Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

Contact: Jacqueline Gillies, Chief Investment Officer, Ext: 75186

Item 9

24th November 2021

Investment Update

Purpose of Report:

To the provide the Committee with an investment update including a summary of:
- investment performance to 30th September 2021
- portfolios as at 31st October 2021
- the Investment Advisory Panel meeting of 4th November 2021 and
- responsible investment and climate change activity during Quarter 3 2021.

Recommendations:

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

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

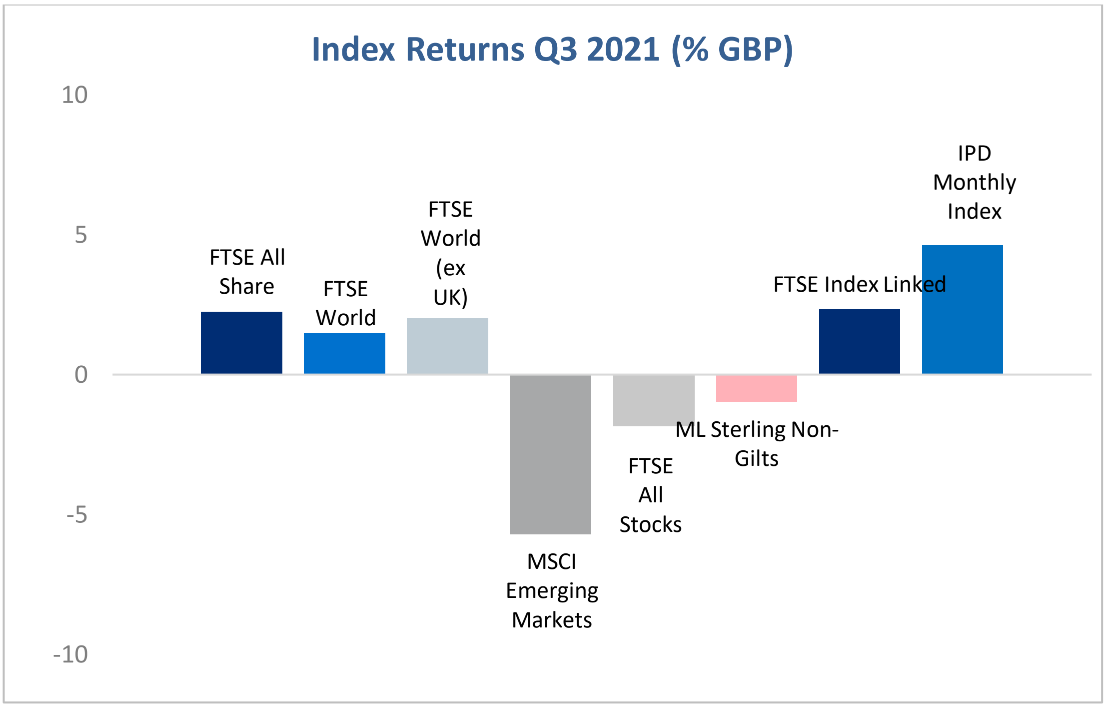
1 SPF Response to COVID-19

The SPF investment team began working from home in late March 2020 and commenced a trial of hybrid working between home and office in October 2021.

The Fund's investment managers and other providers all switched to contingency arrangements in March 2020 but the majority have commenced a phased return to office working on at least a part time basis. Investment activity continues without interruption.

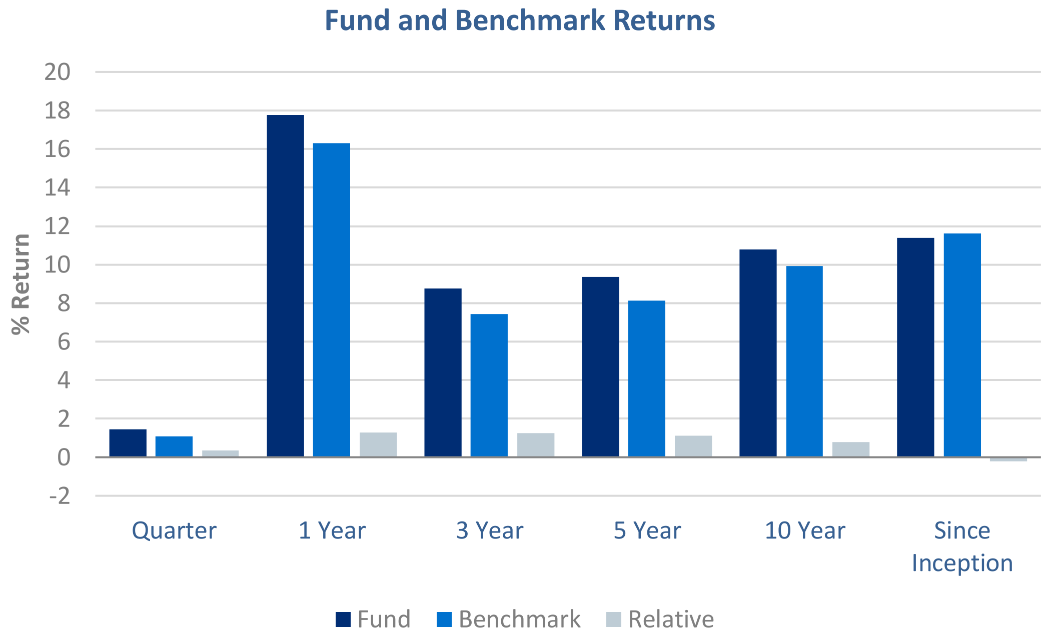
2 Market Performance

Over the quarter investors maintained a cautious stance, as coronavirus risk, concerns about persistent inflation, and the prospect of interest rate rises in the US, Europe and the UK weighed on markets. Strong corporate earnings went some way to easing anxiety, however. Developed markets posted positive returns, but emerging markets declined, largely due to growing concerns about China's dimming economic outlook.



- The **FTSE All Share** Index returned **+2.2%,** the **FTSE World ex UK** index **+2.0%** and the **MSCI Emerging Markets** index **-5.7%**, compared with Q2 2021 returns of +5.6%, +7.6% and +5.0% respectively.
- The **FTSE All Stock Index** fell **-1.8%** as the Bank of England brought forward expectations of rate rises and continued inflation. Yields on global credit ended the quarter little changed, although investment grade sterling credit yields followed gilt yields upwards.
- **Sterling** fell by **-2.4%** against the dollar and by **-0.3%** against the Euro.
- The **MSCI All property monthly return index** rose +**4.6 %**. Stronger capital returns were the main driver of performance across all sectors, and in particular for industrial and retail properties, while a full quarter's trading with minimal restrictions also positively impacted the performance of the leisure sector.

3 **Total Fund Performance**
The **Fund's total return** for Quarter 3 2021 was **+1.4**%, ahead of the benchmark return of **+1.1%.**



The **Fund's value** at 30th September 2021 was **£27,907m**. (Fund value at 30th June was **£27,501m**).

4 **Performance Analysis**
Further performance analysis is set out in Appendix 1.

5 **Portfolio Summary as at 31st October 2021**
As at 31st October the Fund's value had increased to **£28,290m**.
A summary of investment manager portfolios as at 31st October is set out in **Appendix 2**.

6 **Investment Advisory Panel**
The Fund's Investment Advisory Panel met on 4th November 2021 via MS Teams.
A note of the Panel's meeting is set out in Appendix 3.

