

E S East Sussex P F Pension Fund



Environmental, Social & Governance Statement

Voting and engagement report

Q2 2023

1 April – 30 June 2023

Executive summary

Responsible Investment (“RI”) is a subject that the East Sussex Pension Fund’s (ESPF or the Fund) Pension Committee (“the Committee”) take seriously. Environmental, social and governance factors are considered throughout the Committee’s decision-making process.

This report sets out voting and engagement activity carried out during the last quarter.

Investment strategy

Generating sustainable long term investment returns is the Fund’s primary objective and it does so by investing across a range of asset classes such as equities, bonds, property, and infrastructure using both active and passive management styles. Asset allocation is expected to be the Fund’s main driver of returns and risk over the long term. The Fund’s [Investment Strategy Statement](#) describes the high-level principles governing the investment decision-making and management of the Fund.

The Fund believe that Responsible Investment (RI) supports the purpose of the Scheme – the provision of retirement income for individuals. RI is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns.

Investment managers

The Fund uses mostly active managed strategies, with the Committee seeking to achieve a balance between cost and return. Active and passive managers have a duty to act as responsible investors and are expected to act as good stewards for the companies they invest in or lend to.

All the Funds’ managers are required to report their engagement activity on a regular basis and exercise the voting rights in relation to the Funds’ investments as far as practical. This report summarises those activities.

Policies and approach

The Fund have policies detailing our Investment Strategy and approach to Responsible Investment. These policies are [available on the Funds website](#).

Collaboration

The Fund believes a philosophy of engagement is the most effective approach in addressing ESG concerns and driving long lasting change. To be effective, it is best done in conjunction with other parties. Participation in collaborative engagements enables the Fund to increase its ability to influence positive action among the companies it invests in. By utilizing combined size of investors' assets makes it harder for companies to dismiss our concerns and does accelerate those companies targeted with making meaningful change to their business practices such as their transition to a sustainable pathway.

East Sussex Pension Fund Engagement

East Sussex Pension Fund Commitments

As an advocate of responsible investment, the Fund is a member of the following organisations:

- Institutional Investors Group on Climate Change (IIGCC)
- Local authority Pension Fund Forum (LAPFF)
- Principles for Responsible Investment (PRI)
- Pensions for Purpose
- UK Sustainable Investment and Finance Association (UKSIF)

In addition, the Fund has committed to reporting under the following initiatives:

- Financial Reporting Council (FRC) Stewardship Code 2020
- Taskforce on Climate Related Financial Disclosure (TCFD).

In addition to being members of these groups the Fund demonstrates its commitment to RI by actively participating via representation in:

- LAPFF Officer Member of LAPFF Executive
- Membership of the IIGCC Corporate Programme Advisory Group

The Funds' Investment Managers will also have a number of memberships which are shown in the report below.

LAPFF Engagement Activity

All engagement activities completed in Q2 2023 through LAPFF are [available here](#)

Sample engagement updates, directly involving the Fund's Head of Pensions

Next

Objective: Myanmar has been under an extended state of emergency and fraught with a variety of human rights issues since the military coup in February 2021. The Ethical Trading posted guidance last September for companies in the country's garment sector, with many choosing to exit the country having exhausted efforts to leverage positive human rights outcomes. Next is one of just a few companies still operating in the country, so LAPFF wanted to understand why the company has chosen to stay.

Achieved: LAPFF Executive member, Sian Kunert, met with Next to discuss its position in the country and what it was doing in the context of human rights risk management and due diligence. Sian asked the company representatives if they thought that Next was doing something different from its peers that allowed it to stay in the country and to respect workers' and community members' human rights in doing so. Whether it was safe to carry out audits in the country was also probed. LAPFF requested increased disclosure of child labour concerns and remediation practices.

In Progress: LAPFF will continue to monitor the company's response to the ongoing coup in Myanmar and potential labour rights issues that may arise and affect its approach to human rights.

Adidas

Objective: Adidas is another company that maintains operations in Myanmar. It was also subject to a letter from the US House Select Committee on the Chinese Communist Party regarding supply chain links to cotton produced with Uyghur forced labour. As with Next, LAPFF was keen to understand why Adidas has decided to maintain operations in the country.

Achieved: LAPFF met with Adidas to discuss these supply chain issues in the context of the company's approach to human rights risk management in its global supply chains. LAPFF Executive member, Sian Kunert, asked questions about the development of the company's human rights policy, its decision to remain in Myanmar, and on its due diligence regarding Uyghur forced labour in its supply chains, which the company provided comprehensive answers to.

In Progress: It is unclear whether Adidas's response to the House Select Committee is something that will be made public. LAPFF will continue to monitor how the company chooses to publicise its supply chain practices, as well as continuing to monitor labour rights issues in both Myanmar and Xinjiang.

Further information on the Funds activities and policies can be found on our investment page [available here](#).

Engagement with policy Makers

IIGCC

As a member of IIGCC, policy engagement undertaken in the quarter includes:

G7 leaders in Japan commit to “accelerate the phaseout of unabated fossil fuels”

April 2023

Energy ministers concluded negotiations in Sapporo with a statement committing “to accelerate the phaseout of unabated fossil fuels so as to achieve net zero in energy systems by 2050 at the latest”.

But despite this strong wording there was no clear deadline set for the phaseout itself.

Investments in the gas sector also remain permissible “to help address market shortfalls created by the crisis...if implemented in a manner consistent with our climate objectives and without creating lock-in effects.”

Given the current energy crisis many will see this as a necessary caveat, even if it does leave critics asking for more. However, there is no doubt that this latest pledge goes further than previous iterations and sets the tone for negotiations in India at the G20 in September and COP28 in Dubai at the end of the year.

Read more in the article [here](#)

IEA World Energy Investment 2023: “A new clean energy economy is emerging”

May 2023

The International Energy Agency’s (IEA) World Energy Investment 2023 report yesterday revealed that clean energy investment has overtaken fossil fuel spending at a ratio of USD 1.7:1, with investment in solar power set to overtake investment in oil production for the first time.

Dr Fatih Birol, Executive Director of the IEA and longstanding energy spokesperson, opened the press conference with headline data showing a rapid increase in sustainable energy adoption.

The amount of investment in clean energy per year now stands at USD \$1.7 trillion, compared to USD \$1 trillion in fossil fuels. Five years ago, that ratio was 1:1.

“A new clean energy economy is emerging, and emerging much faster than many people realise,” Dr Birol said.

Read more in the article [here](#)

Bonn Climate Change Conference suggests looser wording for fossil fuels ahead of COP28

June 2023

Presidency discussions included language shifting away from the phase out of fossil fuels towards getting rid of 'fossil fuel emissions' at the 10-day conference, widely considered the precursor to the annual Conference of the Parties in Dubai later this year.

Investors and climate experts will watch this proposed wording change closely, especially as the alternative carbon capture and storage technologies (CCS) suggested are largely unproven at scale.

There were also talks of new targets for renewables development, energy efficiency, and green hydrogen as part of the response to the UN Global Stocktake (GST), which featured in discussions throughout.

“The view was that it must result in a clear, forward-looking action plan for countries and stakeholders if we are to accelerate progress at the pace and scale required,” said Michael Button, our Real Economy Lead on the ground in Bonn.

