



Glasgow City Council,

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 8

13th September 2023

Investment Update

Purpose of Report:

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

- investment performance to 30th June 2023
- distribution of portfolios and DIP investments as at 30th June 2023
- the Investment Advisory Panel meetings of 11th May and 10th August 2023 and
- stewardship activity during Quarter 2 2023.

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 ☐

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1 Background

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

2 Market Performance

Global equities rose over the quarter, led by the technology sector, in particular mega-cap technology stocks, amid enthusiasm over artificial intelligence. Japan was the best performing major equity market in local currency terms as the yen weakened, benefitting exporters. Returns in both the US and Europe were positive. In the US, optimism that inflation may continue to fall without a significant impact on unemployment boosted markets, while in Europe, although interest rates are rising, mortgage rates tend to be fixed for longer periods, so consumers are not yet feeling the squeeze from higher rates. UK equity markets fell, mainly due to the heavy weighting towards commodity companies which performed poorly.

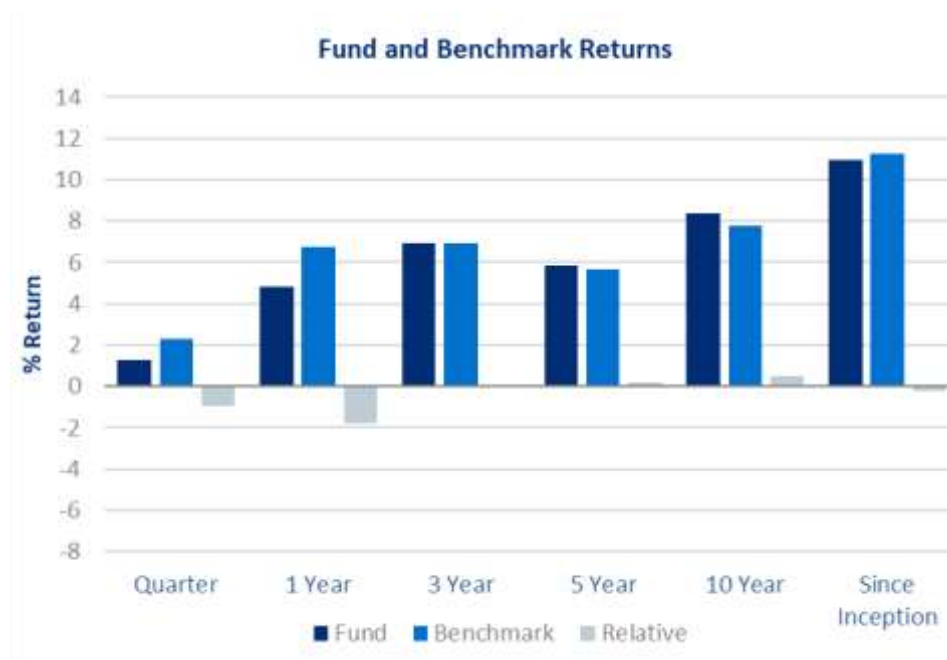
Global government bond yields rose over the quarter. Although headline inflation looks to be on a downward trajectory, core inflation remains stubbornly high. The Federal Reserve, European Central Bank and Bank of England all raised interest rates over the quarter. In credit markets, yields rose, and in the US and UK, credit spreads tightened, while they widened in Europe.



- The **FTSE All Share** Index returned **-0.5%**, the **FTSE World ex UK** index **+4.1%** and the **MSCI Emerging Markets** index **-1.7%**, compared with Q1 returns of **+3.1%**, **+4.9%** and **+1.2%** respectively.
- The **FTSE All Stock Index** returned **-5.4%** compared with **+2.1%** in Q1 as gilt yields rose over the quarter.
- **Sterling** rose by **+2.4%** against the euro and **+2.8%** against the dollar.
- The **MSCI All property monthly return index** returned **+1.0%** over the quarter. Capital values increased in retail and industrial but fell in the office sector. Income returns remain unchanged from last quarter.

3 Fund Performance

The **Fund's value** at 30th June 2023 was **£28,063m**. (Fund value at 31st March 2022 was **£27,718m**).



The **Fund's total return** for Quarter 2 2023 was **+1.3%**, behind the benchmark return of **+2.3%**. Over 1 year and 3 years, the Fund has underperformed the benchmark, but over 5 years and 10 years it has outperformed. Further analysis of Fund and asset class performance can be found in **Appendix 2**.

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

- 5 managers outperformed their benchmark; and
- 16 managers underperformed.

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

4 Asset Allocation

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

Asset Class	31 Mar 2023 (£m)	31 Mar 2023 (%)	30 Jun 2023 (£m)	30 Jun 2023 (%)	Target (%)
Equity	15,619	56.3	15,994	57.0	52.5
Hedging & insurance	0	0.0	0	0.0	1.5
Credit	1,979	7.1	1,937	6.9	6.0
Short term enhanced yield	4,979	18.0	4,969	17.7	20.0
Long Term enhanced yield	5,142	18.5	5,163	18.4	20.0
Total	27,718	100.0	28,063	100.0	100.0

All changes to asset allocations over the quarter were as 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 10th August 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:

- Having joined the **Net Zero Asset Managers** initiative in January, **Oldfield Partners** provided an update on how they will implement that commitment.
- **Lazard** (instructed by **SPF**) supported a shareholder resolution calling on **BP** to align its existing 2030 reduction aims with the goal of the Paris Climate Agreement. The resolution, also supported by a LAPFF voting alert, attracted 17% support and was rejected.
- In April, **SPF** co-signed the **Investor statement: expectations of companies in 2023** in support of the ShareAction **Good Work** investor coalition.
- In May, **SPF** submitted its 2022 **Stewardship Report** to the FCA for assessment. Confirmation of 2022 signatories is expected in early September.
- In June, **Climate Action 100+**, the world's largest investor-led engagement initiative on climate change, launched the second phase of its investor led climate action programme. The new phase, running until 2030, intends to inspire a global scale up in active ownership, markedly shifting the focus from corporate climate-related disclosure to the implementation of climate transition plans.

8 Stewardship: Energy Company Assessment Framework

A summary of **SPF** energy company holdings as at 31st March 2023, assessed under the framework agreed by the SPF committee in 2022, is included at **Appendix 8**. Of the 18 energy companies held, none was rated red, 2 were rated amber and 7 green, with a further 9 rated grey due to insufficient data.

9 Policy and Resource Implications

Resource Implications:

Financial: None. Monitoring report.

Legal: None.

Personnel: None.

Procurement: None

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

Equality and Socio-Economic Impacts:

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

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

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

N/a.

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

N/a.

Climate Impacts:

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

Yes.
Strathclyde Pension Fund's Climate Change strategy aligns with Item 34 of the Council's Climate Action Plan.
SPF's stewardship activity addresses all of the SDGs to some degree. A summary of responsible investment activity is included at **Appendix 7**. An update in respect of the Energy Company Assessment Framework is included at **Appendix 8**.

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.

10 Recommendation

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

Appendix 1	Investment Objectives and Strategy
Appendix 2	Fund and Asset Class Performance
Appendix 3	Manager Performance
Appendix 4	Portfolio Summary
Appendix 5	Direct Impact Portfolio
Appendix 6	Investment Advisory Panel
Appendix 7	Stewardship Activity
Appendix 8	Energy Company Framework

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 alongside the 2023 actuarial valuation.

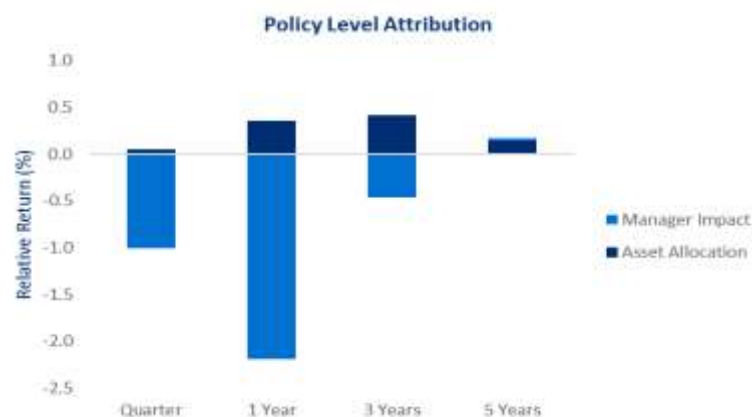
Asset	Step 1 %	Step 2 %	Step 3 %	Step 4 %
Equity	62.5	52.5	42.5	32.5
Hedging & insurance	1.5	1.5	1.5	1.5
Credit	6.0	6.0	6.0	6.0
Short term enhanced yield	15.0	20.0	25.0	30.0
Long term enhanced yield	15.0	20.0	25.0	30.0
	100	100	100	100
Return (% p.a.)	6.0	5.9	5.8	5.5
Volatility (% p.a.)	12	11	10	9

Fund and Asset Class Performance

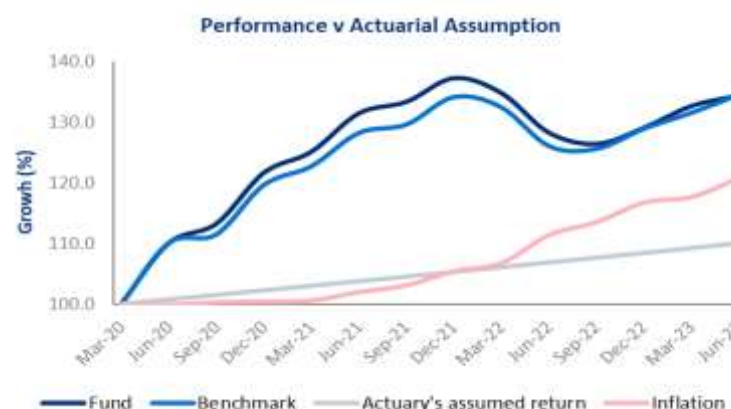
1. Returns by Asset Class

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	2.3	3.4	(1.1)	8.8	11.7	(2.6)	9.9	10.6	(0.7)	7.9	7.3	0.6
Hedging & Ins	-	-	-	-	-	-	-	-	-	-	-	-
Credit	(2.1)	(2.2)	0.0	(4.2)	(4.3)	0.0	(6.4)	(6.5)	0.0	(0.6)	(0.7)	0.1
STEY	0.4	2.0	(1.6)	3.0	7.5	(4.2)	3.2	4.2	(0.9)	2.4	4.0	(1.5)
LTEY	0.5	1.0	(0.4)	(1.9)	(2.0)	0.0	5.2	4.9	0.3	4.4	4.7	(0.2)
Total Fund	1.3	2.3	(1.0)	4.8	6.8	(1.8)	6.9	6.9	(0.0)	5.9	5.7	0.2

2. Performance Attribution



3. Performance vs Actuarial Assumption



- In Q2 all actively managed asset classes underperformed their benchmarks. Equity was the strongest performing asset class in absolute terms, while increasing yields in global credit markets were reflected in the negative return of credit.
- Equity has underperformed over 1 year and 3 years but in absolute terms it is the best performing asset class over the longer term, largely due to of the outperformance of private equity portfolios.
- Over Q2, 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.
- Fund performance remains comfortably ahead of the assumed actuarial return and inflation.

Manager Performance

1 Equity

1.1 Manager Performance Summary

Equity						
Manager		Current Quarter (%)	1 Year (% p.a.)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford	Actual	3.7	12.7	2.5	5.7	8.7
	Relative	0.2	0.7	(7.0)	(1.1)	1.2
Lazard	Actual	1.0	12.0	10.5	10.8	9.7
	Relative	(2.2)	0.6	0.5	1.7	1.0
Oldfield	Actual	(3.3)	4.6	6.5	2.4	7.8
	Relative	(6.4)	(6.0)	(3.1)	(6.2)	(3.8)
Veritas	Actual	1.4	7.1	7.9	8.9	12.1
	Relative	(1.8)	(3.7)	(1.8)	(0.1)	0.5
Lombard Odier	Actual	2.1	1.9	8.8	7.6	7.1
	Relative	5.5	10.2	2.0	7.7	2.9
JP Morgan	Actual	(0.1)	7.0	2.3	4.4	11.4
	Relative	(0.4)	(1.8)	(3.3)	0.8	1.9
Active EM Equity ¹	Actual	(1.9)	(2.6)	(2.2)	0.4	8.5
	Relative	(0.9)	(1.5)	(4.9)	(2.0)	1.3
Pantheon	Actual	(1.3)	(4.8)	18.6	14.6	13.8
	Relative	(4.4)	(14.5)	8.2	11.4	5.1
Partners Group	Actual	(0.7)	0.4	19.7	14.4	11.9
	Relative	(3.8)	(9.8)	9.2	11.2	6.2
L&G Equity	Actual	5.1	14.0	10.8	7.1	9.4
	Relative	0.0	(0.0)	(0.2)	(0.1)	-
L&G RAFI	Actual	3.0	13.1	14.1	7.6	9.4
	Relative	0.1	0.4	0.2	0.1	(0.1)
L&G EM Equity	Actual	(1.9)	(3.4)	-	-	(7.3)
	Relative	(0.0)	(0.2)	-	-	(1.8)
Total	Actual	2.3	8.8	9.9	7.9	8.8
	Relative	(1.1)	(2.6)	(0.7)	0.6	0.8

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

1.2 Manager Performance Commentary

Overall, equity underperformed the benchmark over the quarter as only 2 out of 9 active equity managers outperformed their benchmarks. **Lombard Odier** (UK small cap equity) was the standout performer, while **Oldfield** was the worst performer.

