# **Environmental, Social and Governance Statement**

## **Fund Manager Engagement**

## **Reporting Q2 2021**

**Voting and engagement 1st April to 30th June 2021**

# Executive summary

Responsible Investment (“RI”) is a subject that the Fund’s 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

The Fund invests its assets, with the help of its advisers, across a range of asset classes such as equities, bonds, and real estate. The Funds responsibility is to generate financial return as its primary concern when investing, asset allocation decisions are expected to be the main driver of returns and risk over the long term rather than manager selection. ESG factors including climate change risk are taken into account when considering the Fund’s investment strategy as these can have financial consequences to the Fund’s investments.

## 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 of the Fund’s managers are required to report their engagement activity on a regular basis and exercise the voting rights in relation to the Fund’s investments as far as practical, this report summarises those activities.

## Policies and approach

The Fund have a number of policies published that outline the Investment Strategy and approach to Responsible Investments. These policies are available on the Funds website at www.eastsussexpensionfund.org/resources

## Collaborations

The Fund prefers a philosophy of engagement, which it believes to be a more effective approach in addressing ESG concerns and driving long lasting change. To be effective, it is best done in conjunction with other parties such as the ACCESS pool or the LAPFF (Local Authority Pension Fund Forum). Participation in the pool will increase the Fund’s ability to influence positive action among the companies it invests in and accelerate the transition to a sustainable pathway, but the need to bring other pool members along the journey will be paramount. The Fund is additionally a signatory to the PRI, IIGCC and to Climate Action 100+ along with its Active and Passive Managers.

# Appendix A

## VOTING AND ENGAGEMENT BY MANAGER

### For the period 1st April to 30th June 2021

# LONGVIEW (Listed Equity)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes  against | Abstained/ Withheld/ DNV | With management | Against management |
| 24 | 365 | 190 | 147 | 27 | 179 | 162 |

## Engagement

**Portfolio Company A – April 2021**

On Thursday 22nd April 2021, Longview held a call with several senior members of staff from a US financials company. The purpose of the call was to understand why the company’s Board was against two proposals that Longview intended to vote for. The first proposal was for the right to act by written consent and the second was a shareholder proposal regarding a Diversity and Inclusion Report.

Longview began by addressing the proposal for the right to act by written consent. Company A explained that management believed the threshold of 25% to call a Special Meeting was already fair. Longview explained that there should be many different avenues open to shareholders to make their voices heard. Company A emphasised that written consent does not enable shareholders to have a proper dialogue. Company A explained that management felt the procedure would likely be a slippery slope and may not lead to positive outcomes. Longview re-iterated how important it was that shareholders could engage with management and had different methods of doing so. Company A concluded that Longview’s concerns would be taken to the Board and they would come back to Longview in due course.

Longview then moved onto the diversity disclosure proposal. Company A emphasised how important diversity was at the company, citing metrics such as 43% of the Executive Committee being female. Company A referenced the company’s 2019 ESG report. Company A explained that management were concerned about committing themselves to making the same disclosures as 30% of comparable peers. Management do not know what they are committing themselves to disclose. Longview explained how a peer comparison can be beneficial as companies can pull up each other’s standards. Disclosures also enable greater objectivity and shareholders can make more informed judgments as a result. Company A countered that it takes time to establish the metrics for comparison and the company wants to do this in the right way. Company A added that the company’s compensation is linked to diversity, which holds management accountable. The commitment to diversity is there but they are just in the process of putting out the metrics. Company A spoke about the introduction of key performance indicators and the ESG Steering Committee at the company, which highlights that resources are dedicated, and reports are in the pipeline. Longview explained how important it was to have the data in order to be able to properly review the actions of management and hold them accountable where necessary.

Company A has agreed to take Longview’s concerns on acting by written consent and diversity disclosure to the Board. The company will follow up with Longview on progress by autumn 2021.

**Glass Lewis Regarding Company B – April 2021**

On 23rd April 2021, Longview held a video call with the Senior Director of ESG Research and Head of North America Research from Glass Lewis, our voting service provider. Longview instigated the call to discuss Glass Lewis’ stance on Say on Climate.

The prompt for this call was Glass Lewis’ recommendation against the Say on Climate shareholder, non-binding advisory proposal tabled at Company B’s 2021 Annual General Meeting (AGM). Longview noted that although climate change was not as significant for Company B as for some companies, the issue has been growing in importance. Climate change today appears to be of greater focus amongst the UK asset management industry, compared to the US, but Longview expects the US to soon follow suit.

Although Longview voted in line with Glass Lewis - against the Say on Climate proposal - we wanted to better understand Glass Lewis’ rationale from two perspectives; firstly, from the perceived inconsistencies with other non-binding advisory votes, such as Say on Pay, and secondly, in relation to the different recommendations made for companies in other geographies. Longview emphasised that transparency and disclosure of information are important for investor decision-making and that Longview may need to vote against Glass Lewis’ recommendations if this proposal is made in future meetings for portfolio companies.

Glass Lewis supports transparency and disclosure, including the Task Force on Climate-related Financial Disclosures (TCFD) annual reporting requirement. However, they expressed several concerns which led to their decision to recommend voting against Say on Climate:

1. Climate transition plans are complicated, regularly involving long time horizons (30 years or more) combined with technological unknowns and Government policy dependencies.

2. Even for subject experts, as they are, it is difficult to assess these plans and many investors may not be sophisticated enough to understand and approve the plans.

3. Fiduciary time horizons do not match, an average shareholder may only be invested for five years. Compare this to Say on Pay or Say on Diversity votes, where investors are better informed on less complicated subjects. These outcomes also have less impact on overall company strategy, with decisions based on twelve months of historic data and a short- to medium-term plan.

4. This type of vote might reduce or remove board accountability for long-term strategies. The Board should act in the best interests of the company and shareholders alone should not be able to dictate a company’s long-term strategy.

5. Some shareholders have expressed concern that Say on Climate votes may negatively impact their legal rights, and ability to seek redress, if management do a poor job.

While understanding of the concerns presented, nevertheless, Longview believes that the proposal being included at the AGM is a positive step in creating dialogue on this important topic and is likely to lead to better disclosure and planning. For instance, Say on Pay votes force companies to provide more information to shareholders so that they can engage and influence the structure and scale of executive remuneration to ensure management are aligned with shareholders.

Longview noted that the recent pledge from President Biden for the US to reduce its greenhouse gas emissions by between 50% and 52% by 2030 and aim for net zero emissions by 2050 evidenced a change of tone in the US. Longview believes political and shareholder pressures will force proxy voting agencies such as Glass Lewis to re-examine their approach carefully, and that may encourage them to recommend voting for similar proposals in the future. In addition, there may be a financial impact for climate laggards as their cost of capital may rise. Longview considers a 40-year time horizon in its modelling and believes transparency is essential in formulating accurate company analysis.

Glass Lewis is more supportive of climate-related votes where it is clear that the Board remains wholly accountable for the long-term strategic vision for the company. They will also be undertaking further work on the potential legal consequences of the Say on Climate proposals but expect that legislation and regulation will be required to generate the desired changes.

