



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 4

2nd March 2022

Investment Update

Purpose of Report:

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

- investment performance to 31st December 2021
- portfolios as at 31st January 2022
- the Investment Advisory Panel meeting of 10th February 2022 and
- responsible investment and climate change activity during Quarter 4 2021.

Recommendations:

The Committee is asked to **NOTE** the contents of this report and to **APPROVE** the proposed switch of the Fund's PIMCO allocation from the PARS 3 strategy to the PIMCO Dynamic Bond Fund (see para 6 and Appendix 3).

Ward No(s):

Citywide:

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

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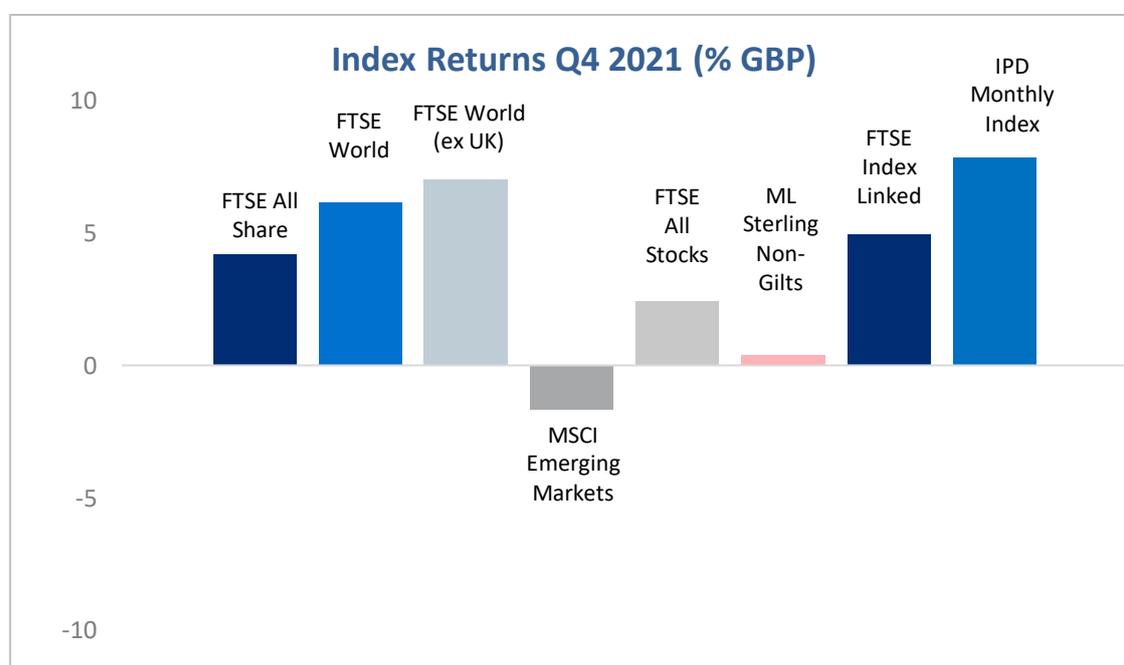
1 SPF Response to COVID-19

The SPF investment team began working from home in late March 2020 and will recommence a trial of hybrid working between home and office in February 2022.

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

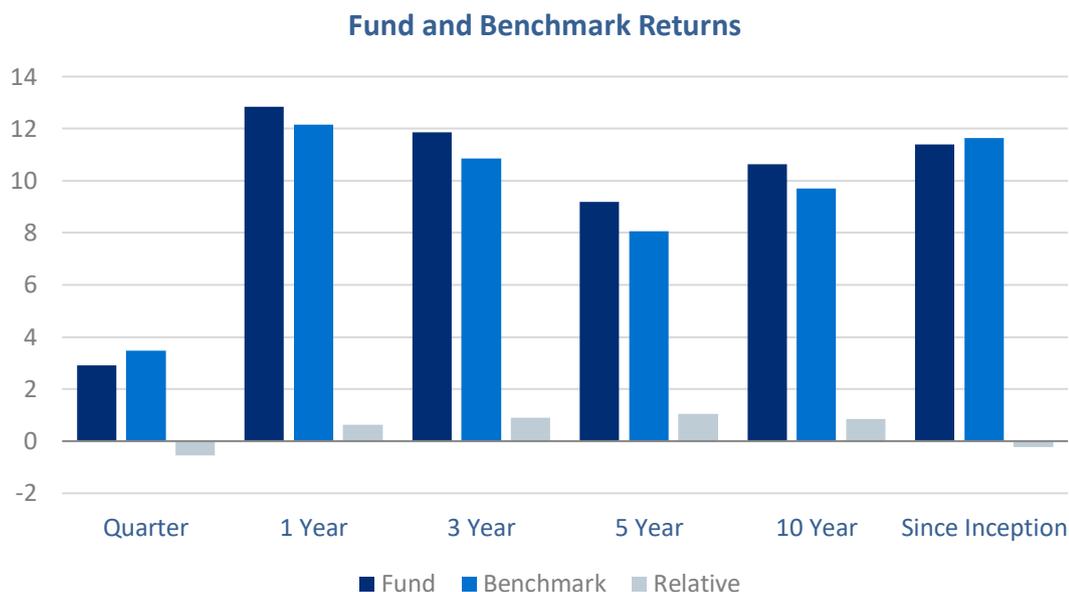
Developed markets ended the year on a broadly positive note. US equities set the pace supported by strong economic data and strong corporate earnings. Despite some countries returning to lockdown and on-going supply-chain constraints, European equities performed well. Although positive, UK equities trailed their US and European counterparts, while emerging markets ended the quarter down.



- The **FTSE All Share** Index returned **+4.2%**, the **FTSE World ex UK** index **+7.0%** and the **MSCI Emerging Markets** index **-1.7%**, compared with Q3 2021 returns of +2.2%, +2.0% and -5.7% respectively.
- The **FTSE All Stock Index** returned **+2.4%**. In addition to uncertainty over the threat posed by Omicron, the Bank of England increased rates in December by 15 basis points, signaling that further increases are in the offing.
- **Sterling** rose by **+2.4%** against the euro and by **+0.5%** against the dollar.
- The **MSCI All property monthly return index** rose **+7.9%**. Stronger capital returns were the main driver of performance across all sectors, and in particular for industrial and retail properties, while rising numbers of COVID-19 cases and the onset of further restrictions weighed on the leisure sector.

3 Total Fund Performance

The Fund's total return for Quarter 4 2021 was **+2.9%**, behind the benchmark return of **+3.5%**.



The Fund's value at 31st December 2021 was **£28,716m**. (Fund value at 30th September was **£27,907m**).

4 Performance Analysis

Further performance analysis is set out in Appendix 1.

5 Portfolio Summary as at 31st January 2022

As at 31st January the Fund's value had decreased to **£28,018m**.

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

6 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 10th February 2022 via MS Teams. A note of the Panel's meeting is set out in Appendix 3 and includes a recommendation at paragraph **5.2** that the Fund switch the Fund's current PIMCO allocation from their PARS 3 strategy to the PIMCO Dynamic Bond Fund.

7 Responsible Investment and Climate Change

A summary of activity during Quarter 4 2021 is set out in Appendix 4.