7 **Responsible Investment and Climate Change**
A summary of activity during Quarter 3 2021 is set out in Appendix 4. Highlights include the following.

- In September, SPF was confirmed as a signatory the new **UK Stewardship Code** (2020). Seven of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics also made the signatory list.

- In advance of the **COP26** in Glasgow, the **Investor Agenda 2021 Global Investor Statement to Governments on the Climate Crisis** was sent to global heads of state. The Institutional Investors Group on Climate Change (IIGCC) is one of the founding partners of the Investor

Agenda**. SPF** was one of 733 investor signatories representing over USD $52 trillion.

- After sustained engagement by **Oldfield Partners**, KEPCO (Korea Electric Power) confirmed it would make no further investments in coal projects either domestically or internationally and would focus on renewables and natural gas in the future.
- The Fund joined the **Food Emissions 50** campaign which aims to accelerate progress towards a net zero future in the food and agriculture sector
- **Sustainalytics** issued its first report for the new thematic engagement - **Climate Change - Sustainable Forests and Finance.**

8 Policy and Resource Implications

Resource Implications:	
Financial:	None
Legal:	None
Personnel:	None
Procurement:	None
Council Strategic Plan:	Strathclyde Pension Fund aligns with the theme of a well governed city.
Equality and Socio Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2017-22	Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.
What are the potential equality impacts as a result of this report?	No specific equalities impacts.
Climate Impacts:	
Does the proposal support any Climate Plan actions? Please specify:	N/A. Monitoring report. Strathclyde Pension Fund's Climate Change strategy is being developed in line with Item 34 of the Council's Climate Action Plan.

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:	None.

9 RECOMMENDATIONS

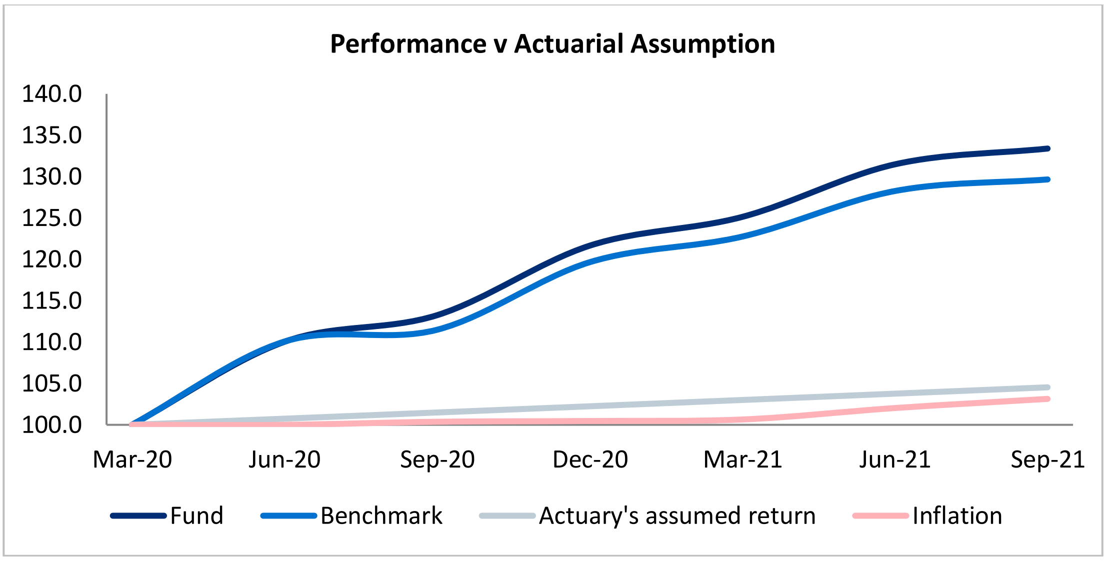
The Committee is asked to note the contents of this report.

Appendices

Appendix 1 Performance Analysis
Appendix 2 Portfolio Summary as at 31st October 2021
Appendix 3 Note of Investment Advisory Panel meeting on 4th November 2021
Appendix 4 Summary of Responsible Investment and Climate Change Activity

Performance Analysis

1 Investment Performance vs Actuarial Assumption



As at the end of Quarter 3 2021, the Fund had achieved a return significantly greater than the actuarial assumed return of **+3.0%** per annum since the 31st March 2020 valuation.

2 Performance by Asset Category

Asset Class	Latest Quarter Fund %	Latest Quarter Bench mark %	Latest Quarter Relative %	1 Year Fund %	1 Year Bench mark %	1 Year Relative %
Equity	1.7	0.8	0.9	27.0	28.2	(0.9)
Hedging & insurance[1]	0.0	0.0	0.0	(1.1)	0.2	(1.3)
Credit	(0.6)	(0.6)	0.0	(0.4)	(0.4)	0.0
Short term enhanced yield	0.3	0.6	(0.3)	7.2	3.6	3.4
Long term enhanced yield	2.6	2.8	(0.1)	4.7	5.9	(1.1)

[1]*Portfolio divested June 2021. 1 Year performance is performance from July 2020 to June 2021*

3 Performance by Investment Managers

Each of the Fund's investment managers has an individual portfolio benchmark. In Quarter 3:

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

Equity returned +**1.7%,** ahead of the benchmark of **+0.8%**. The private equity portfolios (**Pantheon** and **Partners Group**) were the strongest performers on both absolute and relative terms as Q2 growth was reflected in Q3 valuations. Listed market returns were more muted, but **Lazard, Veritas** and **JP Morgan** outperformed their benchmarks. **Baillie Gifford, Oldfield, Lombard Odier** and **Genesis** all underperformed.

Short term enhanced yield returned **+0.3%**, underperforming the benchmark of **+0.6%**. The main detractor over the quarter was emerging market debt manager, **Ashmore**, while the private debt portfolios (**Alcentra, Barings, ICG Longbow and Partners Group**) were the strongest performers.

Long term enhanced yield returned **2.6%** over the quarter, underperforming the benchmark of **+2.8%**. Outperformance of the **DTZ** UK direct property portfolio was offset by underperformance from **Partners Group** and **JP Morgan**.

4 **Direct Investment Portfolio (DIP)**

As at the end of September 2021, DIP comprised **53** investment commitments, totalling **£1,734m.** During Quarter 3 2021, **net drawdowns** to DIP amounted to **£70m.** These brought the **Net Asset Value** of DIP to **£1,053m** at the end of the quarter.

Portfolio performance to 30th September is as follows.

	Q3 2021 (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
DIP	2.3	3.6	2.9	5.0	7.2
DIP Benchmark*	1.4	4.5	4.2	2.7	1.7
SPF Total Fund	1.4	17.8	8.8	9.3	11.4

Source: Northern Trust
* CPI +3% pa from 2019; previously LIBOR

Quarterly performance was positive mainly due to improving performance of LTEY investments within DIP, which represent around three-quarters of the total portfolio by value. The recovery in this asset class resulted from the continued positive effect of increased power prices on the renewable energy funds as well as a more general recovery in assets that were impacted by the COVID-19 pandemic.

