Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 10

4th September 2019

Responsible Investment – Activity to 30th June 2019

Purpose of Report:

To advise the committee of activity during the quarter in respect of the Fund's responsible investment policy.

Recommendation:

The committee is asked **to NOTE** the contents of this report.

Ward No(s): Citywide: ✓

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

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1 Background

The Fund became a signatory to the United Nations Principles for Responsible Investment in 2008, and has adopted the principles as its responsible investment policy. The principles are set out in full in Appendix 1 together with a summary of the Fund's strategy for applying them in practice.

2 Activity: Quarter 2 2019

A summary of activity against each of the principles is provided below.

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

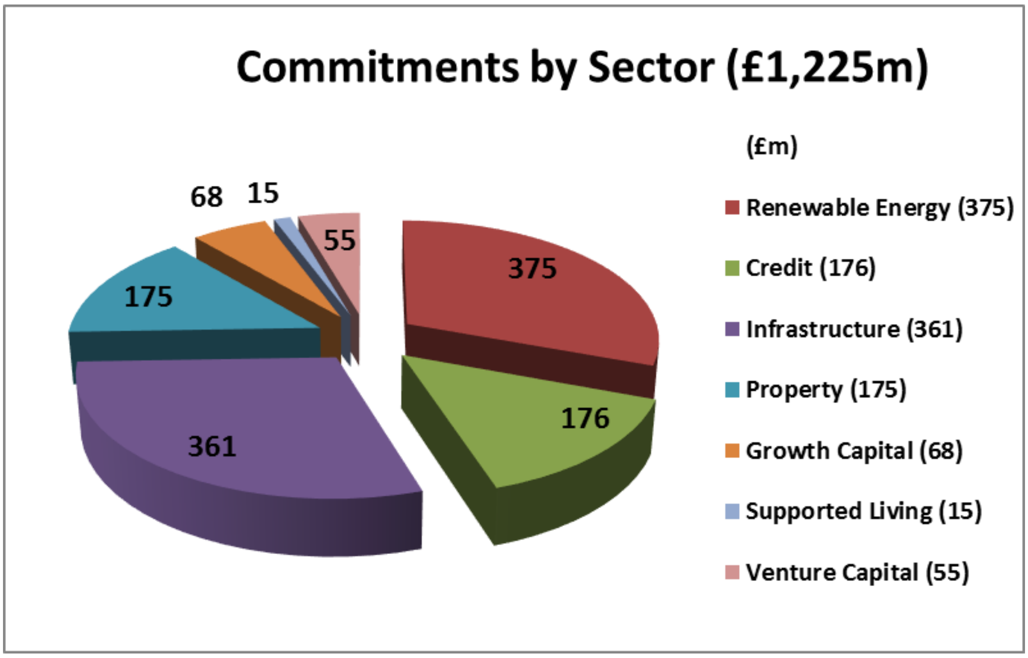
The Fund's ongoing work to incorporate long-term environmental, social, and governance (ESG) related concerns into the investment decision-making process was recently recognised in the **Responsible Asset Allocator Initiative** (RAAI) report from the New America Foundation. As part of the RAAI, New America partnered with the Fletcher School at Tufts University to analyse and rate 197 sovereign wealth funds and public pension funds managing a combined $30 trillion of assets against principles and criteria for responsible and sustainable investing including impact in fields related to the UN Sustainable Development Goals (SDG) such as climate change, gender diversity, sustainable infrastructure, and universal health care. The 2019 RAAI Leaders List ranks the top 25 most responsible asset allocators rated against 10 core principles and 20 criteria for responsible investing practices. The Leaders were selected from the 197 sovereign wealth funds and government pension funds that were rated. Strathclyde Pension Fund is ranked at 22 in the 2019 Leaders List and is the only LGPS to be included among the 25 leaders.

2.1.1 Investment Managers

The majority of the Fund's investment analysis and decision-making is outsourced to external investment managers. The managers all have different investment philosophies and processes and address ESG issues in different ways. ESG risks and opportunities are considered as part of company analysis, and managers engage regularly with portfolio companies on these issues.

2.1.2 Direct Investment Portfolio (DIP)

The SPF Committee and officers are more directly involved in analysis and decision making in respect of the Fund's Direct Investment Portfolio (DIP). DIP has an explicit objective of adding value through investments with a positive local, economic or ESG impact. Total commitments by DIP as at 30th June 2019 are summarised as follows.



In terms of ESG impact at a sectoral level:

- DIP commitments to Renewable Energy were achieving a carbon reduction of more than 87,000 tonnes per annum in 2018. 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.

At an individual investment level, Q2 highlights include:

- A report from portfolio manager **Health Care Royalty Partners** illustrated how the Fund's Direct Investment Portfolio (DIP) is supporting the battle against Malaria through an investment in biotech company **Agenus** which has licensed a new malaria vaccine, Mosquirix, to GSK. In April GSK announced it would provide a pilot programme of Mosquirix to 360,000 children in Ghana, Kenya and Malawi at no cost.
- A report from portfolio manager **Panoramic Growth Equity** illustrated how the Fund's Direct Investment Portfolio (DIP) is supporting changing consumer tastes towards healthier lifestyles through an investment in **Freed Foods Limited** which provides a range of premium organic plant-based, gluten free snacks.

Progress of these and other DIP investments during the quarter is summarised in Appendix 2.

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

Main activities in this area are:

- voting at company AGMs and EGMs in respect of listed equity holdings.
- engagement with portfolio companies and
- direct oversight of companies within the DIP and private equity portfolios.

2.2.1 Voting

The Fund ensures that the votes attaching to its holdings in all quoted companies are exercised whenever practical. The Fund'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.

Managers' voting activity during the quarter to 30th June 2019 is summarised as follows.

Voting activity to 30th June 2019		
		(%)
Total meetings	**3,378**	
Votes for	40,436	83
Votes against	6,652	14
Abstentions	487	1
Not voted	1,056	2
No. of Resolutions	**48,631**	**100**

Most resolutions involve routine matters of business and the expectation would be for managers to vote for the majority of proposals.

Whilst the overall incidence of votes against may appear low it is carefully targeted. **Legal & General** report that they voted against:

- at least one resolution at 91% of US company meetings.
- 60% of all remuneration resolutions in Europe.
- at least one resolution at 75% of Japanese company meetings.

Further details of voting activity are set out in Appendix 3.

2.2.2 Engagement

Engagement highlights during the quarter include the following.

- **Legal and General** conducted 65 company meetings during the quarter. Environmental issues were discussed at 31 meetings and Governance topics including remuneration issues were discussed at 35 of those meetings. Climate change was the focus of engagement with Oil & Gas major **BP Plc**. Legal & General worked with the board of BP to secure their support for a shareholder proposal calling on the company to explain how its strategy is consistent with the Paris Agreement on climate change. At the AGM, the proposal was passed with overwhelming approval from BP's shareholders. 99% approved the resolution. Engagement with multinational pharmaceutical company **Bayer AG** focused on its acquisition of Monsanto in 2018 and the subsequent litigation and damages claims relating to Monsanto's glyphosate-based weed killer RoundUp. Legal & General opposed the discharge of the management board at the 2019 AGM following concerns surrounding the decision making process at the time of the acquisition. The discharge of the management board was voted down, with 55.5% against.

- In quarter 2 **Global Engagement Services** (GES), the Fund's specialist responsible investment engagement overlay provider, announced that it had been acquired by Netherlands based **Sustainalytics.** During the quarter, **Sustainalytics (**formerly **GES)**, provided engagement reports on a range of recent company engagements including with **Royal Dutch Shell** *(Lazard)* and **ENI SPA.** *(Oldfield Partners)* regarding alleged corrupt practices in Nigeria dating back to 2011 and potash producer **Nutrien** *(Lazard, Legal & General)* over its presence in Western Sahara, a territory occupied by Morocco.

- **Baillie Gifford** engaged with **Ryanair** regarding employee relations following the company's decision to recognise trade unions last year and review events that caused the rostering issue last year which impacted 400,000 customers after flights were cancelled.

- **Oldfield Partners** engaged with **Nomura** to discuss information security following the issue of a 'business improvement order' by Japan's Financial Services Agency and **Tesco** to discuss a range of ESG issues including environmental impact, climate change, packaging and tackling food waste.

- In quarter 2 officers of the Fund, accompanied by **Sustainalytics**, visited **Lazard** and **Legal & General** to discuss progress on engagement cases. The managers were able to provide the Officers and Sustainalytics with an update to their discussions with portfolio companies and agree on issues and themes for the next round of engagement. Sustainalytics provided the managers with updated research on the individual companies and the identified ESG issues.

Further details of engagement activity are set out in Appendix 4.

2.3 We will seek appropriate disclosure on ESG issues by the entities in which we invest

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers, Sustainalytics and various investor forums in which the Fund participates.

- **Sustainalytics** reported engagement with footwear manufacturer **Wolverine World Wide Inc**. (J.P. Morgan) to discuss waste disposal and environmental contamination.

- In quarter 2 the Fund joined a **Sustainalytics** collaborative call with US auto manufacturer **General Motors** to discuss plastics and waste management. The company advised that they reuse or recycle 84 percent of worldwide manufacturing waste and operate a landfill-free program at 142 facilities. General Motors also provided various examples of circularity projects, as well as information on the **Next Wave** plastics collaboration with other organisations. (Oldfield Partners, Legal & General)

Further details are set out in Appendix 5.

2.4 We will promote acceptance and implementation of the Principles within the investment industry

All of the Fund's investment managers are signatories to the principles. Many managers within the Direct Investment Portfolio are also signatories. However for some this will be less appropriate due to the specialised nature of their activities. The Fund strongly encourages managers to become signatories and to adhere to the principles.

