Findlay Park Partners LLP (Findlay Park) is an independent investment partnership based in London. The Investment team manages a single fund: the Findlay Park American Fund (Fund), which was launched in 1998. **Our purpose is to generate compelling compound returns for our investors, measured over decades**. We have a clear Investment Philosophy that is aligned to our purpose and rigorously applied through all market conditions. This philosophy aims to identify quality companies and control the downside risk in each investment. **We believe that we can generate higher compound returns for our investors by taking *less* risk.** Consideration of ESG issues, thorough engagement, and voting are key to identifying opportunities and mitigating business risk in order to deliver strong risk-adjusted compound returns over time.

2H 2021 Highlights

- Fund classified as an Article 8 fund
- 2020 UK Stewardship Code signatory
- Joined the Net Zero Asset Managers Initiative

Overview

We believe that sustainable businesses are best placed to create compound returns; increasingly, the financial sustainability of a business is dependent on environmental and social factors. **Integrating ESG factors into our investment process is fully aligned with our purpose of compounding returns for our clients over decades**. We believe that classifying the Fund as an 'Article 8' fund under the EU's Sustainable Finance Disclosure Framework Regulation (SFDR) – a development which took place in October – was a natural evolution of the integration of ESG into our Investment Philosophy and process. Our approach is based on three pillars: rigorous ESG integration; thorough engagement and monitoring of both sustainability risks and impacts; and a limited number of exclusions to avoid the severest environmental and social impacts.

Many claims of ESG integration are still overly reliant on third party analysis, or the work of siloed ESG teams with little input into investment analysis and decision making. The foundation of our ESG approach is the alignment with our Investment Philosophy, and the belief that we can generate higher compound returns for our investors by taking less risk. We undertake our own analysis of ESG issues, and have built a proprietary ESG monitoring and ranking system - the Responsible Investment Gauge (RIG), which helps us better understand the risks associated with the businesses that we own. These risks are growing as consumers, employees and governments are asking more of companies than ever before. Systemic risks associated with matters ranging from climate change to cyber security are increasingly apparent and need to be well understood in order to avoid permanent capital loss.

Engagement with company management teams has always been core to our investment process, and now heavily features environmental and social issues as well as more established business and governance factors. The EU has outlined a number of sustainability impacts which we will be using to enhance our engagement and monitoring. The UK's sustainability framework is still in development, but is likely to evolve in a similar direction. This engagement and monitoring will help us and companies in the Fund prepare for forthcoming issues (e.g. biodiversity, supply chains), and to be more mindful of reducing negative impacts on people and planet. **With thirteen people on our Investment team, a portfolio of around fifty stocks and an average holding period of four years, we think we have a distinct advantage when it comes to the depth of ongoing engagement with our companies.**

In September, we were pleased to become a signatory to the UK's 2020 Stewardship Code. The Financial Reporting Council's (FRC) revised code focuses on the actions and outcomes of a firm's approach to responsible investment. While there is a strong focus on the process of activities such as ESG analysis, engagement and voting, there is also a requirement to describe the outcomes of these. This is an improvement from the 2012 version and is now weighted towards **recognising what asset managers are doing rather than saying.**

In general we prefer to partner with businesses that are willing to improve the way they operate, rather than excluding swathes of the economy. **We see this approach as a more effective way of achieving better outcomes for investors.** However, there are a few areas where we – and we know many of you, our investors – would prefer the clarity of hard rules. In 2021 we committed to avoid investing in companies associated with **controversial weapons**, given the related legal and reputational risk, as well as companies with significant revenues (more than 10%) from activities with some of the clearest, negative environmental and social impacts: **oil sands, coal power, coal mining and tobacco.**

Towards the end of the year, we became a signatory of the Net Zero Asset Managers Initiative. This is a body of investors committed to investing in line with the transition to a net zero economy. Before committing, **we thought carefully over the past year about how to approach this in a way which enhances rather than compromises returns, and how we can measure our progress. We will be asking all the companies that we invest in to consider setting a Science Based Target, and will report regularly on our progress.**[1] This report goes into some detail as to our approach to climate change; however, recognising the saliency of climate change as a standalone topic, we are also developing a separate climate report which we intend to publish later in 2022.

We feel this report sets out our most comprehensive ESG and sustainability disclosures to date. This includes our efforts to use selective metrics which help illustrate not only how we monitor salient ESG risks, but also the environmental and social characteristics on which we primarily focus. We have also, on a best efforts basis, conducted an initial assessment of our exposure to principal adverse impacts as outlined under the SFDR at the end of 2021. **Importantly, we have not just reported the metrics, but the actions we have taken in relation to them, primarily through engagement, but also through research, monitoring and voting. We hope this will bring some life to the disclosures, and highlight our role as active owners of the companies in which we invest**.

It is important to note that the SFDR does not require the publication of such data until 2023 and that, at the date of publication, the regulatory technical standards under SFDR relating to principal adverse impact remain in draft form and have not yet been adopted. However, in the spirit of transparency, we are publishing this preliminary assessment ahead of time, on a voluntary basis. Noting the availability of source data remains inconsistent, (an industry wide issue), where information relating to any of the indicators is not readily available, we have disclosed any reasonable assumptions and additional research carried out, to assess the impacts. We also note the current definitions of the indicators themselves under the SFDR may be subject to further clarification by the regulatory authorities. Therefore, this information is provided subject to these limitations. This is a complex area and, as market practice develops, we will seek to enhance our disclosures to investors for future periods. Our initial principal adverse impact assessment is set out in Appendix I.[2]

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[1] In particular we are encouraging targets verified by the Science Based Targets initiative (SBTi), which seeks to drive ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets [For further information please see: www.sciencebasedtargets.org].
[2] Please note our initial assessment of principal adverse impacts in Appendix I does not constitute our formal reporting for the purposes of the SFDR; the first reporting period under SFDR will cover the 2022 calendar year, and under the current regulatory timetable, will be published in H1 2023. In the intervening period our preliminary assessments may be further amended, revised or revoked according to a number of factors including data availability, market practice

Sustainability Risks & Metrics

Below we outline our progress against key indicators which we consider when assessing our performance against ESG and sustainability matters. These are by no means the only factors we systematically assess, and we monitor a much wider range of factors in our Responsible Investment Gauge. However, we consider these a strong sample of key performance indicators which are particularly important to us, and help evidence our ESG characteristics. [3]

	Environmental			Social & Governance		ESG
Metric	Science-Based Targets	Implied Temperature Rise	Weighted Carbon Intensity	Glassdoor Score	UN Global Compact	MSCI ESG Fund Rating
American Fund measure	44%[4]	2.5[5]	Below benchmark[6]	4 / 5 star rating[7]	No clear breaches[8]	AA[9]

Environmental

We monitor and engage on a number of environmental issues and report information on biodiversity, water pollution, energy and hazardous waste as part of our consideration of principal adverse impacts (see Appendix I below).[10] We also note the interconnectedness of climate and other environmental issues. For instance, the extraction and combustion of coal (activities which we have excluded when they make up 10% or more of a firm's revenue) can lead to material air and water pollution, as well as greenhouse gas emissions.

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and further regulatory guidance. As a result, any parties intending to rely on such data, including in relation to any assessment of suitability, should take the limitations set out in the Appendix and the potential for future changes into account.

[3] Worsening or poor performance on these metrics, depending on the metric in question, is flagged for review.

[4] 44% of invested AUM has committed or set Scienced-Based Targets, verified by SBTi.

[5] This metric is the successor to MSCI's previous warming potential metric. The latter was developed to better align with best practice on forward looking climate metrics. The measure we are using includes all emissions scopes (Scope 1 = direct emissions, Scope 2 = purchased through electricity, Scope 3 = other value chain e.g. products, investments, supply chain), whereas the metric we previously used focused on Scope 1 alone. Implied temperature rise is also focused on financed emissions overshoot of carbon budgets, rather than a weighted average temperature rise. MSCI as a stock has been excluded from this calculation, as the firm's ESG arms does not provide metrics for itself given conflict of interest concerns.

[6] A type of commonly referenced carbon footprint that focuses on weighted average carbon intensity (tonnes Scope 1 & 2 CO2 / $USD revenue) and can be compared to the benchmark. As at 31st December 2021 this was 98 tonnes / million USD vs 124 tonnes / million USD for the Russel 1000.

[7] Glassdoor, as at 31st December 2021.

[8] ISS ESG as at 31st December 2021. No companies were flagged as 'red' for Failure or Imminent Failure to Respect Established Norms.

[9] Although Findlay Park's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

[10] In addition we note that these issues are highly industry, geography and context specific, and are therefore hard to encapsulate using one or two Fund-wide metrics. For instance an activity producing noise, waste or pollution in an area of rich biodiversity will likely be more harmful than the same activity undertaken in an area of low biodiversity. By contrast, greenhouse gas (GHG) emissions contribute to global warming evenly across geographies, and most industries are associated with some GHG emissions. We expect the development of meaningful metrics in coming years, following the work of the Taskforce on Nature Related Financial Disclosure, and will monitor this evolution. In parallel our disclosure of principal adverse impacts will relate to some of these issues.

However, we have spent more time on climate than any other environmental theme, and consider related risks, opportunities and impacts to apply most broadly across the Fund.

Climate Change

2021 highlighted both the importance of climate change and the complexity of the Energy Transition. At the start of the year the US state of Texas, among others, experienced extreme weather and a power crisis. Towards the end of the year, global climate commitments and consensus around COP26 coincided with a surge in oil and gas demand, and lively debate around the 'greenness' of gas and nuclear energy.

We strongly believe that business and finance must help ensure a long-term transition. At a minimum this requires robust planning and well-considered targets, complemented by a near term focus on immediate carbon reduction opportunities. Two of the metrics we highlight above are forward-looking in nature. The first is our analysis of companies which have set or committed to Science-Based Climate Targets, verified by the Science Based Targets Initiative. This helps us assess our exposure to companies with climate transition targets which are aligned with the Paris Agreement, follow best-practice, and have a degree of external oversight and verification. We believe that companies with such targets, backed by actionable climate plans, can benefit over the long-term by anticipating regulatory changes and societal pressure. Currently, 44% of our invested portfolio has set such targets. **In December 2021 we contacted all companies which had not committed to such targets, encouraging them to do so**, and offering follow up dialogue. We expect that this type of engagement will be core to our Net Zero Asset Managers Initiative commitment.

One of the other metrics we assess – the 'implied temperature rise' of our companies, as modelled by MSCI – helps us gauge alignment with the Paris Agreement. This metric indicates that if projected emissions performance of our holdings (across Scope 1, 2 and 3 emissions) was representative of the emissions performance of corporates globally, the world would experience 2.5 degrees of warming.[11] This is evidently higher than the aim of the Paris Agreement, but is also reflective of the current state of the global economy and short-term policy. According to Climate Action Tracker, today's policies are aligned with roughly 2.7 degrees warming. However, a lower score is no cause for complacency hence the engagement outlined above.

