Mercer

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ESG Monitoring Report

RS Group Pension Scheme

February 2023

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Topics for Discussion

Manager ESG rating analysis	Analysis of exposures to controversies and UNGC* violators	Responsible Investment Total Evaluation (“RITE”)	Actions & next steps
A summary of Mercer’s ESG research views and ratings for the funds in which the Scheme invests, as well as a comparison versus peers	A breakdown of the Scheme’s exposure to controversies and violators of the Ten Principles of the UN Global Compact	The updated results of the Scheme’s “RITE” assessment, measuring how well ESG considerations are integrated into Trustee/IRSC overall decision making	Including undertaking TCFD training at the April Trustee Training Day to understand benefits of adopting some parts of TCFD despite not yet being in scope of regulations

**United Nations Global Compact*

Executive Summary

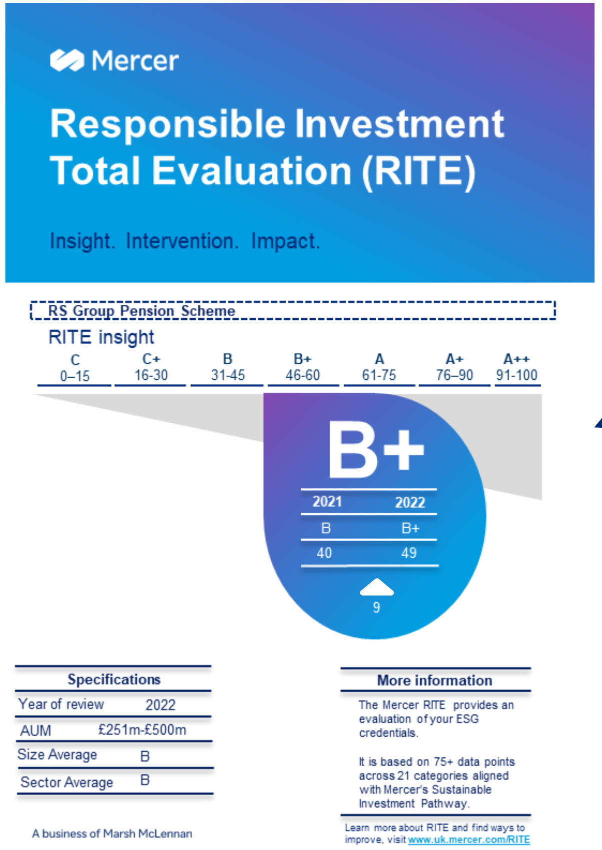
Manager Analysis

Mandate	ESG Rating	ESG Rating vs Universe
Insight - Secured Finance	3	-0.2
M&G - Illiquid Credit	3	-0.2
Janus Henderson - Multi-Asset Credit	2	-1.2
Newton - Sustainable Global Dynamic Bond	2	-1.1
LGIM - Buy & Maintain Credit	2	-0.4

highest ESG1 ESG2 ESG3 ESG4 **lowest**

- Worse (>0)
- Within ± 0.1
- Better (<0)

RITE Analysis



Improvement from **B** rating in 2021

The Scheme's investment managers' ESG ratings are all above the peer group averages, as is the Scheme's RITE score – both suggesting that ESG forms a material consideration as part of the investment of the Scheme's assets

Manager ESG Ratings

1

Mercer ESG Ratings and Summary of Research Views

Mandate	ESG rating (most recent review)	ESG Rating Rationale
Insight Secured Finance	**ESG 3** **(May 2020)**	We **do not believe that ESG factors meaningfully impact investment decision making** for this strategy, however we are **impressed by Insight's intentions and their commencement of a program which will provide better ESG data** to support decision making.
M&G Illiquid Credit	**ESG 3** **(April 2018)***	M&G is a signatory to the **UNPRI**; they aim to adopt the **best practice code** as well as follow the **UK Stewardship Code**. Although M&G believe the investment return is of paramount importance, they will also **consider ESG factors before arriving at an investment view**.
Janus Henderson Multi Asset Credit	**ESG 2** **(February 2021)**	Janus Henderson have **continued to strengthen their ESG capabilities** within this space demonstrating their ambition and intention to constantly improve and **fully integrate ESG considerations** into their fundamental bottom-up process. The investment process **encompasses a full assessment of ESG risks** for each position held within the strategy.
Newton Global Dynamic Bond	**ESG 2** **(August 2022)**	ESG considerations permeate both **top-down thematic positioning and bottom-up security selection** and are therefore more **integrated into the investment decision making process** for this strategy than for the majority of other absolute return fixed income strategies we have seen.
LGIM Buy and Maintain Credit	**ESG 2** **(February 2021)**	We believe LGIM has come a long way in their approach to **integrating ESG factors into credit investing**. The wider business has **dedicated significant resources** to ensuring LGIM can offer a compelling ESG service and this was demonstrated to us by the various **internal tools that have been developed**.
LGIM LDI	ESG N	This mandate is managed in order to hedge the Scheme's liabilities through the use of derivatives, cash and gilts. As such, ESG factors are not taken into account in structuring the portfolio.