Read more in the article [here](#)

LAPFF

As a member of LAPFF, policy engagement undertaken in the quarter includes the following:

LAPFF responded to the UN Working Group on Business and Human Rights Consultation on extractive industries, just transition, and human rights. LAPFF's engagement on human rights with both mining companies and affected communities has increased significantly over the past five years, and LAPFF has noted how companies consistently see climate and human rights considerations as competing objectives, mining more to meet 'sustainability targets' whilst only moving as quickly on climate as existing regulation allows. LAPFF welcomed the opportunity to respond, appreciating the consultation's recognition that both state and business actors have imperatives to act effectively on these issues. LAPFF's response called for mandatory reporting on climate plans to include just transition factors, including stakeholder mapping and free, prior and informed consent (FPIC), and for boards to regularly engage with stakeholders and undertake FPIC in good faith. This report can be found [here](#).

APPG Meeting

This week the All-Party Parliamentary Group on Local Authority Pension Funds held a meeting to discuss the LGPS and investment in illiquid assets. In the 2023 Budget, the government stated that it would: “Consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets.” The meeting heard from my colleague on the LAPFF Executive and Head of Pensions at East Sussex Pension, Sian Kunert, who outlined what her fund was already doing, as well as the opportunities and challenges with illiquid assets. There were also presentations from Karim Palant, Director of External Affairs at the British

Private Equity and Venture Capital Association (BVCA), the organisation's Chair, Garry Wilson, who explained the opportunities that illiquid assets offered, and Andrew Williamson, Managing Partner at Cambridge Innovation Capital, who outlined the growth of venture capital in the UK in recent years.

United Nations Principles of Responsible Investment (UNPRI)

As a member of UNPRI, policy engagement undertaken in the quarter includes:

United Kingdom

The PRI submitted evidence to the FCA's discussion paper on how firms' governance, incentives and competencies align with their integration of sustainability-related considerations and their commitments to contribute to positive change.

The PRI supports regulatory progress to remove barriers to investors contributing to positive sustainability outcomes, as well as the FCA's work in enabling an economy-wide transition to net zero. Our recommendations call for greater clarity on the legal responsibility to address sustainability outcomes, updated guidance on skills and knowledge on climate and sustainability risks, and decision-useful reporting.

European Union

The PRI, together with other leading Business Networks, call for a robust, ambitious, and coherent outcome from the EU Nature Restoration Law negotiations. This entails policy that supports the EU Green Deal's nature and climate ambitions, and its alignment with the Paris Agreement and CBD COP15 Kunming-Montreal Agreement on biodiversity.

The PRI supports EIOPA's approach to respect the proportionality principle and take into consideration IORPs' specificities. Pension funds are fundamentally different from other financial market participants as they play an important social role in pension adequacy.

The PRI welcomes the integration of sustainability factors in investment decisions by make it mandatory for IORPs to consider sustainability impact in the Prudent Person Rule (PPR, Article 19(1)(b)). Other important suggestions are the clarification of duties, the integration of sustainability preferences in investment decisions and the requirement for IORPs to consider a stewardship approach to address sustainability risks. Overall, the technical advice is aligned with our policy recommendations published in the EU Legal Framework for Impact policy report.

Global

The PRI welcomes the Working Group's intention to provide the UN General Assembly with further information to ensure that the economic transition is just and takes into consideration the basic rights of all individuals, including the wide range of stakeholders involved in the mining sector value chain.

The PRI welcomes the commitment of the G20 Sustainable Finance Working Group (SFWG) to develop a framework for scaling-up the adoption of social impact investment instruments. To this end, we recommend to the Working Group to encourage G20 governments to adopt a whole-of-government approach to the economic transition that ties together real economy policies and financial policies, embedding sustainability outcomes.

Global Investor Statement

To tackle the climate crisis, seven major groups have collaborated to pull together and elevate the best investor guidance on tackling the climate crisis. Together, these groups have formed the Investor Agenda, a common leadership agenda on the climate crisis that is focused on accelerating investor action for a net-zero emissions economy. Since creation this year, the Fund and half of our fund managers have signed the statement.

More details around this statement can be found [here](#)



Activities and training undertaken directly by the Fund.

The Fund has undertaken the following activities during Quarter 2 of 2023.

Fund manager meetings

During the quarter, the fund met with the below fund managers to discuss areas of concern. Priority areas that are discussed at these meetings are:

- Fund Performance (including risks to the fund and inflationary pressures)
- ESG (including management overview and follow ups to prior period engagements)
- Voting (what happens where votes contradict LAPFF guidelines, and challenge around votes taken)
- Others if applicable (e.g., fossil fuels, carbon intensity, portfolio emissions)

- | | |
|----------------------|----------------|
| 1. Storebrand | Global Equity |
| 2. UBS | Passive Equity |
| 3. UBS | Infrastructure |

Industry meetings, events, and training

Engagement call with Adidas on behalf of LAPFF – 7th June

Sustainable Investment Festival – 14th June

LAPFF Executive Meeting – 21st June

Climate Investment Summit – 28th June

PLSA Local Authority Conference – 26th June

Climate risk to investors Training – 29th June

Third party supplier commitments

Along with its investment managers, the Fund also encourages its third-party providers to part take in the industry relevant responsible investments activities and groups, to promote and consider these items. An example of the supplier commitments and activities is provided below

Barnett Waddingham (Fund Actuary)

As our fund actuary, Barnett Waddingham is responsible for performing high level calculations on our behalf, covering areas such as our valuation or IAS19 reports, and analysing the financial costs of risk and uncertainty.

Barnett Waddingham - Sustainability page [available here](#)

Barnett Waddingham is a founding signatory of the Net Zero Investment Consultants Initiative and is a member of the Pensions Climate Risk Industry Group (PCRIG). They also have a net zero pledge, with details on all the above being found under the attached link. BW have been net zero on scope 1 and 2 emissions since 2021.

ISIO (investment advisory service)

Isio is responsible with providing us with investment advice, as well as reporting on our current investment and strategy. They also provide us with an annual ESG impact report to be able to see how our investments are performing from an ESG viewpoint.

ESG Beliefs can be found under Scheme Documents: [Pension investment consultants | Isio](#)

Isio have adopted the Impact Investing Institute [Impact Investing Principles for Pensions](#)

Northern Trust (Custodian)

Northern trust is responsible for taking care of the funds cash, alongside the money it has invested.

Northern Trust - Social Responsibility page - [available here](#)

Northern Trust - Latest Corporate Social responsibility report – [available here](#)

Northern trust have made the commitment to be net-zero carbon by 2050
See “Selected memberships and initiatives” page for external engagement.

Eversheds (Lawyers)

Eversheds provide us with legal advice around all matters of the fund.

Evershed's - sustainability page – [available here](#)

Eversheds has committed to reducing its scope 1,2 and 3 emissions by 50% by 2030. In addition, they recently became a founding member of the Net Zero Lawyers Alliance, alongside being the first global law firm to be accredited by the good business charter. This charter is formed of ten commitments including Environmental Responsibility and Diversity & Inclusion

FE Analytics (Investment Analysis software)

FE analytics allows us to monitor investment performance alongside similar funds to ascertain how well they are doing.

FE Analytics – sustainability page – [available here](#)

FE Analytics has pledged to achieve sustainable and efficient use of natural resources by 2030, alongside integrating climate change measures into its national policies, strategies and planning.