We are also mindful of the impact of future regulation, and the importance of companies being alert to new developments. As shown below, Climate Action Tracker (CAT) assesses that long-term national ambitions, including net zero commitments, imply a roughly 1.8 degrees scenario.[12] This speaks to the potentially stark shift in regulatory and social expectations over the coming decades, for which companies should be prepared. We believe this will entail both risk and opportunity. Relatedly, one of the questions we embedded in our Investment Philosophy checklist in 2021 reads: "Is the company a net beneficiary of climate economics?". Over time we expect that this will make us more alert to *opportunities* from climate change, as well as risks, in addition to being complementary to the forward-looking metrics we have outlined in this report.

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[11] As at 31st December 2021. Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission. This assesses future direct emissions (Scope 1) including corporate targets, rounded to the nearest 0.1 degree. Scope 2 and 3 emissions were not included due complexity of estimating and projecting them. MSCI as a stock has been excluded from this calculation, as the firm's ESG arm does not provide metrics for itself given conflict of interest concerns.
[12] Climate Analytics and NewClimate Institute (all rights, including copyright, reserved), 'The CAT Thermometer Explained', Climate Action Tracker (November, 2021) [accessed: https://climateactiontracker.org/global/cat-thermometer/].

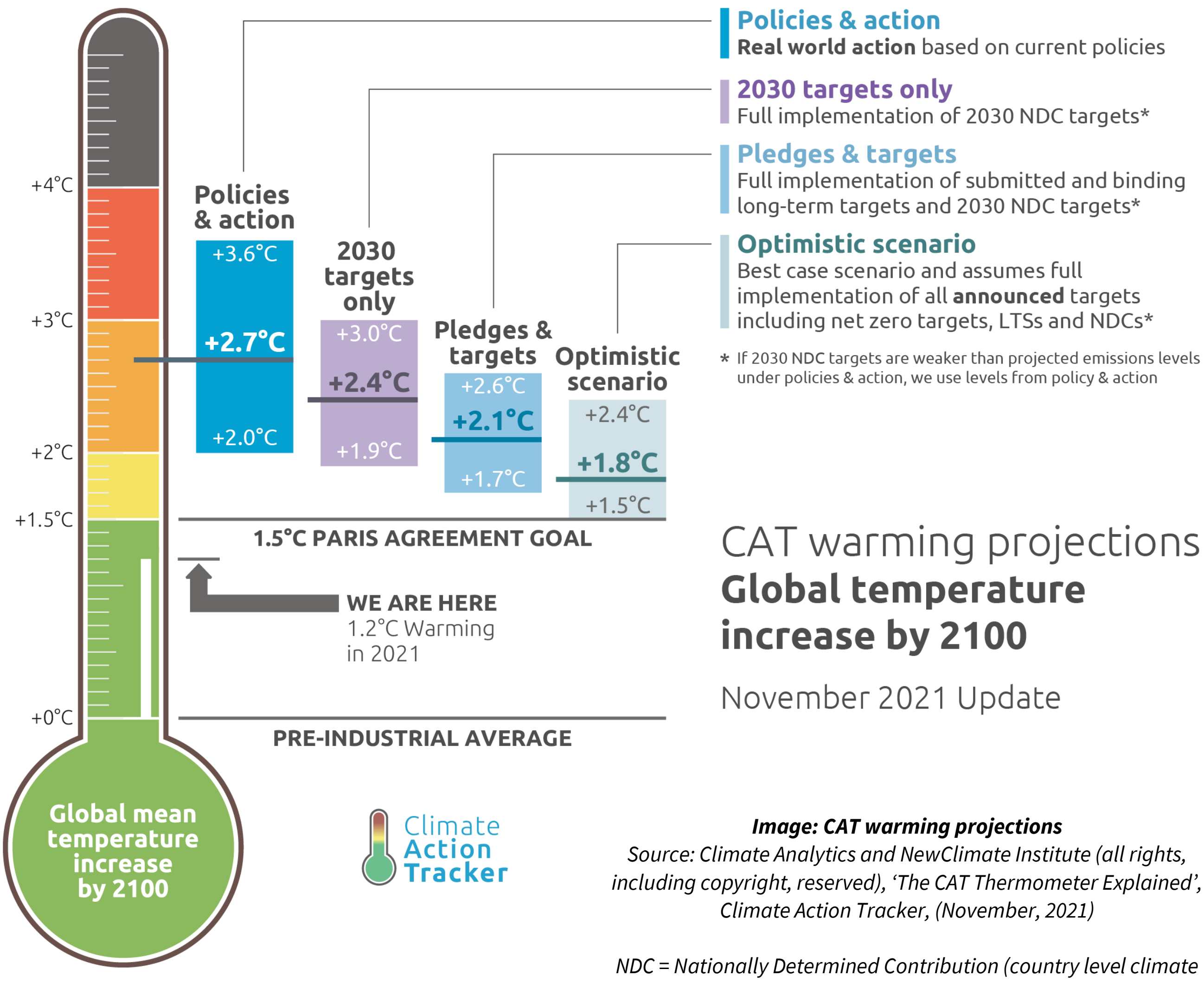

Image: CAT warming projections

Source: Climate Analytics and NewClimate Institute (all rights, including copyright, reserved), 'The CAT Thermometer Explained', Climate Action Tracker, (November, 2021)

NDC = Nationally Determined Contribution (country level climate agreement under the Paris Agreement)

In tandem, we have started to more systematically monitor the current carbon footprint of our Fund. We use several methods to assess this, but a core metric is the weighted average carbon intensity of the Fund. This is among a set of metrics proposed by the FCA and Taskforce on Climate-Related Financial Disclosure (TCFD), and gives an insight into the operational carbon efficiency of the companies in the Fund through assessing tonnes of Scope 1 & 2 emissions on a per unit of revenue basis. As at 31st December 2021 this weighted average carbon intensity was 98 tonnes per million USD vs 124 tonnes / million USD for the Russell 1000 index.

Social & Governance

Consideration of social and governance factors is key to our approach. We have strong conviction that companies' purpose and culture can impact their long-term performance, and double score a question on corporate purpose and culture in our Investment Philosophy checklist as a reflection of this. Likewise, governance and management are critical to the long-term value of a business, its corporate strategy, and risk management. Our Investment Philosophy checklist also includes three questions dedicated to management quality, including as to whether management incentives are aligned with those of shareholders. [13] We undertake our own rigorous voting analysis which requires detailed assessment of governance, as well as wider ESG factors.

Human Capital

Key to understanding a company's purpose and culture is its relationship with employees.[14] In the tight labour market we see today, we believe companies with engaged employees are advantaged as employee loyalty makes them less prone to recruitment or retention issues.

Strong human capital management is also associated with better performance over time.[15] One study evaluating 28 years of data on companies ranked among the "100 Best Companies to Work For in America" found they generated 2.3 - 3.8% higher stock returns per year than their peers.[16]

Although this area is inherently qualitative and difficult to assess, we can at least monitor aspects of human capital in a data-driven manner. Glassdoor is a web platform allowing employees to comment on their experiences with employers and to give them a score from 1 - 5. We review these scores for all our companies on a monthly basis. The weighted average rating for companies in the Fund is 4.[17] By way of context, Glassdoor describes 3.51 to 4 as a "satisfied" score and anything above that as "very satisfied".[18]

Complementary to this analysis is our assessment of a wider variety of human capital issues, including those related to diversity and inclusion. For instance, we monitor reviews from a female-focused employee review site, InHerSight, on a monthly basis, as well as monitoring Board diversity statistics on a quarterly basis. At the end of 2021 and the start of 2022 we embarked on a wide-ranging exploration of diversity and inclusion data and analysis, across all companies in the Fund. We expect this to inform future engagement and analysis, and will provide more details of this work in our 1H 2022 reporting.

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[13] The potential financial impacts include direct costs, for example excessive executive pay, and also opportunity costs through poor decision making. On the other hand, robust governance structures and appropriate incentives can enhance value. Ulf von Lilienfeld-Toal & Stefan Ruenzi, 'CEO Ownership and Stock Market Performance, and Managerial Discretion', *The Journal of Finance* (June, 2014).
[14] Whilst employees are key stakeholders within a business, we also assess corporate purpose in relation to a wider range of material stakeholders, such as customers, wider society and the environment.
[15] By contrast, poor human capital management entails a number of risks, including inferior: productivity, customer service, employee retention and attraction of talent.
[16] Alex Edmans, 'The Link Between Job Satisfaction and Firm Value', *Academy of Management Perspectives* (2016).
[17] Glassdoor, as at 31st December 2021.
[18] As at 31st December 2021. Glassdoor guidance as at 3rd November 2021. [accessed: https://help.glassdoor.com/s/article/Ratings-on-Glassdoor?language=en_US].

Business Ethics & Reputation

Many questions on our Investment Philosophy checklist specifically relate to reputation, management and governance issues. Any major reputational issue can damage a firm's brand and weaken its relationship with key stakeholders such as customers, regulators, employees or wider society.[19]

Our Investment Philosophy guides us towards well-run companies with a good reputation. We ask whether firms have trusted brands, regulatory headwinds, as well as a corporate purpose and culture that we value. We also monitor firms' behaviour and any controversies associated with them, especially those which are severe or rapidly escalating. We often raise related issues through engagement and voting.

One tool we use to assess a company's conduct is ISS' norms research, which evaluates whether a company risks breaching fundamental norms outlined in frameworks such as the UN Global Compact which relate to human rights, labour rights, corruption and environmental degradation. One area of emerging complexity relates to cyber, privacy and other issues arising from the rapid digitisation of society.[20] The Investment team spends considerable time monitoring and debating these issues.

At 31st December 2021, **no company in the Fund was flagged as being clearly in breach of these global norms.**[21]

Wider ESG Assessment

While our own assessment of corporate ESG risk and reward is instrumental to our process, we are aware that ESG rating agencies are valued by some investors as a 'sense check' of our approach. Therefore we are monitoring and disclosing the overall ESG risk score assigned to our Fund by MSCI. This currently stands at 'AA' which represents the upper end of their average assessment (on an AAA-CCC scale).

[19] Research from McKinsey has indicated that 30% of corporate earnings are reliant on effective connection with these external stakeholders. John Browne, Robin Nuttall &Tommy Stadlen, *Connect: How companies succeed by engaging radically with society* (PublicAffairs, 2016) p.X.

[20] Failures of data security and privacy can result in fines, additional regulation, litigation, and the loss of intellectual property and market share. However the impact of these issues can vary. For instance, under EU regulation, failures to protect data security can result in fines of up to 4% of global revenue, [https://gdpr.eu/fines/] but there is not a federal equivalent in the US. We regularly monitor firms' cyber health, and engage on cyber and privacy issues.

[21] Source ISS ESG as at 31st December 2021. No companies were flagged as 'red' for Failure or Imminent Failure to Respect Established Norms.