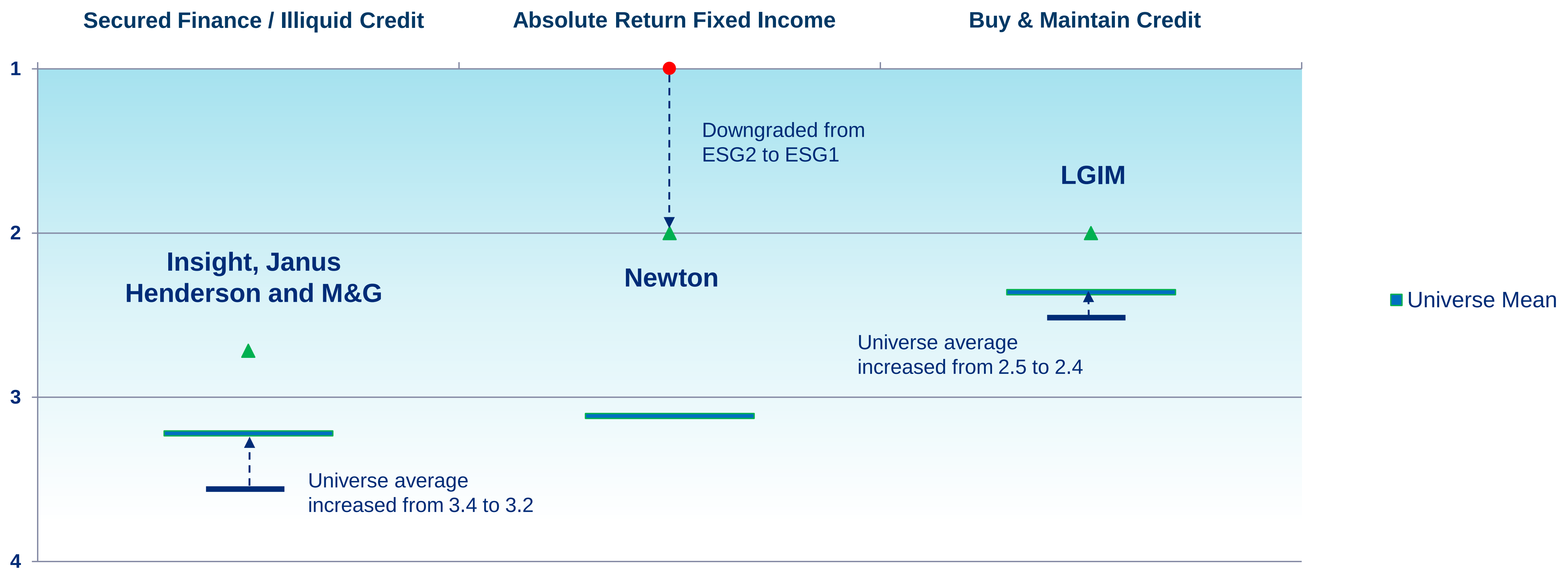
The frequency of ESG reviews depends on the investment rating, and the timing of those reviews will be guided by our Lead Research Committees.

*As this is a closed ended fund, the rating does not change after the investment period closes. A research report for the M&G Illiquid Credit Opportunities Fund VII (which is a later vintage of the ICOF II & V funds) was published in December 2022. The Fund was rated ESG3 and it was noted that "Although M&G incorporate several ESG analytical metrics in their credit evaluation of individual companies by their own admission, they still have some way to go".

Change in Newton’s ESG Rating

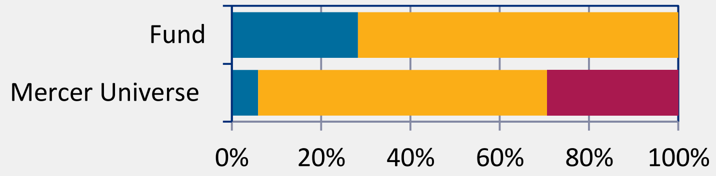
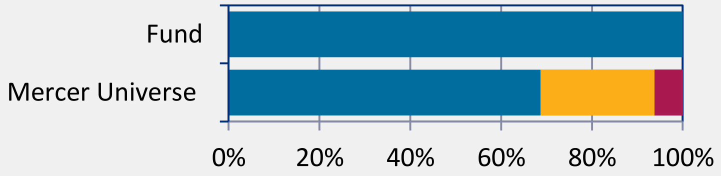
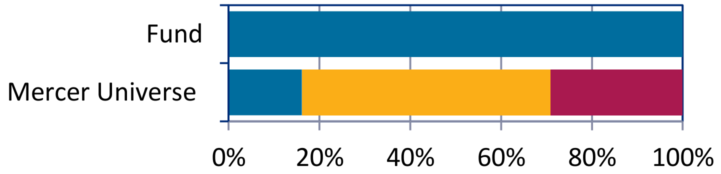
- Since the date of the previous ESG review, Mercer’s ESG rating for the Newton Sustainable Global Dynamic Bond (“SGDB”) Fund has changed from **ESG1 to ESG2**.
- As noted in our email on 31 August 2022, it is worth highlighting that the downgrade in ESG rating is not a reflection of changes made to the strategy, but rather a recalibration of our ESG rating scale. As the thinking around best practice with regards to ESG integration evolves, we feel a recalibration of our internal ESG scores is necessary.
- Whilst disappointing, we would stress that this doesn’t mark any actual changes to the strategy’s strength in ESG integration. Our researchers believe that the SGDB strategy continues to demonstrate a strong focus on sustainable investing due to the way it makes explicit use of positive screens and places an emphasis on bottom-up analysis of ESG improvers and leaders.
- In terms of features of the strategy holding it back from reaching the newly recalibrated ESG1 rating at present, our researchers cite the heavy reliance on developed market sovereign debt, the lack of explicit targets for green or sustainable issuance, the inability to categorise the fund as a true impact strategy and the fact that returns continue to be largely driven by relative value considerations.
- **The Fund’s ESG2 rating remains above the majority of managers in the absolute return bond universe.**

Comparison versus Mercer Universes



The ESG ratings for the strategies in which the Scheme invests exceed the universe averages in all cases

Comparison versus Mercer Universes

Mercer Universe	Underlying Managers		ESG Rating Comparison Vs Universe	Worse (<0) / Within ± 0.1 / Better (>0)	Fund and Universe Ratings Distribution Comparison Charts (ESG1, ESG2, ESG3, ESG4)
Secured Finance / Illiquid Credit	Insight / M&G	3	Fund Rating	3.0	
			Universe Average	3.2	
			Relative Score	**-0.2**	
	Janus Henderson	2	Fund Rating	2.0	
			Universe Average	3.2	
			Relative Score	**-1.2**	
Buy & Maintain Credit	LGIM	2	Fund Rating	2.0	
			Universe Average	2.4	
			Relative Score	**-0.4**	
Global Dynamic Bond	Newton	2	Fund Rating	2.0	
			Universe Average	3.1	
			Relative Score	**-1.1**	

ESG Ratings Analysis

Actions to Consider

1

Annual ESG review
Continue to undertake an annual review of ESG ratings.

