momentum
global investment management

# Stewardship Report

2024

UK STEWARDSHIP CODE

*With us, investing is personal*

# Contents



**Asset Manager/Asset Owner. **Service Provider*

# Foreword

**Jonathan Barnard**
**acting Chief Executive Officer**

2023 was a challenging year for investors, throwing up various challenges such as rising inflation and the consequential rise in interest rates, increasing global geopolitical tensions, and bank failures – to name a few. At Momentum Global Investment Management (including Momentum Investment Solutions & Consulting) we have a consistent, thorough approach which, together with fostering a strong, collegiate culture, helps us protect and grow our clients' capital, in spite of these headwinds. Against this backdrop, the importance of strong and effective stewardship practices become particularly apparent and, as this report demonstrates, we have implemented and strengthened our practices during the course of the year in order to continue to assist our clients to achieve their longer-term financial outcomes.

We have clear values that set the tone in the business and define our culture. Our values make us who we are – they form the compass for our actions and engagements with all our stakeholders, including clients, financial advisers, shareholders and staff. Our multi-asset funds team follow an outcome-based investment philosophy which underpins everything we do, striving to increase the probability of achieving targeted outcomes whilst making the investment journey as smooth as possible. This journey requires deep understanding, analysis and monitoring of both quantitative and qualitative factors, and environmental, social and governance factors are increasingly being taken into account as part of this assessment.

We believe that the most effective responsible investment (RI) strategy is implemented via ESG integration and engagement rather than through extensive exclusions and divestment; the best way to drive change and act as good stewards of our clients' capital, is to 'have a seat at the table'. Across all of our third-party, direct investments and advisory portfolios we assess these practices, with the aim to mitigate material ESG risks and, in some instances, look for ESG opportunities. This strategy is most apparent via our sustainable funds, including the Momentum Global Sustainable Equity fund, launched in October 2020, which has well-defined sustainable objectives, as well as a financial return target.

Over the course of the year, we enhanced our stewardship and responsible investing approach. We added our first dedicated RI specialist to our multi-asset funds team, who has proven to be a valuable addition in driving and co-ordinating our efforts in the space. It is important to highlight, however, that sustainability has always been a team effort; this report was written by nine members of the investment team with input from others, demonstrating that we believe in an integrated approach, not one where stewardship and sustainability is outsourced and far-removed from our investment team and processes.

Some areas where we have made notable headway in 2023 are in formalising our existing RI due diligence research process, formally including our portfolios in our parent company's UNPRI response, reviewing and updating our RI policies, formalising our partnership with one of the world's leading sustainability specialists (Robeco), and creating a RI working group in order to maintain momentum in meeting our ongoing objectives. As we look ahead, some of the areas that we continue to evolve are around carbon emissions reporting for certain portfolios, increased voting efforts, and more active engagement with third party fund managers where we identify weaknesses in their RI processes.

We have reflected on our previous outcome letter, where the FRC identified areas where our response meets expectations and areas where our response needed improvement. We have taken significant steps to address the FRC's feedback in this submission. We trust that this report will help to demonstrate not only our sincere intent, but also our committed execution of our stewardship responsibilities as an investment manager and investment advisor.


# Introduction to Momentum

Momentum Metropolitan Holdings Ltd (MMH) is the parent company of our UK capabilities (MGIM, MISC, CAIM). Based in South Africa, MMH is one of Africa's largest life insurers and integrated financial services companies and is listed on the Johannesburg Stock Exchange. Maintaining the culture, flexibility and creativity of a boutique, MGIM benefits from the resources and stability of belonging to a larger corporation.

Our UK business has two legal entities and three distinct business lines:

1. Momentum Global Investment Management (MGIM), a legal entity and the brand for our core investment management capabilities based across London and Liverpool;
2. Momentum Investment Solutions & Consulting (MISC), our investment consulting business based in Windsor, which is part of the MGIM legal entity; and
3. Crown Agents Investment Management (CAIM), a specialist investment manager, is a separate legal entity, wholly owned by MGIM since 2023. The team is based in our London office.

MGIM are a discretionary manager of single asset or multi-asset class portfolios, which are predominantly invested via third party managers, with the remainder invested in direct securities. Investments in third party managers are generally via segregated accounts and pooled funds.

Direct investments are generally limited to listed equities, closed ended investment trusts and high-grade government and corporate bonds. In addition, the Momentum Africa 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, available for institutional clients. Here, we invest directly into property assets.

MISC, our investment consulting business, was established in 2015 by a team of specialists to provide independent advice to UK pension schemes and other institutional investors. This team, led by three partners who have a collective experience spanning 65 years, covers all aspects of investment consulting including strategy, risk management, liability hedging, manager selection, operations management and governance.

CAIM are a specialist investment manager, predominantly managing fixed income portfolios on behalf of institutions, particularly official institutions, globally. The investment team comprises seven people. The business is supported by certain MGIM units but targets a client base and investment strategies that differ from MGIM's. CAIM is a separate legal entity, wholly owned by MGIM.

Each of our teams integrate our company's core values of accountability, integrity, excellence, teamwork, innovation, and diversity. At MGIM, we pride ourselves on being strong supporters of global best practice and developments in terms of sustainability.



## Report Scope

In previous years, we have submitted two separate reports for the MGIM and MISC business areas, but on reflection we have decided that a combined report is more in line with our business practices.

Therefore, this report adheres to both the Principles for Asset Owners and Asset Managers (because we are an asset manager), and the Principles for Service Providers (because we are an investment advisor). We have provided separate reporting for MGIM and MISC on Principles 5 and 6, but other applicable Principles cover both areas.

CAIM remains a separate legal entity, although they are supported by various business functions within MGIM, such as compliance. Their investment process, clients and asset class mix is separate to that of MGIM. Therefore we have referenced them within relevant sections, such as when discussing board composition, but for the majority of this report, they are excluded. For clarity, the information in this report is not applicable to CAIM unless they have been explicitly referenced.

***In summary:***

- Sections 1-4 are applicable to MGIM and MISC.
- Section 5 is applicable to MGIM, however MISC is briefly discussed.
- Sections 5a-6a are applicable to MISC only.
- Sections 6-12 are applicable to MGIM only.

# MGIM at a Glance

**Established in the UK in 1998**

**21 investment specialists, with an average of more than 16 years of investment experience[1]**

**£6.8bn Assets Under Management[1]**
*MGIM - £4.5bn/CAIM - £2.3bn*

*26% Multi-asset*

*35% Equity*

*38% Fixed income*

*1% Property[2]*

**£16bn Assets Under Advice**
*MISC[3]*

**Institutional Investors**

**Financial Advisers**

**Individual Investors**

*[1]as at 31 Dec 2023. [2]Momentum Africa Real Estate Fund (MAREF). [3]MISC - Momentum Investment Solutions & Consulting.*

## 3 UK offices


## Core values

Accountability

Integrity

Excellence

Teamwork

Innovation

Diversity

### Our Investment Philosophy

At Momentum, we have leveraged our investment expertise and resources to deliver a truly focused outcome-based investment philosophy. The philosophy is both simple and compelling in taking clearly defined steps in asset allocation, risk mitigation, and investment selection to increase the probability of delivering the investment outcome over a defined time horizon. Our aim is to smooth the investment journey towards the outcome and in doing so keep clients invested across all market conditions.

### Sustainability initiatives we are part of

Signatory of: PRI Principles for Responsible Investment

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

### Award winning

INVESTMENT WEEK INVESTMENT MARKETING AND INNOVATION AWARDS 2023 WINNER Best Blog or Blog Series

INTERNATIONAL ADVISER GLOBAL FINANCIAL SERVICES AWARDS '21 WINNER INTERNATIONAL FUND MANAGEMENT GROUP – SMALL

INTERNATIONAL INVESTMENT AWARDS 2020 WINNER BEST INTERNATIONAL FUND GROUP

# 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.***

## Who we are

Momentum Global Investment Management Limited (MGIM - including MISC) 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, outlined below, remain our foundational pillars:

- Accountability;
- Diversity;
- Excellence;
- Innovation;
- Integrity; and
- Teamwork.

These pillars strengthen and define our actions in all that we do, including how we engage and specifically in our goal and commitment to be a responsible investor.

Momentum Metropolitan have outlined a 'Reinvent and Grow' strategy, which is applicable across the whole business and sets out clear, ambitious and measurable targets. 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-rated 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 focuses on delivering the target outcome that each portfolio is designed to return, helping investors satisfy their life/spending goals. These are typically expressed as real return target objectives to be achieved over a minimum recommended holding year period, and 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 (global, UK, regional and style oriented), fixed income, 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 most 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.

### What responsible investment means to us

Responsible investing forms part of our core beliefs at Momentum. We want to help people grow their savings, protect what matters to them and invest for the future; to realise their financial goals. Sustainable and responsible investment practices are material factors underpinning investment outcomes for our clients, and are key to our long-term success as a business.

***"We believe that by investing responsibly and in a long-term sustainable manner, our clients can experience a higher quality investment journey, mitigating the risks to invested capital associated with poor governance, social irresponsibility and environmental disregard"***

As stewards of our clients' capital, we need stable, functional and well governed companies and financial ecosystems to deliver on our long-term targeted client investment outcomes in a consistent and sustainable manner. We fundamentally believe that environmental, social and governance (ESG) risks and opportunities are relevant to the overall performance of investments and that a focus on long term sustainability should be engrained in all processes and functions across our business, where possible. From an investment management perspective, this means we take ESG factors into account when making investment decisions. 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 other financial and economic aspects relating to the investments we make.

Outside of our sustainable product range, we do not overtly pursue an "Environmental" or "Green" investment approach, but we do 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 investors, the economy, society and the planet. Where appropriate, we look favourably on the allocation of capital towards issuers (companies and investment vehicles) that explicitly seek to counteract harm done to stakeholders arising from ESG factors.

### Resources and oversight embedded across MGIM

We have a well-resourced and highly experienced investment team, numbering over twenty people in the UK, that operates as one unified research and investment engine with a consistent philosophy and process across our investable universe. In addition, the MISC team undertakes its own research to address client specific requirements but leverages the expertise of the UK investment team where appropriate.

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. This creates valuable perspective via a holistic approach 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 high standards of stewardship across all our portfolios, and to implement new or evolving responsible investment policies as appropriate.

In the UK we have one dedicated responsible investment specialist who oversees the broader team's commitment to sustainability and engagement. The considerations of close relationships with our third-party managers and investee companies have always been integral to our investment approach. The team also benefits from the support of three dedicated ESG professionals within Momentum Investments in South Africa.

Our Responsible Investing Committee provides guidance, support and oversight for the investment team in integrating ESG best practices across all MGIM portfolios. Additionally, a Responsible Investment Group, led by MGIM's responsible investment specialist and comprising various members of the investment team across asset classes and offices, meet regularly to discuss RI objectives and implementation of various sustainable initiatives.

Principle 1
Principle 2
Principle 3
Principle 4
Principle 5
Principle 6a
Principle 6
Principle 5a
Principle 7
Principle 8
Principle 9
Principles 10 & 11
Principle 12

## *Principle 1 Cont...*

### ESG factor integration and active ownership at MGIM (including MISC)

The majority of MGIM's assets under management are invested via third party managers although we also invest directly into listed equities, investment trusts, SSA bonds and investment grade bonds. ESG factor analysis and active ownership forms part of our research process across all types of investment, albeit in different ways and to varying degrees. Further detail can be found in later dedicated sections but at a high level we incorporate ESG considerations as below across MGIM:

1. A considerable amount of capital is allocated to 3rd party managers, both in segregated mandates managed on Momentum's behalf and also in pooled investments (mostly UCITS funds). Typically, ESG considerations will be analysed and documented in a research note which will incorporate ESG data (such as Sustainalytics, Morningstar, Bloomberg etc) and responses from fund managers (via meetings and our proprietary responsible investment questionnaire). Third party managers will typically vote on our behalf and provide voting reports periodically. We might query more deeply on specific line items, but typically the external manager will be closer to the investment and in a better place to make the decision around voting.
2. For direct equity investments, the portfolio managers will take ESG factors into consideration as appropriate to the mandate. We maintain an engagement register to record interactions with management, including engagements on ESG topics, and we can and do exercise our voting rights when we believe it is beneficial to do so.
3. Where debt investments are made into a company, we will analyse ESG data points via Bloomberg, Sustainalytics, Morningstar etc. There is typically less scope to act on ESG considerations through the lack of associated voting rights which do accrue to equity owners. Fixed Income portfolio managers can and do still raise ESG matters at face-to-face meetings with issuers, and can of course choose not to participate in upcoming issues if they feel not enough is being done to improve the ESG credentials of that company, but these instances are rare.

### Client outcomes

Our primary measure of effectiveness in serving the best interests of our clients is through performance outcomes. These are regularly reviewed at quarterly Board and Product Governance Committee meetings, as well as monthly management committee meetings. We target outcomes linked to a hurdle above the cash or inflation rate in the relevant currency over appropriate medium term investment horizons. Although markets recovered in 2023 from the great rate reset of the prior year, elevated inflation has still made it challenging to outperform in real terms, although most strategies made positive absolute returns. We continued to be successful in dampening volatility through asset class diversification and strategy selection, in many cases outperforming peers over the past year. We have clearly and openly communicated the drivers of performance to clients, and have provided support to the advisers using our solutions to help them keep their clients invested.

The relatively new addition of sustainable funds and models across our product range has led to us developing better ESG reporting and analysis for these solutions, something which we are looking to extend to our other solutions as we incorporate ESG considerations more holistically across our business.

We believe reporting sustainability related portfolio improvements in real world terms, such as the below for our Momentum GF Global Sustainable Equity Fund, will help create better client and sustainability outcomes.

**22.5% BELOW**

**WATER USE**

*M3/mUSD invested 4,889.0 compared to 6,307/9*

**GREENHOUSE GAS EMISSIONS SCOPE 1&2 BELOW 21.5%**

*tCO2eq/mUSD invested 41.0 compared to 52.3*

**WASTE GENERATION 22.3% BELOW**

*Tons/mUSD invested 23.5 compared to 30.3*

### Examples of how our purpose and investment beliefs have guided our stewardship, investment strategy and decision-making:

**01** In 2022 we launched an Article 8 Luxembourg UCITS fund (Harmony Portfolios Sustainable Growth Fund) for international investors which has grown to $10m in size. We also offer three sustainable model portfolios (our 'sMPS' offering) for the UK market, to meet the needs of clients who have more stringent requirements around ESG related factors.

**02** We continue to add third party funds that offer superior sustainability metrics and/or active management processes. During 2023 we added the iShares Euro Govt Bond Climate UCITS ETF to our government bond allocation and we are currently researching a gold ETF that adheres to stricter rules around responsible sourcing of the commodity.

**03** During the last year we have made the Momentum GF Sustainable Equity Fund more bespoke and stringent in terms of its ESG credentials. Previously it was more of an off the shelf offering from our partner, Robeco, but has now been customised to serve our clients. The carbon reduction target relative to the benchmark has been increased and exclusions based on companies' impact on the UN Sustainable Development Goals have been introduced, to improve the overall sustainability of the portfolio.

We also survey our clients annually to get their opinions on how we are doing. There are no ESG or RI specific questions within the questionnaire however, which is something that we are looking to include in the 2024 survey.

Our latest survey was completed in June 2023 and the summary results were:

Number of respondents increased from **159 to 208** *(in 2022)*

**94%** of respondents rate our responsiveness as helpful

**92%** of respondents were satisfied or very satisfied with client service

The percentage of respondents who would recommend MGIM to their colleagues was very high at **91%**

## *Principle 1 Cont...*

### Initiatives outside of the investment team

A few years ago MGIM established a Responsible Living Committee within the business. Rather than being investment led, this is a broader group with representatives from across the business, whose mandate is to encourage more sustainable practices within our own business. The impact of lockdown meant that this initiative was put on hold however, during 2023 we revived the committee and identified several areas of focus, including:

- Improving waste management in the office including educating the office on proper recycling methods.
    - Email communication sent with educational links.
    - Waste management expert providing a talk on how to recycle effectively.
- Reducing the use of plastic in the office as far as possible.
- Discouraging printing and encouraging the use of electronic meeting packs.
- Encouraging travel via train (instead of aeroplanes) or VC usage where possible.

### Additionally, at the business level, MGIM:

- Has taken the decision to cease issuing business cards, instead providing a QR code link to the corporate website which links to the individual's contact details.
- Separates office waste into general, recyclable and food bins.
- Provides on-site bike storage alongside a subsidised cycle-to-work scheme to encourage employees to cycle to work.
- Have increased the number of virtual client and research meetings (in place of face-to-face).
- Has introduced education opportunities for the whole business, such as newsletters, talks, tools and events to encourage employees to consider change in their personal/home life as well as at work.

### Acquisition of Crown Agents Investment Management (CAIM)

During 2023, MGIM acquired CAIM, a specialist investment manager that manages foreign exchange reserves on behalf of central banks globally. This acquisition has brought additional headcount and expertise into the investment team.

93% of CAIM's assets under management are invested in fixed income, predominantly in G3/G7 sovereign debt instruments. Currently, they do not integrate ESG factor analysis into their research process and we recognise that this is difficult given the nature of the assets and their client-base. That being said, going forwards we are looking to include a quantitative ESG factor analysis in the process, which they will be able to use in their assessment alongside other factors, and also discuss with clients. ESG factors will unlikely form a significant part of the investment case for these assets but this could help to initiate conversations with clients.

