



Fulcrum Asset Management Stewardship Report – 2021/2022



fulcrumasset.com



Contents

Statement from the Management Board	1
Statement from Matthew Roberts, Partner and Chair of our Responsible Investment Committee	2
2021–2022 Stewardship Highlights	5
Principle 1	6
Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	
Principle 2	11
Signatories' governance, resources and incentives support stewardship	
Principle 3	21
Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	
Principle 5	23
Signatories review their policies, assure their processes and assess the effectiveness of their activities	
Principle 6	25
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	
Principle 7	28
Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	
Principle 8	34
Signatories monitor and hold to account managers and/or service providers	
Principle 9	37
Signatories engage with issuers to maintain or enhance the value of assets	
Principle 11	45
Signatories, where necessary, escalate stewardship activities to influence issuers	
Principle 12	48
Signatories actively exercise their rights and responsibilities	
Principle 4	54
Signatories identify and respond to market-wide and systemic risks to promote a well functioning financial system	
Principle 10	57
Signatories, where necessary, participate in collaborative engagement to influence issuers	
Direction of travel	62
TCFD reporting	64
Appendix	67

Statement from the Management Board

We are delighted to introduce our Stewardship Report (the “Report”) for the year ending 30th June 2022. We have observed interesting developments in the depth of discussion surrounding stewardship topics across our industry, with investors asking more questions and really testing fund managers. In this year’s Report, in addition to providing an update on our Action Plan and our activities as a business (particularly as they relate to stewardship), we will discuss how we have responded to the geopolitical events that have occurred and the related economic consequences. We will also profile what we are doing in response to the healthy investor appetite for more and better information.

We have structured the Report in line with our approach to stewardship. As such, Principle 1, 2, 3 and 5 groups our work on how we govern stewardship activities. We follow this with Principle 6, 7, 8, 9, 11, 12, which discusses how we consider our clients and beneficiaries (P6), embed ESG considerations in our investment process per capability (P7) and engage as part of our investment process. We believe engagement is the foundation that allows us to achieve our net zero ambitions, thus P8, 9, 11 and 12, showcase our approaches. Finally, we have grouped Principle 4 and 10 together. These principles showcase firmwide consideration of stewardship through the assessment of market-wide systemic risk and participation in industry collaborations.

Sustainability represents one of our five core values as a firm, with stewardship being an essential pillar supporting it. We hope that you find this Report useful and engaging and as always, we welcome your feedback.

The Management Board

Statement from Matthew Roberts, Partner and Chair of our Responsible Investment Committee

Fulcrum Asset Management LLP (“Fulcrum”) believes that the most effective way of staying ahead of the increasing client needs and regulatory obligations is through having an innovative and integrated approach to stewardship.

As we look back over the reporting period, we feel that we have taken some significant steps in the area of stewardship and we have done so whilst maintaining a clear focus on our clients. In last year’s Report, we provided a summary of our key objectives for 2021-2022 in the form of an Action Plan. Below we provide a review of progress against those objectives during the year. We will also discuss our Action Plan for 2022-2023 as well as our 3–5-year goals in the Direction of Travel section of this Report, which is designed to highlight our commitment to improve further. Notwithstanding the following updates, we are aware that traditional stock-picking managers will be able to display

a different level of Environmental Social & Governance (ESG) integration and engagement in certain respects, but we feel that the work we have done and aim to do, helps to set us apart, given our macro heritage. We are constantly scanning the horizon for existing and emerging macro risks, such as climate change, which is why work is underway to increase the number of Climate-Aligned securities we invest in. We are also evolving as a firm, aiming to strengthen the elements of effective stewardship, from increasing the proportion of votable securities to hiring new staff members engaging with companies, third-party managers, and industry initiatives.

Update on the objectives set out in our 2021 Stewardship Report

Action area	Objective	Update
Climate Change	We have identified climate change as a key risk and a focus of our ESG integration efforts firmwide. We will continue to innovate in the climate investing space. We believe that there will be an increasing focus on forward-looking climate indicators, such as the Implied Temperature Rise (ITR) metric ¹ and intend to support further innovation in this area.	Climate Change is a priority across our firm. We have continued to evolve in this area and have produced several thought pieces summarising our work. These include thought pieces on Climate Alignment , Carbon Footprint and Integrating ESG risk in Trend Following . We have also engaged with several industry initiatives including the Net Zero Asset Managers Initiative (NZAMI), Climate Action 100+, Carbon Disclosure Project and the Glasgow Financial Alliance for Net Zero (GFANZ).
ESG Integration	We will develop a more complete range of Key Performance Indicators (KPIs) for our investment capabilities to assess our progress over time. These will be aligned with the EU SFDR regulation where relevant and cover a much broader range of ESG factors beyond climate metrics.	We have selected a data provider to meet these regulatory obligations and support our broader work on KPIs after a detailed review of the available options. We observe that significant work is still required across our industry to improve data coverage and form a unified philosophy on ESG integration in derivatives and non-equity investments. We have participated in the Institutional Investors Group on Climate Change (IIGCC) working group on the treatment of derivatives. ²

¹ The ITR metric is a forward-looking metric expressed in degrees Celsius, designed to show the temperature alignment of companies, portfolios, and funds with global temperature goals. For us this is the Paris Alignment Goal of 2 Degree Celsius.

² More details on the outcome of the working group and corresponding white paper can be found [here](#). Details on the consultation post publication can be found [here](#).

Update on the objectives set out in our 2021 Stewardship Report

Action area	Objective	Update
ESG Integration	We will scale up the extent to which Responsible Investment (RI) is incorporated across our non-equity strategies, including our systematic Risk Premia investment capability and certain elements of our Macro capability.	<p>We have integrated ESG metrics into our Risk Premia capability as part of the market allocation process within the trend following engine. We consider a measure of ESG risk associated with each market in the portfolio, using ESG country risk ratings from Sustainalytics. These risk ratings are developed into a measure of investment risk consistent with our existing internal metrics and mapped onto the four main asset classes of the strategy: equities, fixed income, commodities, and currencies.</p> <p>Since our Macro capability allocates to each of our other capabilities, it also benefits from this evolution.</p>
Training, Incentives and Resources	We will increase the level of resource dedicated to security-level engagement and improve our efforts when it comes to proactive engagement at company Annual General Meetings (AGMs) and a broader range of discussion topics.	<p>We recruited two Responsible Investment Associates in 2021 who are integrated within our investment teams and focus on security-level and broader engagement. Both the recent joiners have professional experience working in the sustainable finance and stewardship space. This reflects our decision to strengthen ESG expertise within the investment teams, rather than building a central ESG team.</p> <p>One of the new joiners worked as a senior sustainability analyst at the UK's largest asset manager, with experience in stewardship, net-zero alignment and fund construction. Our other new joiner was a senior consultant in EY's sustainable finance practice. Her experience includes stewardship, responsible investment and ESG strategy. She has also completed her MSc in Environmental Policy and Regulation from the London School of Economics and Political Science.</p> <p>Further details on how we have engaged with companies at AGMs and a broader range of discussion topics will be discussed on page 48.</p>
Training, Incentives and Resources	We will continue to improve the level of knowledge and education amongst our Responsible Investment Committee (RIC), with most of them to sit the CFA ESG Certificate.	<p>One of our RIC members passed the CFA Certificate in ESG Investing and others are currently studying for the exam. In addition, one of our new joiners is a lead co-author of the CFA Certificate in ESG Investing Curriculum.</p> <p>We have not made the CFA course mandatory. Rather we are in the process of rolling out a comprehensive and interactive ESG-focused training schedule (consisting of 8 sessions). Attendance will be monitored and there is a requirement to attend a minimum of two sessions.</p>
Training, Incentives and Resources	We will establish an "ESG Taskforce" to further enhance our approach to ESG integration and engagement across our investment team and to help aid the work we are doing in communicating our actions to our clients.	<p>In 2022 we established our ESG Taskforce, which uses its meetings to ideate, brainstorm and discuss integration and engagement solutions and challenges.</p> <p>The ESG Taskforce comprises members from risk, compliance, and our investment teams. It is integral to both internal sustainability discussions and ideas for research, innovation, use of technology and market best practices. The team meets every two weeks focusing on project prioritisation and action. The key discussions are fed into our RIC, which meets monthly. Unlike the ESG Taskforce which is a forum for creative solutions, the RIC is formalised, and meeting minutes are saved in our internal system.</p>

Update on the objectives set out in our 2021 Stewardship Report		
Action area	Objective	Update
Training, Incentives and Resources	We will create a clearer linkage between ESG integration and corporate responsibility with an individual's performance assessment included within our overall bi-annual review process.	<p>Since the start of 2022 all business departments have been required to set Departmental Goals, which are cascaded down at a Company level. Firmwide Company Goals are composed of four areas, one of which focuses on sustainability and stewardship. Since the start of 2022, each department within the firm has been required to set their own Departmental Goals, which incorporate both the firmwide goals, as well as other goals that relate specifically to their business area.</p> <p>In addition, all staff undergo a performance review twice a year that includes a review of performance against these goals, performance against the role they perform and each of the five Fulcrum Values (Collaboration, Innovation, Sustainability, Integrity, and Excellence). This ensures that we are reviewing performance against both 'what' someone does and 'how' they go about it. Feedback from the twice-yearly performance review feeds into decisions regarding compensation, progression, training needs and performance improvement initiatives.</p> <p>Further details on our governance, training and incentives will be discussed on page 11 onwards.</p>
Corporate Sustainability	We will further enhance our own corporate sustainability approach, including the measurement of our carbon footprint and our longer-term goals in this regard.	<p>In 2022, our best estimate³ of our carbon footprint as a business was 6-8 tons of carbon emissions per \$million of revenue.</p> <p>We are looking at reducing this even further by engaging with our building manager on renewable energy, understanding the waste management of the firm and improving firmwide sustainability practices.</p>

Overall, we feel that we have made significant progress in a number of key priority areas but also recognise that further work can be done such as in Diversity & Inclusion and training. We will highlight how we intend to make further progress in these areas on [page 15](#).

We fully support the Financial Reporting Council's updated and extended definition of stewardship as "the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

³ Based on calculations done internally using utility bills, travel data and revenue figures and overseen by Matthew Roberts, Head of the RIC.

2021–2022 Stewardship Highlights



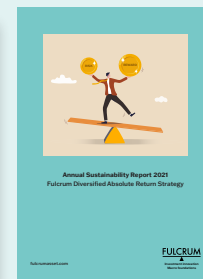
Following the formation of our Management Board structure, we have appointed Joe Davidson (a member of the Responsible Investment Committee) as our Managing Partner

We are delighted to announce that we have new Partners – Emma Pickering, Philip Strother and Juan Antolin-Diaz



Our Fulcrum Climate Change strategy is now Article 9 under EU SFDR regulation

We have expanded our disclosures for clients and beneficiaries by introducing strategy-specific sustainability reports



We are now signatories to the Net Zero Asset Manager Alliance (NZAMI)

We are pleased to share our voting statistics, where we...

Voted 315 times against pay for misaligned environmental and/or social incentives

Supported 86% of key environmental and social shareholder proposals

Voted 751 times against directors for environment-related reasons, including insufficient climate disclosure and targets

Supported 100% of key proposals related to human rights and decent work

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Fulcrum overview

During the reporting period, Fulcrum has grown from a team of 83 people to 87 people which includes economists, asset class specialists and researchers. We have offices in the UK (HQ), the US and a representative office in Japan.

We are proud to have built a strong, experienced investment team with a real passion for investing. Our Assets Under Management (AUM) stand at £4.3bn / US \$5.9bn (figures as at 30.06.2022). As an investment boutique we are large enough to enjoy economies of scale and a breadth of expertise but

equally we are nimble enough to be able to respond quickly to market events or alter course whenever we see opportunities.

Our aim is to build lasting relationships based on the alignment of our clients' interests with our own through our five key investment capabilities: Macro, Risk Premia, Alternative Solutions, Climate-Aligned Investing (newly defined this year) and Thematic Equities, spanning systematic and discretionary investments, managed both internally and externally.

Purpose

Our previous Stewardship Report discussed the role of our leadership (informed by our staff and clients) in creating a strong culture around ESG goals. It showcased that our drive to address both the risk and opportunities stemming from these goals was rooted in our purpose. This year we formalised our core values, which include Sustainability, both at an enterprise level and investment level. It engrained the core belief that sustainability is not a separate function or strategy at Fulcrum but rather a lens through which we consider our decisions.

We would like to reaffirm the statement of purpose expressed in last year's Report:

"We work with clients to maximise the probability of meeting their objectives. We focus on providing innovative investment solutions that are aligned

with our clients' objectives and risk appetite to deliver positive returns in the broadest range of market environments. We aim to manage our clients' money as carefully as we manage our own with as few conflicts of interest as possible. To that end and since our inception, we have invested alongside them, managing the money in the same way."

As rigorous financial and economic modellers, it has become clear to us that it is crucial to consider ESG risks alongside more traditional risk metrics. This helps us to gain a more complete picture of a given investment opportunity and, we believe, make better investment decisions. Being thoughtful stewards of our clients' (and indeed our own) capital will be an essential part of achieving our purpose as a responsible investor and stewards of capital.

Business strategy

Our long-term goal is to work with clients that share our purpose and who seek expertise to help them meet their own objectives. For all current and prospective clients, our focus on stewardship will be paramount in achieving our business objectives. Our strategy for future growth is as follows:

- Provide excellent service to our clients, including managing their assets responsibly and in a manner consistent with their stated objectives.
- Retain our focus on consultants and other intermediaries (such as wholesale distributors and independent financial advisor networks) as key relationships and efficient distribution channels.

- Innovate with existing and prospective clients to help them meet their goals. It will be incumbent on us to engage with our clients, the investment consultant community, and our industry more broadly to fully understand their needs. We see potential for growth in UK DC pension schemes and Master Trusts, Local Government Pension Schemes, Australian institutional, UK wealth management/wholesale clients and Japanese pension schemes.
- Continue our pro-active approach on engagement including voting activities, collective engagement and direct communication with companies.

Investment capabilities

Below we provide a summary of our five investment capabilities:

Macro	Risk Premia	Alternative Solutions	Thematic Equities	Climate-Aligned Investing
These strategies are designed to generate absolute returns, offer downside protection, and provide diversification.	A range of systematically implemented, quantitative investment strategies that includes trend following, volatility, carry, value skewness.	Our guiding objective here is to support investors in overcoming the governance challenges of investing in Alternatives.	We provide exposure to key megatrends through synthetic and physical equity investments.	We invest in companies that are taking steps to align their business model to the net zero transition.
We invest globally currently via index derivatives across equities, bonds, commodities and currencies.	We invest globally via derivatives across equities, bonds, commodities and currencies.	We offer a range of pooled and bespoke solutions with exposure to Real Assets, Alternative Credit and Diversifiers across the liquidity spectrum, largely accessed through external managers.	This results in highly diversified long/short portfolios with global, cross-sector exposures to a wide range of socioeconomic themes.	We aim to balance climate alignment, return expectations and diversification benefits.

We have one investment team that covers a wide range of different asset classes and underlying investments. We need to ensure our team is educated and incentivised to be good stewards of capital and to incorporate ESG considerations effectively. For us, this means supporting and enabling our investment professionals to: consider and integrate ESG risks and sustainability issues in their investment decision-making; vote effectively; engage with companies and the wider industry; and communicate and interact with our clients on these issues. Given our heritage and expertise in macro investing, we concentrate our efforts across all the asset classes that we invest in; not just equities where much of the responsible investment

activity has historically occurred across the industry. In our previous Report, we addressed our areas of progress i.e., Alternative Solutions and Thematic Equities. This year, we have further developed these two capabilities but also started our ESG integration journey in our Trend Following strategy within our Risk Premia capability. We have also started working with industry bodies such as IIGCC to better understand how we can adopt best practices for derivative exposures. This year we have started drawing out the nuances for our different asset classes and how those feed into our engagement and voting activities. We will discuss this later in this Report ([page 28 onwards](#)).

Culture and investment beliefs

We operate with an inquisitive, thoughtful, and research-oriented culture in the pursuit of excellence on behalf of clients. This manifests itself in a focus on incremental improvements in all that we do: integrity in serving our clients day-to-day; the way we integrate ESG considerations in our investment process; our macroeconomic research; our research on specific underlying investments and the way we approach stewardship. We have fostered a culture that emphasises a collaborative team approach within which individuals want to be part of something bigger than themselves – where being the best stewards of our clients' capital plays a central role in attracting and retaining fantastic people to manage their money in the right way.

We believe that responsible investing at Fulcrum requires an innovative, multifaceted, and integrated approach that, if done well, can lead to improved investment outcomes for clients over the long-term. There are numerous examples of the

factors we consider to be important in this regard including: climate risk, biodiversity, diversity and inclusion, and human rights. These are important for investment outcomes as they either directly or indirectly impact long-term value creation for shareholders, or the ability of a borrower to repay.

We also believe that diversification, through thoughtful portfolio construction, works in the long-run and that there are many ways to benefit from this phenomenon. In this context, independent risk management is a critical component of good fund management. Crucially, risk is a broad concept and includes a wide range of ESG factors that should be considered wherever possible. These risks can also meaningfully impact outcomes for clients and whether they are sustainable. We summarise our values and associated target behaviours as a business below:

Excellence	Integrity	Innovation	Collaboration	Sustainability
<p>Each and every time we engage with clients, we endeavour to produce work of the highest quality.</p> <p>—</p> <p>We strive for investment excellence through a repeatable approach that is research-driven and evidence-based.</p> <p>—</p> <p>We must recognise our own limitations and be aware of our behavioural biases.</p>	<p>Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do.</p> <p>—</p> <p>Our clients are the real risk-takers. They are entitled to the bulk of the gains and fees should be fair. Clients should pay little for beta and nothing for luck.</p>	<p>We aim to challenge conventional wisdom and expand the frontier of knowledge by building on the work of academic experts and experienced practitioners.</p> <p>—</p> <p>We value reflection and continuous improvement. Even a small edge in expertise, if well defined, is of great value.</p>	<p>Firm-wide collaboration is integral to our success. We believe in leveraging our collective knowledge and improving decision-making through cooperation and constructive debate. We expect everyone to work as a cohesive team.</p> <p>—</p> <p>Our assets are our people. Managers are expected to foster an environment where team members feel supported and motivated.</p>	<p>We invest responsibly with a particular focus on mitigating climate change.</p> <p>—</p> <p>Meaningful integration of environmental, social and governance considerations requires much more than optimising "scores".</p> <p>—</p> <p>Achieving multi-dimensional diversity in our workforce is a gradual but essential process. We must include women and men from all backgrounds.</p>
<p>Our mission is to provide clients with innovative solutions built on solid macro foundations.</p> <p>To achieve this, we aim to create an inclusive workplace that inspires excellence and offers deep professional satisfaction to our employees.</p>				



We are aware of the challenges facing the natural environment and believe that financial markets have an important role to play to create a more sustainable world.