2

Meet with managers
Continue to challenge manager engagement on an ongoing basis. Key areas to explore are outlined on the next slide.

3

Manager selections
Further incorporate ESG ratings into future manager selection and review exercises.

4

Engagement disclosures
Continue to work with managers to prepare the disclosure of engagement activities for the EPIS.

5

Exclusions Analysis
Consider the Scheme's allocations to controversies in line with the principles of the UN Global Compact.

6

Manager TCFD reporting
Engage with managers about reporting in line with TCFD. Consider scenario analysis to determine impact on Scheme.

Incorporating the actions above will help further embed ESG matters into the Scheme's manager-specific processes

ESG Ratings Analysis

Key areas to explore when meeting managers

Integration

- What policies do you have in place to integrate ESG / climate change factors in the investment process?
- How do you monitor the ESG credentials of underlying companies / assets?

Engagement

- Outline how you engage on ESG issues (at a company / asset level or through public policy / initiative debate)
- Give examples of positive engagement or where engagement has failed

Resources

- What dedicated resources do you have in place to support ESG and responsible investment research?
- Do you subscribe to ESG data and how is this used in your process?

Firm-wide Commitment

- Provide examples of specific policy or organisational level actions you undertake and any planned improvements
- Which industry / other initiatives are you a signatory to / do you plan to join?

Diversity & Inclusion

- Outline the policies for stakeholder engagement (including D&I) within your organisation
- What is your vision for D&I and how do you expect to achieve this?

Exposures and Exclusions

2

United Nations Global Compact

The Trustee currently states in its ESG Policy Document, dated May 2022, that it will annually monitor the Scheme's "exposures to controversies and UN Global Compact violators". As a reminder, the **Ten Principles of the UN Global Compact** are summarised below.

1

Businesses should support and respect the protection of internationally proclaimed human rights

2

Businesses should ensure that they are not complicit in human rights abuses

3

Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining

4

Businesses should support the elimination of all forms of forced and compulsory labour

5

Businesses should ensure the effective abolition of child labour

6

Businesses should support the elimination of discrimination in respect of employment and occupation

7

Businesses should support a precautionary approach to environmental challenges.

8

Businesses should undertake initiatives to promote greater environmental responsibility

9

Businesses should encourage the development and diffusion of environmentally friendly technologies.

10

Businesses should work against corruption in all its forms, including extortion and bribery.

Summary of Exclusions

1 What is an exclusion?

- An exclusion is the **act of barring a sector or company's securities from being purchased** in a portfolio due to products or business activities that are deemed unethical, harmful to society, or in breach of laws or regulations.

Rationale behind exclusions 2

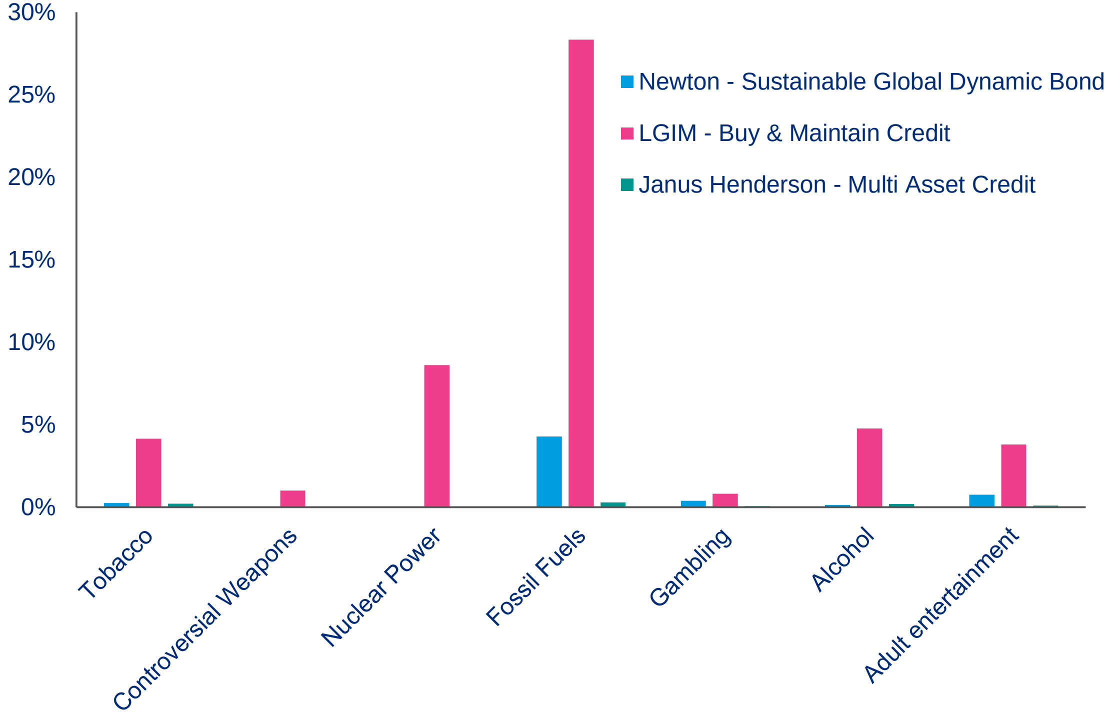
- The reasons to exclude certain securities are likely to be a **combination of factors,** which includes, but is not limited to, investment beliefs and ethical concerns, Sponsor alignment, risk management, public policy and regulation, societal norms, investor expectations, efficacy of other responsible investment approaches such as engagement, reputational impact and expected impact on portfolio returns.

3 Criteria and application of an exclusion policy

- Before applying exclusions there are a number of practical considerations including defining exclusions, whether implementation possible given existing arrangements and the need to monitor compliance with an exclusions policy.

