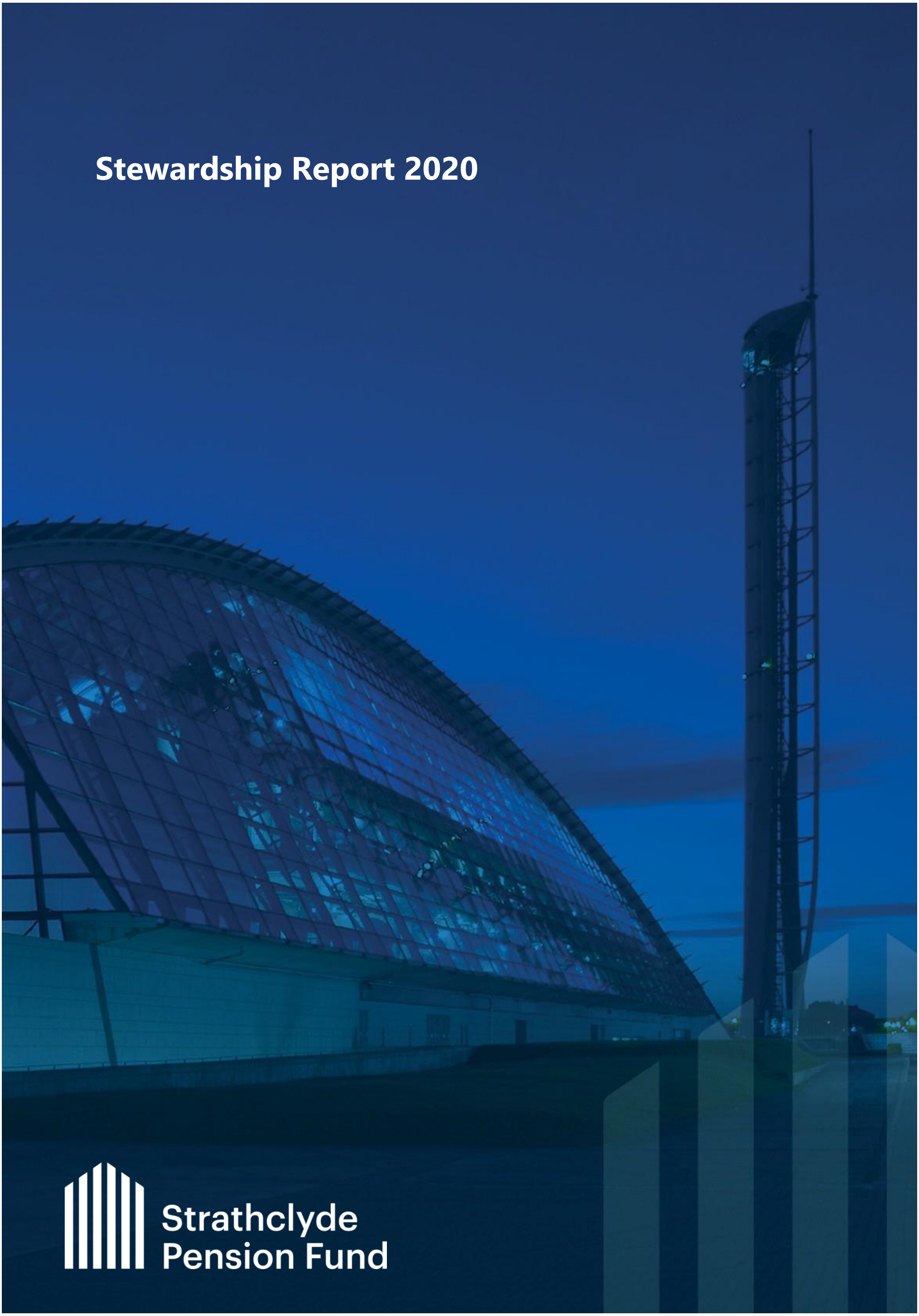
Stewardship Report 2020



Strathclyde Pension Fund

Stewardship Report 2020

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Introduction / Background

The Financial Reporting Council

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. The FRC promotes high standards of corporate governance through the UK Corporate Governance Code. All companies with a Premium Listing of equity shares in the UK are required under the listing rules to report in their annual report and accounts on how they have applied the Code. A copy of the Code can be seen at: https://www.frc.org.uk/document-library/corporate-governance/2018/uk-corporate-governance-code-2018

The UK Stewardship Code

The FRC published the first UK Stewardship Code (the Code) in 2010 with an aim to enhance the long-term returns to shareholders via improvements in the quality and quantity of engagement between investors and companies. The Code defined stewardship as the promotion of long-term success of companies in such a way that the ultimate providers of capital also prosper. The UK Stewardship Code is recognised as an effective standard for asset owners and asset managers to comply with and demonstrate best practice in discharging their stewardship responsibilities.

As with the UK Corporate Governance Code, the 2010 UK Stewardship Code used a comply-or-explain approach and set stewardship expectations for investors through seven "comply or explain" principles. Although its official scope was limited to UK listed equities, it was widely adopted and influenced the development of other stewardship codes around the world. To become a signatory, investors were required to publish a statement of commitment outlining their approach for each principle. The Code was revised in 2012 and in 2016 the FRC began to formally assess these statements, with signatories classified as Tier 1 or Tier 2 depending on the quality of the statements, and some organisations were delisted.

The U.K. Stewardship Code 2020.

The 2020 code is much broader in scope than the previous one, it covers all assets, not just UK listed equities, and it shifts the emphasis from policies and procedures to activities and outcomes, and it requires more frequent and extensive reporting.

The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy. A copy of the Code can be seen at: https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Dec-19-Final-Corrected.pdf

The Code is based on the belief that asset owners and asset managers cannot delegate their responsibility and are accountable for effective stewardship. Stewardship activities include investment decision-making, monitoring assets and service providers, engaging with issuers, and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities. Signatories are expected to use the resources, rights and influence available to them to exercise stewardship, no matter how capital is invested.

Principles for Asset Owners and Asset Managers

The Code requires asset owners and asset managers to comply with 12 Principles and disclose on their actions and outcomes against these each year and requires up to date evidence of activity. This reflects the Financial Reporting Council's intention that the Code will be a basis for differentiating true stewardship best practice. The FRC will evaluate Reports against an assessment framework and those meeting the reporting expectations will be listed as signatories to the Code.

The Code's 12 principles are stated below:

Purpose and Governance

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.

2. Signatories' governance, resources, and incentives support stewardship.

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

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

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

Investment approach

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

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

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

Engagement

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

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

11. Signatories, where necessary, escalate stewardship activities to influence issuers.

Exercising rights and responsibilities

12. Signatories actively exercise their rights and responsibilities.

Purpose and Governance

1. Purpose, strategy and culture

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.

Purpose

The purpose of Strathclyde Pension Fund (SPF) is to pay pensions.

SPF was created in 1974. It has been managed by Glasgow City Council since 1996. SPF is the largest Local Government Pension Scheme (LGPS) Fund in Scotland. It serves more than **257,000** members, **167** participating employers and has investment assets of over **£26 billion**.

Local Government Pension Scheme (LGPS)

The LGPS is a funded, defined benefit, statutory occupational pension scheme. The LGPS in Scotland is administered by 11 administering authorities including Glasgow City Council for SPF. The regulations that govern the scheme's benefits and investments are available at:

https://pensions.gov.scot/local-government/scheme-governance-and-legislation/regulations and

https://www.legislation.gov.uk/ssi/2010/233/contents/made

Strategy

Funding Strategy

SPF's funding objective is to ensure that sufficient funds are available to pay all members' pensions now and in the future. Our Funding Strategy Statement and report on the 2020 Actuarial Valuation are available at:

https://www.spfo.org.uk/index.aspx?articleid=14447

Investment Strategy

SPF's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporates an appropriate balance between risk and return. To achieve this SPF has developed and implemented a risk-based investment framework.

Details are set out in our Statement of Investment Principles (SIP):

http://www.spfo.org.uk/CHttpHandler.ashx?id=12617&p=0

Purpose and Governance

Investment Structure

SPF pursues a policy of lowering risk through diversification of both investments and investment managers. To achieve this, it has delegated day to day investment decisions to external investment managers. In addition, a target of 5% of Fund is invested opportunistically in our Direct Investment Portfolio (DIP) which has the stated objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.

Further details are available on the SPF website at:

https://www.spfo.org.uk/index.aspx?articleid=16961

Culture and Investment Beliefs

Our SIP sets out 6 key principles which underpin our entire approach to investment. They are:

Long-term perspective – by the nature of its liabilities and sponsor covenants, the Fund is able to take a long-term view and position its investment strategy accordingly.

Diversification – the Fund seeks to diversify its investments in order to benefit from a variety of return patterns.

Efficiency – the Fund aims to achieve an efficient balance between investment risk and reward.

Competitive advantage – the Fund's size, time-perspective and risk appetite give it some competitive advantages which it seeks to exploit.

Pragmatism – the Fund recognises that there are implementation considerations including cost and manageability which may lead it to favour practical investment solutions over optimised model structures.

Stewardship – the Fund is a responsible investor and adopts policies and practices which acknowledge the importance of environmental, social and governance (ESG) issues.

Our approach to Stewardship is summarised in our Responsible Investment Strategy which is included in our SIP, and is described further in the remaining sections of this report. We firmly believe that ESG issues can affect the performance of investment portfolios. We are absolutely committed to ensuring that this belief is reflected in our investment activity so that we are aligned with the long-term interests of our beneficiaries and the broader objectives of society. During 2020, this was most clearly manifested in development of our Climate Change strategy which is summarised in the Climate-related Financial Disclosures included in our 2020 Annual Report, available at:

https://www.spfo.org.uk/index.aspx?articleid=14493

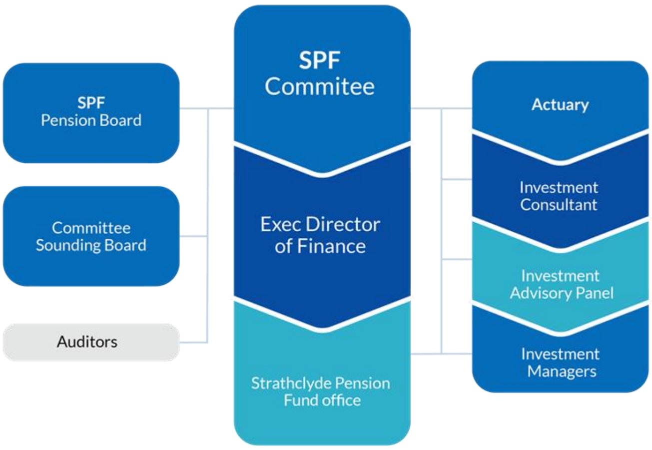
Purpose and Governance

2. Governance, resources and incentives.

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

Governance

Given the size and complexity of the Strathclyde Pension Fund there are many decision makers, advisers and practitioners involved in running it. The governance structure is illustrated below.



Each of the elements of the structure has a distinct and defined role in relation to Stewardship. Roles and responsibilities are summarised below.

Glasgow City Council's **Strathclyde Pension Fund Committee** is the main decision-making body for the Fund. The Committee agrees and oversees investment strategy and structure including the Responsible Investment and Climate Change strategies. SPF Committee receives a quarterly report on responsible investment activity.

The **Committee Sounding Board** reviews proposals before they are considered by the Committee for decision. This includes individual investment proposals for DIP, our impact portfolio.

The **Pension Board** assists the Committee in securing compliance with the regulations, other legislation and the requirements of the Pensions Regulator. The Board comprises trade union and employer representatives and has a keen interest in Stewardship matters.

The **Executive Director of Finance** is the responsible officer who ensures that committee decisions are implemented by the **Strathclyde Pension Fund Office** which administers the scheme, and the **investment managers** who manage the Fund's investment portfolios.

The **actuary** provides advice on funding. The **investment consultants** provide advice on all aspects of investment objectives, strategy and structure including Responsible Investment and Stewardship issues.

The **Investment Advisory Panel** develops investment strategy and monitors investment performance.

The **internal and external auditors** review risk, controls, and the financial statements.

Purpose and Governance

Resources

Stewardship activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Sustainalytics, a specialist responsible investment engagement overlay provider whose services have been retained by SPF since 2012 (as GES).
- SPF itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Climate Action 100+ and other ad hoc alliances.

This collective approach ensures that SPF maximises the resource it employs on stewardship issues by involving all parties – dedicated internal resource as well as external managers and consultants.

Incentives

Stewardship is an integral part of our investment manager selection and monitoring processes. Managers are required to provide quarterly reporting on proxy voting and engagement activity. We scrutinise these reports closely and they form the basis of a quarterly report to the SPF Committee. Managers have a clear incentive to maintain and improve their Stewardship activity, and to provide quality reporting on it to ensure that they retain their mandates.

