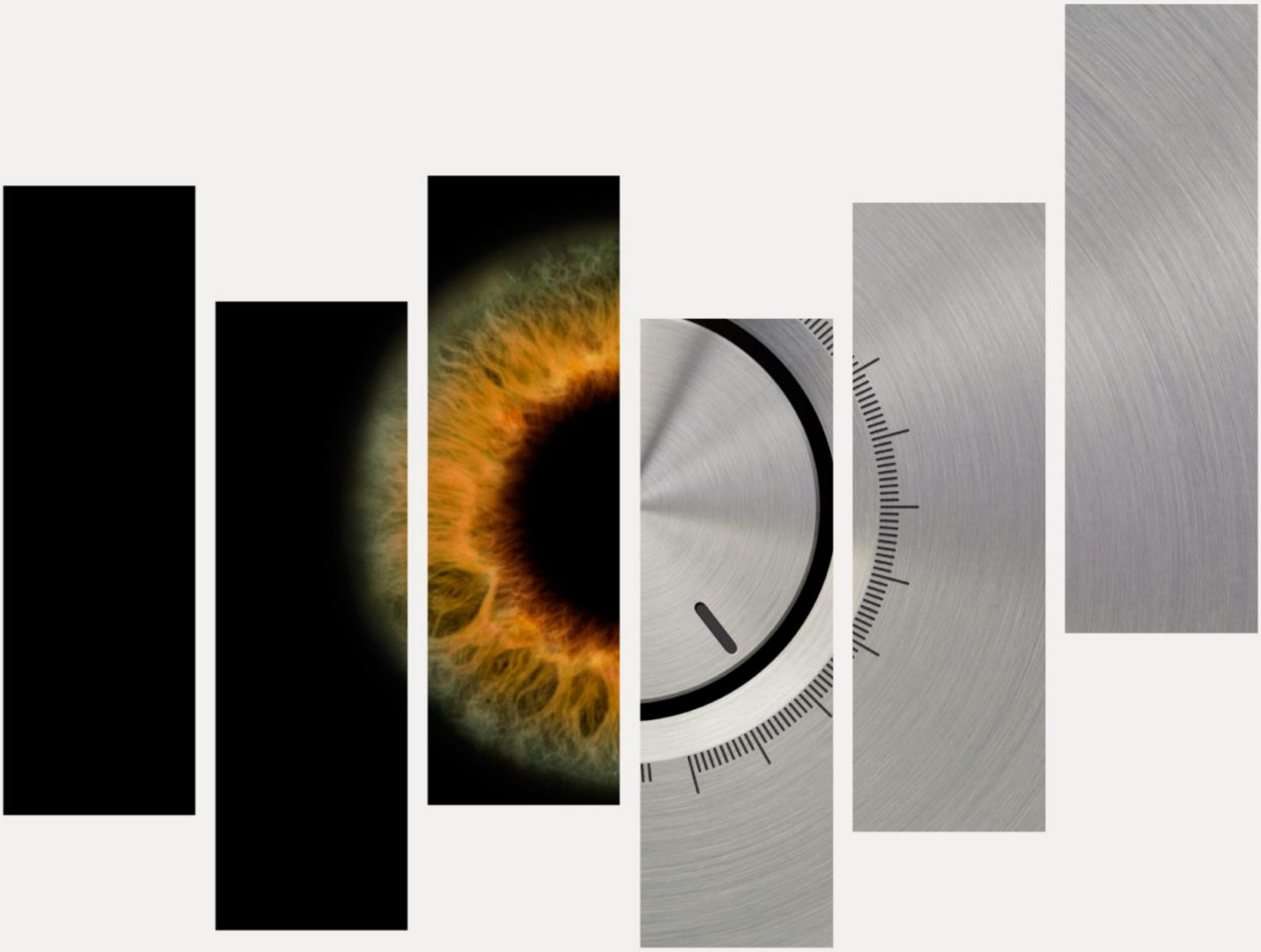
Fulcrum Asset Management

Stewardship Report for the year ending 30th June 2021



FULCRUM

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Statement from the Management Board

We are delighted to introduce our inaugural Stewardship Report. Since Fulcrum was established in 2004, our clients have faced a wide variety of challenging market conditions, not least the Covid-19 pandemic we are still experiencing. During those 17 years, the importance of good stewardship to our clients has become increasingly clear. The focus on the topic will, we trust, continue to strengthen and evolve further. It seems only right that we take the next step on our Responsible Investment journey by fully committing to the UK Stewardship Code. In this report, we illustrate the progress we have made on that journey in order to embrace stewardship as a business.

Being good stewards of capital is complex and as such, whilst we have taken several important steps as a business, we must recognise that we are not yet anywhere near the "end destination". In the spirit of one of the key aspects of our culture outlined in Principle 1, namely being multifaceted in our engagement with all stakeholders, we welcome feedback on our approach so we can improve in the years ahead.

We hope that you find this report useful and engaging.

The Management Board

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

Established in 2004, Fulcrum Asset Management LLP ("Fulcrum") is an independent asset manager with a single, cohesive investment team founded on an inquisitive, thoughtful, and research-oriented culture. We have 79 employees and £3.6bn in Assets Under Management ("AUM"), as of 30th June 2021. We offer pooled and bespoke asset management solutions for our clients and our investment process is grounded in macro investing.

Our Purpose

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 increasingly clear to us that it is crucial to consider Environmental, Social and Governance (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.

Our leadership, informed by our staff and clients, have a particular concern about the devastating consequences of accelerating climate change, and an awareness of how this both poses a risk to investments as well as the important role the financial sector must play to mitigate it. Consequently, investing in a climate-aligned manner is important for us and we aim to embed this across our firm wherever possible. Thoughtful stewardship of our clients' (and our own) capital will be an essential part of achieving this purpose.

Our Business Strategy

Our long-term goal is to work with clients that share our purpose and need our 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 IFA 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, Australian institutional, UK wealth management/wholesale clients and Japanese pension schemes.
- Being good stewards on behalf of our clients is a necessary condition if we are to achieve the above business objectives and hence we have developed a comprehensive Action Plan to further prioritise stewardship across our business.

Our Investment Capabilities

Below we provide a summary of our four investment capabilities:

Macro & Multi-Asset	Risk Premia	Alternative Solutions	Thematic Equities
These strategies are designed to generate absolute returns, offer downside protection, and provide diversification. We invest globally currently via index derivatives across equities, bonds, commodities and currencies. In addition, these strategies also invest a substantial proportion in our other capabilities listed in this table.	A range of systematically implemented, quantitative investment strategies that includes trend following, volatility, carry and value. We invest globally via index derivatives across equities, bonds, commodities and currencies.	Our guiding objective here is to support investors in overcoming the governance challenges of investing in Alternatives. We offer a range of pooled and bespoke solutions with exposure to Real Assets, Alternative Credit and Diversifiers across the liquidity spectrum and largely accessed through external managers.	We provide exposure to key megatrends through synthetic and physical equity investments. This results in highly diversified long-only and long/short portfolios with global, cross-sector exposures to a wide range of socioeconomic themes.

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 integrate ESG 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 should 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. Notwithstanding this point, and whilst we are committed to ESG integration across the board, much of our progress to date has been within our Alternative Solutions and Thematic Equities capabilities, which will become clear later in this report.