Direct Investment Portfolio managers **Albion**, **NTR** and **Pentech** are the latest to confirm they have become PRI signatories.

Officers of the Fund completed the annual PRI reporting and assessment survey in quarter 2. This online questionnaire is compulsory for all asset owner and investment manager signatories and contains questions covering implementation of the Principles and responsible investment activities. An assessment report is expected in quarter 3. This report will demonstrate how a signatory has progressed in its implementation of the Principles year-on-year and relative to peers across asset classes.

Further details are set out in Appendix 6.

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

The Fund seeks to improve the effectiveness of company engagement and voting by acting collectively with other like-minded investors. To this end the Fund 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.

Further details of these collaborative initiatives are set out in Appendix 7.

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

The committee reports on responsible investment activity are available on the Fund's website at www.spfo.org.uk.

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

- The responsible investment charity **ShareAction** provided an update of progress on the **Living Wage** collaborative initiative.

- The Fund co-signed a statement marking the six-year anniversary of the collapse of the Rana Plaza Building in Bangladesh and the success of the subsequent Bangladesh Accord on Fire and Building Safety. The **Interfaith Centre on Corporate Responsibility** (ICCR) also reported on uncertainty surrounding the future of the Accord.

- The **Institutional Investors Group on Climate Change** (IIGCC) reported on the UK Government decision to legislate a net-zero emissions target. IIGCC strongly welcomed the commitment and was pleased to have been a part of the intense engagement efforts which helped to tip the balance in favour of this decision. They were part of a small drafting committee which authored and coordinated a joint CEO letter to the Prime Minister ahead of the decision.

- The Fund co-signed the **Farm Animal Investment Risk and Return Initiative** (FAIRR) collaborative letters to six leading fast food, pub and restaurant chains urging them to engage with a new initiative, **Managing environmental risks in meat and dairy supply chains** and undertake the necessary de-risking actions.

- The Fund's engagement overlay provider, **Sustainalytics** launched a new engagement initiative, **Plastics and the Circular Economy**. The three year engagement programme will focus on companies in the packaging, electronics, and automotive industries and seek to challenge the substantial impact of plastic on human health and the environment.

Details of activity during the quarter are set out in Appendix 8.

3 Other Developments

Appendix 9 sets out details of other ESG developments during the quarter.

4 Conclusion

The activity reported above confirms further progress and a high level of compliance with the Fund's policy on responsible investment.

5 Policy and Resource Implications

Resource Implications:	
Financial:	No issues
Legal:	No issues
Personnel:	No issues
Procurement:	
Council Strategic Plan:	Strathclyde Pension Fund aligns with the theme of a well governed city.
Equality and Socio-Economic Impacts:	
Does the proposal support the Council's Equality Outcomes 2017-22	Equalities issues are a frequent subject of engagement with investment managers and portfolio companies as part of the Responsible Investment strategy.
What are the potential equality impacts as a result of this report?	Recent engagement on equalities issues is described in this report.
Please highlight if the policy/proposal will help address socio economic disadvantage.	
Sustainability Impacts:	
Environmental:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.
Social, including Article 20 opportunities:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.

Economic:	Recognising environmental, social and governance issues is fundamental to the Fund's responsible investment policy.
Privacy and Data Protection impacts:	None.

6 Recommendation

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

Appendices	
1.	**Responsible investment policy and strategy**
2.	**DIP activity: quarter to 30th June 2019**
3.	**Voting activity: quarter to 30th June 2019**
4.	**Engagement activity: quarter to 30th June 2019**
5.	**Disclosure on ESG Issues: quarter to 30th June 2019**
6.	**UNPRI signatories**
7.	**Collaborative initiatives**
8.	**Collaborative initiatives: activity during the quarter**
9.	**Other developments during the quarter**

Appendix 1

Responsible Investment Policy and Strategy

Policy

The Fund has adopted the United Nations Principles for Responsible Investment as its investment policy. The text of the principles is set out below.

UN Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

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

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

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

6. We will each report on our activities and progress towards implementing the Principles

We encourage other investors to adopt the Principles.

Strategy

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, a specialist responsible investment engagement overlay provider.
- 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.

A quarterly committee report on responsible investment activity is available on the Fund's website at: www.spfo.org.uk

Appendix 2

DIP activity: quarter to 30th June 2019

Progress of DIP investments during the quarter included the following:

- SEP Environmental Capital Fund has now exited all but 1 asset with the termination of the fund expected to be completed in Q4 2019. To date the overall net IRR is 36.1%.
- Panoramic Fund 2 made 4 new investments in the quarter.
- The legal process was completed for Epidarex Fund III and the fund has now made its first investment.
- The Crown St., Glasgow, retail park development in the Clydebuilt portfolio is now well underway.
- Equitix Fund V acquired 8 new assets in the quarter and is now 76% invested.

Health Care Royalty Partners (HCR's) illustrated how the Fund's Direct Investment Portfolio (DIP) is supporting the battle against Malaria through an investment in biotech company **Agenus** which has licensed a new malaria vaccine, Mosquirix, to GSK. HCR's royalty purchase from Agenus included all vaccines marketed by GSK that contain the QS-21 adjuvant, including the new malaria vaccine, Mosquirix. In April, it was announced that Mosquirix will be rolled out in a pilot program for routine childhood immunization in Ghana, Kenya and Malawi. The goal of the pilot program is to vaccinate approximately 360,000 children per year. GSK is essentially providing Mosquirix at no cost to these countries to increase access. Following a large trial process in sub-Saharan Africa, the World Health Organisation called for a large scale pilot immunisation program in Ghana, Malawi and Kenya, in respect of which GSK are donating up to 10 million vaccine doses.

Panoramic Growth Equity, announced that it has invested £1.5m of growth capital into healthy snacking company Freed Foods Limited, which provides a range of premium plant based gluten-free snacks made with natural ingredients. Freed Foods brands include Mister Free'd Tortillas, a range of vegan tortilla chips with innovative flavours and carefully selected super food ingredients. Mister Free'd has gained traction in Europe, selling into major supermarkets such as Monoprix, Carrefour and Franprix. Success in Europe has led the company to recently target the UK market and products are now available across an increasing number of UK retailers including Wholefoods, Planet Organic, Budgens and WH Smith, with listings in further major UK retailers to be announced in the coming months. Panoramic's investment will support Freed Foods continued growth in the UK and French markets with investment in sales & marketing and new product development as the company continues to scale.

- In quarter 1 the SPF Committee approved an additional £20m investment in **Albion Community Power Limited** (ACPL). ACPL was set up to build, own and operate small-scale renewable energy plants across the UK. It now has 24 operational sites the majority of which are wind turbine assets and hydro-electric projects plus a mix of biogas and anaerobic digestion assets.

- In quarter 2 SPF Committee approved a £40m investment in **Capital Dynamics Clean Energy Infrastructure VIII**. Capital Dynamics is an independent global asset management firm focusing on private assets including private equity, private credit, clean energy infrastructure and clean energy infrastructure credit. The Clean Energy Infrastructure (CEI) platform was established in 2010 to allow direct investment in real assets within the renewable energy sector. To date the platform has $5.9bn AUM invested in 4.6GW of power generation assets across 100+ sites. The focus of Capital Dynamics CEI platform and its 9 other funds has been on investment in the renewable energy sector. As well as the development of traditional renewable energy assets, Fund VIII also intends to explore opportunities beyond this to include other types of infrastructure e.g. electric vehicle infrastructure and grid support.

- Since DIP's inception a steady stream of private rental, affordable and social housing opportunities have been considered. Until recently, however, very few potentially suitable investment opportunities had been identified. In quarter 2 SPF Committee approved a £75m investment in private housing and £25m in affordable homes which focus on the following:

  The **Legal & General UK Build to Rent Fund** which aims to develop a portfolio of purpose-built, private rented residential accommodation in the UK, to hold for the long term with a view to generating stable cash yields and capital preservation for investors. The Fund currently has 12 projects at various stages of development in cities across the UK. These represent over 3,700 housing units in total.

  The **Places for People Scottish Mid-Market Rent Fund** (SMMR) which aims to develop a portfolio of 1,000+ quality, affordable homes for the mid-market rental sector in Scotland's main cities within the next two years, to deliver index-linked yield and long term capital growth to investors. Places for People is a not for profit organisation with a strong social purpose, which utilises commercial business methods to deliver positive social outcomes.

Appendix 3

Voting Activity: Quarter to 30th June 2019

1. UK Activity

Managers' voting activity in respect of the Fund's **UK equity** holdings in the quarter to 30th June 2019 is summarised in the table below. The expected norm would be for an investment manager, having invested in a company, to support that company's management in all but exceptional cases. The table below shows how votes were actually cast. Votes against management and abstentions are analysed in more detail in the voting record schedule which is available on the Fund's website at www.spfo.org.uk

Voting Results
Q2 2019
United Kingdom

	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	0	-	-	-	103	100	2	1	-	0	0
Genesis	2	2	-	-	40	40	-	-	-	2	0
Henderson	52	49	3	-	696	634	6	11	45	52	0
JP Morgan	16	15	1	-	277	261	-	-	16	16	0
Lazard	7	7	-	-	160	157	3	-	-	7	0
Legal & General	364	318	46	-	5,870	5,536	334	-	-	364	0
Legal & General - Segregated Portfolio	6	6	-	-	104	80	13	-	11	6	0
Oldfield Partners	3	3	-	-	72	72	-	-	-	3	0
Veritas	4	4	-	-	84	77	6	1	-	4	0
Total	**454**	**404**	**50**	**0**	**7,406**	**6,957**	**364**	**13**	**72**	**454**	**0**
						94%	**5%**	**0%**	**1%**	**100%**	**0%**

2. Overseas Activity

Managers' voting activity in respect of the Fund's **overseas equity** holdings in the quarter to 30th June 2019 is summarised in the table below.