For us, this means:

- Enabling our investment professionals to consider and integrate ESG risks in their investment decision-making
- Acting as good stewards of capital in the way we exercise our voting rights
- Channelling more capital to address ESG challenges such as climate change
- Engaging with companies and the wider industry
- Communicating and interacting with our clients on these issues

Embedding our values in our organisational fabric

Challenge:

While we established our core values last year, it became clear that we had not yet communicated the purpose and reason for choosing these values thoroughly enough to our broader team.

Activity:

Our CIO, Suhail Shaikh, held workshops to discuss the purpose and intent of choosing the values, gaining feedback, and working on how these values can be translated across strategies and functions within the firm. It was important for us to embed the values further, explain them and get everyone at Fulcrum to engage with them at a deeper level.

Outcome:

This was an excellent opportunity for team members to engage with the management board and for the board to gather feedback. It also presented an opportunity to meet various people from different teams and to understand how they incorporate these principles in their day-to-day roles. Finally, it renewed a sense of common purpose, which was perhaps fragmented during the pandemic. We look forward to having such sessions on an annual basis and continue to develop on the feedback received.

Integrating Fulcrum's core values with the due diligence framework used by the Alternative Solution team

Activity:

Our Alternative Solutions team often select third party managers within client portfolios. We currently have ESG analysis as a core component of our due diligence process when selecting securities and assessing third-party managers. However, this year we decided to expand our current framework and align it with Fulcrum's values (stated above).

Outcome:

Our goal is to create better harmony not only between the Alternative Solutions team and broader Fulcrum values but to use our core values in our selection and on-boarding process for third-party managers. We hope that this will promote cultural alignment and facilitate better engagement with our managers on stewardship, net zero and other ESG issues.

The diagram below illustrates how we have mapped our five key ingredients used in the due diligence and manager selection process with Fulcrum's core values.

Alignment of Interests	Organisational structure, business stability, compensation structures	Collaboration
Experience Risk Takers	Humility, team turnover, culture, decision making model, team size, location, history, key man risk, team diversity, skill mix	Excellence
Sustainability Policy and Approach	Genuine engagement, long-term themes and impacts	Sustainability
Targeted Inefficiencies	Investment style / strategy, informational advantages, repeatability of process	Innovation
Effective Controls	Risk management process, operational infrastructure, regulatory controls, "avoiding negative alpha"	Integrity

Principle 2

Signatories' governance, resources and incentives support stewardship

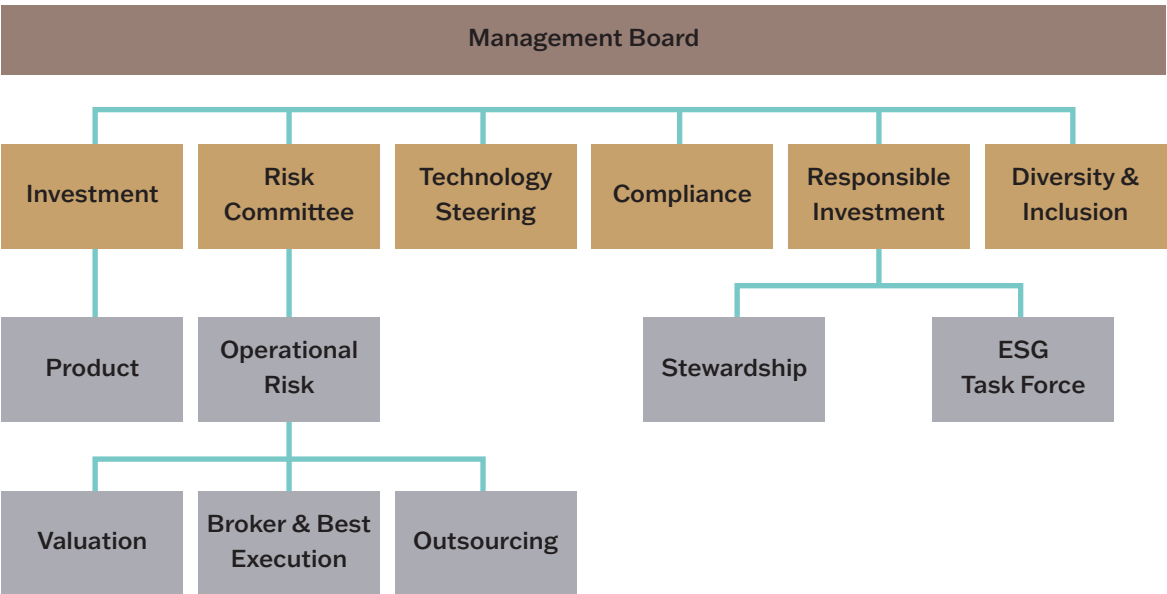
Governance and oversight

The firm's Management Board, which is ultimately responsible for the oversight of our stewardship approach, was created in 2021 to be the primary forum for the decision-making governance and shared equity of the firm. The Management Board comprises Andrew Stevens, Gavyn Davies, Suhail Shaikh, Nabeel Abdoula and Joe Davidson. This group has reviewed and signed off on this Report.

The creation of the Management Board ensures that Fulcrum's governance is not reliant on one individual in terms of key person risk. This change has allowed our CEO, Andrew Stevens, to announce his stepping down from the day-to-day leadership of the firm from the end of 2022 and

for the business to continue to operate smoothly through the leadership of the existing members of the Management Board and for Joe Davidson to step into the role of Managing Partner.

In addition, we are starting to create succession coverage in key roles at the Management Board level through the creation of deputy roles and broadening responsibilities in direct reports of these key roles. We feel the Management Board structure has helped to improve firmwide communication on the firm's values including Sustainability.



Management Board



Andrew D. Stevens, Co-Founder

Before establishing Fulcrum in 2004, Andrew worked at Goldman Sachs (1992–2004) in the Equities then Investment Management Divisions, where he invested across all asset classes. Andrew has an MBA from Harvard Business School (1992) and a BA in Finance from Georgetown University (1988).



Gavyn Davies, Co-Founder & Chair

Prior to establishing Fulcrum in 2004, Gavyn was Chairman of the BBC from 2001. He joined Goldman Sachs in 1986 and became Partner in 1988 when he became the Chief Economist as well as Chairman of the Research Department until he left in 2001. Gavyn was a member of HMTreasury Independent Forecasting Panel (1992-1997). He joined the Government's Policy Unit as an Economist (1974) and was an Economic Policy Adviser to the British Prime Minister (1976-1979). Gavyn graduated in Economics from Cambridge University, followed by two years of research at Oxford University.



Joe Davidson, Managing Partner

Prior to joining Fulcrum in 2004, Joe worked for four years at Goldman Sachs Asset Management within the Performance Analysis and Client Reporting department and previously within the Investment Management Division of Schroders from 1998 to 2000. Joe has recently been promoted from Chief Operating Officer and Chief Compliance Officer to Managing Partner, expanding his role to oversee Sales & Marketing in addition to the internal infrastructure functions of the Company. Joe graduated from Warwick University and received his MSc in Organisational Behaviour from the University of London.



Suhail Shaikh, Chief Investment Officer (CIO)

Having started his career at Goldman Sachs Asset Management initially enjoying a wide variety of roles in investment, product and finally specialising in investment management. Suhail moved to Fulcrum in 2005 to build out our investment team. Suhail has a MSc in Management from the London School of Economics & Political Sciences.



Nabeel Abdoula, Deputy CIO

Prior to joining Fulcrum in 2011 Nabeel worked at Goldman Sachs for four years in the Investment Strategy Group. Nabeel graduated from Warwick University in 2007 with a BSc in Mathematics, Operational Research, Statistics and Economics.

Responsible Investment Committee

The Responsible Investment Committee (RIC) reports to the Management Board and has responsibility for day to-day oversight and implementation of all aspects of stewardship. The RIC includes members from across Fulcrum's departments including members of the investment team. This governance framework, encompassing clearly defined roles and responsibilities, effective challenge processes and clear lines of accountability aids the firm to deliver an effective stewardship programme. The RIC further delegates certain specific stewardship responsibilities (such as the oversight of proxy voting) to our Stewardship Committee (Matthew Roberts, Fawaz Chaudhry and Sean Onyett).



Matthew Roberts, Partner, Head of Fulcrum Alternative Solutions and Chair of RIC

Before joining Fulcrum in 2018 to run Fulcrum Alternative Solutions, Matthew had been a Portfolio Manager for the Willis Towers Watson Partners Fund since 2014 and before that a manager researcher in fixed income, hedge funds and other alternatives since 2005. Matthew holds a BSc in Economics and Finance from University of Bristol.



**Joe Davidson,
Managing Partner**



**Fawaz Chaudhry,
Head of Equities**



**Nabeel Abdoula,
Deputy CIO**



**Piotr Chmielowski,
Chief Risk Officer**

ESG Taskforce



Ianu Daramus,
Responsible
Investment Associate
and Co-chair of ESG
Taskforce



Samriddhi Sharma,
Responsible
Investment Associate
and Co-chair of ESG
Taskforce



Matthew Roberts,
Partner, Head of
Fulcrum Alternative
Solutions



Rahil Ram, Director,
Equities Team



**Bianca Libertini, Risk
Management Director**

The RIC Terms of Reference include the monitoring of firm-level investment exclusions, Key Performance Indicators (KPI) relating to ESG integration, and training and development amongst other agenda items. Fulcrum annually (and more regularly in some cases) reviews the effectiveness of its stewardship governance structure and accompanying stewardship policies and procedures. This review takes the form of an appraisal by the Management Board (working as necessary with the chair of the RIC) as to whether our governance structure is fit for purpose and operating in the best interests of our clients. The key actions taken during the reporting period include:

- The evolution of the Diversity, Equality and Inclusion Representative Body.
- The creation of the ESG Taskforce headed by our Responsible Investment Associates.
- An increase in the level of resource focused on engagement.

- An increase in our focus on physical equity investment compared to synthetic equity investment.

Fulcrum's approach to stewardship requires a collaborative effort from our entire team. Thus, different departments are responsible for executing and implementing the firm's stewardship approach. Core responsibilities are borne by our Responsible Investment and Stewardship Committees. Examples of Fulcrum's day-to-day stewardship activities include:

- Monthly meetings held by the Responsible Investment and Stewardship Committees to discuss specific stewardship issues.
- Bi-weekly meetings held by the ESG Taskforce (a recent example includes discussing the impact of using short positions to engage on ESG concerns, or the development of data infrastructure for ESG reporting). Feedback from key discussions is fed into the RIC.

- Stakeholder engagement including company meetings and proxy voting for our Thematic Equities capability, as well as external manager meetings within our Alternative Solutions capability.
- Assessment of ESG risks within our investment processes across all asset classes considered by our Alternative Solutions capability.
- Relevant employees (e.g. ESG Taskforce members, Portfolio Managers, Marketing and Compliance teams) attending conferences and training on stewardship matters.

Diversity, Equality and Inclusion (DEI)

Fulcrum has a clear policy in place with regards to Diversity Equity & Inclusion, which is governed by our DEI representatives. This group is tasked with collating and prioritising the views of all employees as opposed to being a discreet decision-making body and is made up of:



Mark Horne, Director, Fulcrum Alternatives Solutions and Lead DEI Representative

Mark joined Fulcrum in 2018 to be part of Fulcrum Alternative Solutions, before which he was an Independent Consultant, Asset Management. From 2008 to 2013, he was a manager researcher in fixed income and hedge funds at Willis Towers Watson. Mark began his career at Coutts Bank in 1986 and began undertaking fixed income research there in 2000. He became a CFA charterholder in 2003.



Tamsin Webster, Chief People Officer



Emma Pickering, Partner and Head of Investor Relations



Shiwen Gao, Director, Fulcrum Alternative Solutions



Joe Davidson, Managing Partner

- The Group, which reports and is accountable to Fulcrum's Management Board, will meet on a quarterly basis (or more frequently if needed), between which focus group meetings with a broad dissection of employees will discuss and assess progress and issues.
- Our guiding belief is that better decisions are made in an organisation by having a wider range of opinions.
- Our goal, therefore, is to make our firm an attractive and inclusive place for diverse talent and to nurture and maximise their potential.
- Quotas, whilst positive in intent, may have the potential for unwanted consequences. Therefore, our approach is to positively build our own pipeline of talent and not to just rely on poaching from others in our field. Ultimately, we seek to influence how our industry is perceived by broader society, to one that is open and inclusive.
- Our commitment:
 - Encourage equality, diversity, and inclusion in the workplace as they are good practice and make business sense.
 - Make opportunities for training, development, and progress available to all staff, who will be supported and encouraged to develop their full potential, so their talents and resources can be fully utilised to maximise the efficiency of the organisation.
 - Review employment practices and procedures when necessary to ensure fairness, and update them and the Diversity, Equality & Inclusion Policy to take account of changes in the law.
 - Monitor the make-up of the workforce regarding information such as age, sex, ethnic background, sexual orientation, religion or belief, socio-economic background and disability in encouraging equality, diversity, and inclusion, and in meeting the aims and commitments set out in our equality, diversity, and inclusion policy.
 - Create a working environment free of bullying, harassment, victimisation, and unlawful discrimination, promoting dignity and respect for all, and where individual differences and the contributions of all staff are recognised and valued.
 - Assess how the Diversity, Equality and Inclusion policy, and any supporting action plans, are working in practice, reviewing them annually and considering and taking action to address any issues.

From an ethnicity perspective, our representation of employees from an ethnic minority (30%)⁴ is higher than it is in the general population in the UK (15% - this is data from 2019 ONS Population Survey). However, despite this also being echoed in our Management Board (40% ethnic minority) we recognise there is still work to do within the Management and Director level populations within our business.

Gender is another area where we recognise there is more work to be done. Our female representation (36%) overall reduces significantly as seniority increases. In the past year, we are happy to announce the promotion of Emma Pickering as Fulcrum's first female partner and the appointment of Tamsin Webster as our Chief People Officer. However, we are cognisant that there is more that we can do to improve diversity, equality and inclusion at Fulcrum. There are no women on our Management Board and our partner population has a female representation of only 7%. Ultimately, we seek to influence how our industry is perceived by broader society, to one that is open and inclusive. We recognise that being a relatively small firm, stability and continuity of the team is also of paramount importance for our clients. It is also essential for us to continue to deliver successful outcomes. Our initiatives are therefore focused both on the medium and the long term.

As noted above, we have recently appointed Tamsin Webster as the Chief People Officer at Fulcrum. With many years' investment industry experience, she has acted in a consultancy capacity to the firm over the past 12 months. Her prior people and culture roles have included BlackRock, UBS, and Man Group, Lloyds Banking Group and BT. Tamsin will be helping Fulcrum evolve and embed its culture, practices and process and help attract

and retain the best and brightest talent. We have also invested in our HR department by hiring a full time HR Analyst, and an Administrator on a Level 3 Apprenticeship Programme. To support them with their responsibilities a new HR System has been established in 2021, which enables us to capture people demographics, such as ethnicity, education level, sexuality, pronoun preference. This has enabled us to accurately understand areas for potential improvement from a diversity perspective and to prioritise areas of focus. Some of these can be summarised below:

Flexible working

Last year we formalised our flexible working/hybrid working practises and made these available to all employees with no requirement to apply individually for them. All employees as standard can now work from home two days a week and we provide equipment in order to ensure they can do this safely and productively. We recognise the importance of spontaneous and organic discussions when working in person, especially given our entrepreneurial mindset. Therefore, we have favoured a hybrid approach, which allows for better work-life balance and enables collaboration due to proximity. This approach has minimised creative abrasion. We have 10% of our employees working on part-time contracts and this includes 9% at the most senior levels in the organisation (Director and Partners).

Training

We organised two externally delivered training workshops last year, one to the whole company which focused on the concept of unconscious bias and one to team leaders and partners which covered this topic in more depth and demonstrated ways that managers could lead, hire and support employees more inclusively. We recognise that this is just the beginning of the journey in helping people develop the skills and awareness of DE&I and will continue to incorporate these concepts in training, communication and selection of leaders in our business.

Recruitment and mobility

We have recently improved and centralised our recruitment process. This has meant creating a process by which all open roles are managed through the firm's HR department (as opposed to being managed by hiring managers). Key aspects of the process include partnering with sourcing

specialists who have a track record in sourcing the top talent in our industry as well as thinking more broadly in terms of diverse candidates, using gender-bias decoders on job descriptions, using varied objective assessment criteria that reduces the chance of unconscious bias and measuring all stages of recruitment to allow us to refine our process and reduce bias that we detect.

We have developed an entry level talent pipeline for the business that is focused on building our talent internally for longer term progression into management, investment and leadership roles. This includes summer interns to be sourced through GAIN (Girls are Investors), degree level apprentices sourced through Multiverse (who focus on social mobility) and investment analysts sourced and training supported via 20/20 Investments (also focusing on social mobility) as well as providing work experience through 20/20 Investments through their partner inner city schools. We continue to explore other partnerships and initiatives that enable us to focus on improving social mobility. These early career initiatives support the building of a pipeline of talent into investment and leadership roles in the longer term, in addition to this we are also aware we need to focus on our existing diverse talent and support their career progression proactively. To this end, we are in the process of developing sponsorship and mentoring programmes and the development of leadership skills in those individuals outside of the partnership with the ambition to fast tracking their development and increasing retention.

Via the Investments 20/20 traineeship programme organised by the Investment Association, we will also be providing speakers from our pool of employees to support an outreach programme designed to raise awareness, accessibility and attractiveness of the financial services industry as a whole to those who may not have had access to or awareness of it. This has the aim of increasing applicants from diverse backgrounds not only to Fulcrum, but more broadly into Asset Managers and Financial Services as a whole.

Compensation

For our 2022 compensation review we have commissioned compensation consultant McLagan to provide us with salary and total compensation benchmarking for our industry. We will use this, not only to ensure that we pay all employees fairly

for the role that they do, but also use this data to examine our pay in relation to gender and ethnicity.

Engagement and feedback

Each year we invite employees to complete an engagement survey, seeking to ascertain the levels of satisfaction across a wide range of subjects, including pay and benefits, culture, leadership, communication, development, accessibility, as well as their experiences with regards to diversity, equality and inclusion. Overall satisfaction results continue to be high, and the overwhelming sentiment is that employees enjoy coming to work at Fulcrum and intend to stay working here for the medium to long term.

Industry collaboration

We have also become members of the Diversity Project <https://diversityproject.com/>, a group of leaders in the investment and savings profession who are focused on taking action to accelerate progress towards an inclusive culture within our industry. The purpose of our membership involvement is to gain valuable insights, support and guidance as we seek to improve our approach to diversity, equality and inclusivity. Our Managing Partner, Chief People Officer, Head of Investor Relations, and Chair of our DEI Forum are all active participants of key committees as part of this membership.