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

- **47** investments are rated **green** (increase of 3)
- **3** are **amber** (no change) and
- **None red**.
- **3** are in legals

Appendix 2

Portfolio Summary as at 31st October 2021

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	7,933	28.0%	0	0.0%	1,422	5.0%					9,355	33.1%	31.5%
Baillie Gifford	2,550	9.0%									2,550	9.0%	7.5%
Lazard	918	3.2%									918	3.2%	2.5%
Oldfield	759	2.7%									759	2.7%	2.5%
Veritas	866	3.1%									866	3.1%	2.5%
Lombard Odier	483	1.7%									483	1.7%	1.0%
JP Morgan	1,056	3.7%							572	2.0%	1,628	5.8%	5.5%
Genesis	439	1.6%									439	1.6%	1.5%
Pantheon	1,356	4.8%									1,356	4.8%	5.0%
Partners Group	843	3.0%					147	0.5%	374	1.3%	1,364	4.8%	6.0%
PIMCO							965	3.4%			965	3.4%	4.0%
Ruffer							543	1.9%			543	1.9%	2.0%
Barings (multi-credit)							738	2.6%			738	2.6%	2.8%
Oak Hill Advisors							493	1.7%			493	1.7%	1.8%
Barings (private debt)							513	1.8%			513	1.8%	1.3%
Alcentra							399	1.4%			399	1.4%	1.3%
ICG Longbow							167	0.6%			167	0.6%	1.0%
Ashmore							577	2.0%			577	2.0%	2.5%
DTZ									2,308	8.2%	2,308	8.2%	10.0%
DIP	84	0.3%					129	0.5%	914	3.2%	1,127	4.0%	7.0%
Cash							742	2.6%			742	2.6%	1.0%
Total	**17,288**	**61.1%**	**0**	**0.0%**	**1,422**	**5.0%**	**5,413**	**19.1%**	**4,168**	**14.7%**	**28,290**	**100.0%**	**100.0%**
Target		**52.5%**		**1.5%**		**6.0%**		**20.0%**		**20.0%**		**100.0%**	

Appendix 3

Investment Advisory Panel Meeting 4th November 2021

INVESTMENT ADVISORY PANEL
Held via MS Teams

MINUTES OF MEETING ON Thursday 4th November 2021

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

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 12th August 2021 were agreed to be an accurate record.

Officers updated the Panel on the following matters arising not covered elsewhere on the meeting agenda:

- Committee agreed at its June 2021 meeting that the Fund should switch the current RAFI Global Allocation to the RAFI Fundamental Climate Transition Index.
  LGIM, the manager of the Fund's RAFI investment portfolio, has since confirmed a planned launch date of 10th December and agreed annual management charges with the Fund. The Fund's holdings in the hedged and unhedged RAFI Global 3000 strategy, approximately £1.7bn at start November, will transfer on the launch date at an estimated transition cost of 7bps.
- The Fund's commitment of £200m to 2 ICG Longbow funds (private real estate debt) was set when the Fund value was around £20bn. Following a presentation from ICG Longbow at its August meeting, the Panel agreed that to attain the strategic target weight for this mandate of 1.0% of total Fund, an increase to this commitment of up to £150m is required. Officers had since received a proposal from ICG Longbow which showed that the Fund could achieve its target allocation of 1.0% of total Fund with a commitment of £150m split equally between the Partnership Capital VI fund and Senior Capital fund V. Officers are now working with ICG Longbow to implement the increased commitment.

2 Monitoring

2.1 Quarterly Investment Performance Review (Main Fund)

The Fund's return for Q3 2021 was positive **(+1.5%**), and above benchmark

(+**1.1%**). Performance for the year to 30th September 2021 was positive **(**+**17.8%),** and above benchmark (**+16.3%**). Both absolute and relative performance are positive over the three and five-year periods.

2.2 Manager Ratings

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

- 18 of the Fund's managers were rated green
- 3 rated amber and
- None red.

Since the manager ratings had been compiled and circulated to the IAP, Officers and Hymans had been made aware of changes at two of the Fund's investment managers: the acquisition of Oakhill Advisors by T Rowe Price; and changes of role within the Barings private debt team. Neither development changes the ratings ascribed to these two investment managers.

2.3 Overseas Currency Hedge

In September 2017, the Strathclyde Pension Fund Committee agreed that the Fund would hedge 33% of its currency exposure arising from overseas equity by switching investments in LGIM passive index funds to currency hedged alternatives. In March 2021, as part of the Fund's triennial review of investment strategy, the Committee agreed to maintain this currency hedging strategy.

The Panel reviewed a monitoring report that indicated:

- The Fund's overseas hedge ratio at end September 2021 was 34.3% vs its target of 33%.
- The currency hedge had been beneficial in the 12 months to 30 September 2021 largely because of the appreciation in Sterling versus the US dollar and Japanese Yen.
- Since the inception of the hedging strategy, total Fund gains from currency had been reduced as a result of the overall depreciation of Sterling vs US dollar and Japanese yen.

The Panel remain supportive of the current hedging target weight of 33% of overseas listed equity.

2.4 Direct Investment Portfolio Monitoring Report

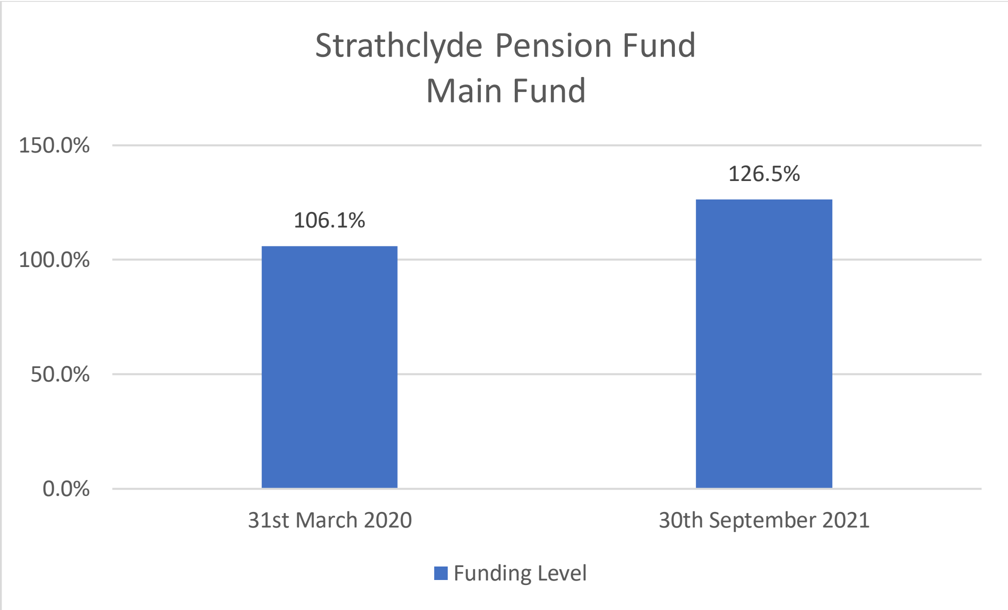
The Panel reviewed the quarterly monitoring report for the Direct Investment Portfolio (DIP). Overall the portfolio and most of its investments are still progressing well. On a Red, Amber, Green (RAG) analysis:

- 47 investments were rated green
- 3 amber and
- None red.

2.5 Estimated Funding Levels

Hymans Robertson provided the following estimates of the funding levels as at 30th September 2021. The funding level had increased significantly since the

31st March 2020 actuarial valuation.



