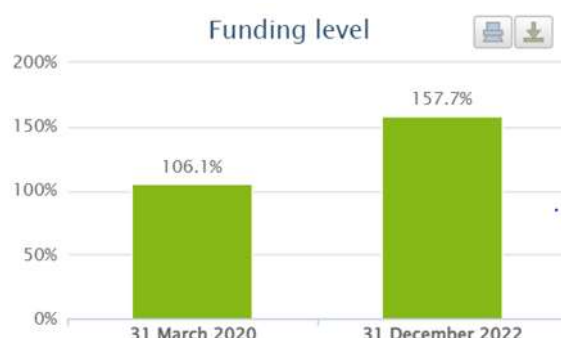
**2.4 Estimated Funding Levels**

Hymans Robertson provided the following estimates of funding level as at 31<sup>st</sup> December 2022. The funding level had increased significantly since the 31<sup>st</sup>



## Investment Advisory Panel Meeting 9<sup>th</sup> February 2022

March 2020 actuarial valuation, and increased further in Q4 2022. The next actuarial valuation, as at 31<sup>st</sup> March 2023, is a priority in the Fund's 2023/24 business plan.



### 3 Allocation

#### 3.1 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 Impact Portfolio, and private debt commitments. Totals at 31<sup>st</sup> December 2022 were as follows.

	<b>2022 Estimate (£m)</b>	<b>2022 Actual (£m)</b>	<b>2023 Estimate (£m)</b>
Distributions	678	631	799
Calls	-783	-790	600
<b>Net</b>	<b>-105</b>	<b>-159</b>	<b>199</b>

In 2022, final net cash outflows were **(-£54m)** more than had been anticipated, due to a slowdown in distributions as well as an increase drawdowns in the final quarter of the year.

In 2023, private market net cash flow is expected to be positive **(+£199m)**:

- Drawdowns to the Direct Impact Portfolio and to the Partners Group real estate and private debt investments are expected to exceed distributions (combined net outflow **-£84m**).
- All other private equity and debt investments are valued at or above target allocations, and distributions will exceed drawdowns over the course of the year (combined net inflow **+£282m**).

The Fund's central cash balance at 31<sup>st</sup> December 2022 was **£311m**. The Panel noted that **£140m** was transferred to fund the increased commitment to the JP Morgan International Infrastructure fund on **3<sup>rd</sup> January 2023**, reducing the cash balance to **£171m** on the first working day of the year.

#### 3.2 Rebalancing Strategy

The Panel reviewed a re-balancing report at 31<sup>st</sup> December 2022. The Panel discussed the detail of the report, which showed that at year end:

## Investment Advisory Panel Meeting 9<sup>th</sup> February 2022

- Credit was outwith its target range (7.1% vs 7.0%) due to the Fund's decision in Q4 2022 to move to an overweight position in this asset class, The overweight credit position had been funded by a complete sale out of Hedging/ Insurance holdings (0% allocation at end December vs a strategic allocation of 1.5%).
- The Fund's allocation to emerging market debt (1.6% vs 2.5%) is below target and below the lower target range. The Panel agreed that it was not appropriate to allocate more money to emerging market debt, however, due to poor performance of the mandate.

Allocation to all other asset classes and mandates were within target ranges at 31<sup>st</sup> December 2022.

### 3.3 Relative Value Framework

The relative value framework was introduced to generate additional value and reduce the risk of capital losses by varying implementation of the 7.5% allocation held in protection assets. Decisions to move away from the strategic, or neutral, allocation of 6% Credit (50/50 UK/US investment grade) and 1.5% Hedging and Insurance (index-linked gilts) allocation are based on pre-defined metrics.

Following 30<sup>th</sup> September 2022's quarterly relative value analysis, the Panel decided to move the allocation of protection assets to an overweight (7.5%) Credit position. This was implemented during Q4 2002 using proceeds from the sale of the Fund's holding in UK short-dated gilts as well as £230m of sales from the Fund's RAFI portfolio.

The most recent quarterly relative value report from Hymans Robertson provided the following summary assessment of metrics at 31<sup>st</sup> December 2022:

- Investment grade credit spreads decreased over Q4 2022, however they remain well above long-term median levels. On top of higher risk-free rates, this makes credit yields more attractive.
- Yields are attractive relative to longer term fair value. However, challenges to nominal gilts include high inflation and supply/ demand dynamics due to BoE asset sales (as part of the reversal of quantitative easing) and increased issuance.
- Index-linked gilts look more attractive than nominal gilts at shorter durations but longer term, nominals look better value.

The Panel discussed the report's assessment of the latest metrics and agreed that the Fund should retain its current overweight position in credit.

### 3.4 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

## Investment Advisory Panel Meeting 9<sup>th</sup> February 2022

- Income that is not currently distributed but could be in future.

Main conclusions from the updated analysis are that:

- The Fund's investments currently distribute significantly more income than is required to pay pensions.
- However, projected shortfall in benefits cashflow has increased markedly from previous financial years, due to the impact of current high inflation and projected wage growth, so that:
  - In 2023/ 24, up to 28% of distributed investment income may be required to pay pensions
  - in 2031/32 this is forecast to have increased to 97% and
  - by 2032/33, it is forecast that net pensions expenditure will exceed distributed investment income.
- Up to 99% of income which is currently re-invested could be made available for distribution to the Fund if required to make up any shortfall in benefits cash flow.
- Projected benefits cash flow will be reviewed as part of the actuarial valuation of the Fund at 31<sup>st</sup> March 2023, and could change significantly if employer contribution rates are amended.
- In the meantime, ongoing consideration needs to be given to which portfolios should be the source of funds if required.