Highlights from initiatives which SPF supports include:

- results of the Carbon Disclosure Project's 2021 Non-Disclosure Campaign;
- the Farm Animal Investment Risk and Return (FAIRR) global investor statement; and
- high levels of engagement by the Local Authority Pension Fund Forum (LAPFF) and Sustainalytics in respect of the UN Sustainable Development Goals (SDGs).

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 **to APPROVE** the proposed switch of the Fund's PIMCO allocation from the PARS 3 strategy to the PIMCO Dynamic Bond Fund (see para 6 and Appendix 3).

Appendices

Appendix 1 Performance Analysis

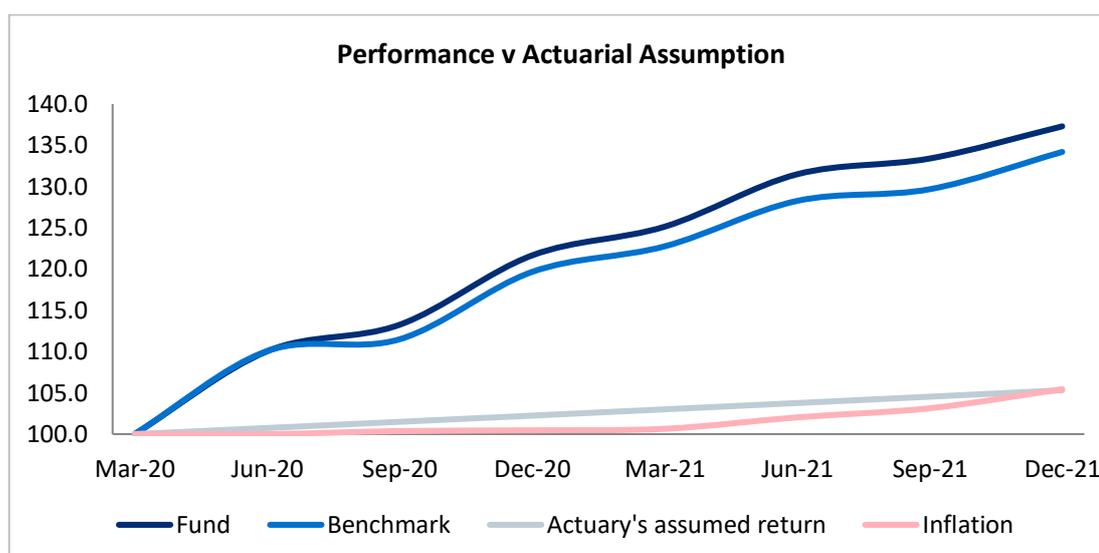
Appendix 2 Portfolio Summary as at 31st January 2022

Appendix 3 Note of Investment Advisory Panel meeting on 10th February 2022

Appendix 4 Summary of Responsible Investment and Climate Change Activity

Performance Analysis

1 Investment Performance vs Actuarial Assumption



As at the end of Quarter 4 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			1 Year		
	Fund %	Bench mark %	Relative %	Fund %	Bench mark %	Relative %
Equity	3.6	5.0	(1.4)	18.5	19.3	(0.6)
Hedging & insurance ¹	0.0	5.4	(5.1)	(2.4)	4.2	(6.4)
Credit	0.6	0.5	0.1	(2.7)	(2.7)	0.0
Short term enhanced yield	(0.6)	0.7	(1.3)	1.9	2.7	(0.8)
Long term enhanced yield	5.7	2.9	2.6	11.2	8.7	2.3

¹From Dec 2020 to June 2021 portfolio was invested in passive index-linked gilts >5 years. In June 2021, the index-linked portfolio was divested, with the proceeds held in cash funds. Benchmark for hedging and insurance remains FTSE Index-Linked Gilts >5 years.

3 Performance by Investment Managers

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

- 8 managers outperformed their benchmark; and
- 13 managers underperformed.

Equity returned **+3.6%**, underperforming the benchmark of **+5.0%**. The only manager to outperform was **Lombard Odier**. The most significant underperformers were **Baillie Gifford**, **Oldfield**, **Veritas** and **Active Emerging Markets** (formerly Genesis). In absolute terms, the strongest returns came from **Lazard** and **Pantheon**.

Short term enhanced yield returned **-0.6%**, underperforming the benchmark of **+0.7%**. The main detractors over the quarter were **Ashmore** (emerging markets debt) and **PIMCO** (absolute return bonds), while private debt portfolios **Alcentra, Barings, Partners Group** were the strongest performers.

Long term enhanced yield returned **+5.7%** over the quarter, outperforming the benchmark of **+2.9%**. All 3 managers (**DTZ, Partners Group Real Estate and JP Morgan IIF**) outperformed their benchmarks. In absolute terms, the strongest performer was **DTZ**.

4 Direct Investment Portfolio (DIP)

As at the end of December 2021, DIP comprised **54** investment commitments, totalling **£1,783m**. During Quarter 4 2021, **net drawdowns** to DIP amounted to **£89m**. These brought the **Net Asset Value** of DIP to **£1,174m** at the end of the quarter.

Portfolio performance to 31st December is as follows.

	Q4 2021 (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since Inception (% p.a.)
DIP	4.2	10.2	3.8	5.9	7.4
DIP Benchmark*	1.9	5.6	4.7	3.1	1.8
SPF Total Fund	2.9	12.8	11.8	9.2	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. During the quarter, there was also 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:

- **48** investments are rated **green** (increase of 1)
- **3** are **amber** (no change) and
- **None red**.
- **3** are in legals

Portfolio Summary as at 31st January 2022

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	7,808	27.9%	346	1.2%	1,369	4.9%					9,523	34.0%	31.5%
Baillie Gifford	2,190	7.8%									2,190	7.8%	7.5%
Lazard	890	3.2%									890	3.2%	2.5%
Oldfield	803	2.9%									803	2.9%	2.5%
Veritas	846	3.0%									846	3.0%	2.5%
Lombard Odier	454	1.6%									454	1.6%	1.0%
JP Morgan	908	3.2%							839	3.0%	1,747	6.2%	5.5%
Active EM Equity	416	1.5%									416	1.5%	1.5%
Pantheon	1,413	5.0%									1,413	5.0%	5.0%
Partners Group	863	3.1%					219	0.8%	428	1.5%	1,509	5.4%	6.0%
PIMCO							1,002	3.6%			1,002	3.6%	4.0%
Ruffer							541	1.9%			541	1.9%	2.0%
Barings (multi-credit)							735	2.6%			735	2.6%	2.8%
Oak Hill Advisors							492	1.8%			492	1.8%	1.8%
Barings (private debt)							512	1.8%			512	1.8%	1.3%
Alcentra							406	1.4%			406	1.4%	1.3%
ICG Longbow							176	0.6%			176	0.6%	1.0%
Ashmore							547	2.0%			547	2.0%	2.5%
DTZ									2,460	8.8%	2,460	8.8%	10.0%
DIP	86	0.3%					121	0.4%	999	3.6%	1,206	4.3%	7.0%
Cash							149	0.5%			149	0.5%	1.0%
Total	16,676	59.5%	346	1.2%	1,369	4.9%	4,900	17.5%	4,727	16.9%	28,018	100.0%	100.0%
Target		52.5%		1.5%		6.0%		20.0%		20.0%		100.0%	

Investment Advisory Panel Meeting 10th February 2022

STRATHCLYDE PENSION FUND

INVESTMENT ADVISORY PANEL
Held via MS TeamsMINUTES OF MEETING ON Thursday 10th February 2022

PRESENT:	Richard McIndoe	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	David Walker	Hymans Robertson
	Nell McRae	Hymans Robertson
	Jacqueline Gillies	Chief Investment Officer
	Richard Keery	Investment Manager
	Lorraine Sweeney	Asst. Investment Manager (part-meeting only)
	Veronica Antonucci	Investment Assistant
	Moira Gillespie	Investment Administrator (part-meeting only)

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 4th November 2021 were agreed to be an accurate record.