LGPS Pooling

East Sussex are part of the ACCESS pool and all investment managers the fund invests in through the ACCESS pool need to comply with the ACCESS voting guidelines. Link to Access website [here](#).

Link to Access Responsible Investment guidelines and summary report [here](#).

Examples of what should be voted for and against below:

Vote for:

- Adoption of Report and Accounts unless Auditors Report is qualified.
- The annual report should include a separate section that describes the work of the Audit Committee.
- All directors should be subject to regular re-election, at least every three years.
- Long term incentive schemes should be based on challenging performance targets over a consecutive period of at least three years. Therefore, performance targets for minimum rewards should be based on at least producing median performance for the industry or average market returns.
- All political donations should be fully disclosed and justified. Any political donations should be subject to a separate vote.
- The company should publish a formal statement setting out its approach to dealing with environmental issues.

Vote against:

- The Report and Accounts are not considered to present a true and fair view of the company's financial position.
- The re-appointment of the auditors where the fees for non-audit work are material and exceed the fee for audit work.
- The election of an executive director, who is not subject to re-election by rotation at least every three years.
- Election of a chairman where the candidate combines the roles of Chairman and Chief Executive, unless there are exceptional circumstances e.g., a temporary arrangement, pending separation of the posts.
- Proposed dividend and special dividends which are not covered by earnings and the company offers no explanation of policy.
- Annual report, where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.

Manager Engagement and Voting Activity

Longview (Active listed equity) Part of Access Pool

Fund Manager collaborate engagement groups - links on page 45.

- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Voting

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
23	370	153	186	13	167	203

*18 votes made date related

Note: All data displayed is fund specific, not at fund manager level

Engagement

Longview Partners - [Responsible Investment & Engagement Policy](#)

Longview currently send tailored ESG reports to ESPF each Quarter. Anonymised Q1 23 engagement examples provided to us are below:

Company A – May 2023

In May 2023, Longview held a video conference call with Company A’s Associate General Counsel, Corporate Secretary, Interim General Counsel and Director of Investor Relations for an update on various ESG matters including the company’s views on a proposed shareholder resolution regarding executive compensation.

Longview asked about the arrival of the new CEO and the influence of the new directors. Company A said that one of their areas of focus is employee safety. This had led to the Compensation Committee becoming the Compensation and Human Capital Committee, with the safety of associates a key responsibility.

Company A said that in order to promote diversity, they have expanded their disclosures across racial and ethnic categories, and these will be published in their forthcoming 2022 CSR report.

On climate, their near-term emissions reduction target has been recently approved by the Science Based Targets initiative (SBTi). Company A has committed to reducing absolute Scopes 1 and 2 greenhouse gas (GHG) emissions by 32.5% by 2032 from a 2019 base year. In 2023, they will be reporting against their target. They are also engaging more broadly with suppliers to gain a better assessment of their Scope 3 emissions, encouraging suppliers to be more transparent about their emissions and to set their own goals.

To this end, Company A has placed orders for 30 electric vehicles with 14 of these already on the road. The company is also actively pursuing solar panel installations on the roofs of some of their facilities, recognising this as an area where they can achieve substantial progress. The company acknowledges that the electrification of their fleet is constrained by the range limitations of electric trucks.

In addition, they have updated their Supplier Code of Conduct to include a 'no deforestation' goal and will have further discussions with Green Century, in their efforts to achieve this goal.

Company B commented on a shareholder resolution which seeks to prohibit the accelerated vesting of equity awards in the event of a change of control. Company A believes that the Compensation and Human Capital Committee is best placed to ensure that the interests of shareholders are well-served.

regarding executive compensation arrangements and recommended voting against this proposal. Longview voted against the shareholder proposal.

Company B – May 2023

In May 2023, Longview spoke to Company B's Vice President, Investor Relations, about the company's net zero target and its Diversity and Inclusion (D&I) efforts.

Longview asked for more details on Company B's recent commitment to net zero emissions by 2050, having submitted their near-term targets to the Science Based Targets initiative (SBTi). The company explained that they entered their submission early in 2023 and expect confirmation by October 2023.

Longview was also interested in the company's focus on 'belonging' as part of their D&I efforts. They explained that as a global company, it is important for them to create an environment where they can realise the benefits of having a diverse workforce. They believe that by creating a sense of belonging, they will encourage engagement across the organisation.

Newton (Diversified Growth Fund /Absolute Return) Part of Access Pool

Fund Manager collaborate engagement groups - links on page 45.

- Climate action 100+
- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Taskforce on Climate Related Financial Disclosure
- UN Global Compact
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Voting

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
50	952	835	100	1	833	119

*16 votes made date related

Note: All data displayed is fund specific, not at fund manager level

Engagement

Newton – Responsible investment page - [available here](#)

Newton – Quarterly Reports - [available here](#)

Example ESG Engagement

NESTLE SA Social: Opportunities in socially sustainable products or services.

The objective of this engagement was to encourage the company to set health-based sales targets across its portfolio, and to commit to increasing its proportion of healthy sales, as part of Newton’s support of ShareAction’s Healthy Markets initiative. Newton believe this engagement has now achieved its objective.

The reason for the engagement is that concerns about the impact of unhealthy foods and drinks are increasingly resulting in shifts in consumer behaviour and in new regulation. Newton believe it is important for companies to manage these risks and opportunities and ensure their business models and strategies are both resilient and positioned to benefit from expected changes. One of the recommended ways to achieve this is to measure and report on the proportion of sales that are healthy. Newton's ask was that the company discloses the overall 'healthiness' of its product portfolio using a recognised (government-endorsed) model (Nutrient Profiling Model). Newton think this is important in terms of ESG integration as it enables the company to identify where it is most at risk in terms of incoming regulation, and can therefore prioritise reformulation, new product development and M&A.

The meeting this quarter was a continuation of an engagement with Nestle. Newton followed up on the company's commitment to (a) report on product portfolio level healthiness, which has now made public, and (b) to set a target for healthy sales, which is planned for September. Newton will follow up again with the company after its target is public and when it is able to discuss this. Newton are pleased with Nestle's response and public reporting on this, which involves significant work.

Overall, Nestle now looks well positioned in managing this risk and performs reasonably well in terms of sustainability outcomes. Very few companies have conducted such reporting, but this is an important exercise for investor transparency, and in understanding product portfolio risks.

SHELL Environmental

The objective of this engagement is to encourage the company to set absolute Scope 3 emissions reduction targets. Newton consider the engagement with the company to be on track.

Scope 3 is the largest source of emissions for the company (similar to other Oil & Gas producers). Newton think that Scope 3 emission reduction should be an integral part of an energy transition plan, and they engaged with the company to emphasize the need to establish targets and plan for a gradual reduction in absolute Scope 3 emissions.

After the meeting, Newton's key takeaways were:

- The company is ahead on its Scope 1 and 2 targets. It is further not using offsets in its targets, and will consider further spend on carbon capture
- The company is open to examining a credible way to set and communicate a Scope 3 target in the near term, which we expect to be initially focused on business segments

Newton are disappointed that the company cannot provide stronger visibility on a Scope 3 commitment at this time, but will continue to monitor developments as they unfold. The absence of an absolute scope 3 target of some sort undermines the credibility of transition plan versus peers.

Ruffer (Diversified Growth Fund /Absolute Return) Part of Access Pool

Fund Manager collaborate engagement groups - links on page 45.