Longview requested that Glass Lewis reconsider its position on the Say on Climate movement, in the US and globally, ready for the 2022 AGM season, and restated our commitment to continued engagement with Glass Lewis on this topic. It was agreed the discussion had been beneficial for both parties.

**Company C – May 2021**

On 24th May 2021, Longview held a video call with Company C, a US healthcare company, to discuss ESG, and in particular Diversity and Inclusion (D&I). The below agenda was shared in advance:

* • Sustainalytics’ high risk ESG rating and the actions Company C is taking to address this.
* • Company C’s definition of D&I.
* • Details of investments and practices used to promote D&I.
* • Quantitative measures for D&I.

Sustainalytics rating and actions:

Sustainalytics’ overall ESG risk rating for Company C is high, citing Business Ethics, Human Capital and Product Governance as material ESG issues. Company C has asked to discuss this rating with Sustainalytics. The discussion will take place after Company C’s 2020 Sustainability Report has been published at the end of June 2021. Company C has engaged with MSCI regarding inaccuracies in their ESG risk analysis, in particular their product recall accounting. MSCI retrieves product recall data from the US Food and Drug Administrator (FDA) database, which lists products within its family of products. This means that the actual recall count can be double, or triple counted, incorrectly inflating aggregated recall data. Until this is resolved, Company C is making investors aware of the inaccuracies in the data.

Company C continues to remedy the problems it faced at its factories. Longview and Company C have discussed these problems several times over the past two years. There is an outstanding warning letter from the FDA regarding the factory’s non-conformities to current good manufacturing practice requirements. Company C believes that it now complies with the regulation. However, the letter will only be satisfied once a reinspection is completed, and management is waiting for the FDA to schedule a reinspection.

Company C received a separate FDA warning letter in respect of manufacturing practices in another country. Significant measures have been taken by Company C to upgrade and improve facility safety. The warning letter for this site was cleared in September 2020 and should now be reflected in rating improvements.

Company C has reduced product recall rates by 60% (62 class two recalls in 2017 and 21 in 2020). Longview requested peer comparison data to benchmark 21 recalls against Company C’s peers. Management noted that the data is available, however, the issues noted above apply and affect comparability of the data.

Company C understands that they can improve their disclosure on remediation of factory. The 2020 Sustainability Report will seek to improve disclosure. Longview agreed that investors need visibility on all metrics in order to examine company performance accurately, which would provide ESG accountability to both offenders and improvers. Company C agreed and confirmed that this is a general theme in feedback from investors. As a result, they are increasing their disclosures, and looking to increase these further over the next three to five years.

Definitions of D&I:   
Company C considers diversity as gender, race and ethnicity across all levels of the organisation. They also consider cognitive diversity in terms of thought or background, including experience of professional development paths. They claim that their definition is broad, but their metrics only disclose gender, race and ethnicity.

The CEO places D&I high on Company C’s list of priorities with a focus on culture and definitions of measurement. Upon taking the role, he made positive changes to the Executive leadership team, Board composition, and hired a Vice President of D&I in September 2020.

Investments in D&I:

D&I has been at the forefront of recruitment decisions. After the CEO was appointed, he replaced 80% of the leadership team, which he now classifies as being 70% diverse. Company C is looking to improve D&I in recruitment at all levels within the organisation.

Company C has committed to a 5-year funding partnership with NAACP (The National Association for the Advancement of Colored People), a US civil rights organisation.

Internally, Company C has developed different D&I initiatives. These include Employee Resource Groups (ERGs) and Diversity workshops providing cognitive, gender and racial diversity training across Company C’s 20,000 employees.

Measures:

Company C discloses human capital diversity metrics (gender, race and ethnicity) in their annual reports in accordance with SEC requirements. Currently, they publish no other quantitative measures. However, the D&I team is consulting with investors and regulators on what measures they should also aim to survey and publish going forward. Longview emphasised the importance of being able to quantify and track improvement in Company C’s D&I position over time and relative to peers.

Outcomes and follow ups for Longview:

* • Check Sustainalytics rating changes following publication of the CSR report, scheduled for the end of June 2021. Follow up with both Sustainalytics and Company C.
* • Review the D&I metrics published in the 2020 Sustainability Report and re-engage with Company C if required to improve disclosure.

# Newton (Diversified Growth Fund /Absolute Return)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes  against | Abstained/ Withheld/ DNV | With management | Against management |
| 42 | 1149 | 972 | 129 | 3 | 995 | 154 |

## Engagement

**Ferguson**

**Remuneration and corporate reporting**

We took the opportunity to provide feedback to the company’s head of total reward and investor relations following the reduced shareholder support for the company’s remuneration report at its last AGM. We questioned the board's rationale in allowing significant bonus awards in 2020 when a significant level of redundancies had been made throughout the workforce. We shared that any 'formulaic approach' to calculating bonuses should have been considered by the remuneration committee in the context of wider market and economic realities. The company responded that the ability of the business to remain resilient in a difficult year was considered as an important factor in the board’s decision. While redundancies had been announced in a pandemic year, these were not necessarily related to the Covid-19 situation and would have been carried out nonetheless. The company did share that transparency and detail in discussing the rationale around remuneration would be an area of focus for future reports. Finally, on the integration of sustainability goals into executive pay, it was in the process of determining the next set of targets in which ESG issues would be considered.

We met the company’s head of sustainability and investor relations to discuss a variety of salient ESG factors.  
**Carbon emissions**

In relation to the company’s scope 1 carbon emissions, the company explained how it was integrating electric vehicles and telematic systems, which oversee and reduce idling times. In the US, improvements to distribution had reduced fulfilment pressures from branches and allowed them to focus on sales while also ensuring that trucks (previously sitting outside the branches) were used more efficiently. In terms of reducing scope 2 emissions, the company discussed measures such as retrofitting heating and ventilation systems, using solar, and bring online further energy efficiency projects. Finally, as the company’s five-year carbon targets were coming to an end, we suggested the company considers setting these as science-based targets.

**Whistle-blower reporting**

We asked how complete and impartial resolutions were assured in relation to whistle-blower reports as this information was currently not being disclosed. The company explained that the whistle-blower mechanism was maintained by a third party, which reported to internal audit and, in turn, had reporting lines that extended to the board’s non-executive directors. We shared inputs on how disclosure challenges could be managed, while also highlighting the importance of reporting issues based on their substance and importance to the business.

**Business ethics and conduct**

We asked the company how it conducts and oversees its suppliers. We learnt that its code of conduct covers all suppliers, and that non-compliance results in termination of the relationship. The company makes use of a software system that screens potential suppliers, with additional screening conducted for high-risk countries. Training and site audits were mostly focused on its own brand.

**Covid-19 and employee support**

The company had instituted safety protocols including masking and plexiglass protection, andenabled kerbsidepickup for the safety of employees and customers. It said it was supportive of an employee’s choice to take a vaccination against Covid-19. The company explained that a success coming from the pandemic was a realisationthat certain employees could work efficiently and effectively without needing to be in an office, despite its business model being branch-based.