Training

External events and conferences relating to sustainability and stewardship are often eligible for continual professional development certification, which is monitored by our compliance team. Over the past year our Head of Climate Research, Gino Cenedese, hosted a series of seminars on climate change. The seminars were attended by our investment and risk teams and aimed at providing a deep dive on key aspects of climate change, with the speakers and main research papers listed below:

- Zacharias Sautner (Frankfurt School of Finance & Management): [Climate Risk Disclosure and Institutional Investors.](#)
- Glenn Rudebusch (Brookings Institution): [The Rising Cost of Climate Change: Evidence from the Bond Market.](#)
- Grigory Vilkov (Frankfurt School of Finance & Management): [Pricing Climate Change Exposure.](#)
- Varun Sharma (Nanyang Business School, NTU): [The Real Effects of Environmental Activist Investing.](#)

In addition, members of the Management Board and other staff members regularly promote ESG integration activities within our firmwide meeting schedule. Examples include a regular debrief by our Head of Consultant Relations on the expectations and guidance coming from the investment consultants on what fund managers should be doing in the area of ESG integration.

This year, we have further expanded our firm wide training with a lunch and learn session hosted by our two new Responsible Investment Associates. The event was well received with one of our trading team members since engaging with the RIC on how best to integrate ESG considerations in his scope of work. The feedback and outcome from the lunch and learn has furthered our commitment on hosting firm-level training. We have developed a training schedule which will focus on topics such as stewardship, biodiversity, metrics and data, diversity, equality, and inclusion amongst others. This will be led by specialists in-house as well as external guest speakers. We look forward to sharing feedback from the training next year.

Research

Being a top-down, macroeconomic investor, economic research is integral to our success. Our research team provides our broader investment team with innovative and thoughtful material which translates into our investment and stewardship activity i.e., ESG integration, risk considerations and engagement. Our research team has a dedicated mandate focused on climate change, which is led by Gino Cenedese. We have also expanded our research team by hiring two external consultants who are leading experts in the interaction between climate change and finance and economics: Marcin Kacperczyk (Professor of Finance at Imperial College Business School), and Glenn Rudebusch (non-resident Senior Fellow at the Brookings Institution and Senior Fellow at New York University).

We are building upon our climate research foundations and are working on three climate finance projects as part of our research agenda.

Project 1: Portfolio alignment to the Paris Agreement (details below).

Project 2: Decarbonisation of benchmark Indices and its impact on asset prices and portfolio alignment (details below).

Project 3: A study on the carbon futures market and the social cost of carbon. This project is currently in progress, and we look forward to updating you on the outcomes in due course.

Portfolio alignment to the Paris Agreement

Activity:

We have been working on a methodology to enhance our Climate Change strategy's alignment with the Paris-Agreement goals. More specifically, the team is researching the methodology to build a portfolio that is aligned with net-zero decarbonisation targets set in the Paris Agreement. We aim at having maximum impact on emitters via two channels: the cost-of-capital channel and the engagement channel.

Desired outcome:

Our aim is to revise or improve our product offering for client and beneficiaries. We intend to publish our research in an academic journal and present the research at academic conferences.

Decarbonisation of benchmark indices and its impact on asset prices and portfolio alignment

Activity:

We have been investigating the exposure of indices to carbon footprint, learning what assets would be most vulnerable to divestment in the process of decarbonisation. We further explored whether investors take into consideration such divestment pressures in equity pricing. The project is a joint work with Marcin Kacperczyk (Imperial College London) and Varun Sharma (Nanyang Business School, NTU).

Desired outcome:

We aim to foster firm and industry wide understanding on how decarbonising indices impacts the allocation of capital and expected returns of climate change products.

In addition to the longer-term research projects discussed above, we have produced blogs, articles, podcasts and thought papers on multiple ESG topics during the reporting period, including:

- [ESG integration into Trend-following](#)
- ‘[The tracking error error](#)’ – why climate alignment requires more than minimal deviations from a misaligned market
- [The carbon half time show – why investors should shun sustainability shortcuts](#) when reducing portfolio carbon footprint
- [Trade-offs and opportunities](#) between climate and risk-return factors
- [Investment implications of the COP26 climate conference](#)
- [A podcast with our chairman, Gavyn Davies, on climate](#)

Incentives

All members of staff are compensated based on a salary and discretionary annual bonus. The latter is based on performance of the firm and the individual over a calendar year. Each year, the company sets overarching goals for the organisation, followed by each department setting their departmental and individual team members goals. These goals are reviewed twice a year with a formal one-on-one between manager and team member. In addition to the goals, team members’ overall performance relating to their role is reviewed and discussed. Our company values (innovation, integrity, excellence, collaboration and sustainability) also feature in the review process, whereby performance against these is reviewed. For 2022 and anticipated for future years, one of the overarching company goals is related to Stewardship & Sustainability, setting the objective that these tenets will be a foundational consideration across all the activities in the business, including the lens in which we manage our clients’ assets. Examples of departmental and individual goals that cascade from this include the delivery of unconscious bias and inclusive leadership training, the development of KPIs to measure the ESG activities within the firm, the development of KPI’s to monitor the

SFDR PAIs (Principle Adverse Indicators) for select strategies within the firm and building the climate change capabilities within the research team.

Key members of the Portfolio Management team (including research) and business teams own equity in the firm. Fulcrum has deferred compensation for key partners and employees based on its Remuneration Policy.⁵ This deferral vests over a three-year period and there will be suitable alignments of contracts through investment in internally managed strategies.

Our base salaries, bonus payments and benefits are benchmarked on a regular basis to ensure that they remain competitive against firms of a similar size. We have committed to participate and use the McLagan salary and compensation survey from 2022 in order to ensure our benchmarks are the most accurate, as this represents the largest consolidation of asset management compensation data worldwide. Our benefits provider Gallagher also provides us with global reports on a regular basis regarding trends in benefits to ensure we are competitive and also harnessing changes in provision and demand of different employee benefits.

⁵ Please find our Remuneration Policy on our website: [here](#).

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

We acknowledge that we may encounter conflicts whilst running our business and understand the need for a robust framework to identify them as they arise to facilitate an optimal outcome for our clients.

We identify areas where actual or potential conflicts of interest may arise and have established several policies which apply to all Fulcrum staff and which cover how we manage certain business operations,

such as proxy voting, in our strategies.

We maintain a Conflicts of Interest Policy⁶ and we also provide a summary below of the mitigation measures for the most material conflicts we have identified:

Conflicts of Interest: mitigation measures	
Information Barriers	Fulcrum does not permit any wall crossings or receipt of inside information. In the case Fulcrum inadvertently receives such information, it has established policies and procedures to create information barriers to reduce the risk of any conflicts of interest.
Proxy Voting Policy	<p>Fulcrum will prioritise holding securities with voting rights where possible and where reasonable to do so given the strategy in question.</p> <p>Where a potential material conflict of interest has been identified in relation to a proxy vote, Fulcrum will call upon an independent third- party to make the voting decision or may elect not to vote. Stocks placed on the restricted list may not be voted.</p>
Gifts and Inducements Policy	The giving and receiving of gifts or inducements has the potential to create conflicts of interest. Fulcrum employees must not solicit or provide anything of value directly or indirectly to or from anyone, except under limited circumstances, which would impair Fulcrum's duty to act in the best interest of the client.
Personal Account Dealing Policy	To prevent conflicts arising from the use of information obtained from clients, and market abuse generally, all employees are subject to personal account dealing rules.
Outside of business	Staff are required to pre-clear their outside business activities which are only permitted in limited circumstances.
Declining to act	Where Fulcrum deems that the conflict of interest cannot be managed in any other way, we may decline to act for a client.
Remuneration Policy	To ensure that Fulcrum attracts and retains the highest calibre of staff and aligns staff interests with that of the firm and of its clients.

6 Please find our Conflict of Interest Policy on our website: [here](#).

Conflict of Interest review process

If any Fulcrum staff recognise a potential conflict of interest with a company or individual working at the company, they must raise this with Fulcrum's Compliance team in the first instance and as soon as practical. We seek to avoid any potential conflicts for staff members at Fulcrum arising from engagements with companies in which they have personal investments or some material personal relationship with a relevant individual at the company. In this regard, Fulcrum maintains an Outside of Business Interest policy whereby all staff members are required to disclose any interests (either by equity ownership or participation) to Fulcrum's Compliance team upon joining the firm and thereafter on an ongoing basis. As part

of Fulcrum's quarterly compliance attestation, staff members are required to acknowledge that amongst other things, they have read and understood this policy. Where a staff member has a personal connection with a company, they are required to make this known and cannot be involved in any related engagement activities.

Additionally, during 2021-2022, Fulcrum updated its personal account dealing policy to place a prohibition on staff members from personally investing in cash equity positions to alleviate the risk of conflicts of interest from arising between Fulcrum staff members and potential investee companies.

Recording and escalation

Fulcrum maintains a conflicts of interest register. Where an instance of a material conflict of interest arises, this is discussed at the Stewardship

Committee and if necessary, escalated to the Management Board level. All records are kept within Fulcrum's regulatory recordkeeping requirements.

Disclosure

Additional conflicts that are identified by Fulcrum in the future will be included within appropriate mechanisms or systems to manage those conflicts. Where we consider that there are no other means of managing the conflict or where the measures in

place do not sufficiently protect client interests, the specific conflict will be disclosed to enable an informed decision whether to continue with our service in that situation.

Conflicts in the investment process

It is also possible that we encounter conflicts in our investment process whereby ESG considerations could make decisions more challenging.

Our Conflicts of Interest policy is reviewed annually with the last review in July 2022. The outcome of the review is described in Principle 5. More generally, our goal is for this review to drive continuous improvement in our management of any conflicts.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

Fulcrum has the below policies in place, which govern our approach to stewardship, and which are reviewed regularly by Fulcrum's Compliance team to ensure they remain relevant and accurate in describing existing controls and procedures. Where there has been a material change which impacts a policy and affects existing controls and procedures, for example due to a new regulation, Fulcrum's external compliance consultants will also perform a review of the policy to ensure it remains appropriate for its size and business operations.

Furthermore, the review process is designed to identify whether policies in place are effective and whether enhancements are required to meet Fulcrum's ESG objectives, with policy documents amended accordingly to ensure the attainment of those objectives.

The RIC is the key oversight body in relation to stewardship, and this Committee meets on a monthly basis, currently consisting of four voting members.

Policy	Responsibility	Frequency of Review	Last Reviewed	Outcomes (see below)
Responsible Investment	Responsible Investment Committee	Semi-annual	July 2022	No change to the policy
Proxy Voting	Responsible Investment Committee	Semi-annual	July 2022	No change to the policy
Conflicts of Interest	Compliance Committee	Annual	July 2022	A
Remuneration	Compliance Committee	Annual	July 2022	B
Engagement	Responsible Investment Committee	Annual	July 2022	C
Modern Slavery	Compliance Committee	Annual	July 2022	No change to the policy

This year, we also performed a review of our standard responses to client questionnaires. A key reason to perform this review overseen by Head of the RIC, Matthew Roberts and our Compliance team, is to mitigate risks of misrepresentation as a result of inaccurate information presented in internal and client facing material. While there were no material discrepancies found as a result of the activity, this review will form a part of our internal

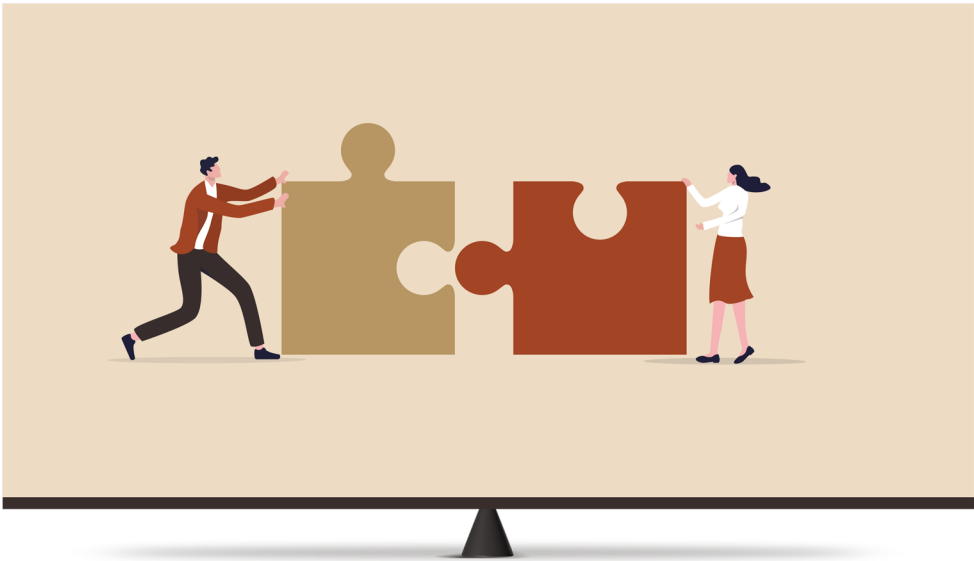
process going forward. We are also cognisant that as we progress in our ESG journey, our reliance on external assurance will also increase and thus we believe continuous improvement will be central in our consideration of this Principle.

A link to all of our policy documents can be found [here](#).

Outcomes

The policy review process has led to several enhancements in relation to stewardship during the reporting period, and we hope and expect that this will continue to evolve as new information and data becomes available. Some examples are included below which link to the Policy documents listed above.

Outcomes	
Conflicts of Interest (A)	Established an internal process to manage conflicts of interest from a stewardship perspective
Remuneration (B)	Staff pay and annual performance to be aligned with ESG factors and participation in company engagement on stewardship matters (for relevant staff members)
Engagement (C)	Revised escalation mechanism (more details under Principle 11)



**Working together to create bespoke solutions
that fit our clients' needs perfectly**

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

A breakdown of our Assets Under Management (AUM)⁷

We share below the breakdown of our clients' assets invested with us by geographical region and client type. Our client base is predominantly institutional in nature and, hence, long-term in their investment time horizon. This has become more diverse by region over time as we have worked more broadly with clients to help them to meet their investment objectives. We would expect this diversification to increase in the future.

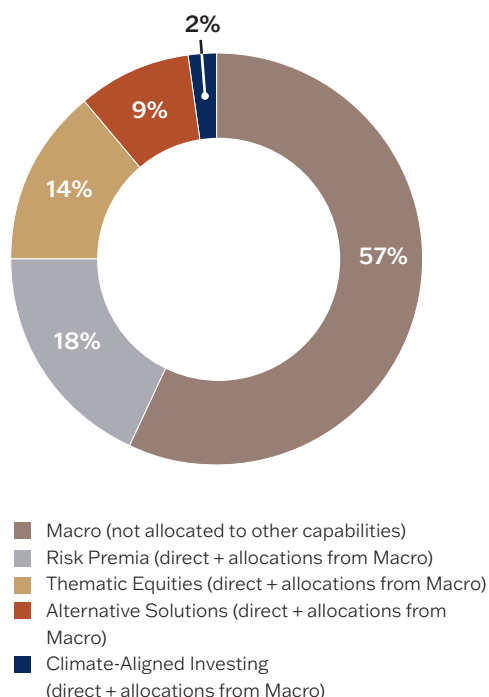
Of the \$5.9bn AUM as at end June 2022, our Macro capability represents \$4.9bn, which accounts for 83% of the total. The remaining 17% is invested by clients directly into our Risk Premia, Alternative

Solutions, Thematic Equities and Climate-Aligned Investing capabilities.

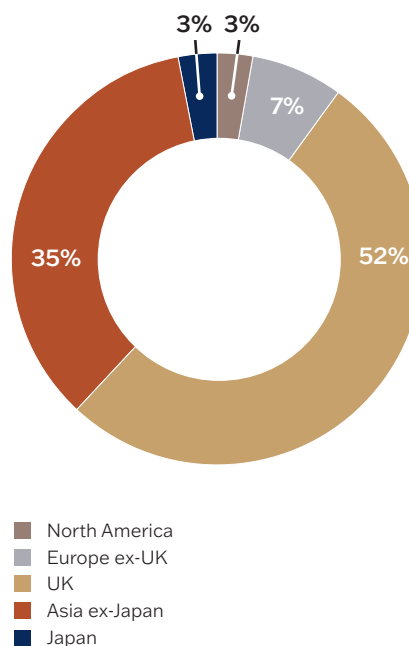
Our Macro capability has traditionally invested in a broad range of index derivatives as well as our other capabilities including Risk Premia, Alternative Solutions, Thematic Equities and Climate-Aligned Investing, with the total of the allocations to these four amounting to approx. 30% of the \$4.9bn.

The chart below shows the breakdown of AUM by underlying investment capability, geographical split, and client base.

Breakdown of AUM by Capability

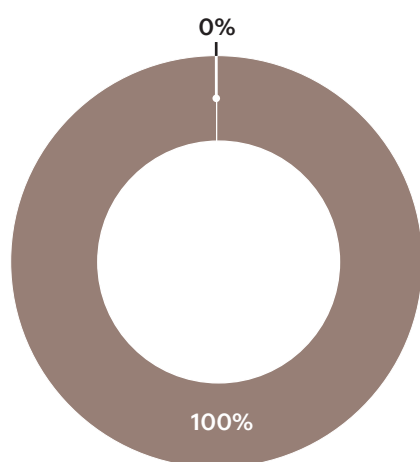


Breakdown of our AUM by Geography



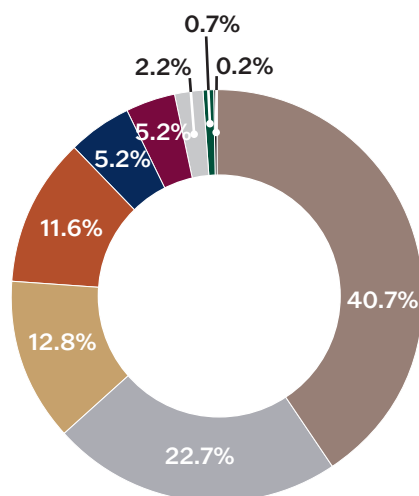
⁷ These figures are as at end June 2022

Breakdown of our AUM by client base i.e. retail vs institutional



■ Institutional
■ Retail

Breakdown of our AUM by client type



■ Pension Funds
■ Wealth Managers
■ Government
■ Superannuation
■ Charities & Endowment
■ Platforms
■ Investment Bank
■ Private Clients
■ Family Offices

Client communication and engagement

Communication and engagement are one of our key priorities to help maximise the chances of clients meeting their varied objectives (this includes objectives that relate to specific stewardship and/or ESG goals), during the initial discussions stage, the client onboarding process as well as in our regular review meetings. We communicate regularly with clients via monthly factsheets, quarterly reports, update meetings, review meetings and video/phone conversations. Importantly, we are open to enhancing and improving our client reporting proposition and more specifically with regards to thoughts on how we can better keep our clients informed – not only of their investments but in our investment outlook and the potential implications for them more broadly.

Many of our clients have direct, trust-based relationships with members of our Management Board and Senior Investment Team and have been invested with Fulcrum for a very long time. We pride ourselves on gathering in-person feedback as a formal agenda item or follow up after client interactions and this is shared in our weekly distribution team meetings and with the Management Board where relevant.

Over the last year, pleasingly, the number of clients has grown and the extent to which discussions have centred around evolving RI and ESG integration, as well as regular reporting, has been a key driver in those discussions. This, in part, supports the work we have done to further embed RI considerations into our investment processes, as well as to improve our stewardship and engagement efforts in relation to physical equities.

