TfL Pension Fund

2020 Report on Sustainable Investing

On behalf of the Trustees of the TfL Pension Fund (the "Fund"), I am pleased to present our third Annual Report on Sustainable Investing. The report builds on our experience from the last two years in significant ways but at the same time preserves important learning threads and the Fund's core investment beliefs. Sustainability is an evolutionary process for the Trustees, embracing key changes based on well thought through framework and evidence, but at the same time being bold and leapfrogging where benefits are clear-cut. The adoption of TCFD (Task Force on Climate-related Financial Disclosures) reporting, well ahead of the regulatory requirements, is a good example of that.

The Trustees continue to use all three building blocks of Sustainable Investing, namely targeting better Environmental, Social and Governance outcomes for the Fund's portfolio of public and private companies. This is seen as key part of a robust risk management process, consistent with the long-term investment horizon of the Fund. ESG now makes up a significant part of the Trustees' ongoing dialogue with the Fund's managers and the adviser as part of a fully integrated investment process. Another important development this year was the appointment of Sustainalytics as the Fund's voting and engagement partner. This would help to materially step up our activities in this area and complement the ESG integration process.

It is fair to say that whilst the Trustees have achieved a lot, there is an honest acknowledgement that more should and will be done. Some of it will be driven by better understanding and evaluation of the risk-return trade-offs involved, and that would require continuous learning and following (or in some cases setting) the "industry best practices". Regulation – both local and global – will be the other catalyst for the change. The Trustees expect to be pro-active on both fronts.

Ultimately, sustainability is not just about managing risks, but also making profitable investments in areas that will be part of the solution – more important than ever in the Covid-19 "new normal". The Trustees will continue to build on the strong momentum in this area, expecting to increase allocation to "ESG tilted" investments.

I trust you find the report interesting, engaging and above all helpful to better understand the Trustees' approach in this area.

M. Antoniou

Maria Antoniou
Chair, TfL Pension Fund

Executive Summary:

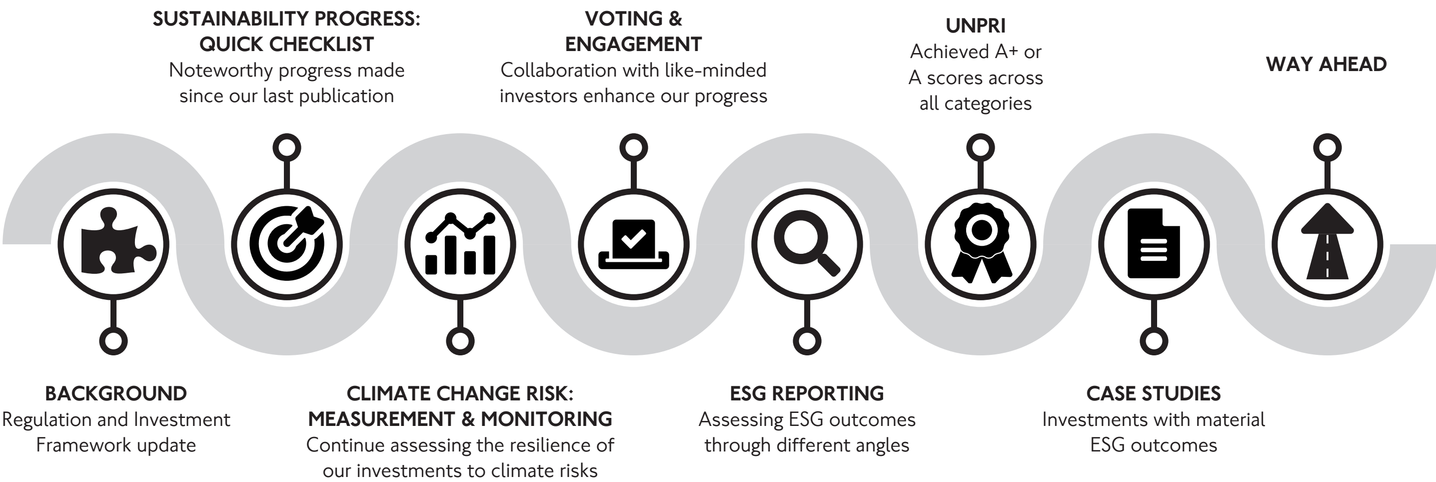
- In recent years ESG investing has gained a real foothold in the investment industry and in the wider society at large. Once considered niche by some in the financial markets, ESG and sustainable investing is now regularly in the mainstream media and is expected to continue to grow rapidly over the coming years.
- This is the third year the Fund has published its Sustainable Investing Annual Report and we are pleased to be able to share this now with you. This Report captures the on-going efforts and evolving activities the Fund has undertaken during 2019/20 as it continues along its important journey to integrate ESG considerations across all of its investments. As we go to publish, ESG issues have never been as important than they are right now, especially following the devastating social and economic havoc wreaked by the COVID-19 pandemic.
- As a provider of responsible long-term capital, the Trustees strongly believe that the Fund should be an agent of positive change, collaborating with like-minded investors and engaging with companies to invest its members' pension money sustainably and responsibly.
- The Trustees recognise that transparency and disclosure of its ESG Policy and related activities in this area is a key component of being a responsible investor.
- The Fund continues to employ the "RISEN" framework to reinforce its long-term thinking in this area (see page 3 of this Report).
- 2020 was another busy year with the Fund continuing to adapt to stay ahead of an evolving ESG regulatory landscape. The Fund updated its Statement of Investment Principles ("SIP") in March this year following further regulatory changes to the requirements for the SIP. More changes are expected next year.
- In the twelve months to 31 March 2020, carbon emissions across the Fund's active equity and bond portfolio declined a further 3.4% and since 2017 have fallen significantly by around 26% (see page 5 of this report).
- Across its corporate bond portfolio, the Fund delivered a 50% reduction in carbon emission intensity versus the benchmark (see page 5).
- 68 companies excluded across the Fund's active segregated mandates, based on the criterion that the companies derived 30% or more of their revenues from either thermal coal extraction or thermal coal electric generation.
- The Fund was an early voluntary adopter of the Task Force on Climate Related Financial Disclosures ("TCFD") in its annual Report & Accounts for 2020 (see page 6).
- The Fund scored A or A+ on all modules in its 2020 PRI Assessment, with some areas again performing consistently higher than the median scores of all respondents (see page 18).
- In its 2020 PRI Assessment, the Fund also included additional asset classes for assessment such as private equities, property and infrastructure, scoring A in these modules (see page 18).
- Since it first started tracking its ESG scores in 2017, the Fund continues to outperform its benchmark for its active equity and bond portfolios (see page 15).
- The Fund's portfolio continues to outperform its benchmark on the wider SDG framework, namely MSCI World, MSCI Emerging Markets and MSCI Small Caps (see page 16).
- Appointment of Glass Lewis, internationally recognised as one of the leading providers of corporate governance information, to oversee the Fund's proxy voting would bring consistency and sharper focus to the Fund's proxy voting record (see page 10).
- Sustainalytics, a leading provider of ESG research, ratings and analysis, also on-boarded to provide an engagement-based voting overlay to supplement Glass Lewis as well as direct engagements with investee companies (see page 11).
- Voted at over 545 meetings with over 350 active engagement dialogues with public companies across various platforms– Sustainalytics, Climate Action 100+ and manager-led engagements on issues relating to ESG and responsible investing.
- The Fund continues to work in partnership with its managers to source investment opportunities that not only offer attractive rates of return, but equally are aligned to the United Nations Sustainable Development Goals ("SDGs"). Here we showcase some of these exciting investment opportunities that the Trustees are proud to be part of (see page 19).

Investment Beliefs

Before we begin to look in more detail at each section of the Report, now is a good point to remind ourselves of the Trustees' Investment Beliefs. The following Principles reflect those beliefs and are intended to set the background against which all investment related decisions are taken to the benefit of the Fund. All discussions and decisions from investment strategy and implementation through to tactical views and funding should be taken with these beliefs in mind. Although all beliefs are equally as important as each other, for the purposes of this Report, specific attention is drawn to Belief numbers 3, 6, 7, 8 and 10.

1. Risk and return are related, but not all risks are rewarded
2. Clear objectives are essential and should be liability related and funding driven
3. **An active corporate governance programme can add value**
4. Skilled investment managers do exist and it is possible to outperform the market
5. Timing is important: asset valuation cannot be ignored when planning strategic change
6. **Long-term focus is important in thinking about investment strategy and implementation**
7. **Return and sustainability are not conflicting objectives and the main objective of the Fund is to deliver superior investment returns and sustainability is a part of this, not some standalone objective**
8. **Climate change is a significant long-term financial risk which has potential to impact all holdings in the portfolio over time if not properly managed**
9. There is frequently a first mover advantage, but to exploit it requires a willingness to take unconventional risk
10. **Diversification helps to control risks and improve efficiency**
11. Illiquidity is frequently rewarded in the long-term
12. The equity market is generally rewarded in the long-term
13. Unrewarded risks should be mitigated where possible
14. The implementation of any investment or strategy should be cost effective and at an appropriate price relative to the opportunity

TfL Pension Fund's ESG Journey Continues
but IS A LOT more advanced than just a few years ago



Background
Regulation and Investment Framework update

Pensions Regulation

- In the world of ESG and responsible investing nothing stands still for very long and 2020 was no exception as the Fund had to once again adapt to stay ahead of an evolving regulatory landscape. For the second year running, the Fund updated its Statement of Investment Principles ("SIP") in March this year following further regulatory changes to the requirements for the SIP.
- Before we look at some of these changes, however, it is worthwhile having a recap of changes made to the SIP in 2019. It was updated so that it covered the Trustees' polices in relation to material financial and non-financial considerations (including ESG considerations) in the selection, retention and realisation of investments and voting and engagement activities in respect of their investments (e.g. stewardship).
- Further changes came into effect in June 2019, namely 'The Occupational Pension Schemes (Investment) Regulation 2005' to implement aspects of the EU's second Shareholders' Rights Directive ("SRD II") covering workplace pension scheme stewardship and governance. The new Regulations significantly expanded the SIP requirements in addressing stewardship in more detail and revised trustees' investment disclosure obligations.

- By 1st October 2020, under this new legislation trustees of defined benefit schemes are required to update their SIPs so that it includes their policies on the following:
  - Explain their arrangements with asset managers, including how they incentivise their appointed managers to align investment strategy with the trustees' policies and to make investment decisions based on long-term performance.
  - Set out the methods by which they monitor and engage with investee companies and other stakeholders in relation to their capital structure and the management of conflicts of interest.
- In addition to the above, trustees will also be required to:
  - Produce a form of implementation statement on their engagement and voting practices setting how they acted on the principles set out in the SIP during the preceding scheme year.
  - Publish their SIPs, and later, their implementation statements free of charge on a publicly available website.

- Following a thorough review of the above changes and having consulted with TfL as Principal Employer, the Trustee Board approved and incorporated them in the SIP in March 2020, well ahead of the 1st October deadline.
- Looking at the implementation statement, all schemes must prepare one for inclusion in their first annual report and accounts produced after 1st October 2020 and within seven months of the end of each scheme year. As the Fund issued its Report and Accounts for 2020 prior to 1st October, it will look to produce its first implementation statement before 1st October 2021.
- It should be noted that a certain level of disclosure already takes place in the Fund's Annual Report and Accounts. For DB schemes like the Fund, the content in the statement is generally limited to report on the engagement activities and votes exercised during the year. The Fund will need to set out how and the extent to which, in the opinion of the Trustees, the policies in the SIP relating to the exercising of voting rights and engagement activities have been followed during the year. Equally, it will need to describe voting behaviour by, or on behalf of Trustees (including most significant votes cast by the Trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year.
- The appointment of Sustainalytics together with the consolidation of voting through Glass Lewis will assist the Fund in the preparation of the information for reporting in the 2021 Annual Report and Accounts.
- As well as operating by reference to these specific investment regulations, there are also broader legal concepts which need to be taken into account in investment decision making, as explained next.

Fiduciary duties and the prudent person principle

- For Trustees of DB schemes like the Fund, there are three core duties that they must consider when making investment decisions:
  - Exercise investment power for its proper use – the purpose of a trustee's investment power is to invest in such a way as to provide the promised benefits in full.
  - Take account of relevant financial factors – trustees should consider ESG issues as financially material factors. There is a growing body of evidence to suggest that ESG issues, like climate risk, can have a material impact on long-term risks and return outcomes. Incorporating ESG considerations into investment decision making is therefore critical for the health and well-being of the Fund in the long-run.
  - Act in accordance with the "prudent person principle" – recent advances in artificial intelligence and machine learning have improved ESG data, particularly data on climate risks and related financial opportunities. Trustees should now consider how future scenarios, such as a transition to a low carbon economy, could impact their schemes assets (and liabilities) and what a prudent course of action should be to mitigate against and contain any risks while also seeking any related financial opportunities.

Investment Framework

- As in earlier reports it is useful to remind ourselves of the framework which the Trustees employ to guide them when looking at ESG and sustainable investing, what we have come to term the "**RISEN**" framework:
  - **R**ecognising that companies which fail to recognise and handle their social and environmental impacts with care, or ones that do not adopt ethical and responsible governance practices are poor long-term investments because they will be prone to financial losses and loss of reputation.
  - **I**mproving its ESG approach and practices from ongoing learning and doing, recognising that this is a growing area for the Trustees and clearly more can and will be done as the collective knowledge improves over time.
  - **S**eeing ESG factors not in isolation but as part and parcel of the investment process with a view to making ESG integration less of a labelling exercise and more of a push towards real and positive long-term changes in the underlying companies the Fund has invested in.
  - **E**ngaging with investment managers both during the selection process and their ongoing monitoring to understand how ESG is taken into account from a long-term risk management and valuation perspective.
  - **N**udging investment managers to consider in more detail the impact of the activities of companies in which they invest have on the environment, particularly when they operate in countries with less sophisticated and demanding regulatory requirements. This is to ensure companies are treating all stakeholders fairly (shareholders, customers and employees) and conforming to standard business principles of transparency, integrity and fair and reasonable dealing.

