momentum
global investment management

# **Stewardship** Report

2021

# Contents





# Foreword

*At Momentum Global Investment Management ("MGIM"), we truly believe that values-based businesses deliver better long-term sustainable benefits for all their stakeholders, including clients, shareholders and staff. Our values make us who we are – they strengthen and define our actions in all we do, in how we engage and specifically in our goal and commitment to be a responsible investor.*

We follow an outcome-based investment philosophy at MGIM. This means we focus on delivering the outcomes our funds are designed to achieve to help investors achieve their life / spending goals.

Whilst these outcomes are typically expressed as real return objectives to be achieved over a certain number of years, as well as the nature of the investment journey for the investor, we acknowledge that outcomes must also be measured in terms of the long term sustainability of the investments we make on behalf of clients.

For us, responsible investment practices form an integral part of our investment philosophy and are implemented throughout our investment processes. We fundamentally believe that ESG risk (and opportunity) factors are relevant to the overall performance of investments. From an investment management perspective, this means we take into account environmental, social and governance factors in the same way as we consider all other financial and economic aspects when making any investment decision.

We engage with investee companies and third-party fund managers regularly, as part of our investment process in line with our engagement policy. We believe that this engagement helps to effect positive change, and it certainly enables us to make better-informed investment decisions. As part of our integrated Responsible Investment (RI) approach, we will always look to include companies in our investments with a stronger transition and ESG focus in certain industries, rather than have a blanket industry exclusion.

We are also focussed on living life responsibly as a business, recognising that we too contribute to social, environmental and economic systems. We therefore acknowledge our responsibility as a company with regards to all these factors. It is our commitment to help make a positive social contribution in the markets where we operate.

Looking forward, we are committed to continue building on the strong foundations that are in place but will also focus on enhancing and strengthening our engagement activities around ESG factors, as well as the reporting thereof. Reporting on ESG matters will be key from 2022 onwards.

We trust that this report helps to impress upon you our commitment and sincerity with regards to our stewardship responsibilities as an investment manager.

**Ferdinand van Heerden**
**Chief Executive Officer**

# Introduction to Momentum

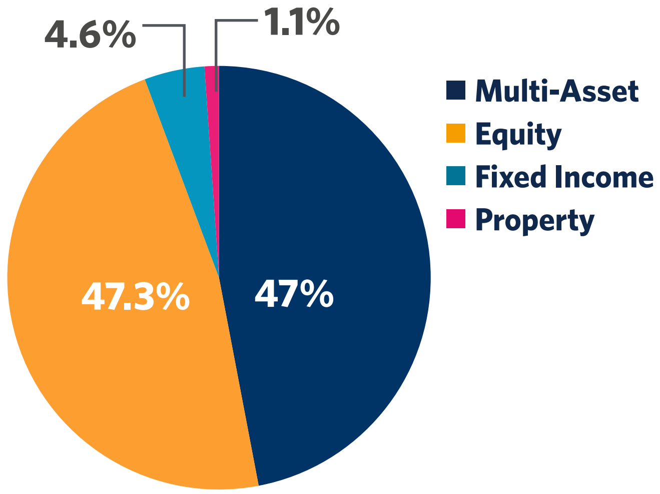
Established in the UK in 1998, MGIM is an award winning specialist, global investment manager. We concentrate on designing, building and managing outcome-based investment solutions, delivered through multi and single asset portfolios and tailored client solutions. As a truly global player we invest client assets for supporting advisers and partners, predominately in the United Kingdom and Europe, South Africa and Africa, the Middle and Far East, South America and Asia.

The firm is a wholly owned subsidiary of Momentum Metropolitan Holdings Limited which is listed on the Johannesburg Stock Exchange in South Africa and on the Namibian Stock Exchange in Namibia. With a market capitalisation of $2.1bn, Momentum Metropolitan is one of South Africa's larger life insurers and integrated financial services companies. Through client-facing brands Metropolitan and Momentum, with Momentum Multiply (wellness and rewards programme), and our other specialist brands, including Guardrisk and Eris Property Group, Momentum Metropolitan provides well-diversified financial solutions for people, communities and businesses. The advantage to MGIM of being a boutique within our large parent firm is that it allows us to be flexible and creative in our investment approach, while still enjoying the resources and stability of belonging to a larger corporation.

In the UK, we have two separate but complementary businesses under MGIM; our core investment management capabilities based in London and Liverpool, and Momentum Investment Solutions & Consulting (Momentum ISC) our investment consulting business based in Windsor.

MGIM's twenty investment specialists, who on average have more than 16 years of investment experience, collectively manage £4.8 bn (as at 30 June 2021). In most cases, we are the discretionary manager of single asset or multi-asset class portfolios, which are either invested via third party managers or directly in securities. Investments in third party managers are generally via funds, except for our larger accounts where we may invest via segregated accounts.


**MGIM AUM as 30 June 2021**




Direct investments are generally limited to listed equities, closed ended investment trusts and high grade government and corporate bonds.

Momentum ISC, our investment consulting business, was established in 2015 by a team of specialists to provide independent advice to UK pension schemes. This team, led by four partners who have a collective experience spanning 80 years, covers all aspects of investment consulting including strategy, risk management, liability hedging, manager selection, operations management and governance.

In addition, for institutional clients, Momentum African Real Estate Fund (MAREF) is an African commercial real estate development joint venture between MGIM in the UK and Eris Property Group in South Africa. Here, we invest directly into property assets.

Each of our teams integrate our company's core values of accountability, integrity, excellence, teamwork, innovation, and diversity. We pride ourselves on being strong supporters of global best practice and developments. Our Group have been signatories to the United Nations Principles for Responsible Investment since 2006 and established a Responsible Investment Committee (RIC) in 2013. In 2019, Momentum Metropolitan first adopted our Climate Change Investment Policy and in 2020, we became one of the first South African signatories to the Just Transition Statement. In 2021, MGIM established a local RIC, acknowledging our individual social responsibility, and reinforcing our support of the UK Stewardship Code.

Looking forward, it is our commitment to incorporate climate change considerations in all our business dealings and undertakings. We are committed to embedding the appropriate principles and processes to support this transition over the coming years. Through our responsible investment approach, we aim, as fiduciaries of client investments, to invest in a manner that is fair and driven by the intention to generate long-term, sustainable investment returns, while, at the same time, ensuring we remain true to our philosophy, portfolio construction and robust investment processes.

This report sets out on a principle-by-principle basis how we have complied with the Stewardship Code 2020 in the year to 30 June 2021 and also aims to satisfy our reporting obligations under the EU Shareholder Rights Directive II. ('SRD II'). The FCA Conduct of Business Sourcebook Section 2.2B sets out the disclosures required to meet SRD II, the table below explains how those requirements correspond to and are satisfied in our response to the principles:

| SRD II Policy and Disclosures Required | Principle |
|---|---|
| How we integrate shareholder engagement in our investment strategy | 1 &2 |
| How we manage actual and potential conflicts of interest | 3 |
| How we co-operate with other shareholders and communicate with relevant stakeholders of our investee companies | 4 & 10 |
| How we monitor investee companies on relevant matters, including:<br>» Strategy<br>» Financial and non-financial performance and risk<br>» Capital structure<br>» Social & environmental impact and corporate governance | 7 |
| How we conduct dialogues with investee companies | 9 & 11 |
| How we exercise voting rights and other rights attached to shares, the use of proxy advisors and a general description of voting behaviour and how we have cast votes in the general meetings of investee companies, including an explanation of the most significant votes | 12 |

# **Principle 1 -** Purpose, Strategy & Culture

***Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.***

Momentum Global Investment Management Limited (MGIM) is a wholly owned subsidiary of the Momentum Metropolitan Group. Consistent with the culture of Momentum Metropolitan, MGIM is a company with a strong collegiate culture, confident in what we do, but humble and never arrogant. We truly believe that values-based businesses deliver better long-term sustainable benefits for all their stakeholders.

Our values will always remain our foundational pillars, and these values are accountability, diversity, excellence, innovation, integrity and teamwork. They strengthen and define our actions in all we do, in how we engage and specifically in our goal and commitment to be a responsible investor.

As part of Momentum Metropolitan's 'Reinvent and Grow' strategy, all business units have set clear, ambitious and measurable targets to achieve by 2024. For MGIM, our stated goal is:

*"to be a recognised global multi asset investment manager in the (1) UK IFA market, with (2) SA advisers and group channels, and (3) international offshore / expat advisers and their clients, and a top 3 independent emerging investment consultant in the UK DB Scheme market."*

We want to be recognised as a leading and trusted investment partner that enables personalised experiences through outcome-based solutions for our clients and adviser partners, delivering meaningful financial results to our shareholders, whilst also being a great place to work for our staff.

Our outcome-based investment philosophy means we focus on delivering the outcomes our portfolios are designed to achieve, helping investors satisfy their life / spending goals. These are typically expressed as real return objectives to be achieved over a certain number of years, but with a clear focus to make the investment journey as smooth as possible.

We aim to deliver on these target outcomes through constructing well diversified "multi-asset" portfolios managed by specialist investment teams. This means we invest across equities (UK and overseas), fixed interest, property, infrastructure, private equity, specialist debt, commodity and other alternative investments. Our approach to asset allocation is anchored by a long term, valuation-driven approach. For the majority of asset classes we invest through third party managers, via funds or segregated accounts, but we also make direct investments in listed equities, investment trusts, and government and corporate bonds for certain countries, sectors or clients.

Responsible investing is part of our core beliefs. We help people grow their savings, protect what matters to them and invest for the future. Sustainable and responsible investment practices are a material factor underpinning investment outcomes for our clients, and also therefore our long-term success as a business. As investors of our clients' capital, we need stable, well-functioning and well governed companies and economic systems to deliver on our long-term targeted client investment outcomes. We invest with a long term horizon which ensures sustainability has to be a key consideration for all investment decisions.

We fundamentally believe that environmental, social and governance (ESG) risk and opportunity factors are relevant to the overall performance of investments. We believe that a focus on long term sustainability should be engrained in all processes and functions across our business. From an investment management perspective, this means we take into account ESG factors when making any investment decision. We recognise that there are both risks and opportunities related to these factors, which we aim to incorporate into our analysis, in the same way that we analyse all other financial and economic aspects relating to the investments we make.



We do not overtly pursue an "Environmental" or "Green" investment approach, but rather we take seriously our duty towards ensuring our investments are not made in a way that is unnecessarily counter-productive to the long-term sustainability of stakeholders (investors, economy, society and planet). Where appropriate, we look favourably on the allocation of capital towards issuers (companies and investment vehicles) that explicitly seek to counteract the current and historic harm done to stakeholders.

We have a well-resourced and highly experienced investment team, numbering twenty people in the UK, that operates as one unified research and investment engine with a consistent philosophy and process across the board. We are not passive disengaged investors; rather we have always approached investment management with rigorous research and proprietary analysis to ensure we have a very clear and deep understanding of all investments we make prior to initiation. Individual team members specialise in certain areas, creating focus and enabling original insight, but we do not operate in silos and all team members are to varying degrees involved in asset allocation, portfolio management and client engagement as well, which creates valuable perspective and, in our opinion, leads to higher quality investment outcomes for clients. This team structure and division of responsibilities means we are well positioned to ensure very high standards of stewardship across all our portfolios, and to implement new or evolving responsible investment policies as appropriate.

Whilst there are no investment team members dedicated solely to sustainability and engagement, the considerations of close engagement with our investee companies / third party managers and their governance have always been integral to our investment approach. However, the team does have the support of two dedicated ESG professionals within Momentum Investments in South Africa. Also, our Responsible Investing Committee provides significant and increasing guidance and support for the investment team in integrating ESG best practices across all MGIM portfolios.

***Recent examples of how our purpose and investment beliefs have guided our stewardship, investment strategy and decision-making:***

**01** We initiated three new investments across several portfolios in investment trusts focused on digital infrastructure and renewable energy, areas that directly contribute towards the Sustainable Development Goals (SDGs).

**02** We adjusted the mandate of one of our global equity funds to target specific ESG factors as well as a reduced environmental footprint, creating strong investment alignment with our beliefs. This has been approved as an Article 8 (ESG integrated) fund under SFDR (Momentum GF Global Sustainable Equity Fund).

**03** We created a Responsible Investment Committee to provide oversight of MGIM's Stewardship related policies, practices and goals and to ensure alignment with the related policies and practices of Momentum Investments / Momentum Metropolitan Group Limited. (Further information is included under Principle 2.)

**04** We introduced several ESG criteria to the quantitative 'manager scorecard' used by the investment team (as we go on to discuss under Principle 8). This ensures several ESG related criteria are explicitly considered and consistently rated for all new investments in third party strategies.

# **Principle 2 -** Governance, resources & incentives

***Signatories' governance, resources and incentives support stewardship.***

MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa. The board of MGIM comprises six executive members and three non-executive members, drawn from a variety of backgrounds in the financial services industry. The board meets formally at least every quarter. While the Board retains full and effective control of the Company, it may delegate duties to committees or to individuals.

The six executive directors are members of the Management Committee (Manco) of MGIM, which meets regularly and comprises the executive directors along with other senior managers within the business, and which co-opts other relevant members of staff as appropriate.

Governance of stewardship and related areas is considered by the Board, the Management Committee and the Responsible Investment Committee on a basis appropriate to the companies' fiduciary and other duties and obligations to stakeholders.

The implementation of MGIM's approach to Stewardship and related matters is delegated, on a day-to-day basis, to MGIM's investment team, which consists of eight portfolio managers and twelve other members.

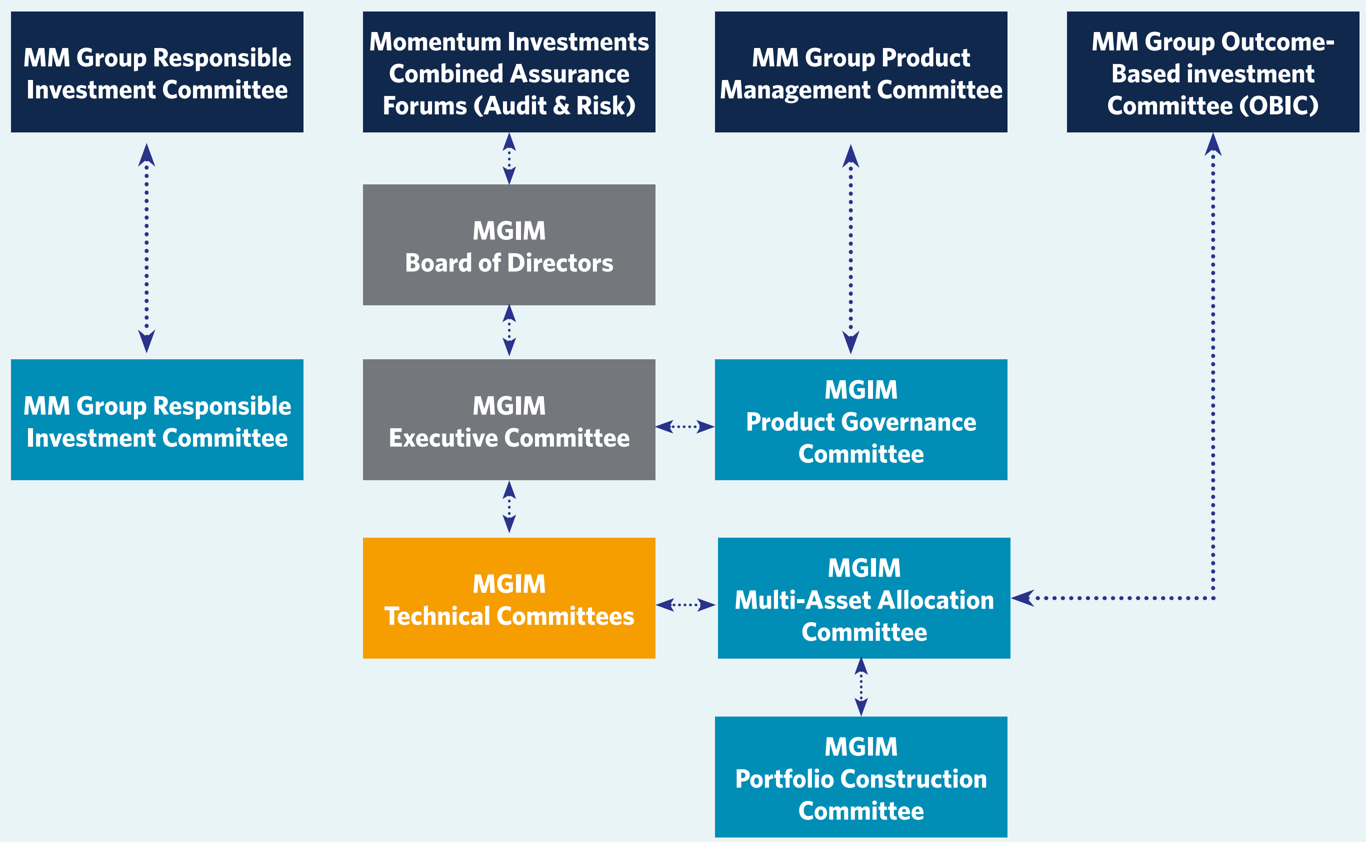
In October 2020 MGIM completed the acquisition of Seneca Investment Managers Limited. This was followed by a successful integration project over the subsequent six months, with all Seneca staff and clients retained and moved across to Momentum. MGIM have a history of organic growth since the business was first established in the UK in 1998, so this transformational acquisition was a significant test for our governance structure, especially considering the pandemic related restrictions in place for most of the period.