- Climate action 100+
- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Sustainability Accounting Standards Board (SASB)
- Transition Pathway Initiative
- United Nations Principles for Responsible Investment (UNPRI)

Voting

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
7	90	72	15	2	71	19

*1 vote made date related

Note: All data displayed is fund specific, not at fund manager level

Ruffer – Quarterly Reports [available here](#)

Engagement

NOBLE

Noble provides offshore drilling services for oil and gas exploration and production companies. Ruffer met with Noble’s sustainability team this quarter to learn how the company is considering ESG issues within the business.

Following the completion of its merger with Maersk Drilling in October 2022, Noble is prioritising the establishment of a robust baseline before setting decarbonisation targets. Ruffer expressed their preference for all the companies they invest in to set targets to reduce their operational emissions, at the very least. That being said, Noble finds itself in an interesting position – the industry standard is for the customer (not the operator) to take responsibility for the supply of and payment for fuel used during drilling campaigns. Ruffer wanted to understand this relationship, focusing on how Noble works with its customers to promote more sustainable operations – by either improving energy efficiency or using more sustainable fuels to operate the drilling rigs.

The company is making clear to its customers that there is a business – as well as a moral – case for reducing energy consumption on its rigs. Noble is already committed to installing energy efficiency equipment across its fleet and is conducting feasibility studies to operate some of its rigs using alternative fuels. This work is being completed in cooperation with its customers and is a part of Noble’s wider research and development effort.

Installing energy efficiency equipment and analytics tools will serve to collect and measure emissions data. The conversation turned to Noble’s intentions for disclosure and ESG reporting, and Ruffer learned that the company has a reporting workstream set up, with a comprehensive ESG report planned for release in 2024. Ruffer expressed their views in favour of more disclosure through platforms and frameworks like CDP, the Task Force on Climate-related Financial Disclosures and the Global Reporting Initiative and explained how they, as investors, use these resources to conduct ESG analysis of our holdings. Ruffer also encouraged the company to engage with ESG ratings providers such as MSCI, especially as Noble scores poorly on safety.

Though operating in an indisputably ‘dirty’ sector, Noble emphasised its commitment to the energy transition by pointing to its Decarbonisation Taskforce and Steering Committee equipped with resources to drive operational changes. Ruffer are still learning about this company after its emergence from bankruptcy and the recent merger, and they hope to see it evolve towards more sustainable practices over time.

Baillie Gifford Global Alpha Paris Aligned (Active listed equity) Part of the Access Pool

Fund Manager collaborate engagement groups - links on page 45.

- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)

Voting

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
60	819	696	45	49	725	94

*29 votes made was date related

Note: All data displayed is fund specific, not at fund manager level

Resolutions voted on in quarter.

Baillie Gifford – Governance and sustainability (LGPS) – [available here](#)

Baillie Gifford voting policies and guidelines

Baillie Gifford - Governance and sustainability – 2022 Principles and guidelines – [available here](#)

Engagement

Baillie Gifford - ESG information [available here](#)

Baillie Gifford - Quarterly reports [available here](#)

Examples of engagement in quarter (as per Quarterly report)

Rio Tinto Group

Objective: Following a call with the chair, Baillie spoke with Nigel Steward, who was an internal appointment to the new role of Chief Scientist in 2021. The objective was to explore the detail behind Rio Tinto's decarbonisation strategy, focusing on its aluminium and iron ore operations, as these account for the vast majority of the company's carbon footprint.

Discussion: Baillie discussed several critical aspects of Rio's carbon reduction programme, which is now supported by an R&D team of more than 500 people. To put the challenge in context, Rio's direct operations generate c. 30 million tonnes of CO₂ emissions every year. The company's entire supply chain produces c. 600 million tonnes of CO₂ each year: more than the entirety of the UK.

Baillie covered the need to develop grid-scale energy storage to support the switching of Rio's aluminium smelter plants from coal-fired power to intermittent renewable power. They also discussed how Rio could support the nascent renewable diesel industry as a low-carbon transition fuel, while the company pursues the development of large-scale batteries for haulage trucks.

Reducing carbon emissions from processing iron ore into steel is a key challenge. Ruffer learned about specific problems that require breakthrough innovation and subsequently scaling laboratory success to commercial validation. Finally, Ruffer discussed the range of partnerships developed across academia, industry and the venture-capital community to address specific technology roadblocks.

Outcome: Rio Tinto faces potentially material financial consequences from rising carbon prices if unable to significantly decarbonise. Ruffer's engagement provided insight into the complexity of the challenge and reassurance that Rio will continue to commit material resources to exploring potential solutions as it pursues carbon reduction targets. However, the pathway to materially lower emissions will require several technological breakthroughs that remain unproven at commercial scale today.

Tesla, Inc.

Objective: To discuss changes to the board and assess its ability to oversee management.

Discussion: Ahead of the AGM, Ruffer had two separate calls with chairwoman Robyn Denholm and non-executive directors James Murdoch and Kathleen Wilson-Thompson. Ruffer discussed Hiro Mizuno's decision to step down from the board, which reduced the number of independent directors, and the appointment of JB Straubel and Joe Gebbia. The new directors add entrepreneurial, executive and design expertise, with Straubel providing deep technical knowledge given his previous role as a senior executive. Ruffer heard a cogent defence of the board's new composition. Murdoch described it as the most active and robust board he has ever been on, whilst Denholm was confident that the board has a healthy level of independence and retains the ability to have frank discussions and challenge management, when required. In terms of potential future additions, Denholm would like to add a director with strong financial expertise and experience of dealing with global regulations.

Outcome: Ruffer's discussions provided assurance that the Tesla board retains the requisite skills and experience to support management's delivery of the long-term strategy. They will continue to monitor the board's composition and will support future appointments which enhance its ability to provide effective stewardship of the business.

Storebrand Global ESG Plus (Passive listed equity)

Fund Manager collaborate engagement groups - links on page 45.

- Carbon Disclosure Project
- Climate action 100+
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Voting

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
509	7538	6791	492	71	6858	680

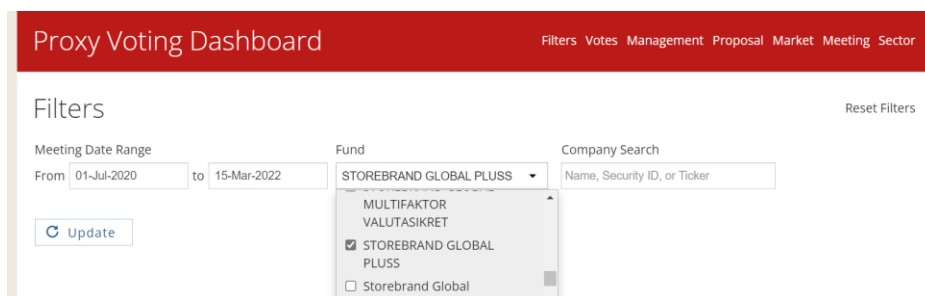
*12 votes made were date related

Note: All data displayed is fund specific, not at fund manager level

Resolutions voted on in the quarter:

Storebrand – Proxy voting dashboard – [available here](#)

Note: Please select ‘Storebrand Global Plus’ in the ‘Fund’ dropdown box



The screenshot shows the 'Proxy Voting Dashboard' interface. At the top, there are navigation tabs: 'Filters', 'Votes', 'Management', 'Proposal', 'Market', 'Meeting', and 'Sector'. The 'Filters' section is active and contains the following elements:

- Meeting Date Range:** A date range selector with 'From' set to '01-Jul-2020' and 'to' set to '15-Mar-2022'. An 'Update' button is located below this field.
- Fund:** A dropdown menu currently showing 'STOREBRAND GLOBAL PLUS'. A list of other funds is visible below the dropdown: 'MULTIFAKTOR VALUTASIKRET', 'STOREBRAND GLOBAL PLUS' (which is selected with a checkmark), and 'Storebrand Global'.
- Company Search:** A text input field with the placeholder text 'Name, Security ID, or Ticker'.
- Reset Filters:** A link located in the top right corner of the filters section.