**Linde**

We spoke to the company’s investor relations to discuss several ESG issues. Our discussion concluded that the company had adopted a progressive approach to integrating sustainability in its operations and that it was actively working through the challenges and aligning these objectives with its strategic goals. We shared our expectations around corporate-governance improvements with regards to board composition, remuneration and disclosure transparency in relation to the whistle-blower programme.

**Board composition**

We asked the company about a possible refreshment of the board. It explained that the incumbent directors were expected to serve until March 2022, which would mark three years since the merger was concluded, at which point directors reaching 72 years of age would be expected to retire. Five of the directors are expected to reach this age next year and it was confirmed that a plan for board refreshment was underway.

We also encouraged the company to use this opportunity to think about expanding gender, experience and race diversity among the board members. We were pleased to learn that itsthinking also reflected these ideas. In addition, the company explained its broader target of 30% females in the workforce by 2030.

We suggested the company should consider adding sustainability experts to the board to illustrate its commitment to longer-term goals and raise the sustainability profile within the board.

**Emissions**

Discussions around scope 2 emissions, which account for 56% of the company’s total emissions, focused on current targets and if these were sufficiently stretching to achieve an overall reduction of emissions across the expanding business. The company reasoned that its commitment to double renewable energy purchases by 2028 made it the largest renewable-energy purchaser in the world, and that its targets were practical and reasonable given the slow pace of renewable-energy expansion in power grids. In terms of comparison with industry peers, the company argued that differences in scope 2 accounting (location vs. market-based) resulted in inconsistent comparisons where the company had adopted a market-based approach that gave a more accurate view of its emissions.

While progress could not be confirmed in terms of net zero, the company was aware of investor expectations and noted that these were being considered in setting further commitments.

**Water**

Given that water is an important resource in the production processes, we understood the company’s approach to recycling water within its cooling towers and its efforts to substitute water through plant-efficiency measures. The company highlighted that its absolute water usage could increase given expected demand.   
**Whistle-blower programme**

We sought more clarity on the type of whistle-blower complaints that had been received and how they were managed. The company has compliance review boards in each country of operation, quarterly reviews with the chief executive officer and an annual review with the company board. Each complaint is reviewed by the chief compliance officer, with investigations conducted at the local level and corporate level, where necessary. The company remarked on cultural differences in certain regions where, despite education on these topics, employees were reluctant to use the programmeor did not see enough value in using it, which is why data was collected at the country level. To improve transparency, we encouraged the company to consider reporting whistle-blower data at the country level when it could not be shared at the issue level.

**Employee relations**

We encouraged the company to respond to the survey issued by the Workforce Disclosure Initiative (WDI), of which Newton is a member. The WDI aims to encourage improved policies, practices and disclosures in relation to companies’ management of workforces.

**Remuneration**

We described our expectations surrounding remuneration arrangements, which are based on aligning individual reward with performance. Given the company’s long-term incentive plan consisted of a significant proportion being subject to time served and share options that vest irrespective of performance, we encouraged it to focus on aligning long-term awards with strategic, forward-looking, performance-based targets.

22 Further ESG Cases present in Q2 Investment Report

# Ruffer (Diversified Growth Fund /Absolute Return)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes  against | Abstained/ Withheld/ DNV | With management | Against management |
| 22 | 539 | 438 | 97 | 5 | NA | NA |

## Engagement

Carrefour

**CARREFOUR** is a food retailer with operations in Europe, Taiwan, and Latin America

*Meeting with Laurent Vallée (General Secretary), Edouard de Chavagnac (Group Legal Director), Kevin Paviet-Salomon (Corporate Legal and Group Finance Director), Selma Bekhechi (Head of Financial Communication and Investor Relations), Antoine Parison (Investor Relations Director), Anthony Guglielmo (Investor Relations Senior Manager), Max Bagnall (Investor Relations agent, D.F. King Limited)*

Issues: Environmental and governance – biodiversity, remuneration and board structure

We met with the company to assess our voting decisions ahead of the AGM. On governance, we discussed CEO remuneration in detail. Whilst we felt the quantum of pay in relation to performance was reasonable, in our view, the scheme is poorly designed and administered with too much discretion. We confirmed to the company we felt the policy and structure need to be more robust and transparent. We subsequently voted against the remuneration policy, and the Chair of the Remuneration Committee, at the AGM and informed management of our vote.

We also discussed the independence and tenure of non-executive directors. At the AGM we voted against Nicolas Bazire, a nonexecutive director who was convicted and jailed (subject to appeal) in the ‘Karachi affair’.

We also touched on deforestation in Brazil and noted the company’s targets and recent efforts to reduce their impact in this part of the supply chain. Carrefour first made a commitment to reduce deforestation in the region in 2010 and, whilst efforts have been slowed by local government policy and political instability, the company continues to set leading targets within the food industry.

WH Smith

**WH Smith i**s a globally diversified retailer with stores across airports, rail, hospitals, and the UK high street

*Meeting with Ian Houghton (Company Secretary and board member)*

Issues: Governance – Remuneration

We requested a meeting to discuss the concerns we had with the company’s remuneration report. Ahead of the meeting, we wrote to the board to communicate our view that the intention to go ahead with a pre-planned base remuneration increase for management was not appropriate in the current circumstances. At the time, the company was loss-making, had suspended its dividend, raised equity, was benefiting from government support and had made staff redundant. In addition, we shared the view that disclosure around the personal performance criteria was not clear.

Whilst we voted against management on the approval of the report, we made clear our view did not express a negative appraisal of the performance of the CEO and management team during this challenging period.

Following the meeting, the board confirmed they are revising the remuneration report and will not include the executive pay increase, due to the feedback from shareholders.

# Storebrand (Smart beta listed equity)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votes  against | Abstained/ Withheld/ DNV | With management | Against management |
| 198 | 2,987 | 2,792 | 152 | 38 | 2,684 | 303 |

## Engagement

**ESG Issue: Forced labour**

**Objective:** Create awareness about forced labour in supply chains and ensure that companies address, manage and mitigate the risk by adopting solid policies and procedures and good relationships with suppliers and other key stakeholders

**Type of engagement:** Collaborative and direct, proactive

Part of collaborative engagement via Investor Alliance for human rights in collaboration with Know The Chain benchmark on forced labor. Concerns raised in general but also specifically regarding Xinjiang and human rights abuses against Uyghurs, in China.