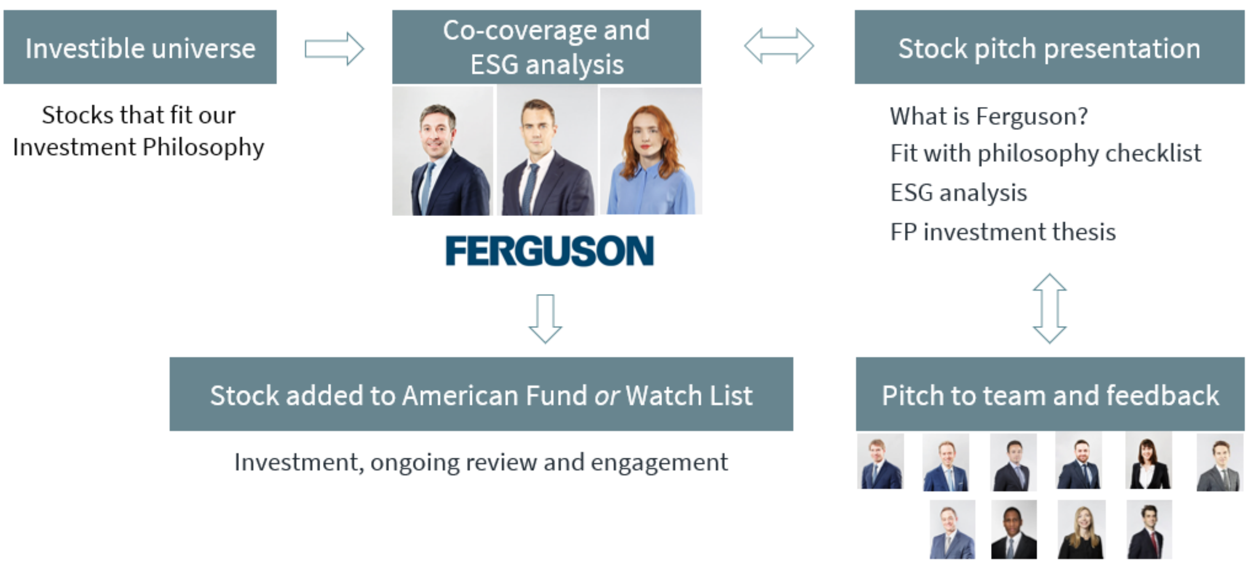
ESG Integration in Research

ESG integration means assessing all material factors in investment analysis and investment decisions, including environmental, social, and governance factors.[22] It is inherently multifaceted, requiring a variety of perspectives and effective teamwork. At Findlay Park, consideration of ESG factors is embedded throughout our entire investment process – it is guided by our Investment Philosophy and a shared responsibility. We firmly believe that responsible investment cannot be effectively outsourced, and we undertake our own research.

Investors sometimes ask us what this model of ESG integration means in practice – for instance who does what, and when, with respect to assessing companies? A brief overview of how a company comes to be in the Fund is described below using Ferguson, a company which we bought in 2021, as an example.

Ferguson is the US's largest plumbing & heating distributor – a scaled, dominant player in its markets. Its corporate purpose is "to act as a trusted supplier and partner to our customers, providing innovative products and solutions to make their projects better".[23] It operates across a variety of markets related to buildings and their associated requirements (water, heating, resilience, hygiene etc).

Co-coverage and teamwork are essential to our process



i. Idea generation

Idea generation is led by our Investment Philosophy. Our philosophy checklist includes a number of ESG related questions such as those on culture and purpose, climate, regulation and management incentives. This is, therefore, certainly not an ESG-agnostic assessment, but is led by the co-coverage team as they assess a company against all 29 philosophy checklist questions. As we initially assessed Ferguson, the strong philosophy fit became apparent; we were particularly struck by the firm's returns, capital structure, history of capital allocation, and commitment to purpose and culture.

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[22] 'What is ESG integration?', Principles for Responsible Investment (April, 2016) [accessed: https://www.unpri.org/fixed-income/what-is-esg-integration/3052.article].
[23] 'Purpose, Vision, Mission, Values', Ferguson website, [accessed: https://www.fergusonplc.com/en/who-we-are/purpose-vision-mission-and-values.html].

ii. Dedicated ESG research

As an idea progresses towards a viable prospect, dedicated ESG and sustainability analysis becomes key and fundamental and ESG analysis is thus conducted in parallel. The latter always touches on the key ESG themes highlighted in our RIG, but may also include other areas relevant to a particular industry or business.[24] There are cases where an idea has failed to reach team-wide discussion due to ESG concerns at this stage. Conversely, in the case of Ferguson, a number of compelling ESG attributes were identified.

One area which stood out to us was Ferguson's approach to two stakeholder groups – employees and customers – and the relationship between the two. Ferguson prides itself on its strong and service-focused culture, whereby strong employee engagement leads to better customer experience and increased market share. We believe this to be a core source of competitive advantage. The firm places significant emphasis on training, for instance, through its detailed "College of Ferguson" graduate program which covers areas including the company's culture and history, product knowledge, finance and credit, customer service and systems training.[25] The firm also has a rigorous associate engagement survey, and surveys customers using the Net Promotor Score (NPS) system, noting the "good correlation between high customer scores and better financial results".[26] Interestingly, the firm has a dedicated Board member (who is also the Senior Independent Director) with specific responsibility for employee engagement. One question we had in our initial analysis is whether this focus on employees had been negatively impacted by Covid-19.

As we continued our research, it became apparent to us that Ferguson would benefit from sustainability related opportunities as part of its core business. For instance one core part of Ferguson – Ferguson waterworks – is among the US' largest waterworks companies. It operates across stormwater, sanitary and water management industries and offers products including metering, valves and sanitation products. This division should therefore benefit from increasing focus on the need to upgrade water related infrastructure, including the need to enhance the climate resilience of this infrastructure. In its climate reporting, Ferguson estimates this as a $1bn per annum opportunity for them in the long-term. Similarly, the firm is also pivoting towards more energy and water efficient products in anticipation of greater consumer demand. The firm's own branded products increasingly meet EPA standards for water efficiency (WaterSense) and energy efficiency (Energy Star), and the firm is more widely monitoring the proportion of sustainably certified products on offer as a core metric (it currently stands at about 15% of sales).[27]

iii. Team-wide discussion

Both the fundamental and ESG analysis was presented to the entire Investment team for review. We then gathered feedback from the team, both during the presentation and in subsequent one-on-one meetings. This process helps us inform the decision of whether to add a company to the Fund.

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[24] These core themes are: Climate & Environmental, Human Capital, Cyber Security & Data Privacy, Business Ethics & Reputation, Corporate Governance. From 2022 we are trialling an initial assessment of alignment with principal adverse sustainability impacts.
[25] 'A focus on developing our people: The College of Ferguson' (October, 2018) [accessed: https://www.fergusonplc.com/en/sustainability/our-stories/best-associates/a-focus-on-developing-our-people--the-college-of-ferguson.html].
[26] Ferguson, Annual Report and Accounts 2021 [accessed: https://www.fergusonplc.com/content/dam/ferguson/corporate/2021-10-ar-updates/investors-and-media/annual-report-2021/Ferguson-plc-Annual-Report-2021.pdf] p. 25.
[27] Over $2.5B in revenue is attributed to products with third party certified products, including Energy Star, WaterSense, Green Seal, ECOLOGO, EPA Design for the Environment and Forest Stewardship Council. Ferguson SASB Disclosure Matrix, [accessed: https://www.fergusonplc.com/content/dam/ferguson/corporate/sustainability/Documents/FY2021-SASB.pdf].

iv. Engagement & monitoring

One area we noted for follow up with the company was around employee engagement, particularly during Covid-19. We discussed this matter, among others, with the CEO and CFO. The CEO's passion for this issue was immediately apparent. He conveyed significant pride in the firm's updated employee engagement results, which were published alongside the firm's annual financial results on the day we spoke. Impressively, employee engagement had risen five points in FY2021 compared with a pre-pandemic baseline. Nevertheless the CEO was also aware of the pockets of the firm which had responded less well to the survey, indicating the need to increase support and hiring in certain areas. He also communicated that an additional Board member was being tasked with employee engagement, which would enable more dedicated meetings with employees across all levels and areas of the firm. Another topic of focus was the firm's own environmental footprint. We encouraged the firm to consider setting a science-based climate target. The CEO could immediately identify the current impediment to the development of such a target – their non-electrified fleet, and in particular medium duty trucks – and expressed the desire to work towards such a target over time, as electrification becomes more viable for them. Other key issues we discussed include the firm's impressive investment in technology and competitive positioning. Altogether this discussion helped increase our conviction in the company, contributing to our subsequent decision to invest in Ferguson.

Naturally, this is not a static process. Just as the co-coverage team continues to assess the fit of the firm with our Investment Philosophy and the performance of the business, we monitor the firm's ESG credentials on an ongoing basis, and seek opportunities for engagement where appropriate.

As with all companies in the Fund, the firm is monitored through our RIG framework. This currently includes 19 factors, and covers the following core themes which we see as critical to every businesses in which we invest. We monitor changes in performance on a monthly basis, prompting areas for additional research and engagement.

Human Capital	Climate & Environmental	Corporate Governance	Cyber Security & Data Privacy	Business Ethics & Reputation
Rationale				
All businesses are people-driven	Climate and nature related risks are increasing and systemic	Robust oversight is key to financial sustainability	Rapid digitalisation poses new challenges	Business conduct is under scrutiny in an age of transparency

One area where we would hope to see Ferguson improve over time is on climate and natural capital metrics, such as the firm's implied temperature rise, and alignment with best practice in climate disclosure and target setting (including the adoption of science based targets). We will continue to engage with the firm on these matters.

ESG Integration in Decision Making

The example of Ferguson above highlights how ESG analysis can complement and enhance a positive fundamental view of the stock. There have been a number of such cases in 2021 when ESG factors were a particularly important component of our decision making. The opportunities we see in ESG and climate analytics, for instance, have helped contribute to our positive view on the long-term growth of companies which provide these services, notably **MSCI** and **S&P Global** (which owns the environmental specialist data provider Trucost, among others).

In 2021 we also became material owners of **Top-Build** and **Installed Building Products**. These are two distributors and installers of insulation. Insulation can materially improve energy efficiency, reduce emissions and enhance the climate resilience of the built environment. Moving US homes to better standards of insulation has been estimated to save 110 million tons of CO2, and reduce 320 pollution-aggravated deaths per year. [28] We therefore believe that these investments present material climate related optionality, for instance should regulation in the US come to require a higher standard of insulation for new buildings, or the retrofitting of old buildings. The latter would open an almost untapped market opportunity for these companies.

In other cases our ESG analysis, engagement and escalation of controversies leads us to avoid or sell companies. One key example in 2H 2021 was that of **Activision Blizzard**, where a Californian state department alleged sexual harassment and discrimination at the company. In particular, we were shocked by the company's dismissive initial reaction to the allegation. The reaction catalysed employee walkouts and widespread criticism. We sold the company following internal discussion of these issues, and fears over senior management's inability to navigate controversy.

The following few months saw changes in divisional management, some delays to the release of games, and a sharp decline in share price. The tone from leadership changed over this period, and commitments were made related to diversity, inclusion and respect in the workplace. The CEO also offered to take a dramatic pay reduction to the lowest amount available to him under Californian law.[29] We note that this was in the context of an exceptionally high award received by him for 2020 performance. We had narrowly voted for this compensation, having discussed promises of future improvements with the company, including the integration of ESG issues into remuneration decisions. In hindsight we came to regret our decision and the trust we had placed in management given these subsequent events.