Sustainability Progress: Quick Checklist

Noteworthy progress made since the publication of 2019 Report

2020 ✓ 2019 ✓

Sustainability Progress – Quick Checklist | Commitment to continuous improvement

	ACTION PLAN	**Behind the curve** Unlikely to stand up to any serious scrutiny	**On the back foot** Getting compliant	**On the front foot** Embedding ESG into Trustee governance	**Getting ahead** Making ESG and climate change a key strategic issue
YOUR ACTION PLAN	**1. Set investment beliefs**	Trustee board relies on its investment consultants to tell them what to believe. Sets nothing out in writing.	Trustee board receives a brief training session before minuting that ESG and climate change are considered material financial factors.	✓ Trustee board spends time on training before discussing and agreeing a responsible investment beliefs statement including a position on climate change risk.	Trustee board discusses ESG beliefs at least annually. Where applicable, trustee seeks to align beliefs with sponsor views. Considers alignment of strategy with UN SDGs.
	2. Review existing managers	No engagement with existing managers.	✓ Takes stock of existing managers and uses investment consultant scoring framework to rate current managers on their ESG credentials. However, scores are only used as a differentiator where there are other reasons to review a manager.	✓ Full consideration of each manager's ESG capabilities (including qualifications) with specialist input from investment consultants – includes being alive to "green-washing". Managers which require most attention identified and engaged with. Where no improvement is forthcoming or possible within current mandates, these will be reviewed.	All managers expected to demonstrate deep ESG integration. Integrates corporate environmental data in manager investment processes.
	3. Set a DB investment strategy	Existing strategy not reviewed.	✓ Trustee keeps existing strategy under review as ESG experience develops.	For active mandates: considers diversification across sources of climate risk as well as traditional asset classes. Sustainability and low carbon indices considered for passive allocations.	Positive allocation to sustainable investment or investment in assets aligned with a below 2°C pathway. Consider tilting portfolio away from lower scoring ESG assets or sectors such as high carbon emitters.
	4. Document a Policy	Adds generic wording to SIP at suggestion of the investment consultant. No further thought by trustee. Trustee does not consider wording or how it will be implemented in practice.	Trustee considers wording in the SIP reflecting the circumstances of the scheme and existing manager mandates. Trustee agrees how wording is implemented in practice with their investment consultants.	✓ Trustee develops a stand-alone responsible investment policy which supplements the SIP. This may start with existing manager mandates but will progress to deeper integration of ESG factors over time. The policy is periodically reviewed.	Extensive responsible investment policy with detailed consideration of ESG in each asset class, detailed climate change policy and stewardship policies. Climate change risk embedded across other trustee governance and internal control frameworks and considered as part of an integrated risk management framework (including any climate change risks pertinent to the scheme sponsor covenant).
FURTHER CONSIDERATIONS	**5. Ongoing manager monitoring**	Reports on quarterly past performance figures only. No forward-looking consideration of manager ESG attributes or exposure of mandates to climate change risk in the longer term.	✓ Active managers are expected to demonstrate how ESG criteria are being used in stock selection and de-selection.	Develops a robust monitoring process – reporting qualitatively and quantitatively against each manager. Managers expected to demonstrate integration of ESG in investment processes rather than the existence of separate "advisory" ESG analysts.	Measures alignment of listed equity and corporate bond portfolios across 2° transition sectors and technologies.
	6. Appointing new managers	Mentions ESG only as an afterthought in tender invitations and gives it no weight in selection criteria.	✓ ESG is identified in tenders as an important issue on which potential new managers will be expected to demonstrate competency.	✓ ESG credentials key in tender process. Investment management agreements negotiated to include specific ESG requirements.	Responsible investment requirements included across all asset classes including e.g. side letter terms in private equity funds.
	7. Stewardship & engagement	Not considered relevant. Justified based on an incorrect assumption that the scheme's investments are all pooled and therefore "stewardship is impossible".	Trustee expects managers to report on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC Stewardship Code.	Managers are expected to report in detail on their engagement policies and how these have been implemented. This should include examples of voting against the board on ESG related issues. Managers with a poor engagement record will be downgraded. Consider adoption of an off-the-shelf voting e.g. AMNT redlines.	✓ Large schemes: takes an active and direct role engaging with investee companies across all asset classes. Considers joining other investors in filing climate-related shareholder resolutions where companies are underperforming on adaptation or disclosure. Small schemes: appoints proxy voting and engagement service reflecting trustee's ESG beliefs and position on climate risk.
	8. Scenario testing	None	Obtains broad estimates from consultants as to the potential significance of climate change on the scheme's portfolio.	✓ Considers carbon foot-printing tests on portfolio. This may focus initially on listed equities and corporate bonds.	All-portfolio risk assessment (including all real asset holdings) to identify exposure to transaction risks and potential physical damage risk under different climate scenarios.
	9. Reporting	Sends stock wording to any members causing a nuisance.	✓ Some commentary provided to scheme members in annual report.	Considers TCFD reporting framework as a structure for internal governance.	✓ Reports publicly against TCFD.
	10. Industry Involvement	None	Relies on advisers to provide updates on significant developments requiring action and training as required.	Trustee board keeps abreast of industry discussions and attends events to improve knowledge and observe best-practice. Considers becoming a UN PRI Signatory.	✓ Joining investor groups such as IIGCC. Engage with policy makers to improve practice across the industry.

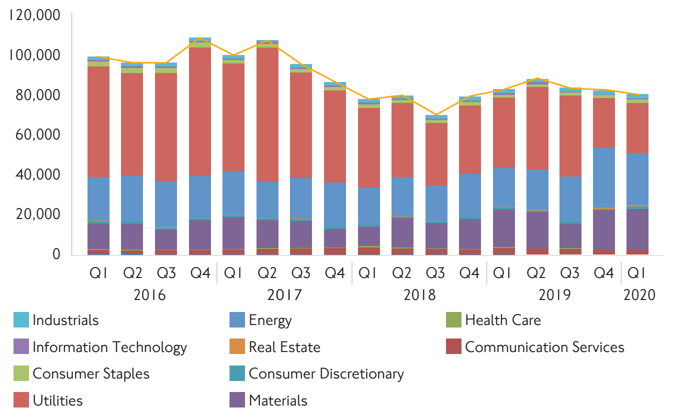
Climate Change Risk: Measuring & Monitoring

Assessing the resilience of our investments to climate risks

MSCI Scope 1 & 2 GHG Emissions

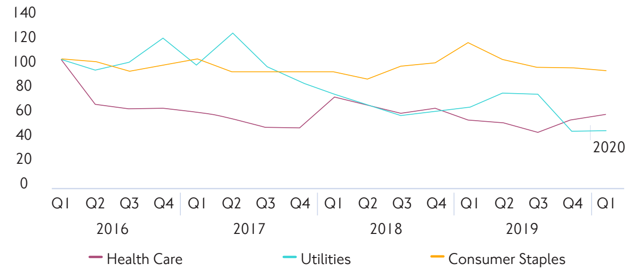
- The Fund has been analysing its carbon footprint of companies in its active equity and bond portfolio based on MSCI's scope 1 and 2 GHG emissions data 2016. The Trustees continue to remain fully committed to the monitoring and annual reporting of the Fund's "carbon footprint" and more importantly in pursuing an engagement policy with respect to addressing climate change risk. The following provides an insight into the level of carbon emissions from the companies within which we are currently invested as at March 2020.
- In the twelve months to 31 March 2020, the Fund's carbon emissions across its active equity and bonds portfolio declined by a further 3.4%, falling from 79,900 tonnes of CO2 equivalents for every million of US dollars sales to 77,223 tonnes of CO2 equivalents in Q1 2020. From its peak in Q4 2016 of 104,915 tonnes of CO2 equivalents the Fund has reduced its carbon emissions by around 26% as at March 2020.
- As in 2020, the three sectors that stand out as the worst emitters are utilities, energy and materials which together account for around 90% of the relative carbon footprint of the Fund. More significantly, however, is the value of these three sectors added together only account for 9% of the Fund's total market value, which itself has fallen from a peak of around 15% in late 2016.
- Like most pension schemes, it is important that the Fund holds these sectors as part of a balanced portfolio. In an inflationary environment materials and energy are typically the sectors that provide protection, while utilities sector is often viewed as a classic defensive sector that tends to be more stable during the various phases of the economic cycle.

CARBON EMISSION (TONNAGE BY SECTOR)



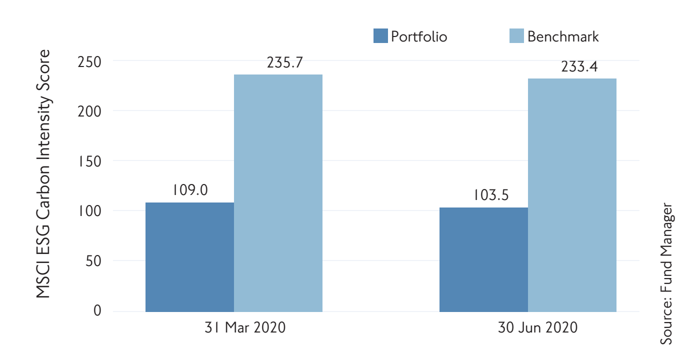
- In general, the overall emission tonnage of the sectors the Fund is invested in continue to fall, with the greatest improvements seen in Utilities Sector where it is down on an average by around 56% since 2016.

EMISSION TONNAGE REDUCTION – TOP 3 SECTORS



Corporate Bond Portfolio Carbon Intensity

- 50% reduction in carbon emission intensity versus representative benchmark across the corporate bond portfolio was achieved (as shown in the chart).
- This reduction is mainly attributed to the fundamental analysis performed by the manager, with each entity carefully evaluated and scored on its environmental profile relative to its peers.



LGT Cockpit tool measurement

- As with its ESG scoring, the Trustees feel it is important to not rely on a single provider for examining its carbon footprint either. For this reason, the Fund again made use of leading sustainability manager, LGT Capital Partners ("LGT")'s Cockpit tool as another measure of its carbon footprint. When examining the environment footprint of the Fund's active equity portfolio the cockpit uses four different metrics: greenhouse gas emissions (GHG), energy consumption, water withdrawal and waste generation.
- Again here, the active equity portfolio displayed superior performance when compared to the benchmark on all metrics with the exception being energy consumption. As can be seen, GHG, water withdrawal and waste generation are significantly lower than the reference index.

Resource Intensity Measurement per USD 1 million sales	Transport for London equity portfolio	Custom benchmark	**Positive Impact** per USD 1 million sales
Greenhouse gas emissions	**118.6** metric tons CO_2 p.a.[1]	**216.9** metric tons CO_2 p.a.[1]	**45% lower CO_2 emissions p.a.**[1] corresponds to CO_2 emissions of 41 cars
Energy consumption	**711.1** megawatt hrs p.a.	**459.6** megawatt hrs p.a.	**55% higher energy usage p.a.** corresponds to energy usage of 159 people
Water withdrawal	**6,622.3** cubic metres p.a.	**10,414.4** cubic metres p.a.	**36% lower water usage p.a.** corresponds to water usage of 82 people
Waste generation	**275.4** metric tons p.a.	**553.1** metric tons p.a.	**50% less waste generation p.a.** corresponds to waste of 568 people

Task Force on Climate Related Financial Disclosures ("TCFD")

- In March 2020, the Fund was an early adopter of TCFD, including a statement in its Annual Report and Accounts for 2020. Published in 2017, the TCFD recommendations which have received widespread support all around the world, is split into four sections: Governance, Strategy, Risk Management and Metrics and Targets to help companies identify the risks and opportunities presented by climate change. Although voluntary and still in a relatively early stage of implementation, the UK government has signalled its willingness to make the reporting guidelines mandatory, and the expectation is that all companies, including large asset owners like pension schemes, will need to disclose in line with TCFD recommendations by 2022.
- The Trustees were keen, however, to be proactive and at the forefront by making a voluntary disclosure in the Fund's Report and Accounts for 2020. The objective of TCFD reporting is to lead to better-informed decision-making on climate risks, and to improve transparency around how companies are assessing, managing and reporting climate-related risks. It is essential that the Trustees clearly communicate to its members and stakeholders how climate-related risks and opportunities are being managed to improve trust and help build public confidence.
- One specific aspect of the TCFD reporting is scenario analysis, a technique for assessing the Fund's resilience to different future outcomes. This helps Trustees assess how assets may be affected by different scenario outcomes. Under this section of this Report we take a closer look at some of this scenario analysis where the Fund used the Paris Agreement Capital Transaction Assessment ("PACTA") and the Bank of England ('BoE') tools to conduct some stress testing on the active equity and corporate bond holdings of the portfolio.

Assessing the resilience of our investments to climate risks

- The Trustees have long recognised that climate change does not only have consequences for society at large, but it will also have a material impact on investment performance which can affect members' future retirement incomes. For this reason, they are committed to taking actions today to safeguard members' future pensions and livelihoods from the financial risk of climate change while also attempting to identify opportunities associated with the transition to a low carbon economy.
- In order to assess the resilience of its investments to climate risk, the Trustees have undertaken an exercise known as scenario analysis. Carrying out scenario analysis is a crucial step in trustees meeting their legal duty to manage climate-related risks.
- In this next section, we focus on several climate scenario tools currently available to investors including BoE stress test, PACTA and TPI as it is important to avoid relying on a single tool. These tools are aiding the Trustees to plan their portfolio for future potential scenarios. It must be noted that this is a rapidly evolving space and the tools highlighted below is not an exhaustive list.
- The TCFD recommendations require asset owners to conduct scenario planning regarding climate change. In response, the Fund has carried out scenario analysis on its active equity and corporate bond holdings using the tools highlighted above. These are three of the widely acknowledged scenario analysis tools for climate change risks. We will begin by reviewing the results of the Bank of England stress test.

Key takeaway:

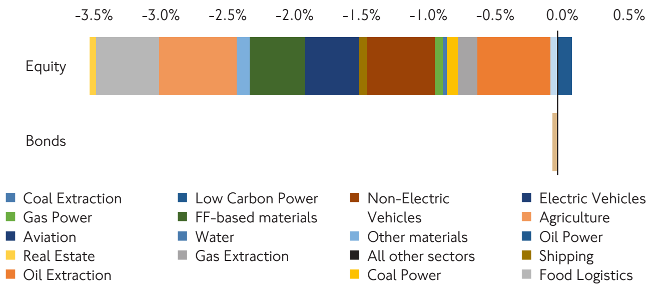
The equity and corporate bond portfolio's exposure to climate change risks appears to be mitigated and contained, as evident in the Bank of England stress test (also supported by the PACTA and TPI analysis results), though improvements are still needed and indeed ongoing (through investing in sustainability-tilted assets and excluding coal intensive assets, engagements with fund managers and investee companies, monitoring portfolio ESG performance and promoting climate related disclosures such as TCFD adoptions).