**ESG Issue: Climate change financing**

**Objective:** Reduced financing of emitting sectors

**Type of engagement:** Collaborative, proactive  
**Objective:** Addressing banks' financing of palm oil plantations to ensure it does not lead to deforestation and exploitation of land  
**Type of engagement:** Collaborative, proactive

**ESG Issue: Coal financing**

**Objective:** Target Intesa San Paulo to ensure they stop financial coal plants and mines, as stated in their own policy

**ESG Issue: Human rights in conflict zones**

**Objective:** Ensure that companies with operations in Myanmar carry out human rights due diligence so that they do not contribute to severe human rights violations

**Type of engagement:** Collaborative and direct, proactive

Collaborative initiative of 77 asset managers led by SAM, with the Investor Alliance for Human Rights, Domini and the Heartland Initiative. We call on companies across all sectors with business activities or business relationships in Myanmar to: Immediately map their business activities, relationships and/or investments across their value chain in Myanmar to identify and assess human rights risks and harms that they may have or are causing, contributing to, or are linked to including: -any and all business relationships, activities and communications involving the Myanmar military, or military owned, controlled or affiliated entities; -any revenues from such business relationships and activities that may enrich military owned, controlled, or affiliated business and/or provide funding or support to the Myanmar military made before or after the February 1 coup. -Assess and address all identified actual and potential human rights impacts of their business activities and relationships and take steps to mitigate and prevent them. -Design and implement processes to enable the remediation of adverse human rights impacts including those impacts on their in-country staff and local stakeholders. -Regularly publicly report on such due diligence efforts and procedures in place to cease, prevent and mitigate those negative human rights impacts. -Provide support to in-country staff and employees to ensure their physical safety and do not retaliate against employees for strikes. -Use leverage and participate and initiate collective action by business in support of human rights. We urge companies and their Boards to consider this call. While we acknowledge that companies are facing substantial safety risks, to both workers and assets in the current situation, this is an opportunity for the private sector to show its leadership in navigating and assisting Myanmar’s transition to peace, justice, and democracy.

**ESG Issue: Corruption**

**Objective:** Discuss the terms in Ericsson's settlement agreement with the US and to ensure that their compliance systems have sufficiently improved.

**ESG Issue: Price fixing**

**Objective:** Viatris is allegedly involved in a serious price fixing scheme. We want to make sure that Viatris has made changes to its governance systems and personnel in such a manner that the risk of recurrence is sufficiently reduced.

**Direct engagement targeting:** *Viatris Inc.*

Viatris, formed through the merger of Mylan and Upjohn (a division of Pfizer), has inherited a high-risk controversy related to alleged price-fixing practices by Mylan and Upjohn. Both companies face civil and criminal investigations and lawsuits related to price fixing and pay‐for-delay practices in the US(31.4% of Viatris’ FY2020 revenues). Mylan was already subject to substantial allegations of price fixing for several years in relation to its EpiPen and Provigil products, and paid upwards of USD 1.4 billion to settle the allegations.

**ESG Issue: Living wages**

**Objective:** To encourage and monitor investee companies to address the non-payment of living wages in global supply chains.

**Type of engagement:** Collaborative, proactive

The Platform Living Wage Financials (PLWF) is an unprecedented alliance of 15 financial institutions that encourages and

monitors investee companies to address the non-payment of living wage in global supply chains. As an investor coalition

with over €2.6 trillion of Assets Under Management and advice, we use our influence and leverage to engage with our

investee companies.

**ESG Issue: Working conditions and quality of care**

**Objective:** Raise key concerns and general expectations for the sector in relation to working conditions and quality of care in nursing homes.

**Type of engagement:** Collaborative, proactive

Part of a group of 95 investors with more than US$3.34 trillion in AUM, which supported a statement of expectations for the nursing home sector outlining key concerns and general expectations for the sector in relation to working conditions and quality of care. Understaffing: o Adhere to best practices of safe staffing levels.

o Ensure adequate staff organisation, appropriate working hours and protection of workers from occupational risks.

o Ensure that in health crisis, such as the pandemic, workers are empowered to request extra staffing to meet additional needs of resident care.

-Health and safety:

o Ensure robust health and safety provisions regarding COVID-19 in line with the latest World Health Organisation guidance including provision of adequate PPE.

o Ensure that up to date data is held on COVID cases and fatalities among the workforce, and reported to relevant authorities. o Provide fully paid sick leave for all workers.

o Ensure the existence of an Infection Prevention and Control (IPC) programme and team or at least a trained IPC focal point. Conduct annual infectious disease training for all workers involved in direct patient care or come into contact with patient areas. Provide workers up-to-date information on infectious diseases.

o Create effective health and safety workplace representation through elected worker representatives or joint labour and management committees, consistent with ILO Convention 155.

o Invest in digital and technological upgrades to improve health and safety conditions.

-Wages and contracts:

o Provide hazard pay for all workers to reflect the increased risks they bear for the remainder of the pandemic. o Uplift wages to living wage levels.

o Shift away from use of precarious contracts, including reliance on agency work, temporary contracts or limited-hour contracts.

-Freedom of association and collective bargaining:

o Respect workers’ rights to freedom of association, to organize a union and to bargain collectively, free from retaliation, interference and opposition, as recognized by the core ILO conventions.

o Engage in constructive social dialogue with trade unions at the local, national, and global levels.

o Conduct human rights due diligence to identify and mitigate risks that these rights are not respected in global operations.

-Quality of care:

o In addition to the interconnected measures above, particularly staffing levels, adhere to best practices for quality of care for residents including:

▪Ensure adequate autonomy for residents and opportunities for residents to stay active

▪Invest in care solutions including innovations to meet the diversity of resident care needs

▪Collect and report levels of resident satisfaction

▪Report publicly and to the relevant authorities on quality of care indicators including any incidents

# Wellington (Listed Equity – Impact fund)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votes against | Abstained/ Withheld/ DNV | With management | Against management |
| 54 | 587 | 565 | 18 | 25 | 551 | 15 |

## Engagement

Engagement continues to be key in understanding the companies in your portfolio better, particularly as the pandemic persists. These conversations help us to understand the less tangible drivers of a company’s impact and financial performance. Here are some examples of our discussions across existing positions in the quarter:

**Sun Communities (Affordable Housing, US)** is a US-based manufactured home community (MHC) operator. We engaged with the company after they recently hired a Head of Sustainability, which we see as a positive outcome that will help Sun become more proactive and improve the impact data they are able to collect. During the engagement, we also discussed the frictions between the company’s business model and external certification frameworks used for green buildings. For example, due the classification of mobile houses, Sun is unable to get LEED certification, which can lead to lower environmental scores from ESG rating providers relative to other affordable housing competitors. Since we are normally encouraged to see housing and real estate companies focused on growing their LEED/green certified footprint over time, it is important for us to understand the nuances their businesses go through and we will continue the dialogue with Sun to make sure they are producing energy efficient communities regardless of certification. In addition to our focus around understanding Sun’s approach to improving energy efficiency at their properties, we strongly encouraged to consider how they can support their residents by leveraging their position in the local community (e.g. petition the local transit authority to ensure there is convenient access to public transportation close to their communities).