Voting Results
Q2 2019
Overseas

	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	45	34	5	6	664	615	36	13	0	45	0
Genesis	140	112	14	14	1,786	1,490	208	84	4	140	0
Henderson	14	11	2	1	140	136	1	0	3	14	0
JP Morgan	287	249	27	11	2,707	2,145	338	22	202	287	0
Lazard	68	58	4	6	902	760	35	6	101	68	0
Legal & General	1,780	1,649	131	0	27,437	21,981	5,324	132	0	1,780	0
Legal & General - Segregated Portfolio	556	535	11	10	7,025	5,869	298	215	643	556	0
Oldfield Partners	14	12	1	1	214	191	23	0	0	14	0
Veritas	20	17	2	1	350	292	25	2	31	20	0
Total	**2,924**	**2,677**	**197**	**50**	**41,225**	**33,479**	**6,288**	**474**	**984**	**2,924**	**0**
						81%	**15%**	**1%**	**2%**	**100%**	**0%**

Managers generally do not vote proxies in markets where tendering shares to vote entails their being blocked from trading during the voting periods. All of the overseas proxies were lodged this quarter, with **81%** of votes in support of company management.

3. Consolidated Activity

Consolidated Activity for **Quarter 2 2019** is shown below

Voting Activity: Quarter to 30th June 2019

Voting Results
Q2 2019
Total UK & Overseas

	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	**45**	34	5	6	**767**	715	38	14	0	45	0
Genesis	**142**	114	14	14	**1,826**	1,530	208	84	4	142	0
Henderson	**66**	60	5	1	**836**	770	7	11	48	66	0
JP Morgan	**303**	264	28	11	**2,984**	2,406	338	22	218	303	0
Lazard	**75**	65	4	6	**1,062**	917	38	6	101	75	0
Legal & General	**2,144**	1,967	177	0	**33,307**	27,517	5,658	132	0	2,144	0
Legal & General - Segregated Portfolio	**562**	541	11	10	**7,129**	5,949	311	215	654	562	0
Oldfield Partners	**17**	15	1	1	**286**	263	23	0	0	17	0
Veritas	**24**	21	2	1	**434**	369	31	3	31	24	0
Total	**3,378**	**3,081**	**247**	**50**	**48,631**	**40,436**	**6,652**	**487**	**1,056**	**3,378**	**0**
						83%	**14%**	**1%**	**2%**	**100%**	**0%**

4. Executive Remuneration

The table below shows the total number of resolutions from the last quarter which related specifically to executive remuneration. Of the **48,631** resolutions voted by managers **3,751** related to executive remuneration – either through seeking approval of remuneration reports or the approval of long-term incentive schemes. As can be seen **2,667** resolutions or **71%** of votes cast were in support of the resolutions. So, the majority of awards are supported by the Fund's external investment managers, but less so than on other non-remuneration issues. Some areas of concern regarding executive pay are reported below.

Voting Results
Q2 2019
Resolutions on Executive Remuneration

	No of Resolutions	Votes For	Votes Against	Abstentions
Baillie Gifford	**72**	58	14	-
Genesis	**166**	142	18	6
Henderson	**44**	40	3	1
JP Morgan	**303**	266	37	-
Lazard	**75**	70	5	-
Legal & General	**2,516**	1,607	909	-
Legal & General - Segregated Portfolio	**525**	440	85	-
Oldfield Partners	**15**	15	-	-
Veritas	**35**	29	4	2
Total	**3,751**	**2,667**	**1,075**	**9**
		71%	**29%**	**0%**

5. Manager Commentary

- **J.P. Morgan** voted against 37 resolutions on executive remuneration in quarter 2. In Italy J.P Morgan voted against executive remuneration at **Datalogic SpA, Interpump Group SpA, Recordati SpA,** and **Technogym SpA.** In Switzerland J.P. Morgan voted against the remuneration reports at

Voting Activity: Quarter to 30th June 2019

BKW A.G., Bucher Industries and **Emmi AG.** In Sweden J.P. Morgan voted against five resolutions related to performance share plans and financing of equity at **Bravida Holding AB**. due to a lack of performance conditions attached to the proposed shares and against two long-term incentive related resolutions **Husqvarna AB**. as performance conditions were not disclosed. In Belgium, J.P. Morgan voted against a change in control provision on the 2019 warrant plan at **Fagron NV**. because options vest automatically without reference to performance conditions. In Ireland, J.P. Morgan voted against the remuneration report at **Glanbia Plc**. because of excessive salary increases given to the executives. In Portugal, J.P. Morgan voted against the election of the remuneration committee at **NOS SGPS SA**. due to a lack of independence. In the Cayman Islands J.P. Morgan voted against a restricted stock plan at **Parade Technologies Inc**. due to a lack of disclosure. In Indonesia, J.P. Morgan voted against an option plan at **PT MAP Aktif Adiperkasa** that permits options to be awarded at a discount to the market price. In the Netherlands, J.P. Morgan voted against the discharge of the supervisory board at **SBM Offshore NV**. because the board used excessive discretion in awarding remuneration to executives. In France, J.P. Morgan voted against the remuneration policy at **Plastic Omnium SA**. due to a lack of disclosure and against two director compensation resolutions because of a lack of alignment and one because of an unjustified increase in remuneration. Also in France the issue of shares in connection with a share plan at **SPIE SA**. was opposed due to a lack of disclosure on performance conditions and two remuneration based items were opposed at **Voltalia** due to a lack of disclosure. In the United States J.P Morgan voted against executive remuneration at **2U Inc**., **ACADIA Pharmaceuticals Inc**., **Advanced Disposal Services Inc**., **Heron Therapeutics Inc**., **Proofpoint Inc**. and **Signature Bank**.

- **Henderson** voted against executive remuneration resolutions at 3 company AGMs in quarter 2. Executive remuneration resolutions at **John Menzies** and **PureTech Health** were not sufficiently aligned with the interests of shareholders and at **Taptica International** the employment terms for the new CFO did not offer sufficient connection between pay and performance.

- **Lazard** opposed 5 resolutions on executive remuneration at company meetings across UK, Europe and North America during quarter 2. This included remuneration proposals at **Alphabet Inc.**, **Johnson & Johnson Inc.**, **L'Oreal SA.**, **Pioneer Natural Resources Company** and **Unilever Plc.**

- **Baillie Gifford** voted against 14 resolutions on executive remuneration in quarter 2. The executive remuneration report and policy at **CRH** was opposed as the performance conditions are not sufficiently stretching. (resolutions approved by 87%). Baillie Gifford opposed the remuneration policy at **Edenred** due to continued concerns about the stringency of the policy and its alignment with shareholders (resolution approved by 88%). Baillie Gifford also opposed six resolutions to approve remuneration of executives due to concerns regarding the stringency of the plan and lack of alignment with shareholders at **Essilor International** (resolutions approved). The remuneration policy at **Kroton Educacional** was opposed due to a lack of performance conditions (resolution approved by 83%). Two remuneration proposals where opposed at **Nestle** as the targets attached to the Long Term Incentive Plan are not sufficiently stringent or aligned with shareholders best interests. (resolutions approved).

- **Legal & General** voted against 994 resolutions on executive remuneration in quarter 2. The most notable was a vote against the remuneration report at UK financial services provider **Metro Bank.** Legal & General has had longstanding concerns regarding Metro Bank. In 2018 they voted against the re-election of the board chairman and the approval of the remuneration report. Issues raised include: lack of independent directors on the board; poor gender diversity; pay structure not in line with best practice standards; and failure by the company to manage conflicts of interest. This year concerns were further compounded by the disclosure of material accounting errors within the bank's loan books which led to a significant drop in investor confidence. Ahead of the 2019 AGM, Legal & General took the rare step of publicly pre-announcing the intention to vote against the board chair, members of the audit committee and directors. In response to pressure from investors, at the meeting 21% of investors opposed the remuneration report and 28% voted against the re-appointment of board directors. In response to pressure from investors including Legal & General, Metro Bank has begun to address the long- standing governance concerns.

- **Veritas** voted against 4 resolutions on executive remuneration in quarter 2. This included a vote against the remuneration policy at **Facebook Inc.** where a general increase in reward potential was deemed to be inappropriate. Veritas opposed executive remuneration resolutions at **Allergan Plc., Reckitt Benckiser** and **AENA SME SA.** as the proposals at each company were not sufficiently aligned with the interests of shareholders.

- **Genesis** voted against 18 resolutions on executive remuneration in quarter 2. This included remuneration proposals at **Alrosa PJSC**., **Abu Dhabi National Oil Co**., **Anadolu Efes Biracilik ve Malt Sanayii A.S**., **BB Seguridade Participacoes SA.**, **Coca-Cola Icecek AS**., and **Turkiye Garanti Bankasi AS**.

Appendix 4

Engagement Activity: Quarter to 30th June 2019

- **Legal & General** engaged with multinational pharmaceutical company **Bayer AG.** regarding its acquisition of Monsanto in 2018 and the subsequent litigation and damages claims relating to Monsanto's glyphosate-based weed killer RoundUp.