Our Culture, Values and 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 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 the 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, inequality, 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 Environmental, Social and Governance 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	COLLABORATION	INNOVATION	INTEGRITY	SUSTAINABILITY
We endeavour to produce great quality work every time we engage with clients. We put ourselves in our clients' shoes so we can deliver what really is best for them. We set high standards for everything we set out to achieve. We are motivated for long-term success. This determines the way in which we invest for our clients and invest in the growth of our business.	Our success is dependent on contributions from all parts of the firm. Each is represented in the Partnership and has a voice that matters. Constructive debate is the foundation of creativity. Respectful challenge enables us to harness the collective knowledge across the firm making us more than a collection of individuals.	We seek to expand the frontier of knowledge by focusing on being research-driven and evidence-based. We are relentless in our pursuit of continuous improvement as we understand that even a small edge in expertise, if well defined, is of great value. We seek to develop wisdom from broadening our expertise, whilst recognising our own limits, particularly the presence of overconfidence and excessive fear.	We expect our people to maintain high ethical standards in everything they do. Our services should be competitive and fair. Clients should pay little for beta nor should they in principle pay for luck. We never skirt the issues, we are proactive in communicating issues and in seeking solutions. We earn our clients' trust by being attentive, proactive and open in our communications.	We need and value diversity in our team. Our clients are varied and to serve them well we must understand and align with their needs and motivations. Responsible Investing is about much more than scores. We strive to meaningfully integrate responsible investing into all relevant strategies. We actively use our voice to challenge and shape change for the greater good.

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."

Progress on Stewardship and New Developments

We feel that we have continued to "live our purpose", managing our clients' money in an aligned fashion and in their best interests. Notwithstanding this point there are further actions we can take, particularly in the area of stewardship and we outline these in our Action Plan.

Here we provide a summary of key developments during the reporting period:

- In August 2020, we launched our first impact-focused fund, the Fulcrum Climate Change Fund. Climate change is a long-term global challenge that is likely to remain on political agendas for decades to come and it will impact every aspect of society and the economy. Tackling climate change has hence become a significant priority for Fulcrum and our investors, though the wide divergence of approaches means that existing climate-related measures are not yet as forward-looking, robust, and benchmarked as they need to be to measure a portfolio's alignment to net zero. Our research, in collaboration with environmental engineers and a third-party investor, led us to develop an investment strategy aligned with the temperature target of the Paris Agreement. The Fulcrum Climate Change Fund invests in companies across a broad range of sectors and geographies that are on a path to being below a 1.5^{o}C temperature rise by 2050.

- We stepped up our engagement practices in 2020, coinciding with the launch of the Climate Change Fund. Where we invest in equities directly, we now engage with both existing and prospective holdings on a firm-wide basis. Our primary engagement technique thus far has been to encourage explicit setting of decarbonisation targets that are consistent with the Science-Based Targets initiative (SBTi). We also extend this focus on climate change to our voting practices, and we aim to prioritise climate change mitigation where we can (please see Principles 9 to 12 for further detail).
- We joined both the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ in 2020 and have had the chance to participate in several of their collaboration engagement initiatives. Examples of this include encouraging increased focus on creating a green financial system in the lead-up to COP26 (see Principle 10 for further information).
- We improved our overall governance structure with the formation of our Management Board. This new structure will help provide for more unified and cohesive support of our stewardship activities.
- We established our Diversity & Inclusion Committee which has already led to positive changes in our standard work contracts, including enhancement to our maternity leave policy and contractual working hours. We see this as a positive first step with the aim of bringing about further positive changes in the years ahead (see Principle 2 for further details).

In terms of our current Action Plan, we provide a summary of our key objectives for 2022 below:

Action Plan	
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 and intend to support further innovation in this area.
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 SFDR regulation where relevant and cover a much broader range of ESG factors beyond climate metrics.
ESG Integration	We will scale up the extent to which Responsible Investment is incorporated across our non-equity strategies, including our systematic Risk Premia investment capability and certain elements of our Macro & Multi-Asset capability.
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 AGMs and a broader range of discussion topics.

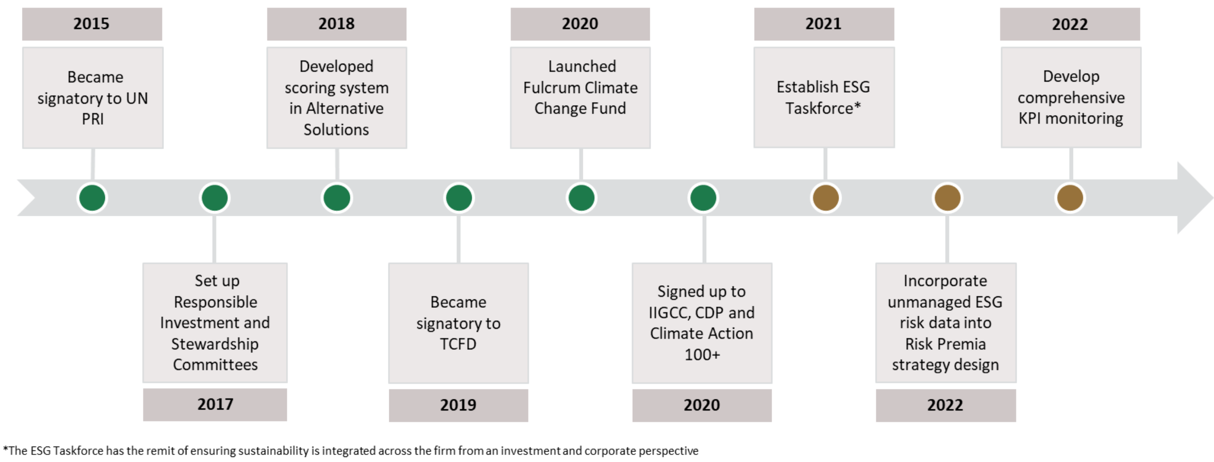
Training, Incentives and Resources	We will continue to improve the level of knowledge and education amongst our Responsible Investment Committee, with most of them to sit the CFA ESG Certificate.
Training, Incentives and Resources	We will establish an "ESG Taskforce" to further enhance our approach to ESG integration and engagement across our investment team and to help aide the work we are doing in communicating our actions to our clients.
Training, Incentives and Resources	We will create a clearer linkage between ESG integration and corporate responsibility with an individual's performance assessment in our overall annual review process.
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.

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 Responsible Investment Committee ("RIC"), and
- Our gender balance at a senior level and other corporate sustainability metrics

We are aware of the challenges facing the natural environment and believe that financial markets have an important role to play in creating a more sustainable world. We believe that the allocation of capital can affect society and the environment, and we aim to play a positive role in this change.

We summarise our key Responsible Investment landmarks and objectives in the below timeline.



Principle 2: Signatories' governance, resources, and incentives support stewardship

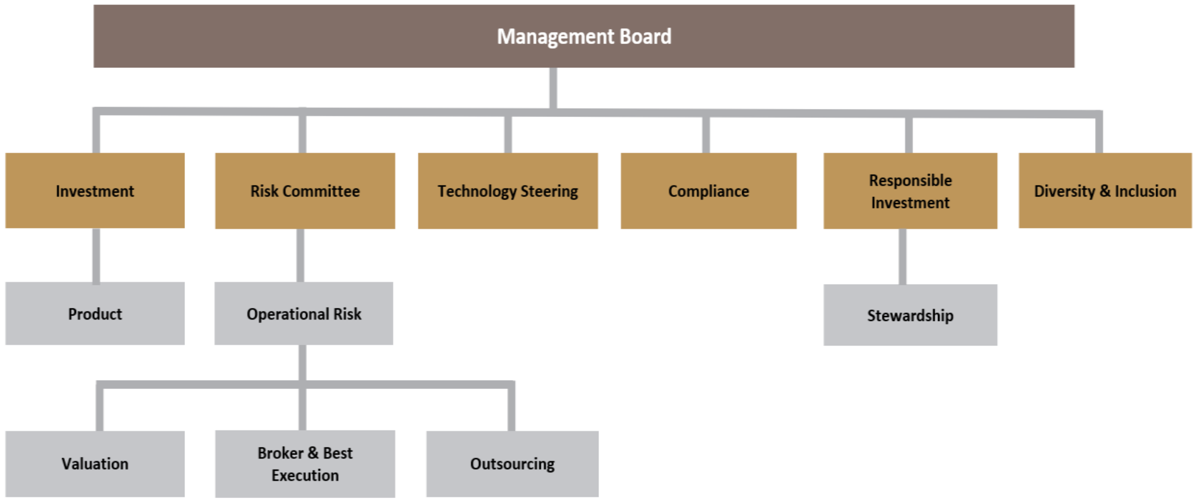
Stewardship, Governance Structure and Oversight

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.
- 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.