Over 5 years, **Baillie Gifford**, **Oldfield**, **Veritas** and **Genesis** (active emerging markets) are behind benchmark, but the allocation to private assets (managed by **Pantheon** and **Partners Group**) has been beneficial.

Lombard Odier was the strongest performer over Q2 on a relative basis. The top performing stock was Futura Medical as the company achieved significant milestones in respect of product commercialisation. Corporate activity boosted returns from Medica Group and Alfa Financial Software Holdings. On the downside, the main detractor was IQE, which has suffered from the sharp downturn in the semi-conductor industry.

Manager Performance

Baillie Gifford outperformed the benchmark and was the strongest performer in Q2 on an absolute return basis. Baillie Gifford's tilt towards high-growth technology stocks boosted returns, as such stocks have benefited from market enthusiasm for artificial intelligence. Although ahead of the benchmark in Q2 and over 1 year, 3 year and 5 year performance remains behind benchmark due to poor performance in late 2021 and early 2022.

Oldfield was the weakest performer on both an absolute and relative basis, as they have relatively low exposure to the high growth technology stocks which led market returns in Q2. The best performing stock in the portfolio was Southwest Airlines while the worst performer was LG H&H. Over the 1 year, 3 years and 5 years, Oldfield has underperformed the benchmark.

The **Active Emerging Markets** portfolio (Genesis and Fidelity) underperformed the benchmark in Q2, and is now behind benchmark over 1, 3 and 5 years. In the current quarter, Fidelity was the stronger performer, but over time Genesis has been the better performer. Geographic returns varied widely, Latin America and emerging Europe leading the way, while the worst performing region was China.

Pantheon and **Partners Group** both underperformed their benchmarks in Q2 and over 1 year. However, over 3 years, 5 years and since inception both managers have performed well on both absolute and relative basis.

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	0.8	(1.0)	3.0	3.2	2.6
	Relative	(1.1)	(7.3)	(1.6)	(1.2)	0.0
Ruffer	Actual	(6.5)	(1.1)	4.9	n/a	5.8
	Relative	(8.2)	(7.2)	0.5	n/a	1.4
Barings (Multi Credit)	Actual	1.9	6.2	3.2	1.1	1.9
	Relative	(0.2)	(1.3)	(2.1)	(4.0)	(3.0)
Oak Hill	Actual	2.5	8.8	4.4	2.9	3.0
	Relative	0.3	1.1	(0.9)	(2.2)	(1.9)
Barings (Private Debt)	Actual	2.1	6.6	7.8	5.2	5.3
	Relative	0.0	(0.9)	2.3	(0.0)	0.2
Alcentra	Actual	0.6	3.3	8.9	6.1	6.5
	Relative	(1.4)	(4.0)	3.4	0.9	1.3
ICG	Actual	1.8	1.0	4.5	n/a	3.4
	Relative	(0.3)	(6.1)	(0.9)	n/a	(1.9)
Partners Group (Private Debt)	Actual	1.5	4.6	3.0	n/a	2.8
	Relative	(0.6)	(2.8)	(2.3)	n/a	(2.5)
Ashmore	Actual	(0.4)	2.9	(7.3)	(5.3)	(4.7)
	Relative	(2.0)	(3.5)	(4.6)	(4.4)	(3.7)
Total	Actual	0.4	3.0	3.2	2.4	2.3
	Relative	(1.6)	(4.2)	(0.9)	(1.5)	(1.5)

2.2 Manager Performance Commentary

Overall, performance of short-term enhanced yield was behind benchmark over the quarter, with the only manager to outperform the benchmark over the quarter being **Oak Hill**.

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

As the only manager to outperform the benchmark, **Oak Hill** was the best performer on both an absolute and relative basis. The primary driver of performance was idiosyncratic credit selection, while the sole detractor was the distressed allocation. The top performing sector was high tech and the top performing stock was Brand Industrial Services. On the downside, the worst performing industry was personal transportation and the worst performing stock was Sabre.

Ruffer was the weakest performer over the quarter and 1 year due to the manager's cautious view of markets and focus on protective assets in a period when market gains have been driven by a very narrow group of stocks. Active equity asset selection was positive for performance, but this was offset by the strength of sterling (particularly against the yen), inflation linked bonds and commodity exposure. Performance remains ahead of benchmark over 3 years and since inception.

Manager Performance

Ashmore underperformed the benchmark in Q2. On a geographic basis, the main detractors from performance were China, Sri Lanka and Egypt, while the main contributors were Venezuela, Brazil and Argentina. On an investment theme basis, corporate debt was the main detractor, while external debt and local currency were contributors. Ashmore is behind benchmark over all reported time periods.

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	(0.7)	(13.3)	3.4	3.0	6.5
	Relative	(0.8)	(0.5)	1.6	1.2	0.1
Partners Group RE ⁽²⁾	Actual	(3.7)	(1.4)	3.1	3.3	6.8
	Relative	(4.5)	(8.2)	(4.1)	(5.2)	(1.8)
JP Morgan IIF	Actual	2.0	11.3	7.8	n/a	6.4
	Relative	0.0	3.1	(0.2)	n/a	(1.5)
Total	Actual	0.5	(1.9)	5.2	4.4	5.6
	Relative	(0.4)	0.0	0.3	(0.2)	0.2

3.2 Manager Performance Commentary

Overall, long term enhanced yield underperformed the benchmark in Q2. The only manager to deliver positive absolute performance was the **JP Morgan Institutional Infrastructure Fund**. **DTZ** and **Partners Group** produced negative returns and underperformed their benchmarks.

Performance for the **JP Morgan Infrastructure Investments Fund** was in line with benchmark over the quarter and ahead of benchmark over 1 year. The fund recently deployed over USD 5.6 billion and has further diversified the portfolio across sectors and geographies through both fund-level and platform investments.

DTZ underperformed the benchmark over the quarter as the capital value of the portfolio fell by -1.5%, offset by an income yield of 0.9%. The best performing asset was Purley Cross Retail Park, Croydon, while the poorest performance came from the Royal Exchange Building, London.

Partners Group are behind their strategic benchmark (8% per annum adjusted for currency movements) over all time periods but are ahead of the FTSE/EPRA NAREIT Developed TR index reported by the manager.

Portfolio Summary 30 June 2023

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	7,320	26.1%	0	0.0%	1,937	6.9%					9,257	33.0%	31.5%
Baillie Gifford	2,120	7.6%									2,120	7.6%	7.5%
Lazard	883	3.1%									883	3.1%	2.5%
Oldfield	781	2.8%									781	2.8%	2.5%
Veritas	815	2.9%									815	2.9%	2.5%
Lombard Odier	394	1.4%									394	1.4%	1.0%
JP Morgan	823	2.9%							1,091	3.9%	1,914	6.8%	6.5%
Active EM Equity	344	1.2%									344	1.2%	1.5%
Pantheon	1,451	5.2%									1,451	5.2%	5.0%
Partners Group	945	3.4%					272	1.0%	513	1.8%	1,730	6.2%	6.0%
PIMCO							1,039	3.7%			1,039	3.7%	4.0%
Ruffer							533	1.9%			533	1.9%	2.0%
Barings (multi-credit)							691	2.5%			691	2.5%	2.8%
Oak Hill Advisors							496	1.8%			496	1.8%	1.8%
Barings (private debt)							468	1.7%			468	1.7%	1.3%
Alcentra							370	1.3%			370	1.3%	1.3%
ICG Longbow							305	1.1%			305	1.1%	1.0%
Ashmore							431	1.5%			431	1.5%	2.5%
DTZ									2,356	8.4%	2,356	8.4%	10.0%
DIP	118	0.4%					128	0.5%	1,203	4.3%	1,448	5.2%	6.0%
Cash							235	0.8%			235	0.8%	1.0%
Total	15,994	57.0%	0	0.0%	1,937	6.9%	4,969	17.7%	5,163	18.4%	28,063	100.0%	100.0%
Target		52.5%		1.5%		6.0%		20.0%		20.0%		100.0%	

Direct Impact Portfolio

1 Portfolio Summary

The portfolio can be summarised as follows.

	Since Inception (£m)	Current Portfolio (£m)
Total Commitments Agreed	2,131	2,034
Amounts Drawn Down by Managers	1,562	1,485
+ Increase in Value	530	486
- Received Back in Distributions	537	537
- Realisations	121	-
= Total Net Asset Value (NAV)	1,434	1,434

Based on a current total Fund value of **£28,063m**, DIP's **5%** target allocation is a NAV of **£1,403m**. In addition, a co-investment program of £200m which is not reflected in the table above has been approved but is as yet unallocated.

The portfolio comprises **59** separate investments. In Q2, total drawdowns and distributions amounted to **£11.7m** and **£23.3m** respectively.

2 Performance

Portfolio performance to 30th June 2023 is as follows:

	Q2 2023 (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
DIP	2.7	12.7	8.3	6.6	8.0
DIP Benchmark*	2.8	12.9	8.5	6.5	2.9
SPF Total Fund	1.3	4.8	6.9	5.9	11.0

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

- strong returns from the predominantly index-linked revenues underpinning most of the LTEY investments, which form the majority of the DIP portfolio;
- the ongoing effect of stronger power prices has been positive for the valuations of the renewable energy funds, however as power prices assets are now experiencing modest valuation decreases; and
- the DIP equity portfolio has also performed very well, while the credit funds have contributed positively.

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

- 53 investments are rated **green**
- 4 are rated **amber**
- None are rated **red**
- 2 are in legals

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

Direct Impact Portfolio

3 DIP Investments

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: Equity								
Clean Growth Fund	2021	Venture Capital	Equity	20	9	11	0	9
Corran Environmental Fund II	2023 (Legals)	Growth Capital	Equity	20	0	20	0	0
Epidarex Fund II	2012	Venture Capital	Equity	5	5	0	2	5
Epidarex Fund III	2018	Venture Capital	Equity	15	9	6	0	9
Foresight Regional Investment V LP	2021	Growth Capital	Equity	30	1	29	0	1
Maven Regional Buyout Fund	2017	Growth Capital	Equity	20	17	3	7	14
Palatine Impact Fund II	2022	Growth Capital	Equity	25	3	22	0	2
Palatine Private Equity Fund IV	2020	Growth Capital	Equity	25	13	12	0	21
Panoramic Enterprise Capital Fund 1 LP	2010	Growth Capital	Equity	3	3	0	9	1
Panoramic Growth Fund 2 LP	2015	Growth Capital	Equity	15	12	3	16	6
Panoramic SME Fund 3 LP	2022	Growth Capital	Equity	25	0	25	0	0
Par Equity Northern Scale Fund	2023 (Legals)	Venture Capital	Equity	25	0	25	0	0
Pentech Fund III	2017	Venture Capital	Equity	10	7	3	0	11
SEP II	2004	Venture Capital	Equity	5	5	0	4	0
SEP III	2006	Growth Capital	Equity	5	5	0	18	0
SEP IV LP	2011	Growth Capital	Equity	5	5	0	6	5
SEP V LP	2016	Growth Capital	Equity	20	19	1	9	28
SEP VI LP	2021	Growth Capital	Equity	30	4	26	0	4
Total as at 30/06/2023	Q2			303	118	185	71	118