  Bayer's acquisition of Monsanto (worth €66 billion) was initially announced in 2016, and finalised in 2018. Soon afterwards Bayer, now the owner of Monsanto's glyphosate-based weed killer RoundUp, was asked to pay millions of dollars in damages to the plaintiff in the first case in which RoundUp was linked to causing cancer. This case was later followed by two other cases in 2019 where billions in damages were awarded to the plaintiffs in these cases. Bayer is adamant that RoundUp is not carcinogenic. The company states that at the time of the merger agreement in 2016 there were only around 100 hundred litigation cases. This has now increased to more than 13,400 cases.
  It is fundamental for shareholders to be fully comfortable that the decision-making processes undertaken by both the supervisory board and management board were robust in an acquisition of this size. Legal & General is concerned that the boards had not fully considered the significant risks related to glyphosate litigation in the US. From the finalisation of the acquisition in May 2018 until July 2019 the share price has fallen by approximately 45%. Bayer is now worth less than what it paid for Monsanto.
  Prior to the AGM, Legal & General spoke to the company. They raised concerns over the litigation and sought to gain a better understanding of the decision-making process around the Monsanto acquisition and the legal advice received in particular in relation to the glyphosate litigation. Legal & General encouraged the company to disclose as much information as possible regarding its decision-making process as well as what legal advice it had received during this time. At the 2019 AGM Legal & General decided not to support the discharge of the management board following their concerns surrounding the decision-making process at the time of the acquisition. The discharge of the management board was voted down, with 55.5% of shareholder not supporting it. Following the AGM the company has reached out to Legal & General and they have met with the CEO. Legal & General have reiterated their concerns over the decision-making process, and also recommended establishing advisory and M&A committees whose members would be appointed for their very specific expertise; appointing NEDs with specific expertise; and appointing new executives.

- The Fund's engagement overlay provider, **Sustainalytics**, engaged with **Royal Dutch Shell** (Lazard) and **ENI SPA.** (Oldfield Partners) regarding alleged corrupt practices in Nigeria. In 2011, Royal Dutch Shell and ENI SPA. paid the Nigerian government USD 1.3 billion for an offshore oil block located in Nigerian waters. This transaction subsequently became a source of serious controversy as some USD 1.1 billion of the sale proceeds were transferred to a company owned by a former oil minister, and convicted money launderer, Dan Etete. It was alleged that these funds had then been largely embezzled by Etete and a number of other individuals associated with the Nigerian government, including former president Goodluck Jonathan. It has also been alleged that senior management at Eni and Shell were aware that the sale proceeds would be misappropriated in this way. Although some of this money has been recovered, a large proportion of it has not. As such, this affair is believed to have had a real impact on the people of Nigeria, as the disappeared millions were reportedly equivalent to 80 per cent of the country's proposed annual health budget.

Eni and Shell have been embroiled in criminal and civil litigation in several countries in relation to the oil block for several years. The companies and a number of former and current officials, including the Eni CEO, are presently standing trial in Italy on charges of international corruption, in what is believed to be the biggest ever trial of its kind. Both companies and their senior managers protest their innocence. Sustainalytics and investors have been engaging with Eni in response to this issue. As the legal proceedings render the company unwilling to talk about the finer details of the Nigerian deal, engagement has focused on encouraging the company to ensure that its code of conduct, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied. Eni has provided a significant volume of information about its anti-corruption framework. Its Code of Ethics includes a prohibition on corruption and it has also published a detailed Management System Guidance (MSG) on Anti-Corruption, which, among other topics, covers acquisitions and disposals and due diligence, as well as relations with public officials and 'Relevant Private Entities'. The company states that it has an Anti- Corruption Compliance Program, an 'articulated system of rules and controls for the prevention of corruption', which includes the MSG. Adoption of the Compliance Program is mandatory for the company and its subsidiaries and the company has indicated that training in the MSG has been conducted or is underway for all staff.

Bearing in mind these developments, Sustainalytics considers that the company has met the engagement objective and therefore the engagement case is resolved. However, it is also recognised that the continuing litigation in Italy may discourage complete transparency about any weaknesses in its anti-corruption system. Furthermore, it is possible that the decision of the court, expected in the second half of 2019, may expose further structural issues in this system. Sustainalytics will therefore monitor the progress of the trial and other proceedings and review the status of this case when it reaches its conclusion.

- **Sustainalytics** engaged with potash producer **Nutrien** (Lazard, Legal & General) over its presence in Western Sahara, a territory occupied by Morocco. Nutrien was created in 2018 as a result of a merger between Agrium Inc. and PotashCorp and accounts for half the purchases of phosphate from Western Sahara. PotashCorp had been importing phosphate from Western Sahara for nearly a decade and Agrium started phosphate imports from the territory in 2013 and was considered to be the largest importer in 2016. In a legal opinion issued in 2002 by the UN Under-Secretary General for Legal Affairs, the exploration and exploitation of natural resources in Non-Self-Governing Territories, Western Sahara in particular, would be in violation of the principles of international law applicable to mineral resource activities in

Non-Self-Governing Territories if conducted in disregard of the interests and wishes of the people.

Since the merger in 2018, Nutrien has engaged constructively with Sustainalytics. In January 2019, the company confirmed that it had ceased its imports of phosphate rock from Western Sahara at the end of 2018 and also explained that it has in place a Supplier Qualification Questionnaire to assess human rights due diligence for all its suppliers and to ensure that suppliers and major contractors comply with Nutrien’s Supplier Code of Ethics. Given these developments, Sustainalytics has decided to resolve the case but to closely monitor the company.

- **Baillie Gifford** engaged with the chief people officer at budget airline **Ryanair** for an update on progress with employee negotiations following the company's decision to recognise trade unions last year. Negotiations with staff continue, with first stage agreements signed off across all markets and final agreements at varying stages of progress. Ryanair offered their view on the events that caused the rostering issue last year which impacted 400,000 customers after flights were cancelled. The chief people officer was confident that the lessons on talent within key management positions and operational controls had been acted upon. Continued consolidation of the market, the new corporate structure with Michael O'Leary as group CEO, the impact of any further delays to the approval of the Boeing 737 max planes by the regulator and the options package which was granted to the CEO and members of the board were also discussed during the meeting. Baillie Gifford’s next engagement with the company is scheduled with the senior independent director and chair of the remuneration committee in August in Dublin. They will be meeting the CFO separately. Key topics will be the succession progress of the chairman and the senior independent director who are both stepping down in 2020, the rights attached to shares following Brexit, and employee relations.

- **Oldfield Partners** engaged with Japanese financial holding company **Nomura** to discuss information security following the issue of a ‘business improvement order’ by Japan's Financial Services Agency. This is the second time in seven years the company has received such an order from authorities due to market information leakage. Oldfield met with senior directors to discuss this issue in detail. The main message they conveyed was that this was a very different event from the 2012 incident. While the latter was done with intent and was a blatant violation of the principle of market integrity, this compliance breach was done in error. Unlike in 2012, Nomura has co-operated promptly with JFSA, this time there being no legal breach, and this should lead to a much smoother process with the regulator. As a first step Nomura have sold down their equity stake in Nomura Research Institute (where the breach originated) and they have removed the current Chairman (Mr. Koga) as head of the Nomination and Compensation Committees. Nomura reassured that all the directors are taking this incident very seriously, and further measures to improve the governance structure will be discussed at the next board meeting.

Engagement Activity: Quarter to 30th June 2019

Oldfield engaged with **Tesco** at an investor day event to explore some of the bigger ESG issues the company faces on a day-to-day basis. Tesco's supply chain stretches across 73 countries and the day saw presentations from Dave Lewis (CEO) and his executive team on topics including Governance, Risk & Compliance, environmental impact, climate change, packaging, tackling food waste, social contribution and human rights in the supply chain. Oldfield were encouraged by the commitment to halve the weight of packaging across branded and own-brand products between 2007 and 2025 (today Tesco's primary packaging used in the UK alone totals 928,000 tonnes a year) and to ensure that their own-brand packaging is fully recyclable by 2025 (today 83% is). It should be noted that Tesco was the first company in the world to set climate change targets consistent with the Paris Accord. Tesco has sent no food to landfill since 2009 (last resort means it goes for energy generation) and aims to halve food waste by 2030 from the already industry leading 0.45% in the UK. The company ensures unsold food is provided to charities across the UK, donating more than 60 million meals to those in need last year alone. Overall, the day was very impressive and underscored the vast complexity and just how seriously Tesco takes the role of a leading player in the world of food retail, while at the same time meeting the needs of the customers and working sustainably with suppliers to ensure global responsibilities are met.

- Officers of the Fund, accompanied by **Sustainalytics**, visited **Lazard** and **Legal & General** to discuss progress on engagement cases. The managers were able to provide the Officers and Sustainalytics with an update to their discussions with portfolio companies and agree on issues and themes for the next round of engagement. Sustainalytics provided the managers with updated research on the individual companies and the identified ESG issues.

Appendix 5

Disclosure on ESG issues: Quarter to 30th December June 2019

- In quarter 2 **Sustainalytics** reported engagement with footwear manufacturer **Wolverine World Wide Inc.** to discuss allegations of environmental contamination from waste disposal in the US. (J.P. Morgan)

  Michigan based Wolverine World Wide designs, manufactures, and distributes footwear including Hush Puppies, Merrell and Harley Davidson Footwear. Between 1908 and 2009 the company operated a tannery in the area of its head office in Rockford, Michigan and until 2002 relied on the 3M product Scotchgard to waterproof apparel and prevent stains. In 1999 3M notified Wolverine of its concerns regarding the possible environmental impact of certain Scotchgard ingredients and in May 2000 the US Environmental Protection Agency (EPA) announced the phasing out of Scotchgard, based upon data supplied by 3M that indicated that two of the key ingredients in the repellent, perfluorooctanesulfonic acid (PFOS) and its sister chemical perfluorooctanesulfonamide (PFOA), were persistent (resisted degradation) in the environment. PFAS, and especially PFOS, bioaccumulates in animals such as fish and humans. The EPA listed PFAS as a possible carcinogen in 2005.