Institutional clients who invest in our strategies often take advice from investment consultants and these relationships are very important to us – we regularly gauge their feedback on our investment offerings and potential new investment solutions. We feel strongly that our collection of client feedback has been both relevant and useful, and this is best characterised by us outlining the following case studies. Our experience of discussing these types of issues with our clients is that they generally aim to achieve their objectives over relatively long-term timeframes (five years plus). This tallies with our own time frame for achieving investment results as well as the stated objectives of a number of our solutions.

Discussions with a leading LGPS with regards to sustainability

Activity:

Towards the end of the reporting period, we entered detailed discussions with a Local Government Pension Scheme (LGPS) entity who, we believe, are leading lights in relation to sustainable investment and industry collaboration. Therefore, genuine ESG integration is critical to them, as is partnering with managers who can help them develop their framework and thinking and support their aims in being a leader in the industry. Following a detailed internal discussion, we found a very high degree of overlap between their investment values and ours, which helped in relation to discussions to date on our investment capability.

Action & Outcome:

We continue to work closely with this prospect and hope to report positively in our next submission, not only on them being a Fulcrum client but also the work we are doing in partnership with them on Responsible Investment (RI) matters.

Demonstration of ESG integration in Diversified Absolute Return Strategy (DAR) to a Defined Contribution (DC) client

Activity:

During the reporting period we received our first request to present to Trustees of a large DC Scheme - and their investment consultant – on how we integrate RI into our flagship Macro strategy. This included wanting to hear our action plan for future projects – this was the first time the client had requested a meeting solely focused on ESG topics.

We presented on Climate-Aligned equities using Implied Temperature Rise (ITR) metrics, long-term thematic equity investing, the innovative integration of ESG factors into our Trend-following investment strategy, how we integrate RI into external manager research process and our action plan for further enhancements from here.

Action & Outcome:

Positive feedback from the investment consultant on the coverage as well as our approach to further enhancements.

UK Investment Consultant with a bespoke ESG review for a Defined Contribution client

Activity:

A client had asked a consultant to carry out a specific project to look at their Diversified Growth strategy managers and how they had integrated ESG factors into their investment process. We were asked to present, within 24 hours, and we walked through ESG integration within our Macro capability.

Action & Outcome:

As one of two strategies within the client portfolio the feedback from the consultant was that we were leading in how we were addressing the climate change challenge as well as our progress in other areas (e.g. Risk Premia). Pleasingly, for the client, both DGFs were viewed to be very strong in ESG integration and moreover in complementary ways.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

ESG integration strategy and priorities

Responsible Investment has been established as one of the key strategic priorities for our firm and sustainability is one of our core values. Being a top-down, macroeconomic investor, the consideration of ESG risks is integral to our success. Our approach includes ESG integration into our investment decision-making process, effective governance and targeted engagement. The assessment of ESG risks is conducted as part of our investment analysis and we also monitor these risks whilst we hold the assets. It has been a challenge to coherently integrate multiple ESG factors given our top-down focus. However, we have made significant progress and we expect this to continue in the years ahead.

Based on feedback from our clients as to what is important to them, and as a consequence of our macro heritage, much of our work relating to ESG integration has focused on climate change. This is an expression of our inquisitive culture and our focus on this topic has been endorsed at our RIC and our Management Board. The depth of our work

in this area reflects how important we believe it is to client outcomes and ultimately, achieving our purpose. We believe this to be a proportionate response which demonstrates our desire to make an impact whilst also recognising the constraints of our size.

As discussed in last year's Report and as part of our Action Plan, we aim to develop a comprehensive KPI monitoring programme (which will be aligned with the EU SFDR regulation). Our intention is that this also creates a core set of broader ESG factors (including social and governance factors) that will be routinely assessed across our business and that this is aligned with our expertise and purpose. Of course, one of the challenges with this is data coverage and accuracy. As such, we have been working with a number of data providers on this topic (progress on this is outlined on [page 35](#)).

A high-level overview of how ESG risks are currently considered across each of our capabilities is outlined below:

ESG integration by capabilities

- Macro: Our Macro capability allocates to our other capabilities (listed below) as well as implementing a range of tactical views across a variety of different asset classes and time horizons using derivatives. ESG risks can also be an element of overall risk assessment for certain discretionary positions within our Macro portfolios, for certain commodities and countries where it is most relevant. One of our biggest challenges is to work alongside

the market to develop best practices in this strategy. We are cognisant that derivatives form a large part of our investment universe. While we continue to participate in market discussions in this space (through our work with IIGCC), we are also working internally to move our derivatives to physical equities and thus better integrate and engage from an ESG perspective. More details on this project can be found on [page 61](#).

- **Risk Premia:** We have now systematically integrated ESG risk data from third-party vendors into our quantitative models for the directional parts (e.g. Trend Following) of our risk premia strategies. This has involved augmenting our risk assumptions across all instruments according to certain ESG risk metrics and will ultimately have the effect of reducing our maximum position sizes in those assets with higher unmanaged ESG risks.

ESG Integration in our Trend Following strategy

Given increasing ESG concerns among investors, we felt it was highly important for our systematic investment strategy with large directional exposures to commodities to incorporate ESG information into its investment process.

ESG risk is incorporated into our trend following strategy as part of the market allocation process which takes into account a measure of ESG risk associated with each market in the portfolio. The market allocation process is based on a risk budgeting optimisation framework that takes as inputs long-term correlation estimates and a set of risk measures capturing both investment and ESG risk. By incorporating ESG risk into the market allocation process of the strategy, we effectively tilt the portfolio towards low ESG risk assets and away from high ESG risk assets improving the sustainability characteristics of trend following. The level of ESG risk aversion is chosen to be the largest possible value that doesn't result in a statistically significant change in the expected return of the strategy.

To help us with risk incorporation, we use Sustainalytics's country risk ratings to measure the risk to a country's long-term prosperity and economic development by assessing how sustainably it is managing its assets. A country's ability to use and manage these assets in an effective and sustainable manner is determined by three broad groups of metrics, i.e., ESG performance, ESG trends and ESG events. More than 30 ESG indicators that fall into one of these three categories are used to provide a comprehensive ESG risk rating for each country.

The portfolio manager of the strategy, Panos Dafas wrote a paper on Integrating ESG risk into Trend Following - more details can be found [here](#).

- **Alternative Solutions:** We use a proprietary scoring system for each of the alternative investments we review as part of our due diligence process. This includes a detailed review of an external manager's policy and approach, asset allocation, portfolio construction, stock selection and any asset class specific considerations. We use third-party ESG risk data for certain aspects of this work, including carbon emissions and country risk scores. investments. Leveraging our experience across Real Assets, Alternative Credit and Diversifiers we have developed a matrix of asset-specific considerations outlined below which help us score managers holistically, fairly and consistently in addition to assessing their ongoing engagement activities. We published our [Thoughts on Responsible Investing in Alternatives](#) that details ESG incorporation at each step of the investment process. The multi-asset and -sector nature of these portfolios gives rise to an interesting challenge that requires innovative and bespoke considerations based on the specifics of each asset class.
- It has been over four years since we launched our Alternative Solutions team and we continue to push for further ESG innovation in alternative

Asset Class	Key Considerations	Impact
Real Estate	GRESB credential	The GRESB (“Global Real Estate Sustainability Benchmark”) credential is key in the Real Estate sector as it sets the tone for how these assets are developed, perform and managed.
Infrastructure	Climate scenario analysis	Climate scenario analysis is key to measuring transition and physical risk due to temperature impact, and the eventual risk of stranded assets, which in turn can lead to adjustments in position sizing.
Natural Resources	Engagement prioritisation	The philosophy and approach to working with energy majors is critical within natural resources and reflects how voting rights are used as a tool to enact longer term change.
High Yield	Paucity of data	Active engagement with smaller companies to encourage greater consideration and transparency of ESG-related issues, particularly new issues where greater support is required.
Emerging Market Debt	Social & Environmental policy	Government action and support for the financial and physical well being of its population and environment is critical. Green bonds and engagement during the price discovery phase of new bond issues is a key mechanism to encourage improving behaviour.
Securitised	Lending and mortgage servicing standards	Engagement with lenders and servicers to reduce the prevalence of predatory lending practices.
Convertibles	Creditor rights	In the absence of voting rights, where a manager is reviewing a new issue, engagement on bond terms to encourage greater ESG transparency and improving practices, especially where they are made ‘private.’
Quant Hedge Funds	ESG risk influence	ESG data availability and reliability are common issues that are improving, however the ability to measure ESG impact quantitatively is in its infancy.
Fundamental Hedge Funds	Shorting ESG laggards	Understanding the due diligence and reasoning behind the decision to short a stock vs. engage is key in assessing the sustainability of returns over the long term.
Event-Driven	Transaction announcement threshold	Assessing minimum ESG thresholds in place to initiate a position could lead to improved risk-adjusted returns.

- Climate-Aligned Investing: We regard climate change as one of the largest risks facing investors over the medium- to long-term, and we believe that Climate-Aligned investing can boost risk-adjusted returns as well as shift financial flows to fund the green transition.

We launched our flagship, long-only Climate-Aligned global equity strategy in August 2020. The Fulcrum Climate Change strategy invests in companies that are taking steps to align their business model to the net zero transition. The strategy invests only in companies that are below 2°C, thereby focusing on a forward-looking metric that incorporates historical, present, and future potential emissions (as opposed to “low-carbon” portfolios that focus on a backward-looking historical emissions measure). Moreover, the strategy recognises

that all sectors must transition to a low-carbon economy, and incorporates engagement with investee companies in support of this objective. As a member of the Net Zero Asset Managers initiative, Fulcrum has made a commitment to net zero emissions across its assets under management by 2050. Building on the launch of our Climate Change Strategy, we are bringing all our long-term directional equity allocations in line with a below 2°C pathway. We are also engaging with industry participants – in workstreams organised by the Glasgow Financial Alliance for Net Zero or the Institutional Investors Group on Climate – to help define and implement best practice for the measurement of portfolio alignment and for its application into new asset classes (such as derivatives).

- **Thematic Equities:** The relevance of ESG issues is assessed when new themes are researched and monitored. In the theme idea generation process, the exposure to ESG risks as well as ESG-related opportunities is considered (particularly long-term trends such as climate change) and ESG risks can be considered both an attractive investment opportunity or a risk signal. We assess the ESG implications within a theme based on external research, company meetings and sell-side analyst meetings.

A number of the themes within the strategy are designed to take advantage of sustainability-related tailwinds in our long holdings or positioned to benefit from headwinds in the short exposures.

The table below illustrates some of the key sustainability considerations that have significantly influenced our theme selection during the reporting period:

Theme	Key sustainability considerations
Long Clean Energy	Renewable energy sources minimise carbon pollution and reduce demand for dirty fossil fuels. Those alternatives are becoming more cost-effective, supported by governmental investments in innovations and grants focused on the deployment of new technologies.
Beverages vs Processed Food	See 'Social' section on page 32 below.
Long Waste and Recycling	Increased consumer and policy-maker focus on reducing waste and adopting more circular business models.
Long Salmon	Salmon production has a smaller carbon footprint than other animal-based protein sources. It consumes less water per kilo edible than meat, has a lower feed rate and a higher edible yield. Higher ESG awareness and trends toward healthier eating practice should boost demand and benefit salmon farming.
Rails vs Trucking	Rail transportation is taking share from other modes of transportation. Rail transportation is far more energy efficient than trucks as emissions from operating trains are generally lower because of the heavy reliance on electricity. Transition of trucks to alternative fuels is still a long way away.
Civil Aerospace vs Airlines	Aviation is one of the most carbon intensive forms of transportation. Reducing airline emissions involves substantial costs in innovation in more fuel-efficient engines and increased pressure on additional taxation and emission trading schemes.
Renewables vs Mobility	Societal and technological tailwinds favouring cleantech.
Short Gig Economy	See 'Social' section on page 32 below.
Long Base Metals	Increased demand for base metals, which is likely to be accelerated by the roll-out of low-carbon infrastructure and technologies, which require substantive investments in metals and minerals.

Consideration of E, S & G risks

A. Environmental risks: We place particular importance on risks stemming from climate change, including physical risks, transition risks and liability risks. As an example, the Fulcrum Climate Change strategy is designed around the concept of climate 'alignment', in which it uses an Implied Temperature Rise (ITR) metric to assess alignment with the Paris Agreement. Another significant environmental risk relates to the degradation of biodiversity. Although this risk has global implications, it is more localised in nature and impact. Whilst we have not yet implemented specific biodiversity ideas in our portfolios, this is part of our long-term Action Plan (outlined in our Direction of Travel). We are working to understand the landscape in industry and data availability, in much the same way we did for climate change.

Climate scenario analysis

The implied temperature metric that is the main measure of alignment for equities is the result of climate scenario analysis from our data provider.

In some of our systematic strategies, the ESG country risk score we use incorporates an assessment of countries' vulnerability to natural hazards. Going forward, we will be seeking to expand on our scoring system for sovereign issuers, by bringing in-house a measure of which climate scenario is most closely aligned with governments' stated climate policies.

B. Social risks: Relative to Environmental factors, our approach to social risks is not as advanced and is more qualitative in nature, reflecting the inherent difficulty in measuring social risks. Nevertheless, the relevance of ESG issues is assessed more broadly. For example, in our Thematic Equity idea generation process, the exposure to social risks and opportunities are considered. We assess societal implications within a theme based on external research, company meetings and sell-side analyst meetings. Additionally, we have developed

several ideas with clear societal linkages across our business:

- Gig economy: 'Zero-hour' contracts and the long-term sustainability of the 'gig economy' are coming under increased scrutiny. We have therefore taken a short position in 'gig economy' stocks. Increased competition from newcomers with easy access to capital are eroding the margins in this space, with longstanding controversies around the treatment and pay of the workforce setting the scene for increased regulation, adding to the headwinds in the sector.
- Processed Food: Increasingly health and environmentally conscious consumers are eschewing processed food. Traditional brands are under threat and being challenged from Ecommerce sales where new local, organic and niche brands are able to establish themselves and connect with consumers more quickly. Consumers continue to shun processed foods and traditional brands in favour of these "healthier" options. Meanwhile valuations are stretched on the back of perceived quality which we believe will come under pressure as interest rates rise. As a result, we have taken a short position in a basket of processed food manufacturers.

Last year, the pandemic shaped our consideration on key societal issues. This year, the invasion of Ukraine was instrumental in sharpening our focus including:

- Thematic Equities: We have been repositioning our portfolios in response to the ongoing geopolitical situation. For example, we believe companies and governments are seeking to reduce the risks of Russian cyberattacks and have therefore increased our position in providers of cybersecurity solutions. Separately, as the shortage and subsequent price spike of fossil fuels in Europe have increased, so has the attractiveness of alternatives to Russian energy, and our conviction in our long clean energy theme. We have thus augmented this position.

- Alternative Solutions: We followed up with all external managers with possible exposure to Russia to understand their positioning and ultimately decide the necessary exit route.
- C. Governance risks: The consideration of governance risks is instrumental to our investment decisions, and these include both corporate and sovereign risks. As stewards of our clients' capital, governance is a topic considered during preliminary due diligence and is essential to our engagement approach. It is especially pertinent in the escalation process triggered through ESG engagement (where meaningful engagement without good governance is extremely challenging). Details on our escalation process and examples of votes against due to governance concerns are found on [page 45](#). On the sovereign side, we consider such risks in our Risk Committee led by our Chief Risk Officer. On [page 54](#) we have highlighted the discussions around geo-political and societal risks stemming from China, emerging markets dependent on China and their impact on our investment decisions.

We also derive country specific risk scores from Sustainalytics to help us quantify the nature of risks from an investment perspective. As mentioned above, our Trend Following strategy obtains ESG country risk ratings from Sustainalytics to measure the risk to a country's long-term prosperity and economic development by assessing how sustainably it is managing its assets.

Our aim in 2020-2021 was to lay a solid foundation required to integrate risks and opportunities at Fulcrum. In 2021-2022, we went further and started to focus on the nuances per capability based on aspects such as time horizon, client feedback, and capability specific risks and considerations. It is clear to us that ESG integration will vary across our capabilities as we work towards our net zero commitments, avoid risks, and realise opportunities. As we prepare our transition plan to reach our net zero goals, collaboration both internally and externally will allow us to innovate and better integrate ESG considerations in our capabilities. ESG integration alongside engagement will continue to help us drive positive change in our business thus creating a multiplier effect.

Principle 8

Signatories monitor and hold to account managers and/or service providers

Fulcrum engages with several third parties in pursuit of our stewardship objectives:

- A. External managers
- B. Proxy voting firms
- C. ESG data providers

External managers

Several strategies we manage include strategic allocations to external funds as part of their investment mandate and thus invest in collective investment schemes managed by other investment managers. This represents c.10% of firmwide assets under management. Fulcrum performs in-depth initial due diligence prior to making an investment which includes an assessment of a third-party manager's commitment to stewardship and alignment with Fulcrum's own beliefs, with findings

documented in investment and operational due diligence reports. This assessment is updated on an ongoing basis by Fulcrum's Alternative Solutions team during the investment holding period through a combination of desk-based reviews of fund and manager documentation, and direct communications with external managers. It includes for example whether the external managers are signatories to the PRI.

Proxy voting firms

Fulcrum has established and maintains a Proxy Voting Policy which is the governing document for the use and management of Glass Lewis, our third-party service provider in relation to proxy voting. Assessment of the effectiveness of each proxy voting provider falls under the scope of Fulcrum's Stewardship Committee.

On a quarterly basis the Stewardship Committee reviews, amongst other things, the quality of the third-party proxy voting advisors' recommendations. The key indicators used to monitor the effectiveness of a proxy advisor are a) the quality of the advice provided, and b) the timeliness of the advice provided.

Fulcrum retains discretion as to whether it acts on the advice of the proxy advisor or decides to take a different course of action and we capture and record instances in which the firm has voted against the proxy advice recommendation (as well as the rationale).

The frequency with which we vote differently from the main recommendations of our preferred voting adviser, Glass Lewis, is recorded in the Pension

and Lifetime Savings Association (PLSA) reporting template which we produce and share externally on a quarterly basis. Our target is not to "go against" our proxy adviser but in certain circumstances this can be necessary where we do not believe that the provider is aligned with our views.

This has been the first full proxy season where Glass Lewis's Climate Policy was in operation, which we have adopted as our default recommendations to hold companies to a higher sustainability standard. Nonetheless, we have made provisions in our approach to allow for overrides versus this guidance should we believe it to be necessary. To monitor the application of our policy, over 140 significant or controversial votes have been flagged to the Stewardship Committee since the submission of our first Stewardship Code Report. We are generally satisfied that the policy is in line with our intentions – with the recommendations remaining unchanged, following internal review, in circa 64% of these votes.

The 36% of votes where we voted differently does not stem from systematic divergences but is more reflective of a proxy season which has seen a

record number of ESG shareholder proposals filed, varying considerably in the breadth and specificity of their requests, requiring judgment and careful considerations of company circumstances. If we identified a recurrent pattern of divergence, we may consider developing a more bespoke voting policy. We are also opened to discussions with clients who are interested in developing bespoke mandates and associated voting policies.