The remainder of the assets are invested in multi-asset solutions, including passive equities ETFs, investment trusts and eleven direct listed UK equities. The team use ProxyEdge to vote the majority of resolutions for the listed UK equities in the portfolio. ESG factor analysis has not been integrated into the research process but we will look to increase alignment with MGIM's processes going forward.


# Principle 2 - Governance, Resources & Incentives

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

## Stewardship oversight

The following groups are responsible for general oversight of business practices, including stewardship activity across our UK businesses (MGIM, MISC and CAIM):

- The MGIM Board comprises four executive members and four 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 MGIM Management Committee (ManCo), comprises the four executive directors along with other senior managers within the business, and which co-opts other relevant members of staff as appropriate. The ManCo meets formally every quarter.
- The Responsible Investment Committee (RIC) comprises nine people with representation across Momentum Investments. The RIC meets formally every quarter. More information on the RIC is provided below.

Governance of stewardship and related areas are 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 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. 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 seven portfolio managers and fifteen other members.

## Responsible Investment Committee

MGIM's parent company, Momentum Metropolitan Holdings Limited, has a long history of focusing on sustainability, integrated into the philosophy in the company. The Group have been signatories to the United Nations Principles for Responsible Investment since 2006 and established a Responsible Investment Committee (RIC) in 2016. The RIC provides oversight and guidance around sustainability and responsible investment topics.

Some of their responsibilities include:

- Providing oversight of RI practices and related policies and guidelines of MGIM and the Group / parent company.
- Agreeing and defining the key responsible investment themes / goals in partnership with the Group, on an annual basis.
- Oversight of 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.
- Oversight of any material initiatives or developments in terms of RI and ESG/Climate change.

The RIC comprises nine voting members with representation from across Momentum Metropolitan Holdings Ltd (see overleaf). MGIM have one voting and one additional attendee on the RIC.

### RI Committee Members (voting members)

- Mike Adsetts - *MI CIO (Chairman)*
- Daleen Lessing - *Chief Risk Officer*
- Andrew Hardy - *Investment Director MGIM*
- Jana van Rooijen - *RI Specialist*
- Piet van der Merwe - *ESG Analyst*
- Godfrey Albertyn - *Portfolio Manager: Alternatives*
- Motlatsi Mutlanyane - *Head: Alternative Investments*
- Charlene Lackay - *Head of Sustainability*
- Rob Southey - *Head of Asset Consultants: Momentum Corporate*

In 2021, MGIM established a local Responsible Investment Committee, made up of six employees across the UK offices and three from the RI team in South Africa, in order to focus oversight on local requirements and regulation. The committee had oversight of the activities of the entire UK business, including fund management and investment consulting. However, at the beginning of 2023, the business took the decision to dissolve the local MGIM RIC because we wanted to ensure closer alignment with the rest of the business. Membership and input from MGIM employees on the RIC is sufficient in ensuring local client interests and regulation are factored into business level decisions and oversight of RI policies and procedures.

## Principle 2 Cont...

### MGIM RI Working Group

In 2022, MGIM created an ESG Priorities Group which comprised six members of the investment team. The role of the group was to drive responsible investment initiatives and priorities. In 2023, when our RI specialist joined (see detail in 'Investment Team' section below) this group was reorganised and is now called the Responsible Investment Group (RIG). The RIG is headed by our RI specialist and has representation across various teams (MGIM and CAIM), locations (London and Liverpool) and asset classes (equities, fixed income, direct investments, real assets, alternatives).

**Jade Coysh**
RI Specialist & Senior Analyst

**Gregoire Sharma, CFA**
Senior Analyst

**Tom Delic**
Portfolio Manager

**Matt Connor**
Analyst

**Simon Price**
Portfolio Manager

**Lorenzo La Posta**
Portfolio Manager

*The aim of the RIG is to:*

- Discuss the implementation and impact of RI objectives and initiatives, set by the RIC and MGIM, on the various different areas of the investment universe.
- Set RI objectives to be presented and agreed by the RIC, and then subsequently monitor the implementation of these objectives.
- Gather information and feedback from across the team on various RI objectives.
- Discuss sustainability topics that could impact our investment universe.

### Next steps

MGIM and the investment team, guided by the various groups and committees outlined above, are eager to demonstrate continuous improvement in our stewardship outcomes that we deliver for clients. Key areas of focus over the next year are:

- Continue to increase alignment with Responsible Investment practices across our portfolios and businesses.
- Continue to implement the formalised process around ESG integration into the fund research process.
- Improve ESG integration for investment mandates, specifically, around ESG integration, active ownership and (limited) exclusions.
- Review and improve our voting process, aim to produce high level reporting annually.
- Ensure we meet the new incoming requirements of SFDR reporting for our Article 8 ESG integrated funds in Luxembourg, with high quality and timely reporting.
- Successfully implement the guidelines outlined in the UK SDR regulation with support from other teams such as compliance.
- Increase awareness of key ESG risks and opportunities across the business and provide wider education opportunities to further embed sustainable practices in what we do.



### Stewardship Resourcing

The rest of this section is applicable to MGIM, and MISC where referenced.

*The Investment Team*

It is important to highlight the role that everyone within the investment team plays in ensuring that our RI policies are followed and that strong stewardship practices flow through everything we do. While other firms often choose to have separate ESG focused team members, we believe spreading that responsibility across the investment team as part of their ongoing research and monitoring, in combination with oversight from the RIC, is the more effective approach for our business.

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 third-party fund or direct investment, 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. Our research formally includes a view of investee companies' and funds' approaches to stewardship, including ESG integration and active ownership practices.

With regards to resourcing, MGIM hired a dedicated Responsible Investment (RI) specialist in March 2023 to formalise our processes, set and coordinate RI objectives, liaise across business units, coordinate initiatives, provide sustainability insights and support team development.

*Training and development*

The investment team attend multiple conferences and meetings that are dedicated to, or include sustainability/RI topics and this helps us stay abreast of current thinking and the impact on the investment universe. The investment team are required to complete an annual online training module centred around ESG topics, regulation and stewardship. They also keep abreast of responsible investment practices via extensive meetings with fund managers, RI specialists and company management teams. Our dedicated RI specialist has 13 years of industry experience, 5 of which include responsible investment responsibilities, and she has successfully completed the CFA Certificate in ESG investing.

Momentum supports employees in their pursuit of further education and development and there are employees who study specific topics that they deem to be important to both the business and their specific role. Within sustainability, one of MGIM's Business Development Consultants is studying a MSc Environmental Strategy, funded by the business, in order to deepen his academic knowledge of sustainable practices.

More generally, as part of our ongoing commitment to ensuring all employees have a base-level knowledge of RI practices, across the firm everyone has completed a high-level, ESG training module in the past 12 months. At a minimum we will aim to ensure that all staff complete at least one training module per year. We are also looking to leverage our partnership with Robeco, who have a long-standing philosophy underpinned by sustainability investing, to incorporate a training program for all matters relating to stewardship.

*Remuneration*

While the 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 RIC, as well as sustainability related activities being explicitly included in business and team objectives.

MGIM has a board approved remuneration policy that observes the FCA remuneration code principles, that is aligned also with that of our listed parent company. 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.

## *Principle 2 Cont...*

### Diversity and inclusion

As a firm, we are intent on fostering a diverse and equitable environment that is inclusive of diversity in thought, with a focus on gender diversity more specifically as medium-term priority.

Across the business 36% of MGIM is female (as at December 2023) and we have good representation on the Manco, with a 42/58% female/male split. Our Board comprises just 12% females and we have set an aspirational target of 40% representation of women on the Board by December 2025 in line with the FTSE 250 Boards and Executives industry target. More generally, we aim to improve representation across the entire employee population. During 2023 we made some progress within the Investment Management team, with a 4% increase overall, although we recognise that we need to do more to increase diversity in the team. We continue to be deliberate in our transformation focus, not only from a gender perspective but in representation more broadly.

### Responsible investment and sustainability reporting

In 2021, MGIM (including MISC) made significant progress in formalising reporting of our responsible investment practices via creation of a Responsible Investing section on our website where our RI policies are publicly available. The following RI policies, which are common across the business, were published:

- Responsible Investing policy
- Proxy Voting policy
- Engagement policy
- Climate Change policy

Our policies and processes surrounding RI are evolving and we continue to improve wherever possible in order to ensure best practice.

MGIM review policies on an ad hoc basis, and with the addition of a dedicated RI specialist in our London office and in anticipation of the Sustainability Disclosure Requirement (SDR) regulation, during 2023 (and into 2024), MGIM are reviewing all of aforementioned policies. To date, this resulted in minor changes to the wording of the Responsible Investment and Engagement policies. The Voting and Climate Change policies are under review.

### Tools

We have numerous resources available to support our stewardship related activity, including those listed below, which are used to varying degrees throughout our investment and portfolio management process:

- Morningstar / Sustainalytics and Financial Express: fund level data, for our own funds and those we invest in, including numerous ESG related datapoints and controversies involvement.
- eVestment Alliance: segregated account level data, covering a wide global universe of managers, including many we currently invest with, providing extensive holdings based and qualitative information to support our due diligence process.
- Factset and Bloomberg: corporate financial data and other fundamentals to support our manager due diligence, attribution analysis and asset allocation processes.
- Broadridge and Clarity AI: proxy voting and SFDR reporting services provided for our Luxembourg based funds. These are most relevant for our single asset class funds, where we appoint managers via segregated accounts instead of investing via funds, and therefore own securities directly meaning we can dictate voting decisions and provide more granular reporting.
- Proxy Exchange ISS Governance: proxy voting services. These are most relevant for our UK multi-asset range of funds.
- Third party manager relationships: we rely significantly on the third-party managers we appoint to help meet our stewardship and engagement potential with those companies we have indirect investments in. Our single largest manager relationship is with Robeco, managers of over EUR 200bn of ESG integrated strategies, who share significant research and resources with us that enhances our stewardship capabilities and activity.

Principle 1
Principle 2
Principle 3
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Principle 6a
Principle 6
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Principle 7
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Principle 12

# Principle 3 - Conflicts of Interest

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

**View our conflicts of interest policy here**

Principle 1
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Principle 12

The compliance policies and procedures detailed in this section apply to all of our UK businesses, including MGIM, MISC and CAIM.

### Conflicts of Interest Policy

We have in place a conflicts of interest policy that is 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 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."

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 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 ("PA Dealing 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.

To ensure that the above is achieved, all employees are expected to comply with the spirit and intention of the PA Dealing Policy, as read with the Compliance Manual and Staff Handbook.

Following the acquisition of Crown Agents Investment Management (CAIM), all new employees received the MGIM Compliance Manual and Staff Handbook and now comply with the PA Dealing Policy. All new staff members received training on a variety of compliance topics using an automated third party solution, with all satisfactorily completing the required testing that followed. Work is currently underway to align certain CAIM and MGIM policies across the business. The firm is also in the process of reviewing and enhancing its arrangements in relation to Conflicts of Interest, with the intention of launching a revised Conflicts of Interest Policy and Framework later this year.

### Identifying and managing conflicts

MGIM will always attempt as far as possible to manage any identified conflict of interest by imposing actions designed to mitigate the risk of any of our clients receiving unfair treatment.

Employees are required to be competent to identify conflicts which may arise in the conduct of their normal work responsibilities. Training on this policy forms part of the induction process for all new employees. All existing employees receive regular training and attend compulsory workshops on how to implement and adhere to this policy as part of the annual training provided by Compliance.

MGIM expects employees to act independently in the face of an identified conflict of interest that may arise between MGIM and one or more clients, and/or between clients.

MGIM requires all employees to report identified actual or potential client conflicts of interest to Compliance. Compliance will then give due consideration to the circumstances on a case-by-case basis, before determining if it is in fact a conflict of interest to be logged in the company's register of conflicts, and how best to manage it.

The register will be reviewed annually and will be utilised to update this policy as may be required. This policy and its updates will be distributed to all MGIM clients upon client take-on or as requested.

As a last resort, if the effective organisational and administrative arrangements are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of client will be prevented. MGIM will consider disclosing the conflict of interest to one or more affected clients in circumstances where this is merited. The decision on whether or not it is pertinent to make a disclosure to the client will be made jointly by the CEO and Head of Compliance. From the information provided the client should be able to make an informed decision.

## Principle 3 Cont...

### Examples of how potential conflicts of interest are managed and mitigated

| Potential Conflict | Mitigation |
|---|---|
| **Profits and losses incurred as a result of errors** | MGIM subscribes to the principle of compensating clients for direct financial losses suffered as a result of errors or breaches arising from negligent acts or omissions by its employees (or secondees, contractors, service providers etc.) in the performance of MGIM obligations under investment management and advisory agreements entered into by MGIM. |
| **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. |
| **Financial Promotions** | All documents and templates issued by MGIM to our clients and affiliated intermediaries are checked for accuracy to ensure that our communications are clear, fair and not misleading. |
| **Fee and cost disclosure** | MGIM fully discloses its fees applicable to its clients within its investment management and advisory agreements. |
| **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** | The purpose of the company's gifts and entertainment policy is to restrict and monitor the giving or receiving of gifts or entertainment which may appear to have the prospect of influencing the behaviour of the recipient in a way that may compromise the company's reputation or be in breach of FCA Rules. |
| **Segregation of key functions** | MGIM maintains 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. Moreover, investment management and dealing areas are properly segregated from one another, as with trading on the one hand and cash management on the other (e.g. reconciliation and settlement). Additional controls are instituted that are considered adequate for the size of our operations. Staff employed in regulatory oversight and review roles must have no operational responsibilities. |
| **Direct trading exposure** | MGIM are not authorised to deal as principal and will not directly trade with a client as counterparty. In its capacity as investment manager, MGIM always acts as an agent on behalf of the client. |
| **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. MGIM (excluding CAIM) are appointed as the oversight manager for SICAV clients. 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 the Compliance department should be notified immediately. The details will be recorded on a "restricted securities list" and a prohibition placed on dealing for clients. All requests for permission to place a trade for an employee's personal account are reviewed against the restricted securities list by Compliance. |
| **Multiple responsibilities for different entities and distinct interests** | All fund board members are bound by the relevant directors' code within the jurisdictions concerned and are expected to always act in the interest of the entity they represent rather than in the interests of MGIM. To mitigate this potential conflict, this policy predicates that all employees acting as board members are required to disregard the interests of MGIM as a management company and to make the interests of the entity for which they act as a director, their sole concern when making decisions. In cases where, in the opinion of the employee concerned, he/she is unable to act impartially and wholly in the interests of the entity concerned, such situation should be referred to the MGIM Compliance Officer to investigate and appropriately resolve in liaison with the Company's senior management. |

### Examples of how conflicts of interest were managed during the period

The investment team participated in four market soundings during 2023. In all cases information was kept on a need-to-know basis, and the individuals and companies involved were placed on an insiders list. Any personal account dealings were screened against that list and rules were introduced on our portfolio management system to prevent any trades being placed.

A member on our Board of Directors began a new directorship at a private equity company. Whilst no perceived conflict of interest was identified due to the firms not being in direct competition with one another nor sharing any clients, the potential conflict was identified and recorded as an outside affiliation on our Conflicts of Interest register.

MGIM purchased CAIM, which has a different business model, client base and risk profile. CAIM holds Client Money/Asset permissions, which MGIM does not, and this could have led to potential conflicts. Subsequently, both parties entered into a shared services agreement, that details which parties perform which services and segregation of duties, thus mitigating any detriment to current client services. For CASS services, the CASS Oversight Management Committee (COMC) was formed from members of both businesses and all levels. The committee ensures that oversight of CASS activities run smoothly and with no disruption to clients.

# Principle 4 - Promoting Well-Functioning Markets

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



This section refers to all UK business units including MGIM and MISC, but differences and business-unit-specifics are highlighted throughout.

### Risk oversight by the investment team

As a high conviction active manager, MGIM appreciates its responsibility to manage investment risk on behalf of our clients. Our fiduciary duty demands that this responsibility be undertaken with the highest standards of professionalism and governance. It means firstly we must appreciate the importance of a stable and well-functioning financial market to better serve clients and other stakeholders. Secondly, MGIM also understands its role in contributing to the long-term sustainability of financial markets and the wider economy by identifying and mitigating these systemic and market-wide risks. Both of these objectives are addressed by our investment process which seeks to leverage off MGIM's strong collegiate culture and the team's sense of identity relating to the businesses' core values: Accountability, Diversity, Excellence, Innovation, Integrity and Teamwork.

Our centralised investment process is set up to efficiently identify and react to systemic risks by ensuring adequate and focused coverage. The investment team consists of over twenty individuals with decades of experience across a broad range of diversified sectors and asset classes. The team is split into different working groups, each with a specific asset class focus, such that the entire market is covered from a market developments perspective, and also from a related investment peer group perspective.

The investment team discusses market wide and systemic risks in three formal reoccurring meetings and on an ad-hoc basis should the situation warrant it. As described below, each of these forums helps to cover these risks by specific asset class as well as identify which have a more direct, specific and short-term impact versus those that are more wider reaching and structural in nature. Through these various meetings, the investment team assesses arising and potential risks in macro-economics, geo-politics, market liquidity, as well as portfolio-specific risks, which can include ESG risks. Any concerns are discussed thoroughly, and depending on the outcome of the discussion, we will action or continue to monitor the risk, potentially with a higher level of scrutiny, if the team deems it necessary. The focus of each of these investment team meetings is detailed below and specific examples of market-wide and systemic risks identified throughout the course of last year are provided further on.