  Until 1970, Wolverine had discharged its tannery waste at a state-licensed disposal site close to the tannery and up to 70 unregulated dump sites around Rockford. In 2017 the Michigan Department of Environmental Quality (MDEQ) found elevated levels of PFOS in fish in the Rogue River in Rockford. An update by the EPA and MDEQ in November 2018 confirmed that over 50 square kilometres have been impacted by contamination, with three large contamination plumes spreading from the former tannery, and the former disposal sites in Plainfield and Algoma Township.

  Early in 2017, in cooperation with the MDEQ, Wolverine voluntarily started testing residential wells (i.e. wells used by residents to obtain potable water). In January 2018, Wolverine reported that out of 1,054 residential wells sampled around the former tannery site, 85 had been identified with results above the EPA lifetime drinking water advisory level of 70 parts per trillion (ppt) with the highest results reaching 7,500 ppt. As of December 2018, the company had installed over 70 monitoring wells at the former tannery, dump site and in the surrounding areas. It had also installed 500 whole-house filters and over 200 point-of-use filters at residential properties and also provides bottled water on a continuous basis. In February 2018, Wolverine announced that it had committed USD 40 million to address local groundwater issues. Later, in June 2018, the company announced a plan to intercept and treat groundwater from the former tannery site to prevent it from reaching the Rogue River. In December 2017, the residents of Rockford and other towns filed a class action against the company and 3M, for polluting groundwater. The MDEQ also sued the company in January 2018.

  Sustainalytics will engage with Wolverine to understand how it intends to address the reportedly unofficial disposal sites. Furthermore, Sustainalytics would like to know what measures the company is taking to address the long-term water supply to affected residents.

Appendix 5

Disclosure on ESG issues: Quarter to 30th December June 2019

- In quarter 2 the Fund joined a **Sustainalytics** collaborative call with US auto manufacturer **General Motors** (GM) to discuss plastics and waste management. (Oldfield Partners, Legal & General)

  The call with the sustainability team at GM was organised as part of the new **Sustainalytics** engagement initiative, **Plastics and the Circular Economy** (Appendix 8). The objective of this initiative is to encourage companies in the autos, electronics and packaging sectors to improve recycling practices and to focus design and innovation towards reusability of products that will enable a transformation of the plastics market.

  GM expressed a general commitment to recycling waste, conserving resources and recycling materials at every stage of the product life cycle and advised that they have joined forces with the Lonely Whale Foundation and other partners to address ocean plastics through the Next Wave initiative.

  GM were able to offer some impressive waste management statistics. They reuse or recycle 89 percent of worldwide manufacturing waste, operate a landfill-free program at 142 facilities and generate $1 billion in revenue annually through various recycling activities.

  As the waste reductions have progressed, the company has gained efficiencies in manufacturing processes and engineered lighter weight material designs, which have reduced by-product material volumes and less waste within the manufacturing process. GM's elimination of waste is also having an impact on carbon dioxide emissions. They estimate that the reuse and recycling programs eliminate approximately 9 million tons of CO2-equivalent emissions annually. Wherever possible, GM continues to make material substitutions and process changes to improve recyclability and design out inefficiencies. A small corporate team oversees, coordinates and supports the waste program to ensure both a holistic approach and the sharing of best practices across sites. The sustainability team at GM were able illustrate their work with some interesting examples of innovative uses for some of GM's by-products:
  - Converting 227 miles of oil-soaked booms off the Alabama and Louisiana coasts from the Gulf of Mexico oil spill into two production years' worth of air deflectors in the Chevrolet Volt.
  - Recycling cardboard packaging into Buick Verano headliners to provide acoustic padding that reduces noise in the passenger compartment.
  - Collecting more than 3.2 million plastic water bottles from six GM facilities and the local community to recycle them into a fabric for engine insulation in the Chevrolet Equinox and an air filtration component used in 10 GM facilities.
  - Mixing plastic caps that protect vehicle parts during shipment with other post-consumer plastics like bottle caps to make air deflectors for Chevrolet Silverado and GMC Sierra pickup trucks.
  - Recycling GM test tires and tires from the Mississippi River into the manufacturing of air and water baffles for a variety of GM vehicles.
  - Reworking pallets to form wood beams for the homebuilding industry.

Disclosure on ESG issues: Quarter to 30th December June 2019

- Reusing 1,600 shipping crates as raised garden beds for a community garden and an urban farming initiative to support the homeless in Detroit.

General Motors is a founding member of NextWave, along with Dell, HP, IKEA and the Lonely Whale Foundation. NextWave seeks to address ocean plastics and improve vital ocean ecosystems by developing a commercial model that reduces plastic pollution at scale and ensures the resulting supply chain has the infrastructure and support to meet demand in a socially and environmentally responsible way.

To decrease the volume of plastic and nylon litter and waste before it enters the ocean the members of NextWave commit to demonstrating to other companies the commercial viability and advantages of integrating ocean-bound plastics into their supply chains in the context of heightened consumer, stakeholder, and policy-maker awareness of the environmental impacts of marine plastic.

NextWave anticipates the group will divert more than 1,000 tonnes of plastics from entering the ocean within five years, the equivalent to keeping 66 million single use plastic water bottles out of the sea.

Appendix 6

UNPRI Signatories

Manager	PRI Signatory	If not, manager's explanation
Alcentra	Yes	
Ashmore	Yes	
Baillie Gifford	Yes	
Barings	Yes	
DTZ	Yes	
Genesis	Yes	
Henderson	Yes	
JP Morgan	Yes	
Lazard	Yes	
Legal and General	Yes	
Oak Hill Advisors	Yes	
Oldfield	Yes	
Pantheon	Yes	
Partners Group	Yes	
PIMCO	Yes	
Ruffer	Yes	
Veritas	Yes	
No.3 Fund		
Ruffer	Yes	
Legal and General	Yes	
Direct Investment Portfolio		
Aberdeen Asset Management	Yes	
Albion Ventures LLP	Yes	
Alpha Real Capital LLP	No	Currently in the process of reviewing PRI and other established alternative accredited bodies.
Ediston Properties Ltd (Clydebuilt)	No	Consideration is given to ESG factors when investing in properties.
Epidarex Capital Mgt. Ltd	No	Manager believes PRI is not applicable to a life science venture capital fund.
Equitix Investment Mgt. Ltd	Yes	
UK GIB Financial Services Ltd	Yes	
Healthcare Royalty Management LLC	No	Currently in the process of evaluating the PRI principles.
Hermes GPE	Yes	
Iona Capital LTD	No	Iona is currently progressing towards becoming a signatory.

Appendix 6

UNPRI Signatories

Maven Capital Partners UK LLP	No	Maven adheres to PRI standards as they are deemed industry best practice.
Muzinich & Co. Limited	Yes	
NTR	Yes	
Panoramic Growth Equity	Yes	
Pemberton Asset Mgt. S.A	No	Pemberton has an ethical investment policy in place. Although not currently a signatory to PRI this will be considered over the lifetime of the fund.
Pentech Ventures LLP	No	Pentech acts in accordance with the Principles. At this stage they do not believe it would be beneficial to Pentech for it to become a signatory to PRI but will keep under review.
PIP (Dalmore Capital Limited)	Yes	
PiP Manager Limited	Yes	
GAM International Management Ltd (Renshaw Bay)	Yes	
Resonance Asset Mgt. Ltd "RAM"	Yes	
Scottish Equity Partners LLP(SEP)	No	SEP has considered PRI in forming its responsible investment procedures.
Tosca Debt Fund	No	Tosca is committed to PRI and assumes the principals in its decision making.
Scottish Loan Fund (Maven Capital Partners UK LLP)	No	Maven adheres to PRI standards as they are deemed industry best practice.
Temporis Capital Limited	Yes	

Collaborative Initiatives

ShareAction

ShareAction is a London based registered charity that promotes responsible investment. ShareAction aims to improve corporate behaviour on environmental, social and governance issues. The charity has launched numerous campaigns, with support from savers, charities, unions, faith groups and other civil society organisations to engage with investors to bring about change. ShareAction's work recognises that the money individuals and organisations put into the investment system funds global corporations, who in turn have the power to change business practices that are harmful to people or the environment. The Fund has been supportive of the work of ShareAction for several years and ShareAction has been successful in raising awareness of issues and in lobbying for change.

- **Living Wage**

  Strathclyde Pension Fund became involved with the living wage theme in early 2013 when the Convener co-signed a letter to the Financial Times in collaboration with 12 other UK pension funds and foundations to support the ShareAction JustPay! Campaign. The letter called on UK publicly listed companies to embed social sustainability in their businesses by paying employees and contracted staff the Living Wage. The second stage of the campaign commenced in early 2014 and involved sending collaborative letters to the constituents companies of the FTSE 100 index. The letters called on these companies to pay employees and contracted staff the Living Wage. Letters have gone out to each FTSE100 company prior to their AGM and the campaign is now in its fifth year. There are currently 37 companies in the FTSE 100 accredited by the Living Wage Foundation, A further 7 have committed to full compliance with the Living Wage standard but have not yet taken the step to commit to accreditation. This means that, in practice, 47 of the FTSE 100 are currently fully compliant with the Living Wage standard.

- **The Workforce Disclosure Initiative**

  The Workforce Disclosure Initiative (WDI) is a project to advance investor understanding and in turn consideration of the people behind the largest publicly listed companies, from those directly employed to those employed in the supply chain. The WDI is run by ShareAction and is supported by a coalition of 100 institutional investors representing more than $14 trillion in assets. The initiative is also supported by the Pensions and Lifetime Savings Association (PLSA) and the Department for International Development.