### 4. Investment Strategy and Structure

#### 4.1 Climate Change: Net Zero Action Plan

The SPF Committee have agreed a climate change strategy for the Fund focused on achieving net zero by 2050.

At its meeting in March 2022, the Committee agreed that the Fund should join the Paris Aligned Investment Initiative (PAII) and use the IIGCC Net Zero Investment Framework as the basis for producing a climate action plan that would meet an interim target for carbon reduction of at least 45% from the Fund's baseline by 2030. The production of a climate action plan for approval by Committee in Q1 2023 is a priority in the 2022/23 SPF business plan.

The most recent draft of a climate action plan for the Fund based on the IIGCC Net Zero Investment Framework had been circulated to the Panel for review.

The final climate action plan is the subject of a separate report to Committee.

#### 4.2 Net Zero Investment Framework

At the August Panel meeting, Hymans Robertson had presented forward looking net zero analysis, the aim of which is to support client climate change objectives through assessment as to whether individual portfolios are fully aligned with net zero.

To illustrate this approach, Hymans had prepared a paper for the November meeting which compared 3 of the Fund's equity mandates' emission levels and transition pathways to those envisaged by Intergovernmental Panel on Climate Change (IPCC) for the world to have a 2/3s probability of remaining below an overall temperature increase of 1.5 degrees Celsius over pre-industrial levels.

## Investment Advisory Panel Meeting 9<sup>th</sup> February 2022

Hymans had subsequently provided an update of the November paper which included analysis of the remaining 3 active equity mandates as well as an aggregate analysis of all 6 active equity portfolios. The Panel reviewed this.

The Panel agreed that this analysis could be useful in support of the Fund's own climate change objectives.

### 4.3 Investment Strategy and Structure Review 2023/24

A review of investment strategy will be carried out in conjunction with the actuarial valuation of the Fund as at 31<sup>st</sup> March 2023.

At meetings in August and November, the Panel had held preliminary discussions on the upcoming investment strategy review, Officers had summarised the priorities previously identified in a paper to the Panel for review and formal agreement.

The Panel discussed and agreed the following priorities for the Fund's 2023/24 review of investment strategy:

- An **ALM** will be carried out and should provide a basis for the review and any decisions. This will include an analysis of extreme risks to different asset allocations as well as climate scenario modelling.
- **High-level strategic allocation.** This should include a review of
  - The current strategic allocation, 'Alt 2'.
  - Whether the route map (below) agreed in 2015 remains appropriate or whether it should be retained, revised or replaced.

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

In addition, the following should be the subject of detailed review:

- Short term enhanced yield (STEY) structure and investment strategies and future fixed income positioning.
- Emerging Markets strategy and structure within equities.
- Climate Action Plan outcomes, with review of tilted indices, green(er) fixed income, and allocation to climate solutions as likely priorities.

Hymans Roberson will now produce a detailed workplan and timeline for discussion at the May Panel meeting.

## 5. Governance

### 5.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 1<sup>st</sup> March 2023.

**Investment Advisory Panel Meeting 9<sup>th</sup> February 2022****6 Manager Reviews**

The following investment managers attended the Investment Advisory Panel:

- **Oldfield**
- **DTZ**
- **Ruffer**

Performance of each of the managers was reviewed.

**Oldfield**

The Oldfield global equity portfolio is currently valued at £767m, or 2.8% of total Fund, versus a target weight of 2.5%. Oldfield provided an update on the current portfolio, performance and investment markets together with an outline of its approach to climate change and net zero.

**DTZ**

The DTZ UK property portfolio is currently valued at £2,384m, or 8.8% of total Fund, versus a target weight of 10%. DTZ provided an update on the current portfolio and performance together with an outline of investment strategy over 2023 and its approach to climate change and net zero.

**Ruffer**

The Ruffer absolute return portfolio is currently valued at £576m, or 2.1% of total Fund, versus a target weight of 2.0%. Ruffer provided an update on the current portfolio, performance and investment markets together with an outline of its approach to climate change and net zero.

## Stewardship: Responsible Investment Activity

### Responsible Investment: Quarter 4 2022

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 global equity manager, **Veritas Asset Management**, provided a progress report on the implementation of its commitment to achieve Net Zero by 2050 for 100% of assets under management.

Veritas joined the **Net Zero Asset Managers Initiative** (NZAM) in 2021 and committed 100% of AUM to achieve Net Zero by 2050 with an interim target for 2030. Veritas also joined the **Science Based Target initiative** (SBTi), which provides for targets set by companies to be independently verified. Veritas engaged the **Carbon Trust** to help calculate the implied temperature of all portfolios, which enabled them to calculate a pathway to Net Zero. Veritas's aim is to lower the overall temperature of all managed portfolios by encouraging companies to have their decarbonisation targets verified by the SBTi.

During 2022, Veritas reviewed all investee companies to identify shortfalls in their Net Zero transition strategies. The review was aligned with the four pillars of the **Task Force on Climate-related Financial Disclosures** (TCFD). Ideally, all transition strategies should incorporate science-based targets aligned with a 1.5°C warming scenario that encompass the entire value chain and have received verification by an independent body like the SBTi. Veritas identified nineteen investee companies across its Global portfolios with transition strategies inconsistent with the ideal scenario outlined above. Each company was categorised under one of the three groups listed below:

- Companies that do not have SBTs.
- Companies with SBTs that have not received independent verification.
- Companies that have SBTs misaligned with 1.5°C temperature pathway.