Fulcrum's governance structure with respect to stewardship is summarised in the diagram and table below:



Management Board	Responsible Investment Committee	Diversity and Inclusion Committee
Gavyn Davies, Chairman	Matthew Roberts, Head of Alternatives	Emma Pickering, Head of Investor Relations
Andrew D. Stevens, Chief Executive Officer	Joseph Davidson, Chief Operating Officer	Shiwen Gao, Director
Suhail Shaikh, Chief Investment Officer	Fawaz Chaudhry, Head of Equities	Rahil Ram, Director
Joseph Davidson, Chief Operating Officer	Piotr Chmielowski, Chief Risk Officer	Severine Desrosiers, Analyst
Nabeel Abdoula, Deputy Chief Investment Officer	Two new hires who will be joining in the coming months	Joseph Davidson, Chief Operating Officer

Fulcrum's Management Board was established as an improved overall governance structure in early 2021 and is ultimately responsible for the oversight of our stewardship approach. The Responsible Investment Committee (the '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, Joe Davidson, Fawaz Chaudhry and our Head of Operations, Sean Onyett).

The RIC has a Terms of Reference which includes the monitoring of firm-level investment exclusions, Key Performance Indicators 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 chairperson 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 creation of the Diversity and Inclusion Committee.
- The decision to create the ESG Taskforce.
- The decision to increase the level of resource focused on engagement.
- The decision to increase our focus on physical equity investment compared to synthetic equity investment.

We believe these key steps reflect our culture and purpose in that they will allow us to better deliver on our clients' objectives over the long-run.

Resourcing and Training

Fulcrum's RIC is resourced by representatives from our Investment Team, Compliance and Risk Management as well as (in the future) representatives from our ESG Taskforce. The combination of staff representatives reflects the diverse nature of our business and encourages diversity of thought. This also helps to encourage communication and integration throughout the investment process. Members of the RIC are encouraged and supported to keep abreast of Responsible Investment developments.

On a quarterly basis, the RIC as well as other senior management members are required to confirm to the Compliance team the training that they have undertaken. We are also aiming to have a majority of the RIC members sit the CFA ESG certificate. Furthermore, the RIC undertakes to provide training on Responsible Investment topics for the rest of the Fulcrum team and this has been integrated into our regular morning meeting schedule. Examples of our training sessions have included (conducted by the chairperson of our RIC):

- Detailed overviews of our approach to ESG integration in alternative asset classes.
- An overview of the industry bodies and affiliations to which we are signatories to or members of.

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 has recently involved a conversation on the Net Zero Asset Managers Initiative, for example, which we are investigating in further detail.

Fulcrum has engaged with Glass Lewis to assist with decision making around shareholder votes. Fulcrum's Operations team collaborates with the Portfolio Managers for their input as necessary. We also work with several data providers for the purposes of ESG integration in our investment process and this is detailed later in this report (see Principle 8). The rationale for working with these service providers relates to our view that they are the most effective method we have, given the macro nature of our business, of meeting our client objectives. We particularly felt that Glass Lewis provided impressive ESG thought leadership as well as deep integration into proxy voting systems such as Broadridge. In concluding to appoint Glass Lewis a number of other service providers were reviewed and rejected for the purpose. We have been very pleased with Glass Lewis' service provision to date and this relationship is reviewed closely by the Stewardship Committee.

Incentives

Fulcrum encourages the investment team to consider ESG risks and opportunities as an integral part of our decision-making process. To better align interests with that of the firm (and hence our clients), we intend to link ESG and stewardship to the firm's remuneration structure for staff where applicable. Additionally, performance on ESG integration and engagements will be included as part of the annual HR appraisal process, which is currently being refreshed. The outcome of this will be a factor in the setting of discretionary performance awards.

Ultimately, this process is designed to assess how well team members are implementing our Action Plan which will depend on the individual and their specific role. For example, for a portfolio manager, this will relate to driving forward the integration of ESG in their portfolios in the most appropriate way. For a research analyst, it will relate more to engagement with underlying companies and other stakeholders. For our Head of Operations, it will relate to the efficiency of the voting process.

We recently appointed a specialist Human Resources consultant to help evolve our overall appraisal process to be broader and more inclusive and we look forward to experiencing the benefits in the future.

Diversity and Inclusion

During the year, we established our Diversity and Inclusion Committee. One of its key projects was to conduct a detailed staff survey, the results of which prompted improvements in our flexible working policy and contractual working hours as well as an enhancement to our maternity leave policy. We aim to conduct further surveys to ensure that the views of all staff are heard at the most senior level of our business.

It is also clear that we need to do further work to improve our gender balance as a firm. Currently, 29% of our staff are female and this figure is lower at the more senior levels. We aim to improve the balance (particularly at the senior level) over the medium term. Furthermore, the Committee has sponsored a much broader retention of data with the aim of conducting analysis regarding gender pay balance and ethnic balance.

One of the key positives to come out of the staff survey was that there is a very high level of engagement and enjoyment associated with working at Fulcrum.

Serving our Clients

As we look back over the reporting period and try to stand in the shoes of our clients, we feel that we have taken some very significant, innovative steps when it comes to working in their best interests. The activity update and initiatives outlined in Principles 1 and 2 show that it is possible for managers with a macro heritage to make meaningful progress and our Action Plan highlights our commitment to improve further. We are aware that traditional stock picking managers will be able to display a deeper level of ESG integration and engagement on certain levels but we feel that the work we have done and aim to do, helps to set us apart, given our macro focus.

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 potential or actual 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 funds.

We maintain a Conflicts of Interest policy 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	Fulcrum will prioritise holding securities with voting rights where possible and where reasonable to do so given the strategy in question. 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.
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.

Stewardship Committee and Senior Management Review of Conflicts of Interests

In the instance a staff member recognises a potential conflict of interest with a company or individual, they must raise this with Fulcrum's Compliance team. We seek to avoid any potential conflicts for individuals at Fulcrum arising from engagements with companies in which individuals have personal investments or some material personal relationship with a relevant individual. 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.

Recording and Escalation

Fulcrum maintains a conflicts of interest register. Where an instance of a material conflict of interest arises, this will be discussed at the Stewardship Committee and if necessary, established at Management Board level. All records are kept for 7 years.

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.

Case Studies	
Case Study #1 **Equities – cash or synthetic?**	Investment managers following a macro strategy will often view an equity as purely delivering an economic return and will not factor in the value of the voting rights held on behalf of their clients. This in practice means that many managers will hold their equities synthetically via a swap or another derivative. This creates a conflict of interest in that when choosing to do so, the investment manager is effectively disclaiming the ability to vote on equities on behalf of clients given that, rather being held in the client's custody account (which would be normal for an equity portfolio), the equities will be held by an investment bank, on their balance sheet, as a hedge to a derivative contract. Fulcrum understands this issue well and over time has increasingly moved to implement its equity views via 'cash equities' held in custody instead of achieving this exposure synthetically. This trend is set to continue. Nevertheless, there are always reasons why derivatives will be the preferred option in certain situations, in particular where direct implementation would be too complex or tax inefficient. Therefore, Fulcrum's approach means that we make a conscious choice when implementing our equity investment decisions with a priority placed on holding equities in cash where possible.