Transparency is important for stewardship; following engagement with Glass Lewis, in 2022 we decided to adopt their Vote Disclosure Service, displaying all our votes the day after the AGM, available available on their website [here](#). We intend to further engage with Glass Lewis on how to better communicate the voting rationales to investee companies.

ESG data providers

Our approach is to combine third-party data with our own proprietary analysis, with the combination depending on the capability under consideration. As climate change has been the biggest thematic

focus of our stewardship efforts, we have relied most heavily on 'E'-related data, drawing on multiple data providers to give us a more rounded view of companies' policies and progress.

ESG data providers and illustrative use cases

Data provider	Purpose
Sustainalytics	ESG Country Risk data (used in certain systematic strategies), activity involvement (used for firm-wide exclusions), carbon data (used for reporting)
MSCI	Activity involvement (currently relating to tobacco, controversial weapons and predatory lending, used for firm-wide exclusions)
Iceberg Data Lab	Temperature alignment
S&P Global Trucost	Temperature alignment
SBTi	Corporate climate targets
CDP	Carbon data, corporate climate targets and policies
Urgewald	Data on fossil fuel expansion (primarily thermal coal mining and oil sands expansion), used to support Fulcrum's net zero commitments and restrict exposure to misaligned activities in relevant funds
InfluenceMap	Data on companies' lobbying efforts on climate change to support stewardship
Bloomberg	Data on the sustainability profile of executive pay structures and company activities, to support stewardship
ESG for Investors	Publicly available data on potential share price upside from improving corporate sustainability used to support engagement

We often hear that there are issues with ESG data, and we understand this concern. Nevertheless, our philosophy is that if there is no engagement on data, then it will not improve. That is why we regularly review and engage with data providers.

Data monitoring and engagement

In our previous report, we mentioned how our engagement led to changes in rating for a basket of companies. We have continued to engage regularly with existing and new data providers, including in cases where we wanted to better understand the decisions behind a data point (e.g., the implied temperature rise metrics used for the Fulcrum Climate Change strategy). We have also switched data providers or data sets for some of the carbon and climate information as a result of these ongoing reviews.

As detailed in our Action Plan, we are looking to obtain data on 'Principal Adverse Impacts' (PAIs) under EU sustainable finance rules. We have conducted a tender for an ESG data provider for PAIs. Through this comprehensive analysis of the marketplace, we have selected Sustainalytics as our data provider to report on PAIs at a firm-level i.e., for all our strategies rather than select strategies aligned with EU SFDR regulatory requirements.

In the coming year, we look forward to selecting some of the PAIs and using them as performance indicators on areas where we would like to see improvement.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets

Given the nature and shape of our business, our culture and purpose, we have a multifaceted approach to engagement across all stakeholders including underlying companies, service providers and external managers. As a firm, we have decided to prioritise and focus on climate change as a significant environmental risk as part of our portfolio management and engagement with stakeholders. However, we are now looking holistically at how climate change risks affect broader environmental and social risks and are therefore striving to embed these in our engagement. These efforts are complemented by our voting policy which aims to hold companies accountable across broader E, S

and G topics.

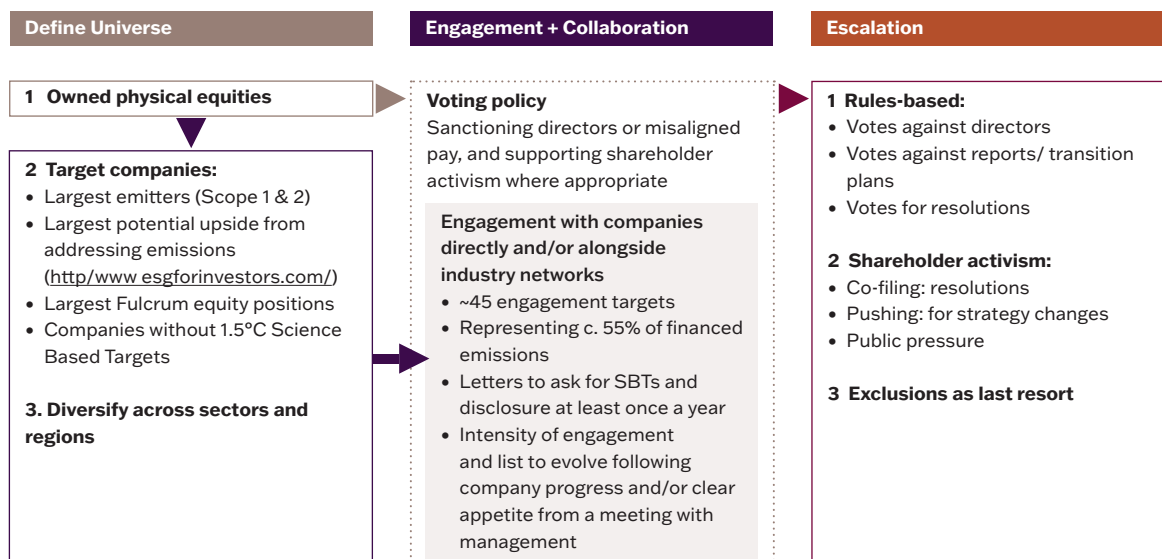
We believe that proactive and considered engagement is one of the best ways we can have an impact. It is a key reason we have appointed two Responsible Investment Associates over the past 12 months, who have increased the level and scope of our engagement activities. It is important to note that our engagement varies by capability (given the nature of the underlying investments – i.e. physical vs. derivative investments) and currently the majority of our engagement work occurs in our Thematic Equities, Climate-Aligned and Alternative Solutions investment capabilities.

Thematic Equities and Climate-Aligned investing

Our equity investment approach is thematic by its nature and consequently we own large numbers of stocks in very diversified portfolios. However, the nature of climate change as an *undiversifiable* macro risk – coupled with our awareness of the potential for capturing ‘transition alpha’ as climate factors get priced by the market - has led us to focus our initial engagements in this area. We engage both individually (see below) and collectively ([on page 57](#)), alongside other investors.

In 2021-22, we furthered our climate engagement campaign encouraging companies to adopt Science Based Targets – which we believe help bring credibility through the independent verification of corporate commitments – and to strengthen their sustainability strategies.

Illustration of our engagement model

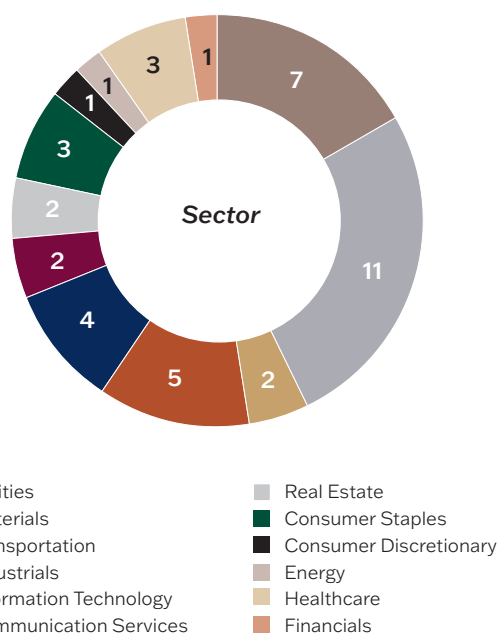
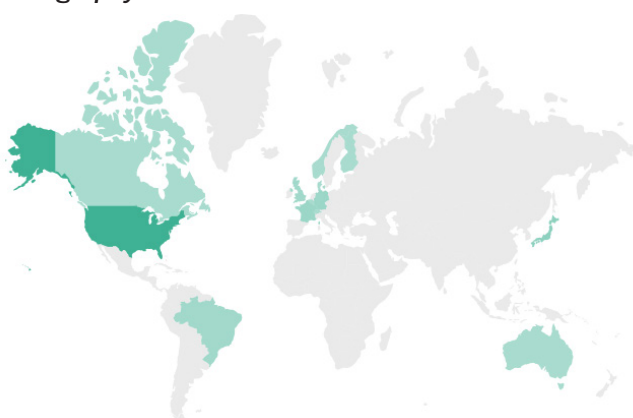


The campaign focuses on c. 45 global listed companies, which can be linked to approximately 55% of our financed equity emissions. It aims to mostly select companies that are large emitters, have large potential upside from addressing emissions (as identified using publicly available data from ESGforInvestors.com), or reflect large

Fulcrum equity positions, with some adjustments made for geographical and sectoral diversification. The engagement targets cover names across food, energy, transport, mining and IT and includes companies such as Glencore, Yara, BP, JBS, NextEra Energy, FedEx, UPS and Rio Tinto.

Breakdown of engagement targets by geography and sector⁸

Geography



We have increased our engagement activity under the campaign. Whilst we intend to report in more detail once a full yearly engagement cycle has been complete, as of June 2022 we have seen roughly half the companies contacted respond to our meeting requests. We are now logging this via specialist engagement tracking software – *Esgaia* – that allows us to monitor the status of our engagements.

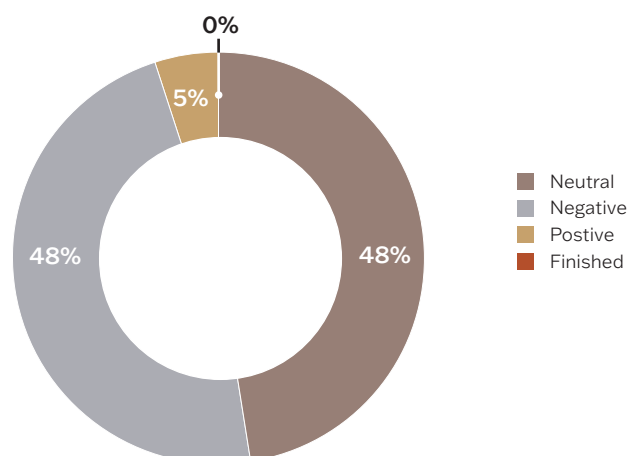
Looking beyond merely the establishment of dialogue towards the *substance* of the conversations, our current outlook is, as expected, more mixed. A minority of companies have been taking what we consider to be very positive steps towards more sustainable business plans in line with science-based trajectories, either by having achieved SBT certification in the period between when we first began the process of identifying engagement targets (in late 2021) and the start of the engagements (the case of warehouse operator WDP), by collecting data across suppliers to be

able to set targets, or by taking other positive measures (example of BP, below).

Other companies have shown no (or a poor) response to our requests, with the large remainder currently classed as a ‘neutral’ response. The latter reflects some of the difficulties companies have reported in our engagements. Challenges raised include the lack of guidance from the Science Based Targets initiative in their sector (or divergences of opinion around particular emission reporting boundaries or baselines), or difficulties in coordinating climate action across the value chain (to tackle so-called ‘Scope 3’ emissions). For example, one transport company has highlighted the scarcity of commercially available low-carbon alternatives for heavy-duty transport (airlines, trucks), and a food manufacturer the difficulty in enforcing traceability with regards to deforestation for a supply chain that ultimately covers several thousand individual farms.

⁸ Sources: *Fulcrum*, *Esgaia*, as at June 2022. Darker shades of green on map reflect a higher number of engagements with companies based in a particular jurisdiction.

Engagement status⁹



Seeing as this is our first thematic engagement campaign, we consider this first round of engagements to be primarily aimed at fact-finding and establishing a baseline of progress. This is supplemented by the establishment of a monitoring framework, which aims to assess multiple dimensions of companies' climate progress, beyond the somewhat binary presence or lack of SBTs, drawing on multiple providers available in the market.

Illustrative engagement scoring framework¹⁰

Governance	Strategy	Risk Management	Metrics & Targets	Company-specific objectives
<ul style="list-style-type: none"> Board oversight for climate issues Integration of climate issues into governance 	<ul style="list-style-type: none"> Strength of environmental/ GHG policy Capital allocation strategy 'Green revenues' and low-carbon R&D Potential 'red lines' (e.g. new thermal coal mining) 	<ul style="list-style-type: none"> Strength of climate disclosure Use of scenario analysis/ temperature alignment Lobbying activities 	<ul style="list-style-type: none"> Short-, medium- and long-term emission targets Links to remuneration Contribution to industry's decarbonisation agenda 	<ul style="list-style-type: none"> Requests: Acknowledged In progress Met Ignored

Targeted escalation for the companies that will have been deemed 'laggards' will follow, including any voting or investment sanctions, as the first yearly engagement cycle comes to a close.

The climate-focused engagement 'hitlist' builds on the regular engagements our Thematic Equities

team have with company representatives, where climate topics have been increasingly discussed. Since 2021, the team have engaged with 21 companies on this topic, including Centrica, SSE, and CF Industries, primarily raising our expectation as a firm that they reduce carbon emissions and/or set Science Based Targets (SBTs).

⁹ Sources: *Fulcrum, Esgaia*, as at June 2022

¹⁰ Source: Fulcrum Asset Management

Case studies	
Targets not yet adopted: Anglo American	<p>Establishing the proper emissions boundaries and baselines are a crucial component of credible carbon objectives. For example, as the electric grid becomes cleaner due to a higher share of renewables, do corporate targets merely codify <i>what is likely to happen anyway</i>? We have been engaging with mining giant Anglo American on the use of counterfactual scenarios as a benchmarking for its emissions targets (which are not currently SBTi-validated) to understand the use of a 'business as usual' scenario that illustrates performance relative to what may have happened had the company not divested certain assets.</p> <p>Outcome: follow-up with company representative to clarify approach.</p>
Targets announced: Air Liquide	<p>Our Thematic Equities team has repeatedly engaged with industrials company Air Liquide on its sustainability strategy. In May 2022, we were pleased that the company informed us that it was the first in its industry to receive validation from the Science Based Targets initiative for its targets to 2035.</p> <p>Outcome: adoption of SBTs.</p>
Monitoring SBTi development: BP	<p>The SBT initiative does not currently have guidance for all sectors, including some of the difficult, high-emitting ones, like oil and gas. As part of our role co-leading engagements with the company under Climate Action 100+, BP has announced us that it is engaging with the SBTi to develop sector guidance, coming as the company announced strengthened Scope 3 net zero targets and a divestment of its stake in Russian producer Rosneft (two subjects of ongoing engagement for CA100+). BP has also been taking part in the pilot process to develop a net-zero standard for the oil and gas industry, in a working group coordinated by IIGCC. In a first for Fulcrum, in 2022 we attended BP's AGM in person encouraging the company to deploy a higher share of its record high revenues into cleantech.</p> <p>Outcome: attendance at AGM, strengthened targets, ongoing engagement.</p>
Follow-up after SBT announcement: Atea ASA	<p>Our Thematic Equities team has been engaging with IT infrastructure provider Atea. This resulted in a follow-up engagement with one of our sustainability specialists to discuss its approach in more detail. The company had already set SBTs for its operational emissions (Scope 1 and 2), and we discussed the challenges and plans to measure and tackle its broader (Scope 3) footprint.</p> <p>Outcome: no change in position (hold)</p>
Unsuccessful engagement: Toyota Motor Corporation	<p>Our attempts to engage with automaker Toyota on its electrification strategy have unfortunately been unsuccessful. We were only able to reach a representative from a local UK office, who has informed us that the only way to contact the parent company is via post – which, setting considerations of air miles and sustainability aside – we do not believe represents best practice in investor relations.</p> <p>Outcome: monitor future response, consider escalation.</p>

Alternative Solutions

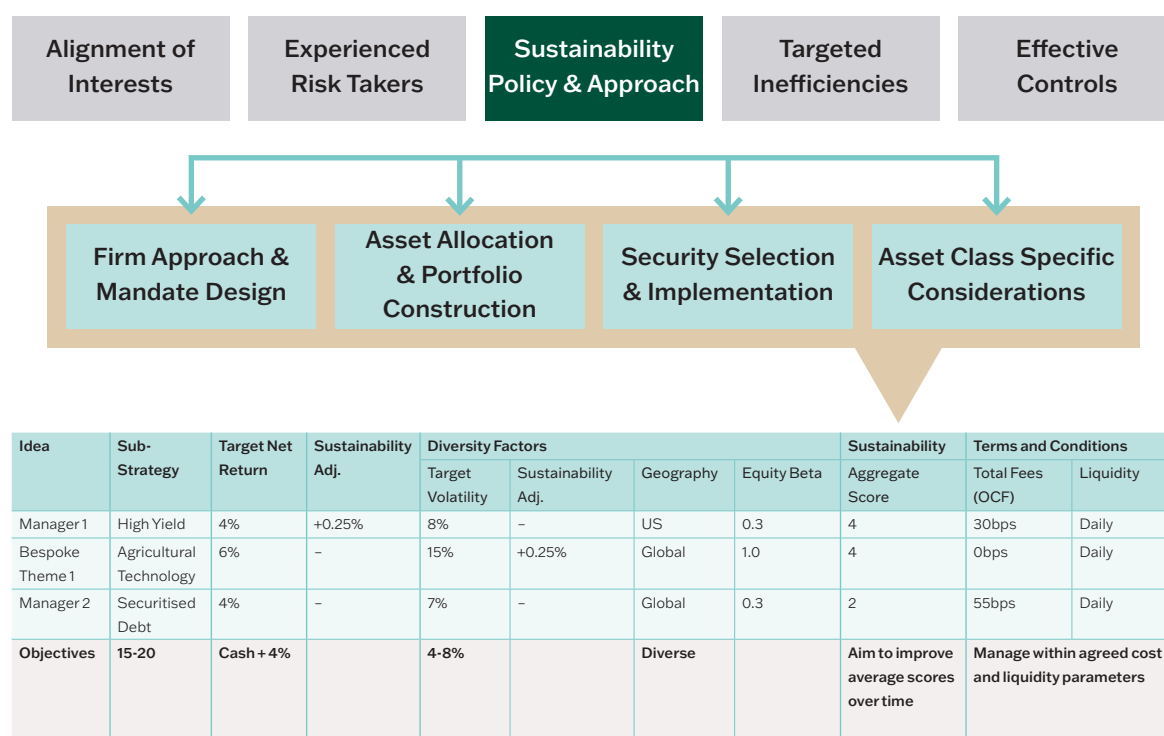
Sustainability and ESG integration are central to our third-party manager selection process. This involves using both third-party data/analysis as well as forming our own proprietary views on the sustainability characteristics of all investments. ESG risks are a formal part of our assessment process. The nature of the due diligence will have some general elements (such as asking third-party managers about the Principles for Responsible Investment) and some specific elements that vary depending on the asset class in question. This might include an assessment of climate transition risk for an equity fund, for example. The

below diagram illustrates how we integrate our work on third-party managers into our Four Key Factors framework. This allows comparison across different implementation routes. Our proprietary scoring system and research process has sustainability as a key consideration. We evaluate the manager, their mandate, the investment process and adjust as necessary for any asset class specific components of an investment opportunity to arrive at an aggregate score for our "Sustainability Policy and Approach" key ingredient for competitive advantage. This process scores potential investments from one to four (one

represents a poor score and four represents a leading score) based on specific considerations for each investment.

Our structured sustainability research also impacts our assumptions for return and volatility, helping us proactively identify and seek out investment opportunities with positive scoring sustainability characteristics. Furthermore, our scoring process also helps with marginal decisions where two or more different implementation routes score similarly on our other three Key Factors.