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: LTEY								
Albion Community Power LP	2014	Renewables	LTEY	40	40	0	12	43
Alpha Social Long Income Fund	2014	Support Living	LTEY	15	15	0	4	18
Capital Dynamics Clean Energy Infrastructure VIII	2019	Renewables	LTEY	40	35	5	3	35
Capital Dynamics Clean Energy UK Fund	2023	Renewables	LTEY	60	0	60	0	0
Clydebuilt Fund II LP	2020	Property	LTEY	100	17	83	0	1
Clydebuilt Fund LP	2013	Property	LTEY	75	75	0	58	34
Dalmore Capital Fund 3 LP	2017	Infrastructure	LTEY	50	50	0	11	57
Dalmore Capital Fund 4 LP	2020	Infrastructure	LTEY	50	50	0	3	52
Dalmore II 39 LP	2020	Infrastructure	LTEY	50	30	20	2	31
Dalmore PPP Equity PiP Fund	2013	Infrastructure	LTEY	50	50	0	32	46
Equitix Fund IV LP	2016	Infrastructure	LTEY	30	30	0	10	33
Equitix Fund V LP	2018	Infrastructure	LTEY	50	50	0	11	50
Equitix Fund VI LP	2019	Infrastructure	LTEY	50	50	0	2	44
Equitix MA 19 LP (Co-Investment Fund)	2019	Infrastructure	LTEY	50	50	0	4	57
Foresight Infra Holdco Ltd (prev PIP Ltd)	2012	Infrastructure	LTEY	1	1	0	1	0
Funding Affordable Homes	2021	Property	LTEY	30	0	30	0	0
Greencoat Solar Fund II LP	2018	Renewables	LTEY	50	50	0	11	49
Hermes Infrastructure Fund II	2017	Infrastructure	LTEY	50	42	8	12	51
Iona Environmental Infrastructure LP	2014	Renewables	LTEY	10	10	0	4	9
Iona Renewable Infrastructure LP	2017	Renewables	LTEY	14	14	0	1	16

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Iona Resource and Energy Efficiency (Strathclyde) LP	2021	Renewables	LTEY	6	5	1	0	5
Legal & General UK Build to Rent Fund	2019	Property	LTEY	75	75	0	2	80
Macquarie GIG Renewable Energy Fund I	2015	Renewables	LTEY	80	80	0	54	67
Man GPM RI Community Housing Fund	2020	Property	LTEY	30	24	6	0	25
NextPower UK ESG Fund	2022	Renewables	LTEY	60	17	43	0	18
NTR Wind I LP	2015	Renewables	LTEY	40	41	-1	35	36
PIP Multi-Strategy Infrastructure LP(Foresight)	2016	Infrastructure	LTEY	130	120	10	51	103
Places for People Scottish Mid-Market Rental (SMMR) Fund	2019	Property	LTEY	45	25	20	0	25
Quinbrook Renewables Impact Fund	2020	Renewables	LTEY	50	45	5	0	56
Resonance British Wind Energy Income Ltd	2014	Renewables	LTEY	10	10	0	6	11
Temporis Impact Strategy V LP	2021	Renewables	LTEY	50	27	23	3	34
Temporis Operational Renewable Energy Strategy (TORES)	2017	Renewables	LTEY	30	28	2	4	59
Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF)	2015	Renewables	LTEY	30	30	0	7	45
Total as at 30/06/2023	Q2			1,501	1,184	316	345	1,189

Direct Impact Portfolio

Fund	Vintage Year	Sector	Asset Category	SPF Commitment (£m)	Cumulative Drawdowns (£m)	Undrawn Commitment (£m)	Cumulative Distributions (£m)	Net Asset Value (£m)
Asset Category: STEY								
Beechbrook UK SME Credit II Fund	2018	Credit	STEY	30	29	1	15	22
Beechbrook UK SME Credit III Fund	2022	Credit	STEY	40	22	18	2	18
Healthcare Royalties Partners III LP	2014	Credit	STEY	20	24	-5	21	8
Invesco Real Estate Finance Fund II (formerly GAM REFF II)	2018	Credit	STEY	20	14	6	13	10
Muzinich UK Private Debt Fund	2015	Credit	STEY	15	15	0	15	0
Pemberton UK Mid-Market Direct Lending Fund	2017	Credit	STEY	40	37	3	35	24
Scottish Loans Fund	2010	Credit	STEY	6	6	0	6	0
TDC II (prev Tosca Debt Capital Fund II LP)	2017	Credit	STEY	30	8	22	15	15
TDC III (prev Tosca Debt Capital Fund III LP)	2021	Credit	STEY	30	27	3	1	30
Total as at 30/06/2023	Q2			231	183	48	123	128
DIP Portfolio Total								
Total as at 30/06/2023	Q2			2,034	1,485	549	539	1,434
Total as at 31/03/2023	Q1			2,011	1,447	564	487	1,383

Investment Advisory Panel Meetings May and August 2023

STRATHCLYDE PENSION FUND

INVESTMENT ADVISORY PANEL

MINUTES OF MEETING ON Thursday 11th May 2023

PRESENT:	Richard McIndoe	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	Alistair Sutherland	Investment Advisor
	David Walker	Hymans Robertson
	Jacqueline Gillies	Chief Investment Officer
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 9th February 2023 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 Q1 2022 was **+2.8%**, ahead of the benchmark return of **+2%**. Performance for the year to 31st March 2022 was negative **(-1.6%)** and below benchmark **(-0.7%)**. The Fund's return is positive on an absolute and relative basis over three-, five- and ten-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. 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.

Hymans Robertson also rate the managers on their responsible investment practices. On this analysis:

- 5 of the managers were rated strong
- 11 rated good
- 6 rated adequate
- None negative.

A question had been raised at the March meeting of the Strathclyde Pension Fund committee as to whether the current investment managers were the most appropriate in terms of their capacity to address climate change.

The Panel discussed this at some length. Their conclusions were that:

Investment Advisory Panel Meetings May and August 2023

- managers had been appointed on the basis of a balance of criteria including investment process, philosophy and personnel, performance track record, strategy, corporate stability, cost, investment style and responsible investment capability;
- all of these factors are monitored over time, though with an emphasis on investment performance; and
- capacity to address climate change will be assessed further as the recently agreed Climate Action Plan is implemented.

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:

- 53** investments are rated **green**
- 4** are **amber**
- 2** are in legals
- None red.**

2.4 Estimated Funding Levels

Hymans Robertson provided the following estimate of funding level as at 31st March 2023. The funding level had increased significantly since the 31st March 2020 actuarial valuation and increased further in Q1 2023. The next actuarial valuation, as at 31st 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 31st March 2023 were as follows.

	2022 Estimate	2022 Actual	2023 Estimate
	(£m)	(£m)	(£m)
Distributions	678	631	707
Calls	-783	-790	577
Net	-105	-159	+130

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In 2022, final net cash outflows were **(-£54m)** more than had been anticipated, due to a slowdown in distributions as well as increased drawdowns in the final quarter of the year. In 2023, private market net cash flow is expected to be positive **(+£130m)**:

The Fund's central cash balance at 31st March 2023 was **£236m**. The Panel noted that **£140m** was transferred to fund the increased commitment to the JP Morgan International Infrastructure fund and a net **£63m** from distribution and drawdown activity was transferred into central cash from individual manager accounts.

3.2 Rebalancing Strategy

The Panel reviewed a re-balancing report as at 31st March 2023. The Panel discussed the detail of the report, which showed that at year end:

- Credit was out with its target range (7.1% vs 6.0%) due to the Fund's decision in Q4 2022 to move to an overweight position in this asset class as advised by the relative value framework.
- The Fund's allocation to emerging market debt (1.6% vs 2.5%) was 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. The portfolio manager, Ashmore, is to attend the next Panel meeting.

Allocation to all other asset classes and mandates was within target ranges at 31st March 2023.

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) are based on pre-defined metrics.

The most recent quarterly relative value report from Hymans Robertson provided the following summary assessment of metrics at 31st March 2023:

- Investment-grade credit spreads have increased slightly over Q1 2023, and they remain well above long-term median levels. On top of higher risk-free rates, this makes credit yields far more enticing.
- 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), private sector pension scheme risk transfer activity, 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.

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4. Investment Strategy and Structure

4.1 Energy Company Analysis

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

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

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

Hymans had completed the second assessment of Fund holdings at end March 2023:

- Of holdings held during the prior assessment, all 10 scores improved
- 7 companies were rated Green and 2 companies were rated 'amber' overall
- One further company was rated 'red' against two TCFD pillars
- Two further companies were rated 'red' against one TCFD pillar
- 5 holdings were rated 'amber' against at least one TCFD pillar
- 9 holdings were rated 'grey' due to lack of data

The Panel noted that 12 holdings from the prior assessment were not included in this analysis as they are no longer held with 6 new companies now being assessed. Portfolio turnover is a consideration particularly when setting engagement actions.

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

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

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

4.2 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 31st March 2023. An Asset Liability Model (ALM) will 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.

The Panel progressed its discussions of the previously agreed priorities for the Fund's 2023/24 review of investment strategy.

Investment Advisory Panel Meetings May and August 2023

- The Panel reviewed the current strategic allocation, 'Alt 2' and discussed whether the route map agreed in 2015 remains appropriate or whether it should be retained, revised or replaced. The Panel considered a range of potential strategy variations and asset allocation scenarios and concluded that further modelling work is required in conjunction with the conclusions from the ALM.
- Hymans Robertson provided an initial Strategy Review paper with proposed areas of focus including a workplan and timeline for review priorities. The Panel agreed that Hymans Roberson will now produce detailed strategy review papers for discussion at the August Panel meeting for the following priority areas:
 - Short term enhanced yield (STEY) structure and investment strategies review including Multi Asset Credit, Emerging Market Debt and Private Credit.
 - Review of Passive Equity structure and strategy with focus on alternative options including climate transition tilted indices, ESG factors, and allocation to climate solutions as likely priorities.
 - Introduction to Timberland as an alternative asset class.

5. Governance

5.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 21st June 2023.

6 Manager Reviews

The following investment managers attended the Investment Advisory Panel:

- **Baillie Gifford**
- **Oakhill**
- **Lazard**

Performance of each of the managers was reviewed.

Baillie Gifford

The Baillie Gifford global equity portfolio is currently valued at £2,045m, or 7.4% of total Fund, versus a target weight of 7.5%. Baillie Gifford provided an update on the current portfolio, performance and investment markets together with an outline of its approach to climate change, net zero and engagement with energy sector companies.

Oakhill

The Oakhill Multi Asset Credit portfolio is currently valued at £484m, or 1.7% of total Fund, versus a target weight of 1.8%. Oakhill 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.

Lazard

The Lazard global equity portfolio is currently valued at £875m, or 3.2% of total Fund, versus a target weight of 2.5%. Lazard provided an update on the current portfolio, performance and investment markets together with an outline of its approach to climate change, net zero and engagement with energy sector companies

Investment Advisory Panel Meetings May and August 2023

STRATHCLYDE PENSION FUND

INVESTMENT ADVISORY PANEL

MINUTES OF MEETING ON Thursday 10th August 2023

PRESENT:	Richard McIndoe	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	Alistair Sutherland	Investment Advisor
	David Walker	Hymans Robertson
	Nell McRae	Hymans Robertson
	Chris Arcari	Hymans Robertson
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Martin	Investment Manager
	Moira Gillespie	Investment Administrator

2. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 11th May 2023 were agreed to be an accurate record. There were no matters arising which were not covered on the current agenda.

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

The Fund's return for Q2 2023 was **+1.3%**, behind the benchmark return of **+2.3%**. Performance for the year to 30th June 2023 was positive (**+4.8%**), but below benchmark (**+6.7%**). The Fund's return is positive on an absolute and relative basis over five- and ten-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. 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:

- **53** investments are rated **green**
- **4** are **amber**
- **2** are in legals
- **None red**.

Investment Advisory Panel Meetings May and August 2023

2.4 Estimated Funding Levels

Hymans Robertson provided the following estimate of funding level as at 30th June 2023.



The Panel noted that work on the 2023 actuarial valuation of the Fund is now well under way and that an updated funding position based on current data and assumptions would be reported at the September meeting of the SPF committee. That position is likely to vary somewhat from the position illustrated above, which is based on a roll-forward from the 2020 valuation.

2.5 Annual Fee Review

The Panel reviewed a summary of investment management expenses for the financial year 2022/23 alongside 1- and 5-year manager performance data.

Total expenses for 2022/23 were **£160m** (2021/22: £168m) as reported in the unaudited financial statements. Expenses include all invoiced fees, together with estimates of pooled fees, performance fees, transaction costs and other expenses in accordance with CIPFA guidance.

The total represented **0.57%** of average investment value (2021/22: 0.57%).

Overall, the Panel was comfortable that the fees and costs incurred in 2022/23 were largely as expected for a fund of Strathclyde's size and structure. The Panel was reassured to see that there was some correlation between fees and performance.

2.6 Energy Company Assessment

At its May meeting, the IAP had reviewed Hymans' assessment of Fund holdings as at end March 2023. Officers subsequently forwarded details of the assessment to portfolio managers during May and requested initial comments on:

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

Manager responses had been collated into a paper which the Panel reviewed. Manager responses were mostly satisfactory. The exception was JP Morgan. The JPM global small companies portfolio held 7 energy stocks: 1 rated green, 2 amber and 4 grey. JPM had provided a very good business case for each of

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the stocks, but had provided little to contextualise this in relation to the energy transition. Nor had the manager addressed the issue of data availability for the grey-rated stocks. The Panel agreed that JPM should be asked to provide a further response covering these two points.

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 as at 30th June 2023 were as follows.