Exposures Analysis

The below analysis highlights the Scheme's estimated exposures to key "controversies". Insight Secured Finance has been excluded from the analysis due to low data coverage resulting in the analysis not being meaningful. We are engaging with Insight to understand why this is so as to understand whether better data will be available in future.



Source: MSCI, Mercer.
The above chart represents 'known' exposures. Actual data coverage for Newton, LGIM (Non-US Exposure), LGIM (US Exposure) and Janus Henderson are 47.8%, 40.7%, 64.8% and 18.7%, respectively. There is no assumed exposure for the portion of the funds that do not have available data, so in practice exposures may be higher.

M&G Illiquid Credit Opportunities invests predominantly in private assets for which we are not able to carry out such analysis. M&G have however confirmed the following exposures for ICOF V:

- Controversial Weapons: Nil
- Fossil Fuels 3.1% (0.8% direct exposure)
- Tobacco: Nil
- Gambling: <0.1%

M&G have noted that they do not have full oversight of the underlying pool of assets in which they invest. However, due to the diversification of the underlying portfolios, they expect that <10% of revenue for these assets come from the sectors of interest mentioned above.

We have also run analysis to determine whether any of the managers' funds analysed have any exposure to issuers linked to breaches of the Ten Principles of the UN Global Compact. This analysis highlights 'red flag' issuers which "covers instances of a failure to respect established norms which has been verified by an authoritative body and where the issue remains unaddressed".

Newton and Janus Henderson have nil exposure to 'red flag' issuers**. LGIM have an exposure of 1.58% to issuers who have been assigned the red flag designation**.

M&G have confirmed that to the best of their knowledge they do not hold any investments in companies which are in violation of the ten principles of the UN Global Compact.

Possible Actions

The analysis on the prior page highlights the Scheme's exposures to defined controversies, as well as to violators of the Ten Principles of the UN Global Compact. To address these, the IRSC could consider the following actions:

- **Query underlying exposures to improve understanding of rationale**
- **Build ESG / climate-related targets into LGIM B&M Guidelines**
- **Engage with Insight to understand lack of coverage**

Responsible Investment Total Evaluation (“RITE”)

3

RITE: Overview

As part of one of Mercer's Responsible Investment initiatives, we have conducted an internal survey for the majority of our UK pension scheme clients. The "RITE" survey assesses how well schemes are **currently** integrating ESG considerations into their overall decision making.

RITE produces an objective evaluation that can be monitored over time and can provide a comparison relative to peers.

The assessment covers the four steps of Mercer's Sustainable Investment Pathway; Beliefs, Policy, Process and Portfolio, and considers over 75 data points* split into the following 21 categories:

Beliefs

1. Transparency
2. Responsible investment beliefs
3. Voting/engagement beliefs
4. Climate change beliefs
5. Other topics

Policy

6. Policies
7. Related stakeholder Policies
8. Responsible Investment Policy Provisions
9. Voting/engagement Policy Provisions
10. Climate Change Policy Provisions
11. Other topics

Process

12. Governance, Staff and Training
13. Risk Management (Risk Register)
14. Investment Process
15. Selection and Retention of (external) Managers
16. Voting/engagement
17. Monitoring and Public Reporting
18. Positive Performance Metrics

Portfolio

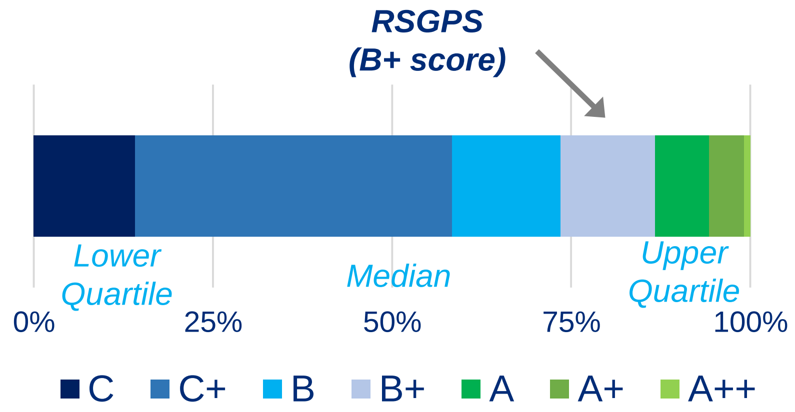
19. Portfolio investments
20. Asset classes - responsible investment and ESG
21. Stakeholder views, sessions and communications

* Given this is a continuously evolving environment, the data points used will be monitored and developed over time.

RITE: Insight
Benchmarking the Scheme’s Current Position

	Current		Target
Beliefs	B+	→	A
Policy	C+	→	B+
Process	B	→	B
Portfolio	B	→	B
RS Group Score	B(40)	→	B+(49)

Overall Distribution of RITE ratings



Peer Group:		
	Size Average	B
	Sector Average	B

C	C+	B	B+	A	A+	A++
0–15	16–30	31–45	46–60	61–75	76–90	91–100

The Scheme scored above average compared to schemes with a similar size and within the same sector

Taskforce for Climate Related Financial Disclosures (“TCFD”)

3

Taskforce on Climate-Related Financial Disclosures

An overview of required actions for schemes in scope

Governance

- Prioritise actions and understand the roles and responsibilities.
- Establish processes for trustees to satisfy themselves that persons managing the scheme are assessing and managing climate-related risks and opportunities.

Strategy

- Consider climate change scenario analysis and stress tests.
- Consider impact of climate-related risks over short, medium and long term on investment and funding strategy.
- Include stewardship in the strategy.

Risk Management

- Include climate risk in risk register.
- Asset managers: how are they voting/engaging on climate change?
- Continue to carry out the annual review Mercer's ESG ratings.
- Consider sustainable asset allocations.
- Consider low carbon or ESG indices.

Metrics and targets

- PCRIG* non-statutory guidance sets out different metrics to use in order to satisfy 'good practice' and 'best practice'.
- Confirm with consultants and asset managers what data is available and how frequent.