Letters that outlined concerns were sent to each company. Thirteen companies responded with some addressing the issues raised and offering an acceptable solution over a specific timeframe, enabling ongoing dialogue and monitoring. Those included:

- **Safran S.A.** - committed to 1.5°C and working on SBTi verification.
- **Alphabet Inc.** - submitted targets to SBTi for verification.
- **Canadian Pacific Railway** - recognises the 1.5°C standard and work underway to increase the ambition of targets.

Companies that failed to respond or did not respond satisfactorily will be subject to an escalation in engagement. In some cases, there is a valid reason for the company not to commit to science-based targets now. However, in the majority of cases, Veritas will use both voting and engagement to encourage management to make commitments and thus lower the overall implied temperature rate of the business.

## Stewardship: Responsible Investment Activity

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

#### 2.1 Voting

Managers' voting activity during the quarter to 30th December 2022 is summarised as follows.

Voting activity to 30th December 2022		
		(%)
<b>Total meetings</b>	<b>1,012</b>	
Votes for	6,433	80
Votes against	1,421	17
Abstentions	158	2
Not voted	62	1
<b>No. of Resolutions</b>	<b>8,074</b>	<b>100</b>

Voting activity in the quarter included:

- **Baillie Gifford** supported a resolution at Australian based multinational mining company **BHP Group Ltd** calling for climate accounting as they believe that there is scope for improvement in the level of transparency regarding policy, price, volume and asset life assumptions (resolution received 19% support). At **Microsoft** Baillie Gifford supported a resolution requesting an independent report on whether government use of its technology contributes to violations of the company's human rights and ESG policies and principles. Baillie Gifford believe shareholders would benefit from additional transparency around the considerations made by the company in evaluating the appropriateness of military contracts (resolution received 20% support). At US-based multinational cosmetics company **Estee Lauder**, Baillie Gifford opposed executive remuneration due to continued practice of granting sizable one-off awards (resolution received 95% support).
- **Legal & General** also supported the climate accounting resolution at **BHP Group Ltd** and a second shareholder resolution requesting that the company proactively advocate for Australian policy settings that are consistent with the Paris Agreement's objective of limiting global warming to 1.5°C. (resolution received 12% support). Legal & General voted against the election of Director Satya Nadella at **Microsoft Inc.** to express opposition to the company's decision to recombine the roles of chair and CEO, without seeking prior shareholder approval. Legal & General expects companies to have a separate chair and CEO on account of risk management and oversight considerations, and also because the roles are substantially different and require different skills. (resolution received 94% support).
- In France, **Lazard** voted against approving the compensation of Alexandre Ricard, Chairman and CEO at **Pernod Ricard SA.** due to a lack of clarity and clear alignment with shareholder interests. (resolution approved).

#### 2.2 Engagement

Engagement highlights during the quarter include the following.

- **Baillie Gifford** engaged with **Ryanair Holdings plc.** to learn more about how Ryanair's sustainability initiatives are supporting the business's long-

## Stewardship: Responsible Investment Activity

term strategy. Baillie Gifford attended Ryanair's sustainability event at Trinity College Dublin, where they heard from senior management and business partners about the company's partnership with Royal Dutch Shell to develop sustainable aviation fuel. Baillie Gifford also spoke with representatives from Boeing and Safran, Ryanair's aircraft and engine manufacturers, about technology developments that improve fuel efficiency and noise reduction. Discussion was also had on the potential for battery technology and hydrogen to provide scalable solutions to the aviation industry's environmental impact within the next 20 years. Baillie Gifford came away from this event with greater confidence in Ryanair's commitment to sustainability. The company is an industry leader in terms of the environmental impact of its business operations and has set out an ambitious strategy to improve over time. Baillie Gifford will maintain their dialogue with management and the board in support of continued progress.

- Baillie Gifford met with **SiteOne Landscape Supply, Inc.** to discuss SiteOne's ongoing work on environmental, social and governance topics. With some recent uplift in staff turnover management has responded by reviewing employee pay, particularly for its drivers, increasing base salary and implementing a new bonus plan which is subject to safety and profitability goals. Baillie Gifford were pleased to learn that the company's ongoing diversity and inclusion plan is making steady progress, including recruiting and promoting bilingual associates, women and minorities. Finally, Baillie Gifford encouraged the company to improve its climate disclosures and develop a long-term climate strategy. While climate is not currently a material risk for the business, it is prudent for the business to take steps now to ensure preparedness for future eventualities. Baillie Gifford will continue to monitor developments and remain a supportive shareholder of management. Baillie Gifford participated in an investor outreach discussion organised by **Thermo Fisher Scientific Inc.** to hear shareholders' views on its governance and executive pay practices. Baillie Gifford used the meeting to outline the rationale for opposing the executive compensation resolution at this year's AGM. They explained the concern that using annual performance periods within the long-term incentive plan was inappropriate and that duplicating objectives in both the annual and long-term plans could result in binary pay outcomes. Baillie Gifford also discussed the use of Thermo's DNA equipment products in Xinjiang. The company halted sales of its DNA technology in the Chinese region in 2019 following reports that it was being used for surveillance and profiling of the Uyghur population. The company's ban on sales is still in place, and Baillie Gifford learned that Thermo's Bioethics and Science & Technology Committees ensure ethical business practices and standards across its operations. Finally, Baillie Gifford were pleased to hear that good progress is being made towards Thermo's long-term emissions reduction targets. The company aims to cut scope 1 and 2 emissions by 30 per cent by 2030, by setting science-based targets for 90 per cent of suppliers and aims to achieve net-zero emissions by 2050.
- Oldfield Partners** engagement continued to prioritise companies with a high impact on real world emissions with the focus in quarter 4 on airlines. Alignment with the Paris agreement requires the aviation sector to reduce average carbon intensity by around 35-40% between 2019-2035, or 65% from 2019-2050. With technologies to support this still in the early stages,



## Stewardship: Responsible Investment Activity

the roadmap for meeting these targets is not prescriptive. Instead, a broad outline includes improving carbon intensity through fleet renewal, improved operational efficiency, and the adoption of Sustainable Aviation Fuels (SAF) or other solutions. Oldfield's engagements explored the **EasyJet** and **Southwest Airlines** approach to these in their progress on target setting.