The SPF Committee had agreed at its meeting on 2nd June 2021 that the Fund should switch the current £1.7bn RAFI Global Allocation to the RAFI Fundamental Climate Transition Index (CTI). Officers advised the Panel that the transfer took place on the launch date of the new CTI funds, 10th December 2021, and is now complete. The final cost of the transition was 3.6bps, almost 50% less than the original estimate of 7bps.

The Fund's commitment of £200m to 2 ICG Longbow funds (private real estate debt) was agreed 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 was required. Officers confirmed that the increased commitment was finalised in January 2022 with £150m split equally between the Partnership Capital VI fund and Senior Capital fund V.

The investment period of the Fund's separately managed account with Alcentra had been suspended in September 2021 following the departure of key personnel from the firm. Officers and Hymans Robertson continue to keep developments at the firm, which may now include a sale of the business by its parent company, BNY Mellon, under review. The Panel will re-visit the suspension decision at its May meeting.

Hymans Robertson are completing an AVC market test on behalf of 4 local authorities including Strathclyde Pension Fund. Information gathering has taken

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longer than anticipated but Hymans expect to deliver the results before the end of Q1 2022. A formal review of AVC arrangements would be included in the SPF 2022/23 business plan.

In November 2021 the Panel agreed to additional commitments of £200m per annum to Partners Group real estate in 2022 and 2023 and an additional £50m commitment to Partners Group private debt, in order to reach and to maintain target exposures for both mandates. Officers advised that legal due diligence is progressing on the new commitments.

2 Monitoring

2.1 Quarterly Investment Performance Review (Main Fund)

The Fund's return for Q4 2021 was positive (**+2.9%**), and below benchmark (**+3.5%**). Performance for the year to 31st December 2021 was positive (**+12.9%**), and above benchmark (**+12.1%**). 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
- None red.

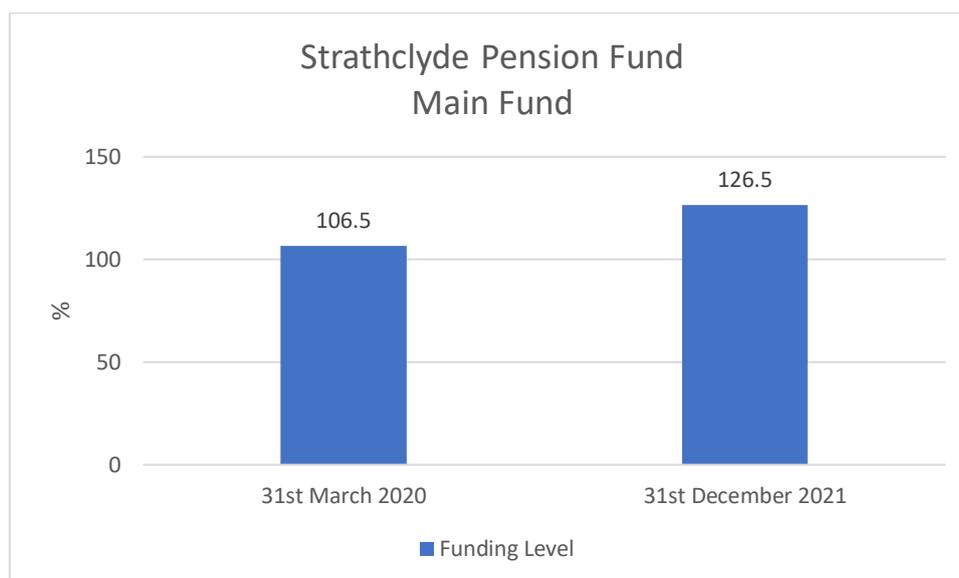
2.3 Direct Investment Portfolio Monitoring Report

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:

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

2.4 Estimated Funding Levels

Hymans Robertson provided the following estimates of the funding levels as at 31st December 2021. The funding level had increased significantly since the 31st March 2020 actuarial valuation.

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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 at 31st December 2021 were as follows.

	2021 Estimate (£m)	2021 Actual YTD (£m)	2022 Estimate (£m)
Distributions	927	867	839
Calls	-1,053	-962	-843
Net	-114	95	-4

The net cash flows for 2021 were £95m, £31m less than had been estimated.

In 2022, projected distributions from private market programmes only just fall short of projected drawdowns (£4m). The Fund's private debt mandates with Partners Group and ICG Longbow and the Direct Impact Portfolio are still building their investment exposure. Drawdowns to these investments are expected to exceed distributions from them. Drawdowns to the Partners Group private real estate mandate will exceed distributions as the manager commits the funds required to bring the portfolio back in line with the Fund's target allocation. The Pantheon private equity and the Partners Group private equity programmes are mature portfolios and distributions will exceed drawdowns in the year. The Barings private debt portfolio is above target allocation and is now distributing money back to the Fund on a net basis. The investment period for the Alcentra SMA has been suspended; distributions from this portfolio, and Alcentra EDL II and III, will exceed drawdowns.

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The Fund's central cash balance at 31st December 2021 was £416m. This had decreased by £40m since September 2021. In the quarter, £262m was drawn down to, and £235m distributed from, private market programmes, £100m was invested in the Ashmore Emerging Markets Debt Fund, to bring the allocation back within target and £125m was disinvested from the L&G market cap portfolio which was outwith its target range at end October 2021. These proceeds were combined with existing cash balances to fund SPF's £250m increased commitment to the JP Morgan Infrastructure Investment Fund, which took place on 4th January 2022.

The Fund continues to hold the proceeds of the sale of its index-linked holdings (£346m) in cash with L&G, in accordance with the relative value framework.

3.2 Rebalancing Strategy

The Panel reviewed a re-balancing report at 31st December 2021.

- Equity allocation is above target weight (60.1% vs 52.5%) but within the upper target range (42.0% to 63.0%). At level 2, the Fund's combined allocation to global equity mandates is at the top of the target range, though all individual manager mandates allocations are within target range. At level 3, the Legal and General passive market cap portfolio allocation is close to the top of its target range.
- The Fund's allocation to Credit is under target (4.9% vs 6%) and below its target range.
- The Fund's allocation in STEY and LTEY are under the target ranges for these asset classes. New commitments to ICG-Longbow and Partners Group should bring allocations back towards target.

The Panel agreed that £250m should be disinvested from the Legal and General market cap portfolio, with the proceeds reinvested in Legal and General passive credit funds, in order to bring the Fund's Credit allocation back to target.

3.3 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 pre-defined metrics.

Hymans Robertson presented the relative value quarterly monitoring report. The Panel agreed minor changes to the wording of assessment metrics for investment grade bonds: triggers are now based on percentiles rather than fixed numbers and are symmetrical on the upside and downside (25th and 75th percentile).