	2022		2023		
	<i>Estimate</i>	<i>Actual</i>	<i>Estimate</i>	<i>YTD</i>	<i>Probable</i>
	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>	<i>(£m)</i>
Distributions	678	631	707	178	607
Calls	-783	-790	577	157	498
Net	-105	-159	+130	+21	+109

The Fund's central cash balance at 30th June 2023 was **£235m**.

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report as at 30th June 2023. The Panel discussed the detail of the report, which showed:

- short term enhanced yield was below its target range (16.8% vs 20.0%) due to its relatively weak performance, outstanding commitments, and a 1.8% cash position not allowed for in the benchmark
- emerging market debt was below its target range (1.5% vs 2.5%) due to poor performance.

The Panel agreed that no immediate action was required pending the conclusion of the current review of investment strategy and structure.

3.3 Relative Value Framework

The Panel reviewed a relative value report from Hymans Robertson as at 30th June 2023, which showed:

- average credit spreads (vs gilts) remain above 20-year median, though valuations do vary by region.

The Panel agreed that the Fund should retain its current overweight position in credit.

4 Manager Reviews

3 investment managers attended the Investment Advisory Panel:

- **Ashmore**
- **Barings**
- **LGIM**

Performance of Ashmore and Barings was reviewed.

LGIM presented a number of alternative indexation approaches which could be an important element of implementation of the Fund's Climate Action Plan.

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4.1 Ashmore

The Ashmore emerging market debt portfolio is currently valued at **£431m**, or **1.5%** of total Fund, versus a target weight of 2.5%. Ashmore provided an update on the current portfolio, performance and investment markets together with an outline of its approach to managing portfolios and an update on ESG and net-zero initiatives.

4.2 Barings

Barings manage 2 portfolios for the Fund: the multi asset credit portfolio is currently valued at **£691m**, or **2.5%** of total Fund, versus a target weight of 2.8%; the private debt portfolio is currently valued at **£468m**, or **1.7%** of Fund vs a target weight of 1.8%. Barings provided an update on both mandates covering the current portfolio and performance together with an outline of investment strategy and their approach to climate change and net zero.

4.3 LGIM

LGIM manage a passive multi-asset portfolio with a total current value of **£9,257m**, or **33.0%** of total Fund. LGIM provided a recap of their indexation management capabilities and approach to ESG and climate journey planning together with a detailed review of 4 potential options to address the net zero misalignment of the current equity portfolio. They also provided a brief overview of the more limited options in respect of the bond portfolio.

5 Investment Strategy and Structure**5.1 Scope and Objectives**

Hymans Robertson had provided a follow-up paper to previous discussions. Given the strength of the funding position over the last valuation cycle, and the likelihood of some reduction in employer contribution rates, Hymans will carry out modelling to test:

- the potential to set more stringent measures of success and risk;
- a range of alternative (lower employer rate) contribution strategies;
- a range of alternative investment strategies;
- high-level cashflow requirements; and
- key risks – including stress testing of inflation, and climate change scenario modelling.

The Panel agreed that this provided a clear outline of scope for the modelling work to be carried out. This will inform any decision about the high-level investment strategy – i.e. the balance of risk across the main asset categories, and the potential to vary the size of allocations to each category.

Each of the individual asset categories and the components within them would also be reviewed – see below.

5.2 Short Term Enhanced Yield

Hymans Robertson had produced a report which reviewed the Fund's Short Term Enhanced Yield allocation and each of its individual components. The Panel discussed this at some length and in some detail. Main points and conclusions were as follows.

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The Fund has a **20% target allocation** to STEY. The core objective of the STEY allocation is to deliver an absolute return, meaningfully higher than the expected return from cash or short-term high-quality bonds, but with a degree of reasonable predictability. To deliver the predictability in returns, a large part of the return is derived through identifiable sources of income rather than relying on the uncertainty of capital gains. This means that a large proportion of the assets is invested in debt-based strategies alongside some absolute return strategies to provide diversification.

Absolute Return – the allocation and structure had been reviewed recently and absolute return was not a focus of this report.

Multi-Asset Credit

MAC funds aim to provide enhanced returns and diversification relative to core sovereign and investment-grade bond exposures by investing primarily in speculative-grade bond and loan markets. Credit yields have been volatile over the last 5 years as a result of the COVID pandemic, the monetary policy response to it, and subsequent rises in inflation and interest rates. Performance has been similarly volatile, and has at times struggled to keep up with the cash-plus benchmark adopted by SPF, but has been much better in comparison to a market benchmark.

IAP conclusions were that:

- speculative grade MAC continues to have a role in the Fund;
- both Oakhill and Baring remain preferred managers. The strategies complement each other and provide diversification; but
- there may be an opportunity to trim and/or rebalance the respective allocations to the 2 managers.

Private Credit

Private credit refers to any debt instrument that isn't publicly traded. The Fund allocates separately to 3 private debt (direct corporate lending) mandates and 1 real estate mandate.

IAP conclusions were that:

- private credit continues to have a role in the Fund's overall strategy and the STEY allocation;
- within private debt, Barings and Partners Group have been successful in deploying capital and generating returns. Alcentra has suffered from a high level of senior turnover and has had a change of ownership;
- real estate debt manager, ICG's component funds are performing in line with or ahead of benchmark;
- Hymans' outlook for private credit is positive; and
- the allocation should be maintained, but it may be appropriate to rebalance across managers or introduce another manager.

Emerging Market Debt

EMD provides access to debt issued by governments (and companies) in emerging economies. The EMD universe can be broadly divided into three categories: government bonds issued in each country's own currency; government bonds denominated in major international currencies; and debt instruments issued by public and private sector corporate issuers (predominantly in US dollars). EMD provides typically higher yields than developed markets, and attractive diversification from them.

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IAP conclusions were that:

- EMD has provided diversification;
- however, Ashmore has not added value for the Fund since inception;
- Hymans' rating for Ashmore remains 'on watch'
- the scale of recent losses is expected to drag on performance for some time;
- however, the manager had recovered strongly from previous downturns and expected to do so again;
- given the ability to achieve some EMD exposure through MAC and recognising benefits from simplified governance this allocation may be better used as a source of funding for any agreed future de-risking.

Hymans' report also outlined additional STEY opportunities in Asset Backed securities and Insurance Linked Securities.

Next Steps

The Panel will revisit its initial conclusions on STEY once the asset liability modelling has been carried out. Final conclusions and recommendations will be reported to the SPF Committee in March 2024.

5.3 Passive Equity

Hymans Robertson had produced a report which reviewed the Fund's Passive Equity allocation. The key focus was on options for achieving alignment with the Fund's Climate Action Plan. The Panel discussed the contents. Main points and conclusions were as follows.

The Fund has a 52.5% total equity allocation which includes a **24%** target allocation to passive equity managed by LGIM. Equity is the main driver of growth returns within the Fund's investment strategy. The passive allocation achieves this at low cost by simply replicating an agreed market index. This means that the passive equity portfolio will decarbonise (more or less) in line with the markets/economies in which the Fund invests.

Alternative approaches track indices in which stocks are weighted not just on the basis of market capitalisation but also their exposure to other factors – ESG or carbon footprint. The starting point for most solutions is a market cap index, but the capital weights are tilted – i.e. those of stocks with positive characteristics (e.g. low GHG emissions, high exposure to decarbonisation opportunities) are increased and exposure to those with negative characteristics is decreased. Constraints are then applied to ensure that solutions achieve specific objectives (e.g. a minimum level of decarbonisation) and so that sector/regional exposures do not deviate too far from those of the market cap index.

The paper reviewed 4 alternative index products currently available from LGIM together with some non-LGIM products.

IAP conclusions:

- tilted indices offer a relatively straightforward way of integrating climate change considerations into the investment process,

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- they also offered a potentially significant positive impact on portfolio carbon metrics;
- the risk of significant under-performance vs traditional passive management is limited (to varying degrees depending on the choice of index);
- of the options reviewed, the LGIM Low Carbon Transition index series was by some way the most aligned with the Fund's objectives; and
- moving the Fund's existing passive exposure onto the Low Carbon Transition equivalent indices would be an appropriate conclusion of the review.

5.4 Timberland Introduction

Hymans Robertson had produced a paper which provided an introduction to timberland as an investment asset. The Panel discussed briefly. Main points and conclusions were as follows.

Timberland investment involves the purchase of plantations and naturally occurring forests to harvest and sell wood on a sustainable basis (planting new trees to replace those harvested). Typically investors buy land along with the right to any income derived from that land, with the expectation that the income and land values might be somewhat linked to inflation. For UK pension funds with a long-term horizon, an allocation to timberland offers a growth asset that should provide diversification from equity market returns.

Timberland has the potential to form part of the Fund's Long Term Enhanced Yield (LTEY) allocation, as an income-based asset class, providing diversification from other growth and long term income assets, and with expected returns in the high single digits. This could also support the Fund's Climate Action Plan given the carbon characteristics of the asset class.

IAP conclusions:

- the paper was a good introduction to the potential opportunity;
- timberland did have some clear attractions as an investment asset;
- the potential to for significant carbon sequestration was also noted;
- however, given its illiquidity, and the Fund's current focus on decarbonising existing investments rather than offsetting, timberland was not an immediate priority.

5.5 Net Zero Pathway Analysis

Hymans Robertson had produced a paper which provided an update on net-zero pathway analysis. The Panel discussed briefly. Main points and conclusions were as follows.

- As previously reported, the total active equity portfolio is estimated to be on track relative to the aggregated fair share pathway, with cumulative emissions to 2030 below budget. Past 2030, the data is very challenging to draw conclusions from, but there is a significant risk that emissions will not reduce enough and align with 1.5 degrees over the full pathway.
- The total passive equity portfolio has now been assessed. While starting in an aligned position, it is not expected to decrease at the rate consistent with a 1.5-degree scenario.
- In aggregate, the total equity portfolio is estimated to be marginally off track relative to the aggregated fair share pathway, with cumulative emissions to 2030 slightly above budget. The driver for this is that although the portfolio

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is in a reasonably efficient position today (with the start point below industry averages) the trajectory for emissions is not steep enough.

IAP conclusions:

- the additional analysis confirmed the position as expected - market capitalisation indices are not currently on an aligned pathway;
- the Panel had earlier agreed that moving the Fund's existing passive exposure onto the Low Carbon Transition equivalent indices would be an appropriate conclusion of the current investment review;
- this would have a significant positive impact in re-aligning the current pathway;
- Hymans should re-run the analysis to illustrate the effect of this proposed change.

6 Governance**6.1 Strathclyde Pension Fund Committee.**

The Panel noted the draft agenda for the next committee meeting on Wednesday 13th September 2023.

Stewardship: Responsible Investment Activity

Responsible Investment: Quarter 2 2023

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

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

In quarter 2, the Fund's global equity manager, **Oldfield Partners**, provided a progress report on the implementation of its commitment to achieve Net Zero by 2050 for 100% of assets under management.

In January Oldfield joined the **Net Zero Asset Managers initiative (NZAM)**, further formalising their commitment to contribute to the transition to net zero by 2050. The NZAM commitment starts the clock on twelve months during which signatories finalise the targets for the assets that they have pledged. For Oldfield Partners these assets consist of those within their Global fund and their related segregated accounts, which account for around 75% of total assets under management.

By nature of their value investment philosophy, Oldfield's approach includes investment in traditional industries such as oil and gas, whose decarbonisation plays a critical role in the transition to net zero. In pursuit of improved real-world outcomes, Oldfield believe in the role of engagement. Their long-term investment horizon provides patient capital to support change and often facilitates collaborative engagement with companies. As stewards of clients' capital therefore, where they do not have restrictions to the contrary, Oldfield favour responsible stewardship over divestment. This approach aligns well with the commitment to NZAM.

Oldfield have adopted a portfolio coverage target which encourages this dialogue with investee companies whilst also providing goals to ensure progress is made in a timely way. The commitment includes the position today, as well as two formal interim targets.

1. At least 70% of financed emissions in material sectors will be either aligned to or achieving net zero, otherwise they will be subject to engagement.
2. By 2030, this number will increase to 90%.
3. By 2040, 100% of pledged assets will be aligned to or achieving net zero.

Companies aligned to net zero are those with comprehensive science-based targets and ideally those with third party oversight such as verification by the Science Based Targets initiative (SBTi).

Oldfield hope that their commitment to NZAM provides clients with confidence in their ambitions, a recognisable framework to track progress against, and targets to hold them to account. As an investor, it provides them with focus, as well as an additional network for collaboration. As expressed, it formalises their ongoing commitment to working with companies in support of their decarbonising, in a manner that is consistent with the Paris goals. Oldfield believe this is in the best interests of investors, addressing risks for those firms threatened by change, but

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also presenting opportunities in instances where improvements are being delivered.

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

2.1 Voting

Managers' voting activity during the quarter to 30th June 2023 is summarised as follows.