- EasyJet outlined an emissions reduction target of 78% by 2050 with the remaining 22% captured through Carbon Capture, Utilisation and Storage (CCUS). Alongside this target, which has achieved SBTi verification, EasyJet announced a shift in their strategy which saw the focus move from carbon offsetting to investment in technology. EasyJet explained that their nearer term reduction target to 2035 relies purely on fleet renewal, which is consistent with what other airlines are saying. They are however more optimistic on the role of hydrogen longer-term and through partnerships such as those with Rolls Royce and Airbus, are investing in several exploratory projects. Oldfield are encouraged by SBTi's oversight of EasyJet's targets and their position on the working group. As the evolution and results of their investments will take time, Oldfield will continue to discuss any progress or changes, in the normal course of their engagements with the company.
- Engagement with Southwest Airlines highlighted a pragmatic but more pessimistic view. Southwest explained that the optimisation of their fleet was a key driver of their near-term decarbonisation strategy. Whilst they appear to have made progress on strategy in recent years, they could not get comfortable with the targets outlined by SBTi, arguing that the intensity reduction expectations were unrealistic. Their view around the scalability of new technologies was more sceptical and their focus is on the procurement of sustainable aviation fuel (SAF) which they suggest will require significant shifts in policy to scale to the levels required. They are working closely with the government and local states, as well as key industry bodies such as Airlines for America. With productive open dialogue with the company, Oldfield will continue to engage on their strategy as they look to make progress on areas where they believe they have greater control.
- During the quarter Oldfield joined a collaborative engagement for **Berkshire Hathaway** through **Climate Action 100+**. Although Berkshire Hathaway has made progress with its railroad and energy businesses setting emission reduction targets, Oldfield's concerns relate to the lack of transparency into the governance and oversight of climate risks, particularly relative to peers. Having long been admirers of Warren Buffett and with an investment approach influenced by his style, Oldfield hope to bring a constructive voice to the discussion whilst acknowledging the urgency of change.

### 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.

- **Veritas Asset Management** engaged with US Healthcare provider, Catalent, Inc., as the company had been accused of failing to disclose environmental information and had failed to commit to introducing and disclosing science-based emission reduction targets with a coherent

## Stewardship: Responsible Investment Activity

emissions reduction strategy. Veritas are comfortable that the company gives environmental stewardship appropriate concern and confirmed that submissions to CDP's climate change, water and forests questionnaires had been made in 2022. Veritas were also able to confirm that in 2021, Catalent has signed a letter of commitment with the Science-Based Target initiative (SBTi), joining a growing list of companies setting actionable, science-based, greenhouse gas emission reduction targets to limit global warming. This commitment includes calculating and reducing direct and indirect emissions as the Company continues to evolve and grow. Veritas direct engagement with the company further revealed an initial 10-year commitment for a 42% reduction in Scope 1 & 2 emissions, as of July 2021. Catalent have 2 years to validate these targets in accordance with the timescales stipulated by SBTi. Catalent need to establish a target for Scope 3 emissions, hence the 2-year window. The company is listed on the SBTi website under Catalent Pharma Solutions.

- **Baillie Gifford** met with the President & COO of the Japanese commercial catering equipment manufacturer **Hoshizaki Corporation** as part of a shareholder engagement roadshow focused on Hoshizaki's ESG strategy. Baillie Gifford discussed Hoshizaki's first integrated report. Its enhanced reporting includes a commitment to disclose information about its climate strategy in accordance with TCFD. At present, the company is targeting a 50 per cent reduction in scope 1 and 2 emissions by 2030 for its Japanese manufacturing facilities, representing 70 per cent of total sales. By 2024, the company aims to report and set long-term decarbonisation goals for its full value chain, including scope 3 emissions. Baillie Gifford encouraged the company to set ambitious, science-based targets. Baillie Gifford also discussed Hoshizaki's capital allocation and dividend policy and explained the decision to abstain on the chairman's re-election at this year's AGM. This helpful discussion allowed Baillie Gifford to learn more about the initiatives Hoshizaki is taking to improve its approach to ESG.

### 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 31 of the 33 managers within the Direct Impact Portfolio are also signatories. The Fund strongly encourages managers to become signatories and to adhere to the principles. However, for some this will be less appropriate due to the specialised nature of their activities.
- The Fund is a signatory to the new **UK Stewardship Code** (2020). The Fund also encourages its external investment managers and service providers to demonstrate their commitment to effective stewardship by complying with the UK Stewardship Code. Currently fourteen of the Fund's investment managers and consultants Hymans Robertson and Sustainability are signatories. The full list of signatories to the Code is available at:  
<https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-signatories>.