At the time of writing, an interesting development is evolving. Microsoft – our largest holding – has announced its proposal to acquire Activision Blizzard. One of the aspects we most value about Microsoft is its strong sense of culture and purpose, which the CEO, Satya Nadella, has carefully and explicitly cultivated.[30] Therefore it was encouraging to us that one of the core themes emphasised at the announcement of the acquisition is culture, and the importance of its continued improvement. As Nadella wrote in an email to employees: "We look forward to extending our journey to create a more diverse and inclusive culture to our new colleagues at Activision Blizzard, and ensuring all our employees can do what they love, while thriving in a safe and welcoming environment".[31] We are hopeful that as part of Microsoft, Activision Blizzard will progress on these critical issues and that its employees will find a visionary and empathetic leader in Nadella.

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[28] J. Levy et al, 'Carbon reductions and health co-benefits from US residential energy efficient measures', *Environmental Research Letters* (March, 2016) [Accessed: https://iopscience.iop.org/article/10.1088/1748-9326/11/3/034017/meta;jsessionid=453A5BA99C74E0C82D1712BA255619FC.c4].

[29] 'A letter from CEO Bobby Kotick regarding progress and commitments made at Activision Blizzard' (October, 2021) [Accessed: https://investor.activision.com/news-releases/news-release-details/letter-ceo-bobby-kotick-regarding-progress-and-commitments-made].

[30] Microsoft news, Information about Hit Refresh by Satya Nadella. [Accessed: https://news.microsoft.com/hitrefresh/].

[31] Satya Nadella email to employees: 'Bringing the joy and community of gaming to everyone' (January, 2022) [accessed: https://news.microsoft.com/2022/01/18/satya-nadella-email-to-employees-bringing-the-joy-and-community-of-gaming-to-everyone/].

Engagement & Monitoring

Engagement is essential to our investment process. ESG considerations are embedded in our Investment Philosophy, and our frequent interactions with companies on a wide range of topics means that isolating purely 'ESG engagements' is not always simple. In our efforts to increase our transparency in this area, and in line with FRC recommendations, we have attempted to be more specific in outlining the types of discussions we have with companies with respect to ESG and sustainability issues.

Over the past year there were around 130 recorded interactions with companies where ESG content was discussed. These were predominantly calls or meetings, but in some cases emails, and in one case a letter. In another case we spoke to a consultant hired by an investee company to help advise them on ESG issues.[32] **Around 50% of these entailed more specific asks – for instance the recommendation to adopt a science based climate target.** The aforementioned represent interactions that better align with the definition of engagement endorsed by the Stewardship Code. However, there were other interactions related to ESG monitoring and questioning, for instance to inform our own decision making. This is a critical part of stewardship, but less specifically focused on corporate improvement.[33]

Below we list key ESG topics discussed across both types of stewardship activities – engagement and monitoring. These are shown in order of frequency, as well as a breakdown of themes – divided into Environmental, Social and Governance topics, as well as revenue opportunities from sustainable products, services and innovation (Innovation & Sustainable Opportunities).

Key ESG topics

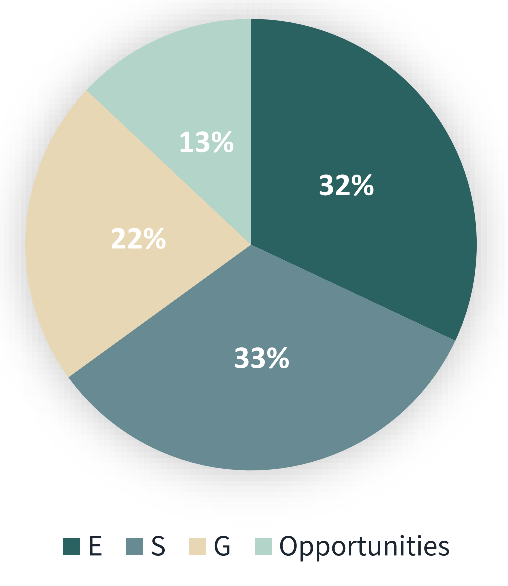
- **Environmental Issues:** Climate related matters such as emissions were the most frequently discussed environmental issue, followed by physical risk/weather. Other topics discussed included biodiversity, water, waste and plastic.

- **Social Issues:** Human capital was the topic theme most discussed, followed by purpose & culture, and diversity and inclusion. The interrelated nature of these topics mean these were often discussed at the same meeting.

- **Governance Issues**: Compensation featured most frequently in governance-related discussion, followed by management quality and succession planning, then reputation and business ethics.

- **Innovation & Sustainability Opportunities:** These discussions covered a range of sustainability related opportunities,

Topic type



[32] We also undertook several ESG-focused meetings with companies not held in the Fund. These are not included in these figures; however we may reference some key outcomes from these discussions in our wider reporting where relevant.
[33] 'Effective Stewardship Reporting', Financial Reporting Council (November, 2021) [accessed: https://www.frc.org.uk/getattachment/42122e31-bc04-47ca-ad8c-23157e56c9a5/FRC-Effective-Stewardship-Reporting-Review_November-2021.pdf] p.58.

Around 80% of our engagement-focused interactions with companies can be mapped to a sustainability impact defined under SFDR (relating to areas including greenhouse gas emissions, water, waste, social and employee matters). **More than half of our total stewardship interactions with companies related to these sustainable impact topics.** This indicates the extent to which our discussions with companies, and increasingly what we ask of them, goes beyond a narrow focus on ESG risk and opportunity – it includes key, real-world sustainability issues.

Engagement Case Studies

Waste Connections

Waste Connections is one of the clearest examples we have ever seen of culture making a financial difference. In 2019 a number of team members travelled to the company's headquarters for an in-depth meeting on culture. We learned how the company had experienced a cultural transformation, towards a more 'bottom up' model which they term servant leadership. As they rolled this out, they saw health and safety and retention improve, related costs fall, and M&A opportunities positively surprise them. It was a clear case - to them and to us - of focus on ESG factors making a positive financial difference. However, ESG issues are of course multifaceted and, although we have been impressed by the firm's social focus, it remains a key contributor to the Fund's carbon footprint. Therefore, environmental issues were a key focus of our engagement with the firm in 2021.

Although a vital service, waste management is associated with significant emissions produced in the decomposing of waste. Landfills remain one of the largest emitters of methane, a greenhouse gas (GHG) with a global warming potential 25 times greater than that of CO2 over a 100 year period.[34] Waste Connections is increasingly open about its efforts to mitigate excessive methane leakage, including the covering of landfills and use of drones to detect leakage. Even more encouragingly, there is an associated opportunity. At a certain life of a waste management plant, this gas can be captured and converted into electricity or renewable natural gas. This turns a negative sustainability impact into a commercial opportunity.

One of our key encouragements to the firm was for it to consider expanding its landfill gas energy projects, and sent them the list of their sites identified by the EPA as likely eligible for this.[35] The company agreed with this analysis, noting that these sites were being explored as potential candidates. Management also confirmed our calculation, derived from current disclosure and this EPA source, that adding additional capture and energy projects at these candidate sites could potentially decrease their Scope 1 emissions by one third.

We also recommended that the firm enhance its climate disclosure, and be more explicit about its current carbon accounting assumptions. The company outlined that this feedback was helpful, and would inform future reporting. Another area of discussion was the setting of rigorous emissions reduction targets, which would complement the firm's existing sustainability targets (around gas recovery, recycling, water contamination and health and safety). Subsequently, we have followed up with a specific ask for the firm to develop a verified Science Based Target. We hope that, over time, the firm will continue to progress as an environmental, as well as a social, leader.

[34] Overview of Greenhouse Gases, U.S. EPA, [accessed: https://www.epa.gov/ghgemissions/overview-greenhouse-gases].
[35] LMOP Landfill and Project Database, U.S. EPA, [accessed: https://www.epa.gov/lmop/lmop-landfill-and-project-database].

Cintas

We like to approach engagement in a spirit of partnership. We believe that there is an alignment of interests when it comes to ESG and sustainability matters – that improvements here can benefit businesses and their investors. We are therefore very pleased when companies proactively reach out to us for advice as to which areas to prioritise in their internal ESG initiatives and reporting.

Cintas asked us for advice as it prepared for its next round of sustainability disclosures, asking us for recommendations on areas to prioritise internally and as part of its reporting efforts. We highlighted the circular economy as an upcoming theme of investor interest, but one which is core to the history of the company as well as its current business model.

The firm began in 1929, during the Great Depression, when Doc and Amelia Farmer collected towels that had been disposed of by manufacturing facilities along the Ohio River. They washed, recycled and sold the clean towels back to companies. The company has developed into a uniform rental and facility services business. Most of these items are cleaned and processed in ways that extend their lifespan and, when not in use, are re-stocked for future customers to maximize their lifespan.[36] We encouraged the firm to continue to highlight its environmental benefits to both customers and wider stakeholders including investors, and to report on any related progress. We were pleased to see greater focus on these issues in the firm's subsequent report. Based on clear third party data and disclosed calculations (an enhancement from last year) the firm estimates that its laundering is over 22% more energy efficient and almost 30% more water efficient than that of its peers.[37] We were also excited to see enhanced discussion of its approach to waste, material innovation and its growing ambition to develop a 'closed-loop' system for its apparel. This describes an alternative model to conventional linear production – which typically uses new materials, and creates significant waste – whereby products are instead recycled and recovered.[38] We will continue to monitor progress and engage on these areas, enabled by the firm's enhanced disclosure.

We also highlighted the firm's approach to human capital as an area underappreciated by the market, and advocated for better articulation of the benefits. We consider the firm's entrepreneurial spirit and motivated employee base as critical assets to the business – aspects which we have observed when visiting company sites. Some external signals include the fact that the firm calls its employees "partners", reflecting their centrality to the business and indeed partial ownership of it. The firm's financial filings outline that stock ownership and bonus/profit sharing programmes are open to "substantially all U.S. Cintas employee-partners who have completed one year of service".[39] We asked the firm for greater evidence of its efforts to create an engaged workforce – for instance, enhanced disclosure around the extent of stock ownership, benefits and employee survey data. We were pleased to see significant focus on these areas, including a very detailed breakdown of engagement data which incorporates benchmarking. This indicated Cintas was outperforming a "high performance" comparator group on all core categories with the exception of development and training, where it was in line with the benchmark. We see this enhanced disclosure both as evidence of strong focus on human capital issues, as well as a tool for future monitoring and engagement.

[36] 'A solid foundation of sustainability and social responsibility', Cintas website, [accessed: https://www.cintascares.com/esg-report/].
[37] Cintas 2021 ESG Report, [accessed: https://www.cintas.com/pdf/Cintas_2021_ESGReport.pdf] p. 68-9.
[38] 'Closed Loop: How to do radically more with dramatically less', *United Nations Global Compact*, [accessed: https://breakthrough.unglobalcompact.org/breakthrough-business-models/closed-loop/].
[39] Cintas FY2021 10K Report, [accessed: https://www.cintas.com/pdf/Cintas-FY2021-10K.pdf] p.60.

Jacobs

One of the distinctive benefits we believe we provide from a responsible investment perspective is our ability to bridge European and US expectations. This theme became apparent in our conversation with Jacobs.