Case Study #2 **Convertible Bonds**	During the relatively early stages of the pandemic in Q2 and Q3 2020 as the worst of the pandemic's first wave was behind us, we wanted to add to pro-cyclical Asian exposure in some of our Alternative Solutions portfolios as that region seemed to be ahead in controlling the economic effects of the virus. We decided to invest in Asian Convertible Bonds, given their equity market participation and in-built downside protection. Since there were no passive implementation routes available, we reviewed several external manager options through the lens of our Four Key Factors approach (Expected Returns, Diversity/Risk Considerations, Sustainability and Terms & Conditions, which are the criteria of our manager selection investment process). Ultimately, we selected a specialist external manager, which offered strong Expected Returns and solid Diversity/Risk Considerations, but with only a moderate Sustainability score. In our view, this was better than gaining exposure via an Asia focused equity manager, which had stronger Sustainability credentials, but a less appealing set of Diversity/Risk Considerations, including weaker downside protection. On balance, we decided we would lose too much by sacrificing the downside protection of the convertible bonds and hence chose to add the manager to our portfolios. Since then, we have worked with the investment manager to improve the integration of ESG factors into their process. Our clients have been able to benefit from strong performance (+20% in approximately 1 year) and we have driven positive change through our thought leadership and engagement.

Our Conflicts of Interest policy is reviewed annually, and this occurred in March 2021. 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 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Fulcrum's Risk Committee meets on a weekly basis and is chaired by our Chief Risk Officer, Piotr Chmielowski. This is the forum within Fulcrum where market-wide and systemic risks are discussed including major geopolitical issues and other events such as the Covid-19 pandemic. The Risk Committee 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. Piotr Chmielowski 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 we discuss at length later 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.

<table>
<tr><th colspan="2">Case Studies</th></tr>
<tr><td>Case Study #1 Covid-19</td><td>As it became clearer at the beginning of 2020 that the Covid-19 pandemic was going to quickly become a major challenge for investment markets, as well as a huge societal challenge, we took several steps to alleviate the risk for the benefit of our clients as well as our business:

• We instigated our business continuity plan and rapidly moved our workforce to working from home.
• We took action to hedge the risks across our discretionary portfolios both through equity and currency markets.

We are very proud of our team and the way we have responded to the challenges of working remotely. We have made every effort to provide a seamless service to our clients and our client retention has been good throughout the period.

Equally, our discretionary portfolios have produced positive results during the timeframe and the risk management measures have worked (the hedges contributed positively to portfolios), which has been of benefit to our clients.

The Covid-19 pandemic has had profound impacts on many businesses, and we have considered this in a number of situations within our Thematic Equities capability. It was not necessary for us to make significant changes to our portfolios as a consequence since our portfolios have been positioned for a move to a more digital economy for some time. For example, our positioning in Real Estate Investment Trusts had been biased towards warehouses, logistics and data centres. This compares to Retail Real Estate Investment Trusts, where the Covid-19 pandemic compounded the structural challenges (due to e-commerce) they were already facing. Many of the underlying tenants within these REITS felt huge pressure from reduced footfall and hence, reduced revenue. Many refused to pay rent, understandably, and this led to serious consequences for the landlords. The pressures were eased somewhat due to the furlough programme, but the structural challenges facing high street retail in particular, remain.</td></tr>
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Case Study #2 Inflation	As we emerge from the pandemic, it has become increasingly apparent that inflation is a risk globally. This presents some significant challenges for asset owners as it pertains to ESG integration since, for example, traditional energy companies are a potential tool to guard against this risk. We decided to research this topic in more detail and have produced a thought piece: Addressing the ESG Conundrum in a Reflationary Scenario The conclusion was that a three-pronged approach of engagement (working with traditional energy companies to encourage them to adopt new practices and initiatives, such as the Science-Based Targets initiative), selectivity (focussing on those companies that are the most forward thinking in the transition to a greener economy and renewable energy generation) and originality (looking at other ways to gain exposure outside of the energy sector, e.g. financials) was an innovative way to deal with the challenge. Our actions to tackle the risk of inflation have been quite effective. Our selective Natural Resource investments have generated positive returns for clients as the markets have anticipated higher inflation levels.

More generally, Fulcrum is a signatory/member of or participates in the following initiatives, which helps further our understanding of market-wide and systemic risks:

Initiatives	
UN Principles for Responsible Investment (UN PRI)	We most recently received an A rating for our submission and have been a signatory since 2015.
Taskforce on Climate-related Financial Disclosure (TCFD)	Our focus here has been to improve carbon reporting within Fulcrum (for our funds and clients) as well as across the industry more broadly. In addition to the development of the Fulcrum Climate Change Fund – which invests directly in equities in a climate aligned fashion – we have been very keen to engage with external managers on how they measure and report on this issue. We decided to hold a webinar where we discussed this issue, a link to which can be found below (and in the Appendix). Reflections and Innovations You can also find a link to an example of how we have reported on carbon emissions in the Fulcrum Diversified Liquid Alternatives (DLA) Fund Sustainability Report. DLA Sustainability Report 2020 This process has proven to be very effective, since the coverage of carbon information has improved meaningfully for these portfolios to c.80%, with all underlying managers calculating the information on the same basis.

The Institutional Investors Group on Climate Change (IIGCC)	This relates to industry wide engagement on climate-related issues, and we will provide further examples later in this report in Principle 10.
Pensions for Purpose	Whilst this is a recent commitment for us, we are already in discussions with them and we will engage more fully over the coming years. As an example, we are providing an upcoming training slot with this organisation and its members covering the use of temperature metrics in equity portfolios.

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:

- We have historically, although not during this reporting period, met with the DWP and responded to industry wide consultations. One particular area of interest for us has been the charge cap for DC pension schemes.
- 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. Below is an example of one the seminars held during the reporting period:

Olivier David Zerbib (Tilburg University and Boston University) presented on three of his papers:

Environmental Impact Investing (with Tiziano De Angelis and Peter Tankov), R&R, Management Science, 2020

A Sustainable Capital Asset Pricing Model (S-CAPM): Evidence from green investing and sin stock exclusion, 2020

The effect of pro-environmental preferences on bond prices: Evidence from green bonds, Journal of Banking and Finance, 2019

Another example of this relates to the work our Chief Risk Officer has done in participating in a number of industry/community initiatives. Most recently and during the reporting period, he has been involved in REF (UK Research Excellence Framework, https://www.ref.ac.uk/about/what-is-the-ref/). REF is undertaken by the four UK higher education funding bodies: Research England, the Scottish Funding Council (SFC), the Higher Education Funding Council for Wales (HEFCW), and the Department for the Economy, Northern Ireland (DfE). The funding bodies' shared policy aim for research assessment is to secure the continuation of a world-class, dynamic and responsive research base across the full academic spectrum within UK higher education.

Separately, our Management Board has determined that each staff member should have the option to take a day of paid leave for charity or community work. As an example, Fulcrum has been very active with the Access Project in the past both in terms of funding and the provision of tutors (the Access Project targets deprived children aiming to support them to access the top universities in the country). We also have conducted talks at schools with an aim of getting more females into financial services as a career and to improve financial literacy within schools.

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 to ensure they remain relevant and accurate in describing existing controls and procedures.

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	March 2021	A
Proxy Voting	Responsible Investment Committee	Semi-annual	March 2021	B
Conflicts of Interest	Compliance Committee	Annual	March 2021	C
Remuneration	Compliance Committee	Annual	April 2021	D
Modern Slavery	Compliance Committee	Annual	April 2021	N/A

A link to all of our policy documents can be found here (and in the Appendix):

Policy Documents

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	
Responsible Investment (A)	Engagement with external managers on carbon reporting and the incorporation of Glass Lewis's Climate Overlay product.
Proxy Voting (B)	Review of existing relationships with Broadridge and Glass Lewis.
Conflicts of Interest (C)	Established an internal process to manage conflicts of interest from a stewardship perspective.
Remuneration (D)	Staff pay and annual performance to be aligned with ESG factors.

We use third-party service providers to help meet certain objectives in relation to ESG, with Glass Lewis and Broadridge being the primary entities appointed with respect to proxy voting. Their selection came about following a due diligence process led by internal stakeholders to ensure they met the firm's and our clients' needs, and continuing oversight is performed by the RIC.