Based on the revised triggers, the report provided the following summary

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assessment of metrics at 31st December 2021:

- Sterling A grade credit spreads remain much lower than the median, but just above the 25th percentile level of spreads over the last 20 years, indicating that the Fund should retain its credit holdings. The rebalancing report had indicated that credit holdings were below target range, and the relative value framework supports an increase in holdings back up to the neutral Credit allocation of 6%.
- Cash remains preferable to gilts, and a persistent inflation premium supports continuing to hold cash over index linked gilts. The Fund previously sold down its index-linked holdings (Hedging and Insurance) for cash during Quarter 2 2021.

3.4 Investment Income 10 Year Forecast

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

The analysis separately identified:

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

Main conclusions from the updated analysis were that:

- The Fund’s investments currently distribute much more income than is required to pay pensions.
- Distributed income will be more than adequate to pay pensions for the foreseeable future.
- Should this change, up to 92% of income which is currently re-invested could be made available for distribution to the Fund.
- Less than 20% of distributed income is currently required to pay pensions, but this will increase and may be in the region of 42% (net of managers’ fees) within 10 years.
- Ongoing consideration therefore needs to be given to which portfolios should be the source of funds.

4 Governance

4.1 Strathclyde Pension Fund Committee

The Panel noted the draft agenda for the next committee meeting on Wednesday 2nd March 2022.

5 Investment Strategy and Structure

5.1 Emerging Markets Allocation

The strategic target for active emerging market equity is 1.5% of total Fund and until Q4 2021, this exposure was 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.

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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. The changes were approved by shareholders in October 2021 and the Fund sold down £68m of its holdings in GEMF as part of the tender process. The Fund's active emerging allocation is now split across two managers as a result, 0.9% in Genesis Emerging Markets Fund (GEMF) and 0.6% in Fidelity Emerging Markets Limited (FEML), while proceeds from the tender offer (0.2% of total Fund) were re-invested in the Legal and General passive market cap emerging markets fund.

The Panel received a presentation from Fidelity, then discussed the revised structure, including potential alternatives in a paper presented by Hymans Robertson, and agreed to keep options under review.

5.2 PIMCO Fund 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, fees paid to the manager seem excessive relative to the returns achieved.

Hymans Robertson presented a paper to the Panel at its November meeting, providing background to the STEY asset class and the role of absolute returns bonds in this category of the Fund's investment strategy, as well as an overview of PARS and absolute return strategies available, including two potential alternatives with PIMCO, the Dynamic Bond Fund and the Global Libor Plus Fund.

The Panel had discussed the paper and concluded that:

- an allocation to absolute return bonds within STEY was still appropriate, with strategies able to deliver a return in line or excess of the STEY allocation return target 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 the fee 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 was also lower than the PARS 3 fee, although it still looked expensive relative to the market for this type of strategy.

Following feedback from the Panel's November meeting, PIMCO proposed a revised fee structure for an investment in the Dynamic Bond Fund. The Panel reviewed the fee proposal and recommended that the Fund should switch its investment from PARS 3 to the Dynamic Bond Fund.

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5.3 Climate Change

The Panel reviewed the draft Committee paper on the Fund's climate change strategy.

6 Manager Reviews

The following investment managers attended the Investment Advisory Panel:

- **DTZ**
- **Fidelity**

Performance of each of the managers was reviewed.

DTZ

The DTZ UK property portfolio is currently valued at £2,420m, or 8.4% of total Fund, versus a target weight of 10.0%. DTZ provided an update on the current portfolio including the most recent transactions, together with an outline of investment objectives for the forthcoming year.

Fidelity

Following the change in management and tender offer of the Genesis Emerging Markets Fund (GEMF) in October 2021, the Fund now has a holding in the investment trust Fidelity Emerging Markets Limited (FEML). The Fidelity portfolio is currently valued at £160m or 0.6% of total Fund. Fidelity provided an overview of the trust's investment strategy and management team, as well as an overview of future marketing plans.

7 AOB

Alistair Sutherland will join the Investment Advisory Panel as an investment advisor in May 2022. Alistair is an independent consultant and has previously held senior consultancy positions at Deloitte & Touche and Mercer.

Responsible Investment and Climate Change Activity Q4 2021

Responsible Investment: Quarter 4 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 4, the Fund's Infrastructure manager **JP Morgan** provided a report on the Infrastructure Investments Fund (IIF) results from the 2021 Global Real Estate Sustainability Benchmark (GRESB) Annual Infrastructure Asset Assessment.

GRESB assesses ESG performance at the asset level for infrastructure asset operators, fund managers and investors that invest directly in infrastructure. The Assessment offers high-quality ESG data and advanced analytical tools to benchmark ESG performance, identify areas for improvement and engage with companies. 2021 marks the sixth year for the GRESB Infrastructure assessment and participation included 106 Funds and 558 assets.

Key takeaways from the 2021 report include:

- IIF ranked 30th out of 106 Infrastructure Funds in GRESB score.
- 6 IIF portfolio companies have a maximum 5-star rating.
- 12 of 19 IIF portfolio companies with improved score.
- Ventient Energy and Beacon Rail ranked 8th and 9th respectively (out of 558 assets).
- 10 IIF portfolio companies ranked in the top 200 assets (out of 558 assets).
- Sonnedix and Ventient Energy were sector leaders for the fourth year in a row - each ranked first in their respective sector peer groups. (Ventient is a diversified platform of 135 contracted wind farms totalling 2.6 GW across the UK and Europe. Sonnedix develops and operates utility-scale solar projects globally, including 1.6 GW of installed capacity, 399 MW of projects in construction and 541 MW of capacity in documentation and development stages.)

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

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

2.1 Voting

Managers' voting activity during the quarter to 31st December 2021 is summarised as follows.

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Responsible Investment and Climate Change Activity Q4 2021

Voting activity to 31st December 2021		
		(%)
Total meetings	1,017	
Votes for	6,474	80
Votes against	1,347	17
Abstentions	185	2
Not voted	79	1
No. of Resolutions	8,085	100

Voting activity in the quarter included:

- **Legal & General** voted against resolutions to re-elect CEO Satya Nadella, and John Thompson (Nomination Committee Chair and Lead Independent Director at **Microsoft Corp.** as the company recently re-combined the chair and CEO roles, after having these separate for a number of years. Legal & General has set out expectations for all companies to have a separate chair and CEO. This recombination of the roles during 2021 at Microsoft was particularly disappointing as it has had a separation of the roles for many years and did not seek prior shareholder approval for the move. While engagement with the company has been fruitful over the years, Legal & General believe voting against the resolutions was an effective way to convey their disappointment at this governance change.
- **Baillie Gifford** opposed the Climate Transition Action Plan at the Anglo-Australian multinational mining company, **BHP Group**. While satisfactory progress has been made with their approach to climate and climate-related goals, Baillie Gifford are concerned that their targets miss out a sizeable proportion of their emissions and believe they need to be more ambitious in their target setting. The resolution passed with 85 per cent support. Also, at BHP Baillie Gifford supported a shareholder resolution requesting the company strengthen its review of industry associations to ensure that it identifies areas of inconsistency with the Paris Agreement. This resolution passed with 99 per cent support. In the US, Baillie Gifford supported a shareholder resolution at **Tesla Inc** requesting a report on the company's use of arbitration to resolve employee disputes. Additional disclosure and transparency on this provision would clarify Tesla's workplace practices. The resolution failed with 45 per cent support. Also, in the US at cosmetics manufacturer **Estee Lauder**, Baillie Gifford opposed an executive compensation resolution due to continued practice of granting sizable special equity awards and providing guaranteed pay which is not aligned with shareholders' best interests. The resolution passed with 91 per cent support. Baillie Gifford also opposed the executive compensation at California-based medical device company, **ResMed**. The inclusion of a

Appendix 4

Responsible Investment and Climate Change Activity Q4 2021

retesting provision within the long-term incentive plan is inappropriate. The resolution passed with 90 per cent support.