2020

2020 was clearly an unusual year as all our working and governance arrangements shifted to remote working and virtual meetings. Stewardship activity continued unabated, however. Regular reporting was maintained and the SPF Committee approved:

- Changes to the SPF Climate Change Strategy (March)
- The Fund's Annual Report, including a second iteration of Climate-related Financial Disclosures (November).
- The appointment of Sustainalytics after a competitive tender for a further 5 year contract (November).
- 6 new investments by DIP, the SPF's impact portfolio. These spanned renewable energy, community housing, local property, UK infrastructure and UK regional growth equity.

All committee reports and minutes are available at:

https://www.spfo.org.uk/index.aspx?articleid=16036

We also ran a series of 4 workshops for the Committee and Board investigating legal, actuarial, strategic and investment management issues relating to climate change.

In terms of future improvement: we are reviewing our general investment consultancy arrangements during 2021. Stewardship and climate change will feature prominently in this exercise and this should lead to additional consultancy resource available to support us.

3. Conflicts of interest

Principle 3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

Conflicts Policy

In meeting its statutory responsibility to manage SPF, Glasgow City Council ensures that management of SPF and its investments is kept separate from the political and administrative business of the Council by delegating responsibility for SPF to the SPF Committee and the Strathclyde Pension Fund Office (SPFO). In carrying out this responsibility members of the Committee are obliged to put aside their personal interests and views and make investments with the intention of achieving the best financial returns for the Fund whilst balancing risk and return considerations.

Councillors' Code of Conduct

Guidance on declarations of interest is provided to elected members of the Committee by section 5 of the Standards Commission Councillors' Code of Conduct. The individual Registers of Interest for SPF Committee members are publicly available on the Council website at:

https://www.standardscommissionscotland.org.uk/uploads/files/14424808530109379.pdf

In respect of conflicts of interest within SPF, the Committee, Board and IAP members are required to make any declarations of interest prior to meetings.

Code of Conduct for Employees

The Council's Code of Conduct for Employees is publicly available on the Council's website and is applicable to all Council employees as the administering authority for SPF. Section 2.3.7 relates to conflicts of interest and covers conflicts arising by virtue of officers' personal or family interests and/or loyalties, be they financial or non-financial, as well as officers who sit on the boards of external bodies, or who are involved with them. Senior council officers are required to complete annual Declarations of Interest and these inform the Register of Interests. This is publicly available on the Council website:

https://www.glasgow.gov.uk/CHttpHandler.ashx?id=2673&p=0

Investment Managers and Service Providers

SPF stipulates that external investment managers and service providers should take reasonable steps to manage conflicts of interest in relation to stewardship by incorporating conflicts of interest clauses into the Investment Management Agreements for each manager. Investment managers are expected to maintain and publicly disclose their conflicts of interest policy. Given the role of the external investment managers, SPF obtains assurances on the adequacy of the internal control systems operated by them. The main source of this assurance is the annual audit report produced by each of the managers' independent service auditors. Fund officers obtain and review these reports for each of the investment managers and the global custodian, which is responsible for the safekeeping and servicing of SPF's assets. Current practice is for the findings of these reports to be reported to the SPF Committee only by exception where there are audit concerns. Recent and current examples of

investment manager Conflicts of Interest and other internal controls policies are available from equity manager **Baillie Gifford** at:
https://www.bailliegifford.com/en/uk/about-us/important-disclosures/best-execution-and-trading-disclosures/

Conflicts Management

In practice, conflicts of interest are rare and there were no potential or actual conflicts of interest during 2020 which required management.

Board and Committee members attended 2 workshops during 2020 hosted for SPF by Pinsent Masons on the subject: ***Duties and Obligations on the SPF Committee: Climate Change.***
These included a detailed reminder on the management of potential conflicts.

4. Promoting well-functioning markets

Principle 4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

SPF Activity and Outcomes

The SPF investment team, external investment managers and investment consultant monitor global markets and are vigilant for macroeconomic and market-moving events as well as key themes in equity, credit and private markets.

The IAP discusses developments in economies and individual portfolios on a regular basis and considers risks which may have a significant impact on the financial system and, in turn, affect our investments. Where possible, the IAP develops strategies and solutions to mitigate these risks. Risks and major market events are also discussed in detail during the Committee and Board meetings each quarter.

Climate Change Risk

SPF believes that Climate Change is a systemic risk and thus a material long-term financial risk for any investor that must meet long-term obligations. Climate change is addressed as a separate item in the SPF Risk Register.

Investment Managers

SPF ensures that its investment managers incorporate consideration of climate related risks into their investment processes. Equity and fixed income manager, **Legal & General Investment Management**, provide a recent and current example of investment manager Climate Change Policy and consideration of climate change risks:

https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-climate-change-policy-2019.pdf

Task Force on Climate-related Financial Disclosures (TCFD)

SPF has committed to reporting on its approach to climate risk using the TCFD framework for asset owners. The 2020 annual report provides these disclosures (pages 142 -149), setting out our approach to managing climate risk within the TCFD's four thematic areas of Governance, Strategy, Risk Management and Metrics and Targets. https://www.spfo.org.uk/CHttpHandler.ashx?id=50852&p=0

Policy Engagement

SPF participates in a variety of industry initiatives and forums which involve collaborative lobbying regarding ESG issues to promote well-functioning markets. A summary of this activity is provided below.

- **Institutional Investors Group on Climate Change** *(***IIGCC)**
  IIGCC's Policy Programme works with policymakers and other stakeholders to help inform and strengthen policy decisions made in support of a low carbon, climate resilient world. Recent and current example issues include the French Energy Transition Law, UK Green Finance Taskforce, German presidency of the G20, French G7 presidency and Brexit.

Purpose and Governance

- **Principles for Responsible Investment (PRI)**
  Signatories contribute to developing a more sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

- **Local Authority Pension Fund Forum (LAPFF)**
  LAPFF has scrutinised the structure of market regulation in the UK and believes the focus for market regulation should be the integrity of the market, rather than the companies whose shares are traded. The Forum has identified the role and structure of the Financial Reporting Council (FRC) as a root cause risk to a well-functioning market and pushed hard for an overhaul of the institution. LAPFF sees this change as an opportunity to create a more stable, transparent, and effective regulatory environment to promote a well-functioning market that will allow members to align their investments better with stewardship goals. The Forum also engages with market-leading companies to encourage them to lead by example in responding to market and systemic risks.

- SPF’s engagement partner, **Sustainalytics**, actively participates in public consultations and lobbying across sectors to help shape public policy for better ESG industry standards. Examples of some recent consultations they have responded to include the UK Corporate Governance Code’s proposed revision, the UK government’s Corporate Governance Reform Green Paper, the EU High-Level Export Group on Sustainable Finance’s Interim Report, the European Supervisory Authorities (EAS’s) Consultation Paper on ESG Disclosures and the UK’s Financial Reporting Council’s consultation paper A Matter of Principles.

- SPF is an active member of the **PLSA**. Senior officers at SPF are members of or advisers to: the **PLSA Local Authority Committee**, **CIPFA Pensions Panel**, **Scottish Local Government Pension Scheme Advisory Board** and other industry bodies.

Class Actions and Litigation

LGPS funds, together with public pension funds around the world, have been leading securities fraud lawsuits in a variety of jurisdictions as representative plaintiffs and claimants. The misrepresentation typical within a securities fraud can have a global impact on the market and on investors most of whom may not even be aware of any controversy or financial harm. The cases involved generate billions of dollars in recoveries for investors every year and where possible, reforms designed to improve corporate governance. Plaintiffs have won governance reforms such as shareholder-nominated directors, auditor rotation, limitations on options grants, separation of the CEO and chairman positions, ethics monitoring, whistle-blower hotlines and other bespoke governance enhancements.

SPF participates as an active plaintiff in a class actions with the primary goal of obtaining damages but also to promote good corporate governance and sound business practices.

Purpose and Governance

5. Review and assurance

Principle 5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policies

SPF's principal policy documents are all published on the website at **www.spfo.org.uk**

As a minimum, all policies are reviewed every 3 years in line with the Fund's statutory actuarial cycle.

SPF's 2020/21 Business Plan included reviews of its Funding Strategy Statement, Climate Change Strategy, Investment Strategy (including Responsible Investment) and Communications Policy, together with a review of the revised UK Stewardship Code 2020 and SPF compliance. Each of these progressed well in spite of COVID-19 disruption, and were set to conclude during Q1 2021 with changes implemented in the course of 2021.

Assurance

The LGPS operates in a different legal and policy context to private or retail asset owners. Management of LGPS investments is carried out in accordance with relevant governing legislation and regulations which requires a specific set of review and assurance processes.

Internal Audit

Internal Audit assesses the status of governance within the Council group and provides assurance that overall best practice is being followed in corporate governance. Internal Audit's annual review of the governance arrangements within the Strathclyde Pension Fund Office is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNDXDN2UZ3Z3

An Internal Audit review of the Strathclyde Pension Fund Committee Operations is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNDXDN2UUTDN

External Audit

Audit Scotland provides an annual review of risk, controls, and the financial statements to the SPF Committee and to the Scottish Controller of Audit. The review considers the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. The 2020 review found that SPF has appropriate arrangements in place to support good governance and accountability.

https://www.audit-scotland.gov.uk/uploads/docs/report/2020/aar_1920_strathclyde_pension.pdf

The Pensions Regulator (TPR)

SPF is required to submit an annual return to TPR and also completes the regulator's annual governance and administration survey.

Assessment

PRI Reporting

SPF has been a PRI (Principles for Responsible Investment) signatory since 2008.

Purpose and Governance

PRI reporting is the largest global reporting project on responsible investment and stewardship. The annual PRI survey is compulsory for all asset owner and investment manager signatories and the assessment demonstrates how a signatory has progressed in its implementation of the Principles year-on-year. The assessment report for 2020 represented SPF's best PRI survey outcome since adopting the Principles in 2008.

The Fund achieved a maximum overall A+ score and the following scores from 4 assessed modules with bands A –E.

- Strategy and Governance: **A** (29 out of a maximum 30 from 10 indicators). The median outcome for this module was band A from 2,127 signatories assessed.
- Listed equity: **A+** (42 out of a maximum 42 from 14 indicators). The median outcome for this module was band A from 572 signatories assessed.
- Property: **A+** (39 out of a maximum 39 from 13 indicators). The median outcome for this module was band B from 264 signatories assessed.
- Listed equity-active ownership: **A** (28 out of a maximum 30 from 10 indicators). The median outcome for this module was band B from 1,086 signatories assessed.

Comparison with the median scores for each module confirms that the Fund continues to perform in the top tier of global PRI signatories, having previously been included in the 2019 PRI Leaders Group in recognition of our ongoing work to incorporate long-term ESG factors into investment analysis and decision-making processes.

The Responsible Investment Transparency Report is one of the key outputs of this reporting project. Its primary objective is to enable signatory transparency on responsible investment activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report is publicly disclosed for all reporting signatories on the PRI website, ensuring accountability of the PRI Initiative and its signatories. The SPF 2020 PRI Transparency Report is available at:
https://stpublic.blob.core.windows.net/pri-ra/2020/Investor/Public-TR/(Merged)_Public_Transparency_Report_Strathclyde%20Pension%20Fund_2020.pdf

Investment Approach

6. Client and beneficiary needs

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

Beneficiaries

SPF has more than 250,000 members.

Member representation arrangements were designed to comply with the Local Government Pension Scheme (Scotland) regulations 2015. These provide for:

- A Scheme Advisory Board at a national (Scottish) level and
- A local Pension Board for each LGPS fund.

Both boards comprise equal numbers of employer and trade union representatives.
This is consistent with established local government practice whereby recognised trade union representation ensures that members' voices are heard and their needs addressed.

SPF also seeks and welcomes comment and feedback from individual members as part of its Communications Policy.

Communications

All scheme members receive an annual newsletter with a summary of the SPF Annual Report and accounts. Newsletters include a short summary of Responsible Investment activity and direct members to the SPF website for more detail. The website includes extensive coverage of our stewardship activity:
https://www.spfo.org.uk/index.aspx?articleid=14925

We also receive regular correspondence from members on stewardship issues, often as part of online campaigning. We try to respond clearly and openly.

Investment Approach

7. Stewardship, investment and ESG integration

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

Integration

SPF has a long-standing commitment to the values of stewardship as part of its fiduciary duty to its members. A summary timeline is:

1990s Corporate Governance Policy - ensured all voting rights were exercised.

2000 first Engagement Policy agreed and implemented.

2008 SPF became a PRI signatory. This marked a sea change from engagement towards systematic integration.

Responsible Investment activity is carried out by:

- the Fund's investment managers who are required to exercise the Fund's voting rights, to incorporate analysis of ESG issues into their investment analysis and expected to engage on these issues with the companies in which they invest;
- Sustainalytics (formerly GES), a specialist responsible investment engagement overlay provider appointed by the since 2012; and
- the Fund itself through direct engagement, and collaboration with other investors including the Local Authority Pension Fund Forum (LAPFF), ShareAction, Institutional Investor Group on Climate Change (IIGCC), Carbon Action and other ad hoc alliances.