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 Investment Portfolio, and private debt commitments. Totals as at 30th September 2021 were as follows.

	2021 Estimate (£m)	**2021 Actual YTD (£m)**
Distributions	927	632
Calls	-1,053	-700
Net	**-126**	**-68**

The projected net cash flows to private markets programmes in 2021 is **(£126m)**. This projection has decreased from managers' original forecasts of **(£342m)**. The change is a result of decreased drawdown expectations and increased distribution expectations, in particular:

- Alcentra, the Direct Investment Portfolio and Partners Group revised their drawdown expectations downwards
- Expected distributions from the Fund's two private equity portfolios have increased.

The Fund's private real estate, private debt and Direct Investment portfolios are still building their investment exposure and drawdowns to these investments are expected to exceed distributions from them.

The Fund's central cash balance at 30th September 2021 was **£455m**. This had increased by **£236m** since June 2021. **£100m** was disinvested from the

Legal and General market cap passive portfolio, the allocation to which was above the upper limit of its target range at the end of June, and the proceeds were held in cash at quarter end pending re-investment in the Ashmore Emerging Market debt fund at the start of October. **£77m** cash was redirected from Legal and General to Northern Trust to cover cash flows at the start of July. Remaining inflows over the quarter were from net distributions from private market programmes.

3.2 Rebalancing Strategy

Following a review of the Fund's rebalancing strategy by the Panel at its August meeting, the Committee agreed:

- a revised rebalancing framework to reflect the current mandate and portfolio structure should be introduced
- the existing methodology should be retained and applied to the revised framework; and
- a relative value framework should be introduced with a view to adding further value by periodically adjusting the target allocations to different protection assets based on market pricing and medium term market views.

3.2.1 Rebalancing report

The rebalancing report at end September 2021 had been updated to reflect the new framework agreed by Committee. The Panel had a detailed and lengthy discussion on the report, which showed:

- Equity allocation is above target weight (60.1% vs 52.5%) but within the upper target range (42.0% to 63.0%).
- Short term enhanced yield (STEY) is under target weight (16.6% vs 20.0%) and under target range (17.5% to 22.5%). The STEY underweight is largely a result of the continued build-up of private debt portfolios and the strong performance of equity markets relative to short term enhanced yield mandates. The re-investment of the £100m proceeds from the LGIM market cap equity portfolio into the Ashmore emerging market debt fund just after quarter end brought the Ashmore portfolio back within its target range.
- Long term enhanced yield (LTEY) is underweight (14.4% vs 20.0%) and under target range (17.5% to 22.5%). The Partners Group private real estate mandate is under target (1.4% vs 2.5%) and outwith is target range (2.0% to 3.0%). Total commitments to the value of 1.4% of total Fund remain undrawn by the manager, which, together with a further 0.9% of undrawn commitments to global infrastructure and 0.8% to DIP Infrastructure, Property and Renewables investments, should bring the Fund's LTEY allocation within its target range over time.

3.2.2 Relative Value Framework

The relative value framework has been introduced to generate additional value and reduce risk of capital losses by varying implementation of the 7.5% allocation held in protection assets.

Decisions to move away from the strategic – or neutral - allocation of 6% Credit (50/50 UK/US investment grade) and 1.5% Hedging and Insurance (index-linked gilts) allocation are based on the following pre-defined metrics:

- Comparison of credit spreads with historic levels. If credit spreads are significantly low it implies risk of capital loss versus government bonds and a trigger to switch away from corporate bonds to government bonds or cash;
- Comparison of forward looking interest rates implied by gilt yields with a trajectory from current cash rates to long-term expected or fair value interest rates (based on expected long-term real yields + inflation). If yields look too low, it implies holding more cash;
- Comparison of implied inflation with central long-term inflation expectations. If the premium over long-term expected inflation is high, it acts as a trigger to hold fixed interest bonds or cash.

The rebalancing report indicated that, at end September 2021, the allocation to Credit assets was 5.1%. The Fund sold down its index-linked holdings (Hedging and Insurance) for cash during Quarter 2 2021.

Hymans Robertson presented the first relative value quarterly monitoring report. The report provided the following summary assessment of metrics at 30th September 2021:

- Sterling A grade credit spreads remain much lower than the 20 year median, but just above the 10th percentile level of spreads over the last 20 years, indicating that the Fund should retain its credit holdings.
- Cash remains preferable to gilts, and a persistent inflation premium supports continuing to hold cash over index linked gilts.

The Panel agreed that no action was required this quarter.

4 Governance

4.1 Strathclyde Pension Fund Committee

The Panel noted the draft agenda for the next committee meeting on Wednesday 24th November 2021.

4.2 Investment Advisory Panel 2022 Dates

The Investment Advisory Panel will meet on the following dates during 2022:

- 10th February 2022
- 12th May 2002
- 11th August 2022
- 10th November 2022

5 Investment Strategy and Structure

5.1 Emerging Markets Allocation

Genesis have managed a specialist emerging markets strategy for the Fund since 1995. The strategic target for this mandate is 1.5% of total Fund and exposure is made up of holdings in two underlying vehicles: the Genesis Emerging Markets Fund (GEMF) and the Genesis Emerging Markets Investment Company (GEMIC), split approximately 48% and 52% respectively.

Investment Advisory Panel Meeting 4th November 2021

On 1 July 2021, the board of GEMF wrote to investors informing them of intended changes to the fund, including a change of Investment manager from Genesis to Fidelity, a change in fund name and of investment strategy and a tender offer for investor shares.

Voting on the proposals took place at an EGM on 1 October 2021 and all were approved by a majority of shareholders. The Fund elected to tender its shares and has since received proceeds to the value of £68million, or 27.5% of its total holding. These proceeds have been re-invested temporarily into Legal and General's passive emerging market fund.

GEMF has been renamed Fidelity Emerging Markets Limited following the vote and management of the Fund's remaining holdings in the vehicle switched to Fidelity, who provide an experienced specialist emerging market investment team in addition to access to the breadth and depth of resources of the wider Fidelity investment house. The Fund will engage with the new manager with regard its remaining holding and the Panel will re-visit the Fund's emerging market allocations at its February meeting.

5.2 Alcentra Key Person Changes

Hymans Robertson presented an overview of developments at Alcentra following a series of senior personnel departures including most recently the departure of the Head of European Direct Lending. An overview of the potential impact on new direct lending investment and existing exposure with Alcentra, together with options for the Fund to maintain its overall target allocation to private debt, was also presented in the Hymans paper.

The Panel supported maintaining the investment period suspension that had been triggered by the personnel departures for its separately managed account with Alcentra. Developments at the firm will be kept under review and the Panel will re-visit the suspension decision at its February meeting.

5.3 PIMCO/Absolute Return Bond Strategy Review

The largest allocation within STEY is to the absolute return strategy run by PIMCO, known as PARS 3, comprising 4% of total Fund assets and 20% of STEY. While the performance of the PARS strategy improved in 2020, performance since inception has been mixed. Consequently, the fees paid to PIMCO do not appear to represent value for money relative to the return achieved. At its last meeting the Panel had asked Hymans to review:

- whether absolute return bond strategies are still a suitable investment strategy within STEY
- outline characteristics of other types of Absolute Return Bond Strategies, together with typical fee levels
- the PIMCO PARS strategy, including its performance and cost relative to suitable alternatives.