Voting activity to 30th June 2023		
Total meetings	8,522	(%)
Votes for	79,271	76
Votes against	23,764	23
Abstentions	54	0
Not voted	1,006	1
No. of Resolutions		100

Voting activity in the quarter included:

- **Baillie Gifford** supported six shareholder resolutions at the **Amazon.com** AGM covering the company's climate strategy, climate lobbying, gender/racial pay gap reporting, freedom of association and a report on plastic use (resolutions received considerable support but failed to pass). At US-based **Charles Schwab**, Baillie Gifford supported a shareholder resolution requesting the company report on median pay gaps across race and gender (resolution received 24% support). At **Meta Platforms Inc.**, Baillie Gifford supported five shareholder resolutions covering a report on failures of community standards enforcement, a report on effectiveness of efforts on harm reduction to children, a resolution on equal voting rights plus resolutions on general lobbying and climate lobbying (resolutions received considerable support but failed to pass). At **Netflix Inc.**, Baillie Gifford supported a shareholder resolution requesting that the company adopt and disclose a freedom of association and collective bargaining policy (resolution received 35% support).

Baillie Gifford opposed resolutions to re-elect three directors at Australian based multinational oil & gas company **Woodside Energy Group Ltd** as the company lags behind expectations regarding setting emissions reductions targets and has insufficient climate-related financial disclosure and these three directors sit on the sustainability committee (resolutions passed). Baillie Gifford also opposed executive compensation resolutions at **Adevinta**, **Adobe Systems**, **AJ Gallagher & Co.**, **Cloudflare Inc.**, **Illumina**, **Teradyne** and **Thermo Fisher Scientific** due to inappropriate performance targets and vesting conditions (resolution passed).

Baillie Gifford abstained on the re-election of the chair of the board at Japanese automotive components manufacturer **Denso** because they believe

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that the company's climate targets are not ambitious enough (resolution passed 95%). Baillie Gifford abstained on executive remuneration at **Albemarle** as the long-term performance targets are not sufficiently challenging. The decision to abstain rather than oppose recognises some strengthening of performance targets this year. At US power management company, **Eaton**, Baillie Gifford abstained on the advisory vote on compensation due to unchallenging performance targets, and plan to engage on this topic with the company and a resolution to approve executive remuneration at **Entegris Inc.** was also abstained as the incentive plan terms were not sufficient.

- **Legal & General** supported a shareholder resolution at the **Yum! Brands Inc. AGM** which asked for a report on efforts to reduce plastic use. Legal & General believes that improving the recyclability of products will have a positive impact on climate change and biodiversity. Although unsuccessful, over a third of shareholders supported the resolution, which is a significant level of support for a shareholder proposal. Legal & General also opposed management at **Toyota Motor Corp** by voting for a shareholder resolution to amend articles to report on corporate climate lobbying aligned with the Paris Agreement. Legal & General acknowledge the progress that Toyota Motor Corp has made in relation to its climate lobbying disclosure in recent years, however additional transparency is necessary. 15% of shareholders supported the proposal.
- At the **BP AGM**, **Lazard** opposed management by voting for a shareholder resolution requiring climate change targets to have a greater strategic alignment with the Paris agreement (resolution received 17% support). In the US, Lazard supported two shareholder resolutions at the **Bank of America AGM** which asked for a report on climate transition planning describing efforts to align financing activities with GHG targets and to commission a third-party racial equity audit. Lazard voted against approving executive compensation and long-term incentives at **Alphabet Inc.**, due to a lack of clarity and clear alignment with shareholder interests (resolutions approved). Lazard also opposed CEO compensation at the French laboratory testing specialist, **Bureau Veritas SA.**, as the incentive plan terms were not sufficient.
- **Oldfield Partners** supported shareholder resolutions at the **Berkshire Hathaway AGM** which asked for reports on the company's physical and transitional climate-related risks and opportunities and the audit committee's oversight on climate risks and disclosures. The enhanced disclosure would allow shareholders to assess the board's governance and risk oversight mechanisms in place to protect the company from potentially adverse regulatory requirements and market changes related to the energy transition. Oldfield also supported a shareholder resolution seeking a report on the effectiveness of diversity, equity, and inclusion efforts at the company. Oldfield voted against the remuneration for the CEO at German multinational pharmaceutical and biotechnology company, **Bayer** as the group's current CEO executed the acquisition of Monsanto which led to unprecedented litigation charges. Oldfield believe that the CEO is directly responsible for the

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litigation and “adjusting out” his own mistakes would be entirely inappropriate.

- **Veritas** supported a shareholder resolution at the **Amazon.com**. AGM, that asked for a report on customer due diligence. Shareholders would benefit from increased transparency and disclosure on how the company is managing human rights-related risks. Veritas also supported a shareholder resolution for an independent board chairperson at global fintech and payments company, **Fiserv, Inc.**, as they believe this is best practice. Also in the US, **Veritas** voted against remuneration for executive officers at **Alphabet Inc.** as the stock plan cost is excessive and at healthcare provider **Illumina Inc.** as remuneration is not aligned with shareholders best interests.
- **J.P. Morgan** voted against the remuneration report and the remuneration policy at London-listed provider of insurance and reinsurance, **Beazley** as long-term incentive plan awards were based on NAV growth, which benefitted from raising equity at a premium to NAV and no downward adjustment was made. J.P. Morgan also voted against the re-election of the CFO following a number of high-profile financial presentation errors.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Baillie Gifford** met with the CFO of **Woodside Energy Group Ltd** to discuss plans for capital allocation and to reflect on their AGM voting action in favour of more ambitious emissions targets and climate integration.

With the recent final approval of the Trion oil development, Woodside is now operating some \$20bn of capital under construction. This, plus the continuing post-merger integration of BHP/Woodside, US/Australia management teams, dominates executive time. That said, the company is aware that longer-term capital allocation presents a wider range of opportunities, including diversification into renewables. While there is increasing customer interest in new energies, corporate enthusiasm is tempered both by a lack of clear government support and perceptions of shareholder reticence. While progress here may remain incremental, Baillie Gifford reiterated that ambitious targets for direct emissions reduction and strong transparency on the consideration of climate and energy transition matters by the Audit Committee were basic expectations for companies operating in this sector. Such factors underpin the broad license to operate while management considers its strategic options.

Baillie Gifford will continue the frank discussions with Woodside and hope that their comments regarding climate-related matters are considered in strategic governance and incorporated into the Climate Plan, due for presentation to shareholders in 2024.

Baillie Gifford engaged with **Tesla, Inc.** to discuss changes to the board and assess its ability to oversee management. Ahead of the AGM, Baillie Gifford had two separate calls with the chair and non-executive directors

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to discuss the number of independent directors, and the appointment of new directors.

Baillie Gifford heard a robust defence of the board's new composition with it described as the most active and robust board they had ever been on, with a healthy level of independence and the ability to have frank discussions and challenge management, when required. In terms of potential future additions, they would like to add a director with strong financial expertise and experience of dealing with global regulations.

Baillie Gifford's discussions provided assurance that the Tesla board retains the requisite skills and experience to support management's delivery of the long-term strategy. Baillie Gifford will continue to monitor the board's composition and will support future appointments which enhance its ability to provide effective stewardship of the business.

- **Oldfield Partners** engaged with global insurer, **Chubb** to better understand their position on the transition to net zero. Chubb, as a large property and casualty insurer, have set decarbonisation targets for scope 1 and 2 emissions and have adopted several policies related to fossil fuels including no longer underwriting new coal-fired power plants, or companies with more than 30% of revenue from thermal coal mining. For oil and gas projects they have reduced their underwriting to clients that can demonstrate they have plans to reduce methane emissions. Chubb have independently set policies and targets, however, recognising the prospects and challenges for the sector as a whole, have recently convened investors, academics, and regulators alongside industry peers to discuss these. Philosophically, Chubb believes that insurers can be more effective through engagement with high emitters, and Oldfield will continue to follow their progress alongside that of the industry in the coming months.

Oldfield Partners wrote to **Berkshire Hathaway** to highlight their support for shareholder resolutions filed by Climate Action 100+. As members of this collective engagement, Oldfield were aware that several attempts were made to reach a compromise, with the filing of resolutions seen as an escalation due to lack of progress. In the letter, Oldfield recognised considerable progress made at BNSF and BHE, the two subsidiaries that account for most emissions. However, they emphasised the importance of improved climate related disclosures, and crucially, a standard approach to disclosure via a TCFD framework that allows investors to assess companies within one globally recognized framework. Oldfield do not believe that the resolutions are overly prescriptive, instead calling for a level of transparency that is increasingly seen as standard practice. The letter emphasised that this a key consideration for their own climate commitments, as well as those of clients.

Oldfield Partners engaged with US software services company, **SS&C Technologies** to discuss issues related to human capital management, including progression on their diversity efforts, as well as climate related disclosures. Oldfield learnt that previous elevated levels of staff turnover

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have normalised and the company have made efforts to combat potential related issues of low morale through increased compensation including bonuses, as well as flexibility for working from home. They are in the process of finalising a diversity policy, recognising that there are pockets of activity today run at a business unit or regional level, with the need to formalise this. At the level of the board, they have brought forward their target to add an additional female by one year (from 2025, in line with NASDAQ requirements, to 2024). With regards to greater GHG emissions disclosure, although this is not a material issue to their business, they are looking into the best approach considering the delay from the SEC. They recognise that for investors and clients this is an important issue and may look to disclose ahead of regulatory requirements. Overall, there has been satisfactory progress over the last 12 months and Oldfield will continue the dialogue in annual discussions.

- **J.P. Morgan** met with the CEO and CFO of UK low-cost airline, **Jet2** to raise concerns that the company's targets to reduce its carbon footprint are less ambitious than its aviation peers. The directors defended themselves by stating that they believe in making realistic targets and have focused on reducing their emissions intensity, which was reportedly less than their European peers. The company reported they have taken steps to reduce emissions through carbon offsetting measures. They are investing in energy efficient aircraft by installing winglets and using single engine taxis which will not only reduce fuel consumption but will also reduce greenhouse emissions. The company has invested in Sustainable Aviation Fuels (SAF) and suggested that the UK government should promote its production to make it affordable to meet the long-term sustainability goals of the aviation industry. In addition, the company stated that they have set up carbon neutral offices and reduced the consumption of single use plastic by 80%. J.P. Morgan questioned the lack of women on the board, to which the CEO responded that they believe in hiring the best talent and confirmed the appointment of a female on the board.

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

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

- **Baillie Gifford** met with **Reliance Industries Limited** to hear from the company about their approach to methane, wider emissions reporting and carbon pricing. Reliance has the ambition to be the provider of 'the world's most affordable green energy within this decade. This includes 20GW of solar generation capacity by 2025 and producing green hydrogen for \$1 a kilogram, within a decade. The company has set a carbon net zero target and Baillie Gifford had previously asked for more granularity in relation to specific business units. They have emphasized emissions reduction strategies through energy efficiency; energy transition; repurposing petcoke gasification to use syngas for producing chemicals and hydrogen; investing in carbon capture and storage and offsets for hard-to-abate emissions. This

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meeting provided an opportunity to hear about the plans for carbon reporting under India's new disclosure requirements and expectations for future carbon pricing. Baillie Gifford spoke at length about methane, where the company believes it has minimal leakage. Baillie Gifford also shared perspectives on Scope 3 reporting, noting the potential for material mis-estimation by third parties where companies do not report.

Baillie Gifford anticipate that future reporting will include methane as a separate data point. It was helpful to hear the company's perspectives on frameworks such as CDP and the associated complexities for conglomerate businesses. Reliance is reviewing Scope 3 reporting and considering further disclosures.

Baillie Gifford met with the new Chief Scientist at **Rio Tinto Group** to explore the detail behind Rio Tinto's decarbonisation strategy, focusing on its aluminium and iron ore operations, as these account for the vast majority of the company's carbon footprint.

The discussion covered several critical aspects of Rio's carbon reduction programme, which is now supported by an R&D team of more than 500 people. To put the challenge in context, Rio's direct operations generate approximately 30 million tonnes of CO₂ emissions every year. The company's entire supply chain produces around 600 million tonnes of CO₂ each year: more than the entirety of the UK.

Baillie Gifford covered the need to develop grid-scale energy storage to support the switching of Rio's aluminium smelter plants from coal-fired power to intermittent renewable power. They also discussed how Rio could support the nascent renewable diesel industry as a low carbon transition fuel, while the company pursues the development of large-scale batteries for haulage trucks.

Reducing carbon emissions from processing iron ore into steel is a key challenge. Baillie Gifford learned about specific problems that require breakthrough innovation and subsequently scaling laboratory success to commercial validation. Finally, they discussed the range of partnerships developed across academia, industry and the venture-capital community to address specific technology roadblocks.