### *1. Specific Asset Class Workgroups*

The specific working groups, consisting of an average of three team-members, ensure detailed analysis of their assigned asset classes. Typical discussions will cover asset-class specifics and market-wide risks, as well as any idiosyncratic risks in the relevant securities held in portfolios or in the wider peer group. The subgroups meet on a regular basis for a more focused discussion on the developments in their areas and can include consideration of valuations, fundamentals, technical inputs, as well as any relevant developments that might impact portfolios in any way.

Any particular areas of interest or concern are then brought to the attention of the wider investment team through formal channels at weekly and quarterly investment meetings, or on an ad-hoc basis should this be warranted. For example, our fixed income credit sub-group, through their assessment of European financial credit asset class, were aware of Credit Suisse's reputational damage suffered through years of controversy and managerial turmoil well before the 2023 banking crisis. This helped us better understand the risks to different bonds in the Credit Suisse capital structure and position accordingly away from the firm's subordinated bonds which we saw as too risky, and together with targeted research around contingent convertible bonds ('CoCo's') they were able to better inform the wider team's portfolio positioning through the ensuing market volatility.

### *2. Weekly Investment Team Meeting*

The full investment team meets on a weekly basis to discuss any current developments or concerns that individuals or asset class workgroups may have. The various subgroups regularly present the latest news and analysis on their assigned asset classes covering fundamentals, technicals and valuations, as well as developments in the peer group that they monitor including useful information pertaining to relevant securities held in portfolios. This approach facilitates the sharing of information and points of views, and helps the wider team stay current on market-wide and systemic risks, which aids our client interactions and communications. All research and analyses are accessible to the team via our central research database (Momentum Analysis Database) and via dedicated Teams channels, and active challenge and debate is strongly encouraged.

Indeed, our investment team operates as a unified group, striking a healthy balance in combining specialisation with extensive collaboration and overlapping responsibilities, which avoids a silo-mentality. Examples of topics discussed in these meetings last year were the comparatively rich valuations of US equities driving underweights to the region across our portfolios, the attractive valuations case for European subordinated financial debt following the banking crisis last year, and the case for adding duration to portfolios at the end of Q3 2023 following the sharp rise in interest rates in developed market sovereign debt.

### *3. Quarterly Asset Allocation Meeting*

The entire investment team meets on a quarterly basis for a full day to assess and debate the medium- to long-term outlook for each asset class in our investment universe. The outcome of which is a series of scores that inform how our portfolios should be positioned relative to our Strategic Asset Allocation (SAA). The scores are made up of two 'sub-scores'; the first of which is an assessment of the asset class as a whole, based on internal 5 year expected returns models; and the second which is determined by the sub-asset class teams, and is based on the underlying investment holdings, taking into account valuation and other metrics including factors like quality, profitability, return potential, and qualitative considerations, like ESG and macro-economic factors.

Macroeconomics and longer-term risks are also discussed more generally in this forum. For example, the negative impact of demographics on Chinese economic growth, the impact of net zero carbon emission policies on capital flows in the listed infrastructure space, or the impact of artificial intelligence on productivity and global growth.

By taking a valuation-driven approach to asset allocation, having a multi-year and, at times, contrarian view on allocating to areas we believe are undervalued, we often go against the momentum in markets and exert a stabilising force in those areas and securities we invest in which we believe is key to the long-term sustainability of financial markets – a pre-requisite for which is a balance of views and participants.

## *Principle 4 Cont...*

Within the MISC team, market risks are formally assessed and reported to clients on a regular basis as part of our strategic monitoring of our clients' portfolios. Risk will also be assessed as part of any broader strategic review of our clients' investment policies. In developing client portfolios, we focus on diversifying sources of risk rather than simply diversifying capital allocations. We assess risk through multiple lenses including:

- Asset liability modelling (ALM) with models calibrated based on historic market volatility including stress periods such as the global financial crisis (GFC)
- Scenario analysis based on past historic risk events (GFC, Dot Com bubble, Eurozone sovereign bond crisis etc.)
- Liquidity analysis to understand how resilient client portfolios are to rises in gilts yields and the assets available to support our clients liability hedges.
- Cashflow analysis to assess the impact of higher-than-average default experience.

We have also worked with our clients to establish investment risk registers which highlight the key market risks they are exposed to and the controls in place to mitigate these. The risk registers are monitored at each client board/committee meeting (typically quarterly).

### Policy engagement

MGIM understands that contributing to the long-term sustainability of financial markets is not restricted to indirect inputs from portfolio construction, asset allocation and security selection. In addition to this, we also strive to engage directly with regulatory bodies, policy makers and various other industry participants to share our experience and views such that together we achieve the regulatory and policy environment that will best enable us to manage investments to the benefit of our clients.

Our compliance team review regulatory guidance and, from time to time, will provide feedback to regulatory bodies if they deem it constructive. For example, they recently engaged with regulatory bodies and other industry participants in response to the draft Consumer Composite Investments (CII) regulations.

Our RI specialist is a member of a responsible investor network called Virtuvest which brings likeminded professionals across the investment industry together to discuss sustainable and ESG investing topics. They hold regular roundtables to discuss a range of topics in which feedback is then collated and sent to the relevant body. The most recent roundtable on SDR was hosted at MGIM's offices and feedback from this discussion was provided to the FCA in a written and verbal format via Virtuvest.

A recent example of an MGIM-specific collaboration effort was the policy intervention to initiate legislative change on cost disclosures following the FCA guidance on implementing the PRIIPs and AIFMD regulations that Investment Companies be included in the aggregation of look through cost disclosure. Since 2022, MGIM has been liaising with a body of market participants (the action group), and in 2023 the matter was raised in both Houses of Parliament. This resulted in a Private Members Bill being tabled to remove Investment Companies from the legislation. Please refer to Principle 10/11 for full details of the engagement.

Where appropriate, the MISC team supports its clients in responding directly to relevant consultations for UK pension schemes. In most cases, rather than responding directly, our clients will encourage their key investment managers to respond to relevant consultations as these responses would represent a broader group of investors.

Participation in industry initiatives

- Signatory of the UN Principles for Responsible Investment (UNPRI): group signatories since 2006. MGIM & CAIM assets formally included from 2023.
- Signatory to the Task Force on Climate-Related Financial Disclosure (TCFD): Group level policy. MGIM also analyse third party fund manager processes in terms of TCFD reporting of underlying companies.
- Member of the UK Investment Consultants Sustainability Working Group (ICSWG) through representation in the MISC team.

### ESG risk assessment at MGIM

Regarding ESG risks, we prefer an active approach to security selection – either directly or through third party managers – because it provides an additional layer of analysis beyond the simplicity of passive investing, which generally has a minimal/zero engagement with issuers and minimal or sub-par ESG integration and risk mitigating processes. This contributes to effective price discovery and long-term capital support in, what we deem to be, best-in-class investments. Our active discretionary management style enables us to allocate capital to investments which contribute positively on E, S, and G metrics or conversely avoids investing in those that detract on those metrics. We invest in third party fund managers selected through a rigorous proprietary investment process, and also in companies directly (through stocks or bonds). Please see the section on Principle 7 which provides further detail on how we integrate ESG factor analysis into our investment process.

On the engagement side, we monitor and track engagement efforts of each direct equity holding in our portfolio. Concerning our third-party managers, we stringently assess their active ownership practices, and are therefore comfortable in delegating the engagement responsibility to the extent that we are aligned with and have positively assessed their investment and engagement processes and policies when initially onboarding them onto our third-party manager palette. Through regular communication we are then able to raise any concerns with managers and ESG teams directly. We also hired a dedicated point person last year to lead on this effort and she is currently helping us develop processes to improve in this area. Please see the section on Principle 9 which provides further detail on engagement processes at MGIM.

## *Principle 4 Cont...*

The approach adopted by the MISC team is aligned with MGIM, and the team advises its clients to focus on engagement over exclusions.

### Climate considerations

MGIM acknowledges the risks posed by climate change and this has been one of the drivers that has led us to formalise our research process around analysing ESG integration and active ownership, for both third party funds and direct investments. This is discussed in more detail later in the report but at a high level, within these processes we look at quantitative climate data (e.g. carbon emissions data for funds and equities via Morningstar and Bloomberg), we discuss TCFD reporting and processes, and we meet with fund managers/company management/ESG teams to discuss their climate objectives, priorities, targets and engagements (specific topic depends on the type of investment and relevance).

The MISC team works closely with its clients to advise on climate metrics and climate scenario analysis and supports their clients in preparing annual climate reporting in line with TCFD requirements.

In terms of climate impact and environmental factor analysis for specific multi-asset portfolios that we manage, we have had limited queries and demand from clients for this information. We do not believe in pushing an agenda onto clients but prefer to educate and inform them where we are able to do so via our regular interactions with them.

We have taken a proactive approach by launching funds that have specific underlying sustainable objectives, including environmental objectives, in order to meet potential client demand, instead of changing existing products where some of the underlying clients may not wish to invest this way. For example the Momentum GF Global Sustainable Equity Fund aims to have an improved ESG score, better water waste management and lower carbon emissions than the benchmark. We produce regular, specific reporting for this fund which analyses and tracks these environmental metrics.

An area that we are currently looking to expand our reporting is the calculation of carbon emissions for some of our portfolios. We are exploring tools provided by external providers including but not limited to Morningstar and Clarity AI. This analysis will be used in two ways: firstly to track the carbon emissions of portfolios which will aid the interrogation of third party fund managers in regular monitoring meetings, and secondly to inform clients on the environmental impact of their investments. Whilst there would be no obligations for clients to act on this information, we feel that it is important to raise awareness around climate risk to portfolios from a carbon emissions perspective.

### Assessing effectiveness of MGIM's responses to risks

Our in-depth and robust investment process ensures that identified market-wide and systemic risks are monitored and discussed on an ongoing basis, and that appropriate action is taken if necessary. We do not make knee-jerk decisions but instead aim to make informed decisions following analysis, discussion and review by both sub-teams and the investment team as a whole.

Whilst we do not quantitatively measure the effectiveness of identifying market-wide and systemic risks and promoting the well-functioning of financial markets, we are confident that the team coverage, our processes, experience, meeting frequencies etc. is sufficient in ensuring we identify, discuss, address and monitor risks in a timely manner that ensures clients are not exposed to unintended risks in their portfolios.

Individual subgroups are adequately resourced to identify and respond to various risks and the regular forums, described above, through which the various subgroups come together to share information, allows the entire investment team to stay on top of overall portfolio characteristics, exposures and associated risks.

We also strongly believe that by focusing on active management and minimising allocating to passive investments we contribute to effective price discovery and thereby promote the well-functioning of financial markets.

The MISC approach is closely aligned to the above. Assessment of market wide and systemic risks is a key part of the regular monitoring provided to clients. Whilst the effectiveness of our approach is not explicitly measured – the ultimate test is that we have helped our clients to improve their funding over time and portfolios have been resilient and performed broadly as would be expected during periods of heightened market risk.



All of this is demonstrated in the examples provided below.

### Examples of some of the risks identified by the investment team and how we responded to them

*1. Banking Crisis*

March 2023 saw the third largest banking failure in US history, with the collapse of Silicon Valley Bank (SVB) in response to the steep and long monetary tightening cycle. The event had repercussions across the global banking sector as Credit Suisse was dissolved into UBS later in the month.

Stresses in the US banking system had been picked up on in our regular investment meetings prior to the SVB blowout. We were paying particular attention to their large and increasing exposure to the commercial real estate sector. Our scrutiny of the US banking sector increased as the news broke in the US that Silvergate Bank had voluntarily liquidated. An immediate reaction was to assess the wider contagion risks whilst stress testing our banking exposure across portfolios. Whilst we held no exposure to US regional banks, we were keen to assess the contagion risk to larger US and European banks to which he had exposure (either directly or indirectly via third party managers).

Our assessment reconfirmed the solid financial footing of large US banks and especially European banks that are very well capitalised. The one flag was the Swiss bank Credit Suisse which had long been tarnished by a series of controversies (losing two CEOs in the course of two years and suffering billions of dollars in losses) and had seen many wealthy customers jump ship. Credit Suisse also happened to be the least profitable bank in the European Banking Index and whilst its board of directors had recently begun an overhaul process to recapitalise the bank, we decided to take a cautious approach ensuring we had no exposure to the bank's equity or its subordinated credit positions but opting to hold on to the bank's senior bonds. We also engaged with our third-party managers to understand the level of exposure to Credit Suisse and ensured that none had exposure to the bank's riskier securities. Ultimately the Swiss regulator forced Credit Suisse to merge with UBS at the end of the month which benefitted the senior bonds we held directly.

Having assessed the stability of the European banking system and grown confident in its fundamental soundness, we saw an investment opportunity in the widening of AT1 spreads, choosing to invest and thereby providing a countering ballast to financial markets which had at this point, we believed, gotten ahead of itself in pricing in too much risk and downside potential.

Within the MISC team we assessed the extent to which clients had any exposure to regional US banks and to the failed banks in particular. There were no direct exposures to the failed banks/securities and any indirect exposures were extremely small. We did not recommend any changes to client portfolios beyond those already being taken by the investment managers (e.g. moving bank accounts). However, the general widening in credit spreads from this event provided an opportunity for some of our clients to increase allocations to investment grade credit markets at relatively attractive levels and where possible we sought to accelerate the implementation of these changes.

## *Principle 4 Cont...*

### *2. Rising inflation and recession risk*

One of the developments we followed closely and discussed in our investment forums was the inflation backdrop and what it meant for interest rates. In response to high inflation which began with unprecedented amounts of fiscal and monetary stimulus in response to the pandemic-related economic dislocation, central banks globally initiated a rate hiking cycle. While headline inflation rates fell sharply in 2023, core inflation has been slower to decline and is still uncomfortably high in developed countries such as the US, Europe and the UK. We correctly anticipated the resilience of these economies, especially the US, and were cautious on the continuing tightness of labour markets which, in our view, likely meant monetary policy would have to stay tight enough to trigger a significant slowdown in economies. Coupled with tightening bank lending standards following the banking crisis in March, we decided to take a more cautious approach by reducing our riskier credit exposures and rotating into 'safe-haven' US Treasuries and adding duration, acknowledging that whilst central banks weren't close to cutting rates, they were certainly near the peak/end of the hiking cycle.

The sharp risk rally in Q4 was to our eyes overdone and we decided to take profit in our US duration position. Discussions in our third quarter investment meetings also identified the risk posed by fiscal policy especially in the US as the large funding needs would mean significant treasury issuance and with it elevated interest rate volatility. This drove our preference, in corporate credit, for lower duration and higher quality, hence lower spread duration.

A recession has become less likely in the US as highlighted by our in-house quantitative recession model but remains a risk that is not currently discounted by markets, while the EU and UK face more challenging conditions and an extended period of near-stagnation. Keeping rates close to current levels as inflation falls means higher real rates and tighter financial conditions, while the long lag and cumulative effects of monetary policy will be a headwind through much of 2024 hence our continued cautious approach going into 2024.

Our advisory clients are highly exposed to changes in longer term interest rates and inflation in the UK given the nature of their pension liabilities and manage these risks using hedging programmes that the MISC team advise on. The gilts crisis in 2022 demonstrated the importance of having sufficient liquidity and eligible collateral assets to be able to collateralise these hedges. The volatility in gilt markets remained heightened over 2023 given the inflationary risks described above. The team also recognises the ongoing structural risks in the gilt market given the government's ongoing funding needs, quantitative tightening, and the slow-down in demand for gilts from UK pension funds. To deal with this, we provide more detailed and regular monitoring of "collateral resilience" to our clients and have advised our clients to maintain a high level of "collateral resilience" by investing a greater proportion of their portfolios in eligible collateral assets (cash and gilts). We have also been working closely with our clients to seek to make better use of investment grade corporate bonds for collateral purposes.

### *3. The momentum of large-cap technology stocks*

Another big development in 2023, which will have long-lasting implications for many parts of the global economy, is artificial intelligence (AI) – the fuel which underpinned the 'Magnificent 7' through 2023. The pace of take up of AI systems and their development is dramatic and the consequences are likely to be profound across all sectors. Whilst we understand the long-term benefits of this technology, we were cognisant that these seven stocks that were driving US equity markets (with the remainder of the universe generating lacklustre performance) were perhaps running ahead of themselves in terms of valuation. We analysed the underlying allocations to these stocks within our Global Equity Fund and were comfortable with our positioning: underweight relative to the benchmark but with sufficient exposure to participate in a rally whilst mitigating the risk of potential sharp share price declines.

We acknowledge that this positioning detracted from performance on a relative basis last year, but we prefer to stick to our tested long-term investment philosophy, with risk-reward in mind. Note that we don't look at valuation in isolation but consider various other factors, including quality, profitability and growth prospects alongside that, to gather a complete view of the investment case.