### Activity

MGIM's parent company, Momentum Metropolitan Holdings Limited (MMH), has a long history of sustainability integration. Our Group have been signatories to the United Nations Principles for Responsible Investment since 2006 and established a Responsible Investment Committee (RIC) in 2016. The group RIC meets quarterly and includes two standing team members from MGIM. While this provided governance around MGIM's sustainability integration and encouraged further progress, we felt the level of oversight and focus was insufficient, particularly given differences in local requirements, driven by clients and regulators, and differences in the investment strategy and universe. Significant progress has been made to enhance the MGIM governance structure with respect to Stewardship during 2021.

In April 2021, MGIM established a local Responsible Investment Committee, with clear terms of reference and a mandate to oversee the activity of the entire UK business, including fund management and investment consulting. The RIC has nine members, including Andrew Hardy (Director of Investment Management), Reena Thakkar (Managing Partner), Elaine Smith (Chief Compliance Officer) and two portfolio managers, and is chaired by Ferdi van Heerden (MGIM CEO). Three senior team members from South Africa, who are members of the Group RIC, are also members of the MGIM RIC; two of these members are dedicated ESG professionals with over 30 years of combined experience in that capacity. The MGIM RIC meets at least four times a year.

**Figure 1 below depicts how the MGIM RIC fits into the MGIM and MMH governance structures.**




The role of the RIC is to provide oversight of the RI Policy, practices and goals of MGIM and to ensure full alignment as far as is practical with the related policies and practices of Momentum Investments / Momentum Metropolitan Group Limited. The MGIM RIC should take its guidance from the MGIM Manco and will also align its focus and activities with that of the Momentum Metropolitan Group RIC of the parent company.

Where the MGIM RIC has oversight of the responsible investment practices, the RIC is responsible for the following activities:

- Provide oversight of the governance of the RI and related policies of MGIM and the Group / parent company
- To oversee the practical implementation of the RI Policy goals, the UN PRI principles, the UK Stewardship Code principles, as well as those specific actions that are required in terms of MGIM's sustainable funds
- Agree and define the key responsible investment themes / goals in partnership with the Group, on an annual basis
- Oversight of any material initiatives or developments in terms of RI and ESG/Climate change

Where the MGIM RIC has oversight of the governance function, the RIC should, wherever possible:

- Monitor and assist the business with compliance with the responsible investment guidelines and broad policies of MGIM, and those set by the Group
- Provide oversight and practical guidance regarding the implementation of processes and practices to enable the business to adhere to and achieve the responsible investment goals of MGIM, e.g. record keeping, proxy voting, etc.

## *Principle 2 Cont...*

Across the first two meetings of the MGIM RIC, we have agreed and introduced several RI policies which apply to all the portfolios that we manage. These include the following:

» Responsible investing policy

» Climate change policy

» Proxy voting policy

» Engagement policy

We have also introduced a Responsible Investing section to our website, where all of these policies and relating reporting are publicly available.

While the MGIM RIC provide leadership and oversight of Stewardship practices across the business, the investment team recognise and accept the collective responsibility for effective implementation on a day-to-day basis as well as the need to continue improving our processes relating to ESG integration. This is reinforced through direct or indirect reporting lines into Andrew Hardy, Investment Director and a member of the MGIM RIC, as well as Sustainability related activities being explicitly included in business and team objectives.

The investment team considers stewardship and related matters on the basis set out in subsequent sections of this report. The investment team is organised such that a qualified and experienced fund manager or analyst has lead research responsibility for each investment made, whether in a fund or a company, and the company places significant importance on the quality of research undertaken, which is monitored on a peer group basis and by the executive investment director. It is expected that this research includes the formulation of a view of investee companies' and funds' approaches to stewardship and governance.

Compensation for the investment team comprises fixed and variable elements. Base salary reflects responsibilities, experience, qualifications and skills. Variable compensation is awarded on a discretionary basis annually, and is a function of Group, business and individual performance. There is no explicit link to Stewardship within fixed or variable compensation, believing that such an approach carries the risk of distorting investment behaviour given the nature of the mandates the company manages. Rather, Stewardship related work is one of the factors that is considered during the normal process of staff evaluation, most notably in the case of fund management staff as part of consideration of the effectiveness of the investment research carried out.

### Outcomes

The Board of MGIM has considered the appropriateness of the company's approach to stewardship and related matters and considers it to be suitable given the nature of the mandates that the company manages, its size and its ability to intervene effectively with investee companies and funds in such matters. The principal advantage of the company's approach is that it is research based, and stewardship matters are integrally considered alongside the other characteristics of potential investee companies and funds.

In regard to resourcing, the Board has appointed three experienced and senior investment team members to lead and co-ordinate on stewardship matters, who are supported by additional resources within the team including an investment services executive.

**Andrew Hardy**
*Director | Investment Management*

**Richard Parfect**
*Portfolio Manager*

**Richard Stutley**
*Portfolio Manager*

**Gabby Byron**
*Investment Services Executive*

The investment services executive along with other team members was involved in a study into the third-party data resources available to fund managers in the fields of stewardship and ESG, which resulted in MGIM subscribing to data from Morningstar / Sustainalytics (hereafter referred to as Sustainalytics). It was felt this is valuable in providing quantitative holdings-based insight into the third-party funds that the team currently invest in or are researching for future investment, to complement other research and analysis methods. This followed a lengthy process whereby several other providers were also considered in significant detail, with the end decision reflecting the opinion that the methodology employed by Sustainalytics and the coverage they provide was best suited to MGIM's beliefs and requirements.

More generally, the successful acquisition and integration of Seneca Investment Managers highlighted the strength of MGIM's governance structures. We were able to preserve and build upon existing stewardship practices, maintain seamless continuity for all staff and clients and successfully integrate all employees into their respective MGIM teams. The scope of the integration is further highlighted by two Seneca employees joining the Manco, one of whom was also appointed as an executive director of MGIM, while the former CEO of Seneca Investment Managers also joined the Board as a Non Executive Director. This has helped to achieve deep and enduring integration across the business and has provided clarity to all our new colleagues. The fresh thinking and new intellectual challenge has benefited our processes across the business, for example through introducing a number of new internal and external staff and compliance policies, or through debate around asset classes and investment strategies that had not previously been covered.

Key areas of focus over the next year are:

» Reviewing investment team resourcing to ensure it is sufficient to effectively implement all new Responsible Investment policies and continue to enhance ESG integration across all portfolios. We anticipate introducing additional headcount, possibly in a capacity that is fully dedicated to Stewardship.

» Increasing explicit alignment with Responsible Investment practices within the investment team, and across the broader business. More specific objectives will be introduced at the business and team levels, ultimately creating greater linkage between successful Stewardship and compensation.

» Increase awareness of key ESG issues across the business and provide wider education opportunities, to further embed sustainable practices in what we do and create initiatives that can help us reduce our environmental footprint.

# Principle 3 - Conflicts of Interest

***Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.***

### Conflicts of Interest Policy

We have in place a conflicts of interest policy that is freely available on our website. The policy describes how we ensure we manage conflicts fairly and in the best interests of our clients. MGIM's policy on conflicts of interest is communicated to all new members of staff when they join the company via the Compliance Manual and Staff Handbook. The manual requires that "clients' interests are put first and that employees disregard any other relationship, arrangement, material interest or conflict of interest which may influence any service which the company may provide to a client".

Due to the nature of our business, the main types of conflict we are likely to encounter are those between the interests of MGIM or its employees and the interests of clients (firm and client) and conflicts between clients (client and client). All MGIM individuals are responsible for identifying any actual and potential conflicts and notifying these to the Compliance Department who maintain a conflicts register detailing the systems, controls and procedures that are in place to manage the conflicts identified. As part of the identification process, employees are required to disclose details of directorships and interests in other companies. The register is provided to the Board for review and challenge.

Similarly, MGIM's Personal Account Trading Policy requires that employees act according to the highest ethical standards and practice, and that they seek to minimise the risk of conflicts of interests with clients, the misuse of privileged or confidential information, or any involvement in insider trading, market abuse or interception of corporate opportunities.

***View our conflicts of interest report here***

### Managing conflicts

We will always attempt as far as possible to identify any circumstances which may give rise to a conflict of interests.

We acknowledge that it may not be possible to prevent conflicts of interest from arising and ensure that we put in place robust procedures to manage those conflicts.

We will manage identified or potential conflicts of interest by putting in place proportionate systems and controls to mitigate the risk of any of our clients receiving unfair treatment.

The Compliance Department monitor conflicts of interest as part of the risk-based compliance monitoring programme, the results of which are reported regularly to the Board. Breaches of policies or procedures used to manage conflicts would be escalated to the Board without delay.

Policies of mitigation will not only consider the treatment of client interests in relation to the interests of the firm and its employees, but also the treatment between clients.

We review our conflicts of interest policy at least annually or earlier should there be material changes to the business or the nature of conflicts'. The conflicts policy and potential conflicts were reviewed during the Seneca acquisition and integration.



### Possible Conflicts Arising and Mitgation

| Potential Conflict | Mitigation |
|---|---|
| **Profits and losses incurred as a result of errors** | We apply the principle that a client should be put back into the position they would have been in had the error not occurred and there is no materiality level applied to trading errors. Further information on the treatment of profits and losses incurred as a result of errors and breaches are contained in our Breaches and Errors Policy which is available on request. |
| **Employee personal account dealing** | Personal account trading of staff members is captured by MGIM's policy on personal account dealing, requiring scrutiny and pre-authorisation by senior management, prior to engaging in a trade for their own account. All employees are required to declare annually that they have complied with the policy and to provide details of personal dealings and holdings. |
| **Rebates** | MGIM do not benefit from rebates or fee waivers that it may receive, except as may otherwise be agreed in writing with the client concerned. |
| **Commission arrangements** | Our inducements and research policy governs the treatment of third party research to ensure it could not be construed as an inducement. We pay for third party research directly out of our own resources and require sub-investment managers to confirm that they have a research budget in place and a process to account for it and value it; and that research costs are unbundled. |
| **Gifts, benefits or inducements** | Gifts and entertainment policy set out in the Compliance Manual to restrict and monitor the giving or receiving of gifts or entertainment in line with FCA Rules. |
| **Segregation of key functions** | We maintain a sensible segregation of duties to avoid risks inherent in the trading activities based on the size and nature of MGIM's activities. Investment instructions are subject to a "four eyes" requirement of being signed off by two investment managers, such that no single individual is able to bind the firm to a transaction. Staff employed in regulatory oversight and review roles must have no operational responsibilities. |
| **Client order and aggregation** | Where the dealing desk receives an instruction to execute transactions in the same instrument for more than one client, the transactions will be aggregated where possible. Should the transactions not be executed in full, the executions will be allocated to clients in proportion to the size of their intended transactions. |
| **Proxy voting arrangements** | In carrying out proxy voting arrangements, MGIM seeks to consider the interests of the client in preference to the firm's interests, as set out in our Proxy Voting Policy. Contractual documents with our sub-investment managers require that they exercise proxy voting procedures in accordance with specified procedures. |
| **Insider trading** | Should any staff member become a party to material non-public price sensitive information from any source the information will be recorded by the compliance department on a "restricted securities list" and a prohibition placed on client dealing via the portfolio management system. Personal deals will also not be permitted. |

*Example – in order to better monitor the trading outcomes achieved over time in our portfolios, we subscribed to the IHS Markit Execution Analytics package during the year. This will provide us with access to granular Transaction Cost Analysis (TCA) data for equity, investment trust, fixed income and FX trading across all MGIM portfolios. The acquisition of Seneca Investment Managers increased the volume of direct security trading across our business, making this an important step and valuable investment in helping ensure that senior management and compliance can effectively monitor trading outcomes and ensure best execution is consistently achieved.*

# Principle 4 - Promoting well-functioning markets

***Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.***

## Our investment and risk management approach

We have an investment team of twenty people at MGIM and we specialise in running diversified multi-asset, multi-specialist investment solutions for retail and institutional clients around the world, all anchored by a consistent, long term outcome-based investment philosophy. Our approach is characterised by being:

- active; across asset allocation and underlying selection,
- valuation driven; we take a multi-year view on allocating to areas that we believe to be undervalued,
- thorough; we conduct detailed, independent due diligence prior to all investment decisions,
- and diversified; risks abound and the best way to manage that is through effective diversification.