Jacobs is an engineering, construction and consulting firm operating across a wide variety of industries. Over time it has pivoted to focus more on solutions rather than discrete Engineering and Construction projects. Jacobs has also developed wider sustainability ambitions and sustainability goals related to aspects of the UN's Sustainable Development Goals. It now describes its purpose as "to create a more connected, sustainable world". In 2021 it announced that around $5 billion of its revenue (>30%) relates to ESG themed areas.

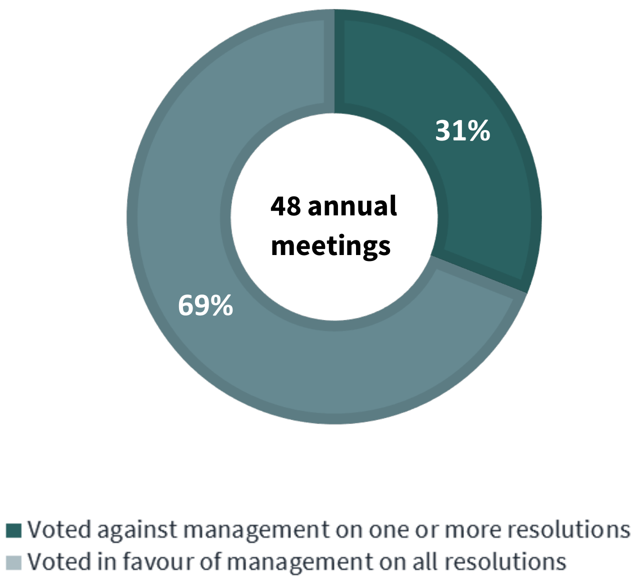
We wanted an update on the firm's sustainability ambitions, and to recommend ways in which the firm could further emphasise its positive impact. We met with the head of the newly formed office of climate and ESG at Jacobs, which aims to coordinate and advance Jacob's sustainable solutions and internal business plan. We asked for clarification on the composition of the firm's newly announced $5 billion figure, which was somewhat higher than the figures we had assumed based on the firm's historic disclosure of material areas such as environmental remediation and water. We learned that this included the firm's work in the clean energy space, hydrogen, wind and solar.

We recommended the firm to consider whether it might use the EU's taxonomy, which aims to ring-fence revenue related to climate aligned activities, as a tool for mapping this revenue. We are not currently able to use this taxonomy in our own analysis, due to lack of corporate disclosure among non-European companies. We suspect only a few companies will be able to align with taxonomy-related guidance at this point in this time, but that those who are able to give related disclosures will be recognised as leaders in sustainable impact. Jacobs' sustainability team indicated that this feedback was highly valued, and would be an area of focus for the team.

Another area we discussed was the reputational difficulties of some of the firm's projects from a responsible investment perspective. In particular, the firm has some involvement in supporting weapons facilities, including nuclear weapons research facilities in the US. The firm indicated its awareness of the reputational difficulties of this involvement, and the differences of opinion on the impact of defence related activities. We trust that Jacobs will do more to clearly explain its position, and any evolutions to it, to the investment community in the US and Europe.

Voting

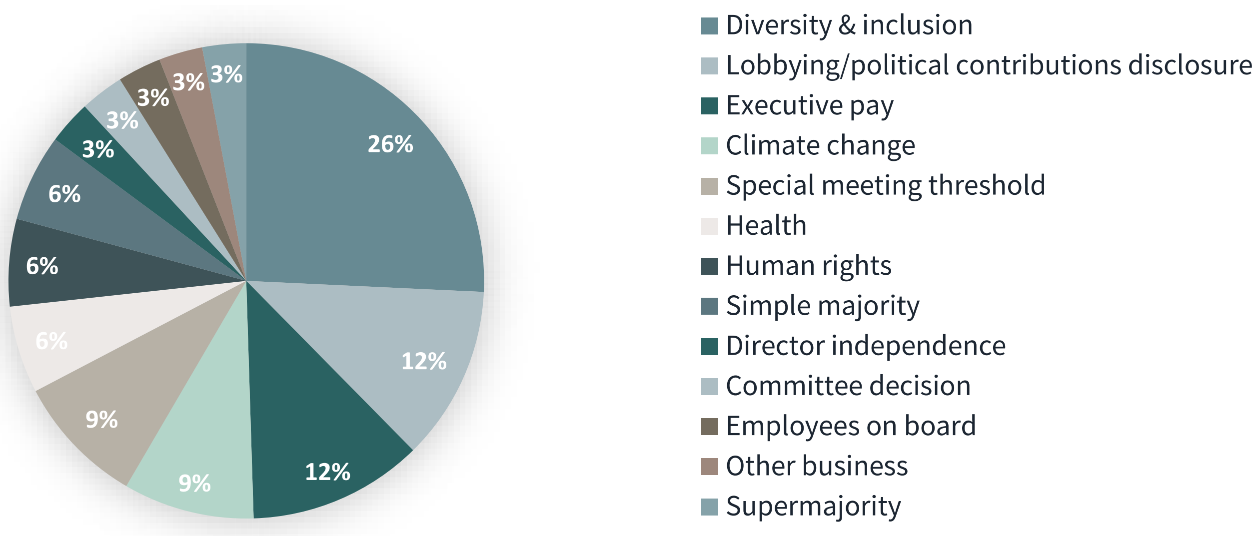
In 2021 we voted at 50 meetings: 48 annual meetings and 2 special meetings. We have **opposed management on at least one resolution at 31% of annual meetings.**[40] We voted on all resolutions at all meetings this year where we were shareholders at the time of the vote.[41]



In line with our Investment Philosophy and our voting principles – which focus on remuneration, risk and purpose & culture – we voted to secure:

- Executive compensation aligned with shareholders' interests
- Effective board oversight
- Transparency on material ESG issues including climate, lobbying and political contributions

Below we show how we voted against management over the year by issue.[42] Votes related to diversity and inclusion were the most common, followed by lobbying/political contribution, then those relating to executive pay, climate change, and the threshold to call a special meeting.[43]



Figures may not add to 100% due to rounding.

[40] Source: ISS ProxyExchange and Findlay Park analysis.
[41] Although we are technically eligible to vote in cases were we have very recently sold a position, we only vote when we are current shareholder, in the belief that ownership rights should come with ownership.
[42] *Ibid.*
[43] Please note there was a minor error in this chart in our 1H 2021 report, which occurred during the publishing process. Some of the original chart percentage labels were incorrect, and the associated wording incorrectly described the most common votes against management as those relating to lobbying/political contribution and director independence. The 1H 2021 report was corrected and republished in March 2022.

Below we detail each occasion where we voted against management on a shareholder resolution, or were not aligned with the views of ISS. Votes related to mergers and acquisitions are also noted. The below is a comprehensive list of all such resolutions in 2H 2021 – for those in the first half of the year please see our 1H 2021 Responsible Investment & Engagement Report.

Cintas

We voted for a shareholder resolution to eliminate supermajority voting rights, which the Board reserves in a limited number of cases. For instance, a two third voting majority is reserved for charter amendments and M&A. We consider a 50% voting threshold for all items to be more advantageous to minority shareholders, such as ourselves and our underlying investors. We explained our position to the company.

Microsoft

A number of ESG resolutions were proposed at Microsoft's annual general meeting. We supported three of the five proposed, and our rationale is outlined below.

Supported

One resolution related to enhanced lobbying transparency – a type of resolution we support by policy, believing that transparency around political spend and lobbying is owed to shareholders and their underlying investors.

Two resolutions related to diversity, and respect in the workplace. One asks for greater transparency and auditing of the firm's policies and practice with regard to discrimination and harassment. We are confident in the robustness of the firm's current culture and desire to continuously improve, but we also recognise that the companies in the technology sector have not always modelled inclusion and respect in the workplace. Likewise, given this context, we voted for a resolution asking for greater workforce disclosure, focusing on the gender and ethnic pay gaps.

We are particularly pleased by the company's response to shareholders support for these resolutions. Following the annual general meeting, the Board announced a review, led by law firm Arent Fox, of the company's practices with respect to discrimination and harassment. This will also include a review of best-practice on these issues, with the goal of identifying additional opportunities for improvement.[44]

We believe that the implementation of best-practice on these issues will be important, particularly as, pending regulatory approval and the finalisation of the deal, the company works to integrate Activision Blizzard

Not supported

We did not support two resolutions. One asked for facial recognition to be prohibited for sale to all government entities. Microsoft has stated it will not sell facial recognition technology to police departments in the U.S. until strong regulation, grounded in human rights, has been enacted. It has also been a leader in developing principles around responsible use of AI. The company outlined that this resolution – which would restrict sale to all government entities – was too wide ranging. If implemented, this would restrict the ability of Microsoft to provide government customers with the use of facial recognition technology to help them more securely sign onto their devices.

Another resolution looked to assess how the company has implemented the White House's Fair Chance Business Pledge, and how this has helped eliminate racial bias. The firm signed this commitment in 2016, a commitment which

[44] Microsoft Board initiates review of sexual harassment and gender discrimination policies, [Accessed: https://view.officeapps.live.com/op/view.aspx?src=https://c.s-microsoft.com/en-us/CMSFiles/MSBoardPolicy.docx?version=cc15d925-d108-b21f-6313-cb68323e4c56].

seeks to eliminate barriers to employment for those with a criminal record. The company does not ask about criminal convictions prior to a conditional offer of employment unless legally required to do so. After an offer, the company conducts an assessment of any past criminal conduct, provides an opportunity to demonstrate that the past criminal conduct is not job related, and provides a path to challenge outcomes. It is also a member of the Second Chance Coalition to share best practices regarding fair hiring practices. Other companies have not given specific statistics, for instance as to the number of employees with prior criminal convictions, and there are likely particular sensitivities around collecting and disclosing this data. We also note the company's description of some of its key processes on this issue, described above. We therefore decided not to support the resolution.

Nike

There were a number of resolutions of note at Nike's annual general meeting.

Firstly, concerns over resolutions relating to pay were noted by ISS. These related to quantum of pay for the CEO and Chair, and also due to design features such as the lack of performance based share awards, and significant charitable contributions to undisclosed charities chosen by the CEO and Chair. There is a 4:1 matching scheme, and over $4 million was outlined as being awarded to undisclosed charities, among other areas,[45] on behalf of CEO John Donahoe, and $3 million on behalf of Chair Mark Parker.

We are highly supportive of appropriate charitable giving by corporations, but consider that transparency is needed to ensure this is being directed to benefit stakeholders or communities, particularly when significant sums are being personally chosen by the leaders of an organisation. In discussion with the company we gained only incremental insight into the design and quantum of awards, and no clarity as to the nature of the giving facilitated by the company. We decided to vote against this resolution.

Some important shareholder resolutions were also proposed. Two resolutions related to diversity and inclusion – one more broadly around related policies, oversight and targets, and the other more narrowly on the disclosure of the gender and racial pay gaps at the company. Although we recognised the strong current practice of the company, we are alert to the wider issues of discrimination in sport and related industries, and evidence of past misconduct at the company. As an encouragement to the firm to continue to improve, we supported these resolutions.