It's worth noting that the Fund's portfolio has significant allocations to private market assets with a strong climate sustainability theme (such as renewable energy infrastructure assets), which is not included in this analysis, as the tools currently available do not allow for private market assets.

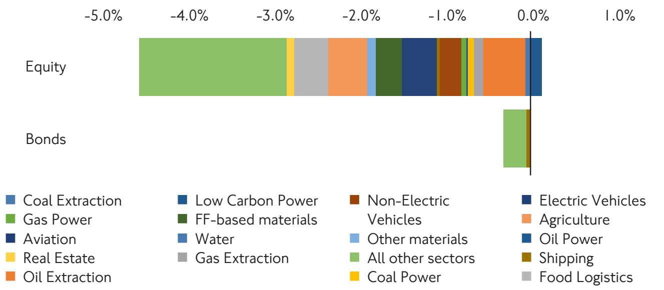
Bank of England climate stress test

- In a speech to the European Commission on 21 March 2019, Mark Carney, the then Governor of the Bank of England, highlighted the need for financial supervisors to conduct climate stress-tests to assess the resilience of their regulated entities to such risks.
- On 18 June 2019, the Bank of England launched its climate stress-test. While initially mandatory for insurance companies, the test also allows other financial institutions (including pension funds) to assess the vulnerabilities of their portfolios to adverse climate change and energy transition scenarios.
- The test shows the impacts on the Fund's investments under three climate scenarios from climate related physical and transition risks. As can be seen in the charts, the impact on the equity portfolio appears to be contained to a small percentage, especially up to the year 2050, while the impact on the corporate bond portfolio is more muted (less than 1% loss of value).
- In Scenario A, 'Sudden, disorderly transition (temperature rise estimate of below 2°C by 2100)', the impact is assessed for the year 2022; the Fund's equity portfolio value change is estimated to be -3.2% (-0.03% for corporate bond portfolio).
- In Scenario B, 'Long-term orderly transition broadly in line with Paris Agreement (temperature rise estimate of well below 2°C by 2100)', the impact is assessed for year 2050; the Fund's equities are estimated to lose circa 4.5% value (corporate bonds value change by -0.3%).
- In Scenario C, 'No transition and continuation of current policies (temperature rise estimate of above 4°C by 2100)', the impact is assessed for year 2100; the equity portfolio value change is estimated at -6.3% (-0.8% for corporate bonds).

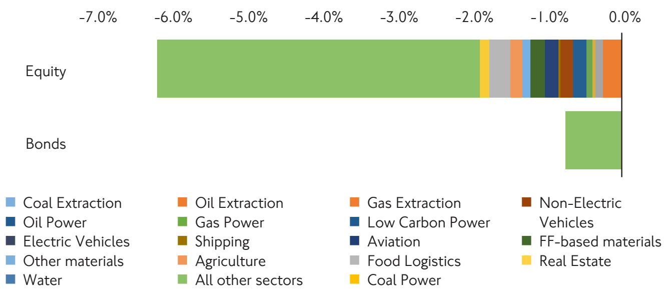
SCENARIO A – CHANGES TO THE PORTFOLIO'S VALUE BY SUBSECTOR IN 2022



SCENARIO B – CHANGES TO THE PORTFOLIO'S VALUE BY SUBSECTOR IN 2050



SCENARIO C – CHANGES TO THE PORTFOLIO'S VALUE BY SUBSECTOR IN 2100



- In addition to the BoE stress testing tool, the Fund also undertook some scenario analysis using PACTA. The section below shows results for the equity portfolio[1].

Paris Agreement Capital Transition Assessment ("PACTA")

- The tool analyses exposure to climate transition risk. It was designed in part for TCFD, and provides an analysis of the portfolio relative to an economic transition consistent with limiting global warming to 2°C above pre-industrial levels (the "Sustainable Development Scenario" transition). It covers three climate relevant sectors – fossil fuel (split into Oil& Gas and Coal), power, and automotive.
- The analysis looks at 5-year trends from 2020 to 2025, and the results below illustrate the equity portfolio's current and future exposure to climate change transition risk2.

1. What is the current exposure to economic activities affected by the transition to a low carbon economy i.e. current exposure to 'climate change transition risk'?

- Overall, the Fund's equity portfolio is less exposed to transition risk than the benchmark across the climate-relevant sectors, as it has less weight to high carbon activities such as Oil & Gas Production and Coal/ Gas Power Capacity, but more weight to Renewables Power Capacity.
- In the Automotive sector, the portfolio has slightly less weight to Electric and Hybrid Vehicles than the benchmark and more weight to Internal Combustion Engine Vehicles. This is a slight disadvantage but offset by the lower exposure to Oil & Gas and Coal mentioned above.

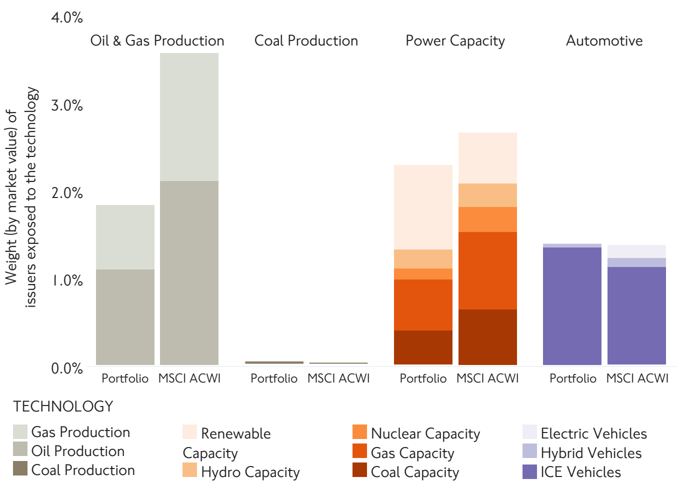
2. What is the expected future exposure to high and low carbon economic activities?

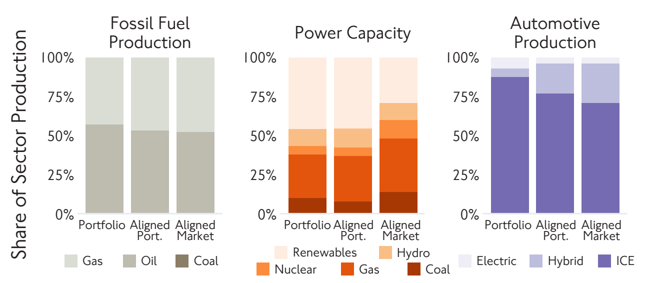
- The results quantify the expected evolution of the portfolio's exposure to high-carbon and low-carbon activities in 5 years (2025) based on the current revealed production and investment plans of companies in portfolio with business activities in the fossil fuel, power, and automotive sectors.
- The figures below show the estimated exposure in 2025 to high-carbon and low-carbon technologies in each sector3. The equity portfolio is estimated to outperform the market in the Power sector, because it has a higher share of Renewable technologies. The portfolio is estimated to lag the market by a margin in the Automotive sector, because it has a lower share of Electric and Hybrid technologies. In the Power sector, the portfolio is estimated to be in line with the market.
- Having looked at the findings from both the BoE and PACTA tools, we now turn our attention to the results the Fund undertook using the TPI tool. This is the second year running that the Fund has employed this tool as the Trustees look to gain a better understanding of what a transition to a low-carbon economy could mean for some of its major holdings in high-impact sectors such as oil and gas, mining and electricity

- Having looked at the findings from both the BoE and PACTA tools, we now turn our attention to the results the Fund undertook using the TPI tool. This is the second year running that the Fund has employed this tool as the Trustees look to gain a better understanding of what a transition to a low-carbon economy could mean for some of its major holdings in high-impact sectors such as oil and gas, mining and electricity

PACTA CLIMATE ALIGNMENT REPORT

Current exposure of the equity portfolio to high-carbon and low-carbon activities as a % of the portfolio, compared to the equity market.





Transition Pathway Initiative ("TPI")

- TPI is a global initiative led by asset owners and supported by asset managers. Seen by many as a major breakthrough for responsible investment at its launch in January 2017, the initiative saw the coming together of asset owners and asset managers to take collective responsibility for managing climate change risk. It uses publicly disclosed information, collected by FTSE Russell and validated by the Grantham Research institute at the London School of Economics.
- Since its launch, the tool has expanded its range of assessments to cover more than 300 of the world's highest emitting companies, across 16 sectors. This now represents approximately 40% of carbon emissions in the FTSE Global Index.
- Using this tool should enable the Trustees to not only make better informed decisions about how companies with the biggest impact on climate change are adapting their business models to prepare for the transition to a low-carbon economy, but also as a basis for engagement with companies on their progress towards specific targets.
- The TPI tool ranks companies by two measures: how well their management is dealing with climate change risks and how effective are they at achieving carbon reduction. Management quality assessments rely on data from FTSE Russell to assign companies to one of five levels, ranging from level 0 (no recognition of climate change as a significant issue) to level 4 (climate change deeply integrated into a company's business practices).
- Performance assessments compare individual companies with internationally agreed benchmarks made as part of the Paris Agreement and assess their progress towards meetings the Paris goals. We begin by looking at the first measure in more detail, the quality of management of companies in dealing with climate change risks.

Quality of the Management

- The Fund has been tracking its actively managed holdings against the TPI database since 2017. As can be seen in the table below, the most striking observation is that in the three years to March 2020 the number of companies actively held by the Fund that are assessed by the TPI fell by as much as 33% during this period with the corresponding market values of these holdings falling significantly from 3.4% to 1.9% as a proportion of the total Fund market value.
- It is worth highlighting that following the Trustees' decision to exclude coal holdings within the Fund's active mandates that derive 30% or more of their revenues from either thermal coal extraction or thermal coal electric generation, investments in the coal mining sector have fallen to zero having had a market value of £28m in 2017.
- Even more helpful is the significant improvement in the quality of management score of the companies the Fund is invested in which increased markedly from 1.6 to 3.5 over the period under assessment. As noted earlier, level 4 is the highest score representing companies which have set long-term quantitative targets for reducing greenhouse gas emissions, incorporated ESG issues into executive renumeration and incorporated climate change risks and opportunities in their strategy. Next we look at how well these companies are achieving carbon reduction.

[1] Equity has a much more significant allocation in the Fund than corporate bonds so this section focuses on equity (due to limited space); but results for the corporate bond portfolio can be made available on request. [2] This section focuses on the Fund's equity portfolio results (as equity has much bigger weighting in the Fund than corporate bonds). Results for corporate bonds can be made available on request. [3] 'Aligned Port.' represents portfolio technology mix in 2025; 'Aligned Market' shows technology mix of the market under an Sustainable Development Scenario transition in 2025.

Company Name	# of Companies		Market Value (£mn)	
	Mar-20	Mar-17	Mar-20	Mar-17
STEEL	1	4	11.2	27.1
COAL MINING	–	7	–	28.3
CEMENT	2	2	3.3	19.3
ELECTRICITY UTILITIES	6	4	46.2	22.0
AIRLINES	1	1	1.8	3.7
OTHER INDUSTRIALS	5	7	44.4	65.7
OTHER BASIC MATERIALS	–	3	–	14.2
OIL & GAS	3	9	7.1	60.5
SERVICES	2	3	3.0	20.9
AUTOS	3	8	20.4	48.9
CONSUMER GOODS	2	2	13.1	4.4
OIL & GAS DISTRIBUTION	1	–	1.3	–
CHEMICALS	5	–	25.6	–
ALUMINUM	1	3	3.0	19.9
PAPER	2	1	2.2	1.2
SHIPPING	2	–	14.1	–
TOTAL	**36**	**54**	**197**	**336**
TOTAL FUND	535	632	10,473	9,752
% OF FUND VALUE	**6.7%**	**8.5%**	**1.9%**	**3.4%**
WEIGHTED AVERAGE SCORE			**3.5**	**1.6**

Carbon Alignment

- TPI evaluates companies' carbon performance against the globally agreed 2 degrees temperature increase target, and against national pledges for emissions reductions made at, or subsequent to, the Paris Agreement, but also against a more rigorous benchmark – Below 2 Degrees.
- Given that the TPI focuses on the most carbon intensive sectors and more specifically the worst performing companies within those sectors, the carbon performance assessment does not capture all of the Fund's holdings. Out of 36 companies that potentially map onto the TPI framework as of March 2020, only 19 key companies within high risk sectors were formally assessed by the TPI for carbon performance as set out in the table below.
- The emission activity targets to comply with the Paris Pledges, 2 Degrees and Below 2 Degrees benchmark are sector specific as each sector has a different starting carbon intensity (a function of the sector's business model) and accordingly a different target. Out of 19 companies held by the Fund that were assessed by the TPI, 11 of them were identified as "Not Aligned" with the emission target equating to around 43% of the combined market value of the 19 companies. Therefore, viewed from a market value perspective, a larger portion of the assessed companies (57%) are within or below the 2 Degree target.