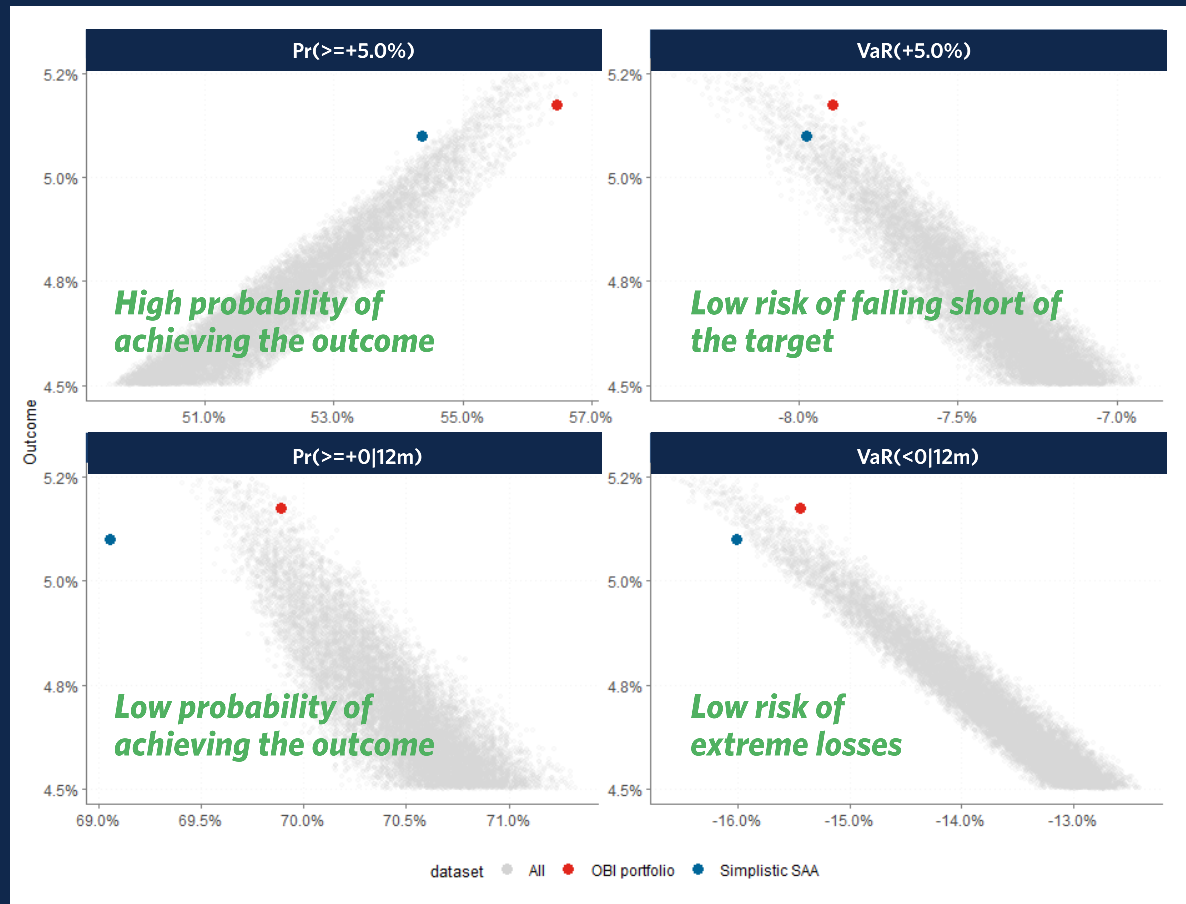
By taking a valuation driven approach to asset allocation, and at times a contrarian approach, we often go against the momentum in markets and exert a stabilising force in those areas and securities we invest in – a pre-requisite for well-functioning markets is a balance of views and participants. Our active, bottom-up approach to security selection – either directly or through third party managers – provides balance to the excesses of passive investing (which generally has a minimal/zero engagement policy with issuers) and contributes to effective price discovery and long-term capital support in deserving investments. By regularly engaging with the management teams of our investments, we often become trusted and valued partners, and we always remind them that our focus is on long term value creation and risk mitigation, rather than short term, unsustainable wins.

Our investment team operates as a unified group, striking a very healthy balance in combining specialisation with extensive collaboration and overlapping responsibilities, which avoids a silo-mentality. All research and analysis is readily available for all of the team to consume and active challenge and debate is strongly encouraged. The same applies for our wider UK business across all teams; it's how we operate and we believe it results in more robust and consistent outcomes for our clients and stakeholders. We have regular team-wide meetings where we share and debate research and views, in particular around asset allocation, investment selection and portfolio construction / risk management, which occur monthly or more frequently as required. A key bedrock of these discussions and our overall investment process is the asset class models and scenario analysis frameworks that we have developed over several years; These proprietary tools help us to achieve genuine diversification and increase the resilience of our portfolios to a range of different realised and hypothetical market environments.

Within our UK fund range there is a tier of return objectives and a commensurate increasing level of volatility tolerance. The funds with a lower tolerance for volatility utilise more of a blend of investment style (growth and value), whereas our higher returning (and consequently more volatile funds) focus on a pure "value" driven bottom up investment process supported by top-down asset class and macro sense checks, which can result in periods of shorter term underperformance (when "value" can be out of favour); in exchange for the expectation of higher longer term performance as the rules of valuation underpinning returns reassert themselves.

The way we design and manage solutions for our clients, with high levels of diversification and a focus on smoothing the journey over an appropriate investment horizon, helps keep clients invested over the longer term rather than driving high turnover. Our focus on reducing the volatility of portfolios is borne out by our strategic asset allocation design, where a key part of the process is optimising the blend of assets to minimise four measures of risk for investors in our solutions, which include the probability of not achieving the long-term target return and the maximum expected drawdown in any twelve-month period.

Example: optimisation of portfolio strategic asset allocation (SAA), based on proprietary simulations of expected performance for millions of different combinations. Our objective is to identify the SAA that minimises the four measures of risk (representing shortfall and volatility related risks).



## *Principle 4 Cont...*

We also devote significant time and resources to supplementing our pure investment offerings with high levels of client engagement and support. These include regular detailed fund and market commentaries, weekly market update videos and blogs, and regular face to face contact with our clients all around the world. This transparency and accessibility, together with a relentless focus on smooth operational performance, creates strong partnerships with our clients, making it easier and more likely that they will remain invested for the long term, including through periods of market turbulence, where the absence of these conditions can otherwise contribute to greater dislocation.

We think all these aspects of our investment approach contribute to well-functioning financial markets.

### Our culture

We uphold and are proud of the values of our business: accountability, integrity, excellence, teamwork, innovation and diversity. Rather than just being aspirational, they define how we do business and engage with our clients and internal stakeholders. We are a supportive and ambitious employer, benefiting from a boutique-like and autonomous culture, with strong backing and access to extensive resources as part of the larger MMH Group. Many of our employees comment that MGIM feels like an extended family, which has resulted in excellent retention rates, with an average tenure at MGIM of 9.3 years. Sustainability is increasingly a part of our language and we are dedicating more time to educating all of our staff on how we can improve the way we operate, both as a business and as individuals in our private lives.

### COVID 19

The shock of the pandemic tested our philosophy to the extreme, but our tried and tested approach again demonstrated its resilience and delivered outstanding performance to clients over the past year. The high levels of diversification we maintain in our solutions and allocations to defensive assets helped limit the initial downside experience during the onset of the pandemic, but we observed severe dislocations in many risky investments, particularly among equity and credit markets as well as several investment trusts. We analysed and debated the outlook for all these areas as a team and conducted update meetings with the relevant management teams, then allocated fresh capital to several of those which we felt were oversold and could deliver attractive long term returns for our clients. This naturally had a stabilising impact on those investments and asset classes, to varying degrees, and has driven strong progress towards the objectives we aim to deliver on for clients.

Furthermore, our business was well prepared for the pandemic, thanks to robust and frequently tested remote working and disaster recovery plans. We switched to full remote working before the first lockdown began without any issues. We were able to effectively manage portfolios, conduct our usual investment and operational processes, and collaborate effectively throughout the subsequent 18 months. We launched new funds during this period, restructured existing ones and even acquired a business. While we were unable to conduct face-to-face meetings our client engagement has been at record levels.

### Climate Change Risks

Our active approach, which means we're willing to invest significantly differently from market indices or peers, together with a long-term mindset, which requires deep analysis and understanding prior to allocating capital, also helps achieve and promote good stewardship. The key principles can never be ignored when one invests over a long multi-year horizon, given the impact that ESG related risks and poor stewardship can have on the value of investments.

Nowhere is that truer than in relation to the risks posed by climate change, something which we pay particular attention to for investments in the most exposed businesses, such as in the energy and mining sectors. Explicit focus is given to ESG related risks for all investment decisions relating to corporate entities, through written discussion around those risks and in the case of our third-party investments in other managers, through a quantitative scoring methodology covering various distinct elements of their stewardship practices. If investments do not meet the required standards or are not showing signs of improvement then we are unlikely to invest or may choose to divest. We also encourage management to adopt, or in the case of third party strategies to themselves advocate, the TCFD (Task Force on Climate-Related Financial Disclosures) framework in order to increase awareness of the risks around climate change.

Activity relating to climate change risks

- » **Data availability:** we increased our Morningstar subscription package to include fund level ESG related data from Sustainalytics. This provides our investment team with more insight into the risks and characteristics of the third party strategies we invest in.
- » **Engagement on TCFD reporting:** in the case of one of our direct UK equity investments, operating in the energy sector, we established a dialogue with management around improving their climate risk related disclosures. While they do not currently conform to the TCFD framework in full, they are actively working to improve where possible, and we clearly communicated that further progress is necessary for us to remain invested.
- » **Explicit ESG integration:** within our large Luxembourg UCITS fund range, we made a successful application to change one existing fund and launch a new fund as ESG integrated strategies (Article 8 classification under SFDR). Key aspects of the mandate include certain activity-based exclusions, for example where significant revenue is derived from coal production, and the need to deliver a lower environmental footprint than the benchmark. Article 8 status for these funds allows us to better promote sustainability across our client base and increases the options available to our clients.

### ESG Integration

**-38.6%** greenhouse gas emissions

**-22.2%** waste generation

**-22.1%** water consumption

**+21.4%** RobecoSAM Smart ESG Score

- » **'Impact' investments:** we have increased our allocations to closed ended funds / listed investment trusts, in order to access a wider universe of investments including private assets which are otherwise incompatible with our liquid solutions. This has enabled us to include several investments which are clearly aligned with and contribute significantly in progress towards some of the UN SDG's. A prime example which relates to managing climate risks is Gore Street Energy Storage Company, which specialises in grid-standard battery storage, a key enabler for the greater use of renewable energy and thereby lower carbon emissions.

### Collective Action

Our group are signatories to the UN PRI, and locally we are supporters of the UK Stewardship Code and the Code for Responsible Investing in South Africa (CRISA). We take our obligations seriously and strive to constantly improve our alignment with the best practice that is encouraged by these groups.

Our activity on behalf of our stakeholders and impact on the financial markets is generally bottom-up in nature, focusing on ensuring alignment with the standards and principles we support at the individual company and third party manager level. This normally takes the form of one-on-one engagement with management.

On occasion we have engaged with other shareholders of an issuer, where we feel actions needs to be taken. Similarly, we have not hesitated to raise concerns unilaterally and make recommendations to Boards to manage risks and protect or improve shareholder value.

*The most notable recent example of such action was in Funding Circle Income Fund (the "Company"). In this case we were dissatisfied with the Company's performance on various levels and we reached out to one of the largest shareholders of the company. Whilst they were sympathetic towards our views of a managed wind up, it was not their preferred option. We also had direct communication with the company chairman. Subsequent events, not directly related to our action, resulted in an EGM 6 months later which approved the Company to enter a managed wind down and liquidation process.*

# **Principle 5 -** Review & Assurance

***Signatories review their policies, assure their processes and assess the effectiveness of their activities.***

MGIM's Board of Directors has overall responsibility for providing assurance over our stewardship activities, including the production of this Stewardship Report. Three Directors contributed to this Stewardship Report, including Ferdi van Heerden (Chief Executive Officer), Andrew Hardy (Director of Investment Management) and Elaine Smith (Chief Compliance Officer), and completed a final review prior to its submission. Each considered the report to provide a fair and balanced view of MGIM's approach to stewardship and has signed the report, these signatures can be view on our **Signature Page.**

The report was also reviewed by all members of the MGIM Responsible Investment Committee.

Several other committees contribute input and oversight to MGIM's stewardship related procedures and activities. These include:

- the MGIM Management Committee
- the MGIM Audit and Risk Committee
- the MGIM Responsible Investment Committee
- the MMH Responsible Investment Committee
- the MMH Outcome-Based Investment Committee

These committees are responsible for managing all aspects of MGIM's investment, marketing, operations and control oversight functions. Day to day the management committee has overall responsibility for our stewardship activity.

Specific regular and ongoing activities that provide assurance over our stewardship activities include:

| Action | Meeting / update frequency |
|---|---|
| Compliance review of policies and procedures | At least annually or as necessary |
| MGIM Responsible Investment Committee | Meet at least four times per annum |
| MMH Responsible Investment Committee | Meet at least four times per annum |
| Engagement Register | Following relevant meetings or engagements with fund managers or companies |
| Proxy Voting Records | Received quarterly from third party managers and aggregated at least annually |
| Client Reporting | Annual Stewardship Report (MGIM) and Annual UNPRI Report (MMH) |
| Internal Assurance | Quarterly review by internal compliance of portfolio and process alignment with RI policies |

### Outcomes

As detailed under Principle 2, we reviewed and updated several stewardship related policies during the past year, with the aim of deepening the integration of ESG factors throughout our investment process. These included:

- Responsible Investment Policy (reviewed and updated)
- Climate Change Policy (reviewed and updated)
- Proxy Voting Policy (reviewed and updated)
- Engagement Policy (reviewed and updated)
- These are all available on our website at **https://momentum.co.uk/responsible-investing**

Furthermore, during the course of the year we introduced new policies across the wider business and updated a number of existing policies, including market soundings, order management and best execution as a consequence of the acquisition of Seneca Investment Managers and the increased volume of direct equity investment and dealing.

To enhance oversight and introduce greater external assurance of our activities and processes for our largest fund structure in Luxembourg (Momentum Global Funds), during the year we applied to increase the number of directors of the company from three to six, to introduce a more appropriate level of resourcing given the increased size and complexity of the fund range.

The new board will consist of two MGIM executive directors, two directors from the broader Momentum Group and two independent, non-executive directors. The directors bring a range of expertise from different business functions and backgrounds, such that the board will be better positioned to oversee MGIM in their role as investment manager of the funds. That will include evaluating our stewardship related activity, particularly in relation to two funds within the range which are classified as Article 8 (promoting ESG related characteristics) under the Sustainable Finance Disclosure Regulation ('SFDR').

We also contribute to the annual UN PRI submission, which is made at the Momentum Metropolitan Group Level. The PRI's goal and ours, as a signatory to the UN PRI, is to understand the implications of sustainability for investors and support signatories to incorporate these into their investment decision making and ownership practices. Momentum Metropolitan is a member of the PRI Investor Just Transition Working Group, which is a knowledge sharing forum to create awareness of what action towards a just transition means in practice in the investment community. We also contribute to the research work that the UN PRI does and most recently contributed to the paper 'Understanding and aligning with beneficiaries 'sustainability preference' initiated by the PRI in partnership with UNEP Finance Initiative and UN Global Compact **(see link)**.

# Principle 6 - Client & Beneficiary Needs

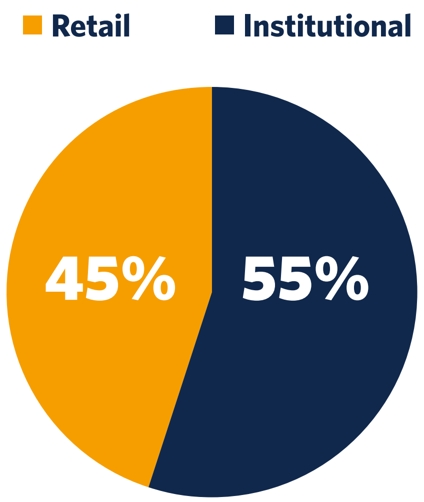
***Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.***

MGIM's motto is "with us, investing is personal". We are focused on understanding and delivering on our clients' and beneficiaries' needs, and to that end our mandates are personalised, with some defining the target outcome purely in terms of risk and return, while others incorporate explicit social and environmental goals.

We design portfolios to match our clients' different investment time horizons. A portfolio's time horizon is one of four key elements that goes into our initial design process, alongside: the real return objective; attitudes towards volatility, which we define as the potential for shorter term and longer term drawdowns; and any asset class exclusions.

We offer accumulating as well as income-paying solutions/share classes, to cater for different client needs.

The underlying beneficiaries of MGIM's client base are fairly evenly split between retail and institutional investors, as shown in the following chart:




MGIM supports the advice process and many of our clients are therefore financial advisors. As such, we don't have precise data on where underlying beneficiaries normally reside, but our assets under management (AUM) are approximately divided as follows:





MGIM has net AUM of £3.9bn (at 30/06/2021). With variations between accounts, these are split approximately 56% equity (UK and overseas); 21% fixed interest; 8% property and infrastructure; 4% commodities; 2% alternative investments, with cash and equivalents making up the balance.

### Activity

All MGIM strategies go through initial and ongoing product governance reviews to ensure they meet clients' and beneficiaries' needs. Product governance reviews address all significant product management matters, including financial, reputational or brand value risk in relation to the marketing, client positioning, pricing, tax treatment, and market conduct of the products distributed or manufactured by the firm, to ensure that end recipients are treated fairly. Product governance meetings are held quarterly and are attended by senior staff from across MGIM's business.