### *4. Artificial Intelligence (AI)*

MGIM aims to stay on the front foot following the emergence of AI technology. The investment team was quick to react in trying to understand the potential benefits that AI could bring to our investment decision making. For the last eighteen months, MGIM has partnered with a third-party independent AI specialist to test their asset allocation engine, learn the benefits and the risks of it and in particular the differences and complementarities with our existing investment process. We are now using the output from this AI engine to supplement our asset allocation and decision-making processes, in recognition that AI and machine learning technology has the potential to instantly assimilate much more information than humans can and could thereby enhance our ability to identify and respond to emerging risks or structural changes in markets. As we build more confidence that this specialist partner can add value for our clients and stakeholders, we will continue to integrate it into our portfolio construction process in a risk-controlled manner.

### *5. Geopolitical Risks*

Geopolitics are arguably the most worrying since WWII. Russia's war with Ukraine is proving to be long and costly, and as Western appetite for supporting Ukraine's war effort wanes, a negotiated solution ceding territory to Russia seems increasingly likely, with unknown longer-term consequences for Ukraine and other former Soviet satellites. In the Middle East the threat of the Israel-Hamas war drawing in other Iranian-sponsored terror groups, which seemed low initially, is rising as the war continues, and moving closer to a proxy war with Iran, spilling over regionally and drawing in the US and allies. Perhaps most important of all, the great power rivalry between the US and China has the potential to be the defining issue of our age, with little prospect of a material thawing in the relationship in a US election year and in the face of President Xi's tough line and domestic political dominance. An outright invasion of Taiwan by China is extremely unlikely, but the issue will continue to overhang China's international relationships in the years ahead.

These developments were thoroughly discussed in our 2023 investment meetings and we stress-tested our portfolios for various scenarios, taking into account the assessments of political consultants from our various research providers. Given expectations of escalating tensions in the wider Middle-East region, we engaged with our third-party managers to assess the level of exposure held within their funds and remained comfortable with, yet vigilant on, the exposures to these geopolitical risks given the amount of diversification across asset-class and regions within our portfolios.

# 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. Two Directors contributed to this Stewardship Report – Jonathan Barnard (Chief Financial Officer and Acting Chief Executive Officer) and Andrew Hardy (Director of Investment Management) – along with Philip Woolliscroft (Head of Legal, Compliance and Risk), 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 viewed on our Signature Page.

The report was also reviewed by all members of the Responsible Investment Committee. Several other committees contribute input and oversight to MGIM's stewardship related procedures and activities. These include:

» MGIM Management Committee

» MGIM Audit and Risk Committee

» MGIM Product Governance Committee

» MMH Responsible 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 | Periodically |
| 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 annually |
| Client Reporting | Annual Stewardship Report (MGIM, the PRI assessment and its transparency report (MMH), and the TCFD report (MMH) |
| Internal Assurance | Quarterly review by internal compliance of portfolio and process alignment with RI policies |

The engagement register is also reviewed as part of the standing agenda for our quarterly RIC meetings. This ensures engagement activity, which is usually conducted by the investment team, is regularly reviewed by others and helps the committee to better evaluate the effectiveness of our engagement and where necessary suggest alternative approaches.

### Audit of investment management and operations desks

While we seek assurance from several internal forums and committees around our stewardship activity and policies on a regular basis, periodically we also seek independent assurance around our broader processes and internal controls through an audit of our investment management and operations desks. The last such audit was carried out in 2022.

A factor behind the timing of this was our acquisition of Seneca Investment Managers Limited in October 2020. This was followed by a successful integration project over the subsequent six months, with all Seneca staff and clients retained and moved across to MGIM. 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.

During 2023, MGIM made another acquisition, this time of Crown Agents Investment Management (CAIM). CAIM's expertise in fixed income and reserve management complements MGIM's expertise in multi-asset and equity and there is a strong cultural fit between the two investment teams. Consistent with the Seneca acquisition, all staff were retained and transitioned to MGIM's London head office from their previous location in Sutton.

The progress we've made since then highlights the strength of MGIM's processes and 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 of these two businesses is further highlighted by:

» A former Seneca employee sitting on the MGIM Manco,

» The former CEO of Seneca Investment Managers joined the MGIM and CAIM Boards as a Non-Executive Director

» CAIM's CEO joined the MGIM Board, along with one of CAIM's Non-Executive Directors

» Three MGIM executive directors were appointed to the CAIM board, as were the existing MGIM Non-Executive Directors

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.

### Audit of Momentum Investment Solutions & Consulting (MISC)

During the course of 2023, we also undertook an external review of MISC, run by KPMG. A total of 79 separate controls were tested for adequacy of design, of which 99% (71) were found to be adequately designed, and (1) was found to require improvement. Based on the audit work performed and subject to KPMG's findings, this report has been assigned an overall rating of Controlled as per the reporting framework. This result is testament to the sound, resilient operating platform and processes that we continue to maintain across our business – see section 6a for more detail. We are currently in the process of a similar review of CAIM.

# Principle 6a - Review & Assurance

***Service Providers: Signatories review their policies and assure their processes.***

Service Provider



MISC aim to provide a high-quality service to our clients and ensure that we have policies and processes in place to deliver on this. 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 compliance and competence within the team as part of our ongoing performance review process and more formally as part of our year-end performance review process.

### *1. Review of our policies and activities*

All voting and engagement activity for MISC clients is delegated to the appointed investment managers although when assessing their processes, we will cross reference with our internal policies: in particular our Responsible Investment and Engagement policies (available on our website here). However, we have defined a set of ESG beliefs (see page 47) which informs our assessment of the investment managers and their ability to support our client's effective stewardship. These beliefs are not intended to change frequently and have not been reviewed over the reporting period. Our focus in supporting our clients' effective stewardship is to provide monitoring and oversight of the investment managers activities and clear reporting to our clients. We also support our clients in meeting their own reporting requirements – for example the annual Implementation Statement and Climate reporting as described in page 49.

We have set out how we review our activities and processes more formally below:

### *2. Weekly client team meetings*

MISC assign dedicated analysts and consultants to each client account to form a client team. The client teams meet on a weekly basis to discuss client tasks, progress on actions from decisions taken at client meetings and to review client policies and business plans to formulate client agendas. As part of these weekly meetings, the client teams will discuss each client's ESG and stewardship activities and requirements to ensure these are taken into account in setting agendas. These regular meetings also provide us with an opportunity to consider how we can improve our reporting to clients, taking account of client feedback, and to ensure that we are considering the latest requirements and market trends for our clients.

### *3. Manager research team meetings*

The manager research team meet regularly to review our approach and processes and to agree research priorities. Any developments in ESG practices are discussed at these meetings. For example, over the reporting year the ICSWG released a revised template for collecting engagement data from investment managers. The new template was flagged at the manager research meeting and will be incorporated into our processes going forward.

## Assurance of our approach to supporting clients' stewardship

### *External assurance*

We seek regular feedback from investment managers on our approach to manager research and specifically with regards to how we assess them on ESG and stewardship matters. Investment managers often ask us to get involved with wider discussions in their organisation with either the Head of ESG and/ or Compliance as they value the direct access that we have to our clients and can comment on what asset owners expect in this area. As an area of improvement, we may look to formalise this anecdotal feedback in due course through a formal questionnaire. We place a lot of weight on the assessment of our clients' investment managers as they act for a broad range of clients and are able to assess how our approach compares to our competitors.

MISC also receive external assurance via the Greenwich Investment Consultant quality survey. This is a survey across over 300 pension schemes in the UK, and although we are not permitted due to confidentially reasons to state the results publicly, the ratings we receive are testament to the high quality of service that we provide to our clients. The survey also highlighted where we could improve our ESG profile which is discussed in more detail on page 54.
We find this to be a very helpful resource as this is a broad survey with helpful insights for our business across a range of topics and clearly highlights how the quality of our approach compares to our competitors.

For most of our clients, we provide support in requesting and collating the information required for the Annual Implementation Statement and Climate reporting and often support clients in drafting the reports. These reports have then been reviewed by our clients' auditors or legal advisors who have provided feedback on the reports including possible areas for improvement. We have incorporated the feedback from these external parties in the client reports and in our processes for future reporting. Similar to the investment managers, we find the feedback from other advisors appointed by our clients to be very helpful because these firms act for a broad base of clients.

### Internal Assurance

### *Internal Audit*

In 2023, in conjunction with our compliance procedures we undertook an internal audit of all of our processes (detailed on page 35). This included a review of our client reporting, incorporating our Climate reporting and the Annual Implementation Statements reporting. The outcome of the report was that we met the standards set out in our policies. Whilst our policies and approach was well understood by the team, there were several areas identified where our policies should be better documented and we have been working to broaden out our policy documentation which will be reviewed on at least an annual basis going forward.

### *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 any deviations from their target objective. 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 our strategic asset allocation advice.

With regards to ESG and Stewardship there is an increasing amount of quantitative data that we can collate and assess. As described in Principle 5a, we use this data to inform the investment manager scorecard that we include in our annual Stewardship & Engagement reporting to our clients.

## *Principle 6a Cont...*

### *Qualitative assessment*

All our pension scheme clients undertake a formal annual review of how we have performed against the objectives that they have set us which includes an assessment of how we have supported them on ESG and Stewardship matters. The objectives we are set by our clients are typically framed in respect of qualitative factors that contribute to the overarching objective of whether the advice and service we have provided has helped them to achieve their investment objectives.

In our experience, our clients typically focus on the following areas as part of the formal annual review of our services:

» 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?

» Has the advice considered any relevant ESG and stewardship considerations?

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

» Is the advice delivered in a timely manner?

» Does the advice and service represent value for money?

We are typically remunerated on the basis of a fixed annual fee for the provision of our advice and services. However, for several of our clients, part of our remuneration is a discretionary performance related fee that clients can decide to award us based on their assessment of whether we have gone "above and beyond" in the services they would typically have expected over a given year. We are pleased to have been awarded this fee in most years as this really is testament to the assessment from our clients on the quality of our services.

We are fortunate to have built close relationships with our clients and view ourselves as an extension of their teams. Outside of the formal annual review described above, we have regular and open discussions with our clients on the quality of the advice and services we provide.

### Ensuring reporting is fair, balanced and understandable

### *Peer Review*

To maintain high quality reporting and to ensure appropriate advice, all our client reports and client advice papers go through a rigorous, "Do, check, review and peer review" process. The purposes of the "check and review" process is to ensure that the data is accurate and reliable, and that the advice is clear. The purpose of the "peer review" process is to challenge whether the advice is appropriate. All peer reviews are carried out by consultants or senior consultants in the MISC team with the appropriate level of knowledge and experience. Through this process we are constantly reviewing the quality and effectiveness of our activities and reporting to our clients.

### *Revised engagement scorecard*

In prior years the assessment of investment managers stewardship activities on behalf of our clients was largely subjective. In the reporting year, we updated our approach and have included a quantitative scorecard to rank managers stewardship activities and have reported on this in our annual stewardship and engagement reporting. We have also assessed mandates that invest in public corporates differently to mandates that invest in private assets recognising that the availability of data and the level of "asset management" is significantly different. This approach has ensured a fairer assessment across investment managers. We intend to refine our approach further with a greater emphasis being placed on the type and level of engagement investment managers are undertaking with issuers that have been assigned greater ESG risk scores.



### Improvement of stewardship practices

Stewardship is a broad topic and the data available from investment managers is evolving over time. As members of the ICSWG MISC has provided input into the formulation of templates to improve the quality of data and ultimately improve our clients understanding of the efficacy of stewardship activities being undertaken by their appointed investment managers. We ensure that we use the latest templates from the ICSWG and other bodies such as the Pension & Lifetime Savings Association (PLSA) when requesting stewardship data from investment managers which is then consolidated in our reporting to our clients. Better standardisation of data will make it simpler for our clients to compare stewardship activities across different investment management firms and to challenge those firms that appear to be lagging in their approach.

We have helped our clients to establish key stewardship priorities to make it simpler to assess whether the activities being undertaken by their appointed investment managers align with their priorities. We have communicated these priorities to the investment managers and our annual stewardship and engagement reporting will be updated to report more explicitly against these priorities. We will be actively challenging the investment managers that are not engaging on these priorities and expect this to improve stewardship practices over time.

# 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.***

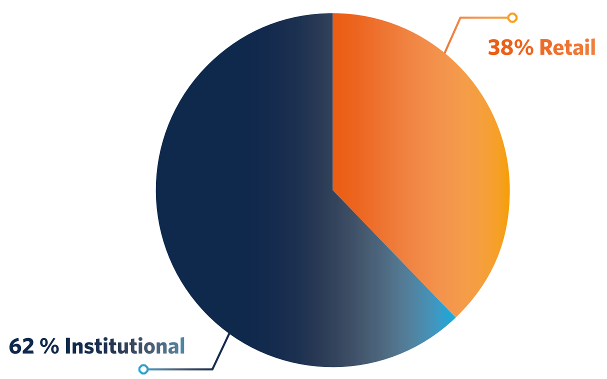
MGIM's motto is "with us, investing is personal". We are focused on understanding and delivering on our clients' and beneficiaries' needs, and to that end our mandates are personalised, with different portfolios targeting different investment time horizons, risk and return objectives, and social and environmental goals.

The information provided below refers to MGIM (excluding MISC, covered in section 5a).

## MGIM's clients

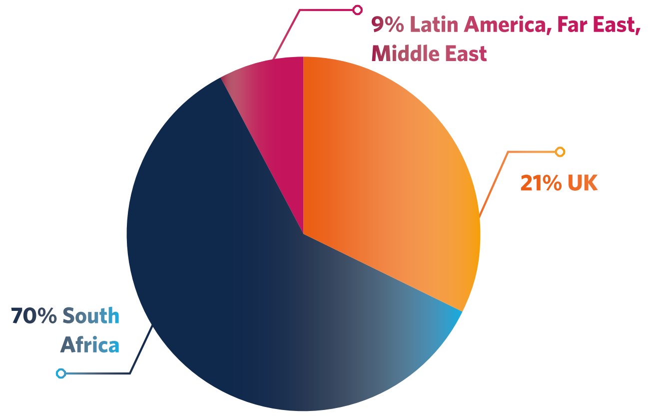
The majority of MGIM's client base is retail investors primarily through financial intermediaries such as advisors, with institutional investors making up a significant portion of the client base, as shown below in Figure 1:

*Figure 1 – Institutional/Retail Investor Split*




Due to MGIM supporting the advice process, many of our clients are financial advisors that recommend our products via life-insurance companies and platforms. By virtue of this process, we don't hold precise data on where underlying beneficiaries reside and therefore our assets under management (AUM) are split geographically based on where advisors are headquartered, as shown in Figure 2:

*Figure 2 – Geographical Split*




## MGIM's Portfolios

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 risk (which we define as the potential for shorter term and longer-term drawdowns); and any asset class exclusions or other constraints. MGIM's offering includes accumulating and income-paying portfolios and share classes, to cater for the needs of different clients.

MGIM has AUM of £4.5bn (as of 31/12/2023), which is approximately split between, 21% multi-asset, 62% equity*, 10% fixed income, 1% real assets, 1% commodities, 1% alternatives and 4% cash and derivatives, with the balance in cash and cash equivalents, as shown in Figure 3. We invest our clients' capital via third parties in segregated mandates and pooled investment vehicles, as well as in direct equities, investment trusts and direct fixed income, as shown in Figure 4.

*Figure 3: AUM split between asset classes*

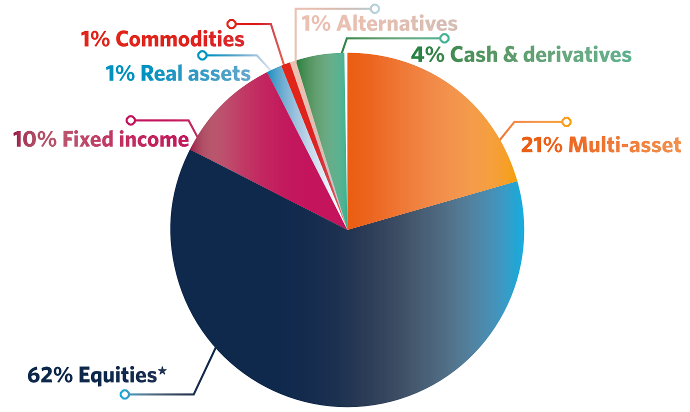
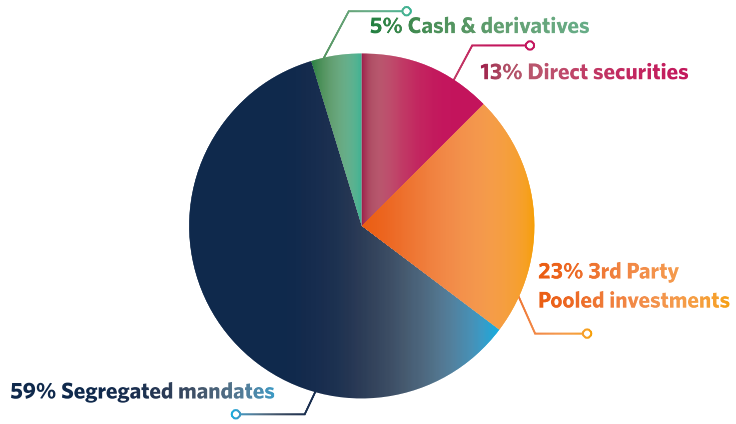



*Figure 4: Asset class split between 3rd Party/Seg mandate/Direct equity/direct fixed income*




## Portfolio construction at the outset

The four key elements of a portfolio's initial design, referred to above, are agreed through discussions with the client prior to the start of the relationship, and then again at regular intervals throughout the life of that relationship. We educate clients on the range of return profiles that we think can be achieved over different investment time horizons, also incorporating social and environmental goals where relevant, using history as an objective guide.