2009 SPF creates an internally managed impact portfolio, the New Opportunities Portfolio, later renamed as the Direct Investment Portfolio (DIP). Further details below.

The Stewardship Code 2012

SPF was also one of nearly 300 signatories to the revised 2012 Stewardship Code and was confirmed as a Tier 1 asset owner. The Fund encouraged its investment managers to publish a Statement of Compliance of the UK Stewardship Code and all but one of the Fund's equity managers were confirmed as Tier 1 asset managers. SPF's statement of compliance with the 2017 UK stewardship code can be found at:
https://www.spfo.org.uk/index.aspx?articleid=14484

Investment Managers

Responsible investment principles and considerations, including Climate Change and Sustainability are addressed in investment manager and other service provider appointments and included in Investment Management Agreements.

All SPF investment management tenders include questioning and disclosure on responsible investment policies and capabilities as well as evaluations of Fair Work Practices and Sustainability.

All of SPF's appointed investment managers are now PRI signatories. The approach varies across the various asset classes spanned by SPF's investment strategy. Private Debt manager **Barings** provides a current example of this.

https://www.barings.com/gb/institutional/invested-in-a-sustainable-tomorrow

Investment Approach

Priorities

SPF's stewardship activity covers the whole spectrum of ESG concerns but climate change issues are the current priority. To this end, SPF has, since 2015 been developing a Climate Change Strategy which is separate from but complementary to its Responsible Investment strategy. As part of the Climate Change Strategy we have introduced additional measures including TCFD reporting, biennial carbon foot-printing of all portfolios, and scenario analysis which we completed for the first time during 2020.

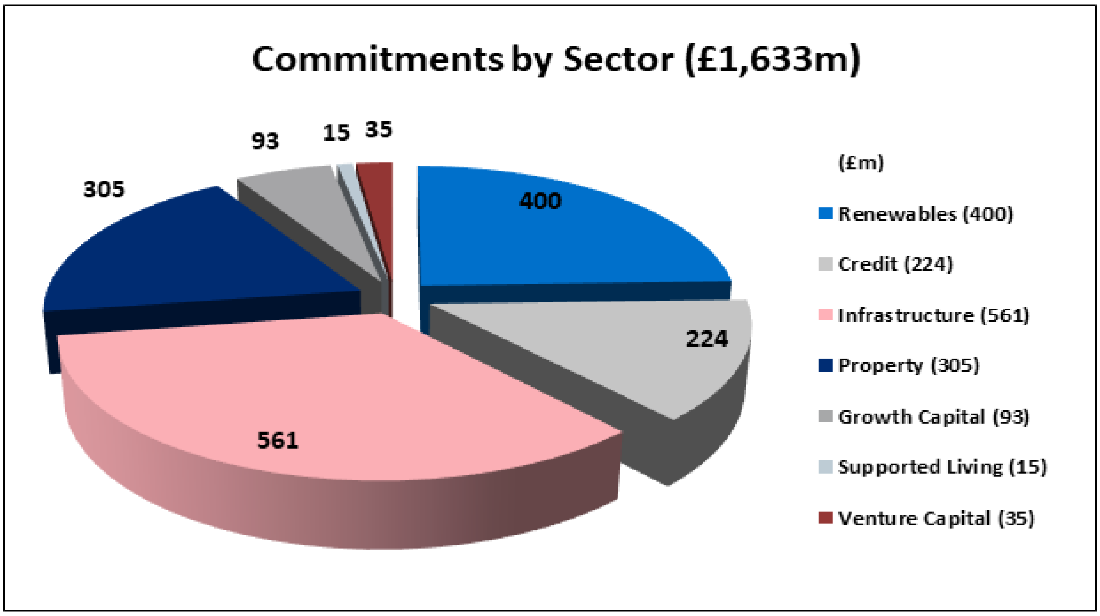
Our carbon footprint has already reduced dramatically since we started to implement the Climate Change Strategy.

Strathclyde Direct Investment Portfolio (DIP)

Direct Investment Portfolio

The Strathclyde Direct Investment Portfolio (DIP) has an explicit objective of adding value through investments with a positive local, economic or ESG impact, or some combination of these or other factors which will give added value to the investment case.

Total commitments by DIP as at 31st December 2020 are summarised as follows.



ESG impact at a sectoral level can be summarised as:

- Renewable energy infrastructure investments which include specialist onshore and offshore wind funds, UK solar funds and generalist renewables and community power funds. We estimate this is saving around 151,000 tonnes of carbon a year and generating enough power for 225,000 homes. This figure continues to grow with increasing deployment and new investments.
- Credit, venture, and growth capital allocations are primarily to UK small company financing.
- Infrastructure commitments include a significant element of social infrastructure.
- The property allocation is to the Fund's own Clydebuilt Portfolio which invests within the Strathclyde area and has a significant bias towards development.

Investment Approach

8. Monitoring managers and service providers

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

Monitoring arrangements

Investment Advisory Panel

The IAP carries out much of the investment monitoring on the Committee's behalf including the ongoing monitoring of investment managers. The IAP meets quarterly and conducts a series of reviews with SPF investment managers who attend the meetings on a rotational basis. Investment managers are also required to deliver a quarterly and annual report which includes a responsible investment and voting report.

SPF Officers

SPF officers engage with each investment manager and service provider every quarter to monitor performance. This provides assurance that best practice is being followed and constrains the investment managers and service providers from deviating significantly from the intended approach. Issues of concern are referred to the quarterly IAP meeting along with a manager ratings report.

SPF’s Investment adviser, Hymans Robertson, also provides the IAP with a quarterly review of investment managers, now including ESG ratings.

SPF Committee and Board

The SPF Committee and Board receive a detailed Responsible Investment report from SPF at each quarterly meeting. The report is a public document that discloses in full the manager, SPFO, and Sustainalytics responsible investment activity. Managers are also routinely required to present on mandate performance, covering financial and responsible investment matters, to the Committee. The latest report is available at:

https://www.glasgow.gov.uk/councillorsandcommittees/viewDoc.asp?c=P62AFQDNDXZL81Z381

Annual Due Diligence Reviews

Since 2013, SPF has asked its investment managers and global custodian to complete annual due diligence questionnaires and provide several key documents. Over time, the questionnaires have evolved to take account of regulatory changes, audit requirements and responsible investment initiatives and operational considerations. The questionnaires are reviewed by SPF officers and a summary of the responses is reviewed by Audit Scotland. SPF also reviews the investment managers’ and service providers’ annual PRI and Stewardship Code disclosures.

Advisory Boards and Committees

SPF’s investment strategy includes a significant commitment to private market funds, including equity, debt and infrastructure. Developed practice by private market investment managers or General Partners (GP) is the establishment of fund Advisory Boards and Limited Partners’ (LP) Advisory Committees. The role of these is considered predominantly to have an advisory and consultative function but frequently takes on a greater role in oversight and provides transparency with respect to the activities of the fund and the general partner. SPF officers attend advisory boards and committees for nearly all of SPF’s private market funds.

Investment Approach

Property

SPF's UK property manager, DTZ Investors, is supported by an investment committee of external experts who monitor DTZ's strategy implementation and hold them to account for their decisions and outcomes. SPF officers attend the quarterly investment committee meetings.

DTZ have also established a Responsible Property Investment committee of experts and representatives from their fund management, property management, sustainability and facilities management teams to annually audit and report on the progress of the implementation of the DTZ Responsible Property Investment Policy.

Sustainalytics

SPF officers and Sustainalytics meet with each investment manager annually to discuss portfolio monitoring of global compact norm breaches, engagements, voting and ESG integration in the investment process. Sustainalytics produce an annual manager benchmarking report that considers all aspects of a manager's responsible investment activity. Sustainalytics also produce a separate report on voting to allow SPF to understand managers voting activity and to inform discussion with managers on issues raised - particularly missed votes and votes in contradiction of the Fund's position on key issues like climate change.

The Sustainalytics service is monitored by means of an annual engagement progress report which provides a table of target companies with information on the previous year's engagement and the state of progress.

Service providers including Sustainalytics and Hymans Robertson are appointed via a transparent and rigorous public procurement process and engaged on the basis of fixed term contracts - typically 5 years. The regular retendering provides for the updating of service requirements and KPIs. Objectives, metrics and monitoring process are subject to regular review in line with contract KPIs.

Engagement

9. Engagement

Principle 9. Signatories engage with issuers to maintain or enhance the value of assets.

Engagement Activity and Outcomes

Investment Managers

SPF requires its managers to monitor investee companies and engage with company management where ESG practices fall short of best practice. All managers are required to report back quarterly on any activity undertaken. SPF will not appoint investment managers who are unable to demonstrate capabilities in this area.

Examples of investment manager engagements in 2020 can be found in Appendix A.

Sustainalytics

Sustainalytics has advanced SPF's engagement with portfolio companies, stewarded collaboration between the investment managers and facilitated co-operation with other investors. The Sustainalytics engagement service is delivered via four platforms.

- **Material Risk Engagement**
  The Material Risk Engagement (MRE) service is proactive engagement with over 250 companies with the greatest unmanaged financially-material ESG risks. Constructed as an engagement overlay to Sustainalytics' ESG Risk Ratings, the engagement focuses on companies with ESG Risk Ratings of high or severe risk and within the worst performing half of their industry. Sustainalytics conducted 112 engagement meetings and exchanged 675 emails with targeted companies in 2020 and five engagements were successfully resolved. Furthers details of this service can be found on the Sustainalytics website at:
  https://www.sustainalytics.com/material-risk-engagement/

- **Norms-based Engagement (Global Standards)**
  This incident-driven engagement identifies companies not in compliance with accepted international conventions, such as the UN Global Compact, OECD Guidelines and other accepted standards. Alongside investor clients, Sustainalytics engages with companies that severely and systematically violate international standards with the objective of resolving incidents and improving the company's future ESG performance and risk management. During 2020, Sustainalytics engaged with 226 companies within the Norms-based Engagement Service. In total there were 3,477 contacts, 213 meetings and 91 significant milestones with 73 companies were achieved. Furthers details of this service can be found on the Sustainalytics' website at:
  https://www.sustainalytics.com/global-standards-engagement/

Engagement

- **Thematic Engagement**
  Proactive engagement services that focus on tackling the most challenging ESG issues, from climate change to child labour. Thematic Engagement services allow investors to align their interests in addressing specific issues with their engagement activities. The Thematic Engagement philosophy centres on systemic change and has collaboration, root causes and best practice sharing at its core. The dialogues are aimed at improving engaged companies' (proactive) risk and impact management, including the related disclosure, as well as their resilience and strategic positioning. At the same time, through parallel engagement activities, the intended impact extends beyond targeted companies. The themes strive for creating positive change on company, sector, system and issue level. Furthers details of this service can be found on the Sustainalytics website at:
  https://www.sustainalytics.com/thematic-engagement/

  Details of Sustainalytics engagements in 2020 can be found in Appendix B.

Engagement

10. Collaboration

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

Collaborative Engagement

SPF seeks to improve the effectiveness of company engagement and voting by acting collectively with other like-minded investors. As a signatory to PRI, SPF is committed to participating in collaborative initiatives with other like-minded signatories, which seek to improve company behaviour, policies or systemic conditions. To this end SPF participates in a variety of industry initiatives and forums. This also involves collaborative lobbying on government and industry policy and regulations regarding ESG issues. The Fund is represented across a range of initiatives working with institutional investors, charities and interest groups on themes as diverse as renewable energy, animal welfare and child labour.

Details of collaborative initiatives activity in 2020 are set out in Appendix C.

Sustainalytics

Sustainalytics' engagement is truly collaborative in that it brings together likeminded investors across markets, investor types, and asset classes. Sustainalytics' conduct engagement on behalf of over 850 clients globally and by pooling clients' ownership they can offer greater efficiency and a larger engagement footprint than if clients engaged by themselves. Sustainalytics' thematic engagements are specifically designed to proactively address specific ESG issues within portfolio companies and to do so by working collaboratively with small groups of clients. SPF actively supported two Sustainalytics' thematic initiatives in 2020, Child Labour in Cocoa and Plastics and the Circular Economy. The number and range of themes supported by SPF will expand significantly in 2021 and include Responsible Cleantech, Governance of Sustainable Development Goals and Modern Slavery.

Details of these thematic collaborative initiatives are set out in Appendix B.