## Stewardship: Responsible Investment Activity

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

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

- At the close of the quarter the **CDP Non-Disclosure Campaign (NDC)** published its 2022 report. SPF has been an active supporter of the NDC since its inception in 2017. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. NDC targets those companies that continually decline to disclose, as well as providing a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. These companies represent over US\$24 trillion in market capitalization and emit more than 4,800 megatonnes of carbon dioxide annually. Highlights from the 2022 report include:
  - An overall increase to a 27% disclosure rate, with 388 out of the 1,466 companies targeted through the campaign responding. This is up from 25% last year. Companies were 2.3 times more likely to disclose after being targeted by the NDC.
  - Companies targeted on forests were over 3.2 times more likely to respond following engagement.
  - Over 550 companies were engaged on water security, a 50% increase on last year. Of these companies a record 104 disclosed as a result, 60% more than last year.
  - Companies in the high emitting transportation and power generation sectors were 4.6 and 4.4 times more likely to disclose after engagement. 41% of companies in the transport sector disclosed to CDP, including shipping and air freight companies. Increasing disclosure rates in high emitting sectors are a vital part of companies setting credible transition plans.
  - Companies based in Asia were 2.6 times more likely to disclose if targeted through the campaign. 141 companies from across Asia disclosed for the first time after participants engaged with them, more than in any other region. Within Asia, companies from China were four times more likely to disclose after being targeted through the NDC.

The full report is available on the CDP website: <https://www.cdp.net/en>
- In September **CDP** announced that it will expand its global environmental disclosure system to help solve the plastic pollution problem. Despite the scale of the plastic pollution problem and extent of its impacts, many companies still have a limited understanding of how they contribute to it and their exposure to related commercial, legal, and reputational risks. However, plastic pollution has been shown to be an important issue for

## Stewardship: Responsible Investment Activity

companies and capital markets. Responding to a consultation run by CDP in 2022:

- 88% of companies said plastic was a relevant issue.
- A third (32.5%) did not have plastic-related targets.
- 81% said that the information requested by CDP on plastics would be useful to inform financial or procurement decisions.

This expansion will include the addition of questions and metrics on plastics into CDP's annual disclosure questionnaires, beginning with a pilot in 2023. The full details of CDP's first year of plastics disclosure, including which companies will be requested to disclose initially, will be released in early 2023, prior to the April launch of the disclosure platform. This is a significant step forward in delivering CDP's 2025 strategy, announced last year, which will see the not-for-profit widen its scope to cover planetary boundaries, including oceans, land use, biodiversity, food production and waste.

Further detail is available on the CDP website at: <https://www.cdp.net/en/plastics>

- Ahead of the **2022 United Nations Climate Change Conference (COP27)**, in Sharm el-Sheikh, the Fund co-signed a **Farm Animal Investment Risk and Return Initiative (FAIRR)** global investor letter to the **Food and Agriculture Organization of the United Nations (FAO)** urging them to set a roadmap for how the food system can align with the Paris Agreement goal of limiting global warming to 1.5°C. The letter, signed by 55 investors representing over US\$17 trillion, as well as the UN-convened Net-Zero Asset Owner Alliance (NZAOA), also targets other financially material risks presented by the global food system in its current form, such as deforestation and biodiversity loss, malnutrition, and antimicrobial resistance. The letter is a follow up to a FAIRR global investor statement presented to the **COP26 UN Climate Change Conference** in Glasgow calling on G20 nations to disclose specific targets for reducing agricultural emissions. The statement and letter are available on the FAIRR website at: <https://www.fairr.org/article/roadmap-to-2050/>
- In support of the ShareAction **Workforce Disclosure Initiative (WDI)** the Fund wrote to management at the UK airline **EasyJet Plc.**, Hong Kong based insurance company **AIA Group** and **Bright Horizons Inc.**, a US based child-care provider, asking them to be more transparent about their workforce practices and disclose to the WDI survey this year. The WDI is run by ShareAction and is supported by a coalition of 68 institutions, with \$10 trillion in assets under management. The WDI annual survey and engagement programme generates new data on workforce practices, which signatories integrate into their investment analysis, and practical insights on how to address pressing workforce issues. In 2021, 173 global companies took part in the Initiative, demonstrating their commitment to transparency – a 23 per cent increase on 2020. EasyJet Plc., AIA Group and Bright Horizons Inc., had not responded to a WDI request to disclose for the 2022 survey. SPF wrote to each company pointing out that shareholders expected the highest standards of work force practice and that this be disclosed through channels such as the WDI. AIA Group and Bright Horizons Inc. responded immediately and completed the WDI survey as requested. Engagement with EasyJet was constructive despite the company not completing the survey this year. EasyJet acknowledged

## Stewardship: Responsible Investment Activity

the value of the survey to investors and that as first-time responder they preferred to wait until they could generate the resource and time to do a submission justice. EasyJet confirmed WDI would be firmly on their agenda for 2023.

- In November the Fund co-signed the **Investor statement on the UK cost-of-living crisis** in support of the ShareAction **Good Work** investor coalition. The statement was an outreach to 100 of the UK's largest listed employers to enquire about the support being provided to their lowest-paid workers during the cost-of-living crisis. Backed by 17 investors including Aviva, Brunel Pension Partnership, and Legal & General Investment Management the statement urged companies to:
  - Prioritise providing support for the lowest paid employees including uplifting pay and the provision of one-off cost of living support.
  - To consider meeting the new real Living Wage rates.
  - Work in good faith with workers and unions to reach agreements on pay claims and avoid potential disruption.
  - Proactively engage with third-party contractors to ensure support is being provided for staff working on the company's premises.
  - Be cognisant of pricing of key goods and services upon which people are reliant.