Where Fulcrum invests in external manager funds, an assessment is made of the ESG policies of those third-party investment managers, to ensure alignment with Fulcrum's own policies and beliefs. Our Alternative Solutions team is responsible for this due diligence and oversight, which is a core element of our manager selection process.

Case Studies	
Case Study #1 **SKY Harbor**	One example is the SKY Harbor Global Short Maturity Sustainable High Yield Fund. SKY Harbor is a female owned, female managed high yield bond specialist who we believe has done some of the best work in the industry with respect to integrating ESG risks into credit portfolios. We were seed investors in this strategy in 2018 and continued to hold them through the reporting period. In our view, passive high yield bond exposure should be avoided wherever possible; exposure to defaults is guaranteed and there is also an elevated exposure to ESG risks, particularly in the traditional energy sector. Since we invested, they have performed in line with the relevant indices net of fees with 20% less volatility. This is a strong result in this asset class and is particularly interesting given the ESG-integrated approach (for example the comprehensive range of metrics considered in investment decisions). Based on our proprietary research analysis this manager received a score of 4 on our scoring system (1-4 range with 4 being the highest).

External assurance of certain policies and their adherence is assessed via the annual Type II ISAE 3402 internal controls report which is performed by Nexia Smith and Williamson. Specifically, in relation to stewardship, this report covers the firm's proxy voting activities. Additionally, Fulcrum's third-party compliance consultant Kroll provide a secondary layer of review to any policy updates to ensure they continue to meet the Firm's regulatory requirements.

Reporting

Reporting on stewardship has become increasingly important both internally and externally, driven by our desire for more active ownership and also due to client requests. Our primary goal is to ensure that our reporting is fair, balanced, and understandable, leveraging the reporting capabilities of Glass Lewis. This service was enhanced in April 2021 to incorporate the Climate Overlay offering, which is better aligned to our needs, given our assessment of climate change as a significant risk.

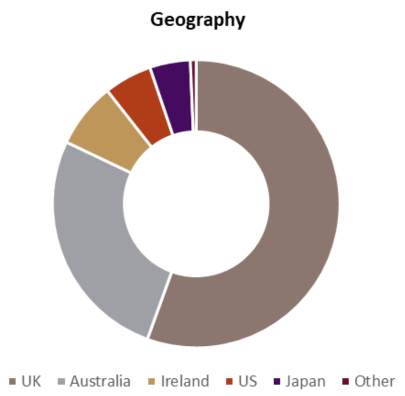
Client feedback is an important tool in determining where improvements can be made in terms of reporting, an example being institutional investors' request for PLSA reporting. We believe making use of the template helps to ensure industry consistency and that our reporting is fair, balanced and understandable.

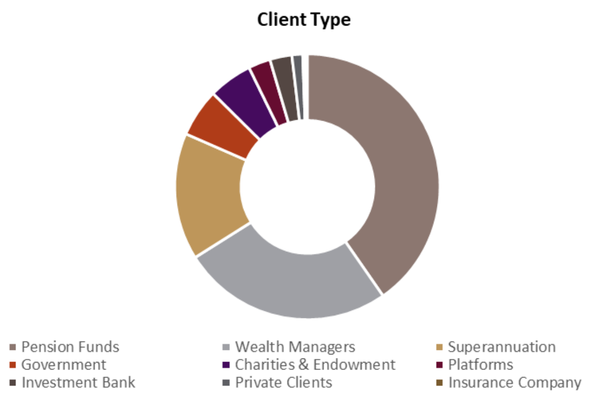
Finally, whilst our Management Board is comfortable that the internal mechanisms we have used for assessing ESG controls have been sufficient to date, we are considering working with a third-party consultant who would provide a ‘third party ESG controls’ report, which would further enhance our efforts in this area.

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

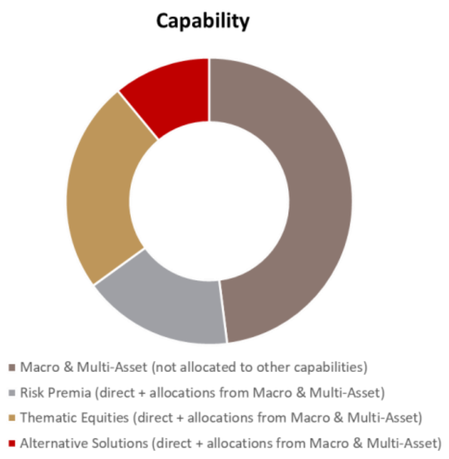
We share below the breakdown of our clients' assets invested with us by geographical region and client type. Our client base is predominantly institutional in nature and, hence, long-term in their investment time horizon. This has become more diverse by region over time as we have worked more broadly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

Assets Under Management Breakdown as at end June 2021





Of the £3.6bn AUM as at end June 2021, our Macro and Multi-Asset capability represents £2.8bn, which accounts for 75% of the total. The remaining 25% is invested by clients directly into our Risk Premia, Alternative Solutions and Thematic Equities capabilities.



Our Macro and Multi-Asset capability has traditionally invested in a broad range of index derivatives as well as our other capabilities including Risk Premia, Alternative Solutions and Thematic Equities with the total of the allocations to these three amounting to approx. 40% of the £2.8bn.

The chart on the left shows the breakdown of Assets Under Management by underlying investment capability.

Client engagement is one of our key priorities to maximise the chances of them meeting their varied objectives (whilst noting we have to be pragmatic where multiple investors gain access through our pooled vehicles). This includes objectives that relate to specific stewardship and/or ESG goals, during the onboarding process as well as in our regular review meetings with clients.

We regularly communicate with our clients via monthly factsheets, quarterly reports, update meetings, review meetings and video/phone conversations.

Many of our clients have direct, trust-based relationships with members of our Management Board and have been invested with Fulcrum for a 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). The current size of our business does not lend itself to a full client survey, but this is something we will consider as we grow.

Our institutional clients often work with investment consultants. We treat these relationships extremely seriously and regularly gauge their feedback on our offerings and potential new solutions.

We feel strongly that our feedback collection has been very relevant and useful and this is best characterised by the following case studies (Case Study #1 occurred prior to the reporting period, but we still report in this way for the client, Case Studies #2 and #3 occurred during the reporting period).

<table>
<tr><th colspan="2">Case Studies</th></tr>
<tr><td>Case Study #1

Foundation Client</td><td>One of our foundation clients expressed a keen interest in the Paris agreement, asking for reporting on the carbon intensity of their investment with Fulcrum. This client's portfolio included a wide variety of external managers and so it was necessary for us to work with the client and the external managers to understand what data the client would like to receive and create a suitable review process.

This required engagement with over a dozen external managers to provide our client with the necessary reporting, though this has since become a standard feature in reporting to all clients invested in the same pooled vehicle. There were a few interesting aspects of this process:
The different interpretations of how to calculate the carbon metrics across the industry.
The importance of the drive from the client to achieve the goal.
Initial reluctance but gradual embrace on the part of external managers.
The challenges associated with calculating the data across non-equity asset classes, which we have now overcome.</td></tr>
<tr><td>Case Study #2

Climate Change Investor</td><td>As we mentioned in Principle 1, we launched the Fulcrum Climate Change Fund in 2020, working in partnership with environmental engineers and a client who is very passionate about climate change risk in their global equity portfolio.

This required using a forward-looking metric that was decision-useful for investors and led us to adopting the ITR. We believe this is a crucial metric in managing climate change risk and have taken it upon ourselves to engage on the topic with underlying companies held within the fund in our meetings with them.</td></tr>
<tr><td>Case Study #3

Pension Scheme</td><td>One of our corporate pension scheme clients has a 'green team' who work on ESG and engagement within their organisation. As part of our onboarding process with this client, we worked with the pension scheme trustees to ensure that the needs and requirements of the green team were met. This included providing reassurance on our objectives around carbon emissions reduction in line with the Paris Agreement as well as data on the current portfolio.</td></tr>
</table>

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 (5 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.