Engagement

11. Escalation

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

SPF is committed to 'naming and shaming' companies not engaging with shareholders on important issues. International Consolidated Airlines Group (IAG) remains the only FTSE100 company unwilling to engage with ShareAction Living Wage campaign. SPF continues to publicise this in its reports and presentations. Section 3 of the SPF quarterly Responsible Investment report is dedicated to Principle 3 of PRI - "We will seek appropriate disclosure on ESG issues by the entities in which we invest." This section discloses Sustainalytics' and the investment managers' drive to engage and seek answers from companies. Our quarterly Responsible Investment reports are published at:

https://www.spfo.org.uk/index.aspx?articleid=20809

Investment Managers

Responsibility for day-to-day interaction with companies is delegated to the SPF investment managers and Sustainalytics, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. SPF regularly engages with managers regarding publicly reported events at certain portfolio companies that raise environmental, social or governance concerns.

SPF's investment managers undertake regular engagement with the companies in which they invest, with some campaigns lasting multiple years. When one-to-one engagement does not yield results, managers may seek to escalate engagement through collaborating with other institutional investors directly, or via investor networks, to amass voting power. Managers have several escalation options at their disposal, from voting sanctions through to selling the securities of an unresponsive company.

Most of the investment managers will engage with companies as routine before AGMs, they will raise issues prior to voting to try and avoid conflict with Boards. Managers have an exceptionally good track record of achieving corporate change this way.

Examples of escalation of stewardship activities are included in Appendix B.

Local Authority Pension Fund Forum (LAPFF)

LAPFF issues voting alerts for members where deemed necessary or helpful. The recommendations are provided on a case-by-case basis and take account of previous company engagement on the relevant topic. LAPFF members sometimes choose to draft and co-file shareholder resolutions, either among themselves or in coalition with other investors. SPF receives periodic voting alerts for companies where LAPFF has identified serious ESG concerns and where attempts to engage with the company have been unsuccessful.

LAPFF outlines the rationale behind the vote via several platforms, such as by means of a press release or in the public LAPFF quarterly engagement report. LAPFF believes in engaging constructively with members' investee companies and explaining the escalation in activity is deemed another form of engagement with the company, therefore extending the opportunity for dialogue and debate on material responsible investment concerns.

LAPFF engagements and voting alerts are disclosed in their quarterly engagement reports are publicly available at:

Engagement

https://lapfforum.org/publications/category/quarterly-engagement-reports/

and in their annual report which is also publicly available at:

https://lapfforum.org/wp-content/uploads/2020/12/LAPFF_annual-report-2020_final2-1.pdf

Sustainalytics

Sustainalytics routinely escalates engagement through collaboration with other investor networks and by enlisting the direct support of its institutional clients. SPF is regularly involved in this collaboration. Recent examples of this include:

- The Sustainalytics thematic engagement initiative, Plastics and Circular Economy, engaged with the majority of the 21 target companies representing the automotive, electronics and packaging & consumer goods sectors. Conference calls were held and meaningful exchanges in writing were also conducted with several other companies. The interactions demonstrated a general openness and willingness to enter into dialogue with investors on the plastics and circular economy. **Apple** initially displayed great reluctance to engage. To apply pressure on Apple SPF co-ordinated a collaborative letter signed by all Local Government Pension Schemes in Scotland and Northern Ireland. The letter expressed investor concern around the issue of plastic and waste and asked Apple to engage with the Sustainalytics initiative. Apple subsequently entered into dialogue and agreed to engage with the initiative.

- Sustainalytics had been trying to organise a conference call with **Facebook** to discuss concerns about the management of the recent privacy controversies. While assurances had been received from the investor relations department that Facebook has been addressing the issues Sustainalytics remain concerned with subsequent reports about the improper protection of users' sensitive information, data-sharing partnerships with the device makers, security issues at the platform, and the recent fine imposed by UK's Information Commissioner's Office indicating the company's failure to protect users' privacy and secure data. To open the long overdue engagement, the Fund supported a Sustainalytics collaborative letter to Mark Zuckerberg, the Chairman and CEO of social media and social networking service company Facebook, regarding data security and privacy.

Further examples of escalation of stewardship activities are set out in Appendix C.

Exercising Rights and Responsibilities

12. Exercising rights and responsibilities

Principle 12. Signatories actively exercise their rights and responsibilities.

Expectations, Activity and Outcomes

Voting

SPF's voting policy is exercised by its investment managers in accordance with their own corporate governance policies and taking account of current best practice including the UK Corporate Governance and Stewardship Codes. SPF officers monitor the upcoming votes to supervise manager activity and have direct access to the proxy voting platform (Broadridge Proxy Edge) used by the managers. SPF also recalls stock on loan to facilitate voting should the manager or officers require; this happens several times a year. Stewardship takes priority over stock lending.

On issues which have been identified by LAPFF, Sustainalytics, or officer engagement as being of particular concern, SPF is able to:

- co-file or publicly support shareholder or other resolutions.
- choose to take the lead in filing a shareholder proposal as a final means of engagement if a company proves unresponsive to engagement efforts; and,
- vote portfolio holdings directly to support its engagement strategy. Where possible, the Committee will be asked to approve activity in advance. Where timing does not permit this, officers will decide on appropriate action and report to the Committee at the first subsequent opportunity.

Full disclosure of voting activity is provided quarterly on the SPF website. This includes both the total number of company meetings and details of individual companies. The voting reports are available at:

https://www.spfo.org.uk/index.aspx?articleid=16040

The SPF Responsible Investment report provides a summary of quarterly voting activity and discussion of votes on headline matters such as climate change and executive remuneration.

Summary detail of voting activity in 2020 can be found in Appendix D.

Sustainalytics has also been mandated to carry on a monitoring programme of manager voting and to produce a report to allow SPF to understand managers voting activity and to inform discussion with managers on issues raised - particularly missed votes and votes in contradiction of SPF's position on key issues like climate change.

Pooled Fund Voting

Legal &General Investment Management (LGIM) currently manages close to half of SPF's listed equity allocation through pooled index funds. The LGIM Investment Stewardship team exercises the voting rights for all UK-based shares for which it has authority to do so and votes in developed markets and

Exercising Rights and Responsibilities

some emerging market countries, covering approximately 94% of the FTSE All-World Index. In 2020, LGIM cast over 138,600 votes at over 14,000 meetings.

LGIM is fully transparent in the exercise of voting rights and discloses details of vote instructions on a per-meeting basis, with the rationale provided for all votes cast against management. Vote disclosures and LGIMs voting policies can be found at:

[LGIM Vote Disclosures (issgovernance.com)]

Private Markets - Advisory Boards and Committees

SPF has a large portfolio of private markets investments spanning property, private equity, private debt, infrastructure together with some minor niche markets through our Direct Investment Portfolio.

Private markets investments represent more than one third of all SPF investments. SPF's rights and responsibilities in private market investments are exercised through advisory boards and committees. SPF expects to be granted an advisory board seat as a matter of course when making a private markets investment and attends and actively participates in all board meetings as far as possible.

Class Actions and Securities Litigation

- **Class Actions**

Another important part of SPF's active ownership is shareholder litigation aimed at companies whose illegal activities have resulted in financial losses. SPF believes that exercising litigation rights, including seeking monetary redress and governance reforms via legal action when defrauded or otherwise harmed by re-dressable financial misconduct is an essential in effective stewardship.

UK pension funds traditionally rely on their global custodians to ensure they receive their share of the proceeds of successful class actions or other shareholder settlements. The role of the global custodian is essentially passive. They are not active participants in individual cases and do not actively seek opportunities to lodge claims. US courts generally do not require UK investors be notified of class actions even when the rights of UK investors are impacted. For this reason, there is a real danger that many UK investors remain uninformed about these opportunities. To ensure that the global custodian collects all monies due as a result of class actions and to evaluate the merits of more active participation in securities class actions SPF has engaged the services of several monitoring systems. These systems include:

- BEAMS, a web-based monitoring system focused on US companies and cases, provided by Philadelphia based Law Firm, Barrack, Rodos and Bacine.
- International monitoring and reporting provided by San Diego based Robbins, Geller, Rudman and Dowd.

The monitoring services utilise custodian data of trade history and holdings to monitor relevant class action events from inception to settlement. They provide notification of filing activity plus pending and recovery claims and claim deadlines to use as an oversight on the monitoring and actions of the custodian.

Exercising Rights and Responsibilities

- **Securities Litigation**

SPF has been involved in direct legal proceedings in the United States and the U.K. SPF determines whether to participate as an active plaintiff on a case-by-case basis, with the primary goal of obtaining damages and to promote good corporate governance and sound business practices. Active participation in US litigation is time consuming and offers many potential pitfalls including cost and reputation risk, however, SPF believes these risks are outweighed by the responsibility to pursue corporate illegal activity and recover losses.

SPF concluded its first case as lead plaintiff in 2018 by obtaining a class settlement of USD$25.9m against PlyGem Holdings Inc. and currently serves as lead plaintiff in litigation against Bank OZK before the United States District Court for the Eastern District of Arkansas and Dentsply Sirona Inc. in the United States District Court for the Eastern District of New York. Details of both actions are publicly available at:

https://www.rgrdlaw.com/news-item-Defeats-Motion-to-Dismiss-in-Bank-OZK-Securities-Suit.html

https://www.barrack.com/node/622

In addition to the US litigation and class actions activity, SPF was a claimant in a group action litigated in the High Court in London against the Royal Bank of Scotland Group. SPF was one of a group of 313 institutions that included several local government and other public sector pension schemes and played an important role in this litigation as one of six institutions on the group steering committee. The shareholder action against The Royal Bank of Scotland represented a watershed moment in the development of UK securities litigation. Although it settled on the eve of trial, the litigation was the proof of concept: it is possible to successfully pursue high-value, complex shareholder class actions under the UK's legal and procedural framework.

SPF has recovered over US$10m since 2007 including individual settlements against Countrywide Financial Corporation for US$1.1m, the Royal Bank of Scotland Group for £1.2m, Tesco for £544,211 and Treasury Wine Estates Ltd. for AUD$513,000. Distributions from US class actions in 2020 totalled $1.3m from 16 settlement funds. SPF is currently investigating opportunities for class actions in other jurisdictions including Canada, Japan, Switzerland, and the Netherlands.

Appendix A

Investment Manager Engagements 2020

Examples of investment manager engagement, escalation and impact are listed by asset class and manager. Not all managers are included and due to the volume of engagements carried out the list provides only a limited snapshot of the activity undertaken in the year. Individual investment manager ESG and Stewardship reports are available via the links provided.

Index Equity and Fixed Income

Legal &General Investment Management (LGIM)

- LGIM's Investment Stewardship team engaged with 665 companies in 2020. This included 295 meetings or calls and 596 written engagements. The team engaged most frequently on climate change.

- LGIM engaged with the Korean engineering and construction company **Samsung C&T**, regarding construction of coal fired power plants. LGIM became aware Samsung C&T was considering becoming one of the engineering and construction contractors of a new planned Vung Ang 2 coal power fired plant in Vietnam. Given the climate and health impacts of coal power, companies involved in the project face significant reputational and/or financial risks. LGIM wrote to Samsung C&T urging the company to reconsider its involvement in Vung Ang 2 and to commit to no involvement in the construction of new coal plants without carbon capture and storage. Following significant pressure from LGIM and other like-minded shareholders, the company announced with immediate effect, that it will no longer participate in coal-fired power generation projects in any capacity, including investment or construction. However, the company reaffirmed its participation in the Vung Ang 2 as its final coal project. In response LGIM will be sanctioning the board at its next AGM.

- Following a campaign on gender diversity in Japan (2019) LGIM decided to escalate their voting policy. LGIM announced that they would vote against all companies in the large-cap TOPIX 100 index that did not have at least one woman on their board. Given the importance of diversity as a strategic business issue, LGIM intend to expand the scope of the policy to a greater number of Japanese companies over time - there are 164 all-male boards in the TOPIX 500. LGIM have seen some Japanese companies take positive steps since the announcement. This includes **Recruit Holdings** who moved to select a female candidate to serve on the board; a decision they said took into account the voice of their shareholders.

- LGIM have been engaging with electric utility **Korea Electric Power Corporation (KEPCO)** since early 2017. In 2019, due to the company's continued plans to expand thermal coal power generation and poor climate risk disclosure LGIM made the decision to implement voting sanctions. Following this decision LGIM have had four meetings with the company and to further increase pressure on the company, LGIM's Head of Sustainability and Responsible Investment outlined their concerns in an interview with a leading Korean daily newspaper in 2020. In October, KEPCO publicly pledged it would make no further investments in overseas coal projects. The company announced it would focus on renewables and natural gas in the future, and that all currently planned thermal coal projects, except for two plants in Indonesia and Vietnam, will either be converted to liquefied natural gas or called off.

The LGIM Annual Active Ownership Report for 2020 is available at: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/active-ownership-report-2020.pdf

Appendix A

Investment Manager Engagements 2020

Listed Equity

Baillie Gifford

- Baillie Gifford engaged with e-commerce provider **Naspers Limited** regarding its response to Coronavirus. Naspers has provided personal protective equipment (PPE) and thermometers for its employees and those in restaurants, implemented faster payments to restaurants, waived commissions and set up a fund in Brazil to look after ill couriers and kitchen staff. Naspers also donated $82 million to the South African government's Covid-19 response fund.