## Monitoring Our Portfolios

All MGIM strategies go through an initial product governance review prior to launch as well as an ongoing review 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 team's Audit and Risk Committee as well as reporting directly to the UK Board.

MGIM's Management Committee also reviews investment performance and delivery versus objectives, however, monitoring of our third-party managers is foremost the responsibility of the primary and secondary analysts, within the investment team, assigned to cover that manager/investment. Members of the investment team meet with managers regularly and will discuss, among other things: portfolio performance, positioning, trading activity, liquidity, ESG integration and active management. 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.

## Principle 6 Cont...

### Portfolio Management Review

Each of our quarterly product governance review meetings focused on a different portfolio range, and we concluded from these meetings that portfolios were being managed in line with clients' stewardship and investment policies.  During the year, we managed 18 portfolios in accordance with Distribution Technology's risk rating system.

Based on regular review meetings with our third-party managers, we concluded that they were also acting in line with our expectations over this latest reporting period. We scrutinise our managers' activities – including activities relating to stewardship.

During the period, we have formalised our process with regards to Responsible Investment (RI) research, in order to better understand the ESG characteristics of our investments. This RI due diligence process, which includes but is not limited to analysis of the framework, policies, and process our third-party managers use in their ESG factor evaluation. The team have requested questionnaires and conducted meetings with our third-party managers to achieve a deeper understanding and will continue to monitor ESG processes on an ongoing basis. For our direct equity investments, we are continually developing a framework that enables us to track how our investments score on an ESG basis over time, using data supplied by Bloomberg and Morningstar (Sustainalytics). This will aid our engagement efforts with our investments and actively encourage positive change.

To act in the best interests of clients, the investment team tries to efficiently allocate resource to voting on resolutions within our direct investments, whilst monitoring our third-party managers voting records. During 2023 MGIM cast a total of 2,217 votes, which is around a third of total resolutions, for our direct investments, in compliance with our voting policy. This is discussed in more detail under principle 12.

### Providing Feedback to Clients

We provide feedback on various topics including, but not limited to, performance, portfolios and our activities in written format, videos, and via face-to-face meetings with clients. We produce the following regular reporting: monthly factsheets, quarterly reports, annual reports accompanied with accounts, and ad-hoc reporting. These reports cover asset class returns, economic and market commentary, investment returns, and investment commentary which includes a review of the activity of our third-party managers. We also provide insights on current investment trends via weekly blogs, weekly videos and podcasts, and ad-hoc thought leadership pieces. All this reporting is public and can be found on our website.

Permanent resources for clients and beneficiaries on our approach to sustainability include the Responsible Investing section on our website, whilst answers to ESG-related questions in our standard Request for Proposal are available upon request. Our Stewardship report, which we publish on our website, also serves to update clients on our stewardship approach, recent activity, and that of our third-party managers.

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 back where necessary to the investment team.



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 senior personnel and the investment committee of a white-label fund range of which MGIM is the appointed investment manager. These meetings see the actions of the investment team rigorously appraised, with the committee acting on behalf of the underlying clients of the fund range.
- During the period, the investment team also engaged regularly with the Board of Directors of Momentum Multi Asset Value Trust prior to the trust being closed in August 2023, to ensure a smooth and effective transition for clients invested in what had become a sub-scale fund.

We use as many methods as possible to keep clients updated, in order to cater for their different preferences. We welcome feedback from our clients on all of the content we create, which is always accompanied by information on ways to contact us, whilst face-to-face meetings allow for more timely client feedback. We also seek the views of beneficiaries and clients via our annual client feedback survey.

Currently, we provide reporting and updates on various ESG metrics for portfolios that we manage with specific sustainable objectives (Momentum Sustainable Equity fund, Harmony Sustainable Growth, Sustainable MPS). We do not provide this for other portfolios unless requested by a client, although to-date this has not been frequent.

### Feedback From Our Clients

The results from our Annual Client Survey 2023 were discussed at the MGIM Board Meeting of August 2023. Respondent numbers were strong, increasing by 30% relative to the previous year, with 208 clients completing the survey. The results of the survey saw significant year-on-year improvement in metrics such as:

**92%**
found communications useful which increased from (81%: FY22)

**94%**
found responsiveness to enquires improved, increasing from (78%: FY22)

**80%**
said our website functionality had improved, increasing from (70%: FY2s)

**89%**
found our Social media content useful, increasing from (63%: FY22), and...

**92%**
...our overall client service improved increasing from (87%: FY22)

Within the above mentioned communications with clients, responsible investment/ESG topics will be covered so this feedback incorporates our communication in the space. For example, in the weekly blog, that the investment team take turns to write, we often cover relevant ESG topics and there is a responsible investment section on our website.



Principle 1
Principle 2
Principle 3
Principle 4
Principle 5
Principle 6a
Principle 6
Principle 5a
Principle 7
Principle 8
Principle 9
Principles 10 & 11
Principle 12

## *Principle 6 Cont...*

The healthy increase in respondent numbers along with the significantly improved metric scores across categories demonstrates an effectiveness in trying to understand the needs of clients and how we communicate with our clients and deal with their queries. 91% of survey respondents are likely to, or already have, recommended MGIM to their colleagues – further demonstrating their satisfaction in how their needs are met and the effectiveness of our communication to them.

Our previous stewardship report detailed focus areas for improving the website navigation experience and usability for advisers, improving our media coverage visibility, and increasing social media awareness. Pleasingly, over half of the respondents that use our website do so weekly, with 80% of respondents finding our website very or extremely useful; meeting our goal of improving the website experience for advisors. All respondents also found our media commentary useful, with 89% of respondents that follow us on social media (LinkedIn) found our updates useful. Despite clients' satisfaction with our social media content, awareness of our social media channels still remains a focus area, with 73% of survey respondents not following MGIM on social media, with UK-based respondents presenting a challenge.

The current client survey does not incorporate specific, segregated questioning related to ESG and stewardship. Therefore, we are looking to incorporate this in future client surveys so that we can better understand ESG-specific preferences as well as provide more information to clients on these topics.

With the implementation of the FCA's Consumer Duty due in July 2024, future annual surveys will need to incorporate ways to capture new data and metrics in-line with the Consumer Duty guidelines, including service level metrics. MGIM will also need to ensure that communications with clients are clear and improve clients' understanding of our products. Consequently, next year's annual survey will be less consistent and thus less comparable which will need to be considered when evaluating effectiveness going forward.

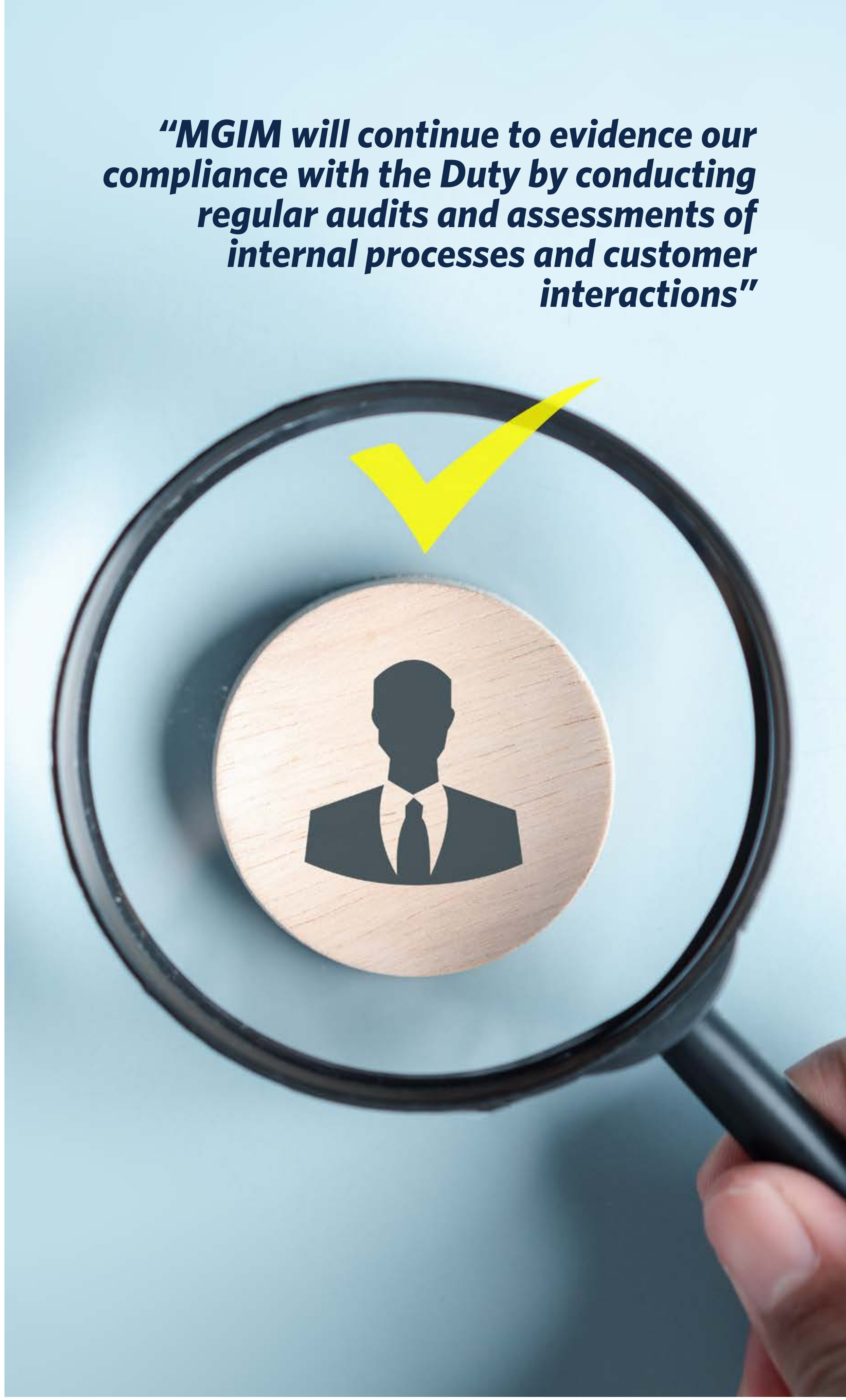
### Consumer Duty

To comply with the UK Consumer Duty, MGIM completed a number of projects during 2023. Broadly, these included reviewing and revising existing practices, policies, and procedures to ensure alignment with the new regulatory requirements, and implementing changes where they were deemed required. This involved conducting thorough assessments of customer-facing processes, communications, and interactions to identify any areas of non-compliance or potential risk.

All marketing collateral and client-facing channels including the MGIM website were reviewed for transparency and clarity, ensuring that information contained was clear and easily understandable for consumers. Complaint handling procedures were also reviewed to ensure prompt and effective resolution of any consumer grievances, and staff training was conducted to ensure that employees are equipped with the necessary knowledge and skills to comply with the Duty.

Investment products were scrutinised to ensure that they were providing value for investors, and a number of changes were made including the liquidation of the Momentum Multi-Asset Value Trust, and some internal actions to insource some elements of our equity investments and trim our exposure to investment trusts to reduce costs.

On an ongoing basis, MGIM will continue to evidence our compliance with the Duty by conducting regular audits and assessments of internal processes and customer interactions to identify any areas of potential improvement, monitoring customer feedback and satisfaction through surveys and other mechanisms as well as reporting progress via the Senior Management Team to MGIM's Board.



# Principle 5a - Supporting Clients' Stewardship

***Service Providers: Signatories support clients' integration of stewardship and investment, taking into account material environmental, social and governance issues, and communicating what activities they have undertaken.***

Momentum Investment Solutions & Consulting (MISC), a division within MGIM, provides investment advisory services to institutional investors in the UK. Within this team, our clients are trustees of large defined benefit corporate pension schemes.

We typically advise our clients on investment portfolios which aim to outperform a gilt-based measure of their liabilities by between 1% to 3% p.a. Our clients are long term investors with time horizons of 5-10 years or more.

**MISC at a glance**

- Established in 2014 to provide tailored investment advice to UK institutional investors.
- £16bn assets under advice (as of 2023).
- 7 advisory client accounts (as of 2023).
- 9 dedicated advisory employees.

### Client base breakdown

| Clients as at 31 Dec 23 | UK Pension schemes | UK endowments |
|---|---|---|
| **> £1bn** | 4 | 0 |
| **£500m - £1bn** | 2 | 0 |
| **< £500m** | 0 | 1 |
| **TOTAL** | 6 | 1 |

### Understanding our client's stewardship needs and objectives

Our clients each have different investment objectives, different time horizons, different governance structures and different investment beliefs including in respect of environmental, social and governance (ESG) factors. It is our job to ensure we have a keen understanding of our clients' requirements so that our advice is appropriate and impactful.

At the start of any client relationship, we typically undertake an in-depth review of the investment strategy and investment beliefs to develop a set of mutually agreed policies and investment objectives. This will include a detailed review of ESG and stewardship policies and how this is integrated into our clients' investment decisions.

We provide our clients with training and advice to inform their ESG and stewardship policies which are typically set out in a Statement of Investment Principles. Our advice on ESG and stewardship matters will vary for each client depending on the client context and level of expertise that the client already has "in-house" or through other appointments.

For UK pension schemes there has been a raft of new regulations in respect of ESG and stewardship in recent years and we have provided regular training and advice to ensure our clients are compliant with relevant regulations (as a minimum) and to challenge whether the existing beliefs and approach remains appropriate. Training will continue to be required as beliefs and market products evolve over time.

To challenge and enhance our own knowledge in this area we employ the services of Gordian Advice, a leading specialist responsible investment advisory firm. The MISC team receives training from Gordian Advice to ensure we keep abreast of regulatory changes that are relevant to our institutional clients and to stay informed on industry wide ESG initiatives that we can take to our clients.



Service Provider

We also work with specialist firms to support our clients' needs in technical areas. As an example, we use Ortec Finance, a leading climate scenario modelling firm to support our clients need to undertake climate scenario modelling on their investment portfolios. The feedback from our clients is that this analysis has been well received and helpful in their decision making.

Any recommendations we make in respect of ESG and stewardship matters will be tailored to each clients' beliefs, objectives and governance budgets. However, in the absence of any strong views from our clients we have adopted the following ESG beliefs that enable our clients to choose and adopt, when setting their ESG strategy. This approach has been adopted by several of our clients and has helped them to define their ESG and Stewardship policies.

***We provided training in 2023 on setting stewardship priorities in line with the latest stewardship guidance from the Department of Work and Pensions (DWP). We also introduced our clients to nature related financial disclosures and expect to provide further training on this now that the final recommendation of the Taskforce on Nature related Financial Disclosures (TNFD) have been published.***

**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 manager's approach to ESG factors should be understood. Material weaknesses in their approach would count against their selection and retention.

**03 Active ownership can improve investment returns** - We prefer managers with clear stewardship policies and approaches and prefer 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 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.