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

We consider Environmental, Social and Governance (ESG) risks as part of our investment process across our various capabilities and our goal is for this approach to be fully integrated across our entire investment team, as outlined in Principle 1. 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.

Our approach to stewardship with regard to the SFDR regulation varies across our capabilities. In summary, the majority of our funds are categorised as Article 6, which means that they consider ESG risks in their investment process. One fund (one of our Diversified Liquid Alternatives vehicles) is categorised as an Article 8 fund, which is marketed with sustainability characteristics, and we manage one Article 9 fund (Fulcrum Climate Change), which has a particular climate change focus.

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 Responsible Investment Committee 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 part of our Action Plan, we aim to develop a comprehensive KPI monitoring programme (which will be aligned with the 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 (as outlined in Principle 8).

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

- **Macro & Multi-Asset** – Our Macro & Multi-Asset 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 and Multi-Asset portfolios, for certain commodities and countries where it is most relevant.
- **Risk Premia** – A significant “work in progress” project has been to systematise ESG risk data from third-party vendors into our quantitative models for the directional parts 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.
- **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. A link to a document with a more detailed description of this process can be found below:

ESG Integration in Liquid Alternatives

- **Thematic Equities** – ESG is integrated in our equity investments via thematic baskets. We consider ESG both at the thematic level and at the company level and this has resulted in many targeted themes being included in our portfolios (for an example please see the Case Study below). From time to time, we will consider ESG risks and opportunities during the theme idea generation process (particularly long-term trends such as climate change). As part of our analysis we consider external research, company meetings and sell-side analyst meetings. In addition, we have also developed the Fulcrum Climate Change Fund, where we explicitly target climate alignment.

Case Studies	
Case Study #1 **Thematic Equities - Clean Energy**	In our clean energy equity theme, we have determined that 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. The clean energy theme includes companies within the solar, wind, and hydro space. The basket construction considers ESG scores (Sustainalytics), temperatures (as per the S&P TruCost database), and controversy ratings amongst other ESG factors. We collect ESG data on each company and seek to identify companies that have a higher exposure to unmanaged ESG risks than we are willing to take.

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 Fund 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. We have not yet implemented specific biodiversity ideas in our portfolios, this is part of our long-term Action Plan as outlined on Page 5 and we are working to understand the landscape and data, in much the same way we did for climate change.

Societal 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, we find the "Controversy Monitor" from Sustainalytics to be an informative way to maintain a perspective on Social risks and in particular our Thematic Equity team use this data when building investment themes and selecting companies.

We have invested in several ideas with clear Societal linkages across our business:

- **Securitised Debt**. Social factors dominate the residential mortgage market. Our selected external manager favours lenders that offer affordable loans to borrowers who do not qualify for agency mortgages and explicitly considers community benefits. Empirically, such an approach tends to lead to better loan repayment profiles and lower defaults.
- **Agricultural Technology**. Beyond the environmental benefits, for example on climate change via lower meat consumption and on biodiversity through sustainable aquaculture, progress in agricultural technology has a direct positive impact on society. More sustainable practices for growing and cultivating crops leads to more fertile soil, which ultimately helps strengthen local communities and sustain livelihoods in rural areas. We have developed a bespoke Agriculture Technology theme which is included across multiple Fulcrum funds and mandates.

The pandemic sharpened our focus on some other key Societal issues, including:

- **Inequality**. The pandemic has shone a light on social inequality issues although these have been prevalent for some time. Growing inequality could ultimately have a meaningful impact on financial markets and whilst it is difficult to establish clear linkages, after a discussion in our Responsible Investment Committee (prior to the pandemic) we made the decision to avoid investments in predatory lending companies as we could not identify any clear potential societal benefit from this activity[1]. Over the long-run we judged that the risks associated with these investments were not commensurate with the potential rewards.
- **Ghost cities**. We have developed a strategy with an external manager that will focus on "Change of Use" property; this explicit investment idea will seek to play a part in resolving some of the pertinent Societal issues we see related to the changing nature of high streets we have experienced in recent years.

We cover governance issues in further detail later in Principles 9 to 12.

Data Sources for ESG Integration

Our approach is to combine third-party data with our own proprietary analysis, with the combination depending on the capability. Two main data sets are considered to guide stewardship: Sustainalytics risk data for countries and companies aid investors in their research of potential investment opportunities and temperature alignment data from Iceberg Data Lab and S&P Trucost give insight into the climate alignment of companies.

Our focus on and approach to Responsible Investing is outlined on the dedicated Corporate Responsibility page on our website (we also provide a link in the Appendix).

Corporate Responsibility

[1] In addition to equities exposed to predatory lending, we also exclude equities exposed to tobacco or controversial weapons (source data: MSCI)

Principle 8: Signatories monitor and hold to account managers and/or service providers

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

- Proxy voting firms,
- ESG data providers,
- External managers, and
- Prime Brokers.

A description of how we work with each third-party and monitor them from a stewardship perspective is provided below.

Proxy Voting Firms

Fulcrum has established and maintains a Proxy Voting Policy which is the governing document for the use and management of our two third-party service providers in relation to proxy voting: Glass Lewis and Broadridge. 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 review, amongst other things, the quality of the third-party proxy voting advisor's recommendations. The key indicators used to monitor the effectiveness of a proxy advisor are a) the quality of the advice provided; 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 against our preferred voting adviser, Glass Lewis, is recorded in the 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.

We have recently upgraded from using Glass Lewis's house advice to their climate advice, which we believe will enable us to influence more climate-related votes. Nonetheless, we have made provisions in our approach to allow for overrides versus this guidance should we believe it to be necessary.

ESG Data Providers

The table below summarises the core use of each of our data providers for stewardship purposes. The quality of the data is reviewed periodically by members of our Responsible Investment Committee, working with our investment team. This takes the form of onsite or virtual meetings reviewing any updates and new initiatives.

For example, we have recently been reviewing the various data providers relating to the SFDR data requirements and our broader comprehensive KPI project and this has led to a short list of potential candidates based on their data coverage, quality and processes. Thus far, we have found that some of the environmental data can be particularly useful in our Thematic Equities capability and some of the country risk data has been useful in our Macro & Multi Asset and Alternative Solutions capabilities. The project we have been conducting in our Risk Premia capability (which we expect will be going live in the next reporting period), uses a much wider definition of unmanaged ESG risk data, which is particularly exciting.

Data Provider	Description of use
Sustainalytics	ESG Risk Data, Controversies, Exclusions, Carbon data
MSCI	Exclusions (currently tobacco, controversial weapons, and predatory lending)
Iceberg Data Lab	Temperature Alignment data
S&P Trucost	Temperature Alignment data
SBTI	Climate target-setting data
CDP	Carbon data

External Managers

Several funds 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. Examples of discussions we have had with external managers that have led to enhancements and improvements in Stewardship and related activities are provided in this report.

Prime Brokers

Fulcrum is currently in discussions with its prime brokers regarding the possibility of them being able to communicate to companies with respect to voting intentions where securities are held on swap. This is not market practice currently and is counterintuitive for these institutions but through engagement and challenge we hope to be able to change this over time. This is an example of the multiplier effect in that enhancements made on this point for Fulcrum should also apply to many other investment management firms and hence result in a greater degree of stewardship in the industry.

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. This is a result of feedback from clients as to what is of particular importance to them and it is where our greatest concentration of expertise lies. Our portfolios are extremely diversified by design and our style of management is more 'top-down' given our heritage as financial and economic modellers. As such, we recognise that some of the information in this Principle is potentially more relevant to Principle 4.