- Baillie Gifford engaged with Irish building material company **CRH** to discuss corporate governance and sustainability. Baillie Gifford discussed the company's efforts to improve efficiency and reduce its carbon emissions. In September, the Global Cement and Concrete Association, of which CRH is a member and its CEO is president, announced a joint ambition to achieve carbon neutrality by 2050. Concrete is the world's most widely used material, it is essential to social and economic development and its production is carbon intensive. Baillie Gifford were encouraged to learn that CRH is working with industry bodies to ensure technological solutions are developed. Investment in new infrastructure, carbon capture technologies and collaboration provide the best chance of delivering on this long-term objective. Baillie Gifford recognise the environmental impact of CRH's business but believe the company aspires to lead the industry in striving for a more sustainable future.

- Baillie Gifford engaged with consumer credit reporting company **Experian** on data security and privacy. Experian recently experienced a fraudulent capture of data in its South African division. The engagement with Experian management sought to better understand its data security resilience and where data security sits in the executive and board reporting framework. Baillie Gifford held a series of meetings with mining company **Rio Tinto** on the topics of effective governance, community stakeholder relations and mine safety. The destruction of a site of cultural significance in Western Australia in May 2020 prompted widespread criticism which led to the resignation of the CEO and two additional executive directors in August. The engagement with Rio Tinto set out expectations that the board is fully focused on delivering an effective corporate governance framework which respects all stakeholder rights.

- Baillie Gifford engaged with Spanish multinational clothing company **Inditex** (parent company of Zara) to help understand how the company monitors its supply chain and minimises the risk of subcontracting. Inditex's processes are described as industry leading and is the most sustainable retailer according to the Dow Jones Sustainability Index. By 2025, 100% of the cotton, linen and polyester used by all eight of its brands will be organic, sustainable, or recycled and by 2023, all single-use plastics will have been eliminated for customers sales. Baillie Gifford were interested to learn what it has done and to build a picture of best practice. The call instilled confidence of a robust process which includes conducting regular audits that have evolved over time, and a company willing to build partnerships with various independent organisations that can provide on-the-ground monitoring. What came across as key is the presence of a continually evolving philosophy which emphasises the importance of managing supply chain risk as being crucial to the sustainability of revenues.

- Baillie Gifford engaged with Taiwanese semiconductor manufacturer **TSMC** to discuss climate change. Having identified TSMC as a priority for further engagement on climate risk, Baillie

Investment Manager Engagements 2020

Gifford had a call with the company to discuss this and supply chain management. TSMC has integrated sustainability across the company rather than siloed within a sustainability department, and the call confirmed that TSMC remains a leader in many areas of ESG and helps to drive its industry forward. Baillie Gifford discussed how it manages the physical risk from a changing climate to its facilities in Taiwan, and that its biggest challenge for meeting emissions reduction targets is the energy mix of the Taiwanese grid. Nevertheless, the company has ambitions to address this, and in 2020 signed the world's largest renewables corporate power agreement with Orsted.

- Baillie Gifford also engaged with mining company **Rio Tinto** on the Juukan Gorge disaster. In May 2020, two ancient rock-shelters were destroyed in the Pilbara region of Western Australia. A recent study of the Juukan Gorge dated one rock shelter as more than 46,000 years old and was the only one in the country to show continuous human occupation since the last Ice Age. Baillie Gifford have written to the board with their concerns and to encourage improved corporate governance. They will continue to monitor Rio Tinto's response to the disaster and will focus on minimising the risk of any similar incident in future, including seeking stronger governance practices and corporate culture to respect stakeholder interests and create sustainable long-term value.

The Baillie Gifford Annual Investment Stewardship report for 2020 is available at: https://www.bailliegifford.com/en/uk/about-us/literature-library/corporate-governance/baillie-gifford-investment-stewardship-activities-year-ended-31-december-2020/

Oldfield Partners

- Oldfield Partners reported continued engagement with **Lloyds** bank with regards to the company's remuneration policy. Oldfield believe that there is still room for improvement in certain aspects of the policy. Following the AGM Oldfield have engaged with Lloyds on various aspects of remuneration such as the quantum of award with regards to restricted shares, simplification, and visibility of the scorecard, and how to allow for qualitative and quantitative factors, particularly for items such as strategy and ESG. Oldfield will review the scorecard and metrics, as well as the detail associated with the underpins, when the final remuneration policy is released.

- Oldfield Partners have also continued their engagement with **KEPCO**. Oldfield wrote to the CEO of KEPCO making him aware of the Climate Action 100+ latest initiative on benchmarking – the Net Zero Company Benchmark. The benchmark builds on the TCFD recommendations, with more guidance on specific company actions and disclosures of most relevance to investors' decisions. Oldfield received a formal response from the company, with a commitment to disclose further information in its sustainability report in accordance with the recommendations of the TCFD. The company also stated that net-zero emissions target will be aligned with those of the Korean government. 2020 has been a year of significant progress in terms of coal phase-out in Korea. In October 2020, the South Korean government committed to achieve net-zero emissions by 2050, pledging to spend US$7bn on green-focused growth. Investors were referenced repeatedly in the National Assembly when Ministers were being questioned on KEPCO's overseas coal projects. As KEPCO owns most of the coal-fired power plants in South Korea, this plan is likely to have a significant impact in the reduction of their GHG emissions. Oldfield's engagement with KEPCO in 2021 will focus on obtaining further clarity on coal plant closures as per the government's directive, phase-out timeline of overseas coal plants and commitment to the full alignment of corporate disclosure with TCFD recommendations.

Investment Manager Engagements 2020

Oldfield Partners Annual Proxy voting, ESG and Company Engagement report for 2020 is available at: https://www.oldfieldpartners.com/srp/lit/XOyaga/Proxy-voting-and-engagement-report-annual_31-12-2020.pdf

Veritas Asset Management

- Veritas engaged with Australian laboratory services provider **Sonic Healthcare** regarding allegations made against its UK operation, Doctors Laboratory (TDL). The allegations related to wrongful dismissal and inadequate provision of PPE for its couriers during COVID-19. The dialogue also covered the working contracts given to its employees. Veritas were reassured that adequate PPE had been provided and that all regulations and guidelines on COVID-19 had been followed. TDL has offered all its couriers a full employment contract at rates that are at the top achieved in the UK market.

JP Morgan Asset Management (Global Smaller Companies)

- J.P. Morgan Asset Management met with the Chairman of Netherlands based **BE Semiconductor** regarding their CEO’s remuneration. J.P. Morgan voted against their proposed remuneration policy at this year’s AGM as the CEO was receiving 7.3x the median pay and discretionary payments. BE Semiconductor have now engaged a third-party corporate governance consulting firm to assist with a review of their remuneration policies. All discretionary pay awards have now been replaced with 70% of pay linked to various and defined financial targets and 30% of pay linked to non-financial / strategic targets, including a link to ESG metrics. BE Semiconductor’s CEO’s median pay is now at a far less alarming 2.2x.

Private Markets

Partners Group

- Private equity manager, Partners Group, provided its 2020 Corporate Sustainability Report. The report explains how Partners Group created positive impact from environmental, social and governance (ESG) factors throughout its investment portfolio in 2020 and provided updates on key corporate sustainability metrics. Partners Group conducted 60 ESG engagements with its portfolio companies and assets, each consisting of several individual projects. These efforts delivered a reduction of over 1.5 million metric tons of CO_2 emissions, recycled more than 29,000 tons of waste and reduced energy consumption by over 55 GWh across the Partners Group direct investment portfolio.

- Partners Group reported engagement with Netherlands based industrial power transmission and conveyor belting manufacturer **Ammega.** During the acquisition process Partners Group conducted ESG due diligence and found that Ammega did not have a unified health & safety (H&S) system across the entire organization. Based on this finding, Partners Group committed to improving Ammega's H&S system during ownership.

  Partners ESG & Sustainability team worked with Ammega to define a five-year H&S vision with an ambitious goal to reach zero harm by 2025. To operationalize this vision, they developed a H&S policy to improve the standards across Ammega's operations. Ammega's HSE Director oversees the implementation of this policy across the entire organization. On top of this, the company ensures that 100% of its employees receive site-specific health & safety awareness trainings, record all incidents and near misses, and have access to the necessary safety equipment. Finally, Ammega has instituted monthly on-site safety walks to actively reduce workplace H&S risks and prevent future injuries. Since Partners Group's involvement, Ammega has made significant progress on improving H&S with the number of serious incidents from 10 to 1 per year. To incentivise continued progress, Ammega has linked annual bonus compensation for management to its H&S KPIs. Thanks to the implementation of these initiatives, Ammega has become a best practice example in the Partners Group private equity portfolio. Partners Group are replicating Ammega's approach and have shared their policies and practices with other portfolio companies.

Partners Group Annual ESG and Corporate Responsibility report for 2020 is available at: https://www.partnersgroup.com/fileadmin/user_upload/Files/ESG_and_Corporate_Responsibility_PDFs/20210325_PG_Corporate_Sustainability_Report_2020_Web.pdf

ICG Longbow

- In 2020, ICG Longbow's new private real estate loans included substantial capital expenditure facilities to be applied towards the refurbishment of existing properties which has a substantially lower environmental impact than demolition and redevelopment. Such refurbishments generally seek to improve the energy performance of the target properties as well as providing improved working or living environments for their occupiers.

  As a lender to, rather than direct owner of, real estate assets, ICG Longbow is generally in a position only to influence rather than control the ESG impacts of its borrowers. However, several portfolio investments make specific and positive contributions to ESG, including for example improved environmental and energy performance; or offering positive social benefits such as the provision of residential retirement living.

Real Estate

DTZ Investors

- Property manager, DTZ Investors, provided a report outlining the projected move to a net zero world and the potential impact on the property market. 40% of global energy use comes from buildings and buildings give rise to about a third of global greenhouse gas emissions. The built environment is also responsible for 20% of water consumption and 30% of total solid waste generation. The World Green Building Council (WGBC) states that all buildings must be 'net zero carbon' by 2050 if the Paris Agreement is to be fulfilled. Following the UK government legislating its commitment to achieving net zero by 2050, DTZ Investors has commenced developing a pathway with the primary objective of reducing Strathclyde Pension Fund's operational carbon emissions to zero by 2030 and reduce the embodied carbon during developments and refurbishments.

  So far in 2020 DTZ has put in place sustainability action plans for several assets in the Strathclyde portfolio with more due to be created in Q3 and Q4 2020. Sustainability action plans enable identification and tracking of environmental and social initiatives through collaboration with the property management teams, sustainability functions and asset managers. The purpose of the action plans is to capture and shortlist sustainability projects that are feasible for implementation over 2020—2021 and to support the portfolio in its approach to energy reduction for net zero. Their scope encompasses energy efficiency, waste, water, transport, health & wellbeing, stakeholder engagement, cleaning and landscaping & biodiversity.

DTZ is also currently in the process of implementing the Financial Stability Board's (FSB) Task Force on Climate related Financial Disclosures (TCFD) framework to identify what the climate related risks to the portfolio could be over the short to long term with the purpose of identifying the subsequent mitigating actions against any identified risk. DTZ is embedding a consistent and managed approach to the monitoring our exposure to climate risk and putting in place the required governance and reporting structures to report and disclose in 2021.

DTZ Investors Responsible Investment Policy is available at:
https://www.dtzinvestors.com/media/264062/dtzi_rpi-policy_final-v13_march-update-compressed.pdf

Partners Group

- Partners Group reported on EightyFen, a new 14-story office building in the City of London and the latest development project in Partners Group's real estate portfolio. Completed in September 2020, ESG has been a central element of the vision for EightyFen. Specifically, Partners Group have obtained an 'Excellent' rating under the Building Research Establishment Environmental Assessment Method (BREEAM), a leading assessment and certification scheme designed to help building managers improve the environmental and tenant well-being aspects of new and existing buildings. Partners Group took several steps during EightyFen's design to achieve certification including:
  - Materials sourcing and recycling: During demolition of the previously existing property all materials were separated and recycled. Construction used sustainably sourced materials produced minimizing the use of energy or sourced from local companies.
  - Energy: A building management system (BMS) monitors energy use during all seasons to optimize the use of solar shading during the summer and heat during the winter. The building utilizes high-performing building fabric, high-efficiency boilers and chillers to reduce the overall energy demand. It also obtains some of its power from rooftop photovoltaic solar panels.
  - Tenant well-being: Amenities include integrated cafés, a restaurant and health facilities. There are also 22 showers, 331 cycle racks and 342 lockers to enable tenants to cycle to work and encourage a healthier and more sustainable lifestyle. More recently, during the COVID-19 pandemic, Partners Group upgraded some of the buildings features to further enhance tenants' well-being.
  - Community relations: During construction, the EightyFen site conducted regular Considerate Constructors Scheme (CCS) audits, designed to assess construction operations against best practices in minimizing impact on surrounding communities. EightyFen scored 39-40 out of 50, achieving excellent performance in four of the five core scoring sections.