The full statement and list of current signatories is available at: <https://www.ccla.co.uk/documents/investor-statement-uk-cost-living-crisis/download?inline>

- The Fund also co-signed Good Work Coalition letters on Living Hours to several large UK based employers including **AstraZeneca**, **National Grid**, **Tate & Lyle**, **Taylor Wimpey** and **WPP** asking them to consider accrediting to the Living Wage Foundation Living Hours accreditation standard. The standard presents an opportunity for Living Wage employers to go further and commit to providing security and stability for their workers and those working for their businesses on behalf of third-party contractors.
- The Local Authority Pension Fund Forum (LAPFF) provided a Quarterly Engagement Report. The report highlights include:
  - Engagement with **BHP Group** on the company's sustainability activities and to discuss the shareholder resolutions put to the AGM.
  - LAPFF met with **Glencore** Chair to discuss concerns about Glencore's activities in Peru and to discuss various bribery and corruption allegations against the company. Glencore's approach to climate was also discussed.
  - LAPFF issued a voting alert at US company, **KLA**, regarding a proposal for a report on net zero targets and climate transition planning.
  - LAPFF has continued its engagement with electric vehicle manufacturers to gain a better understanding of how they are addressing the risks associated with sourcing the minerals they need to produce the batteries for their vehicles. LAPFF met with **Renault** and **General Motors** on this issue for the first time this quarter and with **Mercedes** for the second time.
  - LAPFF met with **Tesco** to discuss its exit from Myanmar and to gain insight into the company's global supply chain due diligence.

**Stewardship: Responsible Investment Activity**

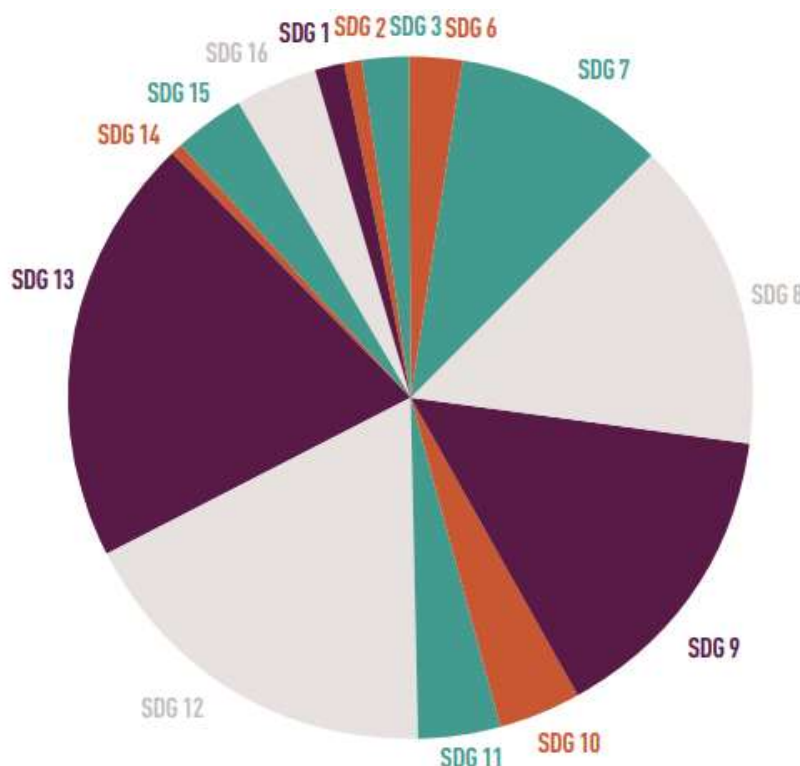
- LAPFF held meetings with Asian financial institutions and coal-exposed power companies in collaboration with investors in the **Asia Transition Platform**.
- LAPFF continued to play key role in **CA100+** collaborative engagement. Discussions and meetings were held with **Lyondell Bassell**, **ArcelorMittal** and **National Grid** on decarbonisation strategies and Science-Based Targets.
- In conjunction with investment manager **Sarasin**, LAPFF co-signed correspondence to the audit committee chairs of **Equinor**, **CRH**, **Air Liquide** and Rio Tinto setting out investor expectations on 1.5°C aligned accounting and audit disclosures.
- LAPFF met with **The Home Depot** as part of the **Investor Alliance for Human Rights** (IAHR). This collaborative effort engages companies with alleged Uyghur forced labour in their supply chains.

The LAPFF Quarterly Engagement Report is available at: <https://lapffforum.org/engagements/q4-quarterly-engagement-report/>

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



## Stewardship: Responsible Investment Activity



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	2
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	3
SDG 4: Quality Education	0
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	3
SDG 7: Affordable and Clean Energy	13
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	5
SDG 11: Sustainable Cities and Communities	5
SDG 12: Responsible Production and Consumption	23
SDG 13: Climate Action	26
SDG 14: Life Below Water	1
SDG 15: Life on Land	4
SDG 16: Peace, Justice, and Strong Institutions	5
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

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

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

- Legal & General, Lazard, Baillie Gifford, JP Morgan, Lombard Odier, Veritas, Barings and Oldfield Partners provided reports on ESG engagement during the quarter. Sustainalytics provided a full engagement

## Stewardship: Responsible Investment Activity

report for the quarter and an engagement progress update on individual portfolio companies.