Hymans Robertson presented a paper to the Panel, providing background to the STEY asset class and the role of absolute returns bonds in this category of the Fund's investment strategy, in addition to an overview of PARS and a summary of absolute return strategies available in the market.

The Panel discussed the paper and concluded:

- An allocation to absolute return bonds within STEY was still appropriate, with strategies targeting returns in line or in excess of the STEY return objective of 3-4% over gilts.
- While Hymans continue to rate PIMCO as a bond manager, the longer term performance of PARS has not been in line with target and market analysis indicates that the fee for this product is expensive relative to other strategies.
- A number of alternative absolute return bond strategies are available in the market, including two offered by PIMCO, the Dynamic Bond Fund and Global Libor Plus. Of these, the Dynamic Bond fund would target returns in line with Fund objectives. The Dynamic Bond Fund fee is also lower that PARS 3, although the fund still looks expensive relative to the market for this type of strategy.

The Panel agreed that the Dynamic Bond Fund was a suitable alternative investment to PARS 3 and supported a switch between the two PIMCO funds if a suitable fee arrangement could be agreed with the manager.

5.4 DIP Review

A review of the Direct Investment Portfolio was included in the Fund's business plan for 2021/22. The Panel noted a draft Committee paper summarising the conclusions of the review.

A final paper will be presented to Committee at its meeting on 24th November 2021.

5.5 AVC Review

The Panel reviewed a paper from Hymans Robertson on AVC arrangements with Prudential, the Fund's current provider, with approximately £54.4m of assets invested on behalf of Fund members. The paper included a summary of:

- Prudential as an AVC provider, with a particular focus on the recent service issues;
- Existing AVC investment options with Prudential which include a default option for members, the Prudential's With Profits fund, and a further 23 funds, together with an overview of the current allocation of investments by members across all 24 fund options;
- Other AVC providers in the market, and
- Details of a test of the AVC market that Hymans are currently conducting on behalf of 4 local authorities including Strathclyde Pension Fund.

Hymans Robertson will produce a short paper summarising the results of the AVC market test before the end of Q4 2021. Depending on the outcome of the test, Hymans recommend that the Fund consider reviewing the default investment option and self-select fund range in 2022.

In the meantime, the Fund will continue to keep the standard of Prudential's service and competitiveness under review.

6 Manager Reviews

The following investment managers attended the Investment Advisory Panel:

- **Partners Group**
- **PIMCO**

Performance of each of the managers was reviewed.

Partners

The Partners Group private equity portfolio is currently valued at £852m – 3.1% of Fund versus a target weight of 2.5%. The private real estate portfolio is currently valued at £379m – 1.4% of total Fund versus a target weight of 2.5%. The private debt portfolio is currently valued at £147m – 0.5% of total Fund versus a target weight of 1.0%. Partners Group updated the Panel on the performance of the Fund's private equity, private real estate and private debt investments.

Private Equity and Private Real Estate

In order to maintain its target investment allocations, the Fund had previously agreed commitment plans for the private equity and real estate programme, divided into annual investment 'tranches' between the years 2019 to 2022. Partners project that the 2020 investment tranches to real estate and private will be fully committed early in 2022.

The private equity portfolio is currently over the Fund's target weight. Partners Group's cash flow modelling demonstrated that distributions from the portfolio would bring the portfolio back in line with target by 2023. No new commitments are therefore required at this time.

Deployment of commitments to the private real estate portfolio has picked up in Q4 2021 as a result of market recovery. The portfolio is currently under target weight, and Partners Group therefore recommended additional commitments of £200m per annum in 2022 and 2023 in order to reach and maintain the Fund's target exposure.

Private Debt

The private debt portfolio is still in build-up mode, investment is proceeding according to plan and Partners expected the Fund's commitment to be fully invested in the first half of 2022.

The original commitment of £220m to this mandate was set when total Fund value was £22bn. To attain the mandate's target weight of 1% of total Fund, an additional £50m commitment is required.

Investment Advisory Panel Meeting 4th November 2021

The Panel considered and agreed the new investment proposals for both private real estate and private debt.

PIMCO
The PIMCO absolute return portfolio is currently valued at £1,009m, or 3.6% of total Fund, versus a target weight of 4.0%. PIMCO provided an update on the Fund's existing investment in PARS III and an introduction to the Dynamic Bond strategy.

7 AOB

Eric Lambert, investment advisor, is retiring and will therefore step down from his role on the Investment Advisory Panel later this month. Andy Green, Hymans Robertson is relinquishing his role at the firm and this will be his last Investment Advisory Panel attendance. The Panel wishes both Eric and Andy well in future endeavours.

Appendix 4

Responsible Investment and Climate Change Activity Q3 2021

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

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

In quarter 3 the Fund's private equity manager, **Pantheon Investors**, provided its annual ESG and Corporate Responsibility Report. The report included details of how Pantheon ensures underlying fund managers integrate ESG considerations into their investment process.
Pantheon have been carrying out their own ESG analysis of their fund managers since 2015 and in 2018 they incorporated climate change risk questions into their investment due diligence for primary fund investments. All managers are now subject to an in-depth risk assessment that covers a range of questions including:

- Do you have a formal approach to integrating ESG factors within your investment process?
- Have you signed the UN PRI or adopted any other ESG-related standards?
- Does your investment process include monitoring climate change-related regulation?
- How do you engage with portfolio companies on ESG issues?

Based on responses to these questions, each manager is assigned a rating ranging from:

- Green – good ESG integration, clear reporting, UNPRI membership
- Amber – areas for improvement, e.g., ESG not formally integrated into investment process
- Red – significant gap with good practice.

Currently 61% of managers are rated green, with just 3% rated red. Since 2020, 80% of the managers across both private equity and infrastructure programs scored Pantheon's highest rating for integrating ESG factors into investment processes and 82% scored the highest rating for engaging directly with portfolio companies on ESG issues. While only 51% of managers achieved the highest rating for fully integrating assessment of climate change risk and opportunities into their investment processes in 2020, this is an area of rapid progress and the percentage of those scoring the lowest rating was just 3%.

The Pantheon ESG and Corporate Responsibility Report is available at:
https://pantheon-ventures.foleon.com/esg-report-2021/esg-and-corporate-responsibility-at-pantheon/front-page/

Responsible Investment and Climate Change Activity Q3 2021

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

2.1 Voting

Managers' voting activity during the quarter to 30th September 2021 is summarised as follows.

Voting activity to 30th September 2021		
		(%)
Total meetings	**1,060**	
Votes for	8,603	86
Votes against	1,501	15
Abstentions	44	0
Not voted	38	0
No. of Resolutions	**10,186**	**100**

Voting activity in the quarter included:

- **Legal & General** voted against a resolution to receive and adopt the report & accounts at **Frasers Group Plc** as the company did not meet the requirements of the Modern Slavery Act 2015. Section 54 of the Act requires companies to provide a statement setting out the steps they have taken to ensure that slavery and human trafficking is not taking place in their own operations or within their supply chain. In addition, the statement should be signed by the board of directors. Legal & General not only considers the failure to provide this statement to be a serious governance failing, but they also see this as both a humanitarian crisis and a risk to a company's operating model. However, only 0.41% of the shareholders voted against this resolution - over 64% of the company's issued share capital is owned by the founder of the company. In Germany, Legal & General voted against the annual formal discharge of the management board and supervisory board at **Volkswagen AG**. While Legal & General notes the progress made by the company in its strategy towards the transition to a lower emission world, they remain concerned about the company's handling of the diesel emissions scandal of 2015 and its overall governance structure. 99.5% of shareholders supported the resolutions.