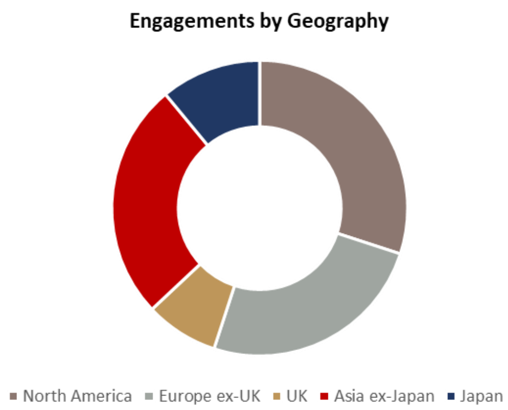
Our engagement varies by capability (given the nature of the underlying investments – i.e. physical vs. derivative investments) and currently the majority of our engagement work occurs in relation to our Thematic Equities and Alternative Solutions investment capabilities. Whilst physical investment in equities is a relatively new endeavour for Fulcrum, we are increasing the level and scope of our engagement activities and this will be a core part of our stewardship activities in looking to influence change (as we outline in Principle 1). In order to achieve this, we have increased our engagement focused headcount with two new hires arriving soon.

Thematic Equities – Our investment approach is thematic by its nature and consequently we own large numbers of stocks in very diversified portfolios. Our Thematic Equities team regularly meet with company management and have opportunities to engage directly, even though we are relatively small shareholders. We have decided to initially focus our engagement activities on climate change in particular and we discuss the Science Based Targets initiative (SBTi) in meetings with company management. We include examples below:

Case Studies	
Case Study #1 INTRODUCE SBTi - Euronav	We met with the CFO (Lieve Logghe) of Euronav, which is a large crude oil tanker company. We discussed the SBTi with him and encouraged the firm to adopt it. They have not yet adopted the approach, but they have asked us for further information on SBTi and we have followed up with them on this topic. We are hopeful they will move forward with it soon. **Outcome**: no change in position (hold)
Case Study #2 COMPANY EVALUATING SBTi – Ecolab	We met with the management of Ecolab, which is a water, hygiene, and infection protection company, in 2019 and 2020. We discussed SBTi targets with the company and they asked us to follow up with more details via email. We provided the details and they then asked us to attend their ESG seminar where they highlighted further efforts to move forward. They subsequently announced SBTi targets in June 2020 and we will monitor execution in coming years. **Outcome**: no change in position (hold)

Case Study #3 COMPANY ANNOUCING SBTi TARGETS – Kloeckner	We have been meeting with the management of Kloeckner (a steel distributor) several times over the last few years and discussed the need to reduce carbon footprint and declare SBTi targets. We recently met the CEO (Guido Kerkhoff) and he told us that the company is in the process of announcing SBTi targets shortly (which they did in Sep 2021). We are excited to understand the targets in detail and to meet the company again to hold them accountable to the announced targets. **Outcome**: no change in position (hold)
Case Study #4 FOLLOW-UP AFTER TARGETS ANNOUNCED - Aurubis	We met Aurubis (a copper refiner) multiple times over 2018-2020 including CFO (Rainer Verhoeven) and discussed the need to reduce their carbon footprint and announce SBTi targets. Aurubis finally announced SBTi targets in May 2021. In a follow-up meeting with Investor Relations (Angela Seidler) in Sep 2021 we went into detail about the announced targets and how realistic and achievable they are. We'll continue to meet the company in the coming years to hold them accountable to their announced targets and progress on execution. **Outcome**: no change in position (hold)

Since initiating this approach to engagement on SBTi and as the first stage of our engagement process, we have discussed the topic with over 30 companies during the reporting period. Over half of these companies were not aware of SBTi previously and only around 14% of them had already set SBTi targets. We have already had some success as can be seen in case studies #3 and #4 (which are the first where the companies have adopted the method after our interactions). In the next reporting period we aim to significantly increase the number of companies where we hold this discussion.



The chart to the left shows our engagements by geography where we have maintained a reasonably even split across North America, Europe and Asia. When looked at by sector, we focused heavily on metals and mining, which represented 31% of our engagements. Otherwise, the breakdown of our engagements was very evenly split across all sectors.

The next stage of our engagement process is to actively follow up (via formal letters) with companies where the topic has been raised but the company has not yet adopted SBTi. This will start to occur during the next reporting period. We will then iteratively follow up with the companies as necessary.

We believe that this is a system-wide challenge and requires engagement and action from many stakeholders. Our goal is to introduce and/or discuss the topic with as many companies as possible as we meet them during the normal course of our business.

Alternative Solutions – We have a large number of external manager relationships through our Alternative Solutions team. 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. 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. The particular area of engagement that we focus on with external managers really depends on their stage of development. 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. Our conversations should be tailored accordingly.

During the year, the Alternative Solutions team met and discussed stewardship with all of our external managers (31 in total). We also review each external manager's approach to engagement as part of our due diligence process and this is documented accordingly and reviewed at least annually. 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. We include some examples of our work below:

Case Studies	
Case Study #5 **UN PRI**	We have encouraged several smaller managers to become signatories and there are now a number of managers that we are aware of who have now signed up following discussions with us on the topic. We follow up on this topic with external managers through our annual Operational Due Diligence questionnaire.
Case Study #6 **Investment Process Improvements**	We worked with a long/short credit hedge fund manager by encouraging them to consider ESG risks in their investment process more thoroughly. We are regular early-stage investors in new fund products and in this case, we engaged with the manager during the product design phase. They have now developed a range of new signals and have significantly enhanced their ESG data collection.
Case Study #7 **Carbon Footprint Measurement**	We wanted to calculate a specific carbon footprint metric for one of our Alternative Solutions portfolios as a result of a client request, and we decided to capture this through data requests. This was a detailed 6-month engagement project where several managers were not sure how to calculate the figures or where to find the data. There has been substantial progress on this topic and we now have well over 80% coverage across these portfolios.

With all of the above external manager case studies, we continue to invest with the managers. We intend to follow up with all managers again next year as part of a continuous review process.

Data Providers

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.

Case Studies	
Case Study #8 **Sustainalytics**	We use Sustainalytics as one of our ESG data providers. Using the data, many of the companies in our Gold Royalties thematic investment idea were rated "poorly" despite our in-house view that the theme had positive ESG credentials. Since the initiation of the theme in portfolios in November 2018 and following a discussion with us, Sustainalytics has performed more granular work and drastically revised its ratings. Previous high-risk scores for the category were the result of a misunderstanding of the nature of the business of Gold Royalties in terms of ESG risks. The overall score of the Gold Royalties basket went from "Severe ESG risk" to "Low ESG risk". In a new report from September 2019, constituents of our Gold Royalties idea are the best scoring companies in terms of exposure and management of ESG risk across the Precious Metal Industry and are amongst the best across all sectors.

Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

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. Examples of such activities are outlined below. This engagement work follows Fulcrum engagement targets, as outlined in Principle 9, namely, science-based target-setting and improved greenhouse gas emissions disclosure, in line with our focus on climate change. These activities were chosen because they most closely align with our key priorities and because we believe the end benefits, should they be successful, are likely to accrue to our stakeholders.

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 below are some examples from the reporting period:

Case Studies	
Case Study #1 **Signed letter to 1,800 companies encourage setting Science Based Targets**	We joined a CDP collective engagement initiative of global financial institutions. In driving the adoption of science-based emission reduction targets, investors can decarbonise their portfolios and mitigate climate-related risks to which they may be exposed.
Case Study #2 **Signed the Investor Letter 'Coalition Urging a Responsible Exxon'**	We supported an initiative by *As You Sow* to ask Exxon Mobil to promote capital discipline and address climate change. This is closely aligned with our focus on the transition to a low-carbon economy.
Case Study #3 **Signed letter to UK Prime Minister to stop coal mine**	We signed an IIGCC letter to the UK Prime Minister, urging the government to call in the decision to open a new coal mine in Cumbria. This mine would have a notable impact on the UK's legally binding carbon budgets and does not align with the UK government's leadership on climate change leading up to COP26.
Case Study #4 **Global Investor Statement to Governments on the Climate Crisis**	We signed The Investor Agenda statement to encourage government action in advance of the G7 Summit in June 2021, on climate change in the lead-up to COP26 in November. The statement calls on governments to act in 2021 to strengthen their Nationally Determined Contributions in advance of 2030.
Case Study #5 **Signed Investor Position Statement on Votes on Transition Plans (Say on Climate)**	We signed an IIGCC statement calling for corporate net zero transition plans with routine votes and director oversight. The letter asks companies to disclose a Net Zero Transition Plan, provide a routine vote on the implementation of such a plan and identify the directors responsible for Net Zero Transition Planning.