A particularly key resolution asked for increased disclosure around the human rights impacts of cotton sourcing. Cotton as a commodity is associated with human rights risk, with a particularly acute aspect of this relating to sourcing in China. As we have discussed in previous reports, we are concerned with the human rights infringements in Xinjiang province in particular – a region which accounts for a considerable share of China's cotton exports. Nike released a statement on this particular issue, which has led to commercial difficulties in China. However, we agree with the filers of the resolution that greater disclosure around human rights is merited.

In tandem, largely due to the difficulties this company has faced in China, and the geopolitical significance of this human rights controversy, we decided to sell out of the company. While we recognise that Nike is making efforts to navigate a sensitive situation, we do not see a stable path towards long-term resolution of these concerns. As a result we decided it was in the best interests of our investors to for us focus on investing in companies where we have less uncertainty due to these geopolitical headwinds.

[45] Even the amount given to charity per se versus other areas such as merchandise and wellness products was unclear, as these areas were aggregated.

Agnico Eagle

We voted at a special meeting asking shareholders to approve the acquisition of Kirkland Lake – a smaller gold mining company with assets in Canada and Australia.

To help us better understand the rationale for the deal we held multiple conversations with management of both companies, as well as former Kirkland Lake employees, including one with ESG experience. We built a picture of a company known for its operational excellence, and with high ESG standards. In assessing the environmental efficiency of Kirkland's mines, it also appears as best-in-class from an environmental standpoint. Based on public disclosure, Kirkland appears to be the second most GHG efficient per ounce of gold mined among peers.[46] Agnico Eagle believes that this acquisition will help cement and advance its reputation as an ESG leader, and that is a core part of the rationale for the combination. We were happy to support this proposal.

Our full voting record for 2021 will be published on the website as a separate document. Please see Appendix I for our best efforts overview of our principal adverse impacts, and related voting and engagement.

[46] RBC ESG Stratify™: NA Precious Metals, Digging Deeper on ESG (December 2021).

Appendix I. Description of Principal Adverse Impacts

We have, on a best efforts basis, conducted an initial assessment of our exposure to principal adverse impacts as outlined under the SFDR at the end of 2021. Importantly, we have not just reported the metrics themselves, but the actions we have taken in relation to them, primarily through engagement but also through research, monitoring and voting. We hope this will bring some life to the disclosures, and highlight our role as active owners of the companies in which we invest.

At the date of publication, the regulatory technical standards under SFDR relating to principal adverse impact remain in draft form and have not yet been adopted. However, in the spirit of transparency, we are publishing this preliminary assessment ahead of time, on a voluntary basis. Noting the availability of source data remains inconsistent, (an industry wide issue), where information relating to any of the indicators is not readily available, at the end of the table below we have disclosed any reasonable assumptions and additional research carried out, to assess the impacts. Therefore, this information is provided subject to these limitations.[47]

Metric Type	Metric	31st Dec 2021	Explanation	Actions Taken
1. GHG emissions	Scope 1 GHG ("owned" proportion of all companies' Scope 1 emissions, as a % of EV)	240,125 metric tonnes	The top three scope 1 emitters in absolute terms were Berkshire Hathaway (an estimate, given lack of disclosure), Air Products, and Amazon. The top three scope 1 emitters on an attribution basis (adjusted for our ownership of a company) are Waste Connections, Air Products and Martin Marietta.	At the start of the year we developed a carbon tax model. This covered Scope 1 emissions as default – with the capability of including Scope 2 – and also incorporated forward looking climate targets. Alongside other tools, this Scope 1 shadow tax assessment helped us to prioritise further research and engagement. We led a CDP climate engagement with Berkshire Hathaway asking for more disclosure and reporting on climate change (including scope 1 emissions). We sent a letter to Warren Buffett, recommending firm-wide disclosure, or at least greater subsidiary disclosure. We received a response which acknowledged the importance of climate risk and emissions, and highlighted areas of progress within the business. We hope that over time current resistance to greater disclosure may change, and we will continue to engage. We also voted for a climate resolution at the AGM. In Q4 we asked Berkshire Hathaway Energy for an update on its approach to science based targets (SBTs), and learned that its UK subsidiary had committed to develop one verified by the Science

[47] Please note our initial assessment of principal adverse impacts in Appendix I does not constitute our formal reporting for the purposes of the SFDR; the first reporting period under the SFDR will cover the 2022 calendar year and, under the current regulatory timetable, will be published in 1H 2023. In the intervening period our preliminary assessments may be further amended, revised or revoked according to a number of factors including data availability, market practice and further regulatory guidance. As a result, any parties intending to rely on such data, including in relation to any assessment of suitability, should take the limitations set out in the Appendix and the potential for future changes into account.

				Based Targets initiative (SBTi), but that the firm feels this is currently harder to achieve in the US. We discussed carbon emissions with Air Products, including a deep dive on its approach to carbon accounting. In Q4 we notified it of our ambition to have them set an SBTi , which would require absolute emission targets (they currently have relative targets). We discussed ESG matters with Amazon twice over the past year, including environmental issues such as plastic and waste. Climate was less in focus given their strong climate plan and SBTi commitments. We held dedicated ESG meetings with both Waste Connections and Martin Marietta, with a strong focus on climate; we emphasised the importance of setting SBTs for both companies. We also recommended that Waste Connections consider adding landfill gas capture capabilities to certain sites, a move which could significantly reduce its Scope 1 emissions – the company confirmed that this is being explored. We discussed carbon related policy and opportunities for innovation with Martin Marietta, and noted that they have acquired a cement plant in California which is partnering to implement an innovative technique, whereby carbon is injected into cement.
	Scope 2 GHG ("owned" proportion of all companies' Scope 2 emissions)	66,029 metric tonnes	The top three scope 2 emitters in absolute terms were Air Products, Berkshire Hathaway (again an estimate) and Amazon. The top three scope 2 emitters on an attribution basis (adjusted for our ownership of a company) contributors were Air Products, Martin Marietta and Amazon.	Air Products' business is industrial gas production, which requires significant amounts of energy. However, hydrogen could play an important role in an energy transition; for instance, in 2021 the firm announced new 'blue hydrogen' projects in Canada and the US, where carbon emissions will be captured as part of the process. The firm has set a "third by '30'" intensity target for both Scope 1 & 2 emissions (cutting emissions one third from 2015 levels by 2030). [48] We will continue to monitor how it progresses toward this goal, and encourage them to consider absolute emissions reductions. As noted above, Berkshire Hathaway's lack of reporting is a key limitation to the data, and something we have sought to improve through engagement. Although at this time the company does not plan to publish firm-wide climate information, we are hopeful that this could evolve, for instance, after a leadership transition – we will continue to engage. Amazon's data centres require significant quantities of electricity. Amazon intends to source 100% renewable energy by 2025, so we should see a decline in its Scope 2 emissions.[49] We will continue to monitor related progress.

[48] 'Air Products announces "Third by 30" CO2 emissions reductions goal aligned to its business strategy, accelerating growth opportunities and higher purpose', (2020) [accessed: https://www.airproducts.com/news-center/2020/09/0915-air-products-third-by-30-co2-emissions-reduction-goal].
[49] 'Renewable Energy', Amazon website, [accessed: https://sustainability.aboutamazon.com/environment/sustainable-operations/renewable-energy?energyType=true].

				From our engagement with Martin Marietta we understand that it will set Scope 2 goals in the Spring of 2022. As noted above, we have expressed our aim for them to set an SBT.
	Scope 3 GHG ("owned" proportion of all companies' GHG emissions)	2,133,772 metric tonnes	The top three Scope 3 emitters were Home Depot, EOG and Berkshire Hathaway. The top three scope 3 emitters on an attribution basis (adjusted for our ownership of a company) were EOG, CBRE and Ferguson.	We participated in a group investor call with Home Depot where we submitted questions regarding Scope 3 emissions which management answered. We asked how the firm was planning to manage Scope 3 emissions from its largest category – use of products sold – while noting that it is not entirely in their control. Management pointed to several examples. For instance, they have invested heavily in their EcoOptions and EcoAction campaign to educate consumers on their sustainable product offerings. They have also transitioned many of their gas-powered products like lawn mowers to battery power. We have consistently engaged with EOG on climate matters. This includes asking about natural gas exploration activities and views on this as a 'transition fuel' business opportunity. We have discussed our ambition for them to set a SBTi, and have put them in touch with our contact at SBTi. In Q4 we reinforced the importance of such a commitment, and the importance of Scope 3 monitoring and appropriate management. The firm is currently enthused about its potential to develop carbon capture and storage (CCS) capabilities, which could eventually have implications for all its emission scopes. We discussed climate matters with CBRE, with a strong focus on Scope 3 and related climate opportunities. In Q4 the firm announced a partnership with solar energy company Altus Power, which will improve its renewable offerings to clients. We also had a discussion with Ferguson, including a focus on climate matters. We have emphasised the importance of an SBT which would cover all key emissions scopes. Management are committed to working towards this in the medium term, and are aware of the key steps they need to take to enable this – namely decarbonising their fleet. See above for actions taken in relation to Berkshire Hathaway.
	Total GHG emissions	306,154 metric tonnes (1&2) 2,439,926 metric tonnes (1, 2 & 3)	Home Depot, Berkshire Hathaway and EOG were assessed to have the largest total GHG emissions.	See above in relation to engagement with these companies. In terms of voting, we supported all climate-related resolutions put before us in 2021 (Berkshire Hathaway, Charter, S&P Global, Union Pacific). Following the vote we noticed that Charter completed the CDP survey and Union Pacific outlined its climate action plan. S&P Global in fact tabled the resolution itself and outlined its climate action plan, which we consider forward-thinking.
2. Carbon footprint	Carbon footprint	22 metric tonnes per	See Total GHG emissions above.	See Total GHG emissions above.