MGIM's internal systems and controls monitor portfolios' alignment with their mandates. The Group risk team overseas the system and risk control environment, reporting directly to the Management Committee's Audit and Risk Committee and reporting along with this committee directly to the UK Board. MGIM's Manco also reviews investment performance and delivery versus objectives.

We provide feedback on our investment activities and outcomes via the following regular reporting: monthly factsheets; quarterly reports; annual reports that accompany the accounts; and ad hoc reporting. These reports cover asset class returns, economic and market commentary, investment returns and investment commentary. We also provide insights on current investment trends via weekly blogs; weekly videos; and ad hoc thought leadership pieces. All this reporting is public and can be found on our website.

***Click to view the latest Global Matters Updates***


Permanent resources for clients and beneficiaries on our approach to sustainability include the Responsible Investing section on our website, while answers to ESG-related questions in our standard Request for Proposal are available upon request.

Our business development team engage regularly with the intermediaries of our retail investor base to communicate our philosophy, process and activities. Feedback from advisers and the views of their clients is received in these engagements and fed where necessary to the investment team.

## *Principle 6 Cont...*

The investment team meet regularly with third party boards and committees, where such bodies have appointed MGIM as their investment manager. For example:

- The investment team meet regularly with the Board of Directors of the Momentum Multi Asset Value Trust. These meetings see the Board rigorously appraise the actions (including matters over governance and stewardship) of the investment team and the Board acts as the representative body of the owners of the company (shareholders).
- A similar process is undertaken in periodic meetings with the Board of Trustees of a segregated pension fund and also with the investment committees of several white label fund ranges.

We also seek the views of beneficiaries and clients via our annual client feedback survey.

### Outcome

During the period we:

- Managed 18 solutions in accordance with Distribution Technology's risk rating system.
- Reviewed the objectives (risk, return, time horizon, and other client objectives) of our Luxembourg fund range. The analysis was submitted to the Board of Directors of the fund, who reviewed and approved the recommendations.
- Updated the strategic asset allocation (SAA) for a range of white label funds managed for a UK client, to better align the expected risk and return profiles with the needs of the firm's advisers and their underlying investors.
- Sought and gained approval for one of our funds (Momentum GF Global Sustainable Equity Fund) to be classified as an Article 8 (ESG integrated) fund under SFDR, as discussed previously under Principles 1 and 4.
- Currently one fund and one model portfolio are going through the product approval process, with a view to being launched at some point during the next reporting period.

We receive regular feedback from our clients on our reporting. During the period, we updated the format of our monthly asset allocation dashboard, following feedback from clients that it was difficult to understand.

To date we have received limited requests from clients for information on our activity in the area of sustainability, but we acknowledge that we have a responsibility to guide client interest rather than simply responding to it. We plan to use this report going forwards to inform clients about our sustainability-related activities.

Based on meetings with clients during the period, we have:

1. Moved to more regular meetings with one large South African client, with a formal agenda distributed at least two business days prior to the meeting.
2. Introduced a weekly video, recorded and distributed on a Friday, which updates clients on our views and the latest market moves.
3. Recorded one-minute answers to popular questions, as they have arisen.
4. Held weekly calls with our South African clients.

Initiatives 3 and 4 have generated less client interest as the impact of the pandemic has become more widely understood and are therefore unlikely to continue throughout the whole of the coming reporting period.

Based on our engagements with a client, we are in the process of launching a sustainable multi asset fund. The client intermediated between MGIM and the underlying asset owners, and helped ensure that we understood beneficiaries' needs, and that, in turn, beneficiaries understood the risk and return trade-offs that are likely to arise as a result of integrating their preferences.



*The results of our Annual Client Survey 2021 were discussed at the MGIM Board Meeting of August 2021. Concerns were raised about clients' low response rate. It was noted that a separate survey had been sent by another group entity at the same time, leading some clients to wrongly believe they had completed the MGIM survey. The low response rate may also be partly explained by increased awareness of cyber security risks, which resulted in reluctance on the part of some clients to click on the survey link, especially as this link was not branded. It was suggested by a non executive director that management should consider an alternative approach to conducting these surveys seeing that the unbranded 'survey monkey' approach was not a success. They suggested that management should consider engaging a market research firm to assist in the process in future.*

*At MGIM, we pride ourselves on our commitment to client service and the valued partnerships we have built with our clients, and this was reflected in the results of the survey, despite the low response rate. Responsiveness to queries and general satisfaction with our client service, all scored top marks from respondents with an increase in the scores from last year.*

# Principle 7 - Stewardship, Investment & ESG Integration

***Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.***

At MGIM we believe in detailed analysis of the issuers we invest in and the third party managers we partner with. As such, we incorporate ESG factors into our analysis, in the same way that we analyse all other material aspects of the investments we make.

All our portfolios exclude investments in businesses that are involved (directly or indirectly) with the production or distribution of cluster munitions. We monitor this for our direct investments primarily through: scrutiny of a company's pro forma accounts; familiarity with their management teams and directors; and using data from Sustainalytics. We receive holdings from our third party managers periodically (at least semi-annually, in line with our manager review cycle) which allows us to monitor them using Sustainalytics in the same way.

Additional exclusions are incorporated into some portfolios to reflect the needs of specific clients and beneficiaries. For example, the Momentum GF Global Sustainable Equity Fund also excludes companies who derive a significant proportion of their revenue from activities including the production of coal, tobacco, nuclear power and palm oil.

Beyond these limited exclusions, we follow an integrated approach to responsible investment across our business.

Different industries are exposed to different ESG risks and some of these risks are unavoidable given the current state of technology. While we are committed to transitioning to a low carbon economy, as a member of the PRI Investor Just Transition Working Group (previously mentioned under Principle 5), we support a process that takes into account the social impact of this transition. We therefore evaluate investees relative to peers in the same industry. We also give credit where investees are making improvements to the way they operate from a sustainability perspective.

We are guided by the UN PRI in determining actions and behaviours that are consistent with an integrated ESG approach, whilst supplementing that with research and suggestions from industry level bodies. We recognise the SDGs and their many underlying targets as providing a more specific guide to best practice by issuers.

In all cases where it is available, we use ESG data from Sustainalytics in order to identify opportunities and risks arising from ESG factors. This data forms part of our appraisal of issuers when making direct investments and is also referred to when critiquing our managers' decisions in the case of our indirect investments.

We take the view that it is more effective to build relationships and trust with issuers; to engage and persuade with regular dialogue than to simply "tick boxes" on a voting form. Areas of concern should be addressed before they have reached a Resolution to be voted upon at an AGM. Good quality management teams that we invest with recognise this and welcome regular engagement.

Company performance is primarily assessed in terms of their financial and economic progress, including whether management have been consistent in their strategy and process. However, that performance is unlikely to be immune from their respective performance in the areas of ESG.

If there has been a deterioration in these contributing areas of performance, then that would be an area of challenge and focus for engagement. Specific ESG criteria that we prioritise include:

### Environmental conduct of operations

We expect all companies to conduct their operations in as economically efficient way as possible. As pollution and industrial accidents cost companies money through taxation and legal recourse, poor operational practices will hinder returns and reduce the attractiveness of companies for investment.

### Social conduct of operations

We expect companies to conduct themselves with due regard for their duty of care towards their own workforce and the communities they serve. The constant evolution of the legal landscape for companies, in particular those operating within the UK places increasing requirements on companies to support the communities they serve. These developments are perhaps most visible in the infrastructure and property sectors; in which as multi-asset investors we have a material investment.

### Governance of operations

We seek evidence that there is sufficient "skin in the game" from management of companies and the Board of Directors. Regular contact with shareholders is considered mandatory and no investment is made unless management have been engaged with directly. When companies have fallen into difficulty at an operational level we have held direct contact with management and their boards and in some cases instructed changes and improvements to the governance.

### Activity

MGIM is part of Momentum Investments which has targeted 6 of the 17 United Nations' Sustainable Development Goals as areas of particular focus in the Group's investment policy (but not ignoring impacts in other goals).

These 6 Focus Goals are:

» SDG 3: Good Health & Well Being

» SDG 4: Quality Education

» SDG 7: Affordable & Clean Energy

» SDG 8: Decent Work & Economic Growth

» SDG 9: Industry, Innovation and Infrastructure

» SDG 13: Climate Action.

MGIM places significant importance on the quality of research undertaken, which is monitored by peers in the day-to-day course of business, and also formally by executive and non-executive directors. This research must include the formulation of a view of investee companies' and funds' approaches to sustainability, and management of material ESG issues.

To ensure adequate risk management and diversification in our portfolios, we do not assess government bonds, alternative strategies and collective investment schemes investing in commodities, against ESG criteria currently. There are two key practical limitations when it comes to assessing sovereign debt against these criteria: firstly, the concentrated nature of sovereign debt markets means that excluding one of the key issuers – for example, the United States or Japan – would seriously limit one's ability to source bonds and to manage benchmark-relative risk. Secondly, there is a lack of consistent data on material ESG issues, and limited consensus regarding frameworks and techniques for evaluating ESG risk within sovereign debt. We review our decision to exclude these asset classes periodically.

We determine which ESG issues are material through ongoing research of the areas in which we are invested.

We have embedded ESG integration in our Responsible Investment policy, which is available on our website.



**Outcome: Environmental conduct of operations**

## Example:

*The leasing of A380 aircraft to Emirates, whilst harmful to the environment, is monitored via scrutiny of the Emirates annual Report & Accounts, as well as the Report & Accounts of the leasing vehicles concerned. Although Emirates is incentivised through economic necessity to operate its aircraft efficiently, evidence is studied in terms of fuel usage and the efficiency of aircraft and ground operations. The Emirates 2020 Annual Report states "Emirates' comprehensive fuel efficiency programme (helped) deliver a 1.9% improvement in passenger fuel efficiency for the full year resulted in a reduction in fuel consumption by 71,000 tonnes, equivalent to a reduction of 224,000 tonnes of CO2 emissions."*

Whilst we do not screen out polluting companies, we do look positively upon companies (including investment trusts) that seek to directly positively impact the environment. The secular trends emerging across all economies are for new and improved ways to solve old problems; we have appraised opportunities to participate in this field. Green energy generation and the infrastructure behind it has been an activity we have supported for many years.

## Example:

*Over the years we have supported the Initial Public Offerings and many subsequent equity raises by renewable energy and other infrastructure trusts including: Greencoat UK Wind (operates UK wind farms), JL Environmental Assets (operates solar, wind and aerobic digestion plants), Gore Street Energy Storage Fund (operates battery storage in UK and Ireland) and International Public Partnerships (part owner of Cadent which is exploring ways of using the gas distribution network to carry low carbon Hydrogen; owns Offshore Transmissions Operators, that brings electricity onshore from offshore wind generators).*

**Social Conduct of Operations**

## Example:

*We have supported PRS REIT since IPO. The company is building new high quality housing stock for rent to families, in addition they seek to help support the development of communities with various social activities and the direct financial support of local charities serving those communities. The management worked closely with tenant families that were temporarily hit by the economic damage caused by COVID19; this included a 20% rent reduction for NHS staff during lockdown and proactively contacting all other tenants and offering payment adjustment options over the crisis. They also made cash donations to 4 charities plus foodbank donations.*

We have also supported the IPO of Home REIT which is funding the development of new supply of low cost accommodation for homeless people and to facilitate their rehabilitation and training to re-integrate into society.

Where we are made aware of instances where companies fall short of their legal requirements or incidents/accidents have occurred in one of our investments, we engage with the management teams concerned to establish the circumstances and what actions are being taken to show that improvements have been made.

## Example:

*An industrial accident involving the electrocution of a BayWa engineer on one of the windfarms co-owned by Greencoat UK Wind was investigated and the executive director we engage with gave a full background of the incident and what improvements and changes to procedures have been made. (See detailed explanation under Principle 9)*

# Case Study

## Momentum Africa Real Estate Fund (MAREF)

MAREF is a $205m institutional real estate fund that finances and develops commercial real estate within sub-Saharan Africa excluding South Africa. MAREF benefits from the unique blend of Eris Property Group, a property developer, and the fund management experience of MGIM, both subsidiaries of MMH.

### Environmental

MAREFs environmental benchmarking for all current and future property developments is led by IFC EDGE specifications. However, should a client request a different environmental benchmark MAREF will cater to this, subject to the new environmental benchmark being of higher standards than IFC EDGE.

For example, The Rose development, MAREFs on-going service apartment development in Nairobi, Kenya, will be LEED (Leadership in Energy and Environmental Design) Silver certified. LEED is a green building certification program used worldwide, an initiative of the U.S. Green Building Council.

MAREF, where possible, contributes to the global initiative and economic impact of efficient water and power resource utilisation within their developments by:

» Implementing alternative economically viable renewable energy source.

» Evaluating value opportunities that can be created from waste

» Identifying and resolving operational efficiencies created at the design stage

» The Strict application of applicable environmental legislation and standards and an outcome-based Green Building strategy requiring achievement of IFC EDGE certification.

Award: Mon Tresor Business Gateway, MAREF's office development in Mauritius, which was completed in August 2018, won the Best Green Building in Africa award at the API Awards 2019.

### Social: Job Creation and Community

#### Job Creation

During the construction phase of SU Tower and 335 Place, two assets developed by MAREF in Accra, Ghana, MAREF created 1,215 jobs. MAREFs current development in Nairobi, Kenya, The Rose, is forecasted to create 1,000 jobs during construction and 80 to 90 sustained permanent jobs for the serviced apartment operations. In addition, for all MAREFs project, we incorporate a programme of upskilling staff so those with the most basic jobs can be trained for more specialist roles, making them more employable in the future.

#### Community

During the development and construction of 335 Place, we experienced severe flooding of the N1 highway immediately in front of the property. The rainwater covered all three lanes and completely cut off the traffic.

Our project engineer determined that the drainage pipes beneath the highway had insufficient capacity. We invested a small portion of the project savings on installing an additional, and much larger pipe underneath the highway which has proved to be adequate during subsequent rainstorms. This has had a positive tangible impact on the broader community.

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**335 Place - Before Development**

Before the introduction of the drainage pipe system the community was susceptible to severe flooding.

**335 Place - After Development**

The introduction of the drainage pipe system when 335 Place was developed has made a huge impact on the community.

### Governance

MAREFs governance benchmarking for all property development projects align with the IFC Performance Standards 1 to 8.

A tangible example of MAREFs governance, Performance Standard 5 - Land Acquisition and Involuntary Resettlement. Before construction of 335 Place there was a small trading market adjacent to the site.

Before we could start construction the traders and the market had to be relocated. MAREF hired a consultant to work with the local community to ensure these traders were adequately compensated for the resettlement and set up in a destination that either enhanced their trading or at a minimum kept it constant. MAREF are happy to report that all traders were happy with the proposal and relocated without any issue.

# **Principle 8 -** Monitoring Managers & Service Providers

***Signatories monitor and hold to account managers and/or service providers.***

MGIM invest directly in issuers as well as via third party investment managers. In the case of third party investment managers, we conduct proprietary research in order to satisfy ourselves that the managers integrate ESG criteria in their investment processes in a manner that is consistent with our own approach.

Our manager research process involves both quantitative and qualitative analysis. This analysis is summarised in the scorecards we produce for managers, which cover 5 key areas of their strategy and over 40 sub fields, from firm focus to the strategy's involvement in excluded activities / product lines, according to data from Sustainalytics.

Specifically with regards to ESG, we address the following aspects of a candidate fund in our scorecards: governance; environmental policy; social policy; ESG integration; ESG resources; and active ownership.

We also review the following key ESG indicators that are provided by Sustainalytics, as a reasonably objective assessment of the risks investments are exposed to: Sustainability Score (rank in global category and absolute score); Product involvement % in certain controversial or excluded activities / product lines; Percent of AUM with high/severe ESG risk scores.