## Investment Approach

### *Principle 5a Cont...*

#### Reporting

We provide regular reporting to our clients which is tailored to meet their specific requirements. We have developed several additional reports in recent years specifically to help support our clients' assessment of ESG and stewardship matters and to help our client assess how well the appointed investment managers are performing where clients have delegated certain aspects of ESG integration and stewardship to the investment managers. A high-level summary of these reports is set out below:

| Quarterly strategic monitoring reports | Annual climate metrics report | Annual Stewardship and engagement report |
|---|---|---|
| These reports demonstrate progress against the key investment objectives for each client and includes a review of key risks, manager performance and any relevant manager updates.<br><br>ESG or stewardship issues identified as part of our manager monitoring on behalf of our clients will be flagged in these reports.<br><br>To meet our clients need we now include **a dashboard which summarises the key ESG exclusions** applied at a firm and strategy level by the investment managers as well as the SFDR[1] classification of the funds invested in. | This report includes **a detailed assessment of climate emissions** metrics in line with TCFD recommendations and tracks progress against specific targets that clients have set.<br><br>The report allows clients to assess any changes in the total carbon emissions and carbon intensity of their portfolios due to changes within each mandate and as a result of changes to the overall asset allocation mix.<br><br>Data coverage is an important issue for many of our clients and we cover this in this report so that our clients can assess the extent of progress being made by investment managers and underlying entities to improve disclosures. | Includes **a detailed review of voting and engagement activity** on ESG matters undertaken by our clients' investment managers.<br><br>We use the PLSA[2] voting template as well as the ICSWG[3] engagement reporting guide to collate data from the investment managers.<br><br>We rank the investment managers as **"leading"**, catching-up or **"behind"** (as discussed below in Assessing and monitoring investment managers).<br><br>This report enables our clients to assess the frequency and breadth of engagements being undertaken by the investment managers and the extent to which the topics that are being engaged on align with the ESG themes that our clients have identified as being of greatest importance. |

[1]*The EU Sustainable Finance Disclosure Requirements*

[2]*The Pension & Lifetime Savings Association (PLSA)*

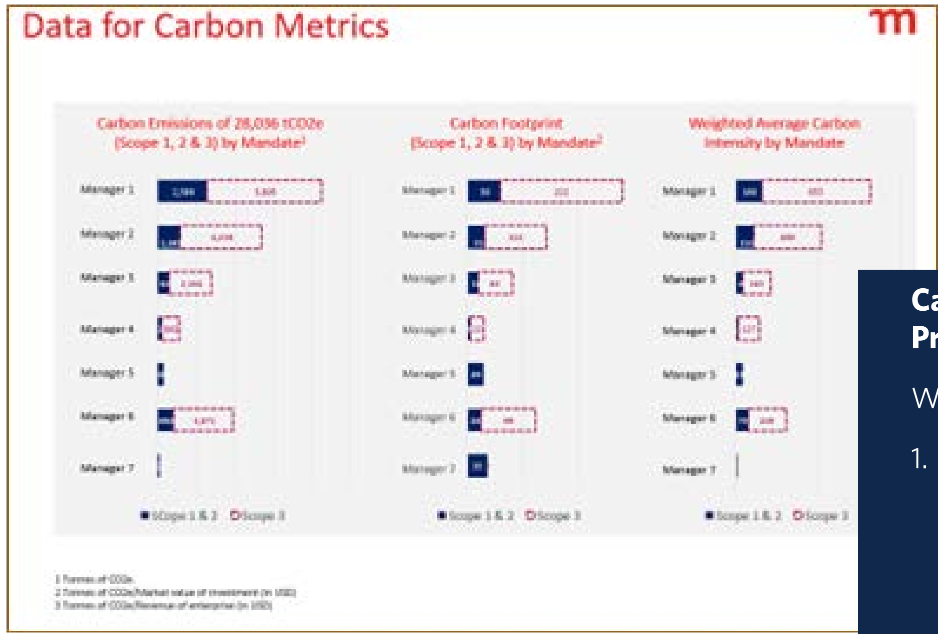
[3]*The UK Investment Consultants Sustainability Working Group (ICSWG) – leading UK investment consulting firms that aim to improve sustainability investment practices across the industry.*

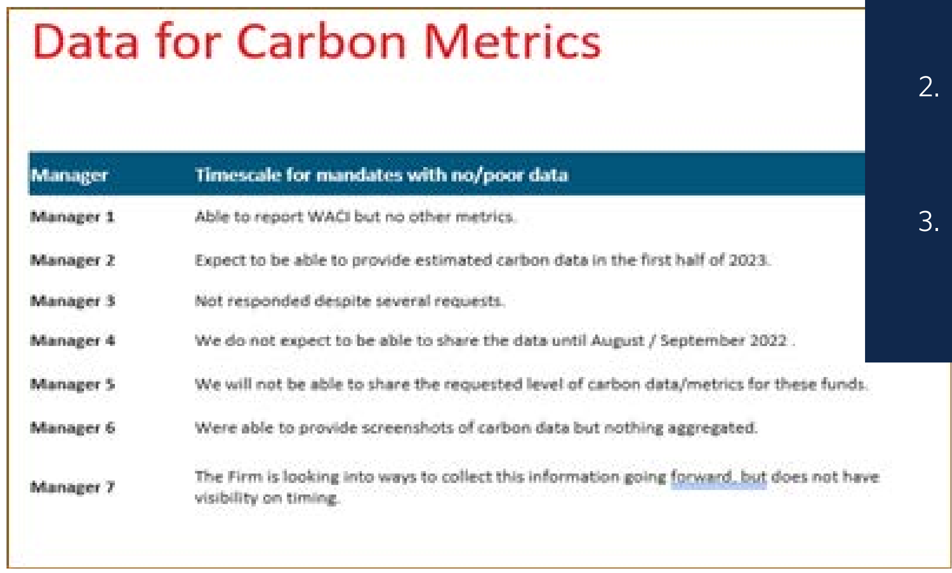


Service Provider

Examples of our reporting on climate emissions metrics and on ESG and engagement activities are included below.

### *Climate emissions metrics*



Data for Carbon Metrics

| Manager | Timescale for mandates with no/poor data |
|---|---|
| Manager 1 | Able to report WACI but no other metrics. |
| Manager 2 | Expect to be able to provide estimated carbon data in the first half of 2023. |
| Manager 3 | Not responded despite several requests. |
| Manager 4 | We do not expect to be able to share the data until August / September 2022. |
| Manager 5 | We will not be able to share the requested level of carbon data/metrics for these funds. |
| Manager 6 | Were able to provide screenshots of carbon data but nothing aggregated. |
| Manager 7 | The Firm is looking into ways to collect this information going forward, but does not have visibility on timing. |

**Carbon Metrics – Progress against targets**

We advise clients to consider:

1. Whether the current target remains appropriate or should be changed. We believe that data coverage continues to be a critical metric to focus on and that the target remains achievable given the anticipated changes to the policy over the next few years.
2. More direct engagement with a Scheme's managers that are not able to report data.
3. Possible use of data estimation tools such as Clarity AI to supplement data from the managers.

## *Principle 5a Cont...*

### *ESG and engagement reporting and assessment criteria*

The following table reflects the assessment criteria used to score managers according to whether they are "Leading", "Catching-up", or "Behind" with respect to the quantity, variety and data availability of their engagement.

| | Quantity of Engagement | Variety of Engagement | Quality of Reporting |
|---|---|---|---|
| Assessment Criteria | Average of the percentage of entities engaged with, and total weight of the portfolio engaged with over the calendar year. | The total number of engagements for each ESG related factor (previously in the template this was assessed on a 1-5 scale, now in absolute terms).<br><br>The number of engagements in each factor will then be grouped according to whether it is E, S, G or Business Strategy. | **High-Level Statistics**<br>1. Number of engagements.<br>2. Number of entities engaged with.<br>3. Percentage of entities engaged with.<br>4. Percentage of portfolio engaged with.<br>**Distribution**<br>1. Number of engagements for each ESG factor.<br>2. Number of substantial engagements for each ESG factor.<br>**Supplementary**<br>1. Engagement outcomes.<br>2. Case studies. |
| Leading | Greater than 66% | The manager has engaged between 20-35% on each of E, S, G & Business Strategy (i.e. broadly evenly distribution but allows some level of focus depending on the portfolio).<br><br>For property and real-estate mandates, the manager has engaged between 25-45% on each E, S & Business Strategy (the manager is not expected to have engaged on governance factors). | The manager has provided us with most, if not all, of the above, with the exception of engagement outcomes (hard for the majority of managers to report on) and a number of substantial engagements for each ESG factor (very subjective and hard to track). |
| Catching-up | Between 33% and 66% | One of E, S, G or Business Strategy represents between 35-50% of total engagements.<br><br>For property and real-estate mandates, one of E, S or Business strategy represents between 45-60% of total engagements. | The manager has been able to provide the relevant high-level statistics, and ideally some (but not all) of the others. |
| Behind | Less than 33% | One of E, S, G or Business Strategy represents more than 50% of total engagements.<br><br>For property and real-estate mandates, one of E, S or Business strategy represents more than 60% of total engagements. | The manager has not been able to provide high-level statistics. |





**Figure 1**

| Manager | Quality of Engagement | Variety of Engagement topics | Quality of reporting |
|---|---|---|---|
| Manager 1 - MAC | - | | - |
| Manager 2 - Private Debt | | | ↑ |
| Manager 3 - Private Debt | | | ↑ |
| Manager 4 - Private Debt | | | ↑ |
| Manager 5 - Private Debt[3] | * | * | * |
| Manager 6 - Private Debt[3] | * | * | * |
| Manager 7 - Secure Income[2] | - | | ↑ |
| Manager 8 - IG Credit | - | | - |
| Manager 9 - IG Credit[1] | - | | - |
| Manager 10 - MAC[1] | | | ↑ |
| Manager 11 - EMD[1] | - | | ↑ |
| Manager 12 - IG Credit[1] | * | | ↓ |

**Figure 2**

### Engagement Observations & Next Steps

**Observations**

We have set out below our key observations based on the responses we received from the managers:

**Quality of reporting:**

The engagement questionnaires were generally completed to a high standard. Reporting amongst corporate mandates was of notably higher quality, albeit this was expected. Reporting from the non-corporate mandates was often incomplete, although, some managers indicated that progress had been made and expect further improvement.

**Variety of Engagement**

For those managers that have provided data, engagement has covered a meaningful proportion of the portfolio. Engagement was often focused on environmental factors, but there was a sufficient variety of topics covered.

**Key areas of engagement**

The key areas of engagement have been in relation to climate change, strategy and financial reporting, remuneration and risk management. Engagement with areas identified as key priorities was generally present, although there is certainly room for improvement with respect to greater engagement on Human and Labour Rights and Diversity and Inclusion.

**Engagement Outcomes**

Where engagement outcomes were provided, c.30% of engagements led to the entity implementing a strategy or measure to address the concern. However, few managers were able to provide this granularity of data.

## Principle 5a Cont...

### Assessing and monitoring investment managers

The MISC team has over 20 years of experience of advising on the selection of investment managers across a wide range of asset classes. Within the MISC team, we believe that allocating to the right asset classes, and structuring mandates in the right way will have a greater impact on outcomes than the selection of the investment managers used to implement each mandate. **However, the selection of an investment manager will have a significant bearing on how ESG and stewardship is integrated in client portfolios as the day-to-day assessment of ESG risks and engagement with underlying issuers is typically delegated to the selected investment managers.**

As a result, a significant part of the assessment and monitoring of investment managers that we undertake on behalf of our clients is focussed on how the investment managers have integrated ESG and stewardship.

The MISC research team meet regularly to review our approach, incorporating feedback from our clients. As a result of this ongoing review, in 2023 we enhanced our quarterly monitoring questionnaire to incorporate ESG and Stewardship in all aspects of the review, which has enabled us to better understand any potential ESG issues and respond accordingly.

### *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 manager research process in the MISC team, we seek to understand how ESG issues are incorporated into the manager's investment process and the relative importance that is placed on ESG issues when selecting or exiting individual investments. We also review the following for each manager:

- Managers ESG policy;
- How ESG issues are incorporated within the investment process;
- Responsibility for ESG issues, resources dedicated and experience of the team;
- Integration of ESG resources within 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.

Service Provider

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 select investments, so that we can evidence all of the stages of due diligence, including the incorporation of ESG factors.

Where we feel that the manager is lacking in an area, we will follow up. A key area we have been engaging with investment managers on behalf of our clients is in respect of climate emissions reporting. Where managers have not been able to provide data, we have challenged them to understand what actions they are taking to be able to provide reliable estimates and the timescales for being able to deliver this.

- The ESG team regularly attend industry events (e.g. the Sustainable Investment Festival) , to keep abreast of how the market is evolving and consider the implications for our clients.
- We have recently enhanced the information we collect on Stewardship & Engagement. As part of our collaboration with the ICSWG, we have fully supported the roll-out of the Engagement Reporting Guide across the investment managers that we monitor on behalf of our clients.
- We collect this data on an annual basis and this is used as part of our assessment of whether an investment manager is "leading", "catching-up" or "behind" the curve in three areas:
    - quality of reporting on engagements and stewardship;
    - quality of engagement activities and outcomes; and
    - variety of ESG topics that issuers are engaging on.
- Where appropriate, we provide our clients with an annual Stewardship & Engagement report which covers the activities of the appointed investment managers over the period. Our clients find this information helpful when challenging investment managers on their engagement activities, or indeed commending them for engagement that has resulted in a positive impact.
- A key focus in preparing these reports has been on the quality of data and reporting from investment managers and we are encouraged to see that the quality of information on engagements has been improving over time. However, we continue to challenge our clients' investment managers to make further improvements to raise the bar in this important area.

**Example of a recent engagement with our clients' investment managers to "raise the bar" included below:**

Our client recently agreed to increase the allocation to their global fixed income manager (a very large global asset manager) consistent with their strategy to de-risk the investment portfolio.

Prior to proceeding with this additional investment, we provided feedback to the manager on areas where they could improve their ESG and stewardship reporting to the client. In particular, we wanted to see more information on the outcomes of their engagement efforts in addition to the number and types of engagement that they undertake. The manager has committed to providing additional case studies that specifically focus on engagement outcomes going forward.

## *Principle 5a Cont...*

### Meeting our clients' requirements

There are several ways in which we assess whether we are meeting our clients' overall requirements, including in supporting the integration of stewardship and ESG issues:

- Our pension scheme clients undertake a formal annual review of our broader performance against the objectives they have set for us. This will include the quality of advice and support that we have provided on ESG and stewardship matters. This ongoing review ensures that we continue to meet our clients' requirements and that they are happy with the service we provide.
- Informal review meetings with the relevant Board Chair or Chief Investment Officer to discuss feedback after the quarterly investment meetings. Follow up actions from these meetings have resulted in us engaging further with managers and there has been an increased awareness on probing managers on their ESG commitments.
- Ratings and feedback from surveys carried out by third parties. Four of our clients participate in the annual Greenwich Survey. Although we maintained our results as one of the highest scores in client service and satisfaction, our scores with regard to ESG and Stewardship highlighted that this is an area for improvement. We have since reviewed our approach and have implemented measures to improve our ESG polices and engagement.

### *Examples of key topics that we supported our clients on over 2023 include:*

- Stewardship priorities - We have provided training and advised our clients on key ESG topics to set as priorities. We communicated these priorities to the clients' investment managers and in our annual stewardship and engagement reporting will focus on the activities and outcomes that the managers have achieved in these areas and follow up with the managers where there is more work to be done.
- TCFD reporting - We supported our pension scheme clients in drafting climate reports in line with TCFD recommendations and the Department for Work and Pensions (DWP) climate regulations. Our focus in the short term will be to work with investment managers to improve the availability and quality of emissions data and we will challenge the level of engagement with the highest emitters across client portfolios to better understand their position and closely monitor the extent of progress being made.
- Enhanced stewardship reporting - We introduced a quantitative scorecard to rank managers stewardship activities and reported on this in our annual stewardship and engagement reporting. This has been helpful for our clients to understand which managers are performing well and at our client meetings we discuss possible next steps if it is agreed that improvement is required.
- Impact private equity - We advised our endowment client on a new allocation to Impact private equity which included advice on the overall portfolio impact by introducing this allocation and advice on a short list of investment managers for consideration. We have also supported the client with the implementation of this new allocation. This was a new initiative and the learnings were shared across the wider team. We will continue to monitor and evaluate the effectiveness of this strategy.

### Assessing effectiveness of our client communication

The effectiveness of our client reporting and feedback can be gauged during regular contact with our clients, and by analysing the positive outcomes that we have achieved on their behalf.

The effectiveness of our communication to our clients and how advice is presented and explained at client meetings is also assessed as part of the formal annual review that our clients undertake. We have consistently received positive feedback from our clients on the quality and clarity of our communication with them.





# 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.***

This section is applicable to MGIM only (excluding MISC and CAIM).

At MGIM we believe in detailed analysis of the third-party managers we partner with and the issuers we invest in. 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.

### Exclusions

MGIM's beliefs around responsible investment are centred around remaining invested and engaging for change. Therefore, we do not seek to apply extensive exclusions that limit the investment universe but instead we review the active ownership practices of our third-party managers and engage with direct issuers in instances of material issues where we think we can make a difference.

All of our portfolios exclude investments in businesses that are involved (directly or indirectly) with the production or distribution of cluster munitions. Before investing in a fund managed by a third party, MGIM's compliance team will obtain written confirmation of this from the provider. We also receive holdings from our third-party managers periodically which allows us to monitor them using Sustainalytics (via Morningstar) in the same way.

For our direct investments we analyse and monitor this primarily through scrutiny of a company's pro forma accounts, familiarity with their management teams and directors, and using data from Sustainalytics and Bloomberg.

MGIM manage two portfolios that have underlying sustainable objectives, and additional exclusion criteria is applied to these.

» Momentum GF Global Sustainable Equity Fund, a pure equities fund, adheres to the exclusion policy of Robeco asset management (level 2 exclusions) which can be found here: docu-exclusion-policy.pdf (robeco.com). One additional exclusion, which aims to assist in the fund meeting its sustainable objectives, is the exclusion of metallurgical coal.

» Harmony Sustainable Growth portfolio, a multi-asset fund of funds, excludes tobacco, coal and weapons (subject to revenue thresholds).

### ESG integration

Beyond the exclusions listed above, 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 because globally we are on a journey towards improvement and there is a long way to go before many environmental, social and governance objectives are met.

In terms of our due diligence of third-party funds and investment trusts, we begin by sending our managers a responsible investment questionnaire. It is focused on the key areas of resourcing, ESG integration, tools and stewardship. The questionnaire responses will identify the areas we need to review in a follow up meeting with the relevant members of the team. The follow up meeting is our opportunity to learn about their ESG framework and how it is implemented. It may result in further engagement on areas of concern but it is also used in future meetings with the fund manager to ensure the process is being applied and progress is being made towards their goals. Examples are provided below; we have purposefully not provided the name of the managers given the sensitive content.



### Example 1

Responses to the questionnaire received from a US small-cap fund that we invest with included various non-specific responses. For example, when asked about their exclusions policy, they responded with 'XYZ avoids investing in companies that do not respect global norms and conventions, derive a significant portion of their revenues from activities that the Investment Manager deems not to be compliant with sustainable investment principles'. When we met with the portfolio manager (PM) to discuss this, it was important to determine whether they had sufficient knowledge to understand what is deemed as 'significant revenue' and, whether they are able to identify and understand non-compliance with sustainable investment principles. The portfolio manager could not provide clear answers to demonstrate his understanding in these areas and the RI specialist provided a somewhat more sufficient response. However, this process highlighted the importance for this manager to outline specific exclusions with pre-determined levels of revenue exposure, and a defined list of exclusions. We fed this back to the manager and their ESG integration score was negatively impacted by this outcome.