Rio Tinto faces potentially material financial consequences from rising carbon prices if unable to significantly decarbonise. The engagement provided insight into the complexity of the challenge and reassurance that Rio will continue to commit material resources to exploring potential solutions as it pursues carbon reduction targets. However, the pathway to materially lower emissions will require several technological breakthroughs that remain unproven at commercial scale today.

Baillie Gifford also met with Irish building materials business **CRH plc.**, to encourage more detailed disclosure within the Report and Accounts regarding the consideration of climate-related issues by the Board and the company auditors. Specifically, Baillie Gifford were seeking more detail on

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assumptions, including future costs and plausible policy interventions, accounting judgements, and scenario analyses for possible pathways.

This engagement was part of a collaborative engagement coordinated through Climate Action 100+ with the board chair and the chair of the audit committee. CRH has strengthened its decarbonisation targets, demonstrating leadership within the construction materials industry that is potentially advantageous but has cost implications. The company commits to be net zero by 2050 and recently outlined new goals, which target an absolute reduction in scope 1 and 2 emissions of 30% by 2030 v 2021 levels. These new targets have been validated by the science-based targets initiative to be in line with a 1.5-degree pathway. The focus of the discussion was encouraging more specificity in the financial accounts of the potential impacts on CRH's business of meeting these long-term objectives. Baillie Gifford also asked how climate risks are examined by the board and how it determines materiality in terms of the company's accounts. Baillie Gifford explained that given the carbon intensive nature of CRH's business, alongside its potential exposure to physical change, it would be useful for investors to have insight into how the company was thinking about the value of the business and assets under various climate change scenarios. Baillie Gifford stressed that more comprehensive disclosure in its annual accounts and auditors' report, are important for shareholders to make informed investment decisions.

The 2022 annual report, published at the start of March 2023, demonstrates a significant improvement in the disclosure of how, when and by whom climate-related issues are considered in the discussion of strategy and against existing financial assessments. CRH has also now quantified the incremental capex required to meet its 2030 decarbonisation goals. Baillie Gifford consider CRH to be a leader in terms of its engagement with decarbonisation and the recycling of building materials. Baillie Gifford look forward to further discussions on quantitative transparency in 2023 - particularly concerning scenarios for different plausible climate outcomes.

- **Oldfield Partners** engaged with Hong Kong-based multinational conglomerate, **CK Hutchison Holdings** to understand the physical risks to the business posed by climate change and their future strategy. Significant physical risks due to coastal flooding are attributed to the port and infrastructure divisions of the business. With regulated underlying businesses, the infrastructure division reports every 5 years on adaptation, however oversight of the ports division is a more recent addition. Hutchison has leveraged third-party expertise to ensure that the risks, unique to each geographic location, have been well understood. Their response to this analysis will become clearer in the coming months as they consider if and how to implement the recommendations made. To monitor their progress, Oldfield look to improvements in their in-house scenario analysis, outlined in an updated TCFD report, as well as the detail in the annual publication of their sustainability report. As a company that has dedicated considerable time and resource to the transition to net zero, Oldfield were keen to understand their targets at a holding company level and how this influences

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their own investment approach. With a minority stake in Cenovus energy, their intention is to reduce the percentage of revenue attributed to this over time, whilst also pivoting to greater transparency on green CAPEX and green revenue. With an open dialogue with investors, Oldfield look forward to their advancement and future discussions on their continued progress.

- **J.P. Morgan** engaged with French engineering specialist, **SPIE** to discuss the company's ESG initiatives. J.P. Morgan's objectives were to: clarify what operations fall under the company's oil, gas & nuclear business division and if they have any direct nuclear exposure; clarify the drivers of the company's scope 1, 2 and 3 emission reduction targets; and discuss the drivers of the recent third-party downgrade of SPIE's ESG rating. SPIE confirmed that they do not work on nuclear weapons. They manage some data centers, ventilation or HVAC (heating, ventilation, and air conditioning) and fire protection systems, but do not have any direct nuclear exposure. The company confirmed their oil, gas & nuclear business division accounted for 7% revenues in 2022 and that this work is mainly taking care of clients' fire safety and electrical networks. The company is confident that they will be able to meet their 2025 target for scope 1 and scope 2 emissions. Their scope 1 and 2 emissions are mainly from their large vehicle fleet and they are renewing every second vehicle into an electrical one. MSCI downgraded their ESG rating for SPIE from A to BBB citing that their expanded assessment of SPIE's labour management practices indicate limited evidence of robust staff development programmes, unlike the case of industry peers, which SPIE denied. SPIE have been engaging with MSCI but said they have had limited success so far.

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 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.
- The Fund is a signatory the new **UK Stewardship Code** (2020). The Fund also encourages its external investment managers and service providers to demonstrate their commitment to effective stewardship by complying with the UK Stewardship Code. Currently fourteen of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are signatories. The full list of signatories to the Code is available at: <https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-signatories>.
- In May, SPF submitted its 2022 Stewardship Report to the FCA, who expect to complete assessment and confirm signatories in early September.
- As signatories to PRI and the UK Stewardship Code the Fund's investment managers are committed to the highest standards of investment stewardship

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

Manager	Net Zero Policy	Net Zero Asset Manager Alliance (NZAM)	UK Stewardship Code	PRI Signatory	Other Initiatives
Legal & General	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Baillie Gifford	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC, CDP
Lazard	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Oldfield	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, IIGCC
Veritas	Net Zero 2050	Yes	Yes	Yes	TCFD, SDG's, CDP
Lombard Odier	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
JP Morgan	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+
Genesis	Net Zero 2050	No	Yes	Yes	TPI, CDP, FAIRR
Fidelity	Net Zero 2050	Yes	Yes	Yes	TCFD, IIGCC, CA100+
Pantheon	No	No	No	Yes	TCFD
Partners Group	Manage assets towards Paris 2050	No	No	Yes	TCFD, SDG's
PIMCO	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, CA100+, FAIRR, IIGCC
Ruffer	Net Zero 2050	Yes	Yes	Yes	TCFD, CDP, CA100+
Barings	Manage assets towards Paris 2050	No	Yes	Yes	UNGC, SDG's, TCFD
Oakhill	No	No	No	Yes	TCFD
Alcentra	Manage assets towards Paris 2050	No	Yes	Yes	TCFD, IIGCC
ICG	Net Zero by 2040	Yes	Yes	Yes	CDP, TCFD
Ashmore	Net Zero 2050	Yes	Yes	Yes	TCFD, CA100+

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DTZ	Operational Net Zero 2030. Portfolio Net Zero 2040	No	No	Yes	TCFD, IIGCC, GRESB, BBP
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2.5 We will work together to enhance our effectiveness in implementing the Principles

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

- SPF is an active supporter of the **CDP Non-Disclosure Campaign (NDC)**. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. CDP's NDC targets those companies that continually decline to disclose, as well as providing a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. The 2023 campaign was launched in April with a record 288 financial institutions from 31 countries, representing US\$29 trillion in assets, signed up to this campaign and selected to engage 1,600+ companies on CDP disclosure. These companies represent over US\$21 trillion in market capitalization and emit more than 4,200 megatonnes of carbon dioxide annually. The campaign has seen an average 33% year-on-year growth in participation from financial institutions since inception in 2017. This year's campaign also saw significant growth in the number of companies requested to disclose to CDP's water and forest questionnaires, with 8% of the companies targeted requested to report on their water-related impact, while 26% will be asked to disclose on forests.

This year the Fund was selected to lead the initiative's water and forest disclosures engagement with two companies that had declined to disclose in the past. The Fund organised collaborative letters to Swedish food service company, **AAK AB**, and US based paints and coatings manufacturer, **PPG Industries, Inc.**, encouraging them to provide information by completing the CDP Water Security and Forests questionnaires.

The Fund also co-signed letters on climate, water and forest disclosures to three companies: **NextEra Energy Inc.**, **Newmont Corporation** and **Reliance Industries**. Further details are available on the CDP website: <https://www.cdp.net/en>

- In June, the **Local Authority Pension Fund Forum (LAPFF)** issued a voting alert for the **BP** AGM. The alert recommended that LAPFF members support a shareholder proposal on climate change targets. LAPFF previously

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recognised progress made by BP in having the most credible strategy of any large oil and gas company to progress a strategy consistent with a 1.5 degrees scenario and to push for an orderly net zero carbon transition. However, LAPFF was disappointed with the slackening of 2030 aims for emissions reduction and believed the shareholder resolution flows naturally from having insufficient 2030 targets for absolute emissions.

The resolution proposed that “Shareholders support the company to align its existing 2030 reduction aims covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) with the goal of the Paris Climate Agreement to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. The strategy for how to achieve these aims is entirely up to the board.”

SPF and **Lazard** discussed this proposal and agreed that it was necessary that BP adopt and disclose plans to align their business with the goals of the Paris Agreement and therefore the resolution should be supported. (The proposal attracted 17% support and was rejected).

- In June, **Climate Action 100+**, the world’s largest investor-led engagement initiative on climate change, launched the second phase of its investor led climate action programme. The first phase of the CA100+ has seen notable successes in its engagement approach, such as 92% of focus companies now having some level of executive oversight, and 75% of companies committing to net zero by 2050. Building on this success of the first five years, the initiative has evolved its core goals, improved and expanded the ways investors can participate, and enhanced the investor engagement model. The new phase, running until 2030, intends to inspire a global scale up in active ownership, markedly shifting the focus from corporate climate-related disclosure to the implementation of climate transition plans. In consultation with signatories, the initiative has renewed its three goals, evolved the Net Zero Company Benchmark, enhanced the ways in which investors can participate including the lead investor terms of references, and made marginal updates to the focus list. Further detail is available at: <https://www.climateaction100.org/>
- In April, the Fund co-signed the **Investor statement: expectations of companies in 2023** in support of the ShareAction **Good Work** investor coalition. The statement was an outreach to 100 of the UK’s largest listed employers to set out our expectations of companies to protect their lowest paid workers during the cost-of-living crisis. Backed by 14 investors including Aviva, NEST and Legal & General Investment Management the statement urged companies to:
 - Target pay awards where they will support low-paid workers, who are disproportionately impacted by the rising cost of living. Recognising this, companies should ensure that the balance of executive remuneration to that of the wider workforce is equitable and supports workers to manage inflationary pressures. As far as possible, lowest paid workers should

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- receive pay rises that meet the current rate of inflation, as measured by CPI.
- Show long-term commitment to paying at least the real Living Wage through accreditation as a Living Wage Employer. As well as guarantees for direct employees, we increasingly expect companies to ensure any Living Wage commitments are extended to on-site third-party contracted staff.
 - Provide secure work, through guaranteed working hours, accurate contracts and decent notice periods for shifts. Where relevant, we will encourage companies to demonstrate their commitment through becoming an accredited Living Hours Employer. The full statement and list of current signatories is available at: https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Good-Work-Coalition-Statement-on-Cost-of-Living-Final_2023-04-14-100043_jkrp.pdf
- The Local Authority Pension Fund Forum (LAPFF) provided a Quarterly Engagement Report. The report highlights include:
 - Engagement with **HSBC** to ensure the company continues to show leadership in climate and addresses the human rights concerns arising from the increasing integration of Hong Kong into mainland China.
 - LAPFF met with the **BP** CEO to better understand BP's decision to move down its 2030 reduction targets. LAPFF had a cordial meeting and gained some explanations of BP's thinking, with further research and engagement in this area to follow.
 - Engagement with **Anglo American** to obtain the company's views on its report from LAPFF's time in Brazil visiting communities affected by Anglo American's Minas Rio mine.
 - LAPFF met with **Kingfisher** to understand the company's approach to remuneration and employee engagement, particularly in the context of a cost-of-living crisis.
 - LAPFF met with representatives of **Bank Leumi** to encourage the company to undergo an independently led human rights impact assessment, and to better understand the company's approach to human rights in its financing decisions.
 - At the **Home Depot** AGM, LAPFF asked the company to undertake a mapping of its supply chain in higher-risk areas such as Xinjiang, and whether it would undertake an independently led human rights impact assessment on its PVC supply chain. The company provided a general response on its supply chain due diligence but did not commit to either of LAPFF's requests.
 - LAPFF met with **Next** to discuss its position in Myanmar and what it was doing in the context of human rights risk management and due diligence.
 - LAPFF signed on to a letter to **Toyota** organised by NYC Office of the Comptroller and Domini Impact Investments, which called on the company to align its strategy and lobbying activity to a 1.5 degree scenario.
 - LAPFF presented at a side event of the **OECD Forum on Responsible Supply Chains**. The aim of the presentation was to share LAPFF's