Regardless of specific ESG requirements in a portfolio mandate, we give detailed consideration to any investment that is assessed as being below average on any of these key indicators. In such cases we obtain additional information on the underlying drivers and if appropriate engage with the investment manager, to ensure we incorporate that information into our assessment of the additional risks involved.

MGIM undertakes the vast majority of research internally, however, we do also procure research services from several external providers at competitive rates using our own financial resources which is not recharged to clients. Regular communication with numerous research providers aids in the price discovery process. Fund managers are the main consumers of research and continually appraise the quality and usefulness of the research received. The fee for research services is agreed and reviewed on an annual basis, but agreements are structured with short notice periods of cancellation.

## Activity

Frequent engagement with our third party managers is integral to our investment process. At a manager review meeting, the primary analyst will usually review the following: performance-based analysis; holdings-based analysis; trading analysis; liquidity; proxy voting decisions; and areas of ESG risk identified by Sustainalytics or through other research.

We held over 300 manager review meetings over the period.

Manager scorecards are reviewed by the investment team at regular Scorecard review meetings. Asset class review meetings are attended by the full investment team and provide a further review of this process across a wider range of third party managers.

During the period we subscribed to Sustainalytics' fund level ESG data (owned and provided by Morningstar) for the first time. This followed a review process of the following ESG data providers: Sustainalytics, MSCI, RobecoSAM, FTSE Russell, RepRisk, ISS. Sustainalytics were deemed most suitable for our needs across coverage; scope; data sources; and analysis and output. Sustainalytics data is used to supplement analysts' research, as described above. We expect that conversations with managers and other ongoing research will provide a real time review of this data. We will reflect on this ahead of the next report, and whether we also need a formalised review process for Sustainalytics' data.

## Outcome

Subscribing to Sustainalytics has given us access to a new data set that incrementally improves the quality of our engagements with issuers and third party managers. We are constantly evaluating data sources, and consequently we also chose to resubscribe to eVestment Alliance (eVest), a rich database of information on third party managers running funds and segregated mandates, during the period. eVest improves our ability to monitor all aspects of third party managers we use, relative to a wider universe than our existing systems do, and also provides much more detail on stewardship practices at both the firm and strategy level.

# Principle 9 - Engagement

***Signatories engage with issuers to maintain or enhance the value of assets.***

Where we invest directly with issuers (primarily within UK equities and specialist assets, such as property and infrastructure), we have direct meetings with companies. Where investments are made by a third party manager, either via a segregated mandate or by owning shares of an Open Ended Investment Company (OEIC), then we have no direct relationship with the underlying issuers, but instead our views on matters are communicated with the third party manager, and we then monitor their engagements with issuers

## Activity

Our engagement with our investee companies and third party investments we hold takes various forms depending on the investment type and the asset class:

| | Direct UK equities | Third party funds & segregated mandates | Investment Trusts (REITs, listed Private equity, Infrastructure Trusts, Specialist Debt Trusts) |
|---|---|---|---|
| Direct meetings with companies | Yes | | |
| Direct meetings with board members | | | Yes |
| Direct meetings with third party fund managers | | Yes | Yes |
| Phone calls / conference calls | Yes | Yes | Yes |
| Email communications | Yes | Yes | Yes |
| Voting at AGM | Selectively | | Selectively |

We endeavour to identify problems at an early stage. Monitoring of company performance and activity is regularly carried out through our internal fund managers' due diligence process involving direct investee company meetings, press coverage and occasionally drawing on independent broker research. The level of active engagement we conduct on each investment and any escalation of concerns we may have to the point of direct dialogue with respective Boards or other stakeholders will reflect a number of factors, including (but not limited to):

- The size of investment within our portfolios
- The performance of the investment (underperformance will typically attract closer attention)
- The likelihood of success any escalation of action will have
- Time constraints and other portfolio demands requiring action at the time

We will view Board structures, independent or otherwise, review the CVs of Board members, to satisfy ourselves of the effectiveness of the investee company's board and committee structures and discuss with the company brokers any issues arising. While there can occasionally be divergence from generally accepted good practice in larger UK listed companies (although this is becoming less common) e.g. combined Chief Executive and Executive Chairman roles where an individual has served with a company for many years, such instances are much less prevalent and we would consider them to be unacceptable in the "specialist assets" arena, where an independent non-executive board would normally exist above the executive team.

Given the number of positions held and the resources available, we do not usually attend General Meetings, finding one on one private meetings to be far more productive than those held in a public arena.

Third party managers appointed to manage segregated mandates on our behalf, are responsible for engagement with underlying issuers. We believe this arrangement is most appropriate, on the basis that our managers are closer to the businesses in which they are invested. We form an expectation of the key characteristics of a manager's investment process prior to investment – including their approach to engagement – and seek to satisfy ourselves that they are doing what we expect them to, as part of our ongoing due diligence process.

### Issues of particular interest:

When investee companies are seeking to raise capital we explore in depth the rational for doing so, the costs involved and whether alternative routes to financing have been explored. If we feel the costs associated with equity or debt financing are unwarranted then we will communicate accordingly and if necessary vote against resolutions.

Management and performance fees, particularly in the area of closed ended-investment trusts, are an area of particular focus, in terms of levels, hurdle rates and timing of payment. Dis-satisfaction will be raised in the first instance with the company and/or the nominated house broker.

If we feel the board is not displaying sufficient levels of independence then we will raise the matter with the chairman or senior non-executive director.

### Practical limitations:

The level of our engagement with larger investee companies, primarily in the direct UK equities arena, is conducted on a best-endeavours basis. For example, direct dialogue with Chief Executives, Finance Directors and Chairpersons, may not be feasible. However our investment focus is mainly (but not exclusively) in "mid-cap" companies where executives are more accessible and less beholden to the mainstream large scale institutional investors. Consequently, where we do invest in "large-cap" or FTSE-100 companies, we have to accept that the opportunity for direct engagement is commensurately less.

## *Principle 9 Cont...*

### Outcomes

Over the course of the year to 30 June 2021 we have conducted over 300 meetings with companies and third party managers.

**Examples of engagement:**

### 01 Case Study

*Chrysalis Investments plc (UK listed investment trust investing in predominantly private fast growing pre-Initial Public Offering (IPO) companies).*

Since the Company's IPO in November 2018, we have been delighted with the performance of this Company which has raised new capital at various junctures. However, in February 2021 we communicated by email and followed up with a "zoom" meeting with the Chairman regarding the announced intention to issue new stock. Our concerns centred around potential fair pricing in any such issuance and the need to reference against an updated NAV. We made it clear that any such issuance should be on the back of an updated NAV taking into account any near term funding round that would materially uplift one of its portfolio companies, "Klarna" since the last official NAV had been struck.

The Chairman took on board our views and we were happy to support the proposed stock issue in the subsequent AGM & EGM. The resultant stock issuance announcement in March 2021 made the following point:

"The Initial Issue Price has been set in the context of the Company's estimate of NAV per Ordinary Share including adjustments for the estimated increase resulting from the Klarna fundraising announced 1 March 2021 and Starling Bank fundraising announced on 8 March 2021."

### 02 Case Study

*Kier plc (UK listed FTSE- Small Cap Company, providing infrastructure and construction services in the UK)*

As shareholders in Kier plc, we were (are) supportive of the new management team which we felt were doing a good job in turning around the business and strengthening its finances. We were keen for the Company to strengthen its capital base in order to fully participate in the infrastructure opportunities opening up in the UK as the Country "Builds Back Better". However, we were disappointed with the size of the proposed re-financing of the company in 1H 2021 with the issuance of new equity. We contacted the Chairman and indicated our view that the scale of issue and suggested pricing of 80p per share was too dilutive for existing shareholders. Following further discussion with us and other shareholders the final placing price was increased to 85p.

### 03 Case Study

*Greencoat UK Wind plc (UK listed investment trust invested across a portfolio of UK onshore and offshore wind farms)*

The Company notified the market that in 2020 sadly there was a serious (non-fatal) accident at Tom nan Clach wind farm operated by Natural Power. A maintenance contractor was electrocuted as a result of a number of established procedures not being appropriately followed; this was a result of a number of "human factors". There was evidence that similar concerns were observed elsewhere in the industry. Health & Safety factors had already been identified in previous reports by the management team of UKW as an area requiring additional focus. The injured employee has returned to work.

While UKW is a clean energy generator, it is important that this is done in a safe process for all stakeholders (including employees). In August 2020 we raised the point with Stephen Lilley of Greencoat Capital (the appointed manager of Greencoat UK Wind) of how important it is to ensure there is a non-hostile and safe environment for lessons to be learned and ensure stakeholders are able to bring "near-misses" to the attention of others (in the way that the aviation industry has led on safety investigation). We have followed up with the manager in the period since the initial discussion on the incident to ascertain progress on the investigation and the lessons learned. In the latest financial report from UKW (Interim Report to June 2021) the Company states:

"Health and safety is of key importance to both the Company and the Investment Manager. The Investment Manager is an active member of SafetyOn, the UK's leading health and safety focussed organisation for the onshore wind industry. The Investment Manager also has its own health and safety forum, chaired by Stephen Lilley, where best practice is discussed and key learnings from incidents from across the industry are shared."

### 04 Case Study

*new investment company investing in energy efficiency assets*

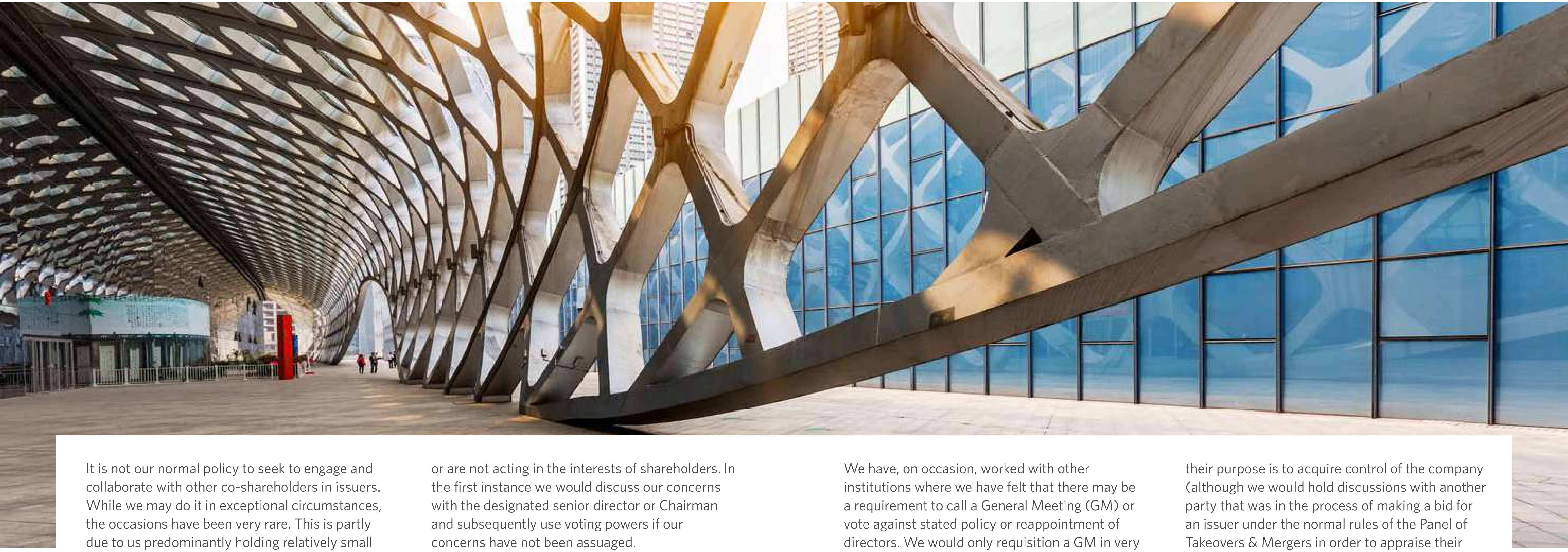
As part of our normal due diligence process when appraising new investments, we were concerned at the (high) level of Board fees being earned by the proposed chairman but with a very small level of proposed ownership in the shares to be purchased at IPO.

We expressed our desire for there to be either a material reduction in director fee or for there to be a large increase in proposed share purchase by the individual. Our requests were not accepted until immediately before the deadline for commitments from investors. However, our loss of faith with the degree of "push back" on the matter resulted in us deciding not to support the share issue.

The sponsoring company behind the investment trust took on board our comments and significantly improved the alignment of interests between Board, Investment Manager and Shareholders in the subsequent launch of a different investment company active in a specific area of infrastructure assets, which we did support at IPO.

# Principle 10 - Collaboration

***Signatories, where necessary, participate in collaborative engagement to influence issuers.***



It is not our normal policy to seek to engage and collaborate with other co-shareholders in issuers. While we may do it in exceptional circumstances, the occasions have been very rare. This is partly due to us predominantly holding relatively small stakes in companies that have larger shareholders than us. Circumstances where we have engaged with other shareholders is usually when we have been approached by a larger shareholder who wishes to lead in taking a course of action.

Coordinating shareholder action is a time consuming process and we would have to consider if this was the best use of time and resource taking into account what can be reasonably achieved.

We would generally only intervene with "action" where performance was poor and/or we felt a Board or individual directors are either conflicted or are not acting in the interests of shareholders. In the first instance we would discuss our concerns with the designated senior director or Chairman and subsequently use voting powers if our concerns have not been assuaged.

We would hold meetings first with management and then contact the company's advisers and escalate to Board level only if we felt that our concerns were not being taken seriously or addressed satisfactorily. It is unusual for us to meet with the Board unless we have serious reservations on the level of competence of senior managers or wish to express views directly on matters of corporate strategy.

Whilst it is unusual for us to intervene, we may discuss our concerns with major shareholders to gauge how much influence we may be able to exert.

We have, on occasion, worked with other institutions where we have felt that there may be a requirement to call a General Meeting (GM) or vote against stated policy or reappointment of directors. We would only requisition a GM in very extreme circumstances when other dialogue has been exhausted or where we felt immediate action was required to protect shareholder (and our clients') interests.

Collaboration with other shareholders will only be undertaken if we are satisfied that such collective engagement will not contravene any of our regulatory or legal obligations and on the basis that we shall maintain proper standards of market conduct. We will take all necessary steps to avoid being involved in a concert party and will not enter into discussions with other shareholders if their purpose is to acquire control of the company (although we would hold discussions with another party that was in the process of making a bid for an issuer under the normal rules of the Panel of Takeovers & Mergers in order to appraise their approach).

### Activity

In the period covered by this report we have not participated in any collaborative engagement with other shareholders.

### Outcomes

There are no outcomes to report for the period.

# Principle 11 - Escalation

***Signatories, where necessary, escalate stewardship activities to influence issuers***

Our policy of intervention will always be considered on a case-by-case basis, with reference to the size of our investment, the scope to co-operate with other shareholders if necessary, the likelihood of success and whether a successful outcome would give suitable reward to our investors.

Our method and strategy in each case will be discussed by the investment team, led by the asset class specialist with research responsibility on the specific investment.

We view voting at AGMs as an aspect of "escalation". We do not always support the Board and have on occasions voted against decisions recommended by a Board or against the re-election of Board members. If we feel it appropriate or indeed may help initiate change we may contact the company beforehand.

Beyond voting we consider the more important input we can give is our collaborative and informed guidance to managements and Boards on matters where we feel we can add value and we feel our opinions should be taken into account. This was particularly the case in the COVID pandemic as companies took action to conserve cash and in some cases we felt were too hasty to reduce or cease dividends. We were keen to ensure that Board's took their responsibilities to shareholders in this regard seriously. We were pleased to see a quick return to dividend paying in those issuers we felt had been excessively cautious.

### Activity

Apart from voting activity, which is discussed under Principle 12, the number of occasions where we have "escalated" our discussion above that of the executive management team and taken up matters with the Board are shown below.

While this report is specifically addressing the 12 months to the 30 June 2021, our record on stewardship goes back several years and we have specific examples that demonstrate the areas of our conduct.