We believe that “Sustainability Policy and Approach” can be a key ingredient for competitive advantage for asset managers and we use our scoring system to assess this. Importantly, it also means we can have an influence on underlying issuers through our interaction with them. Our goal is to consider ESG opportunities and risks across the entire portfolio as part of our research framework. Gradually, we expect to increase exposure to the range of investments that are rooted in sustainable characteristics.



We meet with all of our external managers at least annually (and in practice this is often much more regular) and we discuss ESG integration based on our scoring system with each of the managers we use. During the year, the Alternative Solutions team met and discussed stewardship with all of our external managers (35 in total). We also review each external manager's approach to engagement

as part of our due diligence process and this is documented accordingly. Where we believe a manager is not up to scratch, we will provide feedback and engage to give them an opportunity to improve and, in some cases, we have not invested with managers where we have observed a lack of willingness to engage/improve on the topic.

Annual External Manager Sustainability Review

In addition to our continued engagement with external managers whereby we explore and encourage their sustainability progress, during 2021-2022, we performed a detailed sustainability review of all external managers within the Alternative Solution portfolios. The exercise involved completely re-underwriting each manager with respect to sustainability and updating the scores assigned to them during our due diligence process. We score managers across four metrics, considering ESG factors and sustainability.

In general, higher-scoring managers had a more thoughtful, multi-faceted and forward-looking approach. Sustainability leaders offer comprehensive policies, reporting, and actively contribute to targeted industry bodies. They want to move our industry forward and report on their progress.

Through this process and our ongoing monitoring, we expect to see an improvement in the portfolio's score over time. Our review and engagement with each manager takes place annually as a minimum.

Our review showcased the following trends:

- Real Assets scored highest in 3 out of the 4 categories, with an overall average above 3.
- Within Equities, voting processes and results are naturally important for us to understand.
- Alternative Credit scored similarly well, thanks in part to some mandates having specific ESG credentials and also due to strong overall firm commitments.
- Whilst harder in Credit, a proactive manager can influence the cost of capital through engagement efforts (be they collective or on their own).
- As we expected, the Diversifiers (hedge funds) have lagged, although they have improved from our prior year assessment. A number are weaker in "Security Selection & Implementation", with limited engagement and ESG factors not being part of their process.
- We raise awareness and encourage managers to do what they can, from a firm if not an investment perspective.

Some outcomes from our engagement:

- One manager hired a sustainability consultant that we rated highly. The consultant is helping them improve in this area faster than they otherwise could.
- One manager is looking to add carbon metrics to their ESG underwriting as well as fund reporting.
- Through consulting with one manager about the PRI, they have subsequently become a signatory.

The area of engagement that we focus on with external managers depends on the extent to which ESG integration is effective in their business and investment processes. For example, we have engaged with small hedge fund managers who are very new to ESG integration, and we have also dealt with much larger, more established asset

managers. We understand and appreciate that the level of maturity varies and therefore have curated short and midterm goals per manager to have targeted and effective engagement. The table below shows a redacted version of these short and mid term goals created at the back of engagement meetings focused on ESG considerations.

Engagement Plan		
Manager	Credit Manager	
Firm	4.0	Short-term: <ul style="list-style-type: none"> Details on engagement with smaller companies and how firm responds to the SEC's recent policy changes, increase in scope and new climate legislation. Following-up on firm's commitment on broader range of ESG targets e.g.: water reduction and biodiversity (planning to add 14 ESG metrics). Interim action plan for NZAMI. Thoughts on relative impact of return to office vs remote working on company. Mid-term: <ul style="list-style-type: none"> NZAMI and net zero pathway and targets (set and achieved). Developments on ESG integration into asset allocation and security selection. Keep an eye on PM/investment team's role in ESG integration to better understand the ESG culture within the team.
Asset Allocation	3.0	
Security Selection	4.0	
Strategy specific	3.0	
Total	3.5	

Engagement Plan		
Manager	Real Asset Manager	
Firm	3.0	Short-term: <ul style="list-style-type: none"> More proactive consideration on ESG i.e. engagement with seller on ESG potential. ESG governance structure (including ESG target setting and creating an environment for ESG discussions to take place). Better reporting on carbon emissions. Mid-term: <ul style="list-style-type: none"> More research on ESG innovation within asset class invested, evolving ESG integration. Going beyond GRESB in their ESG considerations (using a wide range of metrics and including themes such as "just transition"). It would be helpful to see improvement in their engagement and research on relevant topics such as GRESB disclosure and link between ESG and change of use strategy. A recognition that ESG integration is not inherent (due to the nature of their product) but needs to be used as a value add to make a difference e.g.: engagement, innovation, etc. (it has to be active). Evidence of action on ESG integration and measurement of ESG success (evolution of data management) e.g.: solar panels, EV charging points, etc.
Asset Allocation	2.0	
Security Selection	2.0	
Strategy specific	3.0	
Total	3.0	

		Engagement Plan
Manager	Diversifier Manager	Short-term: <ul style="list-style-type: none"> Review and engage on their new ESG policy. Review and engage on their efforts to incorporate ESG more into their investment process. Review and engage on their intended use of a third-party data provider to produce an ESG score for the portfolio. Mid-term: <ul style="list-style-type: none"> Engage on pre-trade ESG considerations and engagement with issuers and brokers. Monitor relationship with ESG Consultant for developments. Review ESG committee progress and push for ESG-related KPIs.
Firm	2.0	
Asset Allocation	1.0	
Security Selection	1.0	
Strategy specific	1.0	
Total	1.3	

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers

This year, we have formalised our escalation process; further details can be found in our [Engagement Policy](#) (and for further details on our approach to exclusions, please see our [Responsible Investment Policy](#)). As noted in Principle 9, there are three areas of Fulcrum's business where engagement is most applicable and hence where

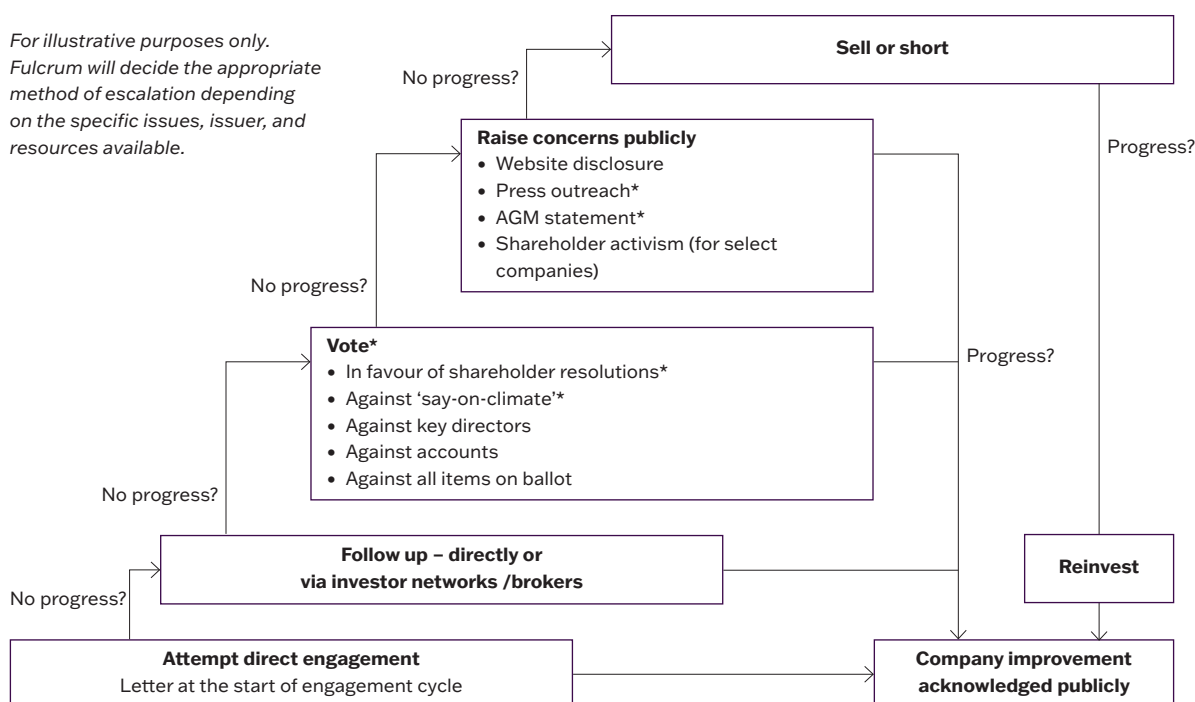
escalation is sometimes required. Our escalation approach may differ to traditional bottom-up methods used by stock-pickers. We have designed it to be consistent with our business model and the predominantly top-down nature of our investment capabilities. We address each of these below.

Thematic Equities and Climate-Aligned investing

In our engagement, our aim is to initiate a dialogue with companies directly, in the first instance. In the case of an unsuccessful (attempt at) engagement, we will seek to leverage the variety of tools at our disposal, including our membership in investor networks that conduct collective engagement, the ability to vote (or file proposals) at companies'

annual general meetings. Where appropriate, we may seek to apply public pressure through public statements in the media or in our reporting. Finally, if we feel a company's unmanaged ESG risks have reached an unacceptable level, we may sell or take a short position in a company's securities.

A schematic illustration of our escalation toolkit for corporate engagements is illustrated below:



*Voting sanctions displayed in ascending order of severity
*Where applicable

Source: Fulcrum Asset Management. For illustrative purposes only

During the reporting period, there have not been any instances where we have escalated to the point of divestment (although there are of course many companies where we have chosen not to invest in the first place, given for example, the temperature alignment criteria in the Fulcrum Climate Change strategy).

Moreover, as illustrated by the case studies and statistics below, there have been multiple examples of applying voting sanctions and public pressure to send a signal to investee companies and their boards. At the same time, we are mindful that some topics of discussion that we have initiated with company management generally represent long-term gradual changes, we are at the early stages of these transitions (for example, some companies have raised with us the challenges in gathering Scope 3 emissions data across a highly fragmented supply chain).

Given our increasing allocations to single equity investments we will continue to improve our engagement efforts. As described in our Action Plan in last year's Stewardship Report, we have hired two resources to ramp up our engagement strategy. This has resulted in us taking a more proactive stance at company AGMs, which represents a further escalation option. Details on how we have engaged at AGMs and broader initiatives can be found throughout the Report (for example at oil majors like BP) and on our website [here](#). Where necessary, we will seek to escalate our engagement to influence companies by issuing public statements and disclosures detailing our expectations and collaborating with investors (we regularly discuss the progress of ongoing Climate Action 100+ engagements, as part of quarterly strategy calls with other investors in the network).

Alternative Solutions

Our process for escalation with external managers is as follows:

- We explain to managers the importance of ESG factors in our investment process and how we believe they can improve outcomes if considered thoughtfully.
- We share several key specific topics in advance of meetings to provide managers with a chance to consider them in detail and to add their

thoughts and input accordingly. We supplement this with additional questions during meetings to ensure they are not simply paying ESG lip service.

- If we are duly concerned, we can assign them a score of 1 in our proprietary scoring system (1-4 with 1 being the lowest), which means that they are highly unlikely to be included in our client portfolios.

Voting sanctions

Voting sanctions currently remain our main avenue for escalation – we may vote against management or the election of specific directors both in response to *ongoing* engagements (see example below), but also to *encourage the adoption of certain principles across markets*, regardless of whether we were able to engage with the underlying issuer.

As primarily applied to developed markets,¹¹ our voting policy currently involves several rules that will trigger a vote against members of the ESG committee or the chair of the audit committee or the chair of the board, for example due to lack of:

- Oversight of climate/environmental issues;
- Disclosure in line with [SASB](#) or [TCFD](#) guidelines;
- GHG emissions targets (or, in certain cases, Science Based targets).

¹¹ The 'triggers' of the rules vary by country and may apply differently or not at all, in Japan, S. Korea, Germany, Austria, Hong Kong, China, Israel, Italy, Luxembourg, Sweden, Norway and Finland, reflecting some of the specificities of those markets (e.g. bundled elections in Nordic countries which mean directors may not be individually up for election).

In the 12 months to the end of June 2022, there have been **751 votes against** management for environmental reasons, **168** of which were specifically due to the lack of (ambitious) emissions targets.

Our voting policy will also codify broader expectations, with regards to governance (e.g. the independence of directors, or their remuneration) and social aspects (encouraging improvements in gender diversity or in practices relating to labour standards or human rights). During the same period, we have cast **191 votes against** management for social reasons.

We also pay attention to the interplay between E, S and G elements as manifested in the incentives offered to the directors and employees of investee companies. There have been **315 votes against pay**¹² where it was considered the proposed pay arrangements provide insufficient incentives to manage material environmental and social risks.

These votes above represent a subset of the wider instances where we signalled the need for further progress through a vote against, with further statistics provided later in this Report. In general, we have cast at least one vote in opposition to management **at 48% of companies** over this period.

Case study – Glencore: voting escalation

We have also been discussing climate strategy with mining giant Glencore. The company has made progress on the issue in recent years, including by adopting a comprehensive 2050 net zero target. However, we remain concerned that the company's interim emission targets (particularly for the phase-out of its coal assets) are not aligned with science-based pathways for fossil fuel production (with the latest Intergovernmental Panel on Climate Change assessment report estimating coal usage must drop by 65-80% by 2030 in 1.5°C-consistent pathways with 'no overshoot') – which we have raised directly with the company. We have since opposed the company's energy transition strategy and the re-election of four directors at the 2022 AGM, where almost a quarter of shareholders also voted against the transition plan. Under the UK Corporate Governance code, the company is expected to formally respond to and consult with shareholders to better understand the rationale for voting dissent; we will be monitoring the response as part of future engagement.

¹² Unless marked otherwise, 'votes' and 'resolutions' in this and subsequent paragraphs represent individual votes cast by Fulcrum – out of a total of over 30,000 votes cast across all our strategies, noting that different strategies may vote at the same AGM.

Principle 12

Signatories actively exercise their rights and responsibilities

Our proxy voting policy can be found on our [website](#), it is updated at least annually and covers the key areas of our approach including governance, the appointment of research providers, our procedures, and conflicts of interest.

To further our commitment to transparency and aid our clients and beneficiaries, we have started to disclose real time voting information [here](#).

Currently, we prioritise the research of Glass Lewis in ensuring that we are voting in an independent

manner. We have also implemented Glass Lewis' Climate Policy product which supplements internal research and other external information sources in respect to up-and-coming climate related votes.

The below table summarises our voting activity as a firm to the 12 months ending on 30th June 2022. We have embraced the industry standard PLSA template and feel this is a positive development for investors.¹³

Voting Statistics	2021-22	2020-21
How many meetings were you eligible to vote at?	694	504
How many resolutions were you eligible to vote on? ¹⁴	30,973	17,568
What % of resolutions did you vote on for which you were eligible?	99.9%	91%
Of the resolutions on which you voted, what % did you vote with management?	90%	93%
Of the resolutions on which you voted, what % did you vote against management?	9%	5%
Of the resolutions on which you voted, what % did you abstain from voting?	1%	2%
In what % of meetings, for which you did vote, did you vote at least once against management?	48%	32%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	4%	2%

¹³ Sources: Fulcrum, Glass Lewis.

¹⁴ Note – this reflects the total number of resolutions we have voted on, across all strategies. They do not reflect unique resolutions.

A breakdown of our votes for, against, and abstentions, over the same period is provided below:

Proposal Category Type	For	Against	Abstain
Audit/Financials	4229	8	48
Board Related	15951	1085	91
Capital Management	2042	177	8
Changes to Company Statutes	911	52	0
Compensation	3220	795	15
M&A	222	19	0
Meeting Administration	585	17	0
Other	260	101	202
Shareholder proposals: Compensation	21	40	0
Shareholder proposals: Environment	105	88	0
Shareholder proposals: Governance	165	138	12
Shareholder proposals: Social	126	156	5
Shareholder proposals: Miscellaneous	11	5	0

Source: Glass Lewis¹⁵

Significant votes

Both the number and media scrutiny of shareholder proposals have increased in 2022. Whilst we generally welcome this increased engagement which can play a positive role in encouraging companies and investors alike to step up on sustainability, the nature of the proposals varied widely in the demands made of companies. Despite adopting a voting policy that was expressly intended to hold companies to higher ESG standards, we do not believe that the mere fact that a proposal *relates* to an environmental or social topic necessarily means it promotes the best interest of shareholders and the company. We therefore aim to apply careful consideration in this area.

Although, on average, we have tended to support more shareholder proposals than we have opposed over the period, we believe it is important to look beyond just aggregate statistics to focus

on the more *significant* proposals. Sustainable finance organisation ShareAction has produced a list of 'resolutions to watch' in the 2022 proxy season,¹⁶ and we have compared our voting record to that database.

Overall, Fulcrum supported:

- 86% of 'key resolutions' on ESG topics; and
- 100% of 'key resolutions' relating to social topics such as human rights and decent work

Reflecting our revised voting policy, these numbers are an improvement from the previous proxy season, where our analysis indicates we have supported 70% of key environmental proposals and 67% of key social proposals flagged by ShareAction.¹⁷

¹⁵ Note the chart does not display 63 votes (representing 0.2% of votes), that have been classed by Glass Lewis as 'unvoted', 'take no action' or '1 year'. In relation to those resolutions where we did not vote, but were 'eligible': there can be amended resolutions where it was not necessary for us to re-cast our ballot; or not being registered to vote in certain jurisdictions at the time of the vote - e.g. for new mandates - can require operational time to set up voting procedures; or it can be possible for us to have exited the position at the time of the vote but this to not be captured in the data extract we use.

¹⁶ Available at <https://shareaction.org/shareholder-resolutions/resolutions-to-watch>

¹⁷ We have compared our voting record against the list of ESG resolutions that formed the basis of ShareAction's voting survey of asset managers, *Voting Matters 2021*, available at <https://api.shareaction.org/resources/reports/ShareAction-Voting-Matters-2021.pdf>

Internally, we have also developed a methodology for identifying 'significant votes' that is reflective of our business and investment capabilities. We have identified four types of significant votes:

- Votes relating to climate change or the environment
- Shareholder proposals
- Votes where we voted against the proxy adviser's recommendation as these could be

considered significant given it is a diversion from our usual voting pattern

- Meetings related to companies that have a high weighting in the portfolio

Significant votes that require further attention will be escalated to the Stewardship Committee for further discussion where any potential override can be debated. Below we provide several examples of significant votes over the past year:

MICROSOFT CORPORATION		Date of vote: 30-Nov-21
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)		<1%
Summary of the resolution		
Shareholder Proposal Regarding Report on Alignment of Lobbying Activities with Company Policies		
How you voted	FOR	
Where you voted against management, did you communicate your intent to the company ahead of the vote?	No	
Rationale for the voting decision		
Glass Lewis viewed the Company's current lobbying policies, expenditures, and level of disclosure thereon to be reasonable, including with regard to alignment with Company policies and principles, and do not believe that the proponent has demonstrated that the Company's management of this issue is deficient to the degree that warrants adoption of this proposal. However, after internal discussions on this proposal, we decided to vote against their advice and as a result voted FOR the proposal.		
Outcome of the vote	AGAINST	
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?		
We would likely have voted in a similar way if we were to vote again on this resolution.		
On which criteria have you assessed this vote to be "most significant"?		
Social-related shareholder proposal which saw us voting against the proxy advisor's recommendation.		