  Through the WDI, investor signatories come together to request that companies provide comparable data on the workforces in their operations and supply chain on an annual basis. Improved transparency will help investors gain crucial insights into how companies are managing their workforces, and how they compare with peers. The data collected will also inform investor engagement with companies to encourage better employment policies and practices. Ultimately, the goal of the WDI is to improve the quality of jobs for employees in companies' global operations and workers in their supply chains.
  The level of comparability in this area of corporate reporting is currently poor.
  The WDI is modelled on the Carbon Disclosure Project. It involves an annual investor-led survey of multinational companies which asks companies to report

on key areas like the composition of the workforce, workforce stability, workforce development and worker engagement. Both direct employees and those throughout the supply chain are covered. The initiative then coordinates collaborative engagement efforts by interested investors with these companies to encourage higher standards.

- **Investor Decarbonisation Initiative**
  Investor Decarbonisation Initiative brings together institutional investors to encourage companies to set ambitious climate targets in line with goals of the Paris Agreement. The initiative delivers coordinated company engagement, promoting proactive emissions reductions at the rate required to avoid dangerous climate change. This initiative mobilises investor support for science-based emissions targets and complementary commitments to renewable electricity (RE100), energy productivity (EP100), and electric mobility (EV100).

- **RE100 Renewable Energy**
  RE100 is a collaborative initiative that supports companies that make a public pledge to switch to 100% renewable electricity for their international operations by an agreed date. RE100 was launched in 2014 and is now being rolled out in India and China in addition to Europe and the US. The initiative is supported by 50 institutional investors representing more than $1 trillion in assets and is coordinated by ShareAction. Founding members of the investor initiative include Aviva Investors, Environment Agency Pension Fund, French pension fund ERAFP and Norwegian fund KLP. The investor engagement programme, supported by ShareAction, engages with companies through letters, meetings and AGMs, to encourage them to switch to 100% renewable energy. By sending investor-endorsed letters, asking questions at company AGMs and talking through the challenges and benefits of renewable electricity procurement with these companies, the RE100 initiative has helped to push sustainable power up the corporate agenda. Corporate members of RE100 with goals to achieve 100% renewable electricity span a wide variety of industries and operate in a broad range of countries across the world. They include: Apple, BMW Group, Diageo, IKEA Group, Johnson & Johnson, Marks & Spencer, Nestlé, Philips, Starbucks, Unilever and Walmart.

- **EP100 Energy Productivity**
  EP100 is a global, collaborative initiative of influential businesses that pledge to double their energy productivity. The EP100 initiative is a companion to RE100, through which businesses commit to 100% renewable power. Together the two campaigns offer companies a low cost decarbonisation pathway. By doubling the economic output from every unit of energy consumed, companies set a bold target, demonstrating climate leadership while reaping the benefits of lower energy costs. Business accounts for around half of the electricity used worldwide. By focusing on energy productivity outcomes, corporates can reduce their own energy demand and significantly contribute to reducing energy demand globally. By doubling energy productivity, corporations are also enhancing their resilience and boosting competitiveness, all while reducing greenhouse gas emissions, creating jobs, and improving energy security. Corporate members of EP100 pledged to double their energy productivity span

Collaborative Initiatives

a wide variety of industries and operate in a broad range of countries across the world. They include: H&M, Danfoss, Schneider Electric, Swiss Re, Mahindra & Mahindra, and Dalmia Cement.

- **EV100 Electric Mobility**
  EV100 is a global initiative bringing together companies committed to accelerating the transition to electric vehicles (EVs) and making electric transport the new normal by 2030. The transport sector is the fastest-growing contributor to climate change, accounting for 23% of global energy-related greenhouse gas (GHG) emissions. Electric transport offers a major solution in cutting millions of tons of greenhouse gas emissions per year, as well as curbing transport related air and noise pollution. With businesses owning over half of all registered vehicles on the road, it is crucial that companies lead the shift to electric vehicles. Through their investment, and influence on millions of staff and customers worldwide, they can address rising global transport emissions. They can also significantly enhance mass demand for electric vehicles. By setting out their future EV purchasing requirements on an ambitious timescale, companies can drive mass roll-out and make electric cars more rapidly affordable for everyone around the world. Corporate members of EV100 include: Air New Zealand, Baidu, Deutsche Post DHL, EDF, Ikea and Unilever.

Farm Animal Investment Risk and Return (FAIRR)
Established by Coller Capital the initiative is now supported by institutional investors representing more than $3.3 trillion in assets including Aviva Investors, Boston Common Asset Management and Joseph Rowntree Charitable Trust. It aims to encourage analysis and engagement around the long-term risks that factory farming poses to portfolios. The animal factory farming sector is becoming a high-risk sector for investors, and is exposed to numerous sustainability-related factors. In many cases these risks are already showing evidence of significant value destruction. Factory farming alone contributes 30 percent of global methane emissions and 65 percent of nitrous oxide emissions. Today, livestock farming produces more global greenhouse gases (15 percent) than the transport sector (14 percent). Similarly, about 75 percent of soybean production, which is a major contributor to deforestation and climate change, is used to feed livestock. Therefore factory farming leaves itself and its investors critically exposed to potential new climate legislation in the transition to a more carbon constrained world.

The main involvement of SPF to date has been collaborative letters to food and restaurant companies regarding the use of antibiotics in their meat and poultry supply chain. FAIRR, in partnership with The Interfaith Centre on Corporate Responsibility (ICCR), brought together a coalition of 60 institutional investors worth $2.2 trillion to ask companies to take action on the systemic overuse of antibiotics.

Fire and Building Safety in Bangladesh Initiative.
Following the collapse of Rana Plaza in Dakar where nearly 1,200 garment factory workers lost their lives, the Interfaith Centre on Corporate Responsibility (ICCR) organized a coalition of over 200 global institutional investors representing 12 countries and $3.1 trillion in assets to promote reform of the global apparel sector to guarantee the safety and well-being of workers. The initiative works to encourage apparel

Collaborative Initiatives

companies to sign The Bangladesh Accord on Fire and Building Safety, a multi-stakeholder initiative that includes global brands, trade unions, civil society organizations and a representative of the International Labor Organization as the independent chair. Accord signatories agree to binding commitments to make the changes necessary to ensure worker safety. ICCR is a coalition of faith and values-driven institutions who view the management of their investments as a powerful catalyst for social change. The Fund has worked collaboratively with ICCR on a range responsible investment issues over the years including the Fire and Building Safety in Bangladesh Initiative and the FAIRR antibiotics initiative.

Institutional Investors Group on Climate Change (IIGCC)
In December 2016 the Fund joined this network of nearly 140 members, including many of the largest pension funds and asset managers in Europe, who represent over €18 trillion in assets and take a pro-active approach to managing risks and opportunities related to climate change. The IIGCC provides investors with the collaborative platform to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change. To deliver on its objectives, IIGCC operates a number of programmes that commission research, produce reports and engage with various stakeholders.

Local Authority Pension Fund Forum (LAPFF)
The Fund is a member of the Local Authority Pension Fund Forum, a collaborative shareholder engagement group which brings together 80 local authority pension funds and investment pools from across the UK with combined assets of over £230 billion. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Much of the Forum's work is in ensuring that companies have the right policies and right people in place to create value for shareholders over the long term. LAPFF's policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. Therefore the Forum considers that issues such as climate change and employment standards require as much investor attention as more traditional concerns such as corporate governance and executive remuneration. In some aspects of its work, LAPFF adopts a more high-profile and interventionist approach to shareholder engagement. It has led investor criticism of accounting standards that can misrepresent the capital position of financial institutions, and spoken out publicly against poor standards and excessive pay at the banks. It has also been an integral part of an investor grouping encouraging a positive response by companies to climate risk by filing supportive shareholder resolutions.

CDP
CDP, formerly the Carbon Disclosure Project, is an international not-for-profit organisation that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. CDP represents institutional investors with assets of US$100 trillion, helping to leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts; whilst also providing insights into corporate environmental performance for investors. Over 5,800 companies with some 60% of global market capitalisation disclosed environmental data through CDP in 2016 alongside 500 cities and 100 states and regions, making

Appendix 7

Collaborative Initiatives

CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change

The Fund is a signatory to **Carbon Action** and the **Water** and **Forest** programs of CDP.

Carbon Action is a CDP initiative supported by over 329 signatories which works with investors and corporations to encourage companies to take action to reduce their Green House Gas emissions by making investments in emissions reduction activities that have a satisfactory financial return. To date over 1,305 companies targeted in heavy emitting industries, $313bn invested in emissions reduction activities with 3,886 reported projects and reduced emissions of 522 million metric tonnes CO2e reported.

The **CDP Forest** program engages companies to disclose their exposure to five forest risk commodities – cattle products, bio fuels, soy and timber, supported by 380 signatories with assets of US$29 trillion.

The **CDP Water** program engages companies to disclose their exposure to water risks and opportunities, supported by 639 signatories with assets of US$69 trillion.

Climate Action 100+
Climate Action 100+ was launched in December 2017 with the support of 225 investors representing $26.3 Trillion in assets. Entities backing the project include many of the UK's local authority schemes, and some of the most influential Australian, Canadian and US public pension funds. Co-ordinators include the **Institutional Investors Group on Climate Change (IIGCC),** and **Principles for Responsible Investment (PRI)**. The five year initiative will use carbon mapping data to target the worst climate offenders directly, to curb their emissions, improve climate governance and strengthen disclosure. The 100-strong list of top emissions generators, drawn up with CDP data and developed through a collaborative process from investor and partner organisations, compiles both companies' direct and indirect emissions. It names obvious polluters such as ExxonMobil, Coal India, China Petroleum & Chemical Corporation and Gazprom, plus groups linked to greenhouse gas emissions in the making or use of their products, including Toyota, United Technologies, Korea Electric Power Corporation, and Nestlé. Pressure will be brought to bear through robust engagement. The goal: to cut global emissions by 80 per cent by 2050.