* PCRIG = Pensions Climate Risk Industry Group

Following the gilt yield rises of 2022, the Scheme remains well below the current £1bn threshold for becoming in scope of TCFD. Regulations may be extended in future to cover smaller schemes (potentially all schemes, to some extent).

TCFD
Possible actions to consider

Training on metrics and targets	The IRSC / Trustee could undertake training on possible metrics which could be obtained from managers and targets that would be adopted
Gather metric data	Reach out to managers to collate climate metric data (e.g. carbon footprint, implied temperature rise alignment etc.) and monitor changes over time
Review Sponsor’s policy	Review the Company’s policies on ESG and consider aligning the Scheme’s policies with these, where practical
Set targets	Set targets based on the metrics and data gathered for managers and then engage with managers on meeting these targets over time
Run climate scenario analysis	Undertake climate scenario analysis to better understand the impact on the Scheme of several possible scenarios related to the transition to a low carbon economy
Review and enhance governance policies	Review governance policies and processes to improve ESG outcomes for the Scheme
TCFD report	Produce a full TCFD report which can be sent to members

We suggest an initial step to undertake TCFD training to understand benefits of carrying out additional analysis despite being out of scope of regulations

Next Steps

4

Next Steps

Engage with investment managers on exclusions

Engage with the Scheme's investment managers to understand rationale behind exposure to controversies and better understand the analysis/exposures shown

Raise data coverage with Insight

Engage with Insight in particular to understand why data coverage for the Secured Finance Fund is so low, and seek areas for improvement

Integrate ESG into LGIM B&M guidelines?

The Trustee could build ESG considerations, such as exclusions for certain controversies or alignment with the terms of the Paris Agreement, into the guidelines for Buy & Maintain Credit

Undertake TCFD Training in April

Undertake TCFD training to understand possible benefits of carrying out additional analysis despite currently being out of scope of regulations

United Nations Global Compact

Appendix

ESG in Context

RESPONSIBLE INVESTMENT (RI)

An overarching investment approach that takes into account ESG factors and broader systemic issues — for example, climate change and sustainable development — along with “active ownership” (stewardship).

ESG

Environmental social, and corporate governance issues that investors consider in the context of their investments.

STEWARDSHIP

Voting and engagement with underlying companies and/or investment managers and engagement with policymakers for risk/return reasons.

CLIMATE CHANGE

The risks and opportunities that stem from the transition to a low-carbon economy and the physical impacts of climate change.

SUSTAINABILITY

The most widely accepted definition: “that which meets the needs of current generations without compromising the ability of future generations to meet their own needs.”

← FINANCIAL →

RI ≠ SRI ≠ Ethical

SOCIALLY RESPONSIBLE INVESTMENT (SRI)

Intended to balance an investor’s values with performance considerations. Potential trade-off between social and financial objectives.

ETHICAL INVESTING

An investment philosophy guided by moral values, ethical codes or religious beliefs. Originally rooted in negative screening of some investments.

IMPACT INVESTING

Investments made into companies, organisations and funds with the intention to generate measurable social and environmental impact alongside a financial return.

← NON-FINANCIAL →

ESG Ratings
Detailed Research Views

Mandate	ESG rating	Research Views
Insight Secured Finance	ESG 3	Insight's credit analysts evaluate governance, accounting policy, reputational risk, event risk, regulatory and legal factors, as well as contingent liabilities when analysing debt issuers. The team screens the entire credit universe for ESG risks as part of their credit research; they do so using a set of indicators sourced from an external specialist data provider, MSCI ESG Research. Once a quarter, they undertake a Risk Review to identify the bottom 5% of the universe and focus on the likelihood and potential financial impact of the low ESG score; this would lead to discussions with management or an avoidance of that issuer. The output of this analysis feeds into an extended version of Insight's Landmine Checklist which forms an integral part of the credit analysis template. However, for this strategy Insight have found it difficult to replicate the same approach used within their public market process. These assets are structured differently and are less reliant on company management and more focused on the underlying collateral. We would agree that these assets are far harder to model under the same approach, but note that as a house Insight has a solid approach to ESG integration. The Responsible Investment Team includes three ESG analysts, Joshua Kendall (Senior ESG Analyst), Nimisha Sodha (ESG Analyst) and Tudor Thomas (ESG Quantitative Analyst). Kendall is responsible for implementing, monitoring and reporting on the responsible investment program, Sodha supports portfolio managers and focuses primarily on ESG research, corporate engagement and analysis of impact bonds and Thomas is responsible for managing and developing the ESG databases. The team works with strategic advisor Rory Sullivan who guides the development and acts as a spokesperson. Insight has an ESG working group responsible for reviewing key issues. The working group is made up of investment and risk professionals, including the strategic advisor and ESG analyst. The working group aims to keep up-to-date with, and participate in, industry initiatives. Insight will engage with companies on broad topics, using the Quarterly Risk Review for potential ideas. This is typically done when the team believes the outcome could have a potential impact on the method in which they analyse issuers. For example, Insight has previously engaged with several European banks to address the role of boards in banks. In 2019 Insight commenced a program requesting ESG questionnaire responses from some sectors of the ABS market and all illiquid holdings. Questionnaires are scored by the RI team and this information is available to the portfolio management team. Insight intend to extend the framework and coverage over time.