COCHLEAR LTD; RENISHAW PLC		Date of vote: 19-Oct-21; 24-Nov-21
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)		<1%
Summary of the resolution		
Remuneration report		
How you voted	AGAINST	
Where you voted against management, did you communicate your intent to the company ahead of the vote?	No	
Rationale for the voting decision		
Remuneration policies are essential in promoting the long-term alignment of interests between executives and shareholders. Glass Lewis recommended a vote against the remuneration Reports at these companies, due to a 'failure to incentivise the mitigation of material environmental and social risks'.		
Outcome of the vote	FOR	
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?		
We will continue to monitor the alignment between executive remuneration and encourage and long-term corporate sustainability.		
On which criteria have you assessed this vote to be "most significant"?		
The vote illustrates the application of our enhanced voting policy, which goes beyond just supporting, where appropriate, ESG resolutions which happen to be on the ballot, by also seeking to create explicit linkages between ESG performance and voting recommendations on other ballot items, such as the election of directors, or, in this case, remuneration.		

SHELL PLC		Date of vote: 24-May-22
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)		<1%
Summary of the resolution Approval of climate change strategy report		
How you voted	AGAINST	
Where you voted against management, did you communicate your intent to the company ahead of the vote?	No	
Rationale for the voting decision Concerns as to whether the Company's current plans can be considered aligned with the goals of the Paris Agreement led us to vote against the company's climate report, and in favour of a related shareholder proposal calling for further strengthening of emissions targets.		
Outcome of the vote	FOR	
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? We will continue to monitor the company's energy transition strategy.		
On which criteria have you assessed this vote to be "most significant"? Climate-related vote.		

BP PLC		Date of vote: 12-May-22
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)		<1%
Summary of the resolution		
Approval of climate change strategy report		
How you voted	FOR	
Where you voted against management, did you communicate your intent to the company ahead of the vote?	Yes	
Rationale for the voting decision		
Improvements in the boundaries and strength of emissions targets (including plans to sell their stake in Russian producer Rosneft), followed by engagement with the Company (Fulcrum serving as co-leads for BP engagement under the Climate Action 100+ investor network), led us to vote in favour of the company's climate report, and against a related shareholder proposal calling on further strengthening of emissions targets.		
Outcome of the vote	FOR	
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?		
We will continue to engage with the company on the execution of its climate change strategy.		
On which criteria have you assessed this vote to be "most significant"?		
Climate-related vote.		

WOODSIDE ENERGY	Date of vote: 19-May-22	
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)		<1%
<i>Summary of the resolution</i> Approval of climate change strategy report		
How you voted	AGAINST	
Where you voted against management, did you communicate your intent to the company ahead of the vote?		No
<i>Rationale for the voting decision</i> Concerns regarding the strength of emissions targets and the level of climate disclosures led us to vote against the Company's climate change report and strategy.		
Outcome of the vote	FOR	
<i>Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?</i> The vote passed by a narrow majority, as c. 49% of shareholders also opposed the plan. We will continue to monitor the company response.		
<i>On which criteria have you assessed this vote to be "most significant"?</i> Climate-related vote.		

JPMORGAN CHASE	Date of vote: 17-May-22	
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)		<1%
Summary of the resolution Remuneration report		
How you voted	AGAINST	
Where you voted against management, did you communicate your intent to the company ahead of the vote?		No
Rationale for the voting decision Concerns regarding the incentivisation of pay relative to performance		
Outcome of the vote	AGAINST	
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome? Only circa a third of shareholders supported the plan, the first time the bank has lost a pay vote since it was introduced. We hope the signal sent by shareholders will lead to reform, and will monitor the company's response.		
On which criteria have you assessed this vote to be "most significant"? Vote receiving significant levels of media scrutiny.		

HOME DEPOT	Date of vote: 19-May-22	
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)		<1%
Summary of the resolution		
Shareholder proposal on deforestation		
How you voted	FOR	
Where you voted against management, did you communicate your intent to the company ahead of the vote?		No
Rationale for the voting decision		
Ensuring deforestation-free supply chain is an issue that is rising in importance for responsible investors. We therefore voted in favour of a Report calling on the company to report on its efforts in this area, given its role as a significant user of timber.		
Outcome of the vote	FOR	
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?		
With a majority of shareholders also backing the resolution, we will monitor the company's response.		
On which criteria have you assessed this vote to be "most significant"?		
Environment-related shareholder proposal.		

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well functioning financial system

We support the Sustainability Accounting Standards Board's (SASB)¹⁸ consideration of sustainability as a systemic risk because of the widespread social impacts that may occur when certain industries, entities, or institutions were to go through periods of operating disruption or experience widespread shocks with the risk of collapse with wide impact. Our time horizon for systemic risk considerations focuses on the short and medium term (3-7 years).

Our Risk Committee, chaired by our Chief Risk Officer (CRO), Piotr Chmielowski, is responsible for discussing market-wide and systemic risks including their potential drivers such as major geopolitical issues, climate change, and other developments such as inflation. The Risk Committee meets on a weekly basis and includes senior individuals from across the firm, each of them bringing different perspectives and experience to the meetings. The way in which we respond

to risks in terms of our investment process and decisions will vary depending on the nature of the risk and the solution in question. The CRO and the Compliance team maintain a Risk Register which details the characteristics of identified systemic risks at the firm and their impact on our clients and wider stakeholders. This Register is reviewed every six months by our Risk and Compliance team and discussed in the monthly Operational Risk Committee as necessary. Risks that are identified in the Risk Register must, after mitigation, result in a residual risk deemed to be compatible with Fulcrum's risk appetite. Fulcrum's risk appetite for residual risk is determined to be generally low, except for a small number of risks where substantial mitigation is not possible and the residual risk can remain at the medium level. We also have zero tolerance for some types of risks including legal, regulatory and financial crime amongst others. These considerations impact our collaborations, strategic priorities, and feed into our investment

Identification of macroeconomics shocks

Activity:

Our research team also aids our analysis of systemic risks. The information and tools produced by the research team tends to feed into the work done by our risk team and thus impacts our risk mitigation strategy. An example includes the research team's work on understanding the shocks that drive economic fluctuations. This research produced an innovative methodology to better identify different types of macroeconomic shocks. The research was joint work undertaken with our academic consultant Juan F. Rubio-Ramírez (Charles Howard Professor of Economics at Emory University).

Desired outcome:

As a result of this research the Risk team was able to measure portfolio exposure to different types of macroeconomic shocks. This is communicated to the investment teams when they are structuring the investments.

We are also proud that this research was published in a leading peer-reviewed academic journal (Juan Antolín-Díaz and Juan F. Rubio-Ramírez. "Narrative sign restrictions for SVARs." American Economic Review 108, no. 10 (2018): 2802-29.), and can be used by the market to address similar questions.

¹⁸ SASB Standards guide the disclosure of financially material sustainability information by companies to their investors. More details can be found on their website [here](#).

approach. It is also one of the reasons why we are focused on climate change which is by its nature non-diversifiable at the macroeconomic level, without however ignoring other risks within the ESG risk group.

The development of PAIs will be key to monitor and hold us to account with respect to the main ESG risks. An example of how wider considerations are fed into our overall stewardship approach is looking at our votes, which are now focused on more than just climate – for example on DE&I, biodiversity etc. Please find evidence of this in our voting statistics on [page 49–53](#). Additionally, there is a reciprocal relationship between our risk and research teams, where identification of market-wide and systemic risks is fed to the research team with their analysis driving our risk mitigation strategy.

On an industry level, Fulcrum participates in the meetings of the European Risk management Council, which is an independent international organisation providing a peer-to-peer forum for sharing industry best practices in risk management, and, amongst others, produces its quarterly Risk Landscape Review. Our CRO attends its meetings and events regularly in addition to responding to the Council's surveys. Piotr is also a member of the RIC, thereby enabling an important feedback loop. In addition to climate change (identified as a core systemic risk which is discussed in detail elsewhere in this Report), below we provide some examples of other key risk areas that have been discussed in our Risk Committee (and across the broader business) over the last year.

Cost of Living and Inflation

Whilst there could be some debate around whether the cost-of-living crisis should be deemed a systemic risk, the causes and effects have most certainly been discussed in our Risk Committee and within our investment teams.

- The war in Ukraine has had profound implications for defence spending, economic policy and for market conditions (particularly inflation). This may have acted as a 'trigger event' for a long-term inflection point in bond and equity markets. During the year we wrote about the potential for such a turning point in our thought piece [The Great Reversal – Is it upon us?](#) This piece summarises the implications of such a turning point for institutional investor groups and suggested preparedness as being paramount.
- Inflation impacts most businesses, including Fulcrum. Like many others, we are seeing our own energy bills increase. Thankfully, given our business is not particularly energy intensive, we are able to withstand the impact, but we are aware the effects may be more acute for some of our clients.
- Many of our clients are experiencing the impact of rising inflation in their investment portfolios. This has led to reasonably widespread rebalancing activity. Given their investments with Fulcrum have held value or produced positive returns, we have seen some clients rebalance back into equities and/or their collateral pool for their Liability Driven Investments. Simultaneously, we have seen an increase in interest for what we do as a business which we are pleased to say has more-than-offset the rebalancing effect.
- We were alerted by one of our pension consultants on the desire to create a strategy to protect DB pension scheme investors against inflation. As a result, we designed the Inflation Protection Strategy, which has now been implemented and marketed to pension funds looking for protection.

China's economic slowdown, geopolitical risk and impact on emerging markets

It has become apparent that there is increasing risk because of China's economic slowdown, political stance on Taiwan and the subsequent instability in emerging markets. This presents potential impacts from a macro perspective and is a topic discussed in depth during our Risk Committee. While there is no direct outcome as a result of these discussions, we have started monitoring our portfolios carefully for developments in the region considering the nature of the risk.

More generally, Fulcrum is a signatory or member of the initiatives listed in the following section. Collaborating with these industry bodies further aids our understanding of market-wide systemic risks and allows us to contribute to discussions that facilitate best practice and engagement.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers



Whilst it is our ambition to ‘punch above the weight’ of our assets, we are equally mindful of the importance of ‘strength in numbers’. That is why we will seek to collaborate with like-minded investors on promoting more sustainable markets.

One notable example is under Climate Action 100+, the world’s largest single-issue engagement initiative, gathering 700 investors with \$68tn in assets. Fulcrum is co-leading engagements with oil major BP under this initiative, with CA100+ engagements contributing to BP adopting what we consider to be arguably the most ambitious climate strategy in its sector. In 2022, the company has further improved the breadth and strength of its emissions targets in 2022, and agreed to sell its stake in Russian oil producer Rosneft – both of which have been long-standing areas of engagement for CA100+.





Marking a first for us in terms of public engagement tactics, in May 2022, we attended the BP AGM and pressed the company on accelerating its transition in light of recent record revenues, with both the chair and CEO publicly commending us for our constructive engagements.

“thanks also to ... Fulcrum, and the wider CA 100+ investor group. Our engagement with you has been extensive and very constructive... We’re deeply grateful for your challenge and input. They help make us a better company”¹⁹

BP chair following Fulcrum participation at 2022 AGM

Initiatives	Our role and responsibility
Principles for Responsible Investment (PRI)  Principles for Responsible Investment	<ul style="list-style-type: none"> We most recently received an A rating for our submission and have been a signatory since 2015. We are part of the global policy reference group.
Taskforce on Climate-related Financial Disclosure (TCFD)  TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES	<ul style="list-style-type: none"> In spring 2019, Fulcrum became a supporter to the TCFD to further strengthen our commitment to climate change mitigation. As part of our commitment to TCFD, we have disclosed TCFD related information in this Report on a voluntary basis (ahead of meeting the AUM threshold). Please see the appendix of the report for a mapping of this Report’s content against the main TCFD recommendations This is the first time we are reporting on how we consider climate change within our overall governance structure, business strategy and risk management, as well as disclosing how we calculate a range of climate-related metrics and targets.

¹⁹ Please find more details on the BP AGM [here](#).

Initiatives	Our role and responsibility
<p>The Institutional Investors Group on Climate Change (IIGCC)</p> 	<ul style="list-style-type: none"> • In 2022, we joined the working group on derivatives, resulting in a discussion paper and public consultation. The insights from the working group have been a significant driver of internal strategy relating to derivatives and use of short-selling in our overall ESG strategy. It is an area we are exploring in more detail and look forward to sharing insights in due course. • We also joined a working group on the creation of net-zero benchmarks. • We signed a letter arranged by the IIGCC to the UK Prime Minister to stop opening a new coal mine in Cumbria. • We signed the 2021 Global Investor Statement to Governments on the Climate Crisis calling on governments to raise their climate ambitions.
<p>Pensions for Purpose</p> 	<ul style="list-style-type: none"> • Having joined as an Influencer member in 2021 we provided a training session in this reporting period for network members on the role of Implied Temperature Rise (ITR) metrics in equity portfolios. • We have also published content on its website on portfolio alignment, including “The Tracking Error Error”, which has since been shortlisted for its annual award for Best Strategy Thought Leadership. • More broadly, we are a sponsor of its annual awards event, which involves us sharing thought leadership updates on temperature alignment of equity portfolios.
<p>CDP</p> 	<ul style="list-style-type: none"> • In 2021 and 2022, we signed letters to large global companies, encouraging them to disclose (and set targets for) their emissions – see updates below. • In 2021, we signed an Investor Letter by the “As You Sow” Coalition, calling on oil major ExxonMobil to strengthen its emissions target. The company has since adopted net zero targets for its operations.
<p>Net Zero Asset Managers Initiative</p>	<ul style="list-style-type: none"> • Fulcrum is a signatory to the Net Zero Asset Managers Initiative and committed to support the goal of net zero greenhouse gas (‘GHG’) emissions by 2050. • We are signed up to the Net Zero Asset Managers initiative and will be providing them with an annual climate action plan, which will be submitted to their investor agenda. As a member of the Net Zero Asset Managers Initiative, we have committed to reach net zero across our assets, with initial work focused on aligning many of our directional, long-only holdings of corporate equity and debt to a climate-secure outcome. We have also implemented restrictions around companies expanding thermal coal and oil sands exploration, in select funds. • We are working on the ratchet mechanism for future developments, with any targets to be made public via the regular NZAMI reporting cycle.
<p>Science Based Target Initiative</p> 	<ul style="list-style-type: none"> • In the first half of 2022, we began our first thematic engagement focused on climate change, targeting c. 40 key investee companies – with a specific request to set Science Based Targets (SBTs) for their emissions, which we believe currently represents the ‘gold standard’ in terms of credible external validation of company strategies, and also increases the likelihood of companies remaining (or being included) in the growing share of our assets transitioning to net zero.

Initiatives	Our role and responsibility
Glasgow Financial Alliance for Net Zero (GFANZ) 	<ul style="list-style-type: none"> • We joined in 2022, and are contributors to the working group on portfolio alignment measurement. • Please find details on our involvement in the section below.
Carbon Action 100+ 	<ul style="list-style-type: none"> • We signed up as supporters of ClimateAction 100+ to aid our engagement efforts and show our support of its work on decarbonisation. • Co-lead engagements with BP under ClimateAction100+. Fulcrum attended the company's 2022 AGM and called on the board to accelerate its investments in clean energy, with the CEO and chair publicly commending our constructive engagement.

In addition to the above list of industry affiliations, where we deem it to be of significant importance/interest to our clients, we also commit to liaising with regulators and other industry bodies in an appropriate manner. We provide some examples below:

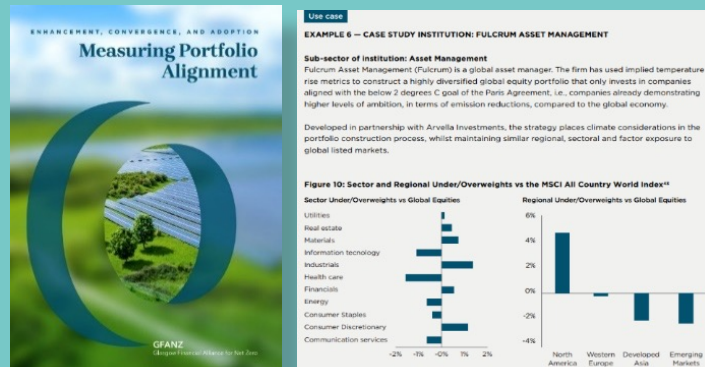
- One key area of interest for us has been the charge cap for DC pension schemes where we met with The Pensions Regulator to discuss this during the reporting period.
- Our macroeconomic research team produces nowcasts for major economic indicators and these are regularly shared with central banks, asset owners and the Financial Times. Also, as part of our research and education effort, we run an academic seminar series for Fulcrum staff as well as clients (where relevant) which is organised by our macroeconomic research team.

An additional element of Fulcrum's engagement work is collaborating with other investors on sustainability issues, most of which is done working as part of a coalition of wider stakeholders – groups such as IIGCC, CA100+ or GFANZ.

We expect that, given the size of our business and nature of our investment processes, we are most likely to have an impact on underlying company and government behaviours by being involved in collaborative engagement activities. We fully intend to vote our shares wherever possible and we will use our vote to express our opinions, but collaboration is likely to be our most powerful tool. The following are some examples from the reporting period.

Case study: Net zero collaborations

There is significant collaboration between the financial institutions that are members of the Glasgow Financial Alliance for Net Zero (GFANZ) – the umbrella organisation that co-ordinates the sector-specific net zero initiatives (such as the Net Zero Asset Managers Initiative, which Fulcrum joined at the beginning of 2022).



Fulcrum case study in the latest GFANZ portfolio alignment report

We were honoured to be invited to join the Portfolio Alignment workstream Group in GFANZ, highlighted by the UK Government as one of the ‘key’ workstreams within GFANZ. Members of our Management Board, investment and research teams have taken part in regular, weekly or bi-weekly meetings and workshops, alongside other representatives from leading financial institutions. This culminated in several publications throughout the year, including the publication of a significant new report: *Measuring Portfolio Alignment: Enhancement, Convergence, and Adoption*. The report aims to offer guidance on multiple technical aspects of aligning portfolios to a net-zero trajectory. We wholeheartedly welcome the report’s emphasis on the importance of forward-looking metrics, and are proud to have our approach to equity portfolio construction featured as a case study in the report.

Case study – Unlocking voting

We recognise, in line with the principles of the Stewardship Code, the importance of exercising the rights and responsibilities associated with our investments. One area we have identified relates to the synthetic exposure to equities (via derivatives). This asset class does not offer investors the ability to vote the underlying shares and therefore exercise the rights and responsibilities in a similar way to physical equities. At our company level, we are tackling this by an ongoing project to increase the percent of physical equities we own.