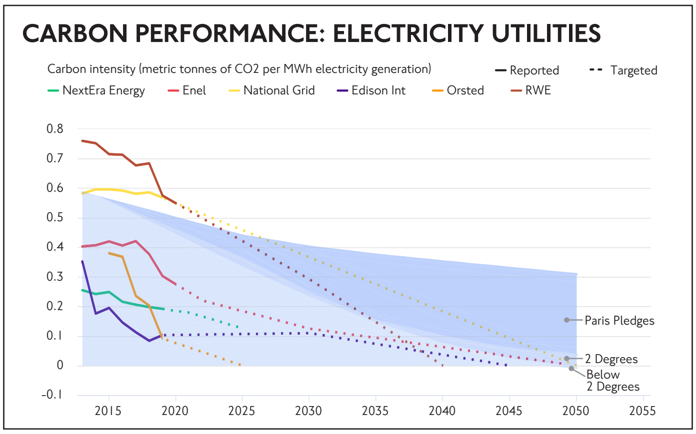
Companies	Carbon Performance Alignment	Market Value (£mn)	Sector	MV%
A P MOLLER MAERSK B	Below 2 Degrees	13.5	Shipping	13%
EDISON INTERNATIONAL	Below 2 Degrees	10.3	Electricity Utilities	10%
ENEL	2 Degrees	8.4	Electricity Utilities	8%
EXXON MOBIL CORP	Not Aligned	2.8	Oil & Gas	3%
HONDA MOTOR LTD	Not Aligned	17.9	Autos	17%
JAPAN AIRLINES LTD	Not Aligned	1.8	Airlines	2%
JXTG HOLDINGS INC	Not Aligned	2.1	Oil & Gas	2%
KIA MOTORS CORP	Not Aligned	1.3	Autos	1%
MITSUI OSK LINES LTD	Below 2 Degrees	0.6	Shipping	1%
NATIONAL GRID PLC	Not Aligned	1.1	Electricity Utilities	1%
NEXTERA ENERGY INC	Below 2 Degrees	12.4	Electricity Utilities	12%
ORSTED	Below 2 Degrees	13.0	Electricity Utilities	12%
POSCO	Not Aligned	11.2	Steel	11%
RIO TINTO LTD	Not Aligned	3.0	Aluminum	3%
RWE AG	Not Aligned	1.0	Electricity Utilities	1%
SEMEN INDONESIA (PERSERO)	Not Aligned	1.9	Cement	2%
STORA ENSO CLASS R	Below 2 Degrees	1.1	Paper	1%
TOTAL SA	Not Aligned	2.2	Oil & Gas	2%
UPM-KYMMENE	Below 2 Degrees	1.1	Paper	1%
		106.7		**100%**

Number of Companies		Market Value %
Not Aligned	11	43%
2 Degrees	1	8%
Below 2 Degrees	7	49%
	19	**100%**

- The Trustees have reviewed the carbon performance results of the 19 companies across the five sectors (utility, autos, shipping, oil & gas and steel) and are using these findings as a basis to challenge and initiate detailed conversations with the investment managers who have acquired these stocks on their behalf. Below are the findings of the individual sectors.

Utilities

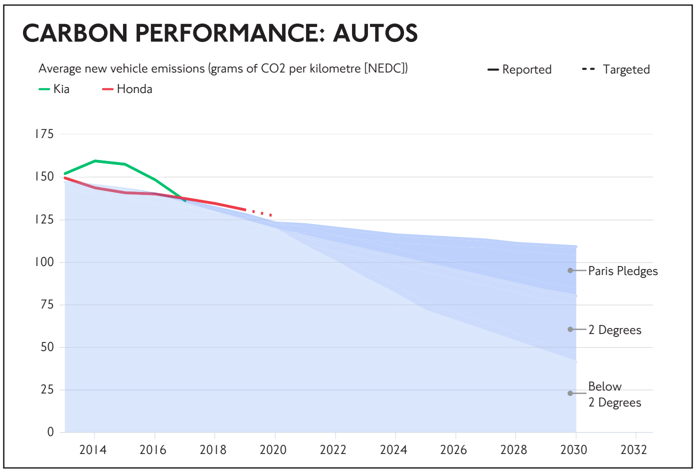
Of the 5 companies mapped, 4 companies are currently outperforming the TPI benchmarks. RWE, however, although clearly reducing its carbon footprint, its trajectory is not meeting the required benchmark.



CARBON PERFORMANCE: ELECTRICITY UTILITIES

Autos

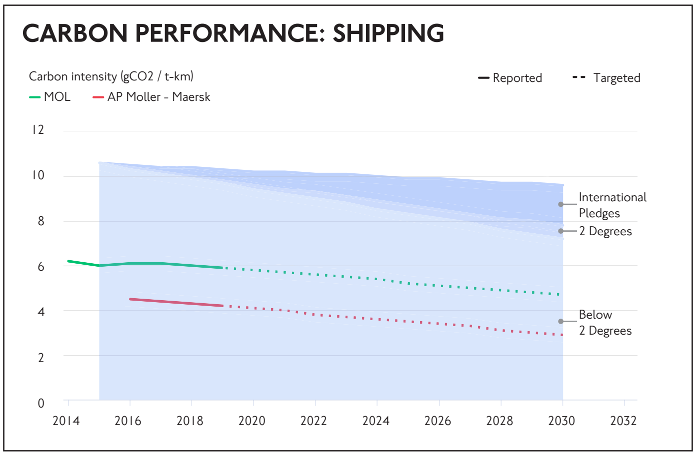
Of the two companies assessed by the TPI, Honda is broadly on the right trajectory to meet the targets; whereas Kia has made some really pleasing progress and is now on a downward trajectory to hit the target.



CARBON PERFORMANCE: AUTOS

Shipping

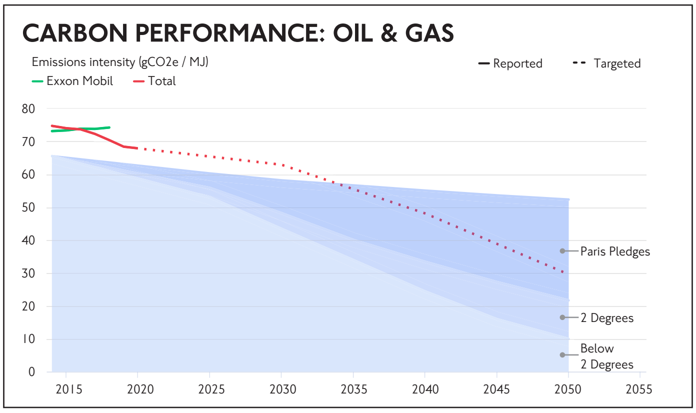
Both companies are well within the emission targets.



CARBON PERFORMANCE: SHIPPING

Oil & Gas

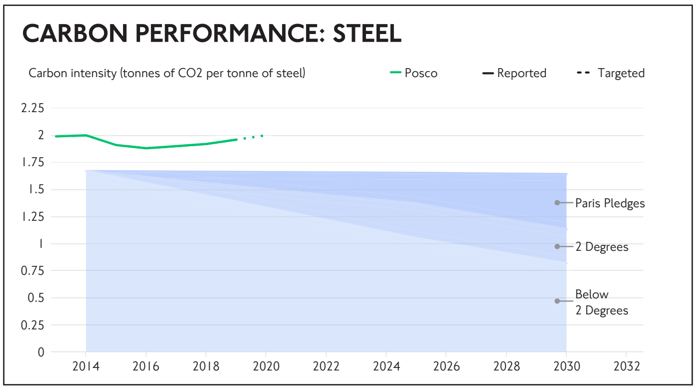
Of the two companies assessed by the TPI within this sector, not surprisingly all of them are some way of the required trajectory to hit the targets. That said, however, some encouragement is that Total is projected to hit the target in 2040. The Trustees have had extensive conversations with the managers and continue to challenge them to justify the holding taking "material risks" into account.



CARBON PERFORMANCE: OIL & GAS

Steel

Posco, the only holding in this sector, is clearly not on the desired trajectory to meet the Carbon Intensity targets.



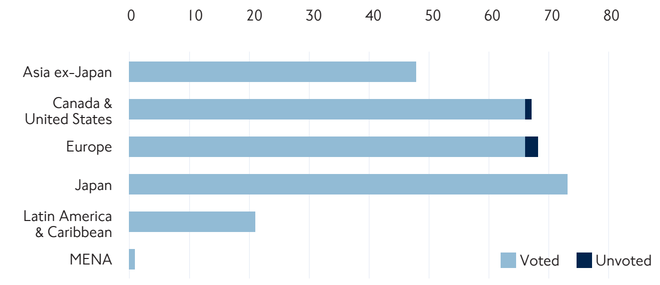
CARBON PERFORMANCE: STEEL

Voting & Engagement

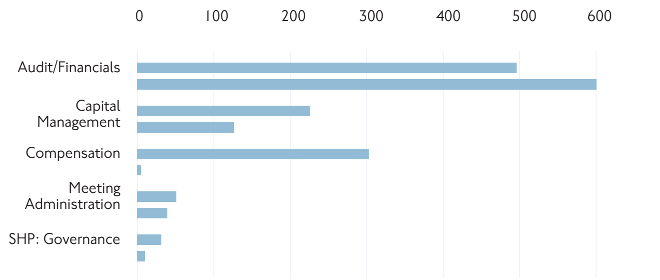
Collaboration with like-minded investors is more effective and cost efficient

- In the year to 31 March 2020, the Trustees voted at 545 shareholder meetings across our actively managed equity portfolios. During the same period, BlackRock, the Fund's passive equity manager voted at 15,887 shareholder meetings. Voting is one of the most powerful tools the Trustees have as a long-term investor in safeguarding the Fund's assets.
- The Trustees take their fiduciary obligation to be an active shareholder very seriously. They strongly believe that exercising voting rights is an essential part of the value creation process. It is necessary for promoting strong corporate governance and for holding boards to account for their actions during the year. Equally, it acts as an important tool for exerting pressure on environmental, social and governance matters.
- In December 2019, the Trustees appointed Sustainalytics as the Fund's engagement advisor.
- As part of its mandate, Sustainalytics has partnered with Glass Lewis to carry out proxy voting on behalf of the Fund. Globally recognised as one of the leading providers of corporate governance information, the Fund worked with Glass Lewis to ensure a smooth transition across to their industry-leading proxy vote management platform, Viewpoint.
- Since 1st April 2020, Glass Lewis has been undertaking proxy voting on behalf of the Fund based on their own guidelines and developed a custom voting policy which aligns with Sustainalytics engagement outcomes (voting overlay programme). Prior to the switch to Glass Lewis, all voting was undertaken by the respective active equity managers which potentially could have led to conflicting voting outcomes if the same stock was held across different portfolios. The consolidation process will ensure that voting complies with consistent policy guidelines, while Viewpoint's transparency allows the Fund to thoroughly and independently audit the entire voting process at any time.
- Between the 1st April and 30th June 2020, 278 company meetings were held across five regions with Glass Lewis voting 3,693 resolutions on behalf of the Fund. A summary of proxy voting by region and proposal categorisation is shown on the adjacent charts.
- As part of the Sustainalytics – Glass Lewis partnership, 'voting overlay' is introduced as a means of engagement escalation with focus on non-responsive companies. When engagement progress has stalled due to poor response from companies, Sustainalytics would use 'votes against' companies at shareholder annual general meetings ('AGM's) as a means of escalating the engagement agenda. This can be seen as 'value-add' on voting.
- During Q2 2020, Sustainalytics provided policy advice on 18 meetings and 354 resolutions. The rationale on the voting advice is presented through a few examples listed in the adjacent table.
- The Covid-19 pandemic has shone the spotlight on ESG factors, especially social and governance issues, and has taught us that now more than at any other time in our recent history the importance of active ownership has never been greater.
- As an institutional investor the Fund owns a small share of around 700 companies globally. Our goal is to vote at all the shareholder meetings of companies in our equity portfolio. We have a responsibility to use our ownership rights to improve corporate governance practices across our investee companies.

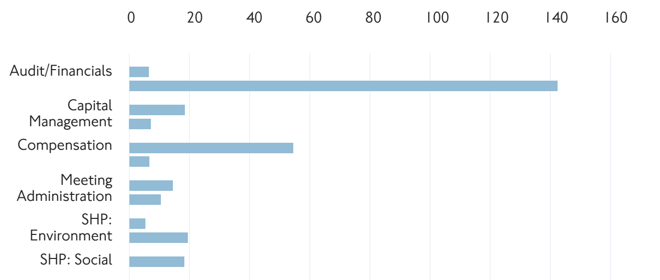
MEETINGS BY REGION & VOTE STATE



VOTES 'FOR' MANAGEMENT CATEGORISATION



VOTES 'AGAINST' MANAGEMENT CATEGORISATION



Company	Country	Voter Rationale	Sustainalytics Advice
Metropolitan Bank & Trust Company	Philippines	Amendment is not in best interests of shareholders	Metropolitan Bank & Trust Company is part of the Material Risk Engagement. However, based on the company's willingness to engage, we see no reason to modify the existing voting for recommendation.
Credit Suisse Group AG	Switzerland	Size and disclosure of termination payments	Vote authorised via special instructions to vote with policy on behalf of the Fund.
Facebook Inc	United States	Affiliate/Insider on audit committee	Facebook Inc is part of the Material Risk Engagement programme. However, based on the company's willingness to engage, Sustainalytics sees no reason to modify the existing voting recommendations. Vote authorised in line with policy.
Amazon.com Inc.	United States	An assessment of the company's customer due diligence could benefit shareholders	Amazon.com Inc. is part of the Plastics and the Circular Economy engagement theme. However, based on the early stages of the engagement dialogue, Sustainalytics sees no reason to modify the existing voting recommendations. Vote authorised in line with policy.