Outcomes of Collaborative Engagement

These were our first collaborative engagement exercises as a business and we have been excited to be involved in them. It is too early to say how successful the above initiatives have been in the context of climate change. However, whilst we do not own any shares in Exxon Mobil, we have noted significant positive change in governance at this company with several Director changes announced recently. Separately, we have also noted that the plans for the coal mine in Cumbria are still in doubt despite having the backing from the UK government.

In the future, we are looking forward to working with our two new hires to increase the scope and frequency of this type of activity. The new hires have a depth of experience in collaborative engagement and responsible investment more generally.

Finally, we are also supporters of/signatories to the Taskforce on Climate-Related Financial Disclosures (TCFD), the CDP and Climate Action 100+.

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers

As noted in Principle 9, there are two 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 – Our escalation approach begins with targeted company meetings with senior company representatives. Beyond this, we have the following escalation protocols regarding our holdings in physical equities:

- We are signed up to the Institutional Investors Group on Climate Change (IIGCC) and other industry bodies (as outlined in Principle 4) so that we can collaborate on specific issues where we want to take things further. We have done this in a number of cases as described in Principle 10.
- Where we do not have a specific voting strategy predetermined, we adopt Glass Lewis' climate voting policy as a default setting in line with our prioritisation of managing climate change as a risk. Our stewardship committee has the authority to override the guidance from Glass Lewis in advance of company AGMs should we feel the company is not responding to our engagement efforts.
- We can divest if we feel unmanaged ESG risks have reached an unacceptable level.

Thus far, there have not been any instances where we have escalated to the point of divestment. Having said this, the topics of discussion that we have initiated with company management generally represent long-term gradual changes and we are at the early stages of these transitions. Furthermore, 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 Fund.

Given our increasing allocations to single equity investments we will continue to improve our engagement efforts and have made two additional hires in this area who will be joining soon. As described in our Action Plan in Principle 1, we have hired these resources so that we can take a more proactive stance at company AGMs, which would represent a further escalation option.

During the reporting period, it has been necessary to conduct all meetings with company management virtually in all geographies, given the constraints imposed by Covid-19.

Alternative Solutions – Our process for escalation with external managers is as follows:

- We explain to managers the importance of ESG in our investment process and how we believe it can improve outcomes if done 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 lip service to the area of ESG.
- 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. There have been two specific cases where this has occurred and, despite repeated questioning and encouragement, we have been unable to gain sufficient comfort to invest.

Principle 12: Signatories actively exercise their rights and responsibilities

Our proxy voting policy can be found on our website, it is updated annually and covers the key areas of our approach including governance, the appointment of research providers, our procedures, and conflicts of interest. We also provide a link here:

Proxy Voting

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 Overlay product which supplements internal research and other external information sources (such as the Sustainalytics controversy alert) in respect to up-and-coming climate related votes.

The below table summarises our voting activity as a firm to the year ending 30th June 2021. We have embraced the industry standard PLSA template and feel this is a positive development for investors.

Voting Statistics	Response
How many meetings were you eligible to vote at?	504
How many resolutions were you eligible to vote on?	17,568
What % of resolutions did you vote on for which you were eligible?	91%
Of the resolutions on which you voted, what % did you vote with management?	93%
Of the resolutions on which you voted, what % did you vote against management?	5%
Of the resolutions on which you voted, what % did you abstain from voting?	2%
In what % of meetings, for which you did vote, did you vote at least once against management?	32%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	2%

In relation to those resolutions where we did not vote, but were 'eligible':

- There were some amended resolutions where it was not necessary for us to re-cast our ballot
- Not being registered to vote in certain jurisdictions at the time of the vote e.g. for new mandates it can take operational time to set up voting procedures
- In a number of cases, we had actually exited the position at the time of the vote but the data extract we use is not currently able to remove these from the analysis. We have already put in place a resolution to this issue for next year.

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:

1. Votes relating to climate change or the environment,
2. Shareholder proposals as these tend to be most likely to include "interesting/unusual/controversial" proposals,
3. Votes where we voted against the proxy adviser's recommendation as these could be considered significant given it's a diversion from our usual voting pattern, and
4. 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 three such examples of significant votes over the past year:

Company name	The Procter & Gamble Company	Glencore Plc	Oil Search Limited
Date of vote	13-Oct-2020	29-Apr-2021	30-Apr-2021
Approx. size of holding as at date of vote (as %)	<1%	<1%	<1%
Summary of the resolution	Shareholder Proposal - Report on Efforts to Eliminate Deforestation.	The Company was seeking shareholder approval, on an advisory basis, of its Climate Action Transition Plan (Pathway to Net Zero).	Shareholder Proposal Regarding Disclosure of Paris-aligned Capital Expenditure and Operations.
How you voted	AGAINST	FOR	FOR
Where you voted against management, did you communicate your intent to the company ahead of the vote?	No	N/A	N/A
Rationale for the voting decision	Glass Lewis did not believe that the proponent had sufficiently demonstrated that the Company's management of this issue is deficient to the degree that warrants production of the requested report.	Whilst Glass Lewis are supportive of companies providing comprehensive reporting concerning their climate strategies, they also have reservations about direct shareholder votes on companies' climate strategies. In this case, however, they believed the company had provided shareholders with assurance concerning how the Company views this proposal and how it intends to interpret the vote results. Ultimately, Glass Lewis recommended we vote FOR the proposal.	Ultimately, Glass Lewis' view was that additional disclosure would allow shareholders a better understanding of the Company's long-term strategy and its ability to operate in a carbon-constrained business. Saying that, they had some concerns - specifically around some of the other requests of the proposal and implications for shareholders. Ultimately, however, they recommended we vote FOR this proposal.
Outcome of the vote	**FOR**	**FOR**	**FOR**
Implications of the outcome e.g., were there any lessons learned and what likely future steps will you take in response to the outcome?	Since this vote, we made a change to our voting process which enables us to override independent advice if it benefits climate change mitigation. This resolution could have been considered one such vote, and we believe we might have voted differently today.	We would likely vote in a similar way if we were to vote again on this resolution.	We would likely vote 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"?	This is an ESG vote, and one that relates to climate change and the environment, an area of particular concern to Fulcrum.	This was an ESG vote, and management was putting forward a framework for its Climate Change plans which we feel was particularly important given the sector in which it operates.	This is an ESG vote, and one that relates to climate change and the environment, an area of particular concern to Fulcrum.

Fulcrum does not invest in corporate bond securities where there could be a possibility to seek amendments to indentures or contracts at issuance.

More generally, our engagement activities will continue to evolve over time, particularly with the advent of our ESG Taskforce.

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We would be delighted to discuss further any of the topics in this report.

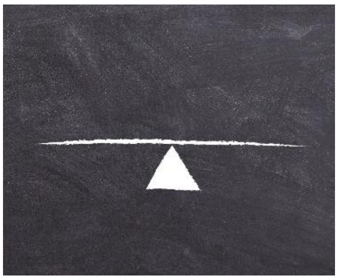
Appendix

Useful links referred to in this report:

- Reflections and Innovations
- Strategy Cycles, Mania and the Lessons for ESG Funds
- Addressing the ESG Conundrum in a Reflationary Scenario
- ESG Integration in Liquid Alternatives
- Climate Alignment

Reporting example, website page and policy documents:

- DLA Sustainability Report 2020
- Policy Documents
- Corporate Responsibility



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