- In the US, **Veritas** supported three shareholder proposals at **Microsoft Corp.** The proposed report on Gender and Racial Pay Gap would allow shareholders to compare and measure the progress of the company's diversity and inclusion initiatives. A report on Effectiveness of Workplace Sexual Harassment Policies was supported as the company faces potential controversies related to workplace sexual harassment and gender discrimination and a report on Lobbying Activities Alignment with Company Policies would provide shareholders needed information about reputational risks that may arise from publicity around perceived inconsistencies.
- **J.P. Morgan** voted against executive remuneration at **Breville Group.**, **CINT Group AB.** and **Plaid Inc.** as their remuneration approaches and alignment with shareholder's interests are not sufficient.
- **Lombard Odier** abstained on the vote to approve executive remuneration at **Keir Group Plc.** While engagement is ongoing on this matter Lombard Odier could not agree to support the proposal given the size of the proposed increases or the performance criteria.
- **Genesis** opposed the Employee Stock Option Scheme at **Aptus Value Housing Finance India Ltd.** as the scheme permits stock options to be issued with an exercise price at a discount to the current market price and Genesis opposed the Executive Remuneration Report at Russian e-commerce platform, **Ozon Holdings Plc.** as the structure and proposed levels of pay are not aligned with shareholder's interests.

2.2 Engagement

Engagement highlights during the quarter include the following.

- **Baillie Gifford** engaged with multinational mining company **BHP Group Plc.** to discuss the climate transition resolution on the company's AGM agenda. Baillie Gifford outlined concerns with the proposed resolution, specifically that it is advisory only, it will hand considerable influence to proxy advisors and consultants and may reduce accountability from the board. Baillie Gifford believe that an annual vote is not necessary and want to avoid an endless cycle of shareholder engagement and short-term assessments. They see concerning parallels with the 'say-on-pay' resolutions, which have disappointed in their ability to improve pay-for-performance and alignment. Baillie Gifford encouraged the company to take a long-term, forward-looking approach, which explains how the climate strategy relates to the broader business plan, how the company intends to meet targets and where it sees bottlenecks and opportunities.

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Whilst the company has set targets for its scope 1 and 2 emissions, these only represent around 5 per cent of BHP's carbon footprint. Baillie Gifford expressed their disappointment with the scope 3 goals set as part of the climate transition plan. Baillie Gifford engaged with **CBRE Group, Inc.** to discuss the company's climate strategy. CBRE's emissions reduction targets are aligned with a 1.5-degree world and CBRE is committed to reduce absolute scope 1 and 2 GHG emissions 68 per cent by 2035 from a 2019 base year. To achieve this target, they have committed to achieving 100 per cent renewable electricity by 2025 and to transitioning its fleet to electric vehicles. The company also commits to reduce scope 3 GHG emissions from the use of sold products managed on behalf of occupiers and scope 3 GHG emissions from the use of sold products managed on behalf of owners over the same timeframe. The company's targets have been verified by the Science-Based Targets initiative. More recently, the company strengthened its ambitions, joining the Amazon-led Climate Pledge and committing to be net zero for all scope 1, 2 and 3 emissions by 2040. Baillie Gifford engaged with cosmetics manufacturer **Estee Lauder** on executive compensation decisions made in the last year. In the past 12 months a special equity award valued at \$40m was granted to the CEO. The terms of the award are not particularly stretching and given the significant shareholding the CEO has in the business, alongside an already generous pay package, Baillie Gifford did not believe this to be an effective use of shareholder funds. Baillie Gifford opposed the executive compensation resolution and the re-election of compensation committee members at the AGM and communicated their rationale to the company.

- **J.P. Morgan** met with **Pan Pacific** to discuss their board composition. J.P. Morgan voted against elections of all directors at the AGM last year because the company increased the numbers of directors from 14 to 17; and had not addressed the lack of diversity on the board. Following engagement with the company Pan Pacific proposed to reduce the number of directors to 15 and to appoint its first female executive board director. Additionally, J.P. Morgan asked about the measures the company has undertaken to advance female participation in the workplace. The ratio of female employees in management was reported at 7% for 2020, compared with the female employee ratio of 30%. Diversity was made a top priority of upper management in 2021 and the percentage of female employees in management positions had already reached 10% in March of this year and a target of 30% has been set for March 2023. J.P. Morgan will continue to engage with the company to further enhance diversity at the board level and to monitor progress in achieving its target.

J.P. Morgan engaged with **Milbon** on its efforts to enhance diversity on its board and in the workplace and establish/disclose social supplier

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standards. The discussion with management confirmed a steady increase in the ratio of female employees and female managers, and the appointment of an outside female director. The company has also been preparing new policies on human capital development that will be announced in the next corporate governance report, where acceleration of diversity will also be emphasized. Advancement in initiatives for sustainable palm oil and paper usage in their procurement practices was also discussed. J.P. Morgan will continue to monitor the company's actions to improve workplace diversity and encourage the company to establish a supply chain management system.

- **Sustainalytics** provided a report on concluded engagement with the German vehicle manufacturer company **Volkswagen AG** (Ruffer). Between 2008 and 2015, Volkswagen used illegal software, a so-called “defeat device”, in diesel car models to bypass US environmental regulations on nitrogen oxide emissions. Since 2016, the company has paid fines, recalled vehicles, and reached settlements with authorities and customers around the world. More recently, the European Commission (EC) fined Volkswagen for colluding with BMW and Daimler between 2009 and 2014 to avoid adopting the best available technology for reducing nitrogen oxide emissions. The Sustainalytics engagement objective was to ensure that the company had adequate risk management systems and internal controls and that the supervisory board had sufficient oversight, independence and skills to prevent future violations. Furthermore, Volkswagen was expected to demonstrate that it had improved its corporate culture.

The Dieselgate scandal induced VW to reform its corporate culture through a comprehensive range of measures. The company has adopted Real Driving Emissions testing; advanced with code of conduct training; improved its whistle-blower system reporting and is implementing ESG-tied remuneration for both top and middle managers. Based on the company's willingness to cooperate with the authorities, strong responsiveness to the engagement, and its considerable progress in improving its internal compliance organization and reforming its corporate culture, Sustainalytics decided to conclude the engagement. Dialogue with VW would be resumed if any new serious business ethics incidents occur.

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.