Partners Group Annual ESG and Corporate Responsibility report for 2020 is available at: https://www.partnersgroup.com/fileadmin/user_upload/Files/ESG_and_Corporate_Responsibility_PDFs/20210325_PG_Corporate_Sustainability_Report_2020_Web.pdf

Appendix A

Investment Manager Engagements 2020

Infrastructure

J.P. Morgan Infrastructure Investments Fund

- Infrastructure manager JP Morgan provided the annual Sustainability Report for the Infrastructure Investments Fund (IIF). The report discusses the importance of ESG implementation and provides an overview of how ESG is integrated at the Fund-level and throughout the portfolio and sets out specific examples of how IIF portfolio companies are contributing to ESG initiatives including in respect of climate, stakeholder and community engagement, diversity and inclusion and health and safety. Key takeaways from the report include:
  - Over USD 3 billion investing in renewable power generation.
  - 4.8 GW of renewable energy capacity - enough to power 3.7 million homes for a year.
  - 4 million tonnes of GHC emissions avoided in 2019.
  - Clean water and wastewater projects serving over 5 million people.
  - Over 10,000 volunteer hours from IIF portfolio companies and USD 500,000 in charitable donations and sponsorship.
  - GBP 1.7 million contributed to wind farms' local communities on behalf of Ventient Energy.
  - 16,000 trees planted through the Sonnedix One Tree partnership.
  - 'A' rated for direct infrastructure in the 2019 PRI survey.

JP Morgan also provided a report on the Infrastructure Investments Fund (IIF) results from the 2020 **Global Real Estate Sustainability Benchmark (GRESB)** annual assessment.

GRESB is an industry-driven organization committed to assessing the ESG performance of real assets around the globe. The GRESB infrastructure assessment allows investors to compare ESG-related performance as well as provide actionable information and tools for companies to improve their ESG initiatives. 2020 marks the fifth year for the GRESB Infrastructure assessment and participation included 75 Funds and 406 assets.

Key takeaways from the GRESB report include:

- IIF ranked 12th out of 75 Infrastructure Funds in GRESB score.
- 10 IIF portfolio companies ranked in the top 100 assets (out of 406 assets).
- 5 IIF portfolio companies moved into the 5-star rating.
- Beacon Rail received GRESB's 2020 Most Improved award - moving from three stars to five stars and doubled score over last year. (Beacon Rail is a rolling stock leasing company which operates in the freight and passenger train markets both in the UK and Continental Europe.)
- Sonnedix and Ventient received GRESB Sector Leader awards for the third year in a row - each ranked first in their respective sector peer groups. (Ventient is a diversified platform of 134 contracted wind farms totalling 2.6 GW across the UK and Europe. Sonnedix develops and operates utility-scale solar projects globally, including 1.2 GW of installed capacity, 335 MW of projects in construction and 422 MW of capacity in documentation and development stages.)

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

Sustainalytics Engagement 2020

Material Risk Engagement (MRE)

- The MRE service was launched in March 2020 and is designed to engage on management gaps in the Material ESG Issues among the worst performing companies. As an engagement overlay to Sustainalytics' ESG Risk Ratings, MRE relies on solid research providing clients with a consistent focus on financially material ESG issues. MRE aims to engage with high- and severe-risk companies ranked in the bottom half of their industry as defined by the ESG Risk Ratings.

  The MRE program includes 45 existing engagements that fit the MRE criteria and 148 new engagements since March 2020, bringing the total number of MRE engagements in 2020 to 193. The Engagement Services team is targeting 250 engagements by March 2021 and full coverage of the defined engagement universe exceeding 500 engagements by early 2022. Launching this engagement program during the COVID-19 pandemic, has limited the ability to meet with companies in person. Irrespective of this, Sustainalytics conducted 112 engagement meetings and exchanged 675 emails with targeted companies in 2020. There is currently an even geographical distribution with about one-third of engagement cases in each region: the Americas, Europe, the Middle East and Africa (EMEA,) and Asia-Pacific (APAC.) In 2021 Sustainalytics will open most new engagements in the APAC region moving towards a full roll-out of the MRE program. In 2020, approximately half of new engagements focused on ESG risk management fundamentals such as ESG risk assessment and disclosure, supporting companies with low ESG awareness. These engagements focus on fundamental tools first to improve accountability and help drive focused and structural change. For more ESG progressive company engagements, carbon risk management is the most prominent topic. The response to this engagement has been predominantly positive, establishing a two-way dialogue with three out of four companies. Engagement will continue for outlying companies by implementing alternative strategies to engage through 2021.

  https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/material-risk-engagement

Norn Based (Global Standards) Reported Engagements in 2020

In 2020, Sustainalytics engaged on or evaluated 251 cases associated with violations of international norms and conventions. In addition, they resolved 21 cases and archived 108. Meetings were held with 158 companies relating to these cases, including 194 conference calls and 19 face-to-face meetings. In total, Sustainalytics was in contact with companies 3,477 times through emails, conference calls and meetings.

The following summaries as reported to SPF provide only a limited snapshot of the activity undertaken in the year.

- Sustainalytics provided a special report: **The COVID-19 incidents curve: corporate events & impacts** which explores emerging ESG trends related to COVID-19 incidents. In the first half of 2020 Sustainalytics processed 1,270 corporate incidents related to COVID-19 or 12% of all ESG incidents captured with 31% of COVID-19 incidents linked to occupational health & safety, driven in large part by the US consumer discretionary sector. The report is available at: https://connect.sustainalytics.com/the-covid-19-incidents-curve-corporate-events-and-impacts

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- Sustainalytics reported efforts to engage with multinational pharmaceutical and healthcare company **Sanofi** (Oldfield Partners) to seek disclosure following safety concerns with the company's anti-dengue fever vaccine, Dengvaxia and its epilepsy drug Depakine.

- Sustainalytics reported that it will engage with **The Goldman Sachs Group** (LGIM) regarding allegations of money laundering in its Southeast Asian operations and **Citigroup** (Oldfield Partners, LGIM) regarding allegations of money laundering in its Mexican subsidiary Banamex.

- Sustainalytics will also engage with **Amazon** (Lazard, LGIM) to investigate the company's record of health and safety issues and labour controversies. Amazon has a worryingly high rate of employee fatalities and physical injuries as well as allegations of poor and stressful working conditions that negatively affect the mental health of staff.

- Sustainalytics, provided reports on a range of recent engagements including with healthcare logistics provider **McKesson Corp.** (LGIM). McKesson has received warning letters from the US Food and Drug Administration (FDA) regarding accusations of negligence in the control and supply of opioid based medications. Additionally, the company is facing multiple lawsuits linked to the ongoing US opioid crisis.

- Sustainalytics also reported a concluded engagement case with **Walt Disney Co.** regarding workplace harassment and discrimination. Efforts by the company have led to improvements in the corporate culture and a drop in harassment and discrimination claims, with no severe allegations reported since 2017.

- Sustainalytics, provided a report on concluded engagement with the US agribusiness and food company **Bunge Ltd.**, (LGIM) which was accused of deforestation in Brazil and Bolivia for the purpose of large-scale soybean cultivation. Bunge has now publicly committed to achieving a deforestation-free supply chain worldwide by 2025, to respect local and indigenous community rights and conserve biodiversity. In addition, Bunge has suspended cooperation with suppliers that illegally deforest the land. The company is also attempting to engage with those farmers who have a legal right to clear forests.

- Sustainalytics reported efforts to engage with UK-based online fashion retailer **Boohoo Group Plc** (Baillie Gifford), after it was linked to labour rights violations in its supply chain. The NGO, Labour Behind the Label, reported that factories in Leicester, including those supplying Boohoo, required workers who had tested positive for COVID 19 to continuing working. Allegations were also made that a supplier making Boohoo garments was paying workers below the legal minimum wage. The National Crime Agency is currently investigating factory working conditions in Leicester and Boohoo has launched its own independent review into working conditions in its supply chain. Sustainalytics will outline investor expectations to Boohoo regarding ethical trade and decent working conditions and through engagement will aim to monitor measures taken by Boohoo to ensure a robust programme is adopted that eliminates abuse throughout the company's supply chains.

- Sustainalytics reported that it will engage with Russian diversified metals mining company, **MMC Norilsk Nickel PJSC** (Baillie Gifford), over an incident at its subsidiary, causing a diesel

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fuel spill which led to severe environmental and human rights impacts in the Russian Arctic region. Upwards of 21,000 tonnes of diesel fuel have contaminated an area of around 350 square kilometres, including the Ambarnaya river, located near the city of Norilsk in Russia's Arctic region. Russian authorities have issued a fine of USD 2.1billion and it is estimated that the clean-up will cost the company about USD 150 million. The engagement will ask Norilsk Nickel to take appropriate actions to contain the oil and prevent further damage to the environment. It should have remedial measures in place to address the impacts of the leak and the company should also ensure that it has maintenance and monitoring programmes to address the risks to its infrastructure, including from melting permafrost.

- Sustainalytics requested a conference call with **Rio Tinto** to confirm the actions it has taken since the Juukan Gorge incident. They will ask about whether the company intends to restructure its operations to ensure that operational decisions are discussed in advance with the local community and indigenous peoples' so that decisions on mine activities cannot be undertaken without relevant input.

  https://www.sustainalytics.com/investor-solutions/stewardship-services/engagement-services/global-standards-engagement

Sustainalytics Thematic Engagement activity in 2020

- In November Sustainalytics issued the second report for its **Plastics and Circular Economy Engagement.** Since the baseline report presented in March 2019, Sustainalytics together with four participating investors (SPF, Nomura Asset Management, OP Asset Management and NN Investment Partners) have engaged with the majority of the 21 target companies representing the automotive, electronics and packaging & consumer goods sectors. As well as summarising the overall experiences from engagement dialogues, the biannual report outlines the status of individual companies, including their progress against the key performance indicators.

  - **Automotive**
    Sustainalytics held calls with **Valeo** and **Continental** and had a substantive written exchange with **Suzuki Motor, General Motors** has been less responsive during this period, but Sustainalytics are hopeful of continuing the dialogue soon given the strategic commitments made by the company recently. Sustainalytics have observed a continuation of the trend where companies are refreshing and strengthening the strategic basis for their circularity efforts. Both General Motors and Toyota Motor have updated their materiality assessments and classified issues relevant to developing a circular economy such as design for the environment, waste reduction and appropriate treatment of end-of-life vehicles. Sustainalytics have also seen an emergence of new sustainability strategies giving the circular economy a central role. For example, the Chairman of the BMW Board of Management has announced initial details of a new 'strategic direction', with a circular economy component, including increasing the share of 'secondary material' in vehicles and work on tracking raw materials from mine to smelter. A further, practical example of this interplay can be seen in the application of circularity principles to electric vehicles. For example, General Motors states in its latest sustainability report that it will continue to enable 100 % reuse or recycling of electric vehicle batteries. Over the next six months, Sustainalytics will continue engagement with these and other companies with a focus on their efforts to meet a range of new and existing circularity targets. To this end, the dialogue with a number of the companies will concentrate on the operational

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elements of their approach, including input into the production process, recycling practices and after-use treatment of vehicles.