### Example 2

Following a meeting with the portfolio manager of the Lyrical Global Value Equity and Lyrical Global Impact Value Equity funds, to discuss the responses to the responsible investment questionnaire, we reinforced our positive view of the manager around their RI practices. ESG factor analysis is integrated into the process for both funds in line with the process that they have followed since inception of the funds. Their engagement process is clear and their engagement effectiveness is well evidenced. They continue to improve their resources, knowledge and processes around RI outlining where they are making improvements. They also are open to feedback as demonstrated by MGIM's RI analyst suggesting the removal of plastic from their presentations which they have now implemented across the business.

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 Sustainable Development Goals (SDGs) and their various underlying targets, as providing a more specific guide to best practice.

In our assessment of environmental factors, we are committed to transitioning to a low carbon economy; we do not impose actions or limitations onto our third-party fund managers or issuers but we will analyse carbon emissions data in our due diligence assessment. We use this data to question managers about high emitters in portfolios (in the case of third-party funds), and to question management about carbon reduction plans, in the case of direct equities.

As a member of the PRI Investor Just Transition Working Group, we support a process that takes into account the social impact of this transition. We therefore evaluate investments relative to peers in the same industry and relevant benchmarks. We also give credit where investees are making improvements to the way they operate from a sustainability perspective.

## Principle 7 Cont...

### Data Providers

In all cases where it is available, we use ESG data from various providers including Sustainalytics (via Morningstar), and Bloomberg in order to analyse risks and opportunities arising from ESG factors. This data is referred to when critiquing fund managers' decisions in the case of our indirect investments, and forms part of our appraisal of issuers when making direct investments.

We do not use high-level ratings from data providers because we recognise the extent to the limitations in using this information at face-value, but instead we use the underlying information to help inform our meeting agendas and line of questioning to third party fund managers, ESG teams or management/Boards.

How we think about environmental, social and governance factors across our investments

#### *Environmental factors*

For our third-party funds, we meet with the portfolio manager and ESG analysts, if applicable, to verify their processes with regards to responsible investment. Through meetings, supported by quantitative data, we assess how capable the fund manager is likely to be in achieving the environmental goals that they seek to achieve. We monitor a funds progress using Sustainalytics, via Morningstar and any issues with the process or the reporting will result in higher levels of interaction with the portfolio manager.

For our direct equity exposure, we prioritise initiatives that mitigate environmental impact, promote sustainable practices, and uphold compliance with relevant regulations. This includes efforts to reduce carbon emissions, conserve natural resources, and foster biodiversity preservation. Through strategic investments and limited engagement, we aim to drive positive environmental outcomes while delivering sustainable returns for our stakeholders.

#### *Social factors*

For our third-party funds we follow a similar process to that described above for environmental factors however, we also have sections in our research note that look at the firm culture, staff retention and staff remuneration. Higher levels of staff turnover are indicative of problems within the business and we aim to assess this. If the data is available, we can use the eVestment database which records a rationale for each investment team departure. If the data is not available, we will discuss the reasons for staff turnover in a portfolio manager meeting. If we are unhappy with the responses it could result in lower scores assigned in our investment scorecard which would lower conviction and the probability of investing in the fund.

With regard to equity exposure, 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 we, as multi-asset investors, have a material investment.

#### *Governance factors*

Again, our process for third party funds is similar to that described in the environmental factor section above. Governance factors are usually a key consideration for fund managers as they seek to find well managed investments or well run companies. Where issues are identified, in most cases the fund managers will not invest or will engage, depending on the severity of the issue. As with other ESG factors, MGIM analysts will discuss companies in the portfolio that have governance issues or governance risks with the portfolio manager and assess the actions they are taking.

In terms of direct equities, this is and always has been a key area of focus. 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.



### How we influence third-party managers

Third-party fund managers who manage mandates on MGIM's behalf sign an Investment Management Agreement (IMAs). Within this we include, the same limited exclusion on cluster munitions that apply to all of our portfolios. IMAs also require managers to vote proxies diligently and in accordance with their written proxy voting policies and procedures.

We are planning to include additional responsible investment guidelines within our IMAs with managers during 2024. We aim to further align our RI beliefs with those of our third-party fund manager's but are also conscious of not restricting them too significantly so as to change the way in which they invest.

In extreme circumstances, the ultimate tool we have to control the activity of our managers (including managers of the third-party pooled investment vehicles in which we invest) is our ability to terminate their services if we believe their actions do not meet our expectations, as tracked through our manager scorecards and regular update meetings.

### RI within MGIM's research reports

To ensure that our ESG due diligence is fully integrated into our investment decisions we use various avenues. The research report for a potential investment includes a description of ESG integration within the investment process, description of all resources, active management processes of the underlying manager, quantitative analysis of ESG factors, and the MGIM analyst's opinion and assessment. This information is used within the manager scorecard, which assesses over 50 metrics covering people, process, performance etc. We score the fund on ESG integration, ESG resourcing and Active Ownership and all scores feed into a total score for the manager. There is also the ability to raise a "red flag" on the scorecard: there are 11 areas in which we can apply a "red flag" and 6 are ESG related. These do not automatically exclude the fund from investment but will result in more discussion and potentially heightened due diligence.

### Activity

MGIM places significant importance on quality of research undertaken both internally and by third-party fund managers. As a part of this, we analyse ESG risks and opportunities and determine the materiality of ESG factors in the areas in which we are invested. Sustainalytics data is used to cross-reference our understanding of a business's risk factors, and to flag potential issues in those companies we are exposed to indirectly, and are therefore less familiar with, via our sub investment managers and the third-party pooled investment vehicles we hold. Sustainalytics provides aggregate data on a large number of third-party pooled investment vehicles, as well as data on certain individual companies.

MGIM's research process is monitored by peers in the day-to-day course of business, and is also formally reviewed by the management committee and directors. This research must include the formulation of a view of funds' and investee companies' approaches to responsible investment, and management of material ESG issues.

### Asset classes that we exclude from our ESG analysis

Our approach to integrating ESG is consistent across different geographies, but varies by asset class and investment approach (depending on whether security selection is implemented directly, via segregated mandates or via third-party pooled investment vehicles).

To ensure adequate risk management and diversification in our portfolios, we invest in a range of different asset classes. It would be difficult, and likely inconclusive, to assess the following asset classes against ESG criteria: government bonds, alternative strategies and collective investment schemes investing in commodities. 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.

## *Case studies*

### Momentum Africa Real Estate Fund (MAREF)

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

MAREF is currently building a 162 serviced apartment development in Nairobi, Kenya that will be known as The Rose. MAREF, which has previously undertaken to achieve a minimum green rating of IFC's EDGE certification for its developments, is very proud to now be going one step further by targeting the world-renowned green building rating certification LEED (Leadership in Energy and Environmental Design) for this development. The LEED design targets efficiencies in energy, water, material, pollution controls and land use impact.

Through advanced computer building simulation analysis and energy modelling work, the design team were able to optimise the building's energy performance so that it will consume significantly less energy than a conventional building. Features of this design include efficient lighting fixtures and lighting controls, efficient HVAC systems, external shading to reduce solar gain and therefore cooling loads, a solar photovoltaic system on all available roof space, solar thermal hot water heating, smart metering systems and voltage stabilisers. In addition to these energy consumption savings, other features include (1) a wastewater treatment system which recycles all wastewater for flushing of WC's and irrigation, (2) materials with Environmental Product Declarations (EPD) are prioritised in procurement and (3) over 40% of the site area will not be developed and will be planted with low water consuming indigenous plants.

### Momentum GF Global Sustainable Equity Fund

The fund is our flagship sustainable equity fund, with Robeco Asset Management appointed as the sub investment manager. It targets consistent outperformance (and hence a high information ratio) versus the MSCI World Index, while simultaneously delivering an improved sustainability profile. It targets a reduced environmental footprint compared to benchmark, namely at least 20% lower water usage and waste generation, and at least a 30% reduction in greenhouse gas emissions (scope 1 & 2), even though historically it has achieved better results than that. The fund also targets a 10% better ESG score than the benchmark based on Sustainalytics ratings, indicating lower ESG risk. The fund achieves that by excluding stocks with exposure to sectors such as coal, tobacco, palm oil, firearms, arctic drilling and oil sands, while also integrating ESG and SDG factors in the investment process and portfolio construction, by having higher allocations to companies scoring better on a range of ESG metrics and by excluding all companies that have a strongly or moderately negative impact on any of the 17 UN Sustainable Development Goals, as measured according to a proprietary Robeco framework.

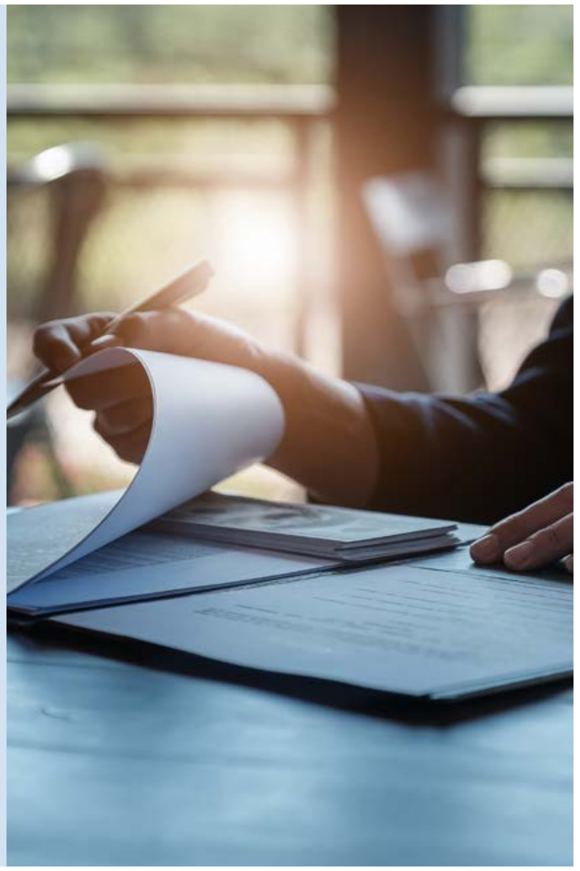
## *Principle 7 Cont...*

### Examples of how our service providers have incorporated ESG considerations into their investment decisions.

We held over 250 meetings with our third-party managers and direct investment managers over the period, and our monitoring process revealed the following regarding their stewardship activities:

1. **Downing European Unconstrained Income Fund** has a mid-cap bias. We met with them to understand how they navigate the mid-cap market from an ESG perspective. The Downing investment team found a large cap bias in terms of ESG scoring by third-parties, so they developed an alternative in which they use ESG ratings as a starting point but do their own deep dive ESG research and engage with the companies on the issues they identify. In terms of engagement activity, we highlighted the holding in Talga as an investment of interest as the company is currently trying to open a graphite mine in Sweden. Downing is engaging with Talga and they spoke with local reindeer herders who are objecting to the mine as it is close to a reindeer winter migration route. The portfolio managers sought to understand the objections and how the company was interacting with the locals. The mining application is still not finalised but a number of agreements have been reached which includes closing the mine during the winter to allow the reindeer herd to migrate through the area.

2. **Lyrical Global Impact Value Equity Fund** is another interesting example as value style managers' processes tend to lead them towards sectors with lower ESG credentials. Lyrical aims to have 75% of the portfolio invested in companies that have committed to the Science Based Target Initiative (SBTi), in particular to have in place an approved net zero target by 2030. Lyrical focus their engagement on companies that don't have SBTi approved targets or have high emissions. The engagement will be focused on decarbonisation strategy, identifying near/long term challenges to achieving the target and developing a road map to zero. If the companies do not make meaningful progress they have a number of escalation measures such as increased engagement, voting against the Board Members who oversee the ESG strategy and voting against the Chairperson of the Board. As a last resort, they will exit the position if no progress on net zero is achieved. We include this strategy within our Harmony Sustainable Growth fund as a valuable style diversifier within the equity portion of the portfolio.



3. **Syncona**, an investment trust, funds pre-clinical and clinical stage biotech companies, selling them either through NASDAQ listings or to pharmaceutical giants. The trust holds a significant portion of cash to ensure financial flexibility. Despite a robust investment process, Syncona's share price suffered a substantial de-rating in 2023, trading at a discount to Net Asset Value, due to the large cash reserves diluting returns and absence of dividends. Concerned about shareholder rewards, MGIM's analysts advocated for putting the cash to work through opportunistic acquisitions and share buybacks, without compromising primary capital support for portfolio companies. Following the engagement, Syncona initiated a £40m share buyback program. In the September 2023 half-year results, they expressed intent to acquire clinical stage companies, subsequently acquiring Freeline Therapeutics, at a market-discounted value. We are pleased with the Board's responsiveness and remain optimistic about Syncona's future.

### Example of how MGIM's quantitative analysis has guided our monitoring of RI practices

We review the following key ESG indicators that are provided by Sustainalytics, as a reasonably objective assessment of the risks that investments are exposed to:

1. Sustainability Score (rank in global category and absolute score);
2. Product involvement % in certain controversial or excluded activities / product lines;
3. Percent of AUM with high/severe ESG risk scores.

Through manager discussions we have found that Sustainalytics' data can at times paint an incomplete picture, but it is nonetheless still helpful in guiding our discussion and often enables us to challenge managers effectively on how well they live up to their stated ESG integration approach, as the following examples serve to illustrate. Should we see a deterioration in the quality of Sustainalytics' data, we will revisit our original selection process and re-examine alternatives.

**1. Magallanes European equities fund**

Sustainalytics data highlighted risks around two stocks in the pooled investment vehicle of one of our European equity managers, Magallanes. Maersk Drilling, a shale oil producer, and Aker BP, a global shipping company. We questioned Magallanes on each company's carbon targets and investment pipeline and received comprehensive answers, reflecting Magallanes' deep understanding of their investee companies and integration of environmental considerations. Specifically, Magallanes shared evidence of these companies improving their environmental footprint and ESG practices over time. Examples include the renewal of their fleets; operations being re-organised to improve efficiency and reduce emissions; and paths towards net-zero being tested, quantified and structured appropriately.

# Principle 8 - Monitoring Managers & Service Providers

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

This section is applicable to MGIM only (excluding MISC and CAIM).

MGIM invests directly in issuers although most of our assets are invested via third-party investment managers, who are appointed on a segregated basis or accessed through pooled investment vehicles.

We use third party service providers to aid the screening, in-depth analysis and monitoring of all of our investments. Our approach to selecting service providers is strategic and collaborative. The CIO and Responsible Investment group, with additional inputs from the wider team, determine the data providers for ESG information and data. The ongoing suitability of these providers is reviewed on a regular basis.

### Service providers:

To enhance our investment process, we utilise various sources of information and analysis:

- Morningstar; research tool used mainly for fund analysis and ESG data from Sustainalytics
- Bloomberg; research tool predominantly for direct equities and ESG data for direct equities
- FactSet; research tool used mainly for fund analysis and performance
- eVestment; overall analysis tool but can also use it for rationale behind staff departures / social conduct of operations
- Clarity AI (SFDR reporting);
- Company reports, meetings with management and boards;
- Specialist and independent research services (Shore Capital, Numis, Jefferies);
- Gordian, Ortec and Financial Canvas (used exclusively by MISC).

While the vast majority of research is undertaken internally, we do also procure research services from several external providers to complement our own fundamental analysis at competitive rates using our own financial resources without recharging clients. Regular communication with numerous research providers aids in the price discovery process. MGIM Portfolio managers and analysts 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.

The interaction with research providers extends beyond data acquisition. We engage in discussions on methodologies between their analysis and our own. If expectations are not met, we escalate our level of service monitoring and bring ongoing concerns to the relevant group for review and consideration of actions. For example, in July 2023, our team met with representatives at Morningstar to delve deeper into the methodologies behind various sustainability and ESG data points that we both currently incorporate into our standardised reports, and were considering adding to our reports. This included a review of the methodologies behind their risk scores, ESG scores and sustainability scores, as well as some of the data points related to carbon emissions. Our aim was to fully understand the implications of these scores before discussing, or escalating, them in manager meetings. Our expectations were met after further discussions in October 2023 which helped us refine and enhance our standardised reports that we use in our manager research process using some of the underlying aspects discussed (underlying risk and sustainability scores for example). However, as a



result of these meetings, we decided not to use overall fund-level Morningstar ESG scores because they do not provide a clear, comparable and easily defined rating. We fed this back to Morningstar who agreed that the high-level scores are less useful than the underlying metrics.

MGIM's engagement with external providers extends beyond traditional research domains. We are increasingly finding that providers of non-ESG specific research are incorporating ESG commentary and data within company research. For example, Shore Capital provides daily equity trading comments along with an ESG weekly digest, which occasionally touches on company-specific ESG news and updates. Some providers are also organising ESG-themed events and webinars.