- **Baillie Gifford** voted against executive remuneration at multinational medical devices company **Abiomed** due to concerns with one-off equity awards granted during the year. The resolution passed with 51 per cent support.

- **Oldfield Partners** voted against remuneration for executive officers at **BT Group** on the grounds that the remuneration policy continues to reward management for poor financial performance. The resolution passed with 90 per cent support.

- **J.P. Morgan** voted against the re-election of the chair of the remuneration committee at UK retailer **JD Sports Fashion Plc.** due to long-standing concerns regarding executive compensation practices. A majority of shareholders voted against, and the remuneration committee chair was removed.

- **Lombard Odier** voted against executive remuneration at **Active Energy Group Plc.** as their remuneration approaches and alignment with shareholder's interests is not sufficient. The Executive Directors are eligible to receive excessive termination payments in the event of a change in control which is excessive. Additionally, the CEO received a significant increase during the year with no explanation.

- **Lazard** voted against CEO remuneration and stock option plans at **Remy Cointreau.** The CEO's base salary is not disclosed and disclosure on bonus does not make a link between pay and performance. The stock option plans were opposed due to a lack of information on the performance conditions.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Oldfield Partners** continued their engagement with **Korea Electric Power (KEPCO)** in support of Climate Action 100+. Oldfield have been lobbying KEPCO to improve climate related disclosure, to adopt a net zero objective for 2050 and to cease building new coal plants at home and abroad. Late in 2020, the company improved its climate-related disclosure and agreed to target net zero emissions by 2050. This was made possible by the change in stance of its controlling shareholder, the Korean Government, that itself committed to achieve net-zero emissions by 2050 and pledged to spend US$7bn on green-focused growth. In July KEPCO confirmed it would make no further investments in coal projects either domestically or internationally and would focus on renewables and natural gas in the future (Vietnam and Indonesian plants under construction will be completed). KEPCO has also agreed to provide 43 gigawatts (GW) of renewable power capacity of the national target of 58 GW by 2030.

- **Baillie Gifford** engaged with Irish building materials company **CRH Plc**. to discuss the company's progress on decarbonisation. CRH reaffirmed their ambition to lead on carbon reduction within the cement industry and a revised carbon strategy is being published at the beginning of next year. The cement industry is among one of the most carbon-intensive sectors with technology to provide a scalable and cost-effective solution to zero carbon emissions in development. Baillie Gifford were encouraged by the commitment to lead and look forward to seeing the revised strategy next year. Baillie Gifford engaged with **Ryanair** to discuss the company's recent order of planes from Boeing, the planned ramp up ahead of next summer and its efforts to reduce the company's carbon footprint. Ryanair is actively involved in finding solutions to its climate challenges and is working in partnership with Trinity College Dublin to develop sustainable aviation fuel, Baillie Gifford also discussed the company's efforts to build relationships with staff. During the pandemic the board and management worked hard to maintain open communication with staff and to protect jobs. The company has made significant progress in its approach to sustainability matters and how it interacts with shareholders. Baillie Gifford continued discussions with **Wizz Air Holdings Plc.** on sustainability topics. The company has an ongoing dialogue with the Science-Based Targets initiative and made its first submission to the Carbon Disclosure Project. Baillie Gifford discussed how the company thinks about decarbonisation of its business and the broader aviation industry. In the medium-term, sustainable aviation fuel has the potential to contribute, while longer-term new airplane technology, in the form of electric and hydrogen planes, will be important. As the greenest airline in Europe, Wizz is confident of maintaining its industry-leading position. However, they believe the low carbon transition will have significant impact on the whole industry. The company's efforts to improve diversity and inclusion, as well as maintaining open communication and good relationships with employees was also discussed. Wizz Air are taking a pragmatic approach to sustainability, which is supportive of the company's long-term strategy. Baillie Gifford also engaged with pharmaceutical and biotechnology company **Moderna** on its approach to maximising access to its Covid-19 vaccine. Baillie Gifford are supportive of Moderna's tiered pricing model and its reinvestment in an expanding pipeline of vaccines and treatments but continue to encourage efforts to ensure universal vaccine access. It was also encouraging to hear how the company is facilitating vaccine donations from countries with excess supply.

- **J.P. Morgan** continued ongoing engagement with UK fashion retailer BooHoo PLc, The firm provided written answers to questions posed in earlier engagement. Five questions were answered on the environmental front and seven on cyber security. Regarding the environment, for example, the company responded on energy efficiency by saying they had changed all lights to be LEDs, were installing solar panels (all sites already operate on renewable electricity) and are investigating the use of voltage optimization technology at their Burnley warehouse. They have made a commitment to science-based emissions targets through a formal commitment to the **Science-Based Targets initiative (SBTi)** and they are now in the process of setting goals that will have to be approved by the same body. On cyber security, BooHoo advised that their system would be classed as level 1 on the National Institute of Technology (NIST) Cyber Security Framework (CSF) and that all staff carry out cyber security training as part of their induction. The firm has also recently acquired a dedicated security training and awareness platform to provide quality continuation training. The cyber security process is audited by both an in-house IT auditor and KPMG. J.P. Morgan await updates on the company's Agenda for Change programme, progress on increasing ESG experience on the Board and on the submission and next steps regarding SBTi. J.P. Morgan engaged with UK homewares retailer **Dunelm** to discuss a variety of ESG topics. On the topic of emissions, Dunelm has a clear roadmap to getting to net zero emissions by 2050. Further, it has committed to an absolute reduction of 50% in scope 1 and 3 carbon emissions by 2030, and to purchase only renewable electricity, in terms of scope 2 emissions. The company's home delivery mailing bags are now made from greater than 95% recycled plastic and are 100% recyclable. It continues to partner with organizations such as the British Retail Consortium (BRC) to ensure that the retail industry is not only headed in the right direction when it comes to climate change, but that it sets a world-leading industry ambition to reach net zero emissions.

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.

- **Sustainalytics** reported efforts to engage with US based video game publisher **Activision Blizzard, Inc.** (Lazard) which has been sued for sexual harassment and gender-based discrimination. In July 2021, the California Department of Fair Employment and Housing (DFEH), a US state agency charged with enforcing California's civil rights laws, filed a civil lawsuit in the Los Angeles Superior Court against Activision Blizzard, Inc., King Digital Entertainment Plc. and two other related entities for violations of the state's civil rights and equal pay laws. The DFEH stated that during its investigation it found evidence that Activision Blizzard discriminated against its female employees in terms of compensation, promotion, termination and retaliation, and that female employees were subjected to constant sexual harassment by co-workers, including high-ranking executives. The lawsuit alleges that the company's executives and human resources department failed to address the misconduct. In its initial response, Activision Blizzard denied all the accusations. Following an employee letter criticizing the company's first response, Activision Blizzard's CEO announced an external review of the company's procedures. Sustainalytics will contact the company to better understand its view of the allegations, as well as its current and planned remedial actions. The company should cooperate with ongoing investigations and, if found culpable, compensate the plaintiffs appropriately. Furthermore, the company should reinforce anti-discrimination policies by conducting relevant sensitization training, ensuring a robust grievance mechanism is in place, and appointing a senior-level anti-discrimination expert to lead such activities with a strong mandate from the executive team and company board, and sufficient resources.