Appendix 8

Collaborative Initiatives – activity during the quarter

- **ShareAction** provided a progress report on the **Living Wage** collaborative initiative. There are currently 37 accredited companies in the FTSE 100 and a further 7 which state they are compliant with the Living Wage for all of their operations, but are not yet accredited. **Persimmon** is the latest company to announce that all direct staff are being paid above Living Wage rates. The company has also committed to move towards accreditation with the Living Wage Foundation. The role of investors in driving progress on the Living Wage has been significant. Positive steps forward in dialogue with companies across the FTSE100 continues to develop as a result of engagement by the initiative. ShareAction reported Living Wage meetings with **Barratt Developments**, **EasyJet** and **Ocado** during the quarter and Investors jointly sent letters to 9 FTSE100 companies: **Persimmon** (commending progress and encouraging company to accredit) **Admiral Group**, (to express disappointment at company's decision not to accredit), **Bunzl** and **Ocado** (to encourage dialogue with the Living Wage Foundation), **Direct Line** (encouraging the company to work through a challenge re third party garages), **EasyJet** (to request an update on the company's pay review), **Reckitt Benckiser**, **Rentokil Initial** and **Rightmove** (requesting progress updates). **International Consolidated Airlines Group** (IAG) remains the only FTSE100 company unwilling to engage on the Living Wage. ShareAction is currently working on the development of a programme aiming to address wider UK workforce practices building on Living Wage engagements to encourage companies both within the FSTE100 and FTSE250 to accredit as Living Wage employers.

- In April, as part a global coalition of 190 institutional investors representing over $3 trillion in managed assets, the Fund co-signed a statement marking the six-year anniversary of the deaths of 1,134 workers in the Rana Plaza building collapse in Bangladesh. The statement highlights the success of the **Bangladesh Accord on Fire and Building Safety** which symbolizes what can be accomplished when brands use their collective leverage to resolve supply chain concerns. An unprecedented 220 brands and retailers joined the Accord for Fire and Building Safety signed in 2013, to use their leverage with supplier factories to conduct rigorous fire, electrical and building inspections. These inspections have resulted in remediation plans that have provided a safer working environment for the 2.5m workers in Accord factories. The Accord has provided in-depth health and safety training to personnel in 846 factories, and has investigated and resolved 183 worker complaints.

  On the sixth anniversary of the tragedy, the Accord faced an uncertain future. The Interfaith Centre on Corporate Responsibility (ICCR) co-ordinated a statement in February 2019, that urged the Prime Minister of Bangladesh and the companies sourcing product from the Bangladeshi garment sector to publicly support the continuation of the Accord's work. The Bangladeshi government had placed excessive restraints on operations and prohibited identification of any and all new safety violations, rendering the Accord ineffective. The Bangladeshi government subsequently advised that it was ready to take on operations of inspections for factories. However, a report by non-governmental organizations into Bangladesh Government's Safety

Collaborative Initiatives – activity during the quarter

Inspection Agencies found a shocking lack of readiness. Factories already covered by the Government's Safety Inspection Agencies had not had their corrective action plans publicly updated on their websites since 2014. The February 2019 statement advised that investors would support a transition to the Agencies only at such a time that indicators agreed to by the International Labor Organization and the Bangladeshi government have been met. While the Accord has made impressive progress, the work is not complete. For example, more than half of Accord factories still need to fully install and test their fire detection and protection systems.

In May 2019, the Accord presented a memorandum of understanding (MoU) to the Appellate Court in Bangladesh in relation to the High Court order which would have closed the Accord Bangladesh office operations. The MoU was reached by the Accord Steering Committee and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and has the endorsement of the Government of Bangladesh.

The MoU has been accepted by the Appellate Court and will result in the Transition Accord and Accord Bangladesh office and operations continuing in Bangladesh for 281 working days. The MoU will lead to the establishment of a national RMG (Ready Made Garment) safety entity to be called the RMG Sustainability Council (RSC). After the transition period of 281 working days, the RSC will take over all Accord Bangladesh operations and will inherit the Accord infrastructure and staff. The RSC will be governed by a structure consisting of representatives of the BGMEA, global brands, and global and national trade unions. The RSC will work in cooperation with the Government of Bangladesh (GoB) to ensure the work of the RSC compliments the work of the GoB Remediation Coordination Cell.

Over the course of this next year, the Accord in Bangladesh will work intensively with the BGMEA so that they gain an intimate knowledge of the Accord's day-to-day work, operations, systems, protocols, data management, and disclosure related to the core functions of the Accord: inspections & remediation, safety training, safety complaint resolution, and public reporting. Through the MoU, all operations, staff, infrastructure and functions of the Accord will continue. All existing transparency features of the Accord will also be maintained, including full disclosure of all results of inspection and remediation activities on a public website.

- In June the **Institutional Investors Group on Climate Change (IIGCC)** reported on the UK Government decision to legislate a net-zero emissions target. The IIGCC strongly welcomed the commitment having played an important role in intense engagement efforts that helped tip the balance in securing the commitment from the UK Government. This included a key role in delivering a joint CEO letter to the Prime Minister ahead of the decision and follow-up engagement to get it over the line. Despite some weakening of the overall environmental integrity of the target via the planned use of international offsets, this announcement represents a very positive step for UK domestic policy.

Appendix 8

Collaborative Initiatives – activity during the quarter

- In quarter 2 the **Farm Animal Investment Risk and Return Initiative** (FAIRR) provided a new engagement progress report, **Improving antibiotics stewardship in livestock supply chains.** This report represents the culmination of a three-year collaborative engagement in partnership with the **Interfaith Centre on Corporate Responsibility** (ICCR) which brought together a coalition of 60 institutional investors worth $2.2 trillion to ask companies to take action on the systemic overuse of antibiotics.

  The foreword was written by Professor Dame Sally Davies, Chief Medical Officer for England and Chief Medical Advisor to the UK government. It provides a detailed update on the progress seen in the global fast food sector over the last three years. Company awareness and recognition of the impacts associated with the overuse of antibiotics in farmed animals and fish has increased significantly since the start of the engagement. Back in 2016, only one company had a regional policy on antibiotics use that was limited in scope. Today, all companies in the engagement recognise the need to address antibiotics resistance and either have a policy in place or will be shortly announcing one.

  FAIRR will continue to monitor company progress on an annual basis to ensure companies are implementing and monitoring supplier compliance to their antibiotics policies. The report is available at: https://cdn.fairr.org/2019/05/19194214/FAIRR-antibiotics-engagement-update.pdf

  In quarter 2 FAIRR published a new report, **Managing environmental risks in meat and dairy supply chains** and announced a new collaborative engagement initiative to improve supply chain sustainability. The engagement is supported by over 80 investors with over $6.5 trillion in combined assets. The engagement asks the companies to de-risk their meat and dairy supply chains by taking four steps. It asks companies to undertake climate risk scenario analysis, develop strong supplier policies on climate and water, set science-based targets, and publicly report on progress against these targets. For fast food companies buying meat and dairy, these supply chain risks present growing challenges to their supply security, sustainability ambitions, brand and reputation, and financial growth.

  The fast food sector plays a dominant role in feeding the global population. On any given day around 85 million adults in the US, nearly one third of the population, consume fast food. In the UK at least 79 million ready meals and 22 million fast-food meals are eaten every week. This sector continues to expand rapidly across developed and emerging markets. A significant portion of this consumption is linked to food items that wholly or partially involve meat and/or dairy products.

  Across three key areas – greenhouse gas emissions, water and land use – animal proteins have a significant environmental footprint. This increasingly creates material reputational, operational and market risks for the companies buying animal protein-based products. Agriculture and land use constitute around 24% of global GHG emissions, and meat and dairy supply chains are major contributors and are also among the biggest drivers of tropical deforestation. Their productivity will also be impacted by rising temperatures.

At the close of the quarter the Fund co-signed collaborative letters to six leading fast food, pub and restaurant chains including **McDonald's** and **Dominos' Pizza** urging them to engage with the initiative and undertake the necessary de-risking actions. The report is available at: https://www.fairr.org/article/managing-environmental-risks-in-meat-and-dairy-supply-chains/

- Following on from its recent success with **Royal Dutch Shell plc** and Shell's intention to set carbon emissions targets in 2019 and incorporate these targets into its executive remuneration scheme the collaborative initiative **Climate Action 100+** announced more progress in quarter 2.
    - **A.P. Moller Maersk**, the world's largest container ship company, will cut net carbon emissions to zero by 2050. Maersk's target challenges one of the most carbon-intensive industries to find innovative solutions to comply with the Paris Agreement.
    - **American Electric Power**, the largest carbon-emitting power company in North America, set an unprecedented goal to cut carbon dioxide emissions 60% from 2000 levels by 2030, and 80% from 2000 levels by 2050. The announcement came eight weeks after appearing on the Climate Action 100+ focus list.
    - **BP's** board supported a resolution filed by Climate Action 100+ signatories requesting that BP set out its business strategy consistent with the goals of the Paris Agreement, including relevant metrics.
    - **Glencore**, the world's largest coal exporter, agreed to cap production of coal at about 150m tonnes per year, largely ruling out future expansion of its coal business. In addition, Glencore made six further commitments, including aligning its business with the Paris Agreement and providing enhanced reporting of Scope 3 emissions and climate lobbying activities.
    - Anglo-Australian mining giant **Rio Tinto** has released a report on the impacts of climate change, following the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD). Rio Tinto acknowledge that, as the first fossil fuel-free mining company, they are actively positioning for a low carbon future.