At the same time, we recognise one of the broader, market-wide ramifications of this issue – cases where no-one ends up voting on what can be a significant percentage of a company’s outstanding share capital, if prime brokers do not instruct votes for the shares they nominally retain ownership of (although economic ownership has been passed onto other investors via derivatives). We have therefore been engaging with one of our main brokers on finding ways beyond this deadlock, not just for our derivatives shareholding, but potentially for a broader proportion of the broker’s book. This is a complex issue without simple solutions (indeed, in certain markets, regulators explicitly require such ‘broker non-votes’), and we are discussing ways to collaborate with different market participants on it.

Case study: driving the derivatives discussion

We have, since Q4 2021, joined the working group on derivatives and hedge funds from the investor practices programme of the Institutional Investors Group on Climate Change (IIGCC). The group's initial efforts focused on defining the avenues through which hedge funds can make a positive contribution to the low-carbon transition, and on specifying guidelines to help prevent 'greenwashing' in the reporting of emissions associated with long and short positions. We have contributed to the consultation that culminated in the publication of a discussion paper and report (available on their website [here](#)) and are seeking to expand our reporting to more explicitly incorporate the main recommendations of the working group. Going forward, we have suggested that the working group build on the initial report by looking more closely at specific types of derivatives (e.g. index options, or commodity futures).

Case study – CDP

As in previous years, we have continued to support CDP's collective engagement campaigns, calling on companies to disclose and set targets for their emissions, recognising the role of CDP disclosures in driving much of the emissions data available in the market

In 2021-22, we signed joint letters to the relevant companies we held in our portfolio. And as at Q3 2022:

- 29% of companies activated or completed the CDP questionnaire
- 71% of companies did not respond or declined

Case study: Exploring the effects of market-wide risks

A risk may be pervasive, and yet impact sectors and industries differently. We were invited to explore the question of how climate change risks can affect derivatives and central counterparties, with Fulcrum contributing to a panel discussion organised at the World Federation of Exchanges' 2022 *Clearing and Derivatives Conference*, alongside speakers from the Financial Conduct Authority, the Bank of International Settlements and other industry participants.

Case study: benchmarks

Having repeatedly set out our position, as a firm, that climate alignment requires a willingness to deviate from too closely tracking standard, market-capitalisation-weighted benchmarks (for example, as expressed in our paper on [The tracking error error](#)), we were invited to join an IIGCC working group focused on developing appropriate benchmarks for the low-carbon transition.

Direction of travel

Thank you for reading our 2021-2022 Stewardship Report and for your feedback for our 2020-2021 Report. We look forward to receiving feedback on this year's Report in due time.

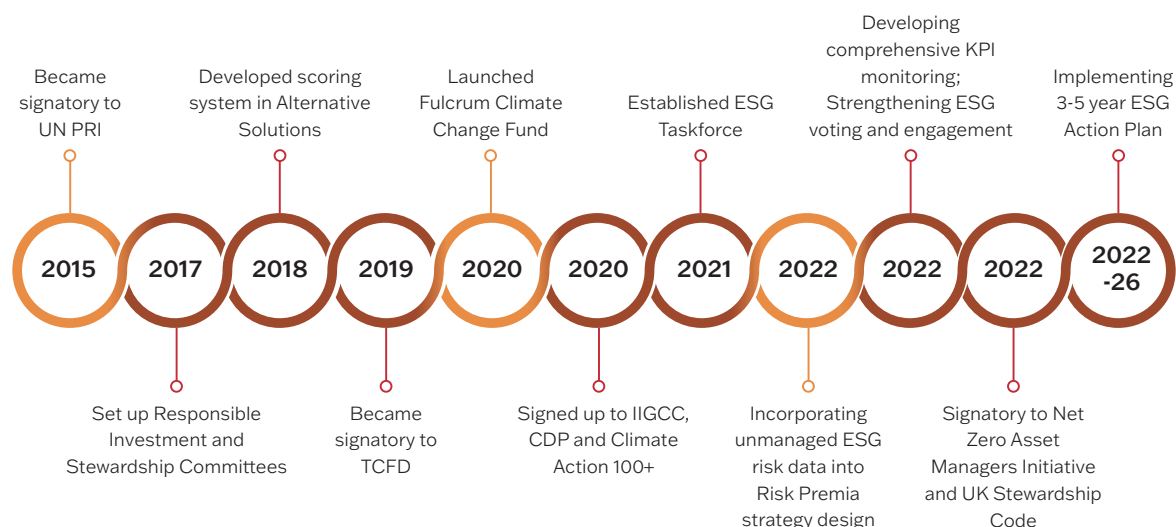
Firstly, we want to discuss how we have addressed the feedback provided to us before moving to our 3–5-year Action Plan and timeline by the FRC.

- We have better described the skills and experience held by our team responsible for Stewardship Activities (which we categorise as governance, RI and DEI).
- We went through our process used to identify market-wide systemic risks and case studies which showcase how we think and integrate these discussions.
- We received feedback on providing more detail on the external assurance. Whilst we have detailed the internal assurance work done, we currently do not have any ESG-specific external assurance in place. Our aim is to incorporate external assurance in due time, especially once we start reporting TCFD data on a formal basis i.e., reach the minimum threshold needed to disclose TCFD data. Additionally, the incorporation of performance indicators (PAIs), disclosure of our interim net zero target and expansion of our AUM will be key factors driving us to consider appropriate stewardship specific assurance for our organisation.
- We hope we have detailed how we engage with our service providers including proxy

voting agency, third party managers and data providers.

- Since our last Report, we have shared how we have moved the dial on existing collaborative initiatives as well as embarked on newer activities. We look forward to sharing updates and progress with the FRC as well as with our clients and beneficiaries through the Stewardship Report, Sustainability Reports and on an informal basis.
- At the beginning of 2022, we formalised our escalation process and engrained it within our policy, this has been a key progress since our previous Report. We look forward to using this process in the years ahead and reporting on examples escalated through direct and collaborative initiatives.
- Improvement in our voting practice through the disclosure of real-time voting and incorporating the more progressive Glass Lewis Policy (compared to the house view) have helped us exercise our rights and responsibilities. However, top-down motivation from leadership alongside belief in the importance of voting have been instrumental in how we have approached voting compared to our peers in the industry. We look forward to continuing this journey and taking a proactive role at AGMs in the future.

Timeline of key Fulcrum sustainability milestones



We see the pursuit of Stewardship, in its broadest sense, as an ongoing journey. We are proud of the steps taken so far and are mindful of the road still ahead. In terms of our 3-to-5-year Action Plan, we commit to making progress on the following topics:

- Understanding the biodiversity risks embedded in our investments.
- Further developing our engagement abilities beyond climate change as well as in other asset classes.
- Implementing a comprehensive KPI monitoring programme within our RIC.
- Increasing gender balance at a senior level and other DEI metrics.
- Continuing, monitoring, and where needed enhancing our active stewardship approach across various channels. This includes direct engagement with companies and third-party managers, industry initiatives, research and voting in line with our values. It will also include pushing our envelope to think about value chain driven engagement such as ESG engagement with our prime brokers.

Our goal for 2022-2023, is to focus our attention on four key activities:

1. Broadening our scope to present fair, balanced, and accurate reporting using internal and external assurance. As we reach the minimum threshold for TCFD reporting, such assurance will be pertinent in providing high quality disclosure to our clients and stakeholders.
2. Development of firm-level ESG key performance indicators: we look forward to using our PAIs as a foundation to create ESG KPIs to monitor and report on firm level progress.
3. Enhancing our current recruitment approach in line with our commitment which includes building a robust, diverse talent pipeline.
4. Rolling out an ESG-specific training program: this will include 8 topics ranging from ESG integration, data & metrics and biodiversity. We look forward to hosting external speakers and encouraging internal specialists to present these training sessions, which will be for all our people at Fulcrum.

Thank you again for supporting our Stewardship Journey. We welcome your feedback on our 2021 – 2022 Stewardship Report and would be happy to answer any questions that you may have.

Please contact IR@fulcrumasset.com for all queries related to our approach to Stewardship.

TCFD reporting

We illustrate below how we are reflecting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

TCFD disclosure requirement	Page no.
Governance: Disclose the organisation's governance around climate related risks and opportunities.	Page 11 – 20
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Our strategy on climate related risks and opportunities can be seen throughout the Report. They are pronounced on page 21 and 54 which deals with systemic risks and conflict of interest. In terms of opportunities, the section on ESG integration and engagement (page 28 onwards) best captures how we consider addressing the climate crisis as a win-win from an investment and solution perspective. Finally, our section on governance showcases the infrastructure we have in place to consider such risks and opportunities in a meaningful manner.
Risk management: Disclose how the organisation identifies, assesses, and manages climate-related risks.	<ul style="list-style-type: none"> • Page 21 (Conflict of interest risks) • Page 23 (Assurance to mitigate risks) • Page 54 (Systemic risks)
Metrics & targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Please see high level information on our metrics below, granular data can be provided on request.

Metrics & targets:

We have continued to develop our capability to report on a suite of carbon and climate metrics, using both absolute measures (e.g. the total Scope 1,2, and 3 emissions associated with equities; total territorial emissions associated with government bonds), and relative metrics (which scale emissions relative to another measure - for example, the amount invested in a security, the revenues of a company or the GDP of a country). We are currently expanding this to include a broader range of sustainability metrics, in line with EU regulation. In addition, we are strong believers in the importance of adopting a forward-looking perspective in analysing the climate alignment of an issuer, as illustrated below.

Implied Temperature Rise (ITR) metric:

Mitigating climate change is a long-term economic challenge that is likely to remain on political agendas for decades to come and we believe that Climate-Aligned investing can boost risk-adjusted returns, especially relative to an approach that minimises backward-looking carbon emissions.

The scale of the challenge is captured by the fact that a majority of the world's listed companies and

major equity indices* are not aligned with the goals of the Paris Agreement, if measured in terms of implied temperature rise (ITR, discussed below).

At the same time, this challenge represents an investment opportunity – as climate change is “priced” into financial markets, investors may seek to capture “transition alpha”. We have already seen this in the aftermath of Covid-19 (where a growing share of fiscal spending was geared towards the green transition) and in the increased focus of policy-makers on accelerating the shift away from fossil fuels.

Our initial Climate-Aligned strategy – Fulcrum Climate Change – is explicitly designed to contribute to making financial flows aligned with the Paris Agreement's temperature target by having a weighted average portfolio temperature of below 2°C, with no individual company exceeding 2°C.

The strategy is based on a rigorously researched ITR metric developed by environmental experts. This means that the investment process is geared towards a forward-looking approach, rather than the backward-looking methods (focused on

*MSCI ACWI index used as a proxy for global equity markets.
Data as at January 2022.

historical carbon emissions) that are often used in the market.

As a result of our commitment to net zero emissions across assets under management, we have built on this strategy by expanding the proportion of

our assets that are invested in Climate-Aligned securities by the end of 2022. We will seek to expand this, with further announcements to be made under the regular Net Zero Asset Managers Initiative reporting timelines.

Carbon metrics and third-party managers:

Carbon output is one way we can measure the exposure of our portfolio to climate change-related risks. There are a variety of methodologies to calculate carbon exposure and since becoming supporters of the Task Force on Climate-related Financial Disclosure (TCFD) in 2019, Fulcrum has adopted its definitions and methodology.

As part of this commitment, we report on the weighted average carbon intensity (WACI), which allows us to measure a portfolio's carbon efficiency across a range of asset classes. We collect statistics from third-party data vendors and the managers we invest with,²⁰ and get full look-through to all the underlying holdings for the managers we hold. As an example, in the Fulcrum Diversified Liquid Alternatives strategy the WACI is calculated annually and this year we are pleased to report that our integrated ESG investment process has led to a coverage ratio of 70% (compared to our prior year coverage ratio of 67%). Where managers were not equipped to produce the WACI, we calculate the score ourselves using underlying holdings data, engage with them and offer our experience where appropriate to help them with their calculation.

Carbon footprint and intensity information is dependent on certain assumptions when calculated at the underlying company level. We are reliant on the calculations performed by these companies.

We aim to reduce the WACI of the portfolio over time through funding environmentally aligned companies and asset managers as well as engaging with stakeholders. Our goal is to achieve this in a considered fashion and not to simply divest from the highest carbon emitters.

As part of this effort, we engage with third-party vendors and managers periodically. This includes, for example, questioning the methodologies used for calculating certain metrics (such as carbon footprint), pointing out inaccuracies and asking for recalculations. ESG ratings are the product of reported corporate data and assessments by data providers. We are conscious of the limitations in reporting and methodology when using this data in our analysis.

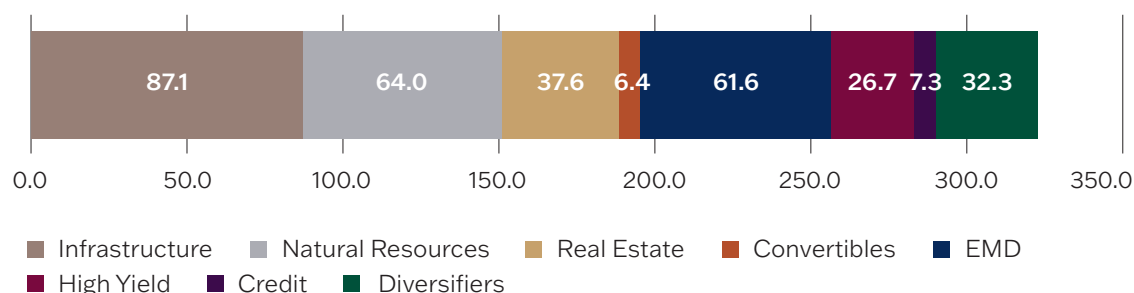
For the full year to December 2021, we can report that the Fulcrum Diversified Liquid Alternatives strategy's (DLA) WACI was 323 tons CO₂ per \$1m sales. This is a reduction of 19 tons CO₂ per \$1m sales from our 2020 WACI score.²¹

For the full year to December 2021, we can report that the Fulcrum Real Asset Optimal strategy (RAO) WACI was 402 tons CO₂ per \$1m sales.

²⁰ WACI was calculated with carbon data sourced from Sustainalytics and our external managers. Where figures were missing, the nearest ETF proxy was used.

²¹ Our full year to December 2020 WACI score was 342 tons CO₂ per \$1m sales.

WACI Contribution by Asset Class in DLA (tons CO2 per \$1m sales)



Managing our own carbon footprint

We believe it is prudent for us to consider and manage our business emissions. In the past year, we calculated our internal WACI metric, and the exercise was overseen by the Matthew Roberts, Head of the RIC. Our WACI for the year was 6 tons CO2 per \$1m sales.

While our scope 1 and 2 emissions are at the lower end of the spectrum, through our calculation we realised, the main source of our emissions can be attributed to business travel. As signatories to NZAMI our aim is to reduce our emissions directly and through engagement. From a firm-level greenhouse gas (GHG) perspective, we are looking at our business travel policy to bring down emissions and considering the use of offsets as last resort for remaining GHGs which are hard to abate. Due to the limited regulation and oversight of the offsetting industry, we recognise the importance of choosing an appropriate offset, which has an impact in bringing down real world emissions.

We are passionate about sustainable workplaces. Our office building has BREEAM 'very good'

certification, recycling facilities and uses 100% electricity backed by renewable energy guarantee of origin (REGO) certificates. In 2022, we engaged with the management of the building to create environmental targets including replacement of all lighting to LED to significantly reduce energy consumption. A demand-driven system was installed to reduce HVAC usage by monitoring the CO2 levels and floor temperatures instead of outside conditions/time programming – this is yet to be fully implemented post the Covid-19 pandemic. The landlord will also be looking at reducing the building dependence on fossil fuel by replacing chillers for air source heat pumps which can do cooling as well as heating, therefore, becoming less reliant on gas for heating and hot water.

We are also looking at avenues to add green space, which promote biodiversity as well as designing the office to include more social and collaborative areas.

Managing the impact of our investments

We recognise that our biggest climate impact is achieved more indirectly, through our underlying investments. We will continue to engage with investee companies and third-party managers, encouraging them to take climate action, and to engage with industry participants to help develop and implement best practice in new areas around climate investing, from macroeconomic research

to portfolio alignment in different asset classes.

Fulcrum supports the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C. It also commits to support investing aligned with net zero emissions by 2050 or sooner.

Appendix

The Report should be read in its entirety to obtain the fullest picture of our active ownership activities during 2020. To facilitate navigation, the table below provides links to the sections within the Report that demonstrate how Fulcrum applies the 12 Principles of the 2020 UK Stewardship Code.

Principles	Page no.
P1: Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	<u>6</u>
P2: Signatories' governance, resources and incentives support stewardship	<u>11</u>
P3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	<u>21</u>
P4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	<u>54</u>
P5: Signatories review their policies, assure their processes and assess the effectiveness of their activities	<u>23</u>
P6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	<u>25</u>
P7: Signatories systematically integrate stewardship and investment, including material, environmental, social and governance issues, and climate change, to fulfil their responsibilities	<u>28</u>
P8: Signatories monitor and hold to account managers and/or service providers	<u>34</u>
P9: Signatories engage with issuers to maintain or enhance the value of assets	<u>37</u>
P10: Signatories, where necessary, participate in collaborative engagement to influence issuers	<u>57</u>
P11: Signatories, where necessary, escalate stewardship activities to influence issuers	<u>45</u>
P12: Signatories actively exercise their rights and responsibilities	<u>48</u>

Contact us

fulcrumasset.com

UK Office

Marble Arch House,
66 Seymour Street,
London, W1H 5BT, UK
Tel: +44 (0) 207 016 6450

New York Office

405 Lexington Avenue,
9th Floor,
New York,
NY 10174, USA
Tel: +1 646 837 6110

Japan Rep Office

1034 10F Shiba Daimon Centre
Building, 1-10-11 Shiba Daimon,
Minato-ku, Tokyo 105-0012
Japan

For further information on any of our products or services, please contact our sales team at ir@fulcrumasset.com or call +44 (0)207 016 6450

This material is for your information only and is not intended to be used by anyone other than you. It is directed at professional clients and eligible counterparties only and is not intended for retail clients. This is not an offer or solicitation with respect to the purchase or sale of any security. The material is intended only to facilitate your discussions with Fulcrum Asset Management as to the opportunities available to our clients. The given material is subject to change and, although based upon information which we consider reliable, it is not guaranteed as to accuracy or completeness, and it should not be relied upon as such. The material is not intended to be used as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's account should or would be handled, as appropriate investment strategies depend upon client's investment objectives. The price and value of the investments referred to in this material and the income from them may go down as well as up and investors may not receive back the amount originally invested. Past performance is not a guide to future performance and future returns are not guaranteed. This material has been approved for issue in the United Kingdom solely for the purposes of Section 21 of the Financial Services and Markets Act 2000 by Fulcrum Asset Management ("Fulcrum"), Marble Arch House, 66 Seymour Street, London W1H 5BT. Fulcrum Asset Management LLP is authorised and regulated by the Financial Conduct Authority (No : 230683) . © 2022 Fulcrum Asset Management LLP . All rights reserved. FC129 201022

fulcrumasset.com