Engagement

- The Trustees strongly believe that the best way to alter public companies' behaviour is through constructive dialogue with the boards of the companies that they hold.
- Working in partnership with the Fund, Sustainalytics engages on its behalf with companies that form part of its public equity and corporate fixed income holdings to seek positive change for the companies and the societies in which they operate, ultimately benefiting the Fund and its members.
- Sustainalytics approach to engagement is centred around the notion of building long-term partnerships with the aim of creating long-term sustainable investment value in the companies that they engage with. To achieve this requires the following:
  - setting clear engagement objectives that both resolve relevant issues and enhance companies' overall ESG performance.
  - constructing relationships built on two-way dialogue
  - using a partnership approach to engagement rather than an activist style
  - versatility in how they interact with companies using all available communication tools at their disposal (i.e. emails, calls, in-person meetings with management, conference calls, site visits and proxy voting)
  - using a collaborative basis to leverage the power of ownership influence
- Following consultation with Sustainalytics, the Trustees decided to focus on the following three programmes; global standards, material risk (which replaces and enhances the previous emerging markets theme) and thematic engagement (which includes plastics and the circular economy) as seen below:

Global Standards Engagement

- Improve company behaviour on ESG issues in relation to international guidelines and conventions
- Manage corporate reputational risks and demonstrate investor action on issues with severe environmental or social consequences

LABOUR • HUMAN RIGHTS • ENVIRONMENT • BUSINESS ETHICS

Material Risk Engagement

- Protect and develop value in holdings and investment universe through engagement on unmanaged material ESG issues
- Improve risk mitigation and attain deeper insight to the companies' ESG risk management

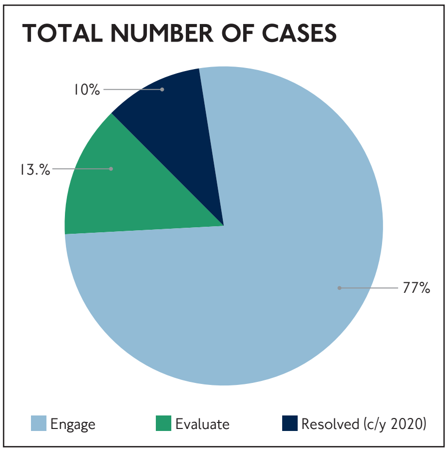
Thematic Engagement

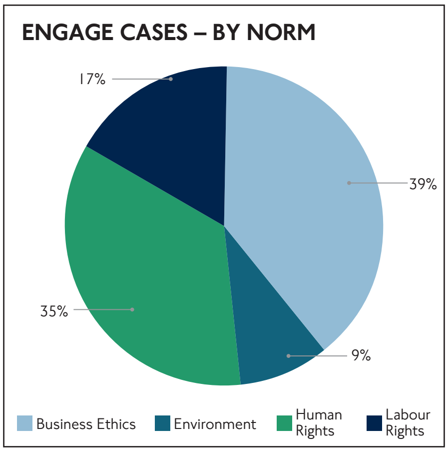
- Influence companies to proactively address ESG risks and opportunities
- Demonstrate responsible investment commitments by creating positive impact on company, sector, system and issue level

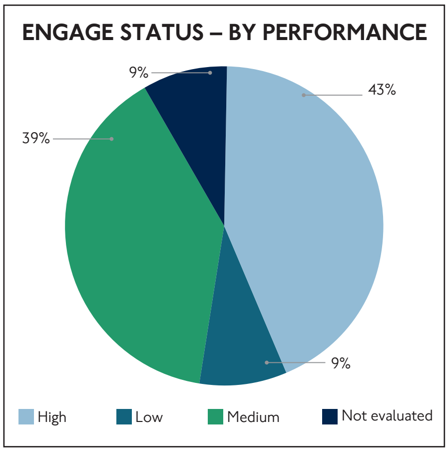
- The Fund has attended regular calls held by Sustainalytics for participating investors, to follow up on existing discussions and progress with engaged companies. The Fund may also attend engagement meetings with investee companies, including occasional site visits, facilitated by Sustainalytics.
- In addition, the Fund also lends weight to the engagements directly, by exercising voting rights on shareholder resolutions in support of specific engagement initiatives. Equally, on certain cases where progress has stalled, as advised by Sustainalytics the Fund would reach out to engaged companies via letters urging companies to respond to specific issues of concern.
- These past months have been greatly influenced by the Coronavirus (COVID-19). The Fund and Sustainalytics have made the impact of this issue and companies' response a prevalent agenda topic across engagements.
- In this next section we will take a closer look at each of these engagement programmes and highlight some of the activities undertaken by Sustainalytics on behalf of the Fund since their appointment. We begin by looking at the global standards engagement arena, using two of the world's biggest brand names as examples, reinforcing the collaborative basis approach to harness shareholder influence to hold these global giants to account for their actions.

Global Standards Engagement – Summary of Cases

- Global Standards covers engagement on companies regarding their compliance with international conventions and guidelines on environment, human rights and corruption.
- It is an overriding key performance indicator since it carries the highest level of influence on corporate value compared to any of the individual ESG factors.
- The charts below give a summary of current Global Standards engagements with the Fund's investee companies; two example cases follow in the next page.
- The small number of cases above compared to the Fund's total holdings shows that most companies in the Fund's equity portfolio are in compliance with international ESG standards.







Example – New Case – Amazon.com Inc: Labour Rights – Workplace Accident(s) (United States)

Case Background: Case opened in February 2020. Over the past year the company has repeatedly been involved in controversies related to workers health and safety. The United States Department of Labor Occupational Safety and Health Administration (OSHA) has investigated and fined the company for repeatedly failing to maintain and enforce OSHA safety requirements in its operations. In the UK, 440 serious health and safety incidents, including fractures, head injuries, contusions and collisions with heavy equipment have been reported between 2015-2018.

Engagement Objective: Amazon should take steps to understand the health and safety risks faced by its workers. It should introduce appropriate improvements involving H&S policies and practices aligned with international standards, including proactively mitigating hazards and improving working conditions. The company should report on its H&S performance and consider independent third-party verification of its management system.

Progress: Initially Amazon expressed some openness to a dialogue but cited the pandemic as obstacle for holding a call in the near term. In May 2020, Amazon hired a "Head of ESG Engagement" who is now the primary contact on this case. Sustainalytics has scheduled a conference call with Amazon in December 2020. The coming calls will focus more on the company's lack of disclosure and management of health and safety beyond only the pandemic situation and its statements that it is doing a lot to protect workers.

Example – Magnit PJSC (Russia Food Retailer): Focus on Risk Assessment and ESG Disclosure

Case Background: Magnit previously had a very limited focus on ESG risk management and disclosure and the ESG Risk Rating of the company was therefore in the high risk category. Sustainalytics initiated engagement with Magnit to support the company building a relevant ESG risk management.

Change Objective: Magnit should integrate corporate governance issues further in the sustainability strategy and detail out goals for Green House Gas emission reductions in logistics.

Progress: This case was part of the former Emerging Market themed engagement and has been ongoing. Magnit has developed a sustainability strategy with a wide range of commitments and goals towards 2025. The company has simultaneously released the first Sustainability Report for 2019. In October, Magnit joined the UN Global Compact. The improvement has proved to be consistent, so this engagement is being closed as resolved.

Example – Company Outreach – McDonald's Corp: Labour Rights – Labour rights violations at contractors (United States)

To tackle a small number of unresponsive companies and advised by Sustainalytics, the Fund may write to the company board and cast votes against company resolutions at AGMs, as an engagement escalation technique.

A recent case involved McDonald's. As there had been several labour rights rulings against McDonald's franchises in various countries of operations, along with recurring criticism from unions, Sustainalytics considered this as an opportunity for the company to better promote labour rights among its franchisees.

The Fund, together with several other investors, issued a letter to McDonald's in June urging the company to participate in a dialogue. This prompted a positive response from the company, emphasising their willingness to engage with the Fund as well as with Sustainalytics acting on the Fund's behalf. This represents notable progress on the engagement case, which had stalled since 2017 prior to the escalation.

Engagement Objective: McDonald's should actively promote the company's Standard of Business Conduct among its franchisees, and ensure franchisees live up to this especially with regards to labour rights. Efforts taken by the company to ensure compliance in this area should be transparently reported to relevant stakeholders.

Progress: A conference call was held in August 2020, and contact was re-established. McDonald's discussed its policies on labour rights on the call and Sustainalytics raised several questions. Sustainalytics aim to schedule a follow up call in late 2020.

Example – Metropolitan Bank & Trust Co. (Philippines): Focus on ESG Integration in Financials

Case Background: Metrobank has minimum integration of ESG factors in credit assessment as well as investing. It is key to ensure the commitment for better ESG disclosure as a driver for improved ESG risk management.

Change Objective: Metrobank should implement a consistent approach – policies, due diligence and disclosure – to integrating ESG risks and opportunities in credit (e.g. issuing loans) as well as investments.

Progress: The company has been responsive but progress is slow. This may change, as the main shareholder is also pushing for and working with ESG disclosure.

Material Risk Engagement – enhanced solution from Emerging Market Engagement theme

- Sustainalytics introduced the new Material Risk Engagement in March to replace and enhance on the Emerging Markets (EM) Engagement. Material Risk Engagement will cover developed markets as well as EM.
- The Fund attended the introductory call at the launch. Currently 6 of the Fund's holdings are being actively engaged under Material Risk Engagement, but more cases will be initiated.
- Similar to EM Engagement, the Material Risk Engagement aims to promote and protect long-term value by engaging with high-risk companies on financially-material ESG issues.
- The engagement is focused on the Material ESG issues with the largest management gap (gap between risk exposure and risk management). It adopts a collaborative and constructive approach to help high-risk portfolio companies to better identify, understand and manage their ESG risks.

Plastics & Circular Economy

- Proactive thematic engagement addresses one of the fastest growing environmental topics on the political agenda. Currently, two Fund holdings are being engaged (Sony and Schneider Electric).
- The ultimate goal is to encourage the company to improve the quality and economics of recycling practices, to shift strategic focus towards redesign and innovation and to increase the reusability of products. It follows a three-year project timeline from January 2019.
- The Fund attended the semi-annual update call held by Sustainalytics. The engagements are gaining momentum and yielding improvement; companies are putting the building blocks of a fully circular approach in place.
- The focus is gradually shifting from ascertaining companies' commitment to a circular economy to exploring the practical questions of establishing circularity systems and the sharing of best practice between companies.

Example – Sony Corp. (Japan)

Case Summary: Sony already has committed to several initiatives, as shown below. Sustainalytics will focus on the operational roll-out of these commitments and encourage disclosure of more detailed data and measurements. Also how it collaborates with NGOs and other stakeholders to tackle plastic waste in particular.

The company has in place:

- Green Management 2020 strategy which includes a priority to reduce and substitute its dependency on oil-based resources.
- A target to reduce the amount of virgin oil-based plastics per product unit by 10%.
- Sony also targets resource efficiency and utilises Life Cycle Assessments of its products

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

Although the Trustees stands behind Sustainalytics in achieving progress in each of the three programmes, they also continue to proactively monitor manager engagements on investee companies that the managers hold on their behalf. Indeed the majority of engagements with investee companies are carried out by the fund managers who ultimately decide whether to hold a company's stocks. Two examples of manager engagement with high carbon emission or low ESG rating companies are covered in the following pages.

Manager Engagement Activities with Investee Companies

Volkswagen (VW)

- As far as ESG ratings are concerned, VW remains somewhat of a poster child for 'bad ESG' with a CCC (lowest possible) rating from MSCI. It is held by one of the Fund's equity managers that invests in companies that are out of favour with the market but perceived by the manager as having strong potential to recover from the trough (called 'value investing').
- While the manager acknowledges the significant past failings of VW and ongoing fallout from the 'Dieselgate' emissions scandal – indeed the significant fines and reputational damage are what created the value buying opportunity – they think the low ESG rating fundamentally misrepresented where VW is today. The manager has engaged with VW on the following areas and has seen improvements that supports its investment thesis in the stock.

Electric vehicle technology

- Leading up to Dieselgate, VW presented itself (and was viewed by the market) as a leader in environmentally efficient engine technology. Ironically, Dieselgate (which began in 2015) was the catalyst for VW to actually become a leader in the energy transition, embarking on an early and aggressive electrification strategy (in part to repair its damaged reputation) and thereby putting itself ahead of peers in terms of scale and technological innovation.

Corporate governance

- VW recently made long-term equity grants a significant portion of compensation for the top 7,000 managers, which should help ensure decisions are better aligned with shareholder interests.
- All eyes are certainly on them and there is a strong incentive for management to ensure that something like Dieselgate is never allowed to happen again. This can be evidenced by the company's recent decision to only use sustainably sourced cobalt for its electrified vehicles.

Labour issues

- The manager has been able to gain more confidence in the recent union engagements. The VW union has had significant influence over decision-making at the company, previously preventing necessary restructuring plans from going ahead. It seems that some progress has been made, with the union agreeing to early retirement packages that will not be backfilled.
- Furthermore, the union has granted concessions whereby each employee is more flexible on the functions he or she is allowed to perform. The hope is that VW can continue to become more efficient while also not entering into massive layoffs that could impact employee morale and turnover.

RWE

- RWE AG was one of the highest emitting holdings in the Fund's equity portfolio; it's reported scope 1&2 greenhouse gas emissions intensity was 8193.7 metric tonnes per million USD sales (31 March). The Trustees asked the manager to explain its rationale for holding this stock. The manager believes that company management behaviour is improving regarding climate change. It should be highlighted that this manager runs a very diversified portfolio with 200 stocks, and the holding in RWE is small.
- The manager considers that RWE is benefiting from a structural shift into renewable energy, which accounts for more than 75% of its sales. Management are also charting an exit from their coal and nuclear operations – this is a complex and lengthy decommissioning process and the manager believe RWE is showing a genuine commitment to become a leading renewables business, with explicit short and long-term targets.
- RWE have set themselves several clear targets. For example:
  - they have a target to reduce CO2 emissions to net zero by 2040 (figure 1)
  - eliminate coal use by 2038 (figure 2) and
  - they have interim targets to increase renewable energy use (figure 3)
- The manager will monitor the company to ensure management is meeting its plans and potentially encourage it to do more to align itself with a 1.5 degree warming scenario.

Figure 1

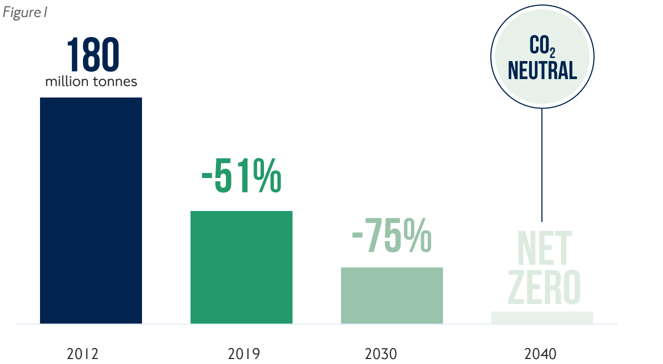
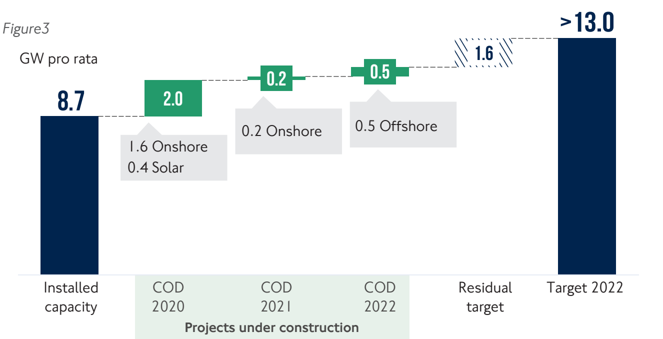
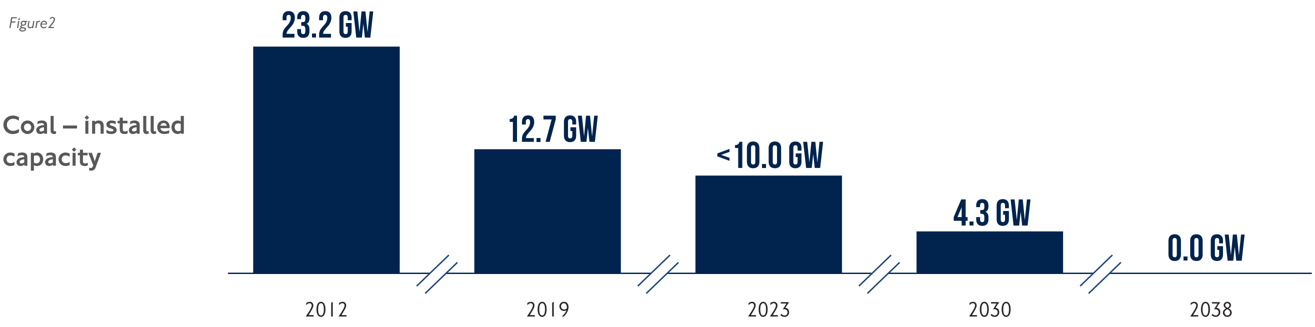


Figure3



Note: Wind and solar installed capacity excluding storage.