	(Total "owned" tonnes of GHG emissions per million EUR invested)	million EUR invested (1 & 2) 178 metric tonnes per million EUR invested (1, 2 & 3)		
3. GHG intensity of investee companies	GHG intensity of investee companies (Portfolio weighted average company GHG intensity per million EUR in revenue)	113 metric tonnes per million EUR revenue (1 & 2) 579 metric tonnes per million EUR revenue (1, 2 & 3)	Air Products is around 1/3 of this GHG intensity on a Scope 1 & 2 basis, with Waste Connections around 23% and Martin Marietta around 14%. On a Scope 1, 2 & 3 basis EOG is around 30%, followed by Fortive at around 13% and Air Products at 8%.	The firm produces industrial gases which help save customers' emissions (e.g. reducing black carbon produced by them). Air Products has announced blue hydrogen and carbon capture and storage (CCS) as strategic business priorities, as well as a target to reduce its GHG intensity by 1/3 by 2030. We will continue to monitor their progress toward this goal. Fortive has an emissions intensity reduction goal of 50% by 2025; we will monitor its progress towards this.[50] In Q4 2021 we notified Fortive of our ambition for them to set an SBT, and followed up with a discussion in 2022. We learned more about its commitment to set such a goal, as well as its work to highlight the climate and sustainability related products that it offers. This includes environmental monitoring and data solutions.
4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	5%	Companies assessed as being in the fossil fuel sector are EOG and Berkshire Hathaway – the latter being less exposed as this pertains to its investment in Berkshire Hathaway Energy, which is one of the largest renewables producers in the US but also has gas and coal fired power. Waste Connections is also considered in scope given its transport and treatment of waste from oil and gas.	With regard to EOG, we continue to closely monitor fossil fuel demand and understand the potential future shift away from these resources. The firm's current strategy is very much focused on oil and gas. We see the potential for them to tilt more towards gas, which may still be important as a lower carbon alternative to coal. We will also monitor the firm's development of CCS as a potential to decarbonise both oil and gas. While fossil fuel activity does not comprise the majority of Berkshire Hathaway's business, we have encouraged Berkshire Hathaway Energy to consider accelerating its coal phase out plan, and to set SBTs; both should reduce a focus on fossil fuels over time. Waste Connection's business is technically in scope as fossil fuel related, given its transport of waste from oil and gas (<5% of revenue). Whilst rending the firm technically in scope, we would point to the social and environmental benefits of waste treatment, and the firm's lack of exposure to oil and gas production. In Q4 2021 we excluded some categories of fossil fuel with the severest environmental impact from our Fund. We will not invest in companies with over 10% revenue exposure

[50] Sustainability, Fortive website, [accessed: https://www.fortive.com/sustainability].

				to the following: coal mining, coal power, oil sands. Please refer to our Responsible Investment and Engagement Policy for further details.
5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption of investee companies from non-renewable energy sources compared to renewable energy sources	45%	The three companies with the highest reported percent non-renewable energy consumption to total energy consumption were S&P Global, Union Pacific and CBRE. This metric relies on companies reporting their non-renewable and renewable energy consumption. In Q4 only 18 reported both non-renewable and renewable energy consumption which allowed us to calculate a percentage.	In absolute terms, S&P Global consume a relatively small amount of energy relative to our other holdings. The company has outlined renewable energy plans, for instance in its 2021 TCFD report it noted that three of its offices switched to renewable tariffs in April 2021 with potential annual savings of 2,634 tCO2e (around 10% of its 2019 Scope 2 emissions).[51] In addition, the firm's Stockholm office switched to such a tariff in 2020. As noted above, we have voted and engaged with Union Pacific to encourage them to reveal a climate action plan. This plan was published in December 2021. It includes an ambition to invest in electric locomotive technology (which could be powered by renewable energy), although the firm outlines that at present this is not practical for its network (biofuels being a more scalable solution). Union Pacific also outlined that it had invested in a solar project in Texas in 2021. CBRE has committed to consuming 100% renewable electricity in its operations by 2025, so we expect to see rapid progress on this metric in coming years.
	Share of non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources	72%	Only Berkshire Hathaway is involved in energy production through its subsidiary, Berkshire Hathaway Energy (BHE). In 2020 the firm had 32% net generation from renewables, and 41% renewable generation capacity.	Berkshire Hathaway Energy is one of the largest renewable energy providers in the US, and has invested over $34 billion in renewables, with plans to spend $3 billion more on wind related activities from 2020-2022. [52]The firm has outlined a coal phase out plan, albeit that the timeline could be more ambitious. This will be a point of ongoing monitoring and engagement.

[51] S&P Global, 'Task force on Climate -related Financial Disclosures (TCFD) Report', (2021) [accessed: https://www.spglobal.com/en/who-we-are/corporate-responsibility/tcfd-report-2021.pdf]. p.21
[52] Berkshire Hathaway website, [accessed: https://www.brkenergy.com/about-us/sustainability.aspx].

6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	0.13 GWh per million EUR in revenue for companies deriving revenue from 'high impact climate sectors', expressed as a portfolio-weighted average.	The top three energy intensities in these sectors were Air Products (manufacturing), Union Pacific (transportation), and Agnico Eagle (mining). On a portfolio weighted basis the greatest contributors in Q4 were Air Products, Union Pacific and Microsoft. We would note reporting gaps in this data set. We classify 26 companies as having the majority of revenue from high impact sectors, only 8 report energy consumption.	Please see above for information related to Air Products and Union Pacific. Agnico Eagle is a significant user of energy – although much of it renewable. In 2020 it sourced 52% of its power from renewable energy. [53]Although an impressive percentage given its industry, we noticed that this was a decline from 2019. We discussed this with the company, learning that this was due to the remote location of its Northern Canadian sites and increased production in this region. However, the firm also informed us that the Canadian government is working on connecting a renewable electric line to this region, which both the company and the local communities strongly support. In addition, the firm's proposed acquisition of Kirkland Lake should lower its overall energy intensity. Our understanding is that ESG benefits were key to the acquisition. Microsoft is a relatively energy intensive company, but has strong commitments regarding renewable energy and science based targets. The firm aims to be carbon negative by 2030, and to remove all historic emissions related to the firm's Scope 1 and 2 emissions by 2050.[54] By 2025 it also targets 100% renewable power.
7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where their activities negatively affect those areas	13%	We assessed the 8 companies in our fund with greatest potential for biodiversity impact based on the nature of their activities (informed by MSCI, UN EP and OCED methodologies). These companies included: Agnico Eagle Mines, EOG Resources, Martin Marietta Materials, Sherwin Williams, Union Pacific, Jacobs Engineering, Waste Connections, and Berkshire Hathaway. Due to its exemplary biodiversity disclosure, and efforts to mitigate its impacts, we excluded Agnico Eagle as	We recognize the growing importance of biodiversity, and have conducted a deep dive on sector specific impacts to biodiversity. We believe Agnico Eagle has some of the best biodiversity practices in the industry, as evidenced by their commitment to the internationally recognised Toward Sustainable Mining framework. They were the only company assessed that demonstrated substantial mitigation measures as required by this regulation. We have also spoken with EOG, asking about its biodiversity policies. They believe that the permitting process through the U.S. EPA may align with international standards like IFC Performance Standard 6 and pointed to several specific examples of their efforts to avoid endangered species. We are aware that the firm is developing a more holistic approach to biodiversity with the help of a specialist consultant. We have also spoken with Martin Marietta's management team, who seemed confident that none of their sites overlapped with key areas of biodiversity. Over time we hope to gather more evidence and assurance on this point.

[53] 'Environmental Stewardship', Agnico Eagle website, [accessed: https://www.agnicoeagle.com/English/sustainability/our-performance/environmental-stewardship/default.aspx].
[54] 'Microsoft announces it will be carbon negative by 2030', Microsoft News, (2020) [accessed: https://news.microsoft.com/2020/01/16/microsoft-announces-it-will-be-carbon-negative-by-2030/].

			negatively impacting biodiversity.	For all other companies, we have identified ways that these companies could more clearly evidence their commitment to avoiding adverse impacts to biodiversity. We intend to further engage on this issue in 2022. In addition, we avoided presenting a potential investment, due to be presented to the investment team, largely due to biodiversity concerns among other ESG issues.
8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, as a weighted average	0.13 tonnes per million EUR in investee company revenue	The top three companies with modelled emissions to water in absolute and weighted terms were Agnico Eagle, Waste Connections and Berkshire Hathaway. For Agnico Eagle, these largely comprised acid emissions inherent in the mining process. For Waste Connections, these largely comprised nutrient and organic pollutants. Berkshire Hathaway had a mix of organic, acid, metal, and pesticide emissions due to its diverse nature.	This is a newer metric for us, and we intend to further engage on this topic in 2022. We are encouraged that Agnico Eagle is on the board of International Network of Acid Prevention and Waste Connections has a target to manage more of its leachate onsite, potentially having greater control over emissions to water. We also spoke to EOG resources about its policies for minimising water pollution. Management assured us that they are bound by strict environmental regulations in the U.S. that prohibit any emissions to water. We will seek to further engage on this issue in 2022.
9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, as a weighted average	4398 tonnes per million EUR in revenue	The top three companies with in absolute and weighted terms were Agnico Eagle, Danaher, and Texas Instruments. This metric is the weighted average of 11 companies for which we have data.	We have engaged with Agnico Eagle on a variety of environmental issues, including a discussion of hazardous waste given an apparent uptick in 2017. Management explained they had an issue with contaminated soil at their Meadowbank mine. We will continue to monitor its hazardous waste reporting. We intend to further engage on this issue in 2022, and seek additional disclosures were appropriate (noting that not all companies will produce hazardous waste).
10. Violations of UN Global Compact principles and OECD Guidelines	Share of investments in companies that have been involved in violations of the UNGC or OECD Guidelines	0%	No companies were assessed as being at the highest risk of violating the UN Global Compact.	We continue to monitor all potentially serious controversies on at least a monthly basis. Any companies flagged by our data provider as potentially in breach of these conventions are highlighted in our internal ESG report. Such changes must be investigated and discussed with the investment committee. At minimum, an indication that a company was currently at high risk of breaching these norms would merit high priority monitoring.

for Multinational Enterprises				
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines	Share of investments in companies without policies to monitor compliance with the UNGC or OECD Guidelines	43%	Half the companies in the Fund have been assessed to be monitoring alignment with the principles of the UN Global Compact.	Over time we aim to engage with every company which has not signed up to the UN Global Compact, or has not otherwise demonstrated commitment to its underlying principles.
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	19%	There is very limited reporting on this point for US companies. We therefore assessed gender pay gaps in UK reports as a proxy – the data was available for 19 companies.	Given limited data quality on this issue, we are less able to directly act upon it. However, we systematically monitor perceptions around gender equality in our firm's businesses using a female focused employee review site – InHerSight. Poorly scoring firms receive a lower weighting in our internal ESG report. This also helps inform our voting on diversity related resolutions. In addition, between Q4 2021 and Q1 2022, we created an expanded set of diversity and inclusion related metrics for companies in the Fund to prompt further research and engagement. This includes both diversity statistics related to gender and ethnicity at varying levels of the organisation, employee engagement data, and an assessment of the strength of a firm's diversity and inclusion related programmes.
13. Board gender diversity	Average ratio of female to male board members in investee companies	0.50	None of the companies in which we invest have all male Boards. Charter, McDonalds and Air Products are the companies with the lowest ratio.	We consider Board gender diversity when making voting decisions, which may influence our voting on diversity related resolutions, or more generally inform our view on the quality of governance at a company. We supported many such resolutions in 2021 and explain the rationale for each vote on this topic in our responsible investment reporting.
14. Exposure to controversial weapons	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0%	None of the companies in which we invest manufacture such weapons (cluster munitions, antipersonnel mines, biological or chemical weapons).	We exclude such companies given the severe impact on civilian lives, and related reputational risk.
Additional Environmental: Investments in companies without carbon	Share of investments in investee companies without carbon emission reduction initiatives	56%	By weight in the Fund, 44% have targets certified by the Science Based Targets Initiative.	We have encouraged all the companies in the Fund without SBTs to set them, specifically those verified by the SBTi. We intend to make this pillar a core part of our approach to our Net Zero Asset Managers Initiative commitment. We joined this initiative in Q4 2021.

emission reduction initiatives	aimed at aligning with the Paris Agreement		Others also have 'Net Zero' targets and are in the process of setting interim targets, but these are not included in the 44%.	
Additional Social: Lack of a supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour)	23%	We assessed all companies for the existence and strength of their supplier codes of conduct, finding the majority to have robust codes referencing child labour, forced labour and safety.	In 2022 we aim to engage with companies which have not publicly disclosed supplier code of conducts. Our research and engagement on forced Uyghur labour in the supply chain~~s~~ is outlined in our 1H 2021 Responsible Investment & Engagement Report.