### Outcomes

The most active and time consuming escalation we made in the year and which commenced prior to the reported period involved the case study shown below.

| | Investee Type | | | |
|---|---|---|---|---|
| **Form of Escalation** | **Corporate** | **REIT** | **Listed Closed Ended Fund** | **Open Ended Fund** |
| **One-to-One Meeting** | 4 | 1 | 6 | 0 |
| **Email** | 6 | 1 | 2 | 0 |
| **Telephone Call** | 1 | 0 | 0 | 0 |
| **Other** | 0 | 1 | 0 | 0 |

## Case Study

*Case Study: Schroder UK Public Private Trust*
*(UK listed investment trust investing predominantly in early to mid-stage private companies)*

As investors in Woodford Patient Capital (WPCT); subsequently renamed Schroder UK Public Private Trust- (SUPP), we observed the significant difficulty the Company endured with the demise of the former manager; Woodford Investment Management. Despite the Company owning a number of highly attractive investments; the structure of the trust, specifically the debt within the Company, and the significant share price discount to Net Asset Value made the Company's future uncertain.

We elected to escalate our activity and engage intensively with the Board as we felt the potential loss of value and opportunity was too great to ignore. We viewed the structural weaknesses, beyond the media hysteria, as solvable; especially given the highly attractive nature of a core number of portfolio companies. Our ability to apply influence and effect change was aided by us building a reasonably large position in the Company as the shares progressively weakened as a result of problems centred around Woodford Equity Income Fund (WEIF) which shared a number of common holdings with WPCT/SUPP.

Prior to the departure of the previous manager we had already begun engaging closely with the Board to ensure that actions were not taken that jeopardised the longer term return opportunity of a number of portfolio companies within it. We also felt that the Board needed changing and strengthening in an orderly fashion. We acted collaboratively with the former Chair (Susan Searle) and gave input into the selection of new Board members.

On appointment of the new management team from Schroders we engaged closely on ways the Company could improve its profile and understanding by the market and media. We believed it important that the new team felt they had the time and space from institutional investors to pursue a strategy of orderly value realisation from a number of incumbent investments.

While there is still work to do, the Company is now debt free, has cash available for new investments, a new manager that is well bedded in and a reinvigorated Board under a new Chairman (from the 2021 AGM). The Company is now able to run the portfolio from a position of strength which should see the market discount narrow as Net Asset Value progression has a strong chance of recovery.

# Principle 12 - Exercising Rights & Responsibilities

***Signatories actively exercise their rights and responsibilities.***

MGIM's voting policy is published on our website. The key elements of the policy and our approach to voting are as follows. We:

**01 Ensure adequate notice is given to shareholders ahead of meetings;**

**02 Review the performance of directors;**

**03 Review the structure of the board;**

**04 Ensure separation of key roles on the board;**

**05 Review the performance, remuneration and rotation of external auditors;**

**06 Review the remuneration of directors;**

**07 Review capital structures and other corporate actions;**

**08 Review economic, social and environmental considerations;**

**09 Escalate issues in line with our escalation policy.**

MGIM will vote proxies on a given issue for a given investment in the same manner for all clients. Clients do not conduct voting activity or instruct us on how to vote for their account, unless it is accommodated within the Investment Management Agreement (IMA) between the client and MGIM.

Our approach to proxy voting necessarily varies depending on whether MGIM has directly selected and invested in the security in question, or whether the security is held in a fund or account managed by a third party manager.

In the case of directly held securities, we aim to vote in all cases where we believe our client's interests need to be protected or where there is a conflict with our Proxy Voting Policy or any of our other Responsible Investment Policies. We do not use default recommendations of proxy advisors and do not commit to voting on all matters arising. We are notified of upcoming votes via the proxy voting services provided by our custodians. These services are compliant with the requirements of the Shareholder Rights Directive. Primary analysts monitor each investment closely to ensure that we receive notification of all meetings and votes are cast as deemed appropriate.

We have some direct fixed income investments, but these tend to be seasoned bonds rather than new issues, and therefore we do not receive reverse inquiries ahead of new issuance, giving us limited ability to influence prospectuses and covenants. As a result, most of our influence comes through engagement with our third party managers. Often those managers will be able to exert additional pressure through equity voting in other parts of their businesses.

For investments made via third party managers, voting responsibility resides with that manager. In most cases we believe that is appropriate because these managers, who we have selected, are expected to be closer to the business in question to assess matters put forward to shareholders for voting, or have a systematic monitoring process in place, which means they are best placed to make the appropriate decisions that are in the long term interests of our investors. However, we recognise the need to engage with these managers on an ongoing basis to monitor and increase alignment with our Proxy Voting Policy, although particular country and regional factors may necessarily lead to a degree of variation.

Where the investments are held in a third party segregated account, MGIM intends to ensure proxy voting decisions are aligned with our Proxy Voting Policy by incorporating an explicit reference to this and other relevant Policies in the IMA between MGIM and the third-party manager. Until such time as this is achieved across all segregated accounts, and beyond that point, MGIM will ensure detailed reporting of voting activity is provided by such managers to us for review by our relevant analyst or portfolio manager on a regular basis. Any activity or decision that is inconsistent with this or any of our other Responsible Investment Policies will be discussed with the third party manager. We currently receive quarterly proxy voting summary reports from all such third-party managers.

In the case of investments that are held via third party funds (pooled vehicles), there is no bespoke IMA between MGIM and the third party manager. However, we still monitor the proxy voting activity of each fund individually and engage closely with the managers of those funds, particularly around decisions that are inconsistent with our Policy, but any voting activity on their portfolio investments are ultimately dictated by their own policies.

### Activity

Our voting record for our directly held equity securities can be view here

Of the 95 company meetings held over the period at which we were entitled to vote, we voted at 20 (21%). As mentioned previously, we vote in cases where we believe our client's interests need to be protected or where there is a conflict with one or more of our investment policies, and where we have been unable to resolve the issue through engagement with the company leading up to the meeting. 100% of votes cast were For the resolution: two examples of our voting are discussed in the Outcome section that follows.

### Outcome

During the period, we voted in favour of the continuation of AEW UK REIT (AEWU) at the September 2020 AGM, where we hold circa 10% of the issued share capital. We felt it important the REIT continue as the management had performed well and there was plenty of scope for value realisation in the portfolio. The shares have been very strong since (due to subsequent value realisation in the portfolio). We voted in the 2021 AGM in favour of them being able to issue further equity.

As long term investors in Kier plc, we had engaged frequently with the previous and current Managements and the Board of the Company as it sought to strengthen its operational performance and financial position. We encouraged the re-focussing of the Company into its core operations enabling the provision of UK infrastructure construction. We therefore voted in favour of the sale of Kier Living and the subsequent equity raise having indicated our dissatisfaction with a previously proposed lower issue price.

# **Stewardship** Report

## Momentum Investment Solutions & Consulting

# Principle 1
## Purpose, Strategy & Culture

Momentum Investment Solutions & Consulting (Momentum ISC) was established in 2015 by a team of senior investment consultants to provide independent advice to UK pension schemes. We are a division of Momentum Global Investment Management (MGIM) and our parent Company is Momentum Metropolitan Holdings (MMH).

Our mission as a team is to provide a high quality, personal and tailored service to a select number of trustee and corporate clients to enhance the financial management of their pension schemes. To deliver on this mission, we have established a team with a strong culture based on mutual respect, trust and support.



Our team comprises of four experienced Partners, supported by a team of investment analysts. The Partners have a wealth of experience spanning strategic advice, risk management, portfolio construction and implementation.

In terms of the services we offer, we cover all aspects of investment consulting including:

- **Investment strategy:** including investment beliefs; setting investment objectives and journey planning, including asset and liability modelling.
- **Risk management:** establishing a risk appetite; dynamic risk budgeting and risk monitoring.
- **Liability hedging:** Quantifying risk/return from under-hedging and incorporating into risk budget, establishing a liability hedge target, implementation frameworks and monitoring.
- **Manager structuring:** selection and monitoring: Structuring based on a qualitative assessment of manager's philosophy and process (including ESG integration) and quantitative assessment of 'fit' using correlation analysis and/or portfolio analytics.
- **Operations management:** including transitions co-ordination, cash-flow management, rebalancing, currency hedging, compliance.
- **Governance:** including policy checklist, business plans and governance advice

### Business strategy

The business strategy is clear and simple. Our goal is to create a high quality "boutique-style" investment consulting team, which serves the needs of a select group of clients. The business plan assumes that the number of clients and the team grows in a gradual and measured manner.

## Principle 1 - Purpose, Strategy & Culture Cont...

### Our values and our approach to working with clients

In addition, to our team's mission and culture we are committed to the broader company's core values of accountability, integrity, excellence, teamwork, innovation, and diversity which are at the heart of everything we do; they define how we do business and engage with our clients and internal stakeholders.

We are a small team and are confident that this benefits our clients for the following reasons:

**The quality of our team is extremely high because we have had a unique opportunity to build a team who we know from our experience of working together, all have the same high standards, and are committed to doing a great job for our clients.**

**We believe that the values and qualities that we share make us an effective team. We always extend this sense of team-work to our client relationships, and it is why we always do whatever it takes to do a great job for our clients.**

**We have a wealth of relevant experience of working with large schemes which when combined with our desire for continuous improvement gives us the confidence that we provide clients with thoughtful and creative input to their investment policy.**

**We can provide continuity and stability. Turnover in an advisor's team can be extremely disruptive, especially if this involves the lead consultant and/or day-to-day point of contact. We provide our clients with the continuity and stability they need to achieve their objectives.**

**As a small autonomous team, we are free to operate solely in our client's best interests. We have also found that the ability to be nimble and flexible is of huge value to our clients.**

In summary, we believe in putting our clients at the heart of everything we do. In our experience, putting this belief into practice has resulted in strong, long term strategic partnerships with our clients.

To deliver on all of these aspects, we have established a team with a strong culture based on mutual respect, trust and support. Our team has been carefully chosen based on shared beliefs, quality and "fit" and has a strong track record of working collaboratively to deliver a first class service for a range of pension schemes.

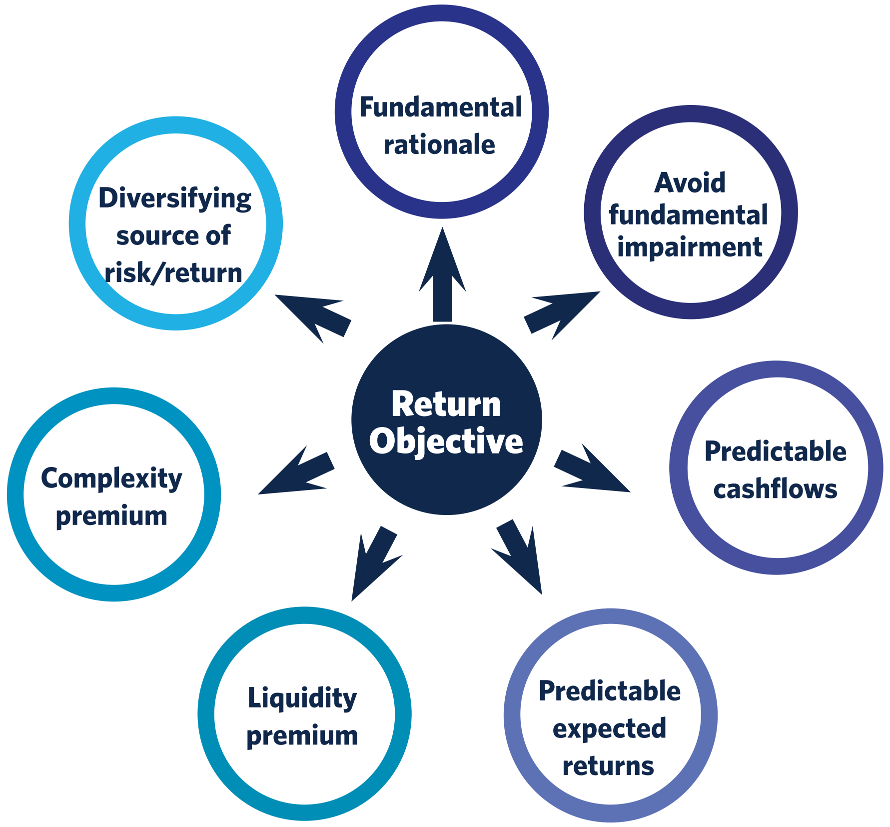
### Our investment philosophy and approach to Responsible Investment

We have a clear approach to investing which is summarised below:

- Fundamental rationale – any asset class is only worth adding if there is a good fundamental rationale for it to generate an excess return relative to risk-free assets.
- Low risk of fundamental impairment – mark-to-market risks should be recovered by patient investors, whereas losses due to default are permanent.
- Predictable cashflow profiles improve cashflow management and return forecasting. Predictable expected returns provide greater confidence of achieving the target return, simplifies comparison between different assets, and helps to scale allocations effectively.
- Liquidity premium and complexity premium are attractive risks to take if rewarded.
- We seek to diversify sources of return and/or sources of risk, rather than simply diversify capital allocations.

We recognise the importance of Environmental, Social and Governance (ESG) issues and have always incorporated them into our manager research and investment processes. We believe that ESG factors are an important component of long-term risk management, and are therefore integral considerations for any long-term investor.

Aligned with our investment approach, we have a preference for investors over traders, and our preference for strategies that are able to deliver predictable cashflows and expected returns means we have always had a bias towards portfolio managers that take a long-term view. We have found that these investors are typically far more aware of ESG issues and have been assessing "ESG factors" as part of their investment process for much longer than consultants have been identifying ESG as a separate set of factors to appraise.



## Our ESG Beliefs

Our ESG beliefs form the basis of our approach to ESG and these are summarised below. Our approach is described in detail in **Principle 5**.

**01** ESG factors can be financially material to security prices. We believe that ESG factors such as environmental disasters, poor labour practices and accounting failures can lead to poor performance. Therefore, active managers conducting security level research should consider ESG factors in their investment research process.

**02** Good active managers have considered how to best incorporate ESG factors into their investment process. ESG factors can be financially material so good active managers will consider them. An active managers approach to ESG factors should be understood. Material weaknesses in their approach would count against their selection and retention.

**03** We believe active stewardship can improve investment returns. We prefer managers with clear stewardship policies and approaches and have a preference for effecting change through engagement over divestment.

**04** Investment teams are likely to have stronger ESG analysis if the importance of ESG is recognised by their broader organisation. Stronger investment team approaches to ESG are likely to be found when the broader organisation shows strong ESG commitment. This can often be seen through broader resources and better internal discussion and debate. More detailed diligence on the strength of a manager's ESG approach may be required where their broader organisation does not show strong ESG alignment.

**05** The impact of, and potential responses to, climate change creates a material financial risk. There is a wide range of uncertainty in both the future climate scenarios and the timing and choice of policy responses. A carbon tax, as just one example, could have financial implications for the profitability and competitive position of companies that are impacted. Climate change risks should be considered in the selection of individual investments by investment managers

**Serving clients best interests**

As described earlier, we have established a team with a strong culture based on mutual respect, trust and support which has a strong track record of working collaboratively to deliver a first class service for a range of pension schemes.

In terms of the services we provide, we have described these earlier in this section. We have contractual arrangements in place with all of our clients that describe these services in detail and the fee arrangements. In addition to the contractual arrangements, our clients also set us clear objectives and review our performance against these objectives annually. This annual process provides an invaluable opportunity to have a formal discussion on how we have performed relative to our clients' objectives.