Figure2



	2012	2019	2023	2030	2038
Coal as % of total capacity	44.6%	30.4%	<25.0%	<10.0%	0%
Coal as % of total production	62.4%	38.4%[1]	<35.0%	<20.0%	0%

[1] Includes pro forma combined renewables portfolio. | Note: Based on full load hours under normal weather conditions and achievement of government renewables targets. Excluding plants in security reserve. Production in 2038 refers to first year post closure.

Source: RWE ESG presentation

- In addition to approaching ESG through voting and engagement, the Fund is also an active member of several global and industry initiatives as the Trustees accept that there is a limit to what they can achieve as a single investor. Here we look at some of the collaborations that the Fund has been involved in since our last Report.

Climate Action 100+

- Since 2018 the Fund has been a supporting investor in Climate Action 100+, which is a 5-year initiative of PRI and other prominent investor groups who are seeking to focus more efforts on the largest corporate greenhouse gas emitters. It is engaged with 161 global companies which account for up to 80% of global industrial emissions.
- For those companies for which the Fund was a supporting investor (Rolls Royce, Anglo-American and Rio Tinto) this included face-to-face (or virtual) engagement with company management, usually at Board level, making a statement at AGM (Annual General Meeting) and supporting shareholder resolutions that align with Climate Action 100+ goals. Areas of focus over the last year are:
  - Clear goals or targets for emissions reductions towards net zero by mid-century, including investment plans for the transition
  - Reform of corporate approach to industry lobbying
  - Providing enhanced corporate disclosure in line with recommendations from the Task force on Climate related Financial Disclosures ("TCFD").

Progress Update in 2020

- The discussions with the companies are confidential, however one consequence of Covid-19 has been that the attendance of shareholders at AGMs has not been possible and instead their proceedings have been made publicly available. Therefore, through the reported Q&A sessions for the three companies, it is possible for the public to gain greater insight into the ongoing private discussions taking place in support of the Climate Action 100+ initiative. (see link for more details www.climateaction100.org)
- One point to highlight upfront is that despite the onset of Covid 19 and the prominence given to it at the annual meetings, there was no indication given that it was going to impact their planned activities to address the climate change issue.

Other Collective Engagements

In 2019 the SEC (US Securities and Exchange Commission) signalled they were potentially changing their rules to make it harder for shareholders to submit resolutions and involvement of proxy advisors.

In January 2020 the PRI sought signatures to its letter opposing these changes and the Fund added its name to the letter in support. PRI's strong view is that the SEC's proposed rules would hinder or even eliminate discussion of emerging ESG issues before investors have had the chance to analyse and incorporate the latest thinking into voting behaviour.

This year's progress on the three focus companies:

Rolls Royce

- The Fund recognised that this year has been very challenging for the aviation sector. The firm noted that staff wellbeing, including managing the redundancy programme, is prioritised.
- In June, Rolls Royce published its 1.5°C Business Pledge, committing the business to net zero carbon and representing a significant step forward. As part of this commitment, Rolls-Royce will:
  - Align its business to the Paris Agreement goals, to limit global temperature rise to 1.5°C;
  - Use its technological capabilities to play a leading role in enabling vital parts of the economy to get to net zero carbon by 2050, including aviation, shipping, rail, and power generation;
  - Continue to, and seek to accelerate, progress against stated company and industry carbon reduction targets and goals;
  - Continue its investment in research & development (R&D), prioritising pursuing technological solutions to the climate challenge;
  - Publish a clear roadmap later this year, setting out a pathway to enabling net zero carbon emissions by 2050, including interim milestones.

Rio Tinto

- In February Rio Tinto's published TCFD report contains the company's new ambition to reach net zero operational emissions by 2050 (scopes 1 & 2 emissions), and associated targets to reduce (a) emissions intensity by 30% by 2030, compared with a 2018 equity baseline (adjusted for divestments) and (b) absolute emissions by 15% over the same timeframe.

Anglo American

- In April Anglo American responded to CA100+ investor questions at the virtual AGM and noted:
  - Anglo American's commitment to "achieving carbon neutrality across our operations (Scopes 1 and 2) before 2040 and we are aiming to have eight of our assets carbon neutral by 2030."
  - Also, in response to a question on thermal coal divesture: "We are therefore working towards a possible demerger of our thermal coal operations in South Africa as our likely preferred exit option, expected in the next two to three years, with a primary listing on the Johannesburg Stock Exchange for the demerged business."

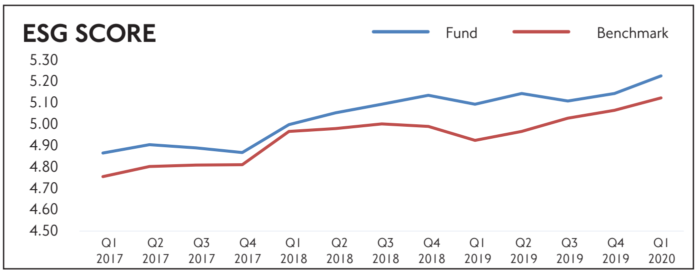
ESG reporting

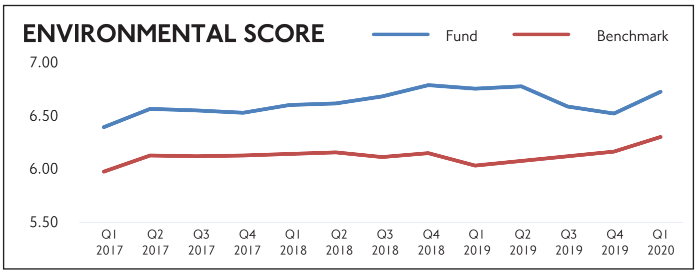
Assessing ESG outcomes through different angles

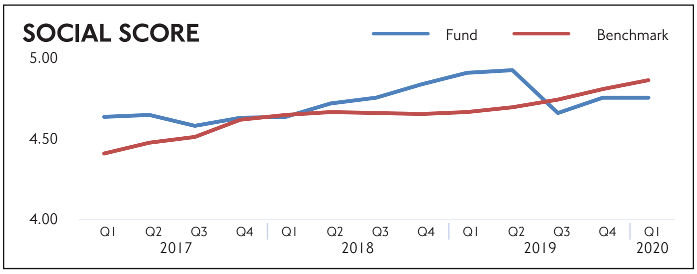
MSCI ESG Ratings

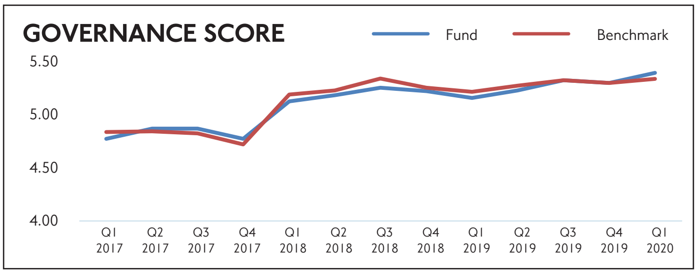
Key messages: The Fund's ESG score outperformed the benchmark – active equity and bond holdings' MSCI score increased from 4.87 to 5.23; carbon emission (tonnage) of the active portfolio fell by 20%.

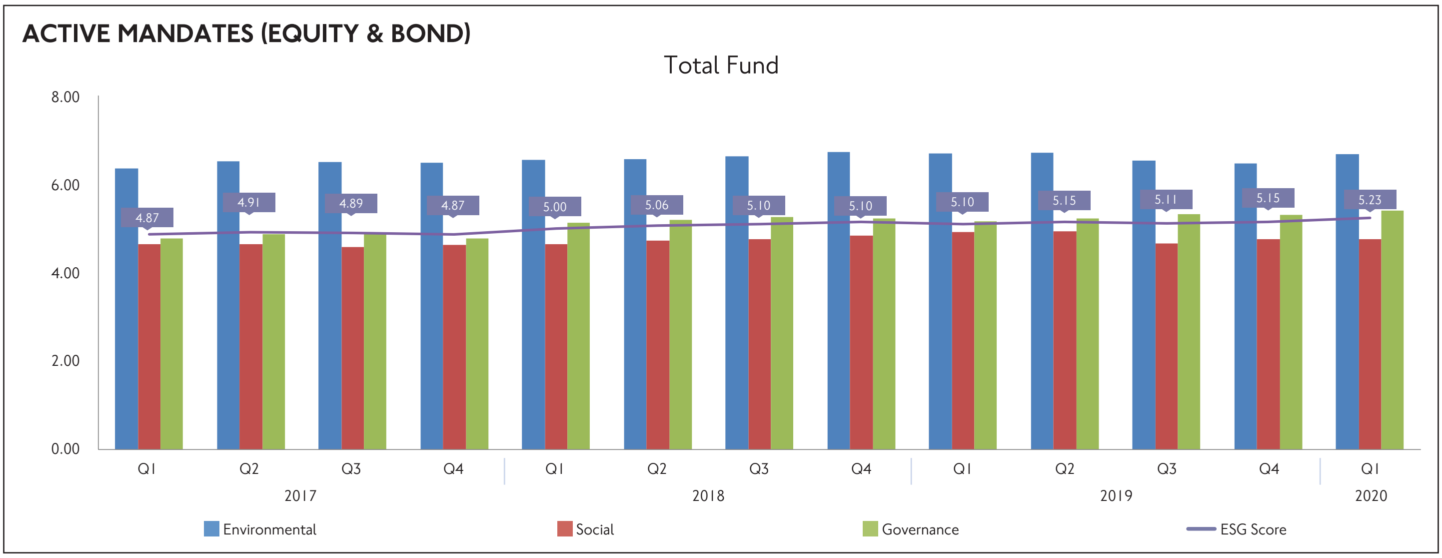
- The Fund has been analysing MSCI's ESG ratings of companies in its segregated equity and bond portfolio since 2017 to help identify the most financially relevant ESG risks and opportunities. Companies are rated on a 'AAA to CCC' scale according to their exposure to ESG risks and how well they manage those risks relative to their peers.
- The MSCI ESG ratings are constructed using over 1000 data points from company disclosures and alternative data sets, across 37 key ESG issues that are reviewed weekly. MSCI employs artificial intelligence and machine learning to compliment a team of around 200 analysts to monitor and update companies on an on-going basis and deliver relevant ESG insights.
- In the year to 31 March 2020, the aggregate ESG score for the Fund's active equity and bond holdings again outperformed the benchmark, 5.23 versus 5.13. Since it began tracking its ESG score in 2017, the Fund has consistently been outperforming the benchmark.
- The Fund continues to track its performance on all key MSCI ESG metrics to provide a consistent framework. The Fund's overall MSCI ESG score for its active portfolios has consistently outperformed the benchmark in the past 3 years as can be seen above. The benchmark is constructed with weighted average ESG scores of MSCI World and Barclay Aggregated Corporate Bond indices – proxies for the Fund's active equity and bond holdings
- Delving more deeply into each of the individual components of ESG that make up this score provides an interesting insight. As can be seen overleaf, the Fund has consistently been returning higher scores against the benchmark on environmental factors, 6.67 versus 6.26 in Q120. Where the Fund appears to have dipped in recent quarters, however, is on its Social score, 4.76 versus 4.86 in Q120. The Governance score appears to consistently mirror the benchmark but did outperform in Q120, 5.4 versus 5.34.
- Each quarter, the Fund reviews and analyses the ratings of individual companies in its active portfolio and the overall ESG score for the Fund. This regular examination allows the Fund to proactively engage with its managers at an early stage to address any concerns or issues that may arise with certain holdings. More importantly, it also plays a pivotal role in helping the Trustees construct a more resilient portfolio in the face of ESG headwinds.
- Since the Fund first started assessing the ESG ratings of companies in its active equity and bond portfolio in 2017, its ESG score has increased by around 7.5% from 4.87 in Q117 to 5.23 in Q120. Regular ESG analysis and the related-dialogue with its investment managers has enabled the Fund to continue to make steady progress in this area as evidenced by the steady uptrend in its ESG score.