**OneMain (Financial Inclusion, US)** is one of the US’s largest non-prime consumer finance companies. The company is one of the limited options available for lower-end consumers to obtain credit, and it consistently offers this credit at rates below alternatives. In addition to our regular meeting with management, we engaged with the company on its governance, as well as on its first issue of a social bond social bond (where at least 75% of loans going to minorities or women). In terms of governance, we were disappointed that the attendance rate of one board member was below 75% for board meetings, hence our engagement on the issue. In expressing this view to the company, we learned that this director was associated with one of the two private equity owners, and that his low attendance rate was due, in part, to an error in counting attendance at one 6-hour board meeting. Given this error in recording and knowing that private equity representation on the board will decrease as the private equity firms sell down their stakes over time and independent directorship will increase, we came away comfortable and confident that the company will continue moving towards an improved era of governance.

**Hapvida Participacoe (Health, Brazil)** is a vertically integrated low-cost health insurer operating in Brazil's rural markets. The unique business model and a focus on regions with particularly low access to quality care continues to make this a compelling impact story. We engaged with the company to understand how they have coped with the second wave of COVID-19 in Brazil. During the first wave, the regulator required the postponement of elective surgeries across the country; however, the regulator did not issue the same requirement during the second wave, which put greater strain on the healthcare system. We discussed Hapvida’s successful efforts to rotate physicians and healthcare resources across the Brazilian states in order to simultaneously maintain high levels of care for COVID infections and still provide elective procedures. Critically, we have also been concerned about the potential for healthcare inflation across Brazil next year. While regulated health care costs are down significantly in Brazil this year, we anticipate a meaningful increase next year to reflect the recovery in elective surgeries and the ongoing cost associated with fighting COVID-19. We have engaged with the company to understand the proactive initiatives they are undertaking with the regulator to smooth out costs for their patients, rather than have them incur much greater costs next year.

**Covanta (Resource Stewardship, United States)** is a waste-to-energy management company. Covanta converts liquid and solid waste into energy. It also safely recovers, destroys, or recycles electronic, pharmaceutical, and other hazardous materials, including ferrous and nonferrous metals that would otherwise sit in landfills. Under new leadership, most notably CEO Mike Ranger, Covanta is focused on successful start-up of new waste-to-energy operations in Ireland and the UK and is conducting a strategic review that has highlighted opportunities to unlock value across the company’s global operations. Given the capital intensity of the business, we are encouraged the company intends to direct the proceeds of asset sales to debt paydown. Another area of focus for the company has been their CO2 emissions. While Covanta’s business is associated with much lower emissions compared to that of landfills, it is the portfolio company that contributes the most to the weighted average carbon intensity. To that end, Covanta has stressed their commitment to sustainability – disclosing they have reduced lifetime CO2 gases by 4.2m metric tonnes through their operations over the quarter and committing to report progress on these reduction efforts each quarter. We are pleased the company intends to enhance their disclosure frequency and we’ll continue to monitor their progress.

# WHEB (Listed Equity – Impact fund)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votes  against | Abstained/ Withheld/ DNV | With management | Against management |
| 34 | 446 | 315 | 102 | 30 | 315 | 102 |

## Engagement

**Thermo Fisher Scientific, COVID-19 and access to diagnostics**

**Thermo Fisher Scientific** is a global life sciences company and one of the longest standing holdings in our portfolio. Thermo’s scale and depth of capabilities enabled the company to respond rapidly and effectively to the COVID-19 pandemic. Thermo began providing huge quantities of testing kits from as early as March 2020, and is now providing manufacturing equipment and services to support the largest vaccination drive the world has ever seen.  
**Enabling access to diagnostics**

We are all relying on companies like Thermo Fisher to pull us out of this pandemic, and we do not seek to downplay the incredible achievements of the management team and staff who have worked tirelessly to provide this support. Clearly, however, the global COVID-19 response has not been an equitable one. As we write this report, the UK is preparing for “freedom day”, having fully vaccinated over half of its population. Meanwhile, India is emerging from a tragic third wave and has fully vaccinated just 6% of its population.

**AGM questions**

For this reason, we joined forces with the Access to Medicine Foundation to lead a cohort of professional investors in an engagement with Thermo Fisher at this year’s Annual General Meeting. We asked them to consider sharing their intellectual property and expertise with other companies to enable increased supplies of testing kits and vaccine production equipment worldwide. We asked them what more they could do to expand production and accelerate distribution of testing kits, vaccine supplies and equipment. Finally, we asked them to pledge not to profit from COVID-19 testing or vaccine production services and equipment for developing countries during the remainder of the pandemic. Thermo Fisher responded by asserting that their approach to pricing is intended to ensure that their customers are able to rapidly adopt the technologies, meanwhile the company substantially increased donations made through their Giving Back program to help disadvantaged communities in 2020. We were pleased that the CEO responded to our question during the AGM, though the. content of his response was admittedly disappointing. We look forward to speaking with Access to Medicine and our peers again in October to continue our engagement.

**MSA Safety and PFAS**

In March we picked up on some news from two large US studies that found that firefighters were 9% more likey to be diagnosed with cancer, and that 14% are more likely to die from the disease, compared to the general population.9 The causes are still unclear, although it is assumed that exposure to toxic fumes, firefighting chemicals as well as contaminantes in firefighting equipment are likely to be cause.

**Potential links between PFAS and cancer**

Another recent study, published in June last year, suggested that the high levels of per- and polyfluoroalkyl (PFAS) chemicals in firefighting clothing might represent an additional pathway that might also be contributing to the higher incidence of cancer among firefighters.

PFAS, also known as ‘forever chemicals’, are highly persistent chemicals that are resistant to water, grease and heat. They can also be toxic and bioaccumulative and have been linked to a number of diseases including various forms of cancer. Some types of PFAS chemicals have been phased out (including PFOA and PFOS) but other PFAS chemicals still remain in widespread use. The issue was publicised by the envrionmental NGO ChemSec and we relayed these concerns on to **MSA Safety**, a WHEB portfolio business held in our Safety theme which manufactures a wide variety of safety equipment including firefighter equipment and clothing.

**Developing PFAS-free alternatives**

Over the course of March-May we had a series of exchanges with the company which clarified their position and approach to this issue. The company, through its ‘Globe’ brand does make a variety of types of firefighting equipment and clothing, however, they do not themselves use PFAS in their manufacturing processes. The materials are supplied to the company by fabric manufacturers who in some cases add the chemical in their manufacturing processes.

MSA Safety was already aware of the issue and has fielded enquiries from firefighting services who are interested in PFAS-free gear. MSA, and Globe, have relayed these enquiries back to their own suppliers and has been encouraging them to work on developing PFAS-free materials.

In May we met with MSA’s Investor Relations Director who informed us that two of the company’s fabric suppliers have now launched PFAS-free materials. MSA Safety’s own position is that they want to provide a full range of options to their customers including clothing that contains PFAS as well as PFAS-free gear. So far, there have not been any efforts to actively phase-out PFAS from clothing. The company does continue to monitor any emerging evidence of harmful effects as well a any changes in regulatory guidance.

We will continue to raise this issue with the company in order to understand and assess whether the company is taking a sufficiently proactive position on the issue in order to limit risk to firefighters as well as to the company.