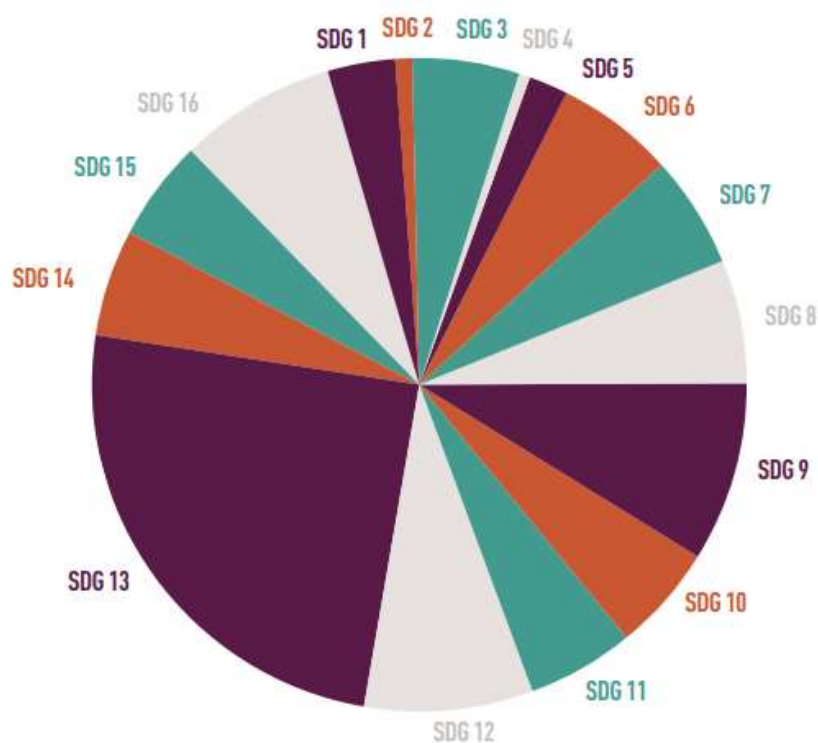
Stewardship: Responsible Investment Activity

learning from its visit to Brazil and, more broadly, its engagement with stakeholders affected by mining operations. It was also useful to engage with the other panellists to understand their work and perspectives better.

The LAPFF Quarterly Engagement Report is available at:

https://lapfforum.org/wp-content/uploads/2023/07/LAPFF_QER02_2023.pdf

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



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	10
SDG 2: Zero Hunger	3
SDG 3: Good Health and Well-Being	16
SDG 4: Quality Education	1
SDG 5: Gender Equality	6
SDG 6: Clean Water and Sanitation	18
SDG 7: Affordable and Clean Energy	16
SDG 8: Decent Work and Economic Growth	19
SDG 9: Industry, Innovation, and Infrastructure	26
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	16
SDG 12: Responsible Production and Consumption	25
SDG 13: Climate Action	74
SDG 14: Life Below Water	16
SDG 15: Life on Land	15
SDG 16: Peace, Justice, and Strong Institutions	23
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

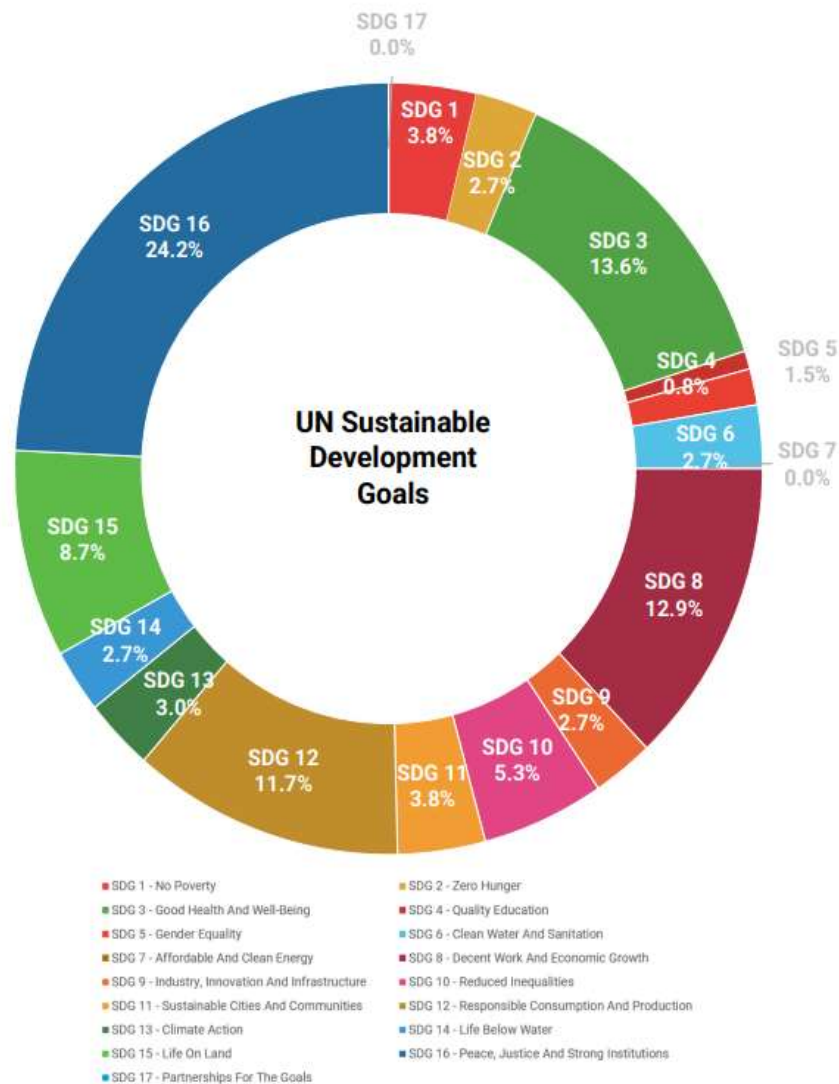
Stewardship: Responsible Investment Activity

aligned with companies' business plans can link profit with sustainability and contribute to a more stable and sustainable world.

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

- Legal & General, Lazard, Baillie Gifford, JP Morgan, Lombard Odier, Veritas, Barings and Oldfield Partners provided reports on ESG engagement during the quarter. Sustainalytics provided a full engagement report for the quarter and an engagement progress update on individual portfolio companies.
- **Sustainalytics Global Standards Engagement** Quarterly Report summarizes the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies. Sustainalytics map these Global Standards Engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 153 Engage and Resolved cases in quarter 2 can be attributed to the following SDGs (as percentage of total cases).

Stewardship: Responsible Investment Activity



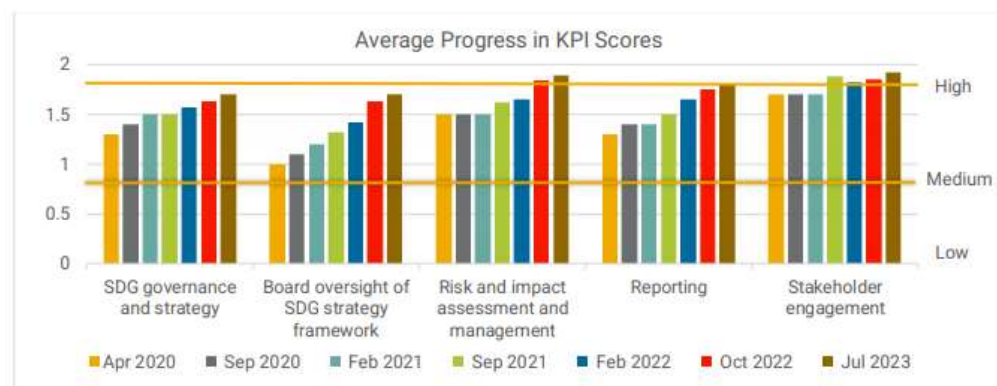
- **Sustainalytics** issued its biannual reports for the thematic engagements, **The Governance of Sustainable Development Goals (SDGs)**, **Responsible Cleantech** and **Modern Slavery**.
 - **The Governance of Sustainable Development Goals (SDGs)** focuses on encouraging companies to define meaningful 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.

This report is the sixth biannual report in the programme, covering the period from October 2022 to June 2023. This report summarizes conversations with the companies and outlines their progress against the key performance indicators (KPIs) as companies move towards the change objective. The report also consists of an update on recent

Stewardship: Responsible Investment Activity

developments in the field, a summary of dialogue, and individual companies' summaries. It lastly presents current scoring on the KPIs of all companies and sectors.

All companies in the Governance of the SDGs engagement program have been responsive. Since the publication of the October 2022 biannual report, Sustainalytics exchanged 225 emails and 14% of these emails included substantial information. Companies have been open to meetings and discussing their governance of the SDGs. Sustainalytics have met with half of the companies since October 2022: **BBVA, BT Group, Burberry, Deutsche Börse, Estée Lauder Companies, Goldman Sachs, Henkel, HSBC, KPN, LVMH, and Wells Fargo**. In two cases, a board chair (or a corporate secretary) took part, and in seven a head of sustainability. This shows that the Sustainable Development Goals are high on companies' agendas and reaches top executives and the board. 90% of the companies in the programme demonstrate good or excellent progress, and all of them have achieved Milestone 3 or 4.



The KPI's illustrate the steady progress towards the programme's goals across all sectors as companies' average performance rose from medium to high. 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, while this engagement draws to a close, there are still seven years to go to before the 2030 Agenda deadline and a lot of work to do to reach its goals. Sustainalytics will summarize lessons learned and identify best practices and areas for further development and present them during the closing roundtable and the final report. They will inform their next new Thematic Stewardship Programme - **Sustainability and Good Governance** starting in 2024. Further detail is available at:

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

- **Responsible Cleantech** is a three-year engagement aiming to strengthen target companies' strategic management of environmental

Stewardship: Responsible Investment Activity

and social considerations related to the processes around cleantech products.

Just like the products it aims to replace or make more efficient, cleantech requires space and natural resources. Companies have a responsibility to respect local communities' human rights and consider the environmental impacts in and around sites where raw materials are sourced, where products are made, and/or where renewable energy is generated. Similarly, the cleantech supply chain relies on human resources. The labour rights of workers in mines and factories need to be respected, including healthy and safe working conditions, freedom of association and collective bargaining, and either avoidance or mitigation of child and forced labour. Furthermore, the recycling of products such as solar photovoltaic (PV) systems, wind turbines and vehicle batteries has received less attention than the benefits of these technologies. It is advantageous to promote circular business models for recovering materials when products reach the end of their life cycle. These products are truly sustainable only if all stages in the value chain are environmentally and socially sustainable. Sustainalytics' Responsible Cleantech engagement addresses both the environmental and social implications of the growth of selected cleantech domains—photovoltaic solar panels, wind turbines, battery electric vehicles and hydrogen—and aligns with multiple Sustainable Development Goals, namely:



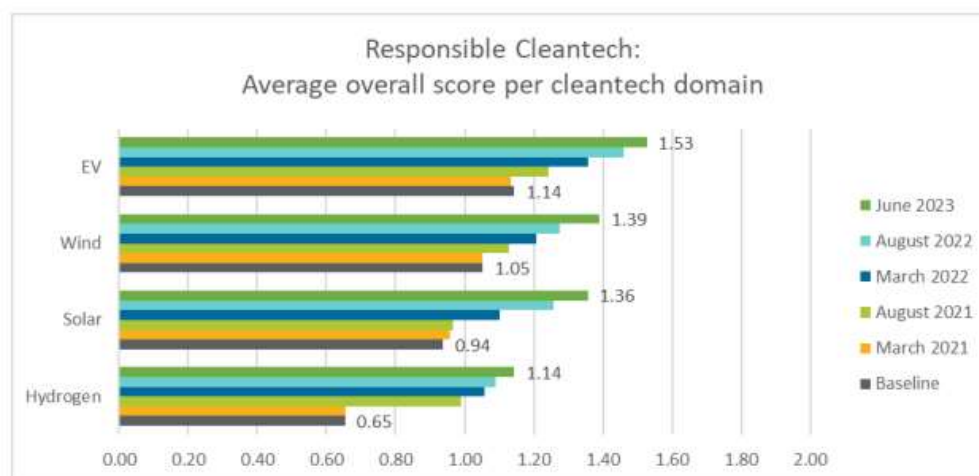
The Responsible Cleantech thematic engagement program started with a baseline report in September 2020. This fifth biannual report accounts for the progress made between August 2022 and June 2023.

Throughout the engagement, Sustainalytics assesses the engaged companies on five key performance indicators (KPIs) that cover governance, operational management, supply chain management, circularity, and stakeholder engagement. A scoring scale from 0.00 up to 2.00 is used for this purpose. The chart below shows the average overall score per cleantech domain. The EV domain continues to lead and the

Stewardship: Responsible Investment Activity

hydrogen domain continues to lag relatively. The solar domain has been catching up with the wind domain.

This biannual report also features updated KPI assessments for all 19



engaged companies. All score changes are positive and it has not been necessary to downgrade any company on any indicator. The overall scores of three companies managed to surpass the threshold from Medium to High. This means that 12 out of the 19 engaged companies now exhibit an overall score in the High range. The report also featured new engagement calls with all engaged companies.