Sustainable Development Goals ("SDG")

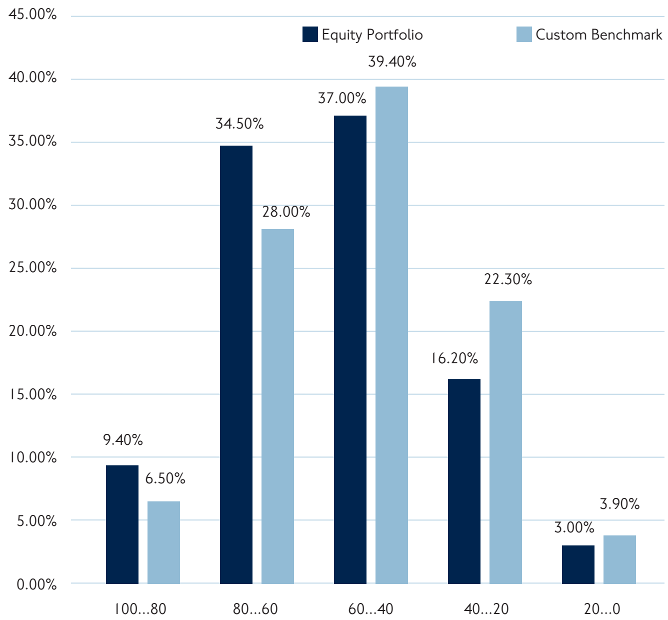
Key message: The Fund's active equity portfolios continue to deliver superior ESG scores and environmental footprint vs. benchmark

- In addition to employing MSCI's ESG rating analysis, the Fund once again partnered with leading sustainability manager, LGT Capital Partners, to also conduct a holistic ESG analysis of the Fund's active equity portfolio using their proprietary "ESG Cockpit" – a powerful, flexible, and state-of-the art tool.
- ESG assessment is based on a multitude of ESG raw data aggregated to over 40 proprietary key performance indicators which allows comparison between companies, portfolios, sectors and regions as well as measuring environmental footprint. The custom benchmark which the Cockpit uses to measure the Fund's active equities against comprises MSCI World, MSCI Emerging Markets and MSCI Small Caps with weightings mimic the fund holdings.
- As can be seen below the overall ESG score for the Fund's active equity portfolio outperformed the custom benchmark by 5.7% using data as at 31 March 2020. Interestingly, the ESG factors where the Fund comfortably outperformed the benchmark were environmental (as was seen with the MSCI ratings) and social with governance lagging slightly behind its benchmark.

ESG PORTFOLIO SCORES VERSUS REFERENCE INDEX[1]

	Total ESG	SDG Impact	Environmental	Social	Governance
TfL Pension Fund Equity	**59**	**1.7**	**60.8**	**61.3**	**52.8**
Custom Benchmark	55.8	0.9	56.3	56.8	52.9
Relative in no.	+3.2	+0.8	+4.5	+4.5	-0.1
Relative in %	+5.7%		+8%	+8%	-0.2%

ESG RATING DISTRIBUTION[2]



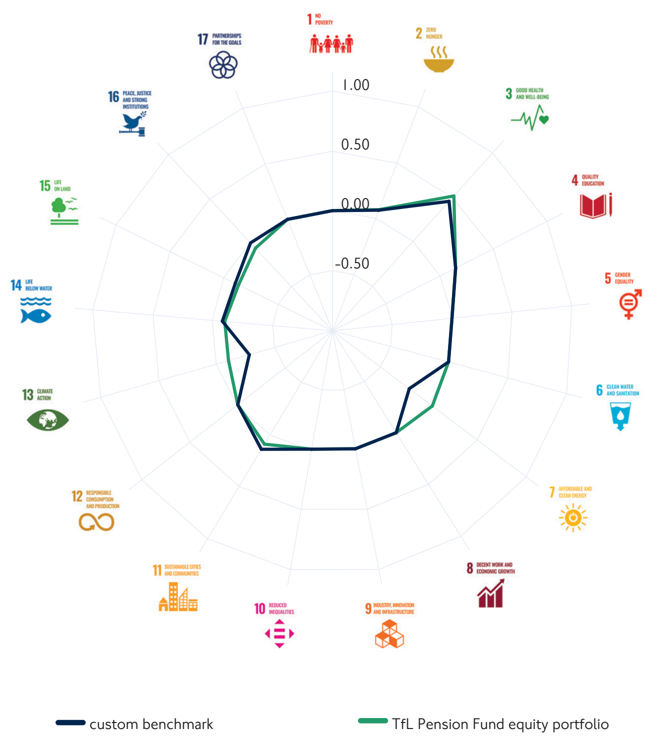
Excellent	Outstanding ESG performance of company
Good	ESG performance of company is above average
Average	Company shows industry average performance on ESG issues
Low	Company is clearly lagging in terms of ESG performance
Poor	Among worst performing companies on ESG issues

Source: LGT Capital Partners, Thomson Reuters Data as of 31 March 2020.
1 Absolute LGT Capital Partners ESG score: 100 = best possible score resp. 0 = worst possible score within the investment universe.
2 Absolute LGT Capital Partners ESG score: 100 = best possible score resp. 0 = worst possible score within the investment universe. The distribution of the ESG scores are shown by portfolio weights.

- The cockpit also analysed the SDG impact of the Fund's active equity portfolio by assessing the impact of different product and service categories on the respective SDGs, and summarising companies' revenue share in these categories. The resulting impact values range from -10 (worst) to +10 (best).
- Below we can see in the table and spider graph how the Fund measures up against the custom benchmark for SDG impact. Note, SDGs 8, 9 and 10 are omitted as the Cockpit has no data on products and services that have an impact on these SDGs. These SDGs aside, however, we can see that the Fund outperforms notably from an SDG impact perspective on Goals 3 (Good Health and Well Being), 7 (Affordable and Clean Energy) and 13 (Climate Action). The Goal where the Fund lags mostly when measured against the benchmark is 16 (Peace, Justice and Strong Institutions).
- It must be noted, however, that this analysis was only performed on the Fund's active equity holdings and does not capture the numerous private equity investments the Fund is invested in. If this analysis could capture the Fund's numerous private market investments then undoubtedly the SDG impact scores would be materially superior versus the benchmark across several of the Goals. Later in this report, we will look in detail at some of these private market investments and how they map onto the SDGs.

SDG	Portfolio Impact	Benchmark Impact	relative
NO POVERTY	0.02	0.02	0
ZERO HUNGER	0.03	0.02	0.01
GOOD HEALTH AND WELL-BEING	0.53	0.47	0.06
QUALITY EDUCATION	0.03	0.03	0
GENDER EQUALITY	0.03	0.03	0
CLEAN WATER AND SANITATION	0	-0.01	0.01
AFFORDABLE AND CLEAN ENERGY	0.03	-0.23	0.25
DECENT WORK AND ECONOMIC GROWTH	–	–	–
INDUSTRY, INNOVATION AND INFRASTRUCTURE	–	–	–
REDUCED INEQUALITIES	–	–	–
SUSTAINABLE CITIES AND COMMUNITIES	0.07	0.11	-0.04
RESPONSIBLE CONSUMPTION AND PRODUCTION	0.03	0.04	-0.01
CLIMATE ACTION	-0.06	-0.3	0.23
LIFE BELOW WATER	-0.08	-0.05	-0.03
LIFE ON LAND	-0.11	-0.09	-0.02
PEACE, JUSTICE AND STRONG INSTITUTIONS	-0.08	-0.02	-0.07
PARTNERSHIPS FOR THE GOALS	0	0	0

SDG IMPACT – FUND VS. BENCHMARK



UNPRI

The Fund's 2020 PRI review again gives the Fund high ratings, confirming ongoing commitment in the area of ESG

- The Fund has been a signatory to UN-backed Principles for Responsible Investment ("PRI") since 2016 and strives to align its approach to their six principles and definition of responsible investment:
  - Incorporates Environmental, Social and Governance ("ESG") issues into investment analysis and decision-making processes.
  - Is an active owner and incorporate ESG issues into ownership policies and practices.
  - Seeks appropriate disclosure on ESG issues by the entities in which it invests.
  - Promotes acceptance and implementation of the Principles within the investment industry.
  - Works together to enhance our effectiveness in implementing the Principles.
  - Reports on activities and progress towards implementing the Principles.
  - The Trustees recognise and accept that for the Fund to continue to make noteworthy progress as a responsible investor and active owner it must open itself up to scrutiny and external examination. For this reason, each year, the Fund dedicates a significant amount of time and resources in answering the annual PRI questionnaire.

What's new

- This year, building on previous efforts, the Fund expanded its response to the PRI assessment to cover four more asset classes, namely, the Private Markets (infrastructure, private equity and property) and securitised fixed income (asset-backed securities). This means the Fund now reports on all asset classes that PRI assesses for indirect management (i.e. assets that are managed by external managers). The Fund received straight A's for the new asset classes it reported on.
- To support investors' disclosure through the TCFD framework, the PRI has incorporated climate risk indicators in its questionnaire this year, which are aligned with the TCFD recommendations. The indicators are voluntary and a non-assessed part of the PRI Reporting Framework. The Fund completed these climate risk indicators, which can be found in the Transparency Report mentioned below.
- The PRI has also informed signatories that a new reporting and assessment framework will be introduced for 2021. This is part of PRI's 10 year blueprint, and to ensure that its framework remains relevant to evolving responsible investment practices and is useful for signatories and the responsible investment market. A consequence of this is that it may raise the bar for the assessment, making it harder to achieve high scores.

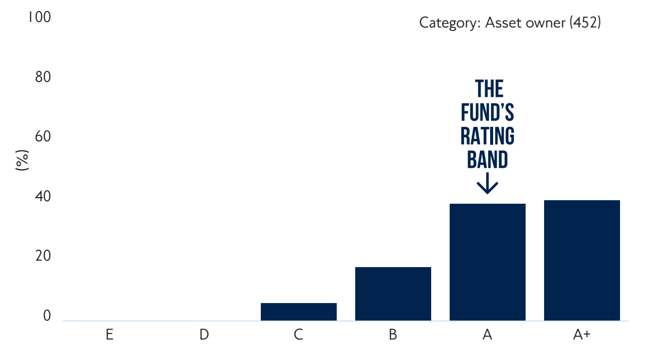
Results

- As with last year, in 2020 the Fund was formally assessed for its overall Strategy & Governance, as well as individually assessed for each asset class. For each asset class, PRI looks at Manager Selection, Appointment and Monitoring.
- Apart from the 4 A's achieved in the new asset classes, in the existing categories the Fund received 3 A+'s and 2 A's, in line with last year's results. It's worth noting that the Fund already made substantial progress in the PRI scores in 2019. A+ is the highest score given by PRI.
- The results are shown in the table below, which also globally benchmarks the Fund's scores to all the other PRI members.

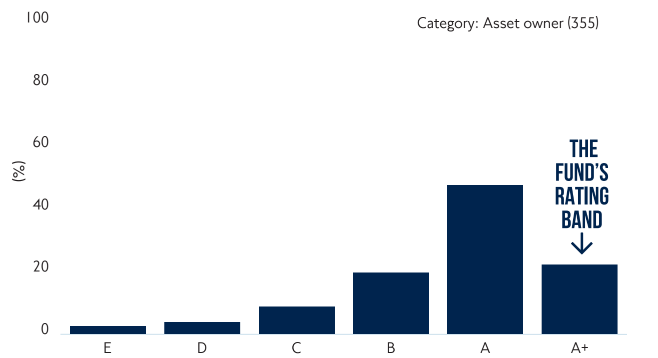
SUMMARY SCORECARD

AUM	Module Name	Your Score	Median Score
	01.Strategy & Governance	A	A
Indirect – Manager Sel., App. & Mon			
10-50%	02. Listed Equity	A+	A
10-50%	03. Fixed Income – SSA	A	B
<10%	04. Fixed Income – Corporate Financial	A+	A
<10%	05. Fixed Income – Corporate Non-Financial	A+	A
<10%	06. Fixed Income – Securitised	A	A
<10%	07. Private Equity	A	A
<10%	08. Property	A	A
<10%	09. Infrastructure Not	A	A

THE FUND'S STRATEGY AND GOVERNANCE MODULE SCORE HAS BEEN COMPARED TO RELEVANT PEER GROUPS



THE FUND'S LISTED EQUITY MODULE SCORE HAS BEEN COMPARED TO RELEVANT PEER GROUPS



- It's worth noting that the median scores (indicating peer group performance) are high. Indeed, this reflects a general and substantial improvement in RI practice across the industry over the past decade, though this may change following the new assessment framework next year.
- The table below summarises the Fund's detailed scores versus the maximum scores in each category. The maximum score is calculated as the number of reporting indicators in each category times 3 (3 being the highest score for each indicator). This gives an idea of how the A and A+ ratings are derived from the raw scores.

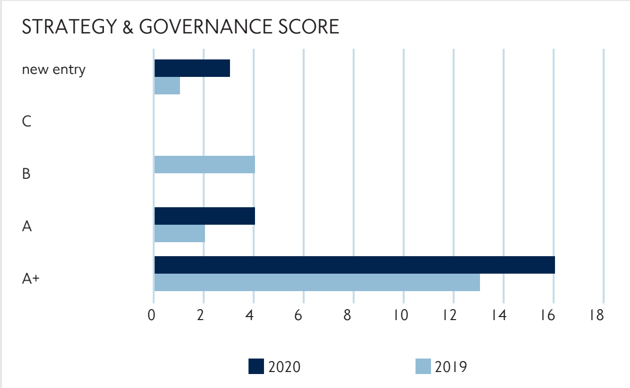
Category	The Fund's Score	Maximum Score	The Funds' Rating Band
STRATEGY & GOVERNANCE	28	30	A
LISTED EQUITY	41	42	A+
FIXED INCOME – SSA*	37	39	A
FIXED INCOME – CORPORATE (FINANCIAL)	39	39	A+
FIXED INCOME – CORPORATE (NON FINANCIAL)	39	39	A+
FIXED INCOME – SECURITISED	35	39	A
PROPERTY	36	39	A
PRIVATE EQUITY	36	39	A
INFRASTRUCTURE	36	39	A

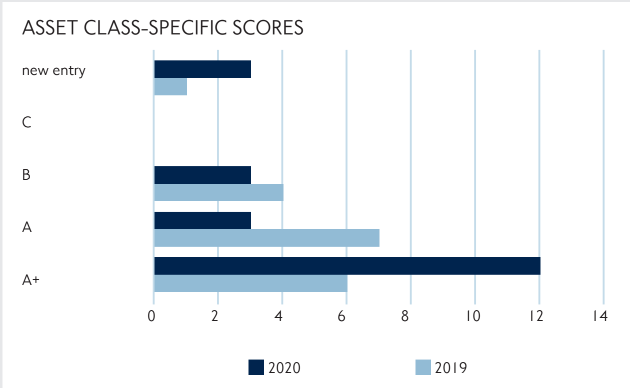
* SSA means sovereign, supranational and agency bonds

- As outlined in last year's report, the Trustees do not treat PRI assessment and benchmarking scores as an end itself, rather it's a tool to benchmark to improve and prioritise ESG strategy and initiatives. Following this year's results, the Trustees have identified two areas for improvement, namely: 1) Providing a publicly available RI policy. The formal inclusion of the ESG Policy in the Fund's SIP in 2019 has helped to enhance the score compared to 2018 but clearly more can be done within the resources available. 2) Manager monitoring. As a result, the Fund has put in place an enhanced monitoring framework this year, formally incorporated into the contracts with the equity managers, enabling the Fund to monitor manager progress consistently, which will address this underperformance in next year's PRI assessment.