ESG Ratings
Detailed Research Views (Continued)

Mandate	ESG rating	Research Views
M&G Illiquid Credit	ESG 3	M&G have informed us that that if a company had a particularly poor environmental or social record it would impact their opinion, but generally they feel this is unlikely given the areas of the market that they are focused on. M&G believe that governance factors are important when discussing management structures, especially when dealing with smaller companies. M&G also note that the consideration of ESG factors is less relevant in asset categories such as ABS, mortgages and leasing, given the nature of these assets, whereby repayment flows accrue from a large number of underlying individuals and/or entities. A key source of information comes from the interaction of M&G's investment teams and sector analysts with company management. Information is also generated by M&G's Corporate Finance & Stewardship team, which focuses broadly on ESG matters. External information from ESG research providers MSCI ESG and ISS-Ethix is also used. The Corporate Finance & Stewardship team actively engages with companies, although the degree to which this is conducted independently will depend on each circumstance.
LGIM Buy and Maintain Credit	ESG 2	LGIM have developed an internal system that draws in data from various external sources (e.g. RepRisk, Sustainalytics, Bloomberg etc.) to rate issuers on Environmental, Social and Governance factors on a scale of 1 to 10. The system considers momentum by assigning an outlook rating, negative/stable/improving, based on direction of travel and pace of change of the issuer. LGIM's internal system also flags to the analyst if the issuer is considered involved in any major controversies (i.e. human rights violations, illegal deforestation, emissions scandals etc.), as well as the issuers compliance with the UN Global Compact initiative. LGIM has an in-house corporate governance and responsible investment team, headed by the Director of Corporate Governance, Sacha Sadan. Sadan is responsible for monitoring and developing LGIM's corporate governance policy and activities. The rest of the team includes Andy Banks, Head of Corporate Governance, and Angeli Benham, Clare Payn, David Patt and Meryam Omi who assist Sadan and Banks on ESG topics. The team is experienced and independent from LGIM's investment teams. The Corporate Governance Team engages with companies when it believes it can make an impact. We get the sense the team will engage more from an equity perspective, however, than from a bond holder perspective. Moreover, engagement is focused on governance issues, as opposed to environmental or social issues.

ESG Ratings
Detailed Research Views (Continued)

Mandate	ESG rating	Research Views
Janus Henderson Multi Asset Credit	ESG 2	Historically, we note this strategy adopted an “exclusions based approach” which screened out positions based on red flags. However, ESG considerations now appear to be embedded into the credit research process through top-down analysis focusing on megatrends and themes that may have a material impact on industries and issuers. In addition, considerations are also fully integrated into JHI’s bottom up fundamental research analysis, whereby each security is assigned a rating based on a forward looking analysis capturing the level of material risk each investment is exposed to and whether the trajectory is improving or deteriorating. Janus Henderson subscribes to a wide range of specialist ESG research providers including MSCI, Vigeo EIRIS and ISS, as well as a range of broker research. That said, traditional sources of external ESG data (considered by the corporate credit analysts) are limited for the secured credit team, largely due to the lack of public information for private companies that issue secured loans and the technicalities of ABS structures. Janus Henderson has a Governance and Responsible Investment (GRI) team that works to formulate and implement the firm’s Responsible Investment policy. The team provides support to fund managers on research and engagement and leads Janus Henderson’s participation in various external ESG initiatives. ESG information is integrated in a number of ways; those potentially relevant to the fixed income team include scrutiny of all major company AGMs/EGMs, integration of ESG data through Bloomberg, companies constantly being assessed by the GRI teams review processes for any ongoing or highlighted ESG risk, and specialist ESG research being made available via the firm’s Internal Research Hub. Janus Henderson has a Responsible Investment Committee which oversees and reviews the implementation of the Responsible Investment Policy and any other related corporate governance and responsible investment matters that may arise. The Committee is chaired by the Head of Equities, and comprises representatives from all fund management teams, as well as the GRI team. At the firm level Janus Henderson take an active approach to communicating their views to companies and seeking improvements where they believe there are shortcomings in performance, or a company has failed to apply appropriate standards, or to provide adequate disclosure. Janus Henderson will continue dialogue with the company over an extended period if necessary. Escalation of engagement activities will depend upon the company's individual circumstances. Actions may include communications through the company's brokers, direct engagement with the chairman or non-executive directors or joint intervention with other shareholders, and where appropriate, voting against board proposals.

ESG Ratings
Detailed Research Views (Continued)

Mandate	ESG rating	Research Views
Newton Global Dynamic Bond	ESG 2	Newton considers ESG and responsible investing trends in the development of its top-down themes, and material ESG issues are integrated in the security selection process. Valuation and short term market drivers still remain the most important considerations when structuring this portfolio, especially from an asset allocation view. However from a bottom-up perspective each company has an ESG score developed by their Responsible Investment team which feeds through into their decision making process. There are separate processes to judge the sustainability of sovereigns and corporate entities, which we think makes sense given the differences between the two markets. The objective of this strategy moves beyond maximization of total returns to aligning investments with countries and companies which are deemed to be sustainable. This is done in accordance with three point view of sustainability - economic durability, taking account of material externalities and evaluation of sustainability risk and opportunities. The sustainability framework includes some corporate and sovereign exclusions, but also focuses investments on opportunities in ESG improvers/leaders. Sustainable `red lines' ensure the poorest-performing issuers are not eligible for investment. The strategy will not invest in companies which violate the UN Global Compact, companies deemed incompatible with the aim of limiting global warming to 2°C, tobacco companies, and poorly ESG rated investments that cannot be improved through engagement. Newton’s Responsible Investment team may also veto any security for inclusion in the Sustainable strategy. The strategy will also proactively seek return opportunities in sustainable investment opportunities where positive societal outcomes are a key part of the investment case. This provides a lens to identify investments in social housing, renewables, development agencies and green finance where possible, although we think this will make a more marginal difference to the portfolio's risk and return characteristics. Newton expects 75-85% commonality in bottom-up credit selection across its Sustainable and flagship portfolios. The internal Responsible Investment team consists of five individuals who work full time in this area. The team takes on bespoke research projects and sits on a number of industry wide ESG bodies. The firm has built up considerable in-house specialist expertise. Newton does utilise a number of specialist external services, including MSCI and World Bank data. Due to their thematic approach Newton employ top down ESG factors when building portfolios. These themes resonate through portfolios but do not necessarily lead them to invest solely on an ESG basis. Newton does engage with company management teams and has always sought to form a view on the quality of management teams. From an equity perspective, the team will engage with management over issues where they believe management is not acting in the best interest of shareholders or wider stakeholders. This now encompasses consideration of social and environmental issues. The firm publishes a quarterly report which gives details on how proxies have been voted. It also highlights the firm's ESG engagement activities with companies, which also has relevance from a fixed income perspective.