**Wind turbine blade recycling**

We have commented previously on the engagement we have been doing with the management of **TPI Composites** to encourage the company to take a more aggressive approach to developing materials and processes to recycle wind turbine blades. In May, the broader issue of wind blade recycling received a boost when **Vestas** announced that a coalition of Danish organisations had succeeded in developing a new technology that will enable ‘full circularity’ for the thermoset composites that are used in wind turbine blades.

**Scaling the new technology**

The consortium, which includes Vestas as well a Olin Corporation, a manufacturer of epoxy resins, and two academic institutes has formed an initiative called CETEC (Circular Economy for Thermoset Epoxy Composites) which will be responsible for developing a fully scoped solution for the industrial adoption of the new technology operating at commercial scale within the wind industry.

The technology involves separating the thermoset materials into the epoxy and fibre. Using a novel chemcycling process the epoxy is then further broken down into base components similar to virgin materials. These materials can then be reintroducced into the manufacturing of new wind turbine blades. We have engaged with Vestas, held alongside TPI Composites in our Cleaner energy theme, to understand the likely timelines and next steps. While TPI Composites was not part of the original consortium, they are a major supplier to Vestas and it is clear that Vestas and the other partners want to ensure that the initiative achieves scale as quickly as possible. For their part, TPI Composites have been working in a parallel initiative on similiar chemcycling technologies which they will bring to the discussions on how to scale the technology within the industry.

**Engagement on regulatory and market standards**

**Global investor statement on the climate crisis**

WHEB was one of nearly 500 investors representing US$41 trillion in assets that signed a letter to the Heads of State of the G7 countries meeting in the Cornwall at the beginning of June. The letter drew attention to gaps in policy action and climate ambition that need to be addressed if the world is to limit global warming to 1.5 degrees Celsius. In particular the letter called for a strengthening of national-level 2030 carbon reduction targets ahead of the COP26 meeting in Glasgow in the Autumn and for all countries to commit to mid-century net-zero emissions targets.

**Consultation on updated guidance from the Taskforce on Climate-related Financial Disclosures (TCFD)**

The TCFD has published draft guidance on new reporting requirements for all sectors. As part of the policy working group at the Institutional Investors Group on Climate Change (IIGCC) we have submitted our views on the updated guidance which we broadly support.

**British Standards Institute work on sustainable finance put on hold**

WHEB is represented on the technical committee developing a new Publicly Available Specification (PAS) for sustainable financial products at the British Standards Institute. This work, which was at draft stage, has been postponed due to the announcement by the UK Chancellor of a Government initiative to develop a regulatory sustainable investment label. WHEB is part of a group meeting with the Financial Conduct Authority (FCA) in early July to scope out the best approach for developing this label.

# Atlas (Infrastructure)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Vote-able meetings | Resolutions voted | Votes for | Votes  against | Abstained/ Withheld/ DNV | With management | Against management |
| 15 | 214 | 211 | 3 | 0 | 213 | 1 |

## Engagement

During the period, ATLAS Infrastructure was engaged with the following portfolio companies on the subject of governance and/or environmental issues:

* Eutelsat Communications SA
* Spark Infrastructure Group
* Pinnacle West Capital Corporation
* ALLETE Inc
* SSE plc
* Avangrid Inc

# UBS (Passive Listed Equity)

## Voting

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Number of Voteable meetings | Resolutions voted | Votes for | Votes  against | Abstained/ Withheld/ DNV | With management | Against management |
| 2,710 | 35,682 | 30,287 (84.9%) | 4,857 (13.6%) | 538 (1.5%) | 30,554 (85.6%) | 5,128 (14.4%) |

## Engagement

**Informa Plc**

Topic: Governance

We met with the Chair to discuss his new role and to provide general feedback on concerns pertaining to over-boarding and remuneration. We wanted to understand what motivated him to take on the Chair role and his expectations for the company. The head of investor relations also participated in the call. During the meeting, we learned that they are looking for new non-executive directors, and they expect one of their board members to step down in the near future. The Chair also shared the management succession plan which was due for annual review. We were pleased to hear of their ongoing commitment to strong succession planning.

During the meeting, the company postponed annual bonuses in light of the FY2020 performance. Cash preservation continued to be a priority for the company.

We raised concerns over the significant dissent from shareholders on the company’s remuneration policy. The company advised that they managed a long consultation process, particularly with shareholders owning the top 25%. They emphasised their focus has been on retaining staff and getting the business back on track.

We encouraged management to align with the Parker Review and provide more clarity in the future in relation to the LTIP.

**Royal Dutch Shell**

Topic: Climate

We met with the CEO, head of investor relations and head of sustainability to discuss the company's climate program. The meeting was under the umbrella of CA100+ and was held ahead of the AGM which was to contain both a management Say on Climate resolution and a competing resolution from Follow This. During the engagement, the CEO provided a strong defence of the criticism the company has faced. This criticism includes that its carbon targets are not ambitious enough, they are not Paris Aligned, and that their targets include too much hydrocarbons in the early years and relies too much on off-sets in the later years. Shell’s CEO explained that they are currently doing a great deal of preparation for the transition, and they believe they are leading in the right direction even if there are areas which would benefit from further engagement. Management was clear that the preferred outcome to its own climate votes is supportive and they look for questions, comments and voting rationale as a means to further improvements.

**Anglo American**

Topic: Climate

Ahead of the AGM, we participated in a call with specialists at the company who cover climate, strategy and finance. The company is already aiming at selected carbon neutral operations by 2030 and company-wide net zero by 2040. This meeting provided additional details on the pathway. While the call was under the umbrella of CA100+, we communicated our interests in seeing updates on scenario analysis, business implications and target setting

During the call, the company advised that electricity accounted for 44% of emissions in 2019. They are upscaling renewable energy, including in expanded operations and green-fields, and the company already has a full set of power purchase agreements in Latin America. Methane emissions accounted for 42% of emissions in 2019 with the majority coming from the ventilation of underground met coal mines in Australia. The company is piloting a form of methane capture and looking at oil & gas technology. Diesel accounted for 14% of emissions in 2019, and they are looking at the potential of open pit truck fleets as well as green hydrogen to replace diesel. In addition, the company is taking action on energy efficiency, energy storage, emissions off sets and compensation.

The company outlined that more than 90% of growth capex is going into “future enabling commodities” such as copper, nickel, nutrients and diamonds. They also indicated that In the coming months, they will spin off the Thungela thermal coal mines in South Africa. Finally, the company said it plans to provide future communications on Scope 3 metrics and targets in Q3 2021, further engagement with investors on climate reporting, and more information on its Say on Climate vote for AGM 2022.