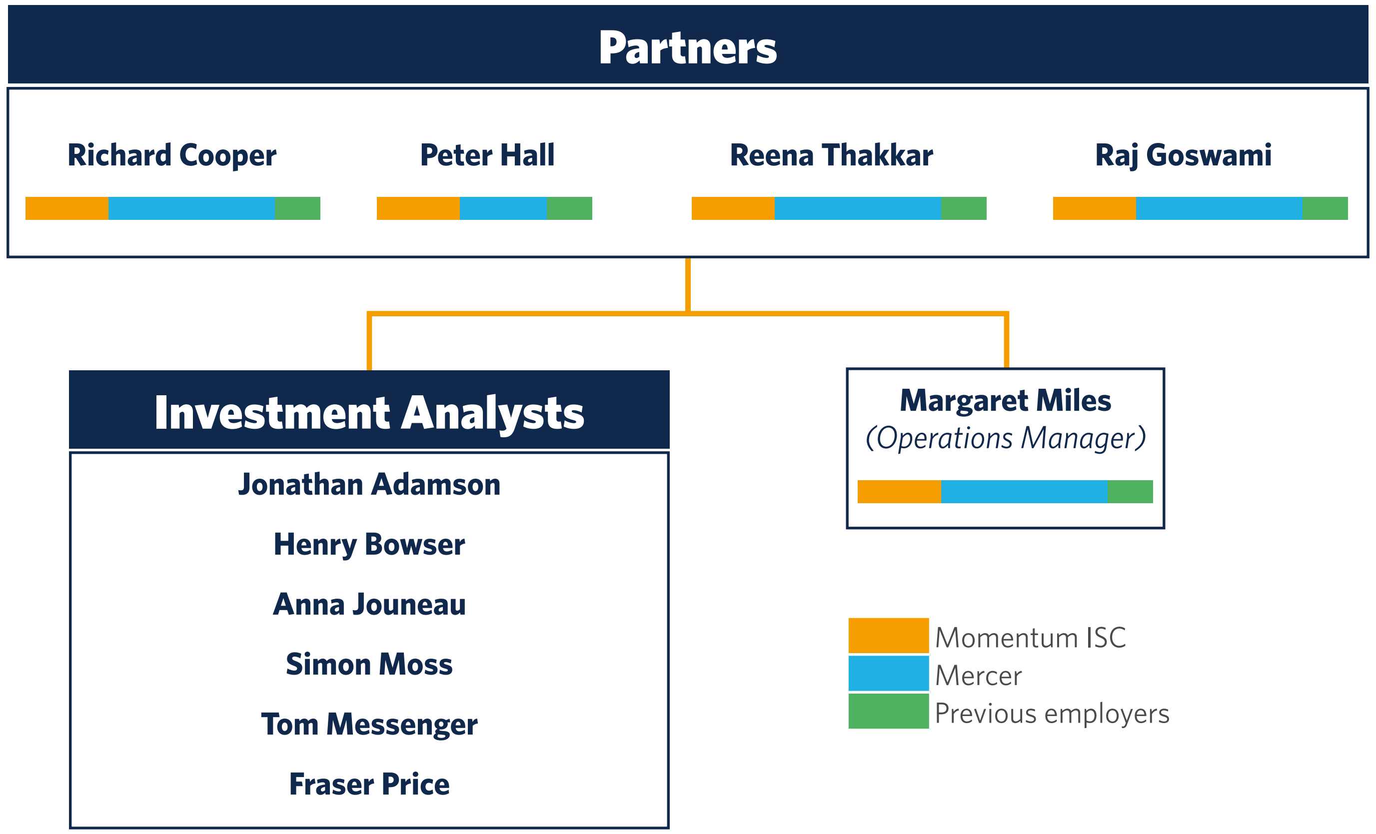
In addition, for the majority of our clients, our fees have a discretionary performance-based element which is based on the client's assessment of the quality and quantity of work that we have undertaken.

In addition to the annual assessment against our objectives and the annual performance fee assessment, we believe in continuous feedback and have regular meetings with our clients outside of the formal Trustee meetings. These informal meetings are an opportunity for our clients to raise any issues they have with us directly.

# Principle 2
## Governance, resources & incentives

### Resources

The Momentum ISC team includes three qualified actuaries, one CFA charter-holder, three senior analysts in the process of becoming CFA charter-holders and three team members who are studying for actuarial or CFA exams. The team is shown below. The Partners have a collective experience spanning 80 years.




In addition to the team above, the broader business provides support with operational aspects such as legal, IT, finance, HR and compliance.

We recognise the importance of ESG factors in our advice and have partnered with Gordian Advice, a specialist responsible investment advisory boutique, to provide further support. Gordian Advice provides training to the team on Responsible Investing and ensures that the team is kept informed of developments and best practice in this area.

Gordian Advice also assist with client workshops and training sessions where there is the desire to have a deep-dive into specific areas, such as ESG beliefs. A specific area of focus for the past year has been the Task Force on Climate-related Financial Disclosures (TCFD) requirements, where a significant amount of work has taken place both within the team and with clients to put in place the necessary governance, systems and tools, and training to ensure that we can support our clients in meeting these requirements.



Compensation for the consulting team comprises fixed and variable elements. Base salary reflects responsibilities, experience, qualifications and skills. Variable compensation is awarded on a discretionary basis annually, and is a function of the performance of the consulting business. There is no explicit link to Stewardship within fixed or variable compensation. Rather, Stewardship related work is one of the factors that is considered during the normal process of staff evaluation, most notably in the case of investment consultants as part of consideration of the effectiveness of advising clients in this area. Performance is appraised through the annual company wide Performance Excellence programme which all team members are enrolled in, to set performance goals which are measured with year-end ratings feeding into salary and variable elements.

With regards to training and development, we invest in our people and provide study support for our investment analysts in terms of funding and study leave. In addition, the Partners provide specialist technical training sessions to the investment analyst team and additional training on Responsible Investing is also provided by Gordian Advice. All team members regularly undertake the regulatory Compliance training provided by MGIM.

As members of professional bodies (CFA and actuarial), the Partners are also subject to annual CPD (Continuing Professional Development) requirements.

We believe that continuous training and development enables to us to provide high quality client service.

We believe that through our collegiate approach, we have created an environment where each team member enjoys being at work, feels valued and is proud of the exceptional service that we deliver to our clients. In our recent staff survey, the team scored in the highest quadrant reflecting a team that is:

1. committed to the organisation and believes in what it stands for; and
2. willing to do more than what is required to help the organisation achieve its goals.

We also measured the wellbeing and resilience of the team in this survey, particularly as at the time, the team were all working remotely, under varying individual circumstances as a result of the pandemic. We were re-assured to learn that the team is "flourishing" which indicated that the team had adapted well to the new way of working, particularly given the uncertainty of the environment that we found ourselves in.

### Governance

The governance structure for MGIM is described in the **Investment Management Report - Principle 2.** Reena Thakkar, Managing Partner of Momentum ISC, is a Director of MGIM and a member of the Management Committee and the Responsible Investment Committee. Governance of Stewardship and related areas is considered both by the Board, the Management Committee and the Responsible Investment Committee. The implementation of MGIM's approach to Stewardship as it relates to investment consulting is delegated to the Momentum ISC team. Reena Thakkar heads up the Momentum ISC ESG team, and is supported by Henry Bowser (ESG investment analyst).

Within Momentum ISC the Partners head up the Manager Research, ESG and intellectual capital teams with dedicated analyst support as required. The Partners meet quarterly to discuss and agree the intellectual capital priorities for the team which is driven by what is most relevant to our client agendas. There has been a significant amount of focus on effective stewardship over the past year as this is an area that has been high on the agenda for all of our clients. In particular, we have been focussed on:

**Implementation Statements** – assisting clients with the production of implementation statements which explain how trustees have followed the policies set out in the Statement of Investment Principles, including those related to ESG, Stewardship and Engagement over the year. We worked with our clients to ensure the content and format was appropriate and visually appealing to members.

**Stewardship & Engagement report** – we produced an annual Stewardship & Engagement report for our clients which summarised information on ESG policies and processes, engagement and stewardship highlights and case studies across all investment managers in the policy over a consistent period of time. This has involved working with investment managers on the quality of their ESG and engagement reporting and how we would like to see this improved over time.

**Climate risks** – we have spent a significant amount of time with our clients this year training and advising them on the TCFD requirements. This has included providing support and advice to all pillars of the framework as well as assistance with project planning. The particular areas of the TCFD requirements where we have spent the most amount of time and resource this year is on the governance requirements, scenario modelling and metrics and targets. This is an area where we are investing further in our tools and capabilities to ensure that we can support and advise clients appropriately.

In summary, we are comfortable that the governance arrangements we have in place ensure consistency of philosophy across the broader organisation with sufficient delegation to ensure that Momentum ISC is able to direct its time and resources on the areas that are of most value to clients.

### Tools

We have a number of tools that we use to support our advice to our clients. In addition to our own proprietary tools, we have licensed a bespoke asset and liability modelling tool from Financial Canvas which provides us with a broad range of modelling and analytical capabilities to support our advice to our clients, including:

- stochastic asset and liability projections for longer term journey planning and risk budgeting
- assessment of interest rate and inflation sensitivities for liability hedging
- asset and liability cashflow analysis
- scenario analysis and stress testing

We have also developed a cashflow modelling tool in conjunction with Financial Canvas which allows us to project all asset cashflows alongside liability cashflows and to test these under a wide range of scenarios. This tool is particularly helpful in demonstrating the impact of fundamental risks such as price risk, reinvestment risk and default risk.

Our current focus is on integrating climate scenario modelling within our tools. We are reviewing a range of options and this is an area where we expect to make further investment this year.

### Fees

Our philosophy is to do the best for our clients and we treat clients fairly with regard to pricing. The majority of our clients have a monthly fixed fee arrangement. This is a genuine 'all-inclusive' fee and we would not expect there to be any activities that are not covered by this fee. Where items of work have not been anticipated, or where we have under-estimated the scope of review, we would deliver these items within the agreed fixed fee.

We take a long term partnership approach to our relationships with our clients, and have found that our clients are happy to have an open and pragmatic conversation on our all-in fixed fee if the scope of work has been over or under estimated.

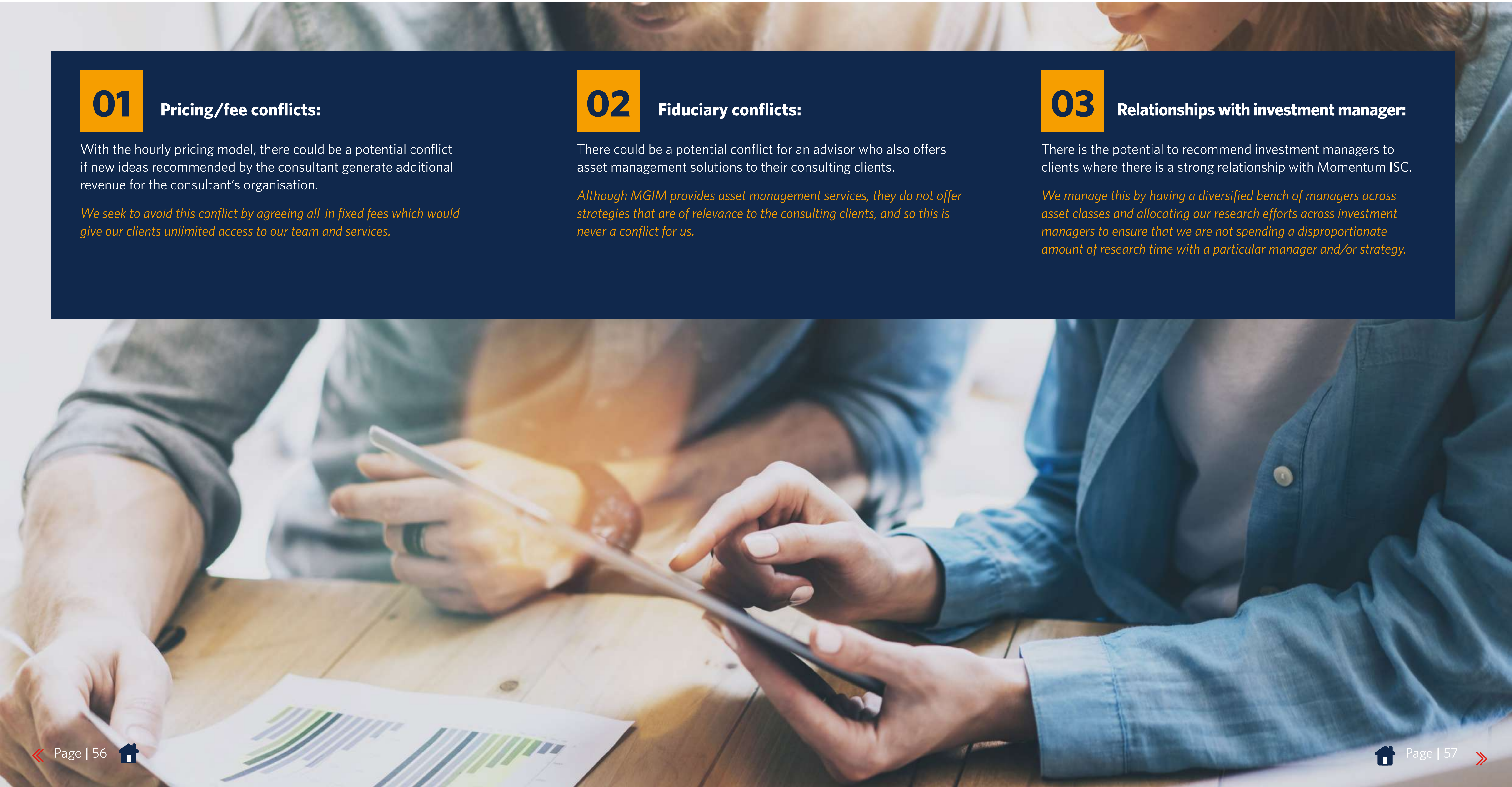
In addition, for some of our clients we have an annual discretionary performance-based element which is based on the client's assessment of the quality and quantity of work that has been undertaken by the investment consultant.

To demonstrate how our philosophy works in practice; at the start of the COVID pandemic, we proactively held a number of additional calls and meetings with our clients to provide our advice and reassurance during the heights of the market stress resulting from the response to the pandemic and to discuss potential opportunities. This additional work and the value add that we believe has been achieved was all absorbed as part of our fixed fee. We have taken a similar approach to the additional ESG and Stewardship related activities that we have carried out this year (described on the previous page) and have carried out this additional work within our fixed fee. This hands-on and proactive approach is typical of the value add and value for money that we believe we offer our clients.

# **Principle 3**
# Conflicts of Interest

MGIM's policy on conflicts of interest is described on in the **Investment Management Report - Prinicple 3.** This policy is communicated to all new members of staff when they join the company via the MGIM Compliance Manual and Staff Handbook. The manual requires that "clients' interests are put first and that employees disregard any other relationship, arrangement, material interest or conflict of interest which may influence any service which the company may provide to a client".

Within Momentum ISC, we have identified the following potential conflicts of interests:



## 01 Pricing/fee conflicts:

With the hourly pricing model, there could be a potential conflict if new ideas recommended by the consultant generate additional revenue for the consultant's organisation.

*We seek to avoid this conflict by agreeing all-in fixed fees which would give our clients unlimited access to our team and services.*

## 02 Fiduciary conflicts:

There could be a potential conflict for an advisor who also offers asset management solutions to their consulting clients.

*Although MGIM provides asset management services, they do not offer strategies that are of relevance to the consulting clients, and so this is never a conflict for us.*

## 03 Relationships with investment manager:

There is the potential to recommend investment managers to clients where there is a strong relationship with Momentum ISC.

*We manage this by having a diversified bench of managers across asset classes and allocating our research efforts across investment managers to ensure that we are not spending a disproportionate amount of research time with a particular manager and/or strategy.*

# Principle 4
## Promoting well-functioning markets

As investment advisors, we are typically the first port of call in terms of helping our clients navigate market-wide and systemic risks. The Partners have a wide range of experience of navigating clients through such environments, having worked through a number of such events including the dot-com bubble, the credit crisis and most recently the Covid pandemic.