Firm-Wide Commitment
ESG Policies, Projects and Initiatives

Manager	Mandate / Mercer ESG Rating		Publicly Available ESG Policy	Signatory to the UN Principles for Responsible Investment	Signatory to the UK Stewardship Code	Participant of Carbon Disclosure Project	Participant of Task Force on Climate-Related Disclosures	Participant of Climate Action 100+
Insight	Secured Finance	3	Yes	Since 2006	Since 2010	Since 2003	Since 2018	Since 2017
M&G	Illiquid Credit	3	Yes	Since 2013	Since 2010	Since 2013	Since 2019	Since 2017
LGIM	Buy and Maintain Credit	2	Yes	Since 2010	Since 2010	Since 2002	Since 2015	Since 2017
	LDI	N						
Janus Henderson	Multi Asset Credit	2	Yes	Since 2006	Since 2010	Since 2002	Since 2018	Since 2017
Newton	Global Dynamic Bond	2	Yes	Since 2010	Since 2010	Since 2010	Since 2019	Since 2017

ESG Exclusions Analysis
Controversies Definitions

Controversies	Includes:
Tobacco	• Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves. • The recent-year percent of revenue, or maximum estimated percent, a company has derived from the distribution of tobacco products. • The recent-year percent of revenue, or maximum estimated percent, a company has derived from retail sales of tobacco products. • The recent-year percent of revenue, or maximum estimated percent, a company has derived from supplying products essential to the tobacco industry.
Controversial Weapons	• Companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.# • Company has an industry tie to landmines, cluster munitions, chemical weapons or biological weapons. Note: industry tie includes ownership, manufacture or investment. Landmines do not include related safety products.
Nuclear Power	• Percentage of power generation from nuclear power • This factor identifies the maximum percentage of revenue (either reported or estimated) that a company derives from the nuclear energy based power generation.
Fossil Fuels	• This factor identifies the maximum percentage of revenue (either reported or estimated) that a company derives from the fossil fuel (thermal coal, liquid fuel and natural gas) based power generation. • Companies with an industry tie to fossil fuels (thermal coal, oil and gas), in particular reserve ownership, related revenues and power generation. It does not flag companies providing evidence of owning metallurgical coal reserves. • Energy consumption from fossil fuels (GWh) • Percentage of power generation from thermal coal, liquid fuel and natural gas (%)
Gambling	• This factor identifies the maximum percentage value of revenue derived from involvement in gambling.
Alcohol	• This factor identifies the maximum percentage value of revenue derived from involvement in alcoholic beverages.
Adult Entertainment	• This factor identifies the maximum percentage value of pornography-related revenue
'Norm-Based Research' Red Flag	• Norm-Based Research assesses companies' adherence to international norms on human rights, labor standards, environmental protection and anti-corruption set out in the UN Global Compact and OECD Guidelines. • This factor assigns an overall Red, amber or green flag to an issuer's link with any breaches of international standards. The red value covers instances of a failure to respect established norms which has been verified by an authoritative body and where the issue remains unaddressed.

ESG Projects and Initiatives

United Nations Principles for Responsible Investment (UN PRI)

The UN PRI initiative is an international network of investors working together to put the Principles for Responsible Investment (PRI) into practice. These principles are a voluntary and aspirational set of investment principles that offer a series of possible actions for incorporating ESG issues into investment practice. The PRI works to understand the investment implications of ESG factors to investors and to support signatories in incorporating these factors into their investment and ownership decisions. For more information, please see **https://www.unpri.org/**.

UK Stewardship Code

The UK Stewardship Code sets out the governance principles of effective stewardship for investors, which are aimed at enhancing the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. The Code is regularly reviewed by the Financial Reporting Council. For more information, please see **https://www.frc.org.uk/investors/uk-stewardship-code**.

Carbon Disclosure Project (CDP)

The CDP is an independent, non-profit organisation that provides investors with critical environmental data to integrate sustainability within the investment process. CDP participants gain access to a database of corporate climate change data, incorporating disclosures of individual organisations' greenhouse gas emissions and climate change strategies. For more information, please see **https://www.cdp.net/en**.

Task Force on Climate-Related Financial Disclosures (TCFD)

The TCFD develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. Their work and recommendations are aimed at encouraging firms to align their disclosures with investors' needs. For more information, please see **https://www.fsb-tcfd.org/**.

Climate Action 100+

Climate Action 100+ is an investor initiative to ensure that the world's largest corporate greenhouse gas emitters take action on climate change. The companies include 100 'systemically important emitters', which account for two-thirds of annual global industrial emissions, alongside more than 60 others with major opportunity to drive the clean energy transition. For more information, please see **http://www.climateaction100.org/**.

Mercer's ESG Rating Scale

ESG ratings are undertaken by Mercer's global manager research team. They are on a scale from 1 (highest) to 4 (lowest) and assess how well managers integrate ESG factors into investment processes.

ACTIVE

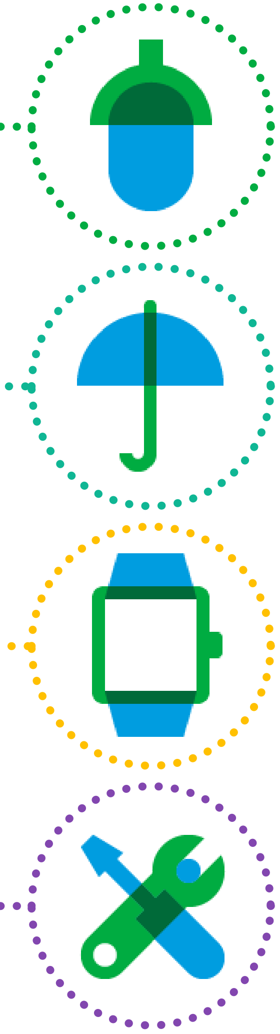
ESG1	ESG2	ESG3	ESG4
Leader in the integration of ESG factors and active ownership into core processes.	Less advanced than ESG1 investors but with moderate integration of ESG factors and active ownership.	Limited progress with respect to ESG integration and active ownership, albeit with signs of potential improvement.	Little or no integration of ESG factors or active ownership into core processes and no indication of future change.