Storebrand voting guidelines and policies:

Storebrand – Proxy voting policy – [available here](#)

Engagement

Storebrand – Sustainability page [available here](#)

Storebrand – Quarterly Reports [available here](#)

Example engagement – Meta

Storebrand has been engaging with Meta on specific digital rights issues for many years, based on its concerns about the potential for involvement in violations of human rights, as well as risks to the company's reputation and brand.

In 2021, following the military coup in Myanmar, Storebrand Asset Management began focusing more of its engagement with Meta on the company's role in the human rights crisis in Myanmar, including the persecution of Rohingya people, and the potentially adverse impact of the company's business model in conflict areas and high-risk countries

Since Storebrand started the dialogue related to Myanmar, Meta has taken several measures:

- First half 2021: Implementation of a new Myanmar specific policy to remove praise, support and advocacy of violence by Myanmar security forces and protestors from our platform.
- First half 2021: Meta announces Myanmar military to be banned from Facebook and Instagram, as well as ads from military-linked commercial entities.
- Second half 2021: Meta removes Myanmar army linked businesses from Facebook
- Second half 2022: Meta published its first annual Human Rights Report, which reports on how the company is working to address potential human rights concerns, stemming from its products, policies and business practices.
- First half 2023: Meta announced that their first Responsible Business Practices Report would be pushed during the summer of 2023. The report is to increase transparency on their impact on society and their approach to operating responsibly. They also announced that Meta's second Human Rights Report will be published at the end of 2023.

Ongoing engagement

Storebrand continues to engage with Meta, following up on their impacts of their business model and how they build up on their human rights due diligence work as explained in their first human rights report identifying salient risk related to advertising, AI and new products such as Metaverse and how they follow up on those. Despite new policies and reports the company continues to face litigation and fines for the way it carries out its business.

In addition, Storebrand will continue to engage the company on its business model in the context of conflict areas and high-risk countries such as Myanmar; and on how the company implements its commitment to the UN Guiding Principles on Business and Human Rights (UNGPs) and other key standards, as stated in its own Corporate Human Rights Policy.

Wellington (Active listed equity – impact fund)

Fund Manager collaborate engagement groups - links on page 45.

- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)

Voting

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
55	626	567	42	0	588	33

*15 votes made were date related.

Note: All data displayed is fund specific, not at fund manager level

Resolutions voted on in the quarter:

Wellington – Global proxy voting disclosure – [available here](#)

Wellington voting guidelines and policies:

Wellington – Global proxy voting policy 2022 – [available here](#)

Wellington Sustainability related investment Disclosures November 2021 – [available here](#)

Fund Overview

Actively managed equity fund which seeks to understand the world’s social and environmental problems. The fund looks to identify and invest primarily in the equities of companies that Wellington believe are addressing these needs in a differentiated way through their core products and services. Through the investments, the fund seeks to improve access to, and the quality of, basic life essentials, reduce inequality and mitigate the effects of climate change. The Wellington fund focuses on investing in the world you want to live in: focusing on investments that aim to achieve a positive social or environmental impact.

Engagement

During the quarter, Wellington engaged with CyberArk (Safety & Security, Israel-domiciled) through multiple formats to better understand the company's future growth path. They attended a CyberArk customer event in Boston where they spoke to both customers and partners about how they are using their products to understand their education level on more recent innovations and gauge their feelings on CyberArk's tech roadmap. These discussions reinforced that customers are interested in CyberArk's expanding holistic identity offerings and see value in adding to their existing CyberArk deployments. Separately, Wellington engaged with the company on an ESG call where they discussed the CEO's incentive compensation. The meeting revealed strong alignment between the new CEO's publicly stated initiatives and his compensation incentives. These engagements buttressed their view that the company will execute on their revenue growth and profitability goals.

Wellington also engaged with PGT Innovations (Safety and Security, US) during the quarter to communicate the importance of disclosing Scope 1,2 and 3 emissions and to discuss the company's recent decision to implement a poison pill. In a discussion with the Board and Counsel, Wellington shared why emissions disclosures help investors appreciate the long-term secular climate tailwinds of the business. In a separate engagement, Wellington probed the company's decision to adopt a poison pill for a perceived hostile takeover. The company shared that they wanted to bring the potential acquirer, who had acquired shares without first contacting the company, to the table. Through Wellington's engagement, they better understood PGTI's rationale and appreciate that the measure is time restricted and focused on encouraging engagement.

WHEB (Active listed Equity – Impact fund)

Fund Manager collaborate engagement groups - links on page 45.

- Access to Medicines Foundation
- B Corps
- British Standards Institute
- Carbon Disclosure Project
- Chemical Footprint Project
- Climate action 100+
- EUROSIF
- FRC Stewardship Code 2020
- Future Fit Business
- Global Impact Investing Network
- Impact Management Project
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Net Zero Carbon 10
- The Big Exchange
- UKSIF
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Additional Information

WHEB were awarded Best ESG Global Equity Fund 2023 by MainStreet Partners, an ESG advisory and portfolio analytics firm

WHEB utilizes analysis tools to inform investors of the beneficial aspects of their investments. As of 30th June 2023, east Sussex has £220.6m invested in WHEB, which has resulted in:

69267 MWh of renewable energy generated (equivalent to 4,633 European households)
 44,340 tons of CO2 emissions avoided (equivalent to the average yearly energy use of 15,442 houses)
 243m litres of water use avoided (equivalent to the water used by 4m showers)

Voting

Number of Vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
40	643	493	127	9	502	141

*Three votes made were date related

Note: All data displayed is fund specific, not at fund manager level

Resolutions voted on in the quarter:

WHEB – detailed voting record – [available here](#)

WHEB voting guidelines and policies:

WHEB – voting records – [available here](#)

WHEB – Stewardship and Engagement policy – [available here](#)

WHEB – RI policy – [available here](#)

Engagement

WHEB – Quarterly Reports [available here](#)

WHEB – Impact report [available here](#)

Engagement example: Vestas Wind Systems

[Vestas Wind Systems](#) is one of the world's largest manufacturers of wind turbines. The company manufactures both onshore and offshore wind turbines. The company also provides operation and maintenance services for wind power parks.

Objective

For Vestas to mitigate negative impacts and maximise positive impacts of their activities on biodiversity.

Background

Despite the strong interdependence between climate change and biodiversity, global energy systems are being decarbonised, often to the detriment of habitats that support wildlife. A renewable energy transition that both avoids harm and contributes to the regeneration of biodiversity is therefore essential and requires help from those involved in all stages of planning and implementation.