**Inchcape**

Topic: Compensation

We engaged with the Board Chair of Inchcape to discuss the new management, changes in the Board, strategy and carbon emissions. During the quarter, we also contacted the company with questions regarding the compensation package for the new CEO. Through our engagement, the Board Chair discussed Inchcape’s vehicle lifecycle services, distribution and strategy in light of electric vehicle developments. Inchcape’s approach addresses the consolidation that is taking place in the highly fragmented distribution market. With regard to electric vehicles, the Chair does not think they will be much less profitable for the company than internal combustion engine vehicles. They continue to see distribution professionalising and original equipment manufacturing shifting away from “mom and pop” arrangements. The Chair also mentioned that they will be communicating on Scope 1 and Scope 2 targets and data soon. Retention had already come up as a risk a couple of years ago, when the CEO had seriously considered accepting a CEO position elsewhere. We expressed our concerns on certain elements of the longer-term strategy and asked for greater explanation and detail on their relative comfort that longer-term shift towards battery electric vehicles will not lead to material aftermarket profit declines for the group. Furthermore, we communicated our viewpoint regarding vehicle license software services and sales of higher margin products. Finally, through a separate email communication with the head of investor relations, we questioned the new CEO pay package which is positioned above his predecessor and asked for benchmarking market data on salary positioning versus the market. We expressed our recommendation that while we appreciate the new CEO’s technical expertise, an incoming CEO should have salary set at a level below that of the prior CEO.

**Spectris**

Topic: Governance, Human Capital   
Our engagement was with the Head of Sustainability and the Head of Corporate Affairs and focused on the governance of the sustainability strategy, efforts to attract and retain employees, the promotion of a diverse and inclusive culture, and health and safety in operations. During our engagement, we discussed the fact that the new sustainability strategy started with a series of consultations with business leaders across geographies and functions to design a materiality map. After key directional priorities were agreed upon (supporting SDG#7 Clean energy; #8 Decent work, and #9, Industry, innovation and infrastructure), each business operation had to set their own plans and targets. The Head of Sustainability is coordinating the various action plans, sharing best practices, enabled by new tools such as the first group-wide HR system, a dedicated environmental impact software and a health & safety committee and data collection system. The strategy is seen as a unifying tool and they see the potential for lifting employee engagement and loyalty. The company shared their 3-year diversity and inclusion plan supported by an external consultant. The plan draws from best practices. Their number 1 objective is that employees feel safe and supported regardless of their race and gender, and this goal is being assessed by the first group-wide employee survey. For now, the company has not set objectives in terms of recruitment, promotion and representation of minorities and genders but will be measuring progress in terms of percentage of employees exposed to diversity training and programs. We will be encouraging the company to set explicit targets as they progress in their efforts. In addition, we would like the company to disclose in a few years’ time the progress of its D&I initiatives, and measurement. Spectris various businesses assemble sophisticated precision machineries and some of the workforce is exposed to H&S risks in their day-to-day work. We learnt that since the new CEO took over and launched the lean manufacturing program, all processes were reviewed and improved, including from a H&S perspective. As expected, the self-reported H&S leading indicators went up as a consequence of greater awareness and management focus but all indicators improved subsequently. We also discussed the company’s new net zero ambitions, suggested that they assess products’ life cycle, and agreed to reconvene later this year to discuss the path to become a carbon neutral company. Our objective for future dialogue will centre on the alignment of employees at all levels with the group strategy and shared value creation with the promotion and extension of the employee share ownership plan.

# Schroders (Property)

## Engagement

Governance:

UK Retail Warehouse Fund 27 May 2021

Resolution 1: In Favour: To extend the Fund for 2 years until December 2023.

Resolution 2: In Favour: Frequency of independent valuations reduced from monthly to quarterly.

Resolution 3: Against Introduction of provision to use funds income to fund capital expenditure and reduce funds LTV.

Resolution 4: In Favour: Amend the fund benchmark in the trust instrument.

# Infracapital (Infrastructure)

## Engagement

**Zenobē**

Zenobē was established to enable the transition to zero carbon, non-polluting power and transport systems. As an owner of e-buses and owner/operator of associated electric vehicle charging points and connected batteries-on-buses, Zenobē will actively enhance local air quality and accelerate the decarbonisation and electrification of transport with E-buses delivering c.770 tonnes of CO2 saved per Electric Vehicle (EV) bus over 15 years. The business will also play an important role in addressing the challenge of energy management. As the UK transitions to net-zero, renewable energy will become an increasing part of the energy mix, creating risk of fluctuations to the grid. Since our acquisition in November 2020, planning permission has been granted for the Capenhurst project, one of the largest projects of its kind in Europe. The 100 MW network site is forecast to remove 1,000,000 tonnes of CO2, equivalent to 20,000 acres of mature forest or taking 216,044 diesel and petrol cards off the road.

**EnergyNest**

EnergyNest is a market leader in thermal batteries solutions generating environmental and economic benefits within the power sector and energy-intensive industries. Given the nascent market of emerging technologies to support the net-zero agenda a notable challenge is to determine which technologies are economically viable and have longevity. We believe EnergyNest is one of these opportunities, as the first thermal storage company globally to have a market ready battery with proven technology and projects in execution. The business is positioned to accelerate the decarbonisation agenda by improving energy efficiency, reducing carbon emissions and optimising returns for the power sector and energy-intensive industries with this innovative technology making renewable energy more accessible through energy storage, enabling the 24/7 use of solar panels and wind turbines.

**Recharge**

Recharge Infra is a market leader for public Electric Vehicle (EV) charging in the Nordics, the most advanced EV market across Europe, positioning the business at the forefront of Europe’s rapidly transitioning, low-carbon infrastructure landscape. Recent statistics show electric vehicle sales in Norway exceeding 50% of car trade in 2020, which confirm the business case for our investment and the significant impact Recharge Infra is positioned to deliver. In an effort to make electric vehicle charging more accessible, Recharge has partnered with EasyPark, enabling electric vehicle drivers to pay for parking and charging in the same app. We look forward to delivering further innovative ideas in this space to create a seamless experience for our customers in order to deliver maximum social and environmental impact.

**Cogenio Iberia**

Following a partnership with Enel, Italy’s largest energy utility company, to form Cogenio to develop energy solutions for Industrial customers in Italy, 2020 saw the establishment of Cogenio Iberia, to expand the business into Iberia with partner Endesa. As part of the Managing Service Agreement with Endesa, we sought to include a specific ESG clause ensuring that where a project is a power generation project, it must not invest in such a project if its GHG emissions exceed the EIB Emission Performance Standard (EPS) of 550g CO2 equivalent/kWh-e. This is in line with our commitment to create businesses committed to sustainability that facilitate the reduction of carbon emissions by offering energy efficiency projects to commercial clients. As at the end of 2020, 100% of the energy produced by Cogenio Iberia was photovoltaic renewable energy.

**BIG**

Bioenergy Infrastructure Group (BIG) is a UK energy from waste aggregation platform, establishing one of the UK’s largest portfolios of biomass and waste-to-energy facilities. BIG’s plants play a key role in reducing UK CO2 emissions through the roll-out of highly advanced waste disposal technologies. Scope 4 refers to carbon dioxide saved through BIG operations, and BIG delivered 295% emissions saved vs. emissions generated delivering vital additional electricity capacity to the national grid – enough electricity for 269,016 homes in the UK.