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- **Sustainalytics** reported that it will engage with **Meta Platforms Inc.** (Baillie Gifford) regarding human rights impacts on users in certain demographics, in developing countries and in regions with high risks of human rights abuses. Meta Platforms (formerly Facebook) is the world's largest social media platform, making its potential impact on society exceptional among its peers. The company has received criticism for several years concerning its content moderation practices and impacts on democracy, hate speech, misinformation, mental health, and other issues. In 2021, leaked internal documents increased focus on the negative impact that users may face from the company's Facebook and Instagram platforms, and the content shared on them, alongside corporate decisions to disregard potential solutions in the interest of maximizing user engagement and profit. Among the concerns identified are Facebook's apparent issues with monitoring misinformation in different languages, particularly affecting developing countries. The leaked reports also flagged issues with monitoring both disinformation and hate speech, with only a fraction of this being removed from the platform, and the company's challenges to implement effective measures. The Sustainalytics engagement will encourage human rights due diligence of Facebook's policies and the business impact on users. The company should increase transparency of how it enforces content moderation policies; ideally it should include detailed insights into the implementation of content policies by country. Finally, Meta should demonstrate both the governance structures and competency to oversee implementation of human rights standards in the company's products and practices.
- **Baillie Gifford** met with multinational metals and mining corporation **Rio Tinto Group** to learn more about the company's developing climate strategy. Whilst it is encouraging to see the company strengthen its scope 1 and 2 emissions reduction targets for 2030 these emissions only account for approximately 5 per cent of the company's total footprint, with downstream scope 3 emissions, particularly in the production of steel, the largest contributor. Accordingly, Baillie Gifford will focus on how Rio Tinto intends to collaborate with customers and other stakeholders to cut these emissions, what they see as the key challenges and how these may impact the sustainability of the business. Baillie Gifford think the company can do more to address its lifecycle emissions, including setting ambitious medium and long-term scope 3 targets and have encouraged Rio Tinto to lead the mining and minerals industry by setting stretching scope 3 emissions reduction targets. This should include a long-term strategy, including engagement with key stakeholders and financial investments. These items will be important to secure support for next year's climate transition resolution.

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- **SPF and Baillie Gifford** discussed the recent controversy surrounding the music streaming service, **Spotify**, which has been at the centre of a controversy over its star podcaster, Joe Rogan, and accusations of spreading Covid-19 misinformation. Baillie Gifford have engaged with Spotify over a number of years on topics including their relationship with artists, executive pay, board structure and voting rights. Baillie Gifford are very aware of this issue and have noted the company's response including publishing their platform rules and introducing content advisory warnings and a COVID-19 Hub that contains data and information shared by scientists and public health authorities. Baillie Gifford will monitor developments and will discuss it with Spotify management in future meetings.

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 32 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).

- **CDP** provided the results from its **2021 Non-Disclosure Campaign**. This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. CDP's Non-Disclosure Campaign targets those companies that continually decline to disclose, as well as a tangible process in which they can contribute to driving corporate action and broadening the coverage of environmental data. In 2021, SPF was one of 168 financial institutions signing up to the campaign. With a combined AUM of US\$17 trillion, and engagement with over 1,300 companies this is the strongest participation to date. The companies targeted in the campaign were from 77 countries representing over US\$29 trillion in market capitalization and over 4.9 billion tCO₂ e in combined scope 1 & 2 emissions. There was a notable increase in the engagement levels across all three themes.

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The number of companies targeted on climate rose 21% from 839 in 2020 to 1,011 this year. Forests had a 99% increase from 148 to 295 companies, and the number targeted on water security rose 67% from 219 to 366. Global water use, storage and distribution contributes to 10% of global emissions and deforestation/ forest degradation is responsible for 15% of global emissions. This increased engagement shows that financial institutions understand the growing importance of comparable data across multiple themes. The disclosure rate for companies targeted by participants rose from 21% in the 2020 campaign to 25% this year. Across all three CDP themes, companies that were engaged by financial institutions were 2.3 times more likely to disclose than those that were not targeted. The full report is available on the CDP website: <https://www.cdp.net/en>

- In advance of the **COP26 UN Climate Change Conference** in Glasgow, the Fund co-signed a **Farm Animal Investment Risk and Return Initiative (FAIRR)** global investor statement calling on G20 nations to disclose specific targets for reducing agricultural emissions. The IPCC's 'Special Report on Climate Change and Land' found that an estimated 23% of total anthropogenic greenhouse gas emissions in the period 2007-2016 came from agriculture, forestry and other land use. Recent research has put this at a third of global GHG emissions. Global meat production is currently around 340 million tonnes per year, more than three times the quantity of 50 years ago, whilst meat consumption worldwide is expected to increase 1.4% annually through to 2023 with rising incomes and a growing global population. Current production processes to meet this growth in demand is also responsible for record levels of destruction of important natural biomes on the planet through deforestation and biodiversity loss. Climate action on food systems, such as bold and effective national targets for agricultural emissions has the potential to deliver 20% of the global emissions reductions needed by 2050. The COP26 process, and each country's Nationally Determined Contributions (NDCs) in particular, are key to meeting this challenge as 90%+ of current NDCs fail to account for the whole food system. The statement asks all G20 nations to disclose specific targets for emissions reduction in agriculture within or alongside their NDC commitments at COP26. The full statement from investors is available at: <https://www.fairr.org/wheres-the-beef/>
- In support of **ShareAction's** Good Work investor coalition the Fund co-signed letters to the leading UK Supermarkets including **Sainsbury's, Tesco, Morrisons, M&S** and **Ocado** regarding real Living Wage and workers' rights. Supermarkets are one of the largest employers of low paid workers in the UK – with 45% of supermarket worker's earning less than the real Living Wage. ShareAction's Good Work investor coalition have been

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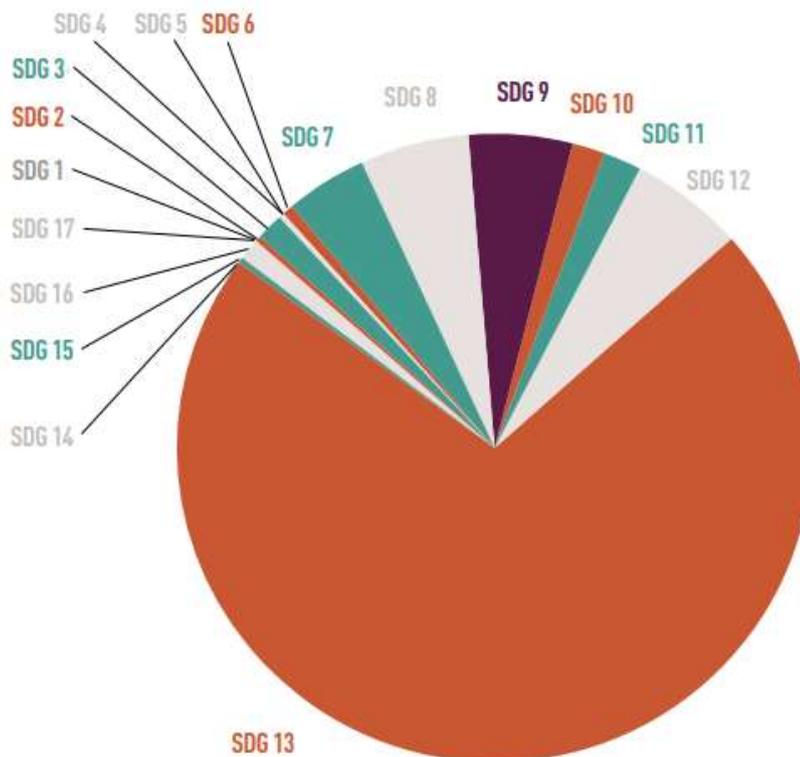
engaging with supermarkets on the topic of the Living Wage since 2013 and over the last 18 months it has been a key focus sector. The coalition have raised the topic of the Living Wage through AGM questions, letters, meetings as well as hosting a sector roundtable earlier this year. Through this engagement we have seen some supermarkets make movement towards the Living Wage rates, but no supermarket has accredited. The letters argue that many low paid workers have played a critical role in ensuring that society continues to function during the COVID-19 crisis at great personal risk and that paying a real Living Wage with basic rights and benefits are long overdue. The Good Work investor coalition represents 38 investors with over £4.6 in assets under management.