[In early 2022](#), having previously identified Vestas as having an elevated level of exposure to potential biodiversity impacts (both positive and negative), WHEB tried to initiate a discussion with the company around its approach to managing biodiversity. However, the company procrastinated in revealing any information and later indicated that managing biodiversity impacts was not currently a priority. WHEB grew concerned that Vestas had no real plan to address biodiversity and identified this as a candidate for escalation.

Actions

WHEB initiated a collaborative engagement initiative with a like-minded client in early 2022 which then expanded to include other investors that agreed with us that Vestas needed to demonstrate a greater sense of urgency on managing biodiversity impacts.

Together, WHEB wrote a letter, addressed to the CEO, calling on the company to support nature conservation and biodiversity in the transition to renewable energy. The letter also outlined their belief that it is critical that Vestas develops and articulates a clear position on biodiversity and that it publishes its approach to mitigating negative impacts and maximising positive biodiversity impacts.

Outcome

Milestone 3 – Company develops or commits to developing an appropriate policy or strategy to manage the issue.

Vestas' IR responded in quite some detail, for example, disclosing their use of bird and bat protection systems, environmental impact assessments and instruction of specialist consultants to aid with the development of the biodiversity strategy. Overall, WHEB are pleased to see so full a response on the issue and, having seen the letter, are now deciding next steps with their collaborators. This will likely constitute agreeing on further questions that have arisen and points for further encouragement. WHEB will report any further progress in due course.

Atlas (Infrastructure listed equity)

Fund Manager collaborate engagement groups - links on page 45.

- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Voting (No voting took place in quarter)

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
15	262	246	10	6	252	10

Note: All data displayed is fund specific, not at fund manager level

Resolutions voted on in the quarter:

Atlas do not provide underlying quarterly voting information or their voting policy on their website. If required, this information should be requested directly from the fund manager.

Atlas – Environmental, social and governance – [available here](#)

Atlas voting guidelines and policies:

Atlas – Responsible investment policy – [available here](#)

Engagement

Atlas - ESG Page [available here](#)

Engagement Example taken from annual report:

Snam S.p.A (Pipeline transportation of natural gas company)

Engagement status:

Engagement opened 23 December 2022

- Snam was identified through the ATLAS PAII implementation as a Tier 3 'Potential to Transition' and therefore prioritised for engagement upon portfolio entry in March 2022
- Snam has incorporated scenario planning for lower gas demand and hydrogen substitution, but long-term methane demand remains above B2DS emissions trajectories.
- Snam has continued to invest in methane-infrastructure assets outside core-market, indicating inconsistency of policy and demand assumptions.

Engagement objectives:

- Snam to include scenario modelling consistent with a 1.5C science-based pathway and/or the RePowerEU framework in corporate policy/scenario documents
- New investments to be presented with evaluation of impact on scenario(s) modelled above
- Snam to provide scenarios or modelling for the Italian domestic transmission assets showing how the asset base will evolve between now and 2050 under 1.5C science-based pathway and/or RePowerEU framework
- Snam to include all downstream emissions (incl. end-use) from its activities within its Scope 3 definition and as part of Scope 3 reduction targets and management KPIs

Engagement outcomes:

- Snam is working with the Italian government and Terna S.p.A (electric transmission operator) to model a scenario consistent with the RePowerEU framework
- ATLAS met with management 23rd January 2023 and noted the following:
 - a) RePowerEU has country variations (Sweden -80%; Italy -51%) but is not finalised;
 - b) Snam-Terna Joint 2022 scenarios are compliant with existing obligations (incl. Fit-for-55) but will be updated every 2yrs (2024 next) for more ambitious RePowerEU;
 - c) a regulatory model for Hydrogen infrastructure implied in RePowerEU is expected by CY2023 end

Investment impact / next steps:

- Confirmation of scenario planning to meet Net Zero and RePowerEU targets from Snam internal scenarios published in late 2023
- Management intends to adopt a framework for reporting emissions currently excluded – from transported volumes and value chain (incl. non-consolidated associates) – to be confirmed

UBS Osmosis Resource Efficient Core Equity (ex- Fossil Fuels) (Passive listed Equity) Part of the Access Pool

Fund Manager collaborate engagement groups - links on page 45.

- Carbon Disclosure Project
- Climate action 100+
- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Voting

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
375	5801	4806	772	56	4913	888

*12 votes made were date related

Note: All data displayed is fund specific, not at fund manager level

Resolutions voted on in the quarter:

UBS – voting record (Q1 2023) – [available here](#)

UBS Osmosis Achieved Environmental fund of the year 2021 for their listed equity portfolio.



Engagement

UBS Sustainability page available [here](#)

UBS Annual Report available [here](#)

UBS confirmed that there had been no written-up engagement examples for this quarter, as only a selection of total engagements are recorded in a period.

UBS Infrastructure Fund

Fund Manager collaborate engagement groups - links on page 45.

- Carbon Disclosure Project
- Climate action 100+
- FRC Stewardship Code 2020
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Engagement

UBS Sustainability page available [here](#)

UBS Annual Report available [here](#)

Below are a number of positive outcomes seen in UBS's infrastructure holdings following recent engagements:

- Developing links to local communities, including sponsorship of sports teams, volunteer fire brigades and local mental health charities
- Switched backup generator fuel from diesel to hydrogenated vegetable oil (HVO)
- New builds will include solar panels in their design
- Avoided emissions equivalent to removing over 3,000 cars from the road annually (Fund B)
- Local honey production onsite using unused land from the biogas plant. Production during 2022 averaged around 15 kg of honey per hive
- Avoided emissions equivalent to removing over 200,000 cars from the road annually (Fund D)

Schroders (Property)

Fund Manager collaborate engagement groups - links on page 45.

- Carbon Disclosure Project
- Climate action 100+
- Institutional Investors Group on Climate Change (IIGCC)
- Net Zero Asset Managers Initiative
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)

Engagement

Schroders - Sustainability page [available here](#)

Schroders - Quarterly sustainable reports [available here](#)

Biodiversity Case Study:

Asset: Gillingham House, London

Initiative: Our Asset Management Partners on Schroders Special Situations Fund, Elwood Fund Management, and the Development Manager, Landid, have secured planning consent for the transformation of a former 1975 cash depository at 38-44 Gillingham Street into a sustainable flexible office space in the heart of London's Victoria. The project aims to meet the increasing demand for modern and adaptable office space while providing the area with new urban greening through a biodiverse, publicly accessible pocket park. Alongside eight floors of uniquely flexible office space, the new building will have a 1,076 sq. ft. café at ground floor level and four roof terraces with a collaborative space for the tenants.

We plan to transform the 44,000 sq. ft. building into a best-in-class workspace spanning over 100,000 sq. ft. Working with architecture and design practice TP Bennett and sustainability experts Atelier Ten, the retrofitted building will meet occupier demands for green office space through significant carbon reductions.

The intervention will retain 60% of the structure area and 70% of structure volume to keep embodied carbon to a minimum. The upfront embodied carbon is estimated at 674 kgCO₂e/m² which is 30% lower than the Greater London Authority (GLA) benchmark for typical office buildings.

The existing glass façade will be replaced with new brick façades to improve operational efficiency. The new façades will include shading elements to reduce heat gain and minimise operational energy usage. The cooling and water recycling systems in the building will help to achieve a 17% reduction in operational carbon emissions.