- Sustainalytics reported that it will engage with online retailer **Amazon Inc.** (Baillie Gifford, Lazard and Veritas) regarding accusations of interfering in union elections in Alabama, including adopting several anti-union strategies. In April 2021, the Retail, Wholesale and Department Store Union (RWDSU) filed a complaint with the US National Labor Relations Board (NLRB) alleging that Amazon had interfered with the conditions necessary to conduct a fair union election at a distribution centre in Bessemer, Alabama. Allegedly, Amazon used several anti-union strategies such as issuing a series of threats, reassigning pro-union employees to roles where they are isolated from colleagues, and pressuring workers to cast votes in a mailbox in front of surveillance cameras. Since February 2020, at least 37 charges across 20 cities in the US have been filed with the NLRB against Amazon for interfering with worker's rights to organize, form or join a union. Sustainalytics will reach out to Amazon to initiate dialogue. The focus topic will be to learn more about the allegations, and how the company is working to ensure that no anti-union practices are taking place within its operations. Amazon should ensure its Global Human Rights Principles, addressing ILO standards and freedom of association, are implemented throughout its entire operations. The company should also provide a grievance mechanism for employees to raise potential concerns.

- Sustainalytics also reported efforts to engage with US based scientific instruments supplier **Thermo Fisher Scientific** (Baillie Gifford, Lazard and Veritas) regarding accusations of providing biomedical and bioinformatics technology to the Chinese government, which uses it to conduct compulsory mass DNA collection, expanding its capacity for biometric surveillance and other human rights abuses. The large-scale DNA collection violates the privacy rights of Chinese citizens, who are not given the opportunity to provide informed consent. Additionally, this has led to an expansion of state control over the Uyghurs in Xinjiang and ethnic minorities in other regions. Products supplied by Thermo Fisher contribute to these violations. Sustainalytics will contact the company to establish a dialogue about product governance as well as management of the human rights impacts associated with its products. Throughout the engagement, Sustainalytics will seek to learn more about the steps the company is taking to protect internationally accepted human rights standards. Companies operating in China are in a challenging position with respect to managing human rights risks. Nonetheless, supporting internationally accepted human rights standards as well as norms governing the collection, use and storage of human genetic data remains an expectation. The company should improve its human rights due diligence and disclosure, especially in relation to its products, services and business relationships.

- **Baillie Gifford** met with Arizona based internet used car retailer **Carvana** to begin a more direct conversation around Carvana's climate-related thinking and reporting. Carvana is the fastest growing online used car dealer in the United States and as a disruptor of the US second-hand car market, Carvana's interaction with the trends of the energy transition are multi-faceted, but, so far, it has no public disclosure or commentary on the issues. There is opportunity in the extension of vehicle lives and, potentially, in acting as a sales channel for original equipment (automotive component) manufacturers (OEMs) retreating from the dealership footprint. But there is also risk if old combustion engine cars see sudden value loss due to dislocating policy or technology change. Carvana needs to understand and report its carbon footprint (direct emissions and those inherent in the cars it trades), but also explore its handprint - its options for system influence. This could be as simple as the provision of fuel efficiency data for buyers, or as complex as the academic research needed on life-cycle efficiency: is it more carbon efficient to scrap early and go electric, or better to wring the last drop of life from the current fleet before building new? There are many interesting issues to debate here as Carvana shakes this old-fashioned market, and Baillie Gifford look forward to continuing the discussions.

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.

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

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

- In quarter 3 the Fund joined the **Food Emissions 50** campaign which aims to accelerate progress towards a net zero future in the food and agriculture sector by engaging the 50 of the highest-emitting public food companies in North America to improve greenhouse gas emissions disclosures, set ambitious emission reduction targets, and implement credible climate transition action plans in line with Paris Agreement. The effort is coordinated by **Ceres** and will involve institutional investors from around the world who are committed to taking a set of key actions that will drive the necessary and transparent corporate climate action.
  Recognizing that effective change in this sector demands sector wide action, Food Emissions 50 has established a common high-level agenda for companies to reduce emissions across the food supply chain.

Specifically, investors are seeking commitments from the focus companies' boards and senior management to:

- Disclose greenhouse gas emissions across their entire value chain and set science-based emission reduction targets aligned with 1.5 °C.
- Develop and disclose comprehensive climate transition action plans for reducing emissions in line with what is needed to limit warming to 1.5 °C.
- Implement the actions identified in those plans and disclose progress

The Ceres Food Emissions 50 report is available at:
https://www.ceres.org/resources/reports/food-emissions-50-company-benchmark

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

  - Continued engagement with **Rio Tinto**. LAPFF attended Rio Tinto's AGM to push the company on recognising the financial impacts of its social challenges.
  - Engagement with **ArcelorMittal** to discuss the company's second Group Climate Action report.
  - Continued engagement with **Shell** to work toward a truly Paris-aligned climate and business plan for the company
  - Continued engagement with **National Grid** as joint-lead investor in the Climate Action 100+ engagement and attendance at the AGM to encourage robust decarbonization plans.
  - Engagement with **SSE** to discuss the company's 'say on climate' resolution ahead of the AGM. LAPFF and SSE have a long-standing dialogue on environmental, social, and governance issues, including a just transition.
  - LAPFF met with **Standard Chartered** to ascertain how the company is progressing working with clients on climate change to reduce emissions and align with the bank's net zero by 2050 policy.
  - LAPFF issued a voting alert to oppose the climate plan at the **BHP** AGM. While BHP has undoubtedly made progress on climate the plan is not aligned with the goals of the Paris Agreement and given the pressing nature of the climate crisis LAPFF expects all climate plans to be Paris-aligned at this stage. As the alert stated, climate change is not a negotiation.
  - LAPFF attended **Sainsbury's** 'Plan for Better' event and posed questions, both at this event and at the AGM, on the company's packaging practices, electric vehicles, supply chains, climate change and 'say on climate'.
  - Engagement with companies identified last year as operating in the Occupied Palestinian Territories. The long-term objective is to

have these companies produce credible, robust, independent human rights impact assessments of their practices in the OPT.

- LAPFF continued to engage with other investors in the **30% Club**, the Investors for **Opioid and Pharmaceutical Accountability (IOPA)** and the **'Financing a Just Transition Alliance'**. It is also continuing to work with **CA100+** on carbon reduction at widely held companies, and with **Sarasin** on Paris-aligned auditing of accounts. LAPFF also continues to participate in investor collaborations to combat modern slavery.

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

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

- Legal & General, Lazard, Baillie Gifford, JP Morgan, Lombard Odier, Veritas and Oldfield Partners provided reports on ESG engagement during the quarter. Sustainalytics provided a full engagement report for the quarter and an engagement progress update on individual portfolio companies.