Sustainalytics will now organize a round of concluding calls to consolidate the progress made during the programme and specify further steps for the companies. The Responsible Cleantech thematic engagement programme was designed to last three years. Sustainalytics will write a concluding report in December 2023 and evaluate the collaborative experience with the investors.

Further detail is available at:

<https://connect.sustainalytics.com/thematic-engagement-responsible-cleantech>

- Modern Slavery.** The modern slavery theme has been running for almost two years. Over the biannual period, which took place between September 2022 to February 2023, Sustainalytics held individual engagements with nine companies and hosted a roundtable, which eight construction firms joined. There are now sixteen companies in the theme (engagements with two further companies took place since the last report). The engagement is at different stages with individual companies and continues to bring to light insights, opportunities and learning. Modern slavery is a topic that does not easily lend itself to a candid dialogue owing to the sensitivities that need to be navigated. Regardless of geography or maturity, the subject has been challenging for all companies.

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The engagement has been able to influence companies or has brought to light valuable information about companies' operations/supply chains. Highlights of the most recent engagement include:

- A European construction company informed Sustainalytics in November 2022 that it has been selected to join a human rights business initiative, in which best practices are shared and greater stakeholder dialogue takes place.
- Following the Sustainalytics modern slavery roundtable in December 2022, another European construction company requested to join the theme. An introductory meeting was held in January 2023 where the firm expressed it was interested to learn about modern slavery risks.
- An Asian construction company said in the engagement meeting in February 2023 that it wants to learn from investors and would consider requests for greater disclosure (for example on health and safety and procurement practices, in accordance with GRI recommendations).
- Another Asian construction company disclosed to Sustainalytics countries where it sources its wood and solar panels. More needs to be understood about these items, which the next engagements will seek to do.
- An Asian apparel company agreed to follow up with colleagues in its operations in Indonesia and suppliers in Taiwan about the risk of recruitment fees that may have been paid by migrant workers after Sustainalytics discussed concerns with the company.
- A North American retailer was keen to learn from Sustainalytics about how retailers are addressing the risks of forced labour. It recognizes more transparency and board oversight are expected of companies. Sustainalytics shared relevant resources with the company.

As this is now the final year of the theme, the engagement will continue to ask pertinent questions, share key research and good practice with companies and seek the change needed to reach the engagement goal. Sustainalytics will be exploring the role that Boards play in ensuring investor concerns are being taken seriously and push for in-person meetings where possible in to support a more effective dialogue. Further detail is available at:

<https://connect.sustainalytics.com/thematic-engagement-modern-slavery>

Stewardship: Climate Change Strategy

Energy Company Assessment as at 31st March 2023

1 Assessment as at 31st March 2023

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

Holdings	Companies	Score (%)	Prev Score (%)	Difference
0	-	-	-	-
2	Serica Energy	40	<i>n/a</i>	<i>n/a</i>
	SM Energy	33	<i>n/a</i>	<i>n/a</i>
7	ENI	73	72	+1
	Equinor	73	62	+10
	Royal Dutch Shell	70	63	+7
	BP	67	51	+16
	TotalEnergies	66	64	+2
	Koninklijke Vopak	60	<i>n/a</i>	<i>n/a</i>
	Woodside Energy	50	<i>n/a</i>	<i>n/a</i>
Co.s with insufficient data coverage		Data Coverage (%)	Prev Data Coverage (%)	
9	Technip FMC	35	<i>n/a</i>	
	Reliance Industries	30	30	
	National Oilwell Varco	30	10	
	Matador	20	15	
	Cactus	20	10	
	Pharos Energy	20	10	
	Active Energy	10	0	
	Chord Energy Corp	10	<i>n/a</i>	
	Max Petroleum	<i>n/a</i>	<i>n/a</i>	

(Max Petroleum is a dead asset – zero value)

Conclusions

- **18** companies were held at 31st March 2023. **12** companies previously held (in March 2022 when a previous assessment was carried out) were no longer held. **6** new companies had been added to portfolios.
- All **10** of the companies held during the prior assessment had improved scores.
- Of the companies rated green overall: **2** rated amber in at least one category; **one** rated red in one category.
- Half the companies have poor data coverage and could not be properly assessed.

2 Engagement with Investment Managers

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

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

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

Stewardship: Climate Change Strategy
Energy Company Assessment as at 31st March 2023

Baillie Gifford

Holdings	
0	<p>Reliance Industries - (G) The investment thesis for Reliance is based on the company investing the proceeds from its highly cash generative refining and petrochemicals business into new avenues of growth, namely retail, telecommunications and renewable energy. The New Energy division, encompassing solar power, battery storage, electrolyzers and fuel cells, repeats the Reliance playbook whereby deep competitive moats are established through capital spend, technological leadership and superb execution. India has the lowest PV solar installation cost in the world and, at over 300 days of sunshine, is perfectly located for this energy source. Reliance is committed to a US\$10bn capex investment into solar, battery, fuel cells and electrolyser manufacturing with a target of establishing 100 Giga Watt (GW) of Solar by 2035.</p> <p>In Baillie Gifford's view, ESG scores attributed to Reliance miss the company's potential to be a positive social and economic force, improving hundreds of millions of lives. However, Baillie Gifford have identified the same disclosure issues flagged by the SPF minimum standards analysis and are pressing on the reporting of methane emissions, scope 3 emissions and, more broadly, greater detail on the interim steps towards their 2035 Net Zero endpoint. Baillie Gifford hope to see more progress on these topics later in the year. Reliance has also been highlighted as a priority engagement target by SPF's Net Zero Investment Framework assessment of companies operating in high impact sectors.</p>
0	
1	
1	

JP Morgan

Holdings	
0	<p>Serica Energy - (A) is a UK listed independent upstream oil and gas company with operations centred on the UK North Sea with production, development and exploration assets. It has recently completed the acquisition of Tailwind Energy, giving it a more balanced exposure between the two commodities.</p> <p>Serica is fully committed to the North Sea Transition Deal whereby reductions in emissions from offshore production in the UK reach 50% by 2030 and 100% by 2050. In 2022, Serica adopted an Emissions Reduction Action Plan which committed to reducing greenhouse gas emissions whilst improving energy efficiency through a plan of actions, projects and investments. Serica also support the World Bank's target of eliminating routine flaring by 2030. Climate-related risk identification and management is increasingly being integrated into decision-making in its existing working practices as well as its ambitions to progress and evolve its climate-related goals. In 2022, Serica developed disclosures using the IEA Net Zero and Stated Policies scenarios that align with TCFD recommendations on the use of quantitative scenario analysis on corporate business models. During 2023, Serica will focus on further disclosure and evaluate scenario analyses to support strategic planning</p>
2	
1	
4	

Stewardship: Climate Change Strategy
Energy Company Assessment as at 31st March 2023

	<p>and capital allocation. In 2023, Serica will again tie emissions reductions initiatives to its remuneration and corporate bonus scheme. The minimum standards assessment does show that the company needs to improve in certain key areas especially around metrics and targets, however, it appears it has made good progress recently.</p> <p>SM Energy - (A) is a US based independent upstream oil and gas company that carries out the acquisition, exploration, development, and production of crude oil, natural gas and natural gas liquids. SM Energy appears to be doing a decent job of disclosure through the CDP Climate Change Questionnaire and TCFD, however, the minimum standards assessment suggests that the company's underlying climate change strategy is weak. The company does not appear to have a commitment to net zero but has published plans to cut its Scope 1 and 2 GHG emissions intensity 50% by 2030 from 2019 levels and end routine flaring in its operations by 2023. To that end, Scope 1 + 2 GHG emissions intensity is already down 41% from 2019 and operational routine flaring target is down 83% since 2019. This progress is welcome; however, the company needs to improve in the key areas identified by the minimum standards assessment. SPF will ask JP Morgan to accelerate engagement with the company.</p> <p>Technip FMC - (G) is a leading provider of oil and gas subsea production systems, capital equipment and integrated exploration and production services. Subsea drilling activity is inflecting, driven by new high-return deep-water field discoveries, plateauing on-shore oil production and a decade of under investment in large-scale long-lived field development which was capped off by a further sharp drop in production investment during Covid. Given the nature of these large field developments with 20+ year life-of-field schedules, once investment decisions are made and activity begins to ramp, there is a long tail of high-visibility activity.</p> <p>Cactus - (G) is the leading manufacturer of US onshore wellheads with ~40% market share. Cactus should see robust growth along with rig count recovery, further domestic share gains, and emerging international growth opportunities in the Middle East and South America. Cactus' competitive advantages include much lower associated labour cost to utilize their wellheads vs competitors, superior in-field service/support, and low-cost manufacturing in China.</p> <p>Matador Resources - (G) is an independent energy company engaged in the exploration, development, production and acquisition of oil and natural gas resources in the United States. On ESG, the company is focused on improving their water efficiency through midstream investments as well reducing the number of trucks on the road and the above-mentioned dual fuel rigs where CNG (and eventually well gas) increasingly replaces diesel.</p>
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Stewardship: Climate Change Strategy
Energy Company Assessment as at 31st March 2023

	<p>Chord Energy Corporation - (G) is an independent exploration and production company that focuses on the acquisition and development of unconventional oil and natural gas resources. It is an operator with growing production and 10 years of inventory depth and significant upside to NAV.</p> <p>JP Morgan acknowledge that companies rated grey (G) do need to improve disclosures, and they will engage with companies on this.</p>
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Lazard

Holdings	Reliance Industries - (G)
0	<p>Held within the manager's Empowered Consumer theme. Reliance is a conglomerate with multiple divisions, including legacy energy sector businesses. As an Indian conglomerate Reliance represents a challenge due to both cultural factors and business complexity. The company is investing behind business opportunities from the energy transition and has provided a broad framework around net zero. Disclosure is low, however within an Emerging Markets context, the company is making progress. Reliance is committed to decarbonise their operations by 2035, 35 years ahead of India's national target, by developing a vertically integrated clean energy business, at a cost of US\$80bn over 10 to 15 years, starting with an initial US\$10bn investment from 2021 to 2023.</p> <p>It appears there is a misalignment with the progress the company is making and how the company is perceived. Lazard met with the company in Q4 2022 to discuss the decarbonisation strategy. Lazard continued to engage with Reliance on climate disclosure both via involvement in the CDP nondisclosure campaign and a more detailed company engagement plan including requests for capex and scenario analysis.</p>
0	
4	
1	

Lombard Odier

Holdings	Pharos Energy (G)
0	<p>is an Oil producer with the main producing assets in Egypt and Vietnam. The investment rationale is based on shareholders' desire for the company to dispose of the two assets over the next two years at hopefully between 50% - 100% above the current share price. It has committed to improving ESG disclosures in line with TCFD guidelines.</p> <p>Active Energy Group (G) - is a misclassified Renewable Energy business. Its technology takes principally waste wood and transforms it into high-value biomass fuels. Its patented product, CoalSwitchTM, can be co-fired with coal, or completely replace coal as an alternative feedstock without requiring significant plant modifications. It can even replace existing biomass feedstock resources. The company has been awarded the 'Green Economy Mark' by the London Stock Exchange.</p> <p>Max Petroleum – (G) is a dead legacy asset carried at zero.</p>
0	
0	
3	

Stewardship: Climate Change Strategy
Energy Company Assessment as at 31st March 2023

Oldfield Partners

Holdings	National Oilwell Varco (NOV Inc.) (G) - is a leading US oil services company providing equipment and consumables to the oil and gas exploration and production industry.
0	NOV see the transition to renewable energy as a business opportunity due to significant overlap with their existing expertise and client base. Firstly, a crucial contribution to reducing the industry's carbon footprint will be through minimising emissions from core oil and gas operations – more efficient products will reduce the energy intensity of drilling. Secondly, NOV is leveraging its core competencies to provide solutions for emerging alternative energy markets, for example capabilities in offshore wind overlap with rig technology, and development of carbon capture and storage overlaps with wellstream processing technology. NOV have identified floating offshore wind as a big opportunity for their business. They are already the leading global equipment and design provider for offshore wind turbine installation vessels, with over 75% of offshore wind turbines in Europe installed by NOV-designed vessels. Currently, renewables account for around 30% of their overall R&D spend. Oldfield Partners are one of only a few European investors in NOV. Management have responded favourably to engagement efforts including discussions on their strategy for the energy transition, plans for greater carbon disclosure, as well as female representation on the board. In 2022, NOV more closely aligned compensation programs to ESG performance by adding a new performance goal related to total revenue from energy transition initiatives. The next engagement with their CEO will discuss these topics in more detail, including the importance of greater disclosure.
0	
1	
1	

Veritas

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

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

The assessment will be repeated as at 31st March 2024.