The new building will help occupiers meet their own ESG goals, targeting an Excellent rating from the Building Research Establishment Environmental Assessment Method (BREEAM). BREEAM is the world's leading science-based suite of validation and certification systems for the sustainable environment. The all-electric scheme will benefit from no gas boilers, decarbonised grid electricity, air-source heat pumps and photovoltaic panels are proposed to further reduce carbon emissions. Basement levels will feature high quality end-of-trip facilities including changing rooms, showers, and 150 cycle parking spaces to encourage the use of low carbon means of transport.

Outcome: When complete, this scheme will deliver flexible best-in-class workspace spanning over 100,000 sq. ft complete with new community spaces. The all-electric, BREEAM Excellent development will outperform GLA embodied carbon targets and deliver urban greening and public realm improvements.



Infracapital (Infrastructure unlisted equity)

Fund Manager collaborate engagement groups - links on page 45.

- Carbon Disclosure Project
- Climate action 100+
- Climate-wise Disclosures
- Financial Reporting Council
- ILPA Diversity in Action Initiative
- Institutional Investors Group on Climate Change (IIGCC)
- Investors Forum
- UK Sustainable Finance and Investment Association

Engagement

Infracapital - Responsible Investment approach including ESG engagement [available here](#)

Information below taken from Annual ESG Report:

The first quarter of 2022 was an extremely active period of engagement with oil and gas companies. This resulted from a combination of Russia's invasion of Ukraine in February, increased engagement with investment teams and an increasing commitment to CA100+ initiatives.

The S&S team and the investment team met with the chief executive and management of British energy company BP a number of times to discuss its decision to withdraw from Russia. We were one of the earliest investors to meet management and we indicated our support for their decision, and the governance and speed relating to the decision itself – we assisted management by making this position public. We also worked with BP, both as a member of the CA100+ working group and as an investor, giving feedback on its 'Say on Climate' resolution. We also participated in a working group with BP management and CA100+ to give the company feedback on its overall climate strategy and received presentations from a number of senior managers on its climate direction by business unit. Overall, we believe active engagement with BP has been a genuine and collaborative stewardship success story that has had a decisive influence on the strategic direction of the company.

We were a co-filer in a shareholder resolution urging US energy company ExxonMobil to give greater disclosure over its investment and climate abatement strategies. It is fair to say our willingness to co-file reflected how far apart we are from the management view, and we hope management becomes more alert to the dangers of climate change for their business; but progress is very slow. We took part in the CA100+ engagement with state-owned Brazilian multinational Petrobras to encourage it to join the Oil and Gas Methane Partnership and to set methane emissions intensity reduction targets. The company confirmed that it had concluded its internal assessments and was then taking the decision to join the Partnership through its governance process (outside of the reporting period, we were pleased to see the company announce that it had joined the Oil & Gas Methane Partnership in Jan 2023).

Pantheon (Infrastructure unlisted equity)

Fund Manager collaborate engagement groups - links on page 42.

- Initiative Climate International (iCI)
- RepRisk
- Sustainability Accounting Standards Board (SASB)
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)
- Global Investor Statement

Engagement

Pantheon - ESG Page [available here](#)

Pantheon - ESG Reports [available here](#)

Pantheon do not produce quarterly engagement reports; however, they do have a strict ESG Monitoring process both in securing investments and afterwards, including maintaining a log of ESG issues that are not dependent on themselves finding the issue, Customized monitoring on portfolio companies to track adverse ESG publicity, and utilization and provision of ESG metrics.

No engagement updates were provided this quarter.

IFM Infrastructure Fund

Fund Manager collaborate engagement groups - links on page 45.

- United Nations Principles for Responsible Investment (UNPRI)
- Institutional Investors Group on Climate Change (IIGCC)
- Climate action 100+
- Global Real Estate Sustainability Benchmark (GRESB)

Engagement

Engagement Example: Naturgy – taken from IFM Climate change report 2022

Naturgy is a global leader in gas and electricity provision, servicing over 16 million customers in over 20 countries.

While the company's activities include gas and electricity transmission/distribution, most of the current emissions come from the operation of combined cycle gas turbine power stations (CCGTs). A number of European countries have an ongoing need for such fast-response generation capacity to balance out the intermittency stemming from energy grids' transitioning to renewables. In Spain, for instance, energy policy requires CCGT capacity to remain constant until 2030, given its critical role in the energy transition. We believe this positions Naturgy as a critical link in Europe's energy transition and Naturgy has set emissions targets accordingly.

By 2025, Naturgy is targeting to reduce its Scope 1 and 2 emissions by 48% compared to a 2017 baseline and transition to a 60% renewable energy generation mix. We believe this strategy will help ensure current levels of CCGT capacity while minimising emissions. Naturgy's CCGTs currently operate at higher efficiency rates than other CCGTs in Spain and, over the long term, they are expected to be retired and replaced by low emissions energy sources able to address the intermittency issues associated with renewables, which, in our view, could result in Naturgy achieving net zero by 2050.

Over the past few years, Naturgy has undertaken a decarbonisation program aligned with IFM's own reduction targets. As of 2022, the company has reduced emissions by 29% compared to 2017 (see Figure 4 below). This reduction has been primarily achieved through the closure of coal-fired energy generation facilities which has been widely recognised externally. In 2022 emissions increased compared to the prior year due to lower electricity production from hydro generation in Spain due to dry weather, meaning more electricity production from CCGTs was required to meet demand and balance the grid.

As part of its long-term climate strategy, the company is seeking to increase the installed capacity of renewable generation, supporting the development of biomethane and green hydrogen as new products, developing storage systems and improving value chain energy efficiency. Particularly noteworthy is progress around the following two decarbonisation levers:

- We believe the development of new renewable capacity will allow the gradual decarbonisation of Naturgy's energy generation mix. In 2022, Naturgy owned a renewable portfolio of 5.5GW (c. 34% of total solar and

hydroelectric plants and has announced a pipeline of 24.5GW of additional capacity, targeting 14GW of installed renewable capacity by 2025.

- We believe the development of biomethane and green hydrogen as a product will provide a new energy product, which in our view can replace natural gas, but with lower or no additional CO₂ emissions than would otherwise be generated. In 2021, Naturgy became the first company in Spain to inject biogas into the gas distribution network. To date, 95% of Naturgy's gas distribution networks are already prepared for use of this future fuel. It is Naturgy's strategy to inject more than 1TWh into Spain's gas grid by 2025.

Linked to the dismantlement process at the closed coal sites, Naturgy has devised an alternative plan for the sites giving priority to technologies which make power generation more efficient, with lower emissions. Reconversion plans for the development of green hydrogen at the closed coal sites are on-going at three locations for a total estimated production of c. 30,000 tH₂/year in a first phase. The output is aimed at use by land transport, injection of hydrogen into the gas network and large-scale export to northern Europe. Subject to the growth of international demand, we believe the capacity of the plants could be increased by around four times the initial production level.

Furthermore, Naturgy is working on a transition that minimises depopulation and decapitalisation in territories affected by the closure of installations. The reconversion plans are developed under the "Agreement on a Just Energy Transition for closing thermal plants", which has been signed with the Spanish Government and trade unions. The impact on local employment and the local value chain during this transition stage is estimated to create about 8,000 jobs.

M&G (Fixed Income) Part of the Access Pool

Fund Manager collaborate engagement groups - links on page 45.