- The **Local Authority Pension Fund Forum** (LAPFF) provided their quarterly engagement report for quarter 2 2019. Highlights from the quarter include:
    - Institutional investors, led by the Church of England and Swedish Council of Ethics of the AP funds, have begun a large-scale initiative to prevent the further collapse of tailings dams. The initiative stems from the collapse of the **Vale** tailings dam in Brumadinho in late January. The Church of England convened a meeting of companies, investors, industry groups and industry experts to discuss the causes of tailings dam failures. LAPFF has been asked

to play a pivotal role in the initiative - that of liaising with community members affected by both the Brumadinho and Samarco disasters.

- LAPFF, along with a large a coalition of investors, signed a letter to 49 insurance companies to encourage the development of best practice around the provision of micro-insurance. The letter outlined that privately provided micro-insurance can create an affordable, accessible safety net which enables people to climb out of poverty.
- LAPFF continued to engage with companies on gender diversity through its membership in the 30% Club Investor group. As part of this initiative a letter was sent to **Millennium & Copthorne Hotels plc**, outlining the benefits of embracing cognitive diversity and requesting a meeting with the Chair to discuss the importance of diversity considerations in board balance, independence and in executive appointments.
- Along with other investor participants in the 'Climate Action 100+' initiative, LAPFF met with executives from steel manufacturer, **ArcelorMittal** and the chair of mining giant **Rio Tinto**. The meetings focused on progress towards decarbonising operations and planning for the transition to a low carbon economy.
- As a member of the Climate Majority Project, LAPFF joined other coalition members calling on the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050, and to make this commitment by September 2020. The institutional investor statement called for a transition away from carbon intensive energy production and for companies to devise economically attractive ways to achieve net zero targets. Central to this was recommendations on governance reforms companies should adopt to maintain focus on the overall goal of net-zero emissions.

- In June **Sustainalytics** issued a report titled **Water Management and Stewardship: Benchmarking Corporate Practices.** The report is an update to the 2017 benchmarking exercise that examined the state of water risk exposure and stewardship in the food and beverage, garment and mining sectors.

  The findings reveal that there has been little progress over the last two years on corporate water disclosure. The research involved the assessment of 299 companies on key aspects of corporate water management and found that while 30 per cent of the companies assessed received a better total score compared to 2017, 39 per cent received a lower score. Specifically, efforts on water intensity have taken a clear turn for the worse, with either disclosure or performance, or both, having notably deteriorated among the companies analysed.

  Following the 2017 benchmarking, Sustainalytics undertook a collaborative two-year engagement with selected companies in the three industries mentioned. This project, which concluded in March 2019, was endorsed by six investors (including SPF). The engagement objectives focused on

Collaborative Initiatives – activity during the quarter

encouraging companies to assess and manage water risks proactively and efficiently so as to contribute to long-term operational continuity and environmental sustainability.

While there is a lot of room for improvement in corporate understanding of water risks and opportunities, it was found that more was happening than was evident in public disclosures, with company reporting lagging behind actual water-related activities. It is important to note that most of the companies engaged by the initiative improved their scores significantly, and many took concrete measures in the course of the engagement to enhance their water risk management and stewardship.

The 2019 benchmarking assessment subsequently discovered that the disclosure gap had diminished and/or performance improved among the engagement companies significantly more than in the wider group, with 65 per cent receiving a better total score than in the initial benchmarking. Moreover, their average score improved by 14 per cent, whereas across the whole universe the average score deteriorated by 2 per cent. This result is evidence that engagement can have a measurable impact on the ESG practices of target companies in as short a time as two years. To capitalise on this momentum Sustainalytics will commence a new engagement initiative focusing on localised water management later in 2019. The full report is available at: [https://www.sustainalytics.com/esgresearch/stewardship/water-management-stewardshipbenchmark-2019/.](https://www.sustainalytics.com/esgresearch/stewardship/water-management-stewardshipbenchmark-2019/)

- In Q2 2019 Fund's engagement overlay provider, **Sustainalytics** launched a new engagement initiative, **Plastics and the Circular Economy**.

  The plastic waste issue is currently one of the fastest growing environmental topics on the political agenda. Governments and consumers are becoming increasingly aware of the substantial impact of plastic on our environment and our health. For the first time, the EU has committed to a holistic plastics strategy, and similar agreements are being made internationally. Given this momentum, it is essential for companies to take immediate action to prevent and mitigate the damage caused by plastic in society.

  Plastic is a vital product to the global economy; however, the way it is being produced, used, and managed is unsustainable, especially at the use and after-use phases. Each year, at least 8 million tonnes of plastic waste ends up in the ocean. The carbon impact of plastics is also a key challenge. Currently, plastics are 90% dependent on virgin fossil feedstocks and responsible for around 6% of global oil consumption (the equivalent of the entire aviation industry). If plastic production continues to grow, it will make it more difficult to reach the goals of the Paris Agreement. Also, although the link between plastics and health issues is still being debated, the presence of microplastics in food and its effect on the human body is a growing concern. Furthermore, air emissions and water toxicity from waste are increasingly linked to the plastics and consumer goods industries.

Collaborative Initiatives – activity during the quarter

In addition, there are financial implications to plastics mismanagement. Only 14% of plastic packaging is collected for recycling and annually around EUR 68-103 billion is lost due to material plastic waste in packaging alone. With improvements in recyclability and after-use collection and recycling practices, a significant portion of this value could be saved. This range of factors underpins a powerful business case for investors and companies to promote a more sustainable approach to plastics. An improved plastics economy will:

- reduce reliance on fossil feedstocks, which will become scarcer over time and may become more expensive due to the Paris Agreement and local carbon regulation;
- reduce supply costs associated with virgin raw materials and recapture the massive value currently being lost after the first use of plastic products;
- anticipate government policy and regulation requiring responsible design, production and consumption of plastics;
- minimise the risk of fines and/or reputational damage to companies arising from damage to human health and/or ecosystems;
- respond to a likely rise in consumer demand for more responsible plastic products.

This agenda is also aligned with the UN Sustainable Development Goals, where business has a strong role to play. Plastics are clearly linked to Goal 12 (Responsible Consumption and Production), as well as Goals 14 (Life Below Water) and 17 (Partnerships for the Goals).

In light of the above challenges, a business-as-usual consumption pattern cannot continue. The alternative is a 'circular economy' approach, which focuses on maximising resource value (through such means as reuse and recycling), making resource use more efficient and extending product value during use. Sustainalytics suggests there are three primary steps for companies and other stakeholders to take, aligned with circular economy principles.

1. **Decouple from fossil feedstocks**
   Decoupling from fossil fuels protects companies from raw materials price volatility, safeguards their reputation and prepares them for new regulations. With the increased use of renewable energy and materials becoming common practice, it is likely that these resources will play a larger role in plastics.
2. **Create an effective after-use economy**
   Improving the quality of after-use infrastructure will be key in recovering the material value of plastics. Collaborations across industries and with public institutions will help create a more effective after-use economy.
3. **Reduce leakages**
   The costs of leakages include negative externalities, aesthetic value and impact on marine life. Furthermore, landfill bans and fines have been adopted in an increasing number of regions. These risks and costs can be minimised through improved handling and reporting of leakages.

Collaborative Initiatives – activity during the quarter

While the plastics debate tends to place the spotlight on the packaging industry and consumer goods companies that use packaging extensively, plastic is also used in industries such as textiles, electronics, and the automotive industry. Sustainalytics engagement will therefore also focus on businesses in consumer-facing sectors, which are susceptible to increased reputational and regulatory risks associated with plastics waste. Accordingly, the priority focus areas for this engagement are packaging, automobiles and electronics. The ultimate objective of this engagement will be to encourage companies to improve the quality and economics of recycling practices, to shift strategic focus towards redesign and innovation and to increase the reusability of products that will enable a transformation of the plastics market towards sustainability. The engagement programme is to last for three years and Sustainalytics will provide biannual reporting. This will include an analysis of how the companies are responding to engagement and to any external developments in this field, as well as an update of the progress the companies are making in relation to KPIs and engagement goals.

Other developments during the quarter

- In quarter 2 **Global Engagement Services** (GES), the Fund's specialist responsible investment engagement overlay provider, announced that it had been acquired by Netherlands based **Sustainalytics.** GES specialises in engagement and voting for institutional investors, while Sustainalytics gathers and analyses data on environmental, social and corporate governance (ESG) criteria and publishes ESG ratings. The activities of both companies are complementary, with Sustainalytics able to provide data for investment decision making and GES delivering follow-on corporate governance and engagement services. GES and Sustainalytics have worked together on many ESG issues over the past 20 years, and the two firms share a very similar culture and mission. Following the integration, Sustainalytics will operate 17 offices worldwide, with more than 500 team members, 200 of which are devoted to research and 20 to engagement services. All GES employees, including the entire senior management team, will join Sustainalytics.

- An important part of the Fund's active ownership is litigation aimed at companies whose illegal activities have resulted in financial losses. The Fund would prefer to resolve disputes without resorting to litigation, however in certain circumstances this is unavoidable and necessary to obtain damages and to promote good corporate governance and sound business practices. Legal proceedings can be brought in various ways. The main forms are direct action, i.e. bringing independent legal proceedings against a company, or a form of collective action such as a class action as is common in the United States and Australia.

  The Fund frequently holds securities that are the subject of individual and class action securities litigation and has recovered over US$8m 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 quarter 2 totalled $129,227 from five settlement funds.

  The Fund 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 US class actions against **Bank OZK** and **Dentsply Sirona Inc.**

  Officers of the Fund are currently investigating opportunities for class actions in other jurisdictions including Canada, Japan, Switzerland and the Netherlands.