Further notes

- The Fund has been undertaking a PRI assessment since 2016 and the PRI expects a participant to undertake two full assessments before taking its third and first publicly available assessment. As a result, the above is the Fund's second public assessment covering activities for the 2019 calendar year.
- The Fund's assets are managed by 30 external investment managers and of these 24 are signatories to PRI (was 22 last year). Where relevant, the Trustees are nudging the remaining managers to become signatories for better alignment of the objectives. The charts below demonstrate an overall improvement in the managers' PRI ratings over the year.





- The "Transparency Report" for the Fund (reference: Transport for London Pension Fund) and for the other PRI signatories can be found on the PRI website here. The report contains details of the Fund's response to the PRI questionnaire.

Case Studies

Investment opportunities which not only meet the Fund's return expectations but also positively contribute to the United Nations Sustainable Development Goals

#1: Infrastructure – Anglian Water Group – £11m investment

- Since announcing its first green bond in 2017, Anglian Water has funded 850 capital investment projects as a result of financing from green bonds totalling £811 million. The investments made through the green bonds issued to date are estimated to save 160,736 tonnes of carbon.

Wetland Treatment Sites

- In 2018, Anglian Water partnered with the Norfolk Rivers Trust to create a wetland treatment site at Ingoldisthorpe; the first of its kind in England. The site works as a natural treatment solution for one million litres of water that pass through the neighbouring Anglian Water recycling centre each day. Pre-treated water from the centre passes through the wetland to be further filtered and cleaned by the wetland's aquatic plants, before flowing into the River Ingol.
- The use of wetlands to provide a natural filtering process is an innovative, sustainable solution that avoids the use of further chemicals or the construction of greenhouse gas intensive infrastructure to treat wastewater. Aside from having a practical purpose, the wetland is a significant biodiversity asset attracting breeding birds, amphibians, bats and water voles to the local environment.

Outcome

- In conjunction with wider improvements made to plant and equipment at the Ingoldisthorpe water recycling centre, this project has yielded an 89% reduction in capital carbon versus the 2010 Plan baseline. Capital carbon is the greenhouse gas emissions generated from construction and expected end-of-life dismantling of long-term physical assets. Additionally there has been a 53% saving in water consumption and a 6% saving in energy consumption per annum.
- Given the success of the project, Anglian Water has incorporated the construction of dozens more wetland treatment sites into its business plan for the 2020 – 2025 regulatory period. The wetlands will form part of Anglian Water's 'Water Industry National Environment Programme'. At nearly £800 million, the company's proposed investment in protecting and enhancing the region's environment is more than double that of the previous five years.

#2: Emerging Market Infrastructure : IHS Towers – Bringing the Power of Mobile Technology to Millions; US$10 m Investment in Africa's Largest Independent Telecom Tower Operator

- IHS Towers is the largest independent tower operator in Africa by tower count and one of the largest independent multinational tower companies globally.
- IHS's tower network spans 5 African countries, facilitating infrastructure-sharing by mobile operators, and helping bring the power of mobile communications to Nigeria, Cameroon, Côte d'Ivoire, Rwanda and Zambia's collective ~260 million mobile subscribers.
- IHS embeds environmentally responsible approaches throughout its business. The company focuses on and monitors carbon emissions against a 2015 benchmark and has been able to deliver significant reductions. Sustainability initiatives include: continued monitoring and reduction of CO_2 emissions, improved waste management, and battery and generator recycling.
- Moreover, IHS strives to achieve energy efficiencies by actively investing in eco-friendly power solutions such as solar panels and deep cycle batteries. The company has deployed solar and hybrid power solutions to existing and new towers which equates to approximately 60 MW of solar energy in Nigeria alone. Finally, more than a third of IHS's towers have some reliance on solar power.
- IHS Towers aims to make a positive impact in the communities of operation by helping improve the quality and availability of the communications infrastructure.

FOUR PILLARS

Formulated to align with the United Nations' Sustainable Development Goals underpin IHS' CSR Programs:

i. Ethics and Governance
ii. Our People and Communities
iii. Environment and Climate Change
iv. Education and Economic Growth

298 GENERATORS

Donated to schools, orphanages, hospitals and NGOs since 2016

OVER $1 BILLION

Invested in renewable energy and hybrid solutions across the IHS operations.

39,934
Total number of batteries recycled

103,986
Total number of batteries deployed

>9,000
Over 9,000 sites with hybrid solar power systems

>320
Approximate CO_2 emissions saved from using hybrid solutions, efficient generators, new batteries and grid connections in million Kgs

#3: Real Estate – Prologis European logistics fund – £11m investment

- The Prologis European Logistics Fund is a core open-end logistics fund offering high-quality exposure to logistics facilities across Europe.
- (Global ESG Benchmark for Real Assets): Prologis is measuring its ESG performance relative to peers through its annual participation in the GRESB survey. The manager has outperformed its peers scoring 5 Green stars and continues to progress its ESG strategy as (1) properties are refurbished/built to incorporate sustainable features, (2) working toward reaching 85% smart metering by 2020 and 100% utility data coverage in Measurable, and (3) new initiatives being implemented in the fund to support the emission reduction efforts, such as:

Solar Power: by end of 2019, the fund almost met its 2021 roll-out target, installing 30 MW of solar capacity, supporting the new ambition of 65 MW installations by 2022

Green financing: as part of the ETMN program, in 2019 the Fund issued its third Green bond for a total nominal of EUR 450m, lowering the cost of debt to 2.0%

Buildings improvement: the manager is working towards a) certifying all assets in portfolio; b) installing LED lighting across 100% assets by 2025 and c) seeking roof replacement with cool roof material for 100% new development and property improvements

- Customer-centric solutions: The manager is focused on developing customer-centric solutions for its tenants. In 2019, Prologis was tasked to develop a carbon neutral build-to-suit facility in Muggensturm, Germany, to meet the needs of L'Oréal.
- In 2019 Prologis completed the development of this carbon neutral facility (pictured below). The solution was to add to the building a number of sustainability features, including:
  - 120% of emissions neutralised through renewable energy procurement and a solar installation
  - 7,400 solar panels generating 2.0 MW (enough capacity to power more than 510 average homes for a year)
  - Reinforced insulation, rainwater capture for irrigation, a 30,000 sqm green roof that provides habitat for local skylarks in the area, a DGNB gold certification, and LED lighting.
- To achieve carbon neutral operations, the facility will procure renewable energy from the grid, in addition to supplying solar energy to the grid from the 2 MW system on the roof.
- In addition to the environmental benefits associated with the building's design, L'Oréal has also made a significant investment into the local community, as well as supporting the company Murgtal-Werkstatten & Wohngemeinschaften, which provides jobs to people with disabilities. A team from MWW will help to maintain the green space of the property on an ongoing basis.

#4: Private Equity Co-Investment EUR1.8m in Waterlogic

Overview: The Fund became a co-investor in Waterlogic in 2020, having been approached by one of our private equity managers at the time regarding this potential exciting opportunity that not only offered an attractive rate of return, but equally was also contributing to several of the UN SDGs by providing an alternative hydration solution to bottled water.

- Waterlogic is a leading point-of-use ("POU") water filtration & dispenser company, that designs, assembles, distributes and services POU water systems, mainly on full-service rental contracts, to a wide range of B2B clients.

Challenge: Bottled water consumption has been increasing in part due to wellness trends and a shift away from sugary beverages. Only 8% of plastic waste is recycled and most of it ends up in landfill, taking up to 1,000 years to decompose. Plastic waste contributes to ocean pollution (8mm metric tonnes/yr).

- In some instances, bottled water is sourced from areas that face water scarcity and utilise water during the manufacturing process (1.4L of water is needed to produce every 1L of bottled water in North America).
- Water contamination concerns have been increasing – 56% of U.S. households were 'extremely concerned'/'concerned' with the water quality and safety concerns cited as the main reason.

Solution: POU water purification systems play an important role in displacing bottled water by improving confidence in the quality and safety of tap water for consumption.

- The long-term outcomes are to:
  - Reduce demand for bottled water, leading to reduced plastic waste
  - Reduce demand for water to source and manufactured bottled water, especially in areas facing water scarcity

POU water enables lower plastic usage (Waterlogic machines deliver 6 billion litres of water, equivalent to ~24 billion bottles per year) but also lower distribution needs (e.g. POU twice yearly service vs. frequent bottled water delivery), which lowers overall carbon footprint as well.

#5: Public Equity (small/mid cap) – Renewi – $2m investment

- The largest waste to product company in the Netherlands and Belgium, two of the most advanced circular economies in the world.
- Renewi owns and operates assets utilised in the collection, treatment and repurpose of commercial and hazardous waste. Operating primarily in the Benelux region, the company also has municipal waste treatment facilities in the UK.
- The company focuses on extracting value from waste rather than on disposal through landfill. This waste-to-product approach offers the most capital efficient solution to the effective recycling of used materials.
- Renewi's assets and sustainability strategy is structured to enable the circular economy, reduce carbon emissions and waste, and emphasise care for people.
- The company is entirely green financed. With the issuance of its most recent green bond, all of the company's core borrowings of bonds and loans are aligned within their best practice Green Finance Framework.
- A strong partnership model promotes innovation in renewable and second use products. Key areas Renewi has identified for future growth are biogas production, mattress and nappy recycling, sand and gravel secondary products from contaminated soil and water, glass and electronic waste recycling, and organic waste treatment aimed at producing green electricity and soil enhancing materials.
- It supports the United Nations 2030 Agenda for Sustainable Development and the Sustainable Goals, as shown by its activities below:

3 GOOD HEALTH AND WELL-BEING	Keeping employees safe and well is a key objective, and Renewi have the same responsibility to local communities.
6 CLEAN WATER AND SANITATION	One of Renewi's key treatment activities is cleaning waste water to make it available again.
7 AFFORDABLE AND CLEAN ENERGY	Renewi lower their carbon footprint by using renewable energy and also sell green energy produced on site.
11 SUSTAINABLE CITIES AND COMMUNITIES	Renewi reduce their carbon and other emissions in waste collection in cities and urban areas.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Renewi enable the circular economy, so support responsible consumption and production.
13 CLIMATE ACTION	Renewi take action to protect the climate by carbon avoidance and recycling waste instead of sending it for incineration or to landfill.

#6: Private Debt to a leading provider of reusable packing solutions – US$28m investment

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

- IFCO is a leading global provider of reusable packing solutions for the fresh produce supply chain, serving over 320 retailers and 14,000 producers worldwide
- The company was acquired by private equity investors in May 2019. In support of the transaction, the Fund, through its private debt mandate, provided US$28m of loans to the company.
- Reusable Plastic Crates (RPCs) are primarily used for transporting fresh produce, forming a critical component and backbone of the fresh produce retail supply chain
- IFCO issues RPCs to producers and manages the collection of used RPCs from the retailer, cleaning and repairing RPCs in the process. Producers are charged a per trip rental price fee for the service.
- RPCs have a much lower environmental footprint than their popular alternative (75% global market share), single-use cardboard boxes:

PRODUCE UP TO 60% LESS CO2

REQUIRE 64% LESS ENERGY

CONSUME 80% LESS WATER

PRODUCE 86% LESS SOLID WASTE

Way Ahead

- The Fund has made significant strides in the area of Sustainability in the last couple of years but the hurdle itself has moved in line with higher expectations from our stakeholders and greater body of knowledge and understanding at our disposal. The Fund will continue to push its sustainability envelope.
- From a regulatory standpoint, TCFD will be an important area for the Fund to not just keep an eye on but use it as an opportunity to sharpen its risk management and reporting framework.
- There will be renewed focus on finding ways to further reduce the Fund's carbon intensity without necessarily excluding any sectors but by tilting the portfolio to "winners" as the world decarbonises.
- ESG Integration in the Fund's actively managed equities and bonds portfolio will be a major focus for the next year as the Fund turns its ESG Framework and Approach into tangible and measurable actions for our managers.
- There will also be more work done to expand the ESG Integration to the Fund's Alternative Assets, namely real estate, infrastructure and private equity. This is expected to take time but the lessons learnt from public markets should make it very much possible.
- The Fund will look to further consolidate its engagement initiative with Sustainalytics and, where is a good case, to expand it into newer themes – Climate Change and Forestry being one of them.
- Momentum of investing in "ESG tilted" assets is expected to continue into next year as the Fund continues to see some very attractive opportunities.

Glossary & Terms

- **AMNT**: Association of Member Nominated Trustees
- **Climate Action 100+**: An investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change
- **DB**: Defined Benefit
- **ESG**: Environmental, Social and Governance
- **Fiduciary duty**: The legal duty of one party (the fiduciary) to act in the best interests of another (the principle). In the investment chain there are a number of these relationships including the duty that boards have to shareholders, the duty between trustees and beneficiaries and the duty between asset managers and their clients
- **FRC Stewardship Code**: Financial Reporting Council Stewardship Code
- **GHG**: Greenhouse Gases
- **IIGCC**: Institutional Investors Group on Climate Change
- **MSCI**: Morgan Stanley Capital International, a global provider of equity, fixed income, hedge fund stock market indexes, and multi-asset portfolio analysis tools
- **Paris Pledges**: By joining the pledge, businesses, cities, civil society groups, investors, regions, trade unions and other signatories promised to ensure that the ambition set out by the Paris Agreement is met or exceeded to limit global temperature rise to less than 2 degrees Celsius.
- **Scope 1 emissions**: Direct emissions from owned or controlled sources
- **Scope 2 emissions**: Indirect emissions from the generation of purchased energy
- **SDG**: Sustainable Development Goals
- **SIP**: Statement of Investment Principles
- **Stewardship**: A purposeful dialogue between shareholders and boards with the aim of ensuring a company's long-term strategy and day-to-day management is effective and aligned with shareholders' interest. Good stewardship should help protect and increase the value of investments
- **TCFD**: Task Force on Climate-related Financial Disclosures
- **TPI**: Transition Pathway Initiative
- **UN PRI**: United Nation Principles of Responsible Investment
- **Voting rights**: Equity investors typically enjoy rights to vote at annual and extraordinary general meetings (AGMs and EGMs). The resolutions on which shareholders vote will vary according to individual countries' legal frameworks. They may include voting on an individual director's appointment, remuneration or mergers and acquisitions