- Carbon Disclosure Project
- Climate action 100+
- Climate-wise Disclosures
- Diversity in Action Initiative
- Financial Reporting Council
- Institutional Investors Group on Climate Change
- Investors Forum
- UK Sustainable Finance and Investment Association

Engagement

M&G - Sustainability page [available here](#)

M&G - Responsible Investment & Reports [available here](#)

Engagement Example – Gatwick Funding Ltd

Underlying Issue - Environment - Net Zero/Decarbonisation (including Net Zero Commitments and Climate Transition Plans)

Engagement Objective - Get Gatwick Airport to measure and report their Scope 3 emissions related from "Cruise emissions" i.e. emissions from planes when flying, that have departed Gatwick Airport

Action Taken – M&G had a teams call, asking Gatwick to measure and report their Scope 3 emissions related from "Cruise emissions", wary that the figure would likely make up ~99% of their carbon footprint.

Engagement Result - 11/7/23 (updated outcome): Gatwick have reported cruise emissions in their "Decade of Change Report" for the first time, off the back of our engagement. 12/5/23 (old outcome): Gatwick revealed that they do actually measure Cruise emissions, but just don't publicly report them yet. They said that ahead of their "Decade of Change Report", coming out in June 2023, that they would speak to the relevant teams about including these emissions in the report.

Engagement Example – ING Group NV

Underlying Issue - Environment - Net Zero/Decarbonisation (including Net Zero Commitments and Climate Transition Plans)

Engagement Objective - As part of a wider discussion on Dutch financial institution ING's climate targets and strategy (the company is currently committed to a near term SBTi) M&G had a number of requests to better allow them to measure and track its progress, as well as encouraging a net zero commitment, beyond its near term commitment:

- As part of its regular reporting, M&G asked for clear data disclosure in a single place - they asked that this include financed emissions.
- Requested additional scope 3 categories reporting - currently category 15 and business travel only.
- Requested a continuation of CDP disclosure, which the company had stopped completing.
- M&G also asked for the publication of milestones in its climate strategy, with remuneration links.

Action Taken – M&G met with the company's lead on customer engagement, climate lead, and investor relations.

Engagement Result - ING is reviewing the latest SBTi guidance for banks (which it helped to inform) before jumping the final hurdle and submitting its targets to SBTi for approval. It currently expects to be doing this in 2024. It is focusing its attention on materiality, so engaging with the largest emitting sectors on its loan book and encouraging relevant sectors to sign up to SBTi. The company was very receptive to our requests, and we will follow up in due course to see how far on board they've been taken.

Adams Street (Private Equity)

Fund Manager collaborate engagement groups - links on page 45.

- Initiative Climate International (iCI)
- RepRisk
- Science based targets Initiative
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)

Engagement

Adams Street - Responsibility page [available here](#)

2022 ESG Report available [here](#)

Every investment decision Adams Street makes is based on a careful analysis of both risk and opportunity. By integrating ESG considerations at every stage of the investment life cycle — from deal sourcing, through investment due diligence, to portfolio construction, and reporting and monitoring — they can better identify opportunities for risk mitigation and long-term value creation in their investments.

No Engagement updates were provided this quarter.

Harbourvest (Private Equity)

Fund Manager collaborate engagement groups - links on page 45.

- Diverse Alternative Investment Industry Statement
- Diversity in Action Initiative
- Initiative Climate International (iCI)
- Taskforce on Climate Related Financial Disclosure
- United Nations Principles for Responsible Investment (UNPRI)

Engagement

Harbourvest – Annual ESG report [available here](#)

Harbourvest – TCFD progress report [available here](#)

Engagement Process (from 2023 ESG Report)

“In addition to integrating financially relevant ESG factors into our investment analysis, a core component of our approach to responsible investing is how we use our influence to foster GP adoption and support of financially relevant ESG principles and increase awareness of ESG risks and opportunities. Engagement, or “stewardship” as defined by the Principles for Responsible Investment (PRI), is how we use our influence as an investor to maximize the overall long-term value of assets on behalf of our clients and their beneficiaries. In general, as a fund-of-funds investor and co-investor with limited ability to directly influence portfolio companies, we focus on encouraging lead sponsors and GPs to support sound value creation at the portfolio company level.

ESG Manager Scorecard

HarbourVest’s ESG Manager Scorecard is maintained as a live monitoring tool and updated regularly. The scoring data can be used to provide specific feedback to GPs on areas for improvement and to benchmark them to peers. Our team can leverage the Scorecard evaluation and feedback processes to encourage continuous improvement from GPs and will (where practicable and relevant) prioritize engagement with lower scoring GPs to encourage the adoption of a systematic approach to ESG management.”

Fossil Fuel Exposure by Fund Manager

The fund actively monitors the fossil fuel exposure of its fund managers to allow for engagement when we feel that these values are of concern. The below table lists fossil fuel exposure as of 30th June 2023

Fund	Mandate	Exclusion	% Fund Assets	% Fossil fuel exposure of total fund value
UBS Osmosis	Equity - Passive - Resource Efficient	Fossil Fuels free	5%	0.0%
Longview	Equity - Global	Fossil Fuels free	12%	0.0%
WHEB	Equity - Sustainable Global	Fossil Fuels free	5%	0.0%
Baillie Gifford	Equity - Global	Fossil Fuels free	4%	0.0%
Wellington	Equity - Sustainable Global	Fossil Fuels free	5%	0.0%
Storebrand	Equity - Passive - ESG Plus	Fossil Fuels free	11%	0.0%
Harbourvest	Private Equity		4%	0.1%
Adams Street	Private Equity		4%	0.1%
Ruffer	Absolute Return		10%	0.5%
Newton	Absolute Return		7%	0.2%
Schroders	Property		8%	0.0%
ATLAS	Infrastructure Equity		2%	0.0%
Pantheon	Infrastructure		2%	0.0%
UBS	Infrastructure		1%	0.1%
M&G	Infrastructure		1%	0.0%
M&G	Fixed Income - Private Debt		1%	0.0%
M&G	Fixed Income - Multi Asset Credit		7%	0.1%
M&G	Fixed Income - Corporate Bonds		3%	0.0%
UBS - Over 5 Year IL Gilt	Fixed Income - Passive Index Linked Gilts		3%	0.0%
IFM	Infrastructure		5%	0.4%
Cash	Cash		1%	0.0%
Total Assets			100%	1.5%

Engagement Group Links

[Access to Medicines Foundation](#)

[B Corps](#)

[British Standards Institute \(BSI\)](#)

[Chemical Footprint Project](#)

[Climate Action 100+ \(CA100+\)](#)

[European Sustainable Investment & Finance Association \(EUROSIF\)](#)

[Financial Reporting Council Stewardship Code \(FRC\)](#)

[Future Fit Business](#)

[Global Impact Investing Network](#)

[Global Real Estate Sustainability Benchmark \(GRESB\)](#)

[ILPA Diversity in Action Initiative](#)

[Impact Management Project](#)

[Initiative Climate International \(iCI\)](#)

[Investors Forum](#)

[Local Authority Pension Fund Forum \(LAPFF\)](#)

[Net Zero Carbon 10](#)

[Net Zero Asset Managers Initiative](#)

[RepRisk](#)

[The Big Exchange](#)

[Transition Pathway Initiative \(TPI\)](#)

[Sustainable Accounting Standards Board](#)

[UK Sustainable Investment & Finance Association \(SIFA\)](#)

[UN Global Compact](#)

[United Nation Principals for Responsible Investment \(UNPRI\)](#)