- The **Local Authority Pension Fund Forum (LAPFF)** provided a Quarterly Engagement Report. The report highlights include:
 - Continued engagement with **Vale, Rio Tinto** and **Anglo American**, to track progress on areas such as climate planning human rights and health and safety.
 - Engagement with **ArcelorMittal** to track progress against the second iteration of the Climate Action 100+ benchmark.
 - Continued engagement with **BP** discuss detailed aspects of the company's energy transition plan.
 - Continued engagement with **National Grid** as joint-lead investor in the Climate Action 100+ initiative.
 - LAPFF met with **Standard Chartered** to determine how the bank is progressing working with clients to reduce carbon emissions and align with the bank's net zero by 2050 policy.
 - Engagement with **Barratt Developments** about plans towards achieving net zero for homes and for their operations.
 - LAPFF wrote to pharmaceutical companies including **Roche**, and **Johnson & Johnson** to request engagement meetings to discuss Covid driven changes to business models and strategies.
 - Continued engagement with **Chipotle** regarding the company's approach to water stewardship.
 - LAPFF wrote to the constituent companies of the **FTSE All-share** to ask that boards set out their strategy to manage the transition to a net zero emissions business and to provide annual provision for shareholders to vote on such plans.

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

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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	1
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	9
SDG 4: Quality Education	2
SDG 5: Gender Equality	0
SDG 6: Clean Water and Sanitation	2
SDG 7: Affordable and Clean Energy	26
SDG 8: Decent Work and Economic Growth	33
SDG 9: Industry, Innovation, and Infrastructure	31
SDG 10: Reduced Inequalities	10
SDG 11: Sustainable Cities and Communities	12
SDG 12: Responsible Production and Consumption	34
SDG 13: Climate Action	425
SDG 14: Life Below Water	0
SDG 15: Life on Land	2
SDG 16: Peace, Justice, and Strong Institutions	6
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

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

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- The LAPFF supported **All-Party Parliamentary Group (APPG)** for local authority pension funds issued the final report of its inquiry into responsible investment for a just transition to Net Zero. The APPG had undertaken an inquiry during 2021 examining the role investors can play, with the support of government, in ensuring the transition to net zero considers the social implications for employees, consumers, communities and supply chains. The inquiry found that just transition presented investors with financial risks. The consensus view from the inquiry was that if the transition to net zero is seen as unfair and unjust there would be public resistance and a lack of co-operation. As such, failing to consider the uneven impact of climate action on people and places risks support for decarbonising the economy. That in turn would create economy wide and company specific risks for investors. The report, '**Ensuring Responsible Investment for a Just Transition to Net Zero**', covered actions investors can take individually and collectively, including having a commitment on the issue in policy documents, understanding the risks and opportunities through quantitative metrics and qualitative evidence from affected stakeholders, importance of setting expectations and engaging companies on them, how capital allocation can help mitigate the risks and maximise the opportunities, and how funds can report impact. The report also set out what governments could do to support investors, such as having a clear and comprehensive just transition commitment, requiring greater company disclosure, identifying and supporting investment opportunities, and establishing a just transition commission. The report is available at: <http://www.appglocalpensionfunds.org/wp-content/uploads/2021/10/Responsible-Investment-for-a-Just-Transition-report.pdf>

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.
- The **Institutional Investors Group on Climate Change (IIGCC)** reported on the outcome of the **COP26** UN Climate Change Conference negotiations in Glasgow. After two weeks of intense negotiations over 90% of world GDP is now covered by net zero commitments, 153 countries have put forward new 2030 emissions targets (NDCs) and the Paris Rulebook has been finalized. Countries also agreed to come back next year with new strengthened commitments and a new UN climate

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programme on mitigation ambition. To deliver on these stretching targets, commitments have been made to move away from coal power, halt and reverse deforestation, reduce methane emissions and speed up the switch to electric vehicles. In the area of finance, thirty-four countries and five public finance institutions will stop international support for the unabated fossil fuel energy sector next year and private financial institutions and central banks are moving to realign trillions towards global net zero.

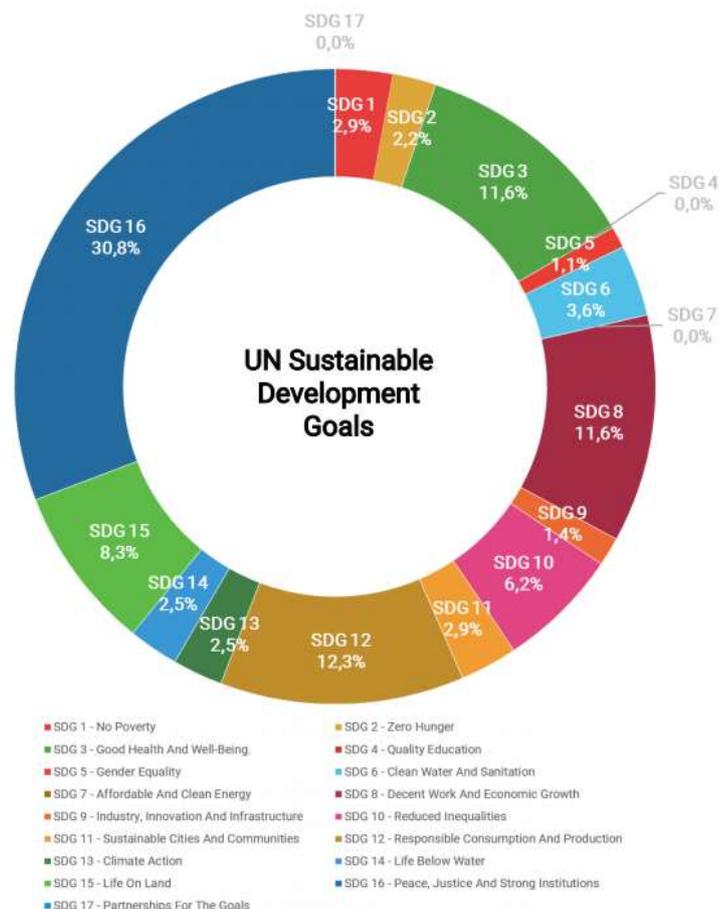
The final agreement is remarkable for its recognition of the need for 'accelerating efforts to phase down unabated coal power and phase out inefficient fossil fuel subsidies' Notably, this included a climate cooperation declaration between the world's two biggest CO2 emitters – the US and China – which calls for increased efforts to close the 'significant gap' that stands in the way of achieving the goals of the Paris Agreement. Whilst it is disappointing that the specific wording relating to coal power was watered down in final negotiations, its inclusion still represents considerable progress from previous national commitments. Ambition has also stepped up in relation to adaptation, with developed countries being urged by their developing counterparts to double adaptation finance by 2025.