- In September the Fund co-signed The Investor Agenda **2022 Global Investor Statement to Governments**. This statement delivers the strongest-ever investor call for governments to raise their climate ambition and implement robust policies. This statement, coordinated by the seven Founding Partners of The Investor Agenda including the **Institutional Investors Group on Climate Change (IIGCC)**, was signed by 602 investors representing over USD \$42 trillion in assets. The joint statement to all world governments urges a global race-to-the-top on climate policy and warns that laggards will miss out on trillions of dollars in investment if they aim too low and move too slow. The statement also sets out five actions governments need to urgently undertake:
  - Ensure that the 2030 targets in their Nationally Determined Contributions align with the goal of limiting global temperature rise to 1.5°C.
  - Implement domestic policies across the real economy and take early action to ensure that their 2030 greenhouse gas emissions are aligned with the goal of keeping global temperature rise to 1.5°C.
  - Contribute to the reduction in non-carbon dioxide greenhouse gas emissions and support the effective implementation of the Global Methane Pledge to reduce emissions by at least 30 percent from 2020 levels by 2030.
  - Scale up the provision of climate finance from the public and the private sector for mitigation, and for adaptation and resilience, with a particular focus on the needs of developing countries.
  - Strengthen climate disclosures across the financial system.

The full statement and list of current signatories is available at:

<https://theinvestoragenda.org/wp-content/uploads/2022/08/2022-Global-Investor-Statement-.pdf>

- The **Institutional Investors Group on Climate Change (IIGCC)** reported on the outcome of the **COP27** UN Climate Change Conference negotiations in Sharm el-Sheikh. The defining moment from COP27 was the agreement amongst national governments to create a 'loss and damage' fund to aid vulnerable countries to deal with the impacts of climate change. While currently there is a lack of detail about the proposed loss and damage fund, a transitional committee representing 24 countries has been set up with the task of establishing how the fund will work and where the money will come from. Recommendations will then be presented as COP28.

Another major theme throughout COP27 was adaptation, including a key focus on the finance needed to help vulnerable communities adapt to climate change through concrete adaptation solutions. Most significantly, the negotiators agreed to produce a report on progress towards doubling adaptation finance by 2025 for COP28.

For institutional investors, there is a specific mention in the COP27 Sharm el-Sheikh Implementation Plan. This relates to the required transformation of the financial system to deliver the USD \$4 trillion per year needed to be invested in renewable energy up until 2030 to be able to reach net zero



## Stewardship: Responsible Investment Activity

emissions by 2050. Importantly, this is the first specific mention of 'institutional investors' in such COP documentation.

Often what doesn't happen is just as important as what does – in this regards COP27 was no different. Critically, there was no significant progress on closing the 'ambition gap' and keeping a rise in global temperatures to 1.5°C possible. Some countries pushed for the final COP27 agreement to reference 'peaking emissions in 2025' but this did not make it in the final text. Similarly, there were no significant new steps since Glasgow's COP26 on reducing dependence on fossil fuels and reducing emissions this decade. In this regard, the world's major emitters made no notable new commitments on climate mitigation.

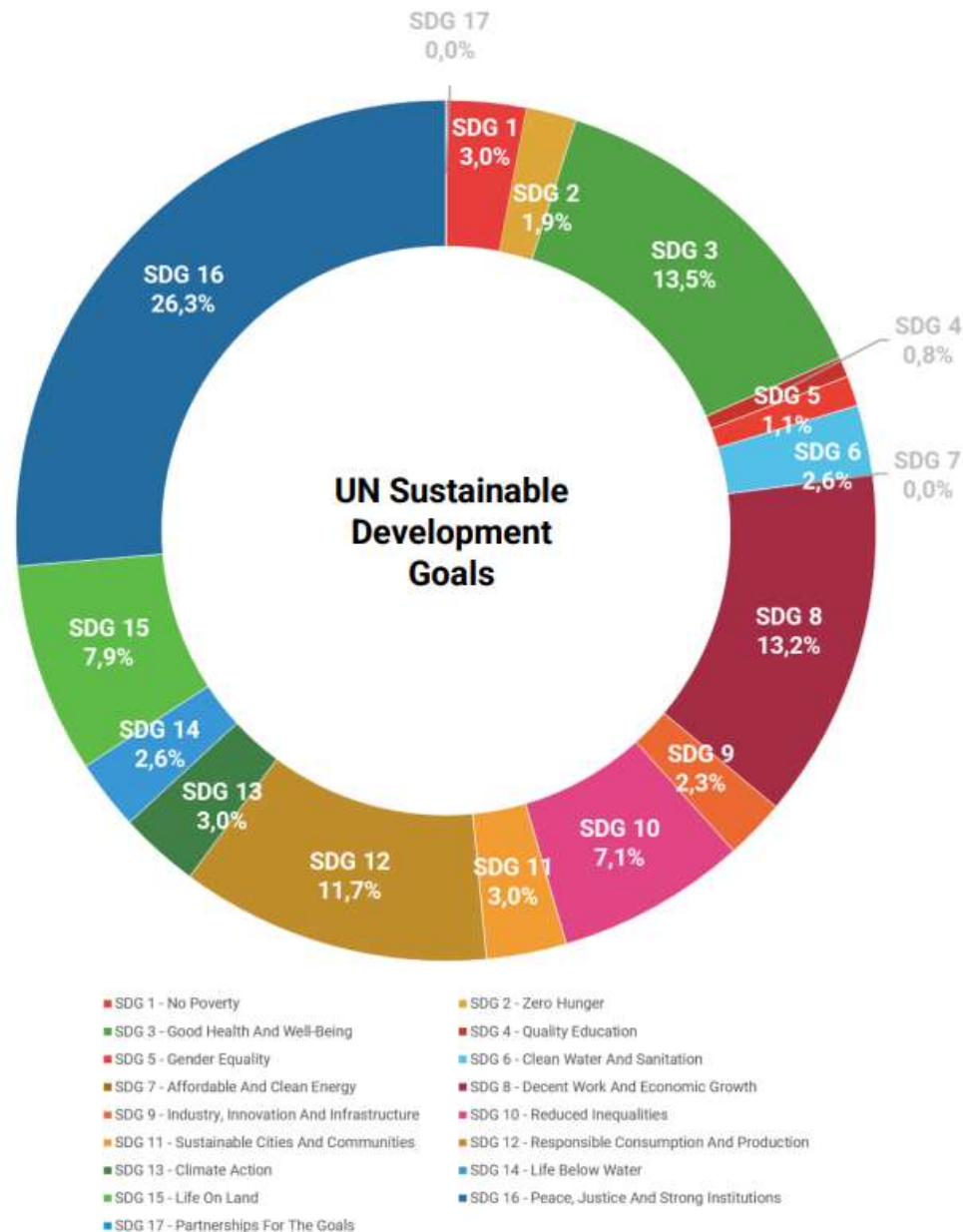
While COP27 may have thrown up some uncertainties, what is clear is that investors have a major role to play in addressing the climate crisis.