- At the close of quarter 3, and in advance of the **COP26** UN Climate Change Conference in Glasgow, the **Investor Agenda 2021 Global Investor Statement to Governments on the Climate Crisis** was sent to global heads of state. This statement delivers the strongest-ever investor call for governments to raise their climate ambition and implement robust policies. This statement, coordinated by the seven Founding Partners of The Investor Agenda including the **Institutional Investors Group on Climate Change (IIGCC)**, was signed by 733 investors representing over USD $52 trillion in assets (representing around 50% of global AUM). The joint statement to all world governments urges a global race-to-the-top on climate policy and warns that laggards will miss out on trillions of dollars in investment if they aim too low and move too slow. The statement also sets out five actions governments need to urgently undertake:
  - Strengthen Nationally Determined Contributions for 2030 in line with limiting warming to 1.5°C.
  - Commit to a mid-century net zero emissions target with clear sectoral decarbonisation roadmaps.
  - Ensure ambitious pre-2030 policy action including strengthened carbon pricing, phasing out fossil fuel subsidies and thermal coal-based power, avoiding new carbon-intensive infrastructure (no new coal power plants) and developing just transition plans.
  - Ensure COVID-19 economic recovery plans support the transition to net zero emissions.
  - Commit to implementing mandatory climate risk disclosure requirements.

The full statement and list of current signatories is available at: https://theinvestoragenda.org/wp-content/uploads/2021/09/2021-Global-Investor-Statement-to-Governments-on-the-Climate-Crisis.pdf

- In quarter 3 the Fund was confirmed as a signatory the new **UK Stewardship Code** (2020). The UK Stewardship Code 2020 is a substantial and ambitious revision to the 2012 edition of the Code and sets high stewardship standards for signatories. Organisations wanting to become signatories to the Code are required to produce an annual Stewardship Report explaining how they have applied the Code in the previous 12 months. The Financial Reporting Council (FRC) evaluates the Reports and those that meet the reporting expectations are accepted as signatories. The FRC received 189 applications, comprising 147 asset managers, 28 asset owners and 14 service providers and accepted a total of 125 applicants as signatories. The Fund is one of 23 asset owners to be accepted and was the only Scottish public sector asset owner listed. Seven of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics also made the signatory list. The full list of signatories to the Code is available at: https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-signatories.

- The Fund co-signed a **Workforce Disclosure Initiative (WDI)** collaborative letter to US based video game company **Activision Blizzard Inc.** asking it to be more transparent about its workforce practices and disclose to the WDI survey this year. The Workforce Disclosure Initiative (WDI) is a project to advance investor understanding and in turn consideration of the people behind the largest publicly listed companies, from those directly employed to those employed in the supply chain. The WDI is run by ShareAction and is supported by a coalition of 53 institutions, with $8 trillion in assets under management. The initiative is also supported by the Pensions and Lifetime Savings Association (PLSA) and the Department for International Development. Activision Blizzard is a one of the most successful standalone interactive entertainment and gaming corporations globally, and yet in 2021 it is being sued for discrimination and sexual harassment against its female employees. WDI believe this demonstrates the mismanagement of the company's responsibilities to its workers and will have a strong negative impact, not only on people's lives and livelihoods, but the organisation's reputation, bottom line and future profitability. They are therefore of direct consequence to shareholders, not to mention the wider communities in which the company operates.

- **Sustainalytics** issued its biannual reports for the thematic engagements, Responsible **Cleantech, Modern Slavery** and **The Governance of Sustainable Development Goals (SDGs)**.

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

environmental and social considerations related to the processes around cleantech products.
Increased investment in cleantech is essential to meet the climate and energy-access ambitions set out in the Paris Agreement and the Sustainable Development Goals (SDGs). At the same time, the rapidly growing demand for these products poses new environmental and social challenges. By encouraging and enabling the cleantech industry to grow in a more responsible manner, investors can contribute to multiple Sustainable Development Goals. This second biannual report marks the end of the first of three years of engagement. To date, eighteen companies have joined the engagement including Ford Motor, SunPower, Tesla, and Vestas Wind Systems. The engagement program has yielded specific insights about the environmental and social challenges of each of the selected cleantech domains. Sustainalytics' Responsible Cleantech engagement addresses both the environmental and social implications of the growth of selected cleantech domains – electric vehicles, wind turbines and solar panels – and aligns with multiple Sustainable Development Goals, namely: SDG 7 Affordable and clean energy, SDG 8 'Decent work and economic growth', SDG 9 'Industry, innovation and infrastructure', SDG 12 'Responsible consumption and production', and 13 'Climate action'. Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-responsible-cleantech

- **Modern Slavery** is a crisis that is both global and silent. It is global because modern slavery is present in every country, but it is also silent because victims often do not have a voice or are not being heard. The most recent figure on modern slavery, calculated in 2016 and estimated to be 40.3 million people, may well be an under-representation. Given the magnitude of the problem and concerns that businesses may be connected to modern slavery, there is an urgent need to ensure companies are not causing, contributing to, or otherwise directly linked to these violations. This is the expectation that the UN Guiding Principles on Business and Human Rights (UNGPs) sets out in its foundational principles on the corporate responsibility to respect human rights. Yet studies find that many businesses are not taking sufficient action to address these impacts. Investors may therefore be more exposed to the risks of modern slavery than they are currently aware.
  This is the first biannual report of the Modern Slavery thematic engagement in which Sustainalytics presents progress since the baseline assessment in February 2021. The report provides an overview of the engagement process and goes on to provide updates on stakeholder engagement, COVID-19 and the ongoing human rights situation that Uighurs and other Muslim minorities

in China are facing. The report also provides a re-evaluation of the 20 selected companies from the Textile, Apparel and the Construction and Engineering sectors against the KPI framework and describe the engagement interactions. Sustainalytics also shares emerging trends from the engagement and outlines next steps for the remainder of 2021 and into 2022. Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-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.
  The 2030 Agenda for Sustainable Development recognised the private sector as a key agent in closing the development gap and achieving more sustainable future by addressing global challenges such as climate change, poverty, environmental degradation and inequality. The SDG framework has provided companies with the tools to translate global needs into business solutions and investors with new investment strategies, opportunities and products. Meaningful SDG strategies aligned with companies' business plans have the potential to produce positive outcomes in line with the 2030 Agenda and contribute to a more stable and sustainable world. Moreover, purposeful SDGs embedded in companies' strategies can link the profit with sustainability.
  This is the second biannual report of 2021 and provides an update on Sustainalytics' conversations with the 21 selected companies in the Financial Services, Consumer Goods and ICT sectors and outlines their progress against the key performance indicators and towards the change objective. Further detail is available at: https://connect.sustainalytics.com/thematic-engagement-governance-of-sdgs

- **Sustainalytics** issued its first report for the new thematic engagement - **Climate Change - Sustainable Forests and Finance.** This thematic engagement will address climate risk and advocate for reductions in direct and indirect emissions in the context of global forest systems. Building on insights gained from Sustainalytics' Climate Transition engagement (2018 to 2021), this theme targets companies throughout forestry-linked value chains to promote science-based emissions reduction strategies, transparent climate-related disclosure and sustainable practices to mitigate impacts from climate change. At the end of the three-year timeline of this project, the companies should have demonstrated how their management of climate change & forestry-related activities are in line with international disclosure standards and science-based targets aligning with a 1.5-degree transition pathway or beyond, and active involvement in efforts to further SDG goals. On a secondary level, the engagement seeks to promote the integration of nature-related risks and disclosures into reporting, strategic planning and risk management, for long-term value creation in forestry value chains. Further detail is available at:

https://connect.sustainalytics.com/thematic-engagement-climate-change-sustainable-forests-and-finance