Ratings for passive equity strategies differentiate how well firms undertake their stewardship activities such as voting, engagement, industry collaboration and reporting.

PASSIVE

ESGp1	ESGp2	ESGp3	ESGp4
Leaders in Voting & Engagement across ESG topics, with active ownership activities and ESG initiatives undertaken consistently at a global level	Strong approach to Voting & Engagement across ESG topics, and initiatives at a regional level, with progress made at a global level	Focus tends to be on Voting & Engagement on governance topics only, more regionally focused with less evidence of other internal ESG initiatives	Little or no initiatives taken on developing a Voting & Engagement capability, with little progress made on other ESG initiatives

Mercer's ESG Rating Scale



ACTIVE (all asset classes)

IDEA GENERATION

- ESG factors integrated into active fund positions as a source of value added.
- Identification of material ESG factors - skill of team members, data sourcing

PORTFOLIO CONSTRUCTION

- Efforts to integrate ESG driven views into the portfolio's construction.

IMPLEMENTATION

- Engagement and proxy voting activities (if applicable).
- Investment horizon align with ability to effectively implement ESG views?

BUSINESS MANAGEMENT

- Firm-level support for ESG integration, engagement activities and transparency.

PASSIVE (equities)

VOTING & ENGAGEMENT

- Policy, process and prioritisation.
- Quality of engagements.

RESOURCES & IMPLEMENTATION

- Data analysis to enhance active ownership.

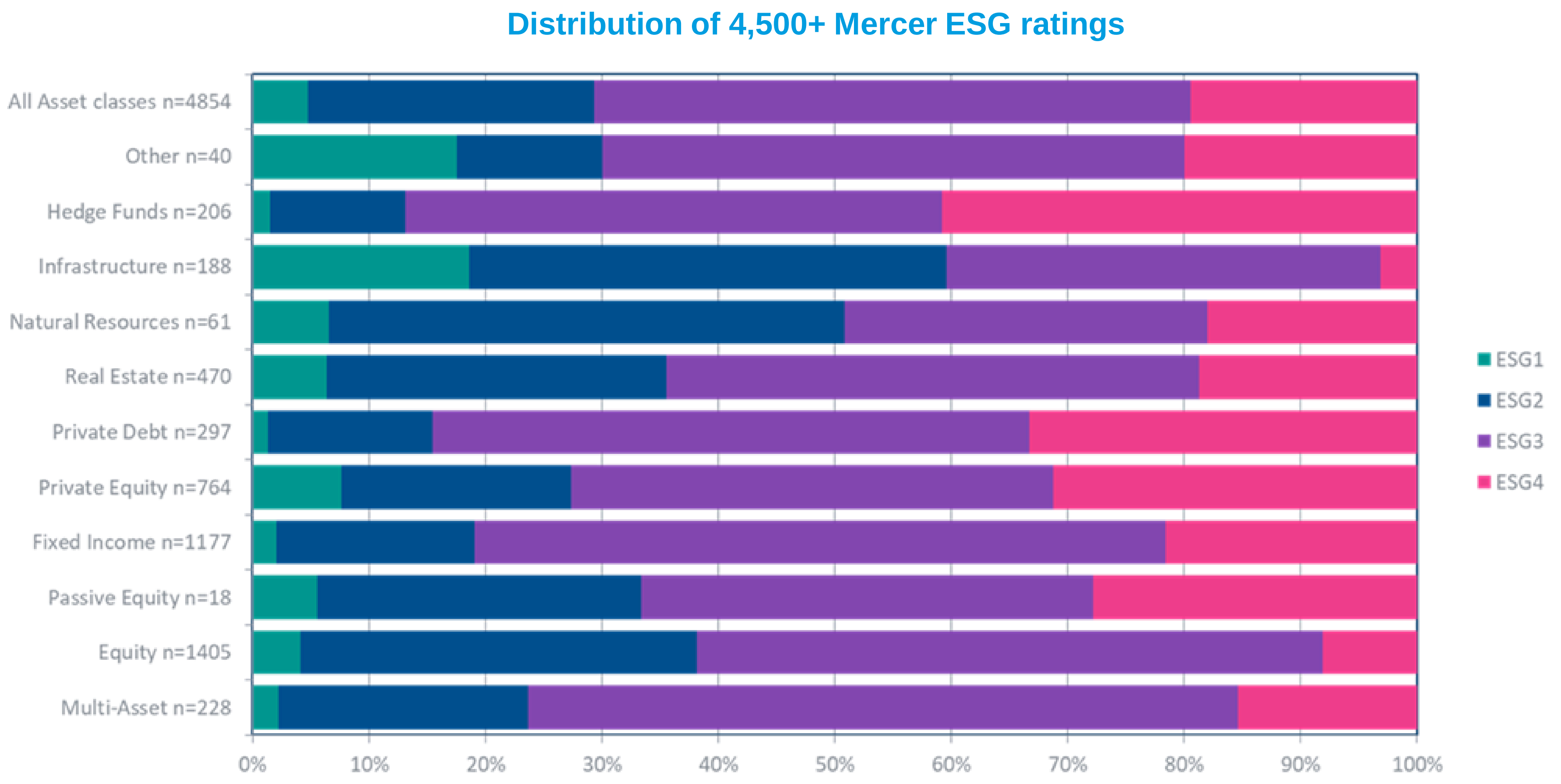
ESG INTEGRATION

- Skill set of resources.
- Effectiveness of engagement outcomes.

FIRMWIDE COMMITMENT

- Collaborative initiatives and engagement with regulators and policymakers.

Distribution of ESG Ratings by Asset Class



Source: Mercer as at 30 September 2022.