In particular, while there are questions over whether globally we can achieve a credible pathway to 1.5°C, investors have a vital role in trying to make this a reality. This puts the number of net zero commitments, such as the **Net Zero Asset Managers** initiative and the **Paris Aligned Asset Owners** into sharper focus, as they are vital for driving the large scale change in investment and capital allocation needed.

Finally, governments around the world need to step up their policy ambition, even if there wasn't consensus in Egypt. That's why initiatives such as the above mentioned annual **Global Investor Statement to Governments on the Climate Crisis** remains critical, as until policy ambition is high and aligned with policies for the real economy, then investors will not be able to provide the levels of investment needed to finance the transition of the global economy to net zero.

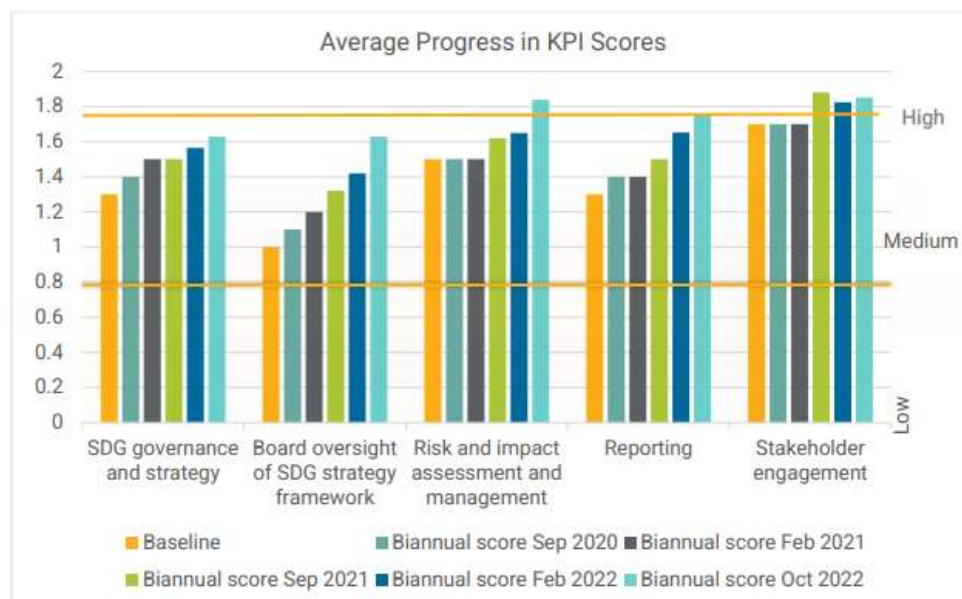
- **Sustainalytics Global Standards Engagement** Quarterly Report summarizes the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies. Sustainalytics map these Global Standards Engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 160 Engage and Resolved cases in quarter 4 can be attributed to the following SDGs (as percentage of total cases).

## Stewardship: Responsible Investment Activity



- Sustainalytics** issued its biannual reports for the thematic engagement, **The Governance of Sustainable Development Goals (SDGs)**.
  - The Governance of Sustainable Development Goals (SDGs)** focuses on encouraging companies to define meaningful SDG strategies that align with their business plans and encouraging companies to seek out opportunities that produce positive outcomes in line with the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. The goal is to ensure that the companies' decision making considers SDG impacts, guides culture, maintains their license to operate, and is geared towards achieving concrete impacts by turning SDG-related goals into competitive advantages. Since the last biannual update in March 2022, Sustainalytics continued to hold conversations with companies in the Consumer Goods, Information and Communications Technology (ICT), and Financial sectors.

## Stewardship: Responsible Investment Activity



The KPI's illustrate the steady progress towards the programme's goals across all sectors as companies' average performance rose from medium (1.4/2) to high (1.7/2). Sustainalytics determine that most companies in the programme now exhibit satisfactory governance of SDGs. However, the purpose of this engagement is also to produce positive outcomes in line with the 2030 Agenda, contributing to a more stable, long-term operating environment for business. Therefore, Sustainalytics have decided to extend this thematic engagement to discuss with the programme companies firstly how measuring their impact on the SDGs can be improved, and second, how their impact can be maximized.

Further detail is available at:

<https://connect.sustainalytics.com/thematic-engagement-governance-of-sdgs>