IIGCC ensured a strong investor presence at COP26, undertaking an extensive programme of events, bilateral meetings with senior national delegates and wider stakeholders, members and media work. IIGCC's focus was on highlighting investor action on climate change and setting out the policy frameworks that are required to scale this up.

As part of their activities, IIGCC published the final 2021 **Global Investor Statement to Governments on the Climate Crisis**, which received support from 733 signatories managing over USD 52 trillion in assets. 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>

- **Sustainalytics** Quarterly Engagement Report summarizes the shareholder engagement activities performed on behalf of investor clients during the quarter and includes updates on individual portfolio companies, examples of which are detailed in earlier sections of this report. 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. Engage and Resolved cases in quarter 4 can be attributed to the following SDGs (as percentage of total cases).

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- **Sustainalytics** issued its biannual report for the thematic engagement, **Feeding the Future** and its final report for the concluded engagement **Plastics & Circular Economy**.
 - **Feeding the Future** is a three-year engagement targeting approximately twenty companies in the food sector with the focus on how companies are transforming their business models to address the new realities for production and consumption. The food sector has a massive environmental footprint and is critically dependent on natural resources. Agriculture is estimated to account for one-quarter of the world's greenhouse gas (GHG) emissions, 80 percent of deforestation, 70 percent of water use and 78 percent of ocean and freshwater pollution. In addition, land conversion can often have significant and irreversible implications for biodiversity. As such, current agricultural practices not only place unsustainable demands on global ecosystem services but also jeopardise the food sector's own future through contributing to the diminishing quality and availability of land and other natural resources. Given the number and variety of material environmental issues affecting the food sector the failure to

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manage related impacts comes with significant business risks and potential costs. The focus of engagement to date was on understanding the respective companies' current practices and clarifying their disclosure. In most cases, dialogue has been constructive. Many companies were keen to hear an investor perspective about sustainable food production and were receptive to suggestions. To date, the following ten companies have joined the engagement: **Archer Daniels Midland, Bayer CropScience, Carrefour, Cencosud, Central Retail, Fresh Del Monte, Kerry Group, Nestlé, Nutrien, and Sociedad Quimica y Minera**. Throughout the engagement, Sustainalytics assesses the engaged companies on six key performance indicators (KPIs) that cover governance, biodiversity and land use, non-land resources and food waste, sustainable product portfolio, supply chain resilience and stakeholder engagement. Beyond the company engagements, Sustainalytics had introductory calls with two relevant multi-stakeholder initiatives. This provides an avenue to bring relevant expertise into the dialogue and harness synergies where they exist. Biodiversity is certainly an escalating topic as the materiality of the risks imposed are gaining a broader understanding. All companies in the engagement with whom we have had dialogue have expressed a major interest in developing biodiversity-related commitments, accompanied by a frustration of the lack of cohesive standards on how to address this broad and complex topic. The development of the Taskforce for Nature-Related Financial Disclosure (TNFD) is highly anticipated, as it will provide a common framework helping companies to mitigate their exposure to nature-related risks. Looking ahead the coming six months of the thematic engagement will focus on the second round of engagement sessions where Sustainalytics will seek to continue and deepen the dialogue with the companies and wider stakeholders and to enlisting the participation of further companies.

This thematic engagement seeks to directly contribute to the Sustainable Development Goals. SDG 2 on Zero Hunger, SDG 6 on Clean Water and Sanitation, SDG 12 on Responsible Consumption and Production, SDG 13 on Climate Action, SDG 14 on Life Below Water and SDG 15 on Life on Land. It is indirectly connected to several others. Further detail is available at: <https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement>

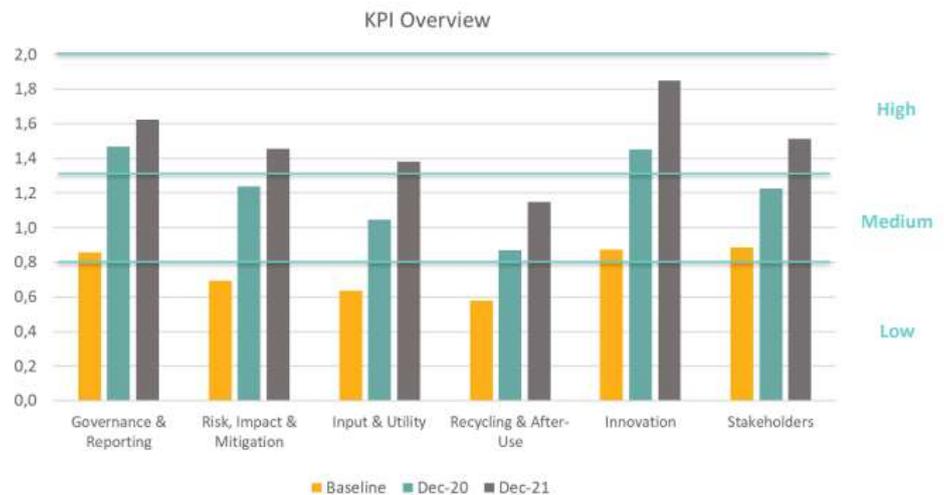
The **Plastics & Circular Economy** thematic engagement programme started in January 2019 and has focused on encouraging companies in key sectors exposed to risks

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associated with plastics – electronics, automotive and packaging and consumer goods - to improve the quality and economics of recycling practices, to shift strategic focus towards redesign and innovation and to increase the reusability of products to enable a transformation of the plastics market towards sustainability. The Sustainalytics engagement strategy has been based on the Ellen MacArthur Foundation’s New Plastics Economy initiative which recommends three primary steps for companies and other stakeholders: decouple from fossil feedstocks; create an effective after-use economy; and reduce leakages. These steps are aligned with the concept of a circular economy.

To specify engagement objectives and measure progress throughout the engagement, companies have been assessed on six Key Performance Indicators (KPIs) corresponding to various aspects of plastics use and management. The chart below illustrates the significant advance of average scores for each KPI over the course of the engagement programme with 18 out of 20 companies improving their overall KPI score of 3 points or more from the 2019 baseline, thus meeting the programme change objective.

Company Performance



Sustainalytics believe this mirrors a variety of factors, including legal currents incentivizing circularity, increasing public expectation for companies to manage plastics responsibly and the ability of investors to keep the issue current. However, as illustrated by the Recycling & After Use performance, companies across the three sectors find increasing the use of recycled plastics to be a particular challenge. However, this may in turn explain the prodigious innovation in areas such as material and product design and recycling technology evident in all three sectors. Looking ahead Sustainalytics make a number of recommendations for further engagement by investors, including holding companies to account on implementing the circularity

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component of their long-term sustainability strategies, talking to companies about the development of new business models and tracking and supporting efforts to incorporate recycled plastic and alternative materials into products.

This thematic engagement is also aligned with the Sustainable Development Goals. SDG 12 Responsible Consumption and Production, SDG 13 on Climate Action, SDG 14 Life Below Water and SDG 17 Partnerships for the Goals.

Further detail is available at:

<https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/thematic-engagement>