- **Electronics**
  In this sector, Sustainalytics are engaging with six manufacturers of consumer electronics, home appliances, and electrical equipment. Sustainalytics have observed that many companies have now integrated circular economy more explicitly into their environmental strategies. For example, **Hitachi** incorporated a specific approach to transitioning to a circular economy as part of its Environmental Action Plan for 2021. It plans to develop closed-loop recycling and circular business models to improve the environmental impact of its products and services. In the case of **Electrolux** and **Whirlpool**, the former continues its efforts at managing plastics and employing circular economy business models as part of its Better Solutions strategy while the latter has recently developed circular economy targets for 2025 and 2030. However, the main challenge continues to be the lack of availability and quality of recycled plastics that meet the specific requirements for electronics products such as televisions, washing machines and refrigerators. Many of the companies also continue taking steps to improve the design phase of product development and incorporate recycled plastics wherever is possible. For example, **Sony** maintained its target to reduce the use of virgin plastic materials in all products by 10% in the new environmental strategy for 2025. In the case of **Schneider Electric**, it has already achieved 22% of its target to double the volume of recycled plastics in products by 2025. But it also struggles to find quality recycled materials to move forward. Sustainalytics still considers **HP** as a leading company in its approach to managing plastics and integrating circular economy principles. For example, the company is targeting 30% postconsumer recycled content plastic across its personal systems and print product portfolio by 2025. Overall, Sustainalytics are positive that the industry is moving slowly in the right direction. There is a need for more collaboration between companies and suppliers to develop innovative solutions to tackle the challenge of recycled materials. Sustainalytics will continue engagement with these companies with a focus on their efforts to meet a range of circularity targets. Sustainalytics will also seek to leverage their relationship with other stakeholders to bring value to the discussions with companies.
- **Packaging and Consumer Goods**
  Against the backdrop of COVID the International Solid Waste Association estimates that the use of single-use plastics in 2020 may have grown 250-300% in the United States alone. While the need for “safety-first” is paramount, this will put even greater onus on society and companies to strengthen plastic and circular economy initiatives in the packaging and consumer goods sector, Sustainalytics is engaging with seven companies in this sector and held five conference calls in the second half of 2020. All packaging companies in this engagement have joined the Ellen MacArthur Foundation (EMF) Global Commitment and therefore received an early boost in scoring based on the pledge to achieve 100% recyclable plastics by 2025.
  Kellogg has indicated that while 79% of its plastic packaging is technically recyclable most of this packaging is not currently recycled 'in practice and at scale'. The percentage decreased to 47% at **Amcor** due a product portfolio is heavily weighted toward flexible packaging structures that are not recyclable, however Amcor is making progress to adapt the portfolio to recyclable products. With respect to innovation, Amcor and **Nestlé** have jointly developed breakthrough technology and the first global solution to recycle “retort” flexible packaging. **Danone** has launched 100%

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recycled PET bottles in four European countries and plans to reach all major water markets by 2021. **Colgate-Palmolive** introduced a first-of-its-kind recyclable toothpaste tube, the first oral tube to be recognized by the Association of Plastic Recyclers and Plastic Recyclers Europe. The company has indicated that it intends to offer the technology to the makers of plastic tubes for a broad range of products. **Berry Global** has recently partnered with Bhoomi to launch a 100% sugarcane-based bottle and is also offering cosmetics jars featuring a removable inner section, allowing consumers to retain the jar and replacing the empty inner section with a new full one, which can be bought separately. Kellogg is working on changing cereal pouches to a recycle-ready material that will remove an estimated 480 tonnes of non-recyclable packaging from supply chains each year. In the prelude to **COP 26**, Amcor, Colgate-Palmolive and Danone have also joined the recently formed U.S. Plastics Pact, working with governments, NGOs, cities, recycling associations and other stakeholders, while Berry Global is a member of the UK Plastics Pact. Amcor and Colgate-Palmolive have, in addition, joined the EMF in calling for a United Nations global treaty on plastic pollution and government recycling investment. Sustainalytics will be encouraging further integration of post-consumer recycled content, and development of governance structure alongside parallel developments in science-based targets. Sustainalytics have initiated discussions to understand the impact of COVID on single-use plastics at the engagement companies and expect to continue this conversation in 2021. The report can be found at:
https://www.sustainalytics.com/esg-blog/plastics-material-issue-for-investors/
The EMF 2020 Global Commitment Progress Report is available at:
Ellen MacArthur Foundation publish the Global Commitment 2020 Progress Report

- Sustainalytics provided its second report on **Child Labour in Cocoa.** Together with a group of institutional investors (including Strathclyde), Sustainalytics have engaged major cocoa and chocolate companies in three focus areas: child labour monitoring and remediation, access to education and living income for cocoa-growing farmers.

  Most companies currently apply child labour monitoring and remediation systems (CLMRS), or similar, and are continuing rollouts in line with a pledge by the industry organization World Cocoa Foundation to have CLMRS, or equivalent systems, in all cocoa-growing communities in Ivory Coast and Ghana by 2025. Some companies are ahead of schedule to meet the pledge and several companies have initiated roll-out beyond Ivory Coast and Ghana. While efforts are strengthened against child labour this is overshadowed by the recently released large-scale survey on the status of child labour in cocoa-growing communities in Ivory Coast and Ghana conducted by the University of Chicago. The results suggested that more than 1.5 million children are still involved in child labour in cocoa production in the two countries. On a more positive note, the report stated that school attendance among children in agricultural households increased from 58 percent to 80 in Ivory Coast and from 89 to 96 percent in Ghana. A separate study by the same university, commissioned by the World Cocoa Foundation, has assessed the effects of the industry's interventions on child labour and suggests that hazardous child labour has been reduced by one-third in communities where company programmes are in place.

  With regards to living income, Sustainalytics has followed up on its previous investor statement on living income and living wages sent to more than 40 food & beverage companies and food retailers including cocoa and chocolate companies. Progress is continuing with

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regards to companies' uptake of living income. Some of the cocoa and chocolate companies have strategies in place to improve income for cocoa-growing farmers and are explicitly measuring farmer income as part of monitoring their farmer programmes in West Africa, including data collection to understand what types of interventions are effective. In recent dialogues with companies, Sustainalytics have also seen insightful studies being commissioned by cocoa and chocolate companies, as well as promising pilot interventions. Further engagement effort will be undertaken with the cocoa industry on the above matters, until the conclusion of this investor effort in the latter part of 2022.

In 2020, Sustainalytics announced new three-year projects (themes) that aim to proactively improve companies' preparedness to mitigate risks and capitalize on opportunities connected to global ESG challenges.

- **Modern Slavery** will target some of the sectors with the highest prevalence of the practice. Modern slavery breaches fundamental human rights and is a crime under international law, as well as in most national jurisdictions. This engagement will encourage companies to take a more ambitious and strategic approach to addressing modern slavery in both their direct operations and supply chain, including preventative measures, improved risk assessments, and enhanced disclosure.

- **Feeding the Future** will focus on the need for the global food system to transition to more sustainable practices and business models. Agriculture is a major contributor to greenhouse gas emissions, deforestation, water stress, and biodiversity loss. Sustainalytics will engage companies on how to tackle the parallel pressures regarding sustainability and feeding the growing population, while adapting to changing consumer trends and ensuring that science-based contingency planning is in place.

- **Responsible Cleantech** will focus on some of the technologies that exhibit the strongest growth and contribution to the transition towards a low-carbon economy. Sustainable products are truly sustainable only if all value chain stages are environmentally and socially sustainable. The Responsible Cleantech engagement will address both the environmental and social implications of the growth of selected cleantech products and aligns with multiple Sustainable Development Goals (SDGs). Sustainalytics will engage companies that manufacture wind turbines, solar PV panels, battery electric vehicles and/or vehicle batteries. The engagement will also touch on the environmental and social challenges with hydrogen fuel cell technology. Hydrogen offers promising energy storage applications in both the power generation and automobile industries.

- **The Governance of SDG's -** The SDGs provide a useful backdrop to steer responsible business activities and help set new standards for responsible investing. The Governance of SDG's engagement objective is to encourage companies to clearly identify which SDGs are the right ones for them to prioritise. In addition, they should demonstrate that their decision-making considers SDG impacts, guides culture and maintains their license to operate, and is geared towards achieving concrete impacts. This engagement will run for three years and will focus on approximately 20 companies in the financial services, consumer goods and ICT sectors.

Appendix C

Collaborative Engagement – Activity During 2020

Examples of collaborative engagement activity are listed by initiative or organisation. The list provides only a limited snapshot of the activity undertaken in the year.

Institutional Investors Group on Climate Change (IIGCC)

- SPF co-signed a collaborative letter to EU heads of state and government calling for a sustainable economic recovery from COVID-19 in the EU. The letter was supported by the **Institutional Investors Group on Climate Change** (IIGCC), the **PRI** and **CDP** and received support from 109 investors representing €11 trillion in assets. The letter called on EU leaders to deliver an economic recovery that includes maintaining momentum on the EU Green Deal and sustainable finance agenda, with at least 25% of the EU's long-term budget contributing to climate objectives. The letter was issued to coincide with the EU Council meeting on 19 June. The letter is available at: https://www.iigcc.org/resource/iigcc-letter-to-eu-leaders-from-investors-on-a-sustainable-recovery-from-covid-19/

- In quarter 4 SPF co-signed letters organised by the **Institutional Investors Group on Climate Change (IIGCC)** to 36 of Europe's largest companies highlighting the importance of ensuring they publish 'Paris-aligned' accounts. The Paris-aligned accounts letter and accompanying IIGCC briefing paper outline why financial statements must be adjusted to take account of material climate risks. The letter and briefing paper cover the steps companies and their auditors need to take to ensure they reflect the implications of global commitments to limit temperature increases to well below 2°C, and ideally to 1.5°C in their financial statements. The companies that received the letter include EDF, Lafarge-Holcim, Airbus and BMW. Building on pre-existing engagement BP, CRH, Eni, Rio Tinto, Shell and Total received an amended letter, reflecting previous engagement on the topic. The letter and IIGCC briefing paper are available at: https://www.iigcc.org/download/iigcc-letter-to-european-companies-on-paris-aligned-accounts/?wpdmdl=4006&masterkey=5fabc9c5af24f

CDP

- In quarter 3 SPF joined with 137 other financial institutions to back a campaign for high-emitting companies to set greenhouse gas emission reduction targets following guidance from the **Science-Based Targets initiative (SBTi)**. SBTi, which is a collaboration between **CDP**, World Resources Institute, the WWF, and the UN Global Compact, aims to define and promote best practice in greenhouse gas emissions reduction target-setting. More than 1,800 companies are being targeted and combined they are the source of Scope 1 and 2 emissions equivalent to 25% of total global emissions. They also represent 40% of the MSCI ACWI index. SBTi allows corporates and financial institutions to have their targets validated as being aligned with the Paris Agreement's goals of keeping global warming to 1.5°C or well below 2°C above pre-industrial levels. To date, over 270 companies have set a science-based target with recent new joiners including Rolls-Royce, Velux, Diageo, H&M Group and Colgate Palmolive. These companies are committing to net-zero by 2050 alongside deep emissions cuts by setting interim science-based targets.

- **CDP** provided the results from its **2020 Non-Disclosure Campaign.** This is a global investor-led campaign to drive enhanced corporate transparency around climate change, deforestation and water security. Since its inception in 2017, the campaign has seen an average 25% yoy increase in both the number of participating investors and the number of companies engaged as the need for comprehensive, comparable, TCFD-aligned environmental data becomes ever more necessary. In 2020, SPF was one of 108 institutional investors from

Collaborative Engagement – Activity During 2020

24 countries, representing US$12 trillion in assets, that signed up to this campaign and selected to engage 1,025 previously non-disclosing companies. These companies, based across 49 countries, represent USD 21 trillion in market capitalization and almost 5 billion tCO2e in emissions. This is a 23% increase in participating investors and a 59% increase in the number of companies engaged from 2019. Of the 1,025 companies engaged, 839 were requested to respond to CDP's climate change questionnaire, 148 on forests and 219 on water security. This represents over a quarter of all non-disclosers – 27% of climate change, 16% of forests and 30% of water security. The campaign had an overall response rate of 20% - the highest in the campaign to date and demonstrated that companies were 2.2 times more likely to disclose when engaged directly by investors. The full report is available on the CDP website: https://www.cdp.net/en

- **CDP** provided its latest **CDP Forest Program** investor research report, **Zeroing-in on Deforestation**, The CDP Forest Program engages companies to disclose their exposure to five forest risk commodities – cattle products, bio fuels, soy, palm oil and timber and is supported by 380 signatories with assets of US$29 trillion. The report ranks 29 of the largest and highest impact producers on how they are managing deforestation risks and opportunities within their supply chains. The report finds that these companies in four sectors – cattle, soy, palm oil and timber, responsible for 80% of deforestation globally – are not employing practices needed to prevent ongoing deforestation. Soy and cattle producers including companies such as **Glencore Agriculture**, **Minerva Foods** and **JBS**, the largest meat processor in the world, fare very poorly. The companies assessed in this report are key suppliers to the Consumer Goods sector and if that sector is relying on this part of the supply chain to meet their net zero deforestation ambitions – a lot more work needs to be done. The report concludes that bold and urgent action from these companies is the critical first step in tackling deforestation throughout the supply chain. The full report is available on the CDP website: https://www.cdp.net/en

- **CDP** also provided an update of progress on the **RE100** collaborative initiative. At the close of quarter 4 there were 260 corporate members of RE100. The collective electricity demand of the 260 companies is over 278 terawatt hours per year (TWh/yr). On average, RE100 members are sourcing 41% of their electricity from renewables and 53 members have now achieved their 100% renewable energy target. The RE100 annual report is available from: https://www.there100.org/growing-renewable-power-companies-seizing-leadership-opportunities

ShareAction

- In Quarter 2 **ShareAction** proposed that its existing Living Wage campaign be expanded to a more general focus on Good Work, which will include additional workstreams on insecure work and diversity and inclusion. The Covid-19 crisis, the international Black Lives Matter protests and the 50-year anniversary of the Equal Pay Act have crystallised the need to address a broader range of inequalities in people's working lives. In support of this change SPF co-signed a ShareAction collaborative letter to the **Financial Times** in response to an article: 'A crisis is the ideal time to raise pay'. The letter argued that many low paid workers have played a critical role in ensuring that society continues to function during the COVID-19 crisis at great personal risk and low pay, like the pandemic, has affected some communities more than others. Increasing wages is one way to address systemic disadvantages. The letter is available at: https://www.ft.com/content/a8385de5-e7cb-4fef-9e97-ac5fdc74015b

Collaborative Engagement – Activity During 2020

- In July, SPF participated in a webinar to launch **ShareAction's** latest investor briefing 'Insecure Work in Insecure Times'. Whilst Covid-19 has thrown a spotlight on companies' treatment of low-paid workers the issues related to changes to work patterns and security of work have been building in all advanced economies in recent years. There is a danger that the use of insecure work practices continues to grow in the aftermath of the Covid-19 pandemic, as it did after the 2008 financial crisis. It is therefore becoming increasingly important for investors to be considering and engaging with companies on how their workforce policies and practices might be driving greater insecure work. This webinar discussed the issues experienced by workers on the ground; identified examples of good practice and explored how investors should engage on these issues.