Notes

Most of our disclosed figures for the environmental indicators come from purchased data from S&P Trucost.[55] We followed the definitions and formulas as set out in the Regulatory Technical Standards to the best of our ability. We would note that we invest in U.S.-domiciled companies and had to convert revenues and investment values to Euros. In general, many of the environmental indicators have a 1-2 year time lag given lack of timely reporting, one exception is the assessment of companies committed to science based targets, which is a more regularly updated data set. Other social and governance metrics, such as Board diversity, are more timely, with the exception of gender pay gap reporting, which is typically on a 1-2 year time lag.

Environmental Indicators

1. GHG emissions

$$\sum_{n}^{i}\left(\frac{\textit{current value of investment}_i}{\textit{investee company's enterprise value}_i} \times \textit{investee company's Scope}(x)\ \textit{GHG emissions}_i\right)$$

2. Carbon footprint

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$$\frac{\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{investee\ company's\ enterprise\ value_i} \times investee\ company's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i\right)}{current\ value\ of\ all\ investments\ (€M)}$$

3. GHG intensity

$$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{current\ value\ of\ all\ investments\ (€M)} \times \frac{investee\ company's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i}{investee\ company's\ €M\ revenue_i}\right)$$

4. Fossil fuel exposure

The regulation defines 'companies active in the fossil fuel sector' as "(i) companies that derive any revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (ii) companies that derive any revenues from the exploration, extraction, distribution (including transportation, storage and trade) or refining of liquid fossil fuels; and (iii) companies that derive any revenues from exploring and extracting fossil gaseous fuels or from their dedicated distribution (including transportation, storage and trade)." We relied on our data provider, S&P Trucost, to make this assessment for us.

5. Non-renewable energy

This metric requires us to report 'share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage.' It is ambiguous as to how we aggregate company level percentages to the portfolio level. In this case, we have decided to use a weighted average of the percentages of the companies that have reported both non-renewable and renewable energy consumption. Energy production only applied to one of our companies, and we have reported this figure separately.

6. Energy consumption intensity

This metric requires us to report 'energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector.' We believe that the regulation text is vague regarding whether this requires aggregation at a sector or portfolio level. After consulting with our data provider, we are following the recommendation of S&P Trucost to take a portfolio aggregated approach. S&P Trucost has estimated the percent of revenue derived from high impact climate sectors for each company. We then calculate the energy consumption intensity for each company in a high impact climate sector as per the regulatory definition.[56] We are reporting the weighted average of these numbers.

7. Biodiversity

This metric required us to determine the location of corporate sites/operations relative to biodiversity sensitive areas and whether companies have undertaken specified measures to mitigate their impact of biodiversity which would render them out of scope for reporting. Due to the lack of available corporate location data and the sheer volume of sites for all of our companies, we focused our analysis on those companies in sectors whose activities proved most likely to negatively impact biodiversity. This list of companies was informed by MSCI's corporate assessment and by OECD and UN Environment Programme sector guidance.

[56] 'energy consumption intensity' means the ratio of energy consumption per unit of activity, output or any other metric of the investee company to the total energy consumption of that investee company.

We were able to obtain location data points for Agnico Eagle and Waste Connections (U.S. landfills only), as well as UNP's owned railroad tracks. For EOG we mapped some of their operating basins, knowing that this did not capture precise drilling locations. We are engaging with Martin Marietta to see if we can obtain coordinates for their aggregate quarries. We anticipate Sherwin Williams and Jacobs Engineering to be more difficult given the scale of their footprints. We do not intend to attempt to locate all of Berkshire Hathaway's operating sites, given the complexity, scale and range of the business. We consider this business to likely always have the potential to negatively impact biodiversity-sensitive areas.

We then assessed these locations against the Integrated Biodiversity Assessment Tool (IBAT) which contains maps of Key Biodiversity Areas (KBAs), UNESCO World Heritage sites, and Natura 2000 network of protected areas, as well as sites protected at a national level. For Agnico Eagle, Waste Connections, and Union Pacific, we were able to identify specific sites that are in or 'near' any of these areas. For the other five companies, we relied on their demonstration of significant mitigation measures as outlined in the regulation. Only Agnico Eagle demonstrated such mitigation measures, through its corporate and CDP forests reporting. We intend to update this metric as we learn more about each company's approach in this area. We can provide a detailed methodology available upon request.

8. Emissions to water

The mandatory environmental indicator relating to emissions to water requires that we report 'tonnes of emissions to water generated by investee companies per million EUR invested expressed as a weighted average.' The RTS defines weighted average as 'a ratio of the weight of the investment by the FMP in an investee company in relation to all investments of the financial market participant. The RTS defines 'emissions to water' as follows: direct emissions of priority substances as defined in Article 2(30) of Directive 2000/60/EC of the European Parliament and of the Council (16) and direct nitrates, direct phosphate emissions, direct pesticides emissions as referred to in that Directive, Council Directive of 12.

The referenced Article 2(30) of Directive 2000/60/EC defines 'Priority substances' as: substances identified in accordance with Article 16(2) and listed in Annex X. The corresponding Annex lists 45 priority substances with relevance to water policy (figure available upon request). However, firm-level data for the emission of all 45 priority substances simply does not exist. Our selected data provider, S&P Trucost, gives carefully modelled data for four types of emissions to water, all in tonnes per year: nutrients and organic pollutants, acid emissions, metal emissions, and pesticides and fertilizers for all of our holdings. There is overlap between these categories and those requested by the regulation. For instance, pesticide emissions are required, and nitrates and phosphates come from fertilizers. Further, some of priority substances listed in the table are metals or acids.

We are reporting the sum of organic pollutants, acid emissions, metal emissions, and pesticides for each of our companies as given by our data provider, per million EUR invested, expressed as a weighted average of our portfolio holdings, because we believe their estimation methods to be particularly robust and the most feasible method to comply with the intention behind the regulatory text.

9. Hazardous waste

The mandatory environmental indicator relating to hazardous waste requires that we report 'tonnes of hazardous waste generated by investee companies per million EUR invested expressed as a weighted average.' The RTS defines weighted average as 'a ratio of the weight of the investment by the FMP in an investee company in relation to all investments of the financial market participant. The RTS defines hazardous waste as: hazardous waste as defined in Article 3(2) of Directive 2008/98/EC of the European Parliament and of the Council (20) and radioactive waste; Article 3(2) of Directive 2008/98/EC defines 'hazardous waste' as waste which displays one or more of the hazardous properties listed in Annex III. The properties are shown in the figure below and include being explosive, flammable, and toxic.

Our selected data provider, S&P Trucost, gives firm-level data for companies that have explicitly reported producing ‘hazardous waste.’ 11 of our investee companies have reported hazardous waste production for the 2019 fiscal year. These are all companies that engage in the manufacturing as part of their business. For some companies, for example software companies like Adobe and Intuit will not produce any hazardous waste. However, other companies may produce some but not report.

Similarly to the emissions to water, firm level data for hazardous waste as it pertains to each property listed below is not available. Thus, we are reliant on companies’ own disclosure for this metric. So, we are reporting tonnes of hazardous waste generated for the ten companies that report this metric per million EUR invested and summed according to their weight in the fund, adjusting out companies for which data was not available.

Social Indicators

10. Violations of UN Global Compact principles and OECD Guidelines

This data is provided by ISS ESG, and is produced by assessing material controversies against these frameworks and engaging with companies where possible. We have chosen the threshold for reporting as levels 9 and 10 on this methodology, representing ISS ESG’s assessment of: Imminent Failure to Respect Established Norms (9) and Verified Failure to Respect Established Norms (10).

11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines

We note that there is limited guidance as to how to approach this metric, and that the additional definition provided is somewhat ambiguous in requiring disclosure of the: “Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises”.

We have chosen to exclude only companies where we have reasonable, publicly disclosed evidence, of policies and procedures in line with the UN Global Compact (UNGC). This framework was chosen over the OECD guidelines as companies can sign up to the former, not the latter, and it is easier to evidence alignment with the UNGC.

We excluded all UNGC signatories with recent, credible reports to the UNGC, as well as evidence of a grievance or complaints mechanism. This meant that those recently committed to the UNGC, or with reports to the UNGC in the ‘learner’ phase, were not automatically included on this basis.

In addition, we assessed whether companies which had not signed the UNGC nevertheless had made commitments in line with all its principles, and had an aligned grievance or complaints mechanism. Even those companies materially aligned with many of the principles were in scope for reporting if there was a material omission. For instance, we found a number of companies did not specifically upholding freedom of association / collective bargaining, although they had made commitments with regards to human rights, the environment and corruption. Only publicly available documents were considered.

The final reported metric is the weighted total of investments in the Fund which did not met the criteria outlined above, demonstrating policies and procedures aligned with the UNGC.

12. Unadjusted gender pay gap

Given the lack of aligned reporting requirements in the US, none of the companies in the Fund reported a mean gender pay gap in terms of hourly earnings. Some of the companies in the Fund, however, were in scope for subsidiary level reporting in the UK. These figures were used as providing a consistent, although partial, approach to the question. The final reported metric is the weighted gender pay gap in the Fund.

13. Board gender diversity

The gender of currently serving Board directors is provided by BoardEx. This is the timeliest provider of Board information to which we have access. The firm requires two external news / data points before updating its database, to ensure reliability. The final reported metric is the weighted ratio of female to male Board members in the Fund.

14. Exposure to controversial weapons

Data for this metric is provided by ISS ESG, which has one of the best known and longest standing controversial weapons research teams (formerly part of Swedish firm Ethix SRI Advisors, which was bought by ISS in 2015). The firm researches controversial weapons programmes and related contracts, as well as engaging with companies were possible for clarification around potential involvement.

The Fund does not invest in manufacturers of such weapons, nor those deemed potentially in breach or related weapons conventions covering cluster munitions, antipersonnel mines, biological or chemical weapons. Given the severity of these impacts, we have taken additional caution and classified anything categorized by ISS ESG as “amber” or “red” (score 6-10) as out of scope, at least until further clarification. These scores range from “Fragmentary information about involvement - enabling equipment” to “Verified involvement - controversial weapons”.

Additional Environmental. Paris aligned climate targets

We regularly monitor how many of our companies have set a science-based target. For this metric we are reporting the weighted proportion of our fund companies that have set or committed to the Science Based Targets Initiative, as this is the easiest way to ensure Paris-alignment. We would also note that several additional companies have set ‘net zero’ targets and are in the process of setting interim targets.

Additional Social - Lack of a supplier code of conduct

As the regulation indicates a supplier code of conduct should cover “unsafe working conditions, precarious work, child labour and forced labour”, only supplier codes which referenced safety, child labour and forced labour were considered in scope. Only publicly available documents were considered. The final reported metric is the weighted total of investments in the Fund which did not met the criteria outlined above.

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