**Last Mile**

Last Mile is a leading multi-utility business in the UK which designs, owns and operates ‘last mile’ electricity, gas and water connections servicing residential and commercial customers. As global commitments to seek decarbonisation become common place, utilities must ensure the future resilience of business models where there is exposure to carbon-intensive fuels such as gas. Infracapital has worked with the business to ensure its long term value is protected, conducting detailed scenario analysis to evaluate how various climate scenarios could affect the business given gas connections represent c.32% of installed connections. In order to ensure Last Mile’s sustainable growth and protect longterm business value, Last Mile is pursuing a new partnership to provide developers across the United Kingdom with a sustainable and cleaner energy option for heating properties. We hope to share further details on this opportunity shortly. We believe this also poses an opportunity for the business to become part of the solution by working innovatively to develop its capabilities to provide design, build and ownership services in line with changing requirements and supporting its customers’ ambitions on lowering the carbon footprint of the domestic and commercial properties they develop.

**GGE**

GGE produces and distributes heat and electricity using natural gas fuelled combined heat and power plants in Slovakia. Its Polish subsidiary Duon operates Polish grid gas and LNG distribution networks and supply and transportation. During 2020, the team successfully completed the sale of heating plants in Silesia as part of the ongoing strategy to transition the asset to energy efficient infrastructure. As part of the ongoing strategy to reduce the carbon footprint of GGE, the business has changed its fleet of trucks from diesel to LNG and has implemented initiatives to reduce LNG losses during the truck loading and unloading process at LNG stations with a loss reduction from 4.5% in 2019 to 1.2% in 2020 causing a carbon saving of 15,895 TCO2E. The business has also introduced an eco-contest, whereby employees are encouraged to propose initiative strategies to improve the eco efficiency of GGE offices.

**GBRf**

GB Railfreight is the UK’s third-largest rail freight operator, providing essential haulage and ancillary rail services to a variety of critical end-user segments. GBRf’s business strategy is to deliver sustainable growth by positioning the business to deliver on the role rail freight has in a decarbonised economy. The Rail Delivery Group have calculated the benefit of rail freight to the UK economy to be worth L1.7bn per year, including productivity gains for UK businesses, reduced road traffic and clean air benefits. The environmental benefit is clear with each tonne of freight transported by rail reducing carbon emissions by 76% compared to road driven by 4x the fuel efficiency, and each freight train typically removing up to 72 HGV’s from the roads. Rail freight therefore has a large role to play in contributing to the UK’s net zero carbon emissions targets. Upon conducting climate risk scenario analysis, we recognise that in order to drive future growth at GBRf, ensure business resilience and for GBRf to further play a role in supporting the decarbonisation agenda, the business needs to migrate from its current diesel-centric activity to a fleet employing predominately electric traction. Studies conducted by European research consultancies IFEU GmbH and Infras AG indicate substituting electric traction for diesel traction could reduce carbon emissions by 49%. We believe that a migration from 100% diesel to 100% electric traction is not feasible in the short to medium term given only 38% of the current British national network is electrified. The business is therefore exploring a shift toward bi-mode locomotives which will deliver a number of benefits even prior to any electrification expansion in the UK. The direct environmental benefits include a reduction to GBRf’s carbon footprint by almost 80,000 tonnes of CO2 equivalent per annum equating to a c.L11m contributing towards the UK economy. A transition towards a fully electrified fleet will allow GBRf to take advantage of the gradually increasing degree of network electrification, playing its part in supporting the decarbonisation agenda, whilst remaining able to operate efficiently over the remainder of the yet to be electrified network.

# Pantheon (Infrastructure)

## Engagement

No noticeable engagement for this quarter

# M&G (Fixed Income)

## Engagement

**Fiserv**

M&G met with Fiserv to encourage the US fintech company to deliver better disclosure and to push for clear environmental objectives, in line with their peers. The company explained that it had just released its first sustainability report (after we made first contact on the issue, but before our meeting). As a result of the engagement, we have updated the ESG scorecard using their new sustainability report and await announcements around new environmental targets, due later in the year. We believe the company is still working on internal targets and policies, but is making good progress.

**BHP**

M&G met with BHP, the diversified mining business, to encourage the company to accelerate its remediation work at Samarco in relation to the Fundão tailings dam disaster in Brazil, and to thereby facilitate the removal of ISS' UN Global Compact red flag. We found that the pace of remediation has been slow. Firstly, the villagers whose homes had been destroyed in the disaster wanted their new village to be relocated in virgin forest, which meant creating new infrastructure, and then the impact of COVID affected building work. The village is now unlikely to be completed for a couple of years, and some villagers are taking direct financial compensation instead of waiting for the village to be completed. We will continue to monitor the evolving situation.

**Engie**

M&G attended a collective meeting with Engie, the French multinational electric utility company, to receive an update from the chair on the company's climate strategy. The company set out a very ambitious pathway to 2030, and M&G asked that it disclose its plans after 2030. The company announced that it was going to build capacity for 80GW of renewables by 2030 and then accelerate renewable supply further. Engie sees huge demand in renewables, and gas will be part of the transition – the company will convert its coal plants to gas and all gas will become green by 2045.

**BASF**

M&G Investments and other Climate Action 100+ members met with the company to plan the next phase of engagement which will take place in the second half of 2021. Having persuaded the company to announce a Net Zero target for scope 1 and 2 emissions, the next stage of the engagement is to extend this target to scope 3 emissions. A planning meeting took place in Q2 2021 for an engagement in the second half of 2021. We believe a combination of collective and bilateral engagement to be an effective means of achieving change, and will review the company response after the Climate Action 100+ meeting has taken place.

# Adams Street (Private Equity)

## Engagement

Over the second quarter of the year, Adams Street actively engaged with 17 GPs in the East Sussex portfolio. The nature of these interactions were as follows:

* 2 ODD calls (covering all operational aspects)
* 10 DD meetings (typically investment-focused)
* 5 LPAC meetings (including, in some cases, update on ESG policies from underlying managers)

# Harbourvest (Private Equity)

## Engagement

As a private equity LP, our limited liability status prevents our directly engaging with portfolio companies (except when acting as a co-investor, which in some cases allows us a Board or observer seat and the ability to raise ESG issues directly at Board level). Instead we focus our engagement efforts on dialogue with GPs, evaluating their ESG integration approaches and encouraging improvement. We use our proprietary ESG Scorecard to record performance and progress, and our positioning on LP Advisory Committees to drive engagement where relevant. The private equity investment model means that the GP is actively engaged with portfolio company management, and we expect our fund managers to understand the ESG risk and opportunity profile of all their investments and engage accordingly.

HarbourVest’s ESG 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 engagement and message to GPs may vary widely depending on circumstances and the manager’s current level of ESG adoption. The Firm leverages the Scorecard evaluation and feedback processes to encourage continuous improvement from GPs, and will (where practicable) prioritize engagement with lower-scoring GPs to encourage the adoption of a systematic approach to ESG integration.

Further information as to the ESG policy can be found at:

https://www.harbourvest.com/wp-content/uploads/HV\_ESG-Policy.pdf