Investor Initiative for Sustainable Forests (IISF)

- In quarter 3 SPF co-signed letters to Brazilian food producers as part of the **Investor Initiative for Sustainable Forests (IISF)**. The IISF, led by **PRI** and Ceres, aims to transform industry practices to eliminate deforestation from cattle and soy supply chains in the Amazon. The letters to **JBS**, **Marfrig** and **Minerva** regarding their management of deforestation and traceability within their cattle supply chains were supported by over 80 investors. JBS has yet to respond to the letter and a disappointing response from Minerva lacked a commitment regarding traceability and did not seem to acknowledge the important role they play in tackling the issue within the industry. In contrast, Marfrig made new commitments regarding deforestation. They committed to investing R$ 500 million into sustainability by 2030, as well as to achieving full traceability in the Amazon by 2025 and the Cerrado by 2030, thus aiming to have a deforestation free supply chain by 2030.

Climate Action 100+

- **Climate Action 100+** reported that Global energy company **Royal Dutch Shell** has committed to take significant additional action on climate change, including a commitment to become a net-zero emissions energy business by 2050 or sooner. This is the outcome of engagement with investors as part of Climate Action 100+. Detail of Shell's plan is available in full at: http://www.shell.com/netzeroambition

- At the close of quarter 4 the **Climate Action 100+** (CA100+) initiative published its **2020 Progress Report**. The report reveals that investor action has helped over half of the 167 companies engaged to establish commitments to reach net zero emissions by 2050 or sooner. Highlights from the 2020 report include:

    - Net zero commitments secured at 37 European companies.
    - All European oil and gas majors including **BP**, **Shell** and **Total** now working to net zero goals.
    - New net-zero commitments from companies in hard to decarbonise sectors like **Volvo Trucks** and **ArcelorMittal**.
    - Near-zero emissions target by 2050 for **PetroChina** and plans to invest in wind and solar power.
    - Net carbon zero by 2035 for Indian conglomerate **Reliance Industries**.
    - Near-zero emissions objective by 2050 for Texas electric utility **Vistra Energy** along with plans for new renewables/storage and the retirement of its entire Midwest coal fleet.
    - **Walmart** target of zero emissions across global operations by 2040.

Collaborative Engagement – Activity During 2020

- **ConocoPhillips** net-zero-by-2050 target for scope 1 and 2 emissions and zero-flaring-by-2025.

The full report is available at:
https://www.climateaction100.org/wp-content/uploads/2020/12/CA100-Progress-Report.pdf

Principles for Responsible Investment (PRI)

- In quarter 2 SPF officers participated in **PRI** organised web events in support of the **Diversity Project** and its work in championing a more inclusive culture within the Savings and Investment profession. The **'#Talk About Black'** virtual events in June and July were set against the backdrop of the widespread unrest and anguish across the US and beyond, following the death of George Floyd. The panels of speakers at both events shared their own thoughts and feelings about recent events, as well as providing practical ways for all to make a positive and sustainable difference. Full details of the diversity project is available at: https://diversityproject.com/ethnicity

Local Authority Pension Fund Forum (LAPFF)

Highlights from **LAPFF** engagement activity in 2020 include:

- Engagement with the **Rio Tinto** board following the destruction of the historically significant caves at Juukan Gorge in Western Australia.
- Net zero transition engagements including **Sainsbury** and **ArcelorMittal**. Engagement to date with ArcelorMittal has led to a 30% carbon emission reduction target for its European operations by 2030, and for carbon neutrality for 2050. Sainsbury provided detail of the company's net zero by 2040 target and progress towards the plastic reduction goal of 50% by 2025.
- Engagement with the Brazilian government to stem deforestation in the Amazon.
- Supply chain due diligence initiatives in response to the **Boohoo** scandal in Leicester.
- Company engagements on varying issues including Cyber Security at **Clipper Logistics** and **BHPs** approach to environmental, social and governance issues in joint ventures.
- Adopted a Modern Slavery Statement and signed onto a collaborative engagement calling for UK FTSE 350 companies to comply with the Modern Slavery Act.

Further detail of LAPFF activity is available in the Quarterly Engagement Reports:

https://lapfforum.org/publications/category/quarterly-engagement-reports/

And the LAPFF annual report

https://lapfforum.org/wp-content/uploads/2020/12/LAPFF_annual-report-2020_final2-1.pdf

SPF

- In quarter 4 **SPF** co-signed a letter to 71 mining companies operating in Australia and internationally to seek assurances about how the sector obtains and maintains its social license to operate with First Nations/Indigenous communities. The letter was signed by more than 60 institutional investors including the Church of England Pensions Board, LGIM and the Universities Superannuation Scheme (USS) and was sent to companies including **Anglo American**, **Barrick Gold** and **Glencore**.

Collaborative Engagement – Activity During 2020

The destruction by Rio Tinto of the 46,000 year old Aboriginal heritage site in Juukan Gorge Australia in May 2020 revealed a much wider issue to address across the mining sector (something that has been privately acknowledged by some companies). As a result investors were keen to indicate both a serious concern as well as a desire to work with the industry to better understand how this can be addressed. The Investor Group letter was seeking information on the action companies are taking to understand and manage the risks. The Group was clear that although the example of the destruction of the Juukan Gorge has arisen in Australia, the principles apply to projects across the world. The letter from global investors stated:

"As responsible investors, we are committed to working with the mining sector to support verifiable outcome-oriented processes and standards that ensure that such events are not repeated. To do so, we need to better understand your approach to the management of the cultural heritage and First Nations/Indigenous community relations."

"Our collective long-term investment means that we need to have real confidence in how the sector obtains and maintains its social license to operate with First Nations / Indigenous communities, including, Traditional Owners and Native Title holders. The events at Juukan Gorge have shown this is a significant risk for investors and have prompted us all to take a deeper look at how relationships between companies and First Nations / Indigenous communities are formed and function over the long period of mine operation.

"We believe that investment risk exists where there is a mismatch between a company's stated approach to relationships with First Nations and Indigenous communities and what happens in practice." The letter supports dialogue with companies and seeks disclosure on their practices including:

- Approach to relationships with First Nations and Indigenous stakeholders including which of the international standards they follow, the policies and processes they currently have in place and how they operate in practice.
- The company's governance frameworks including how the company Board oversees the issues, where responsibility lies for the management of relationships with relevant First Nation communities and how the effectiveness of processes for incorporating these views is assessed.
- Action the company has taken to identify and manage the risks across its business.
- How the company intends to disclose in relation to issues.

The Investor Group are gathering responses from companies before initiating a dialogue that will include input from community representatives as well as the companies.

Appendix D

Voting - Activity During 2020

Examples of investment manager voting are listed by reporting quarter. The examples cover a wide range of issues and involve companies in most regions and sectors. Due to the volume of voting carried out the list provides only a small snapshot of the votes exercised in 2020.

SPF Total UK & Overseas Voting 2020

	Total Meetings	AGM's	EGM's	Combined AGM/EGM	No of Resolutions	Votes For	Votes Against	Abstentions	Not Voted	Proxies Lodged	Proxies Not Lodged
Baillie Gifford	**151**	108	33	10	**2,200**	1,976	65	31	128	151	-
Genesis	**464**	308	118	38	**3,606**	3,120	374	108	4	464	1
JP Morgan	**812**	644	144	24	**7,783**	6,516	785	65	417	812	2
Lazard	**200**	158	29	13	**2,813**	2,405	139	7	262	200	3
Legal & General	**8,845**	6,426	2,419	-	**110,890**	91,091	19,045	754	-	8,845	4
Legal & General - Segregated Portfolio	**1,311**	1,212	78	21	**16,500**	12,294	2,267	383	1,556	1,311	5
Lombard Odier	**256**	203	52	1	**3,033**	2,833	38	35	127	256	6
Oldfield Partners	**50**	37	11	2	**762**	696	64	1	1	50	7
Veritas	**58**	48	8	2	**944**	815	68	4	57	58	8
Total	**12,147**	**9,144**	**2,892**	**111**	**148,531**	**121,746**	**22,845**	**1,388**	**2,552**	**12,147**	**36**
						82%	**15%**	**1%**	**2%**	**100%**	**0%**

Full disclosure of voting activity is provided quarterly on the SPF website. This includes both the total number of company meetings and details of individual companies. The voting reports are available at:

https://www.spfo.org.uk/index.aspx?articleid=16040

Full disclosure of LGIM voting activity with the rationale for all votes cast against management can be found at:

LGIM Vote Disclosures (issgovernance.com)

Q1 2020

- **Veritas** voted against the re-election of a Director at **The Cooper Companies, Inc** due to the company's lack of disclosure relating to climate metrics.

- **J.P. Morgan** voted against the remuneration report at **Diploma plc** because the annual bonus paid to the new chief executive was not pro-rated for the time that he actually served in his new post. J.P. Morgan also abstained on the new remuneration policy because long-term incentive grants were substantially increased to a level felt to be excessive.

- **Baillie Gifford** opposed the election of the Chairman at **Credicorp** due to concerns regarding on-going investigations into previous political donations and delayed disclosure of the information to shareholders.

Q2 2020

- **LGIM** voted against the re-election of the chief executive and chairman at **Exxon Mobil** as the company was falling behind global peers by failing to act on climate change. LGIM also supported shareholder resolutions for an independent chair and disclosure of lobbying activities.

- **Oldfield Partners** supported shareholder resolutions at **General Motors** to disclose lobbying activities and report on human rights policy implementation.

Voting - Activity During 2020

- **Lazard** and **Veritas** voted against remuneration for executive officers at **Alphabet Inc**. Both managers supported a shareholder resolution to establish a human rights risk oversight committee at Alphabet. Lazard also supported shareholders resolutions at **Amazon Inc.** to report on products promoting hate speech and sales of offensive material.

Q3 2020

- **Oldfield Partners** voted against the remuneration report and policy at **BT Group** due to inappropriate incentives.
- **J.P. Morgan** voted against 3 resolutions on executive remuneration in quarter 3. In India executive remuneration was opposed at **Endurance Technologies Ltd** due to lack of disclosure on compensation metrics and at **Dr. Lal PathLabs Ltd** due to the lack of disclosure on the performance linked incentives. In Hong Kong, the adoption of a share option scheme at **Country Garden Services Holdings Company Ltd.** was opposed due to dilution concerns.
- **Genesis** opposed the remuneration policy at **Naspers** as it included long-term incentives that are not performance related.

Q4 2020

- **LGIM** voted for a shareholder proposal requesting a report on efforts to eliminate deforestation at **The Procter & Gamble Company (P&G).** P&G uses both forest pulp and palm oil as raw materials within its household goods products. Palm oil and forest pulp are leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions. The resolution received the support of 68% of shareholders. Also, in the US LGIM voted against a compensation resolution at **Cardinal Health** due to concerns over the remuneration structure not comprising a sufficient proportion of awards assessed against the company's performance. And at **Fast Retailing Co. Limited** in Japan, LGIM voted against the re-election of Director Yanai Tadashi at the company's annual shareholder meeting because of the company's failure to address the lack of diversity on the board. Japanese companies in general have trailed behind European and US companies in ensuring more women are appointed to their boards.
- **Oldfield Partners** voted against the re-election of Dr Anastasia Lauterbach as a Director at **EasyJet.** Dr Lauterbach was a member of the supervisory board of Wirecard AG, the German financial services company which collapsed in a series of high-profile accounting scandals earlier in 2020, also sitting on the audit committee and chairing the risk and compliance committee. The events at Wirecard raise concerns about her ability to effectively oversee management and serve the best interests of shareholders at easyJet.
- **Baillie Gifford** opposed the new remuneration policy for incoming CEO Matthew Maloney at **Just Eat Takeaway.com** due to concerns around the structure of the long-term incentive and severance plans.
- **Lombard Odier** voted against executive remuneration at **Galliford Try Holdings Plc.** as the levels of pay are excessive for the market capitalisation of the Company.
- **Genesis** opposed the remuneration policy at **3SBio, Inc.** as the share award scheme performance conditions have not been disclosed.