As a team, we review market conditions on a weekly basis and discuss any material movements. Significant market movements would be discussed with clients and we cover this later on in this section in relation to the Covid pandemic.

### Market wide risks

Our approach to market wide risks is to ensure our clients have a deep understanding of the market risks that they are exposed to. We believe that it is of critical importance that clients establish well defined investment objectives. These should include both 'goals' (what the client is trying to achieve) and risk tolerances (what the client is trying to avoid). Our fundamental belief is that all investment risks should be understood and clearly link back to the investment objective. We also believe that unintended risks should be managed effectively and eliminated where possible.

We believe that market risks should be managed by:

- » Carefully considering whether any risk resulting from not fully hedging liability-related risks (interest rate and inflation risks) is justified by the potential reward available, and that this risk is scaled appropriately (relative to other risks such as credit risk and equity risk).
- » Ensuring that risky asset exposures are well diversified. We seek to diversify sources of risk and/or return rather than to simply focusing on diversifying capital allocations.
- » Diversifying across holdings within large mandates (e.g. investment grade credit) and diversifying across mandates for more concentrated portfolios to reduce the fundamental risk of loss from defaults.
- » Managing (or even completely removing) exposure to unrewarded risks. For example, we believe that non-sterling developed market currency exposure is an unrewarded risk for a UK institutional investor.

In terms of monitoring market-wide risks, we provide our clients with quarterly reporting that covers a range of risk reporting, including:

- » Portfolio volatility
- » Value at Risk metrics
- » Collateral adequacy monitoring
- » Counterparty monitoring

Across our clients we also carry out an annual review of cashflow requirements which looks to manage cashflow requirements for the next 5-10 years and ensure that there is no risk of being a forced seller of assets to meet cashflows.

### Climate risk

We monitor emerging risks as they arise, with the current focus being on climate-related risks. We have been assisting our clients implement the various requirements of the TCFD, including:

- » Constructing detailed project plans
- » Ensuring the appropriate governance arrangement are in place
- » Carrying out climate training for trustees
- » Scenario analysis
- » Collecting climate metrics from the investment managers to obtain a baseline position for each client
- » Ensuring metrics and targets are aligned with each client's ESG beliefs and investment philosophy.

To support the industry wide effort in this area we are a member of the Investment Consultants Sustainability Working Group, a body of 17 investment consultant firms with the aim of improving sustainable investment practices across the UK investment industry. As part of this, Reena Thakkar sits on the Steering Committee and Henry Bowser is a member of one of the workstreams.

## Case study : Covid-19

*Changes to working practices following Covid-19*

The team seamlessly moved to working remotely as a result of Covid-19. The infrastructure to facilitate this was already in place (e.g. laptops) as we had a flexible approach to working ahead of the pandemic. Client meetings moved to a virtual format and we have also undertaken a virtual recruitment process and onboarded a couple of new team members during the pandemic.

As a result of the market volatility early on, we proactively held a number of additional and more frequent calls with our clients to provide our advice and reassurance during the heights of the market stress resulting from the response to the Covid pandemic and to discuss potential opportunities. We also undertook more regular updates of our clients' policies to assess opportunities for rebalancing and once markets had started to settle, we were able to work swiftly with our clients to accelerate the move into fixed income asset classes when credit spreads were particularly wide. This involved numerous additional meetings and implementation activity, including arranging for investment managers to hold out-of-cycle dealing dates to allow for swift implementation.

We also held a number of additional calls and requested frequent updates from investment managers to understand the impact on client portfolios and in particular, any areas of distress, or concern.

The majority of our client appointments are on the basis of an all-inclusive fixed fee. However, this does not in any way deter us from taking on additional work or holding additional meetings with our clients as we expect that the level of work involved for any client will ebb and flow over a period of years. This additional work and the value add that we believe has been achieved from the timely policy changes was all absorbed as part of our fixed fee.

# Principle 5
## Supporting Client's Stewardship

Momentum ISC provides investment consultancy services to 10 clients. We have one client that we provide quarterly updates. All our clients are based in the UK.

The information below provides a breakdown of our clients and assets under advice.

**UK Pension Schemes**
- 8 Clients
- AUM (£M) - £37,700

**Corporate**
- 1 Client
- AUM (£M) - £750

**Charity**
- 1 Client
- AUM (£M) - £500

The team has been advising on the selection of investment managers across a wide range of asset classes for over 20 years. We believe that allocating to the right asset classes, and structuring mandates in the right way is far more important than the selection of the managers to be used. Nevertheless, we recognise the need to appoint and retain high quality investment managers.

Our approach to manager research is centred around our clients. Our first job when we take on a new client is to get to know their managers extremely well (if we don't already), both in terms of the nuts and bolts of the underlying strategy and more importantly, how the strategy fits in with their broader investment objectives.

Once we know our client's managers well, we focus on complementary strategies that are most likely to be of interest to our clients. Our clearly defined investment philosophy helps us to quickly identify those managers and strategies that are likely to appeal to us and our clients.

We undertake deep research on a focussed universe of managers rather than attempting to cover the full universe of available strategies. We have a well-defined selection and rating review process. At a high level our research process consists of:

» **Desktop research:** We ask each manager to complete a comprehensive due diligence questionnaire which we supplement with additional strategy specific materials produced by the investment manager.

» **Due diligence:** We carry out further research using desktop analysis to analyse a manager's written submission, together with supplemental analysis covering other relevant factors such as capacity, fees and style analysis.

» **Onsite meetings:** We carry out face-to-face meetings with key investment team members to gain further insight and understanding of a particular strategy, and to test the manager's stated philosophy, process, etc.

» **Assign rating:** We will only consider assigning a formal research rating view when an investment strategy proposition is sufficiently well understood and documented.

The main areas covered in our manager research process can be categorised into broadly 8 areas:

1. Organisation and business
2. Team and resources
3. Investment philosophy
4. Investment process
5. Risk management
6. Compliance
7. ESG
8. Performance

### ESG factors

We believe that ESG factors are an important component of long-term risk management, and are therefore integral considerations for any long-term investor. As part of our research process we seek to understand how ESG issues are incorporated into the investment process and the relative importance that is placed on ESG issues when selecting individual investments. We also review the following for each manager:

» Managers stated policy in this area;

» How ESG issues are incorporated within the investment process;

» Responsibility for ESG issues, resources dedicated and experience of the team;

» Integration of ESG resources with the portfolio management team;

» Manager's voting policy, including disclosure of voting to clients and whether ESG activities have influenced company behaviour; and

» Manager's conflicts of interest policy, including how conflicts are identified and managed.

To test a manager's stated policy, we ask managers to provide specific case studies to highlight how ESG factors have been incorporated, and where these have impacted an investment thesis (both positive and negative). We also ask managers to provide examples of their detailed investment research notes for particular investments, so that we can evidence all of the stages of due-diligence, including the incorporation of ESG factors.

Whether or not ESG factors influence asset allocation are dependent on client's objectives. On the whole, ESG factors are taken into account in manager selection, research and monitoring rather than influencing the strategic allocation.

To enhance our reporting to clients in this area, this year we produced a Stewardship & Engagement report for clients which covered detailed reporting on each of their investment managers with respect to Stewardship & Engagement. Some examples of this reporting has been included in the following pages.

# Principle 5
## Case Study: Reporting

The examples that follow are an extract from the Stewardship & Engagement reporting that we have provided to our clients over the past year. The reports provide a comprehensive overview of each manager's approach to ESG and provides an overview of engagement activity, priorities, stewardship metrics and case studies. This has involved working with investment managers on the quality of their ESG and engagement reporting and how we would like to see this improved over time.

### Case Study: Global Equities

The manager manages a global equity mandate on behalf of one of our clients. The manager is also a signatory to the UN PRI and 2020 UK Stewardship code. Detailed below are some of their engagement highlights over 2020.




*Supporting Client's Stewardship*

# Principle 5
## Case Study: Reporting

**Engagement Priorities**

We have not agreed a set of engagement priorities with our clients. Instead, we have collated this information across our investment managers and have looked to identify consistent themes and trends. In particular, it has been noted that climate change was typically in the top priorities across investment managers.

An example of the information that is collected from managers is shown opposite. This particular case study illustrates the manager's engagement priorities over 2020. This is used to compare and contrast approaches within asset classes and to challenge managers on their actual activity

In particular, 43% of their engagements have been linked to one or more of the UN Sustainable Development Goals.

The SDG's most frequently addressed were:


### Case Study: Global Equities

| | | |
|---|---|---|
| **Environment** | Climate change | Frequently |
| | Natural resource use/ impact (eg water, biodiversity) | Frequently |
| | Pollution, Waste | Frequently |
| **Social** | Conduct, culture and ethics (eg tax, anti-bribery, lobbying) | Occasionally |
| | Human and labour rights (eg supply chain rights, community relations) | Occasionally |
| | Human capital management (eg inclusion & diversity, employee terms, safety) | Frequently |
| | Inequality | Occasionally |
| | Public health | Occasionally |
| **Governance** | Board effectiveness (eg diversity; independence, oversight) | Frequently |
| | Leadership - Chair/CEO | Occasionally |
| | Remuneration | Frequently |
| | Shareholder rights | Occasionally |
| **Strategy, Financial & Reporting** | Capital allocation | Frequently |
| | Corporate reporting (eg audit, accounting, sustainability reporting) | Occasionally |
| | Financial performance | Occasionally |
| | Firm strategy/purpose | Occasionally |
| | Risk management (eg operational risks, cyber/ information security, product risks) | Frequently |

# **Principle 5**
# Case Study: Reporting

## Case Study: Plastic Packaging

The manager is a long term member of the loan syndicate for this plastic packaging company, and were strong and early supporters of an amendment to the pricing structure to incorporate an ESG pricing ratchet. Therefore they believed it important that they were part of the discussions. Support of a sustainability-driven margin ratchet aligns with their ESG policy, conducive to investing companies supportive of the UN SDGs.

The manager worked with the sponsor and borrower on a sustainability linked margin ratchet. On call with sponsor and management, they discussed green KPIs and a methodology that would drive a new sustainability-driven margin ratchet, whereby the company will adjust its cost of debt by +/- 5 basis points based on missing / hitting green targets. The company is the first sponsor-backed loan issuer that has launched such an initiative in the European market.

The manager facilitated and invested in the first institutional term loan with interest payments directly linked to ESG factors. This has set a record by creating the first institutional term loan with interest payments directly linked to ESG factors. The manager was involved ahead of the broader loan syndicate, and provided early support and feedback for the initiative.

The engagement was a success and they continue to monitor opportunities to engage to bring about more loan arrangements where economic and sustainability objectives coincide.






# **Principle 5**
# Case Study: Reporting


## Case Study: Tobacco

The manager has been engaging with a tobacco company, on the issue of child labour in their agricultural supply chain since 2019.

This is a complex issue, given the manufacturers of consumer products very often do not have visibility into or direct control of farm-level practices, several layers down the value chain. It is further exacerbated by the lack of appropriate social infrastructure in lower-income emerging markets that produce many of the crops going into everyday products sold by multinationals.

The manager believes the companies' primary focus should be on enhanced monitoring and an independent, publicly disclosed assessment of labour conditions in their supply chains. This should in turn enable corrective actions and better inform their stakeholders.

When they first engaged with the company on the topic, they compared the company's reporting on and strategy to eliminate child labour to those of their closest peer, and found a lower level of disclosure and limited direct collaboration with independent third parties (such as supply chain auditors and human rights NGOs). They gave constructive feedback to the company to help improve its practices.

Soon after the manager's most recent engagement, the company published their first ever human rights report. Among other topics it included improved disclosure on incidences of child labour on supplier farms, as well as a summary of results from the first set of country-level human rights impact assessments conducted by independent experts. The company outlined some of their actions in response to issues uncovered by these assessments.

# **Principle 5**
## Case Study: Driving Change

We recognise that we are able to influence investment managers through the work we carry out on manager selection, retention & monitoring. However, we also recognise that client feedback and engagement has a much greater impact. One of our preferred managers for multi-asset credit had elected not to become a signatory to the UN PRI. Although ESG factors were integrated into the investment process, there were business specific reasons why they had adopted this approach. For one of our clients, ensuring that all managers are signed up to the UN PRI is a key area of focus. We supported our client in putting pressure on this investment manager to sign up to the UN PRI. Following pressure from us and from the client over a number of meetings, the manager did sign up to the principles in July 2019, citing our client as being one of the main reasons behind this. Furthermore, the manager has commented on the significant benefit and learning to them as an organisation as a result of committing to the principles.

In general, we have found that investment managers are receptive to these dialogues and often it's a resource issue internally that needs to be solved rather than any change to the way in which ESG is integrated throughout the manager's process.

# Principle 6
## Review & Assurance

We pride ourselves on setting a high bar for all the investment activities we carry out, including in relation to Stewardship, and ensure that we have policies and processes in place to deliver on this. Further, in compliance with the Senior Managers and Certification Regime (SMCR), MGIM certifies individuals as competent and capable to perform their role and to demonstrate this; that individuals act with integrity and honesty; and are accountable for their competence, capability and financial soundness.

We assess the quality of all the services we provide to our clients both quantitatively and qualitatively.

### Quantitative assessment

We monitor the progress of our clients' strategic asset allocation against their objectives on a quarterly basis and seek to quantify and explain deviations from the target. Over the long term, whether or not the strategic asset allocation has achieved the client's objectives is the ultimate measure of quality with regards to strategic asset allocation.

With regards to Stewardship, this has historically been a qualitative assessment but there is increasing amounts of quantitative data on ESG and carbon reporting specifically that is becoming widely available. Our approach is to ensure that we fully understand the narrative behind the data which is particularly important in relation to ESG and climate reporting as incorrect conclusions can be drawn from simply relying on data.

### Qualitative assessment

Given the inherent challenges with any quantitative assessment, we believe a qualitative framework is generally more appropriate. In our experience this can vary from a formal assessment that is carried out periodically to an informal assessment which is ongoing. Where clients undertake a more formal assessment of performance, they typically focus on the following areas:

» Is the advice proactive rather than solely reactive?

» Is the advice clear, easy to understand and logical?

» Is it clear how the advice fits in with the Trustee's wider strategic objectives?

» Has the advisor taken into account the different perspectives of various stakeholders within the Investment Committee and Sponsor?

» Is the advice comprehensive, covering the pros and cons, the additional benefits to the overall policy and does it include a clear recommendation?

» Has the advice considered any relevant ESG considerations?

» Is the advice delivered in a timely manner?

» Does the advice and service represent value for money?

With regards to Stewardship reporting, we have significantly expanded the amount of reporting that we are providing to clients in this area, as demonstrated under Principle 5. In our view, our stewardship reporting is fair, balanced and understandable. In terms of evolving this reporting, we will be making significant progress with regards to climate risk reporting over the next 12 months as we prepare our clients to produce their first TCFD reports.

In terms of an independent assessment, in 2020 our clients participated in an independent annual Investment Consultant quality survey. The results were extremely positive with Momentum ISC scoring highly against our peers in a number of categories.

# Stewardship Signatures

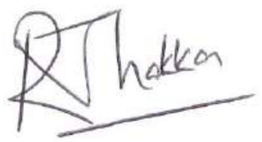
The MGIM annual Stewardship Report for the year ended 30th June 2020 was reviewed and approved by the MGIM Manco who consider it to be a complete and accurate report on how we have applied the principles of the Code over the period.

**Ferdi van Heerden**
**Chief Executive Officer**

**Elaine Smith**
**Chief Compliance Officer**

**Andrew Hardy**
**Director of Investment Management**

**Reena Thaaker**
**Director**





***"At Momentum Global Investment Management our values make us who we are – they strengthen and define our actions in all we do, in how we engage and specifically in our goal and commitment to be a responsible investor"***

Momentum Global Investment Management Limited
The Rex Building, 62 Queen Street
London, EC4R 1EB
+44(0)20 7074 3579
www.momentum.co.uk