ESG research on direct UK equities involves leveraging Bloomberg data for our current UK equity holdings, which captures key data points and monitors their progress over time. Should any issues arise, such as lack of progress or a decline in metrics, they are flagged and addressed in subsequent meetings. We opted to use Bloomberg over Morningstar's Sustainalytics data in this space due to Bloomberg's more extensive coverage of mid-cap equities and the ability to analyse trends in companies over time.

Our key service providers with respect to stewardship are therefore our third-party investment managers and Sustainalytics (via Morningstar).

### Monitoring of third-party managers

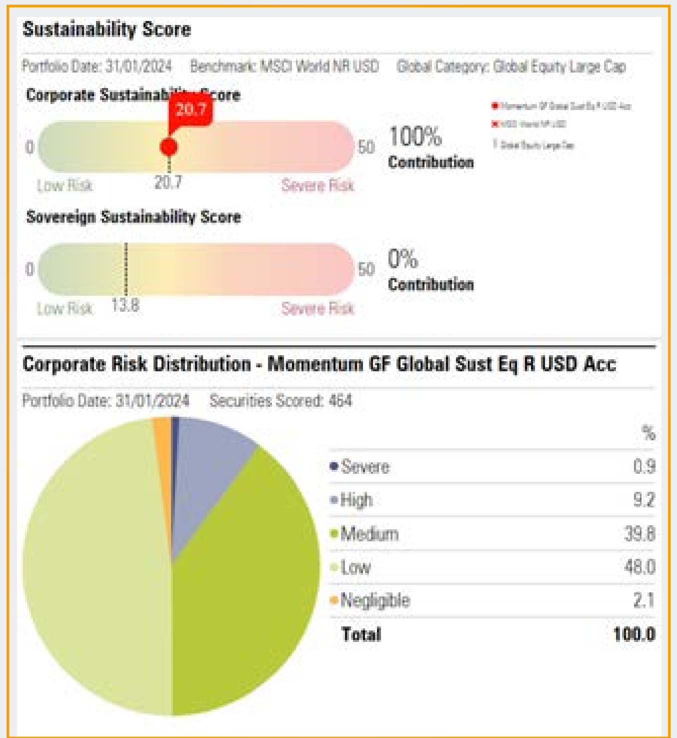
We conduct proprietary research into third-party investment managers in order to satisfy ourselves that they integrate ESG criteria in their investment processes in a manner that is consistent with our own approach.

Our manager research process involves both quantitative and qualitative analysis. During 2023 we formalised our research process surrounding responsible investment by introducing an asset-class-specific RI questionnaire. This is sent to all third party fund managers, and investment trusts, followed by a meeting with the portfolio manager and ESG team to discuss the responses, where required. This information and analysis feeds into the scorecards we produce for each fund, which cover 5 key areas of their strategy and over 40 sub fields, including ESG metrics like firm focus to the strategy's involvement in excluded activities / product lines.

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 (via Morningstar), 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.

## *Principle 8 Cont...*

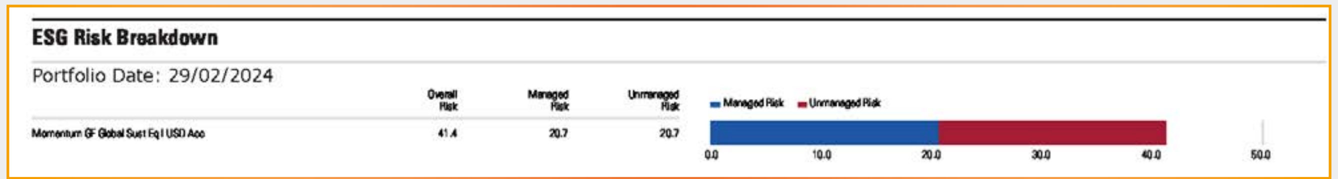
We have developed a standardised report template within Morningstar to facilitate quantitative analysis of funds from an ESG perspective compared to a selected benchmark. This is accessible to all team members and covers various aspects including sustainability scores, breakdown of ESG risks, in-depth analysis of major holdings and those with the highest and lowest ESG scores, as well as those with the best and worst controversy levels. Additionally, it looks at average product revenue as a percentage of UN SDG involvement and carbon footprint. This template ensures consistency in our analysis across the team. Should disparities arise between our manager's evaluations of ESG metrics and those provided by external service providers, we engage in further discussions with the service provider to better understand these differences. Extracts from this report are shown below:

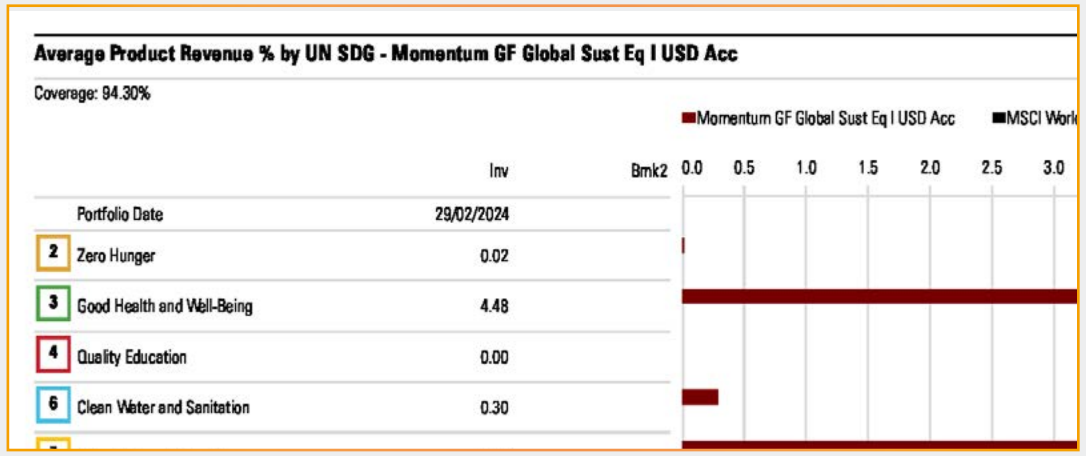


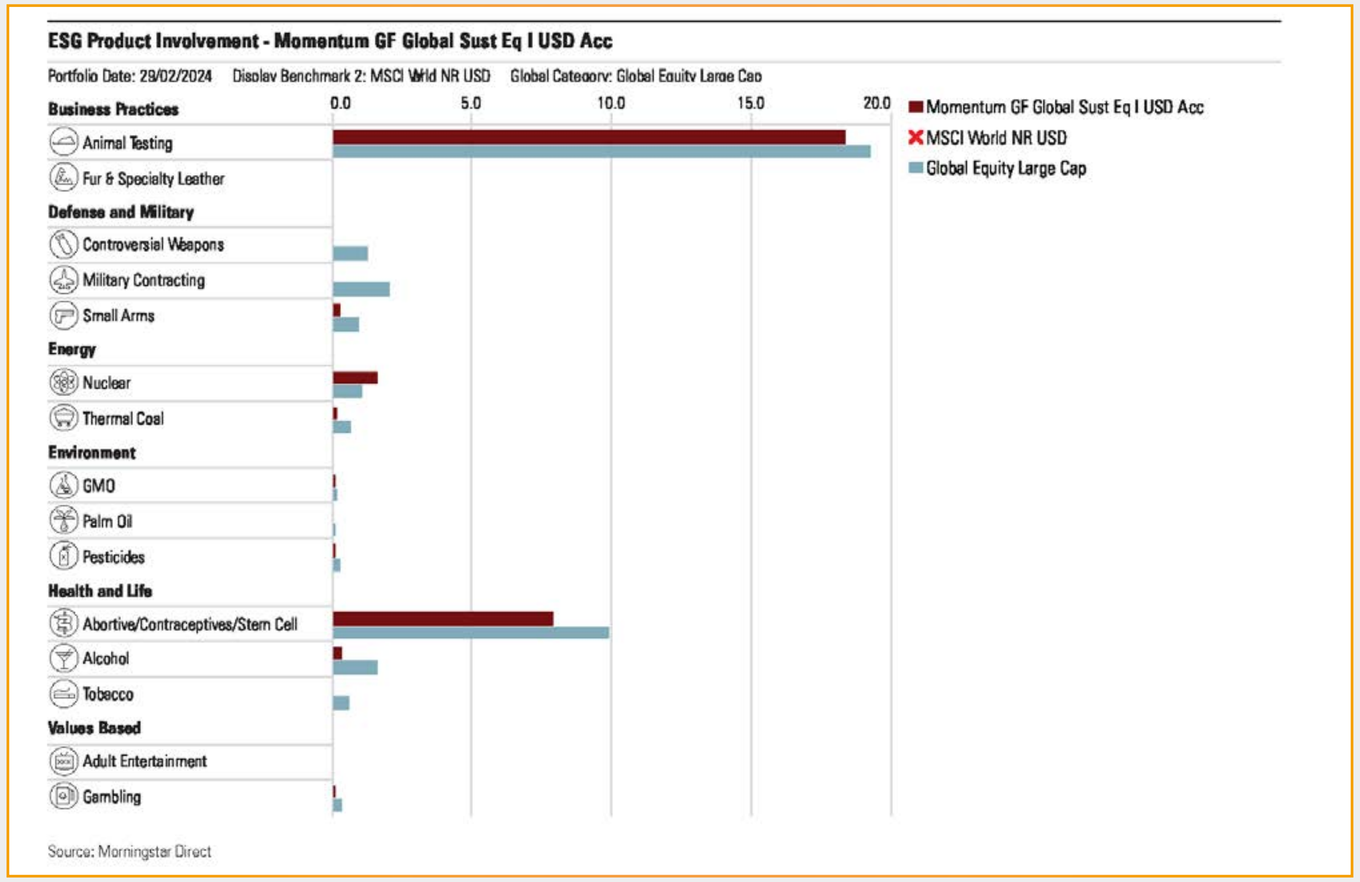

**Holdings Highest/Lowest - Momentum GF Global Sust Eq I USD Acc**

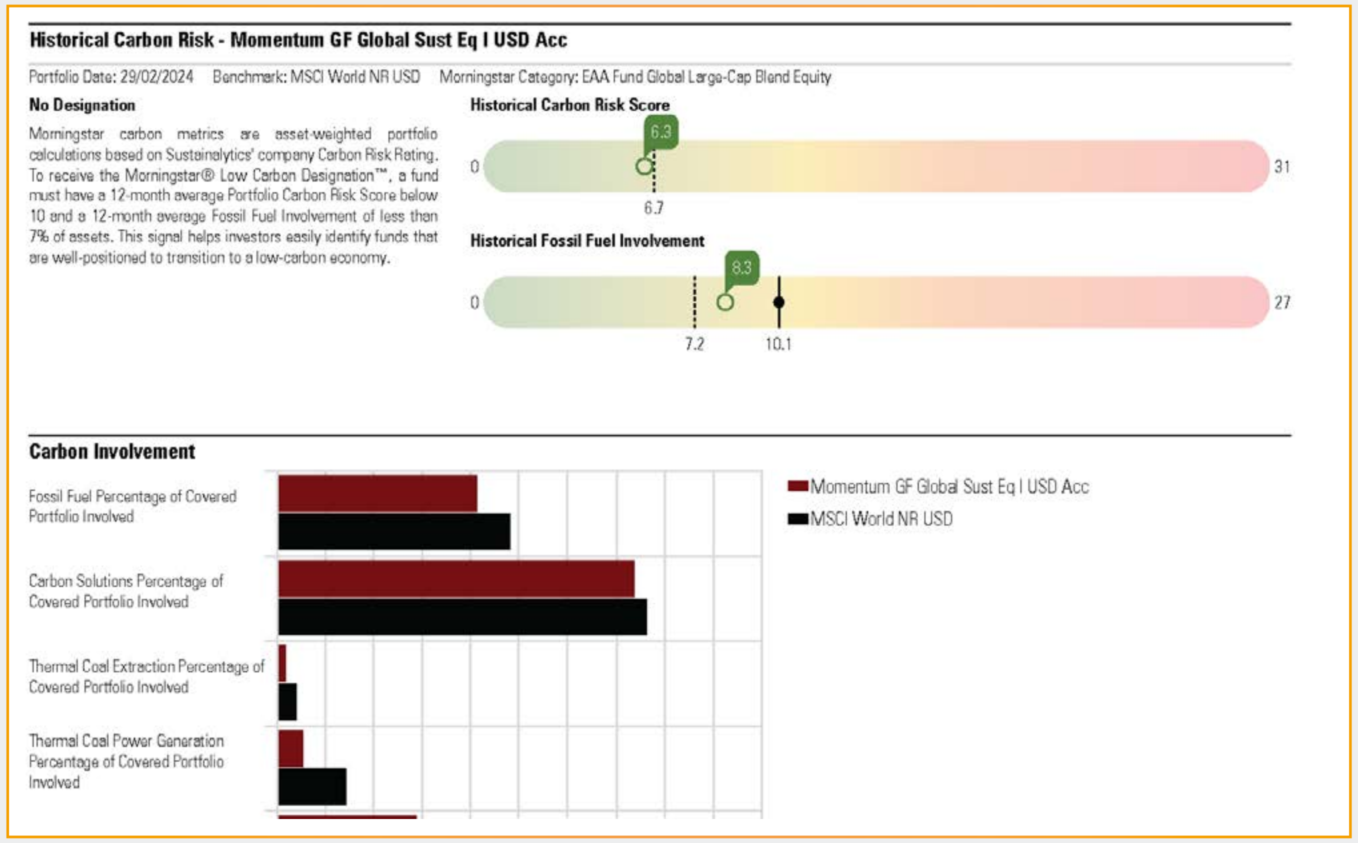
Portfolio Date: 29/02/2024

| | Portfolio Weighting % | Sustainalytics ESG Risk Score |
|---|---|---|
| **Largest Holdings** | | |
| Microsoft Corp | 4.53 | 15.21 |
| Apple Inc | 3.83 | 16.72 |
| NVIDIA Corp | 3.29 | 13.45 |
| Amazon.com Inc | 2.47 | 30.20 |
| Meta Platforms Inc Class A | 2.03 | 33.80 |
| **Highest(Worst) ESG Risk Scores** | | |
| Exxon Mobil Corp | 0.21 | 41.60 |
| 3M Co | 0.33 | 40.98 |
| Nippon Steel Corp | 0.03 | 39.63 |
| Swire Pacific Ltd Class A | 0.15 | 38.73 |
| Ovintiv Inc | 0.02 | 38.57 |
| **Lowest(Best) ESG Risk Scores** | | |
| RELX PLC | 0.01 | 8.62 |
| Kokuyo Co Ltd | 0.05 | 8.65 |
| Aena SME SA | 0.02 | 8.87 |
| Toppan Holdings Inc | 0.01 | 8.89 |
| Land Securities Group PLC | 0.05 | 9.18 |
| **Worst Controversy Levels** | | |
| 3M Co | 0.33 | 40.98 |
| Meta Platforms Inc Class A | 2.03 | 33.80 |
| Alphabet Inc Class A | 1.50 | 24.09 |
| Alphabet Inc Class C | 1.14 | 24.09 |
| Mastercard Inc Class A | 0.93 | 16.56 |
| **Best Controversy Levels** | | |
| ServiceNow Inc | 0.54 | 16.92 |
| Tokyo Electron Ltd | 0.51 | 14.26 |
| Synopsys Inc | 0.40 | 14.51 |
| Cadence Design Systems Inc | 0.40 | 12.02 |
| Broadridge Financial Solutions Inc | 0.34 | 16.71 |




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.

## *Principle 8 Cont...*

### Use of proxy advisers

We do not use default recommendations of proxy advisers. We are notified of upcoming votes via the proxy voting services provided by our custodians. Primary analysts monitor each investment closely to ensure that we receive notification of all meetings and votes are cast in accordance with our Proxy Voting Policy.

### The investment team's activity during the period

#### *Manager meetings*

Frequent engagement with our third-party managers is integral to our investment process. During a manager review meeting, the primary analyst will usually review the following: performance-based analysis; holdings-based analysis; trading analysis; liquidity analysis;

proxy voting decisions; and areas of ESG risk identified by Sustainalytics or through other research sources.

We believe in fostering a close relationship with our managers, viewing engagement as an ongoing dialogue. This collaborative approach enables us to establish rapport and a deeper understanding of their investment strategies. We see engagement as a means to exert influence, addressing concerns or material issues directly with our managers as our preferred course of action. We recognise the importance of addressing ESG-related issues through active engagement rather than solely through divestment or exclusionary measures.

Regular meetings with managers alongside desk-based analysis, helps primary and secondary analysts to complete manager scorecards. Asset class sub-teams meet regularly to discuss existing third-party managers and potential additions to coverage, and within this assessment ESG factors will be considered. Regular reviews of our existing providers ensure the quality of their services aligns with the investment team's requirements, while also considering alternative or new providers.

MGIM held over 250 manager and company review meetings during 2023. Of these, 212 meetings were with existing holdings and 88 meetings focused on potential new holdings. MISC held around 55 manager meetings during the period. This demonstrates our commitment to both exploring new opportunities and maintaining active dialogue with existing investments.

#### *Review of Sustainalytics data*

We access Sustainalytics' ESG data via our Morningstar Direct license. This followed a thorough review process in 2020 of the following ESG data providers: Sustainalytics, MSCI, RobecoSAM, FTSE Russell, RepRisk and ISS. We have also had subsequent meetings with FactSet and Bloomberg to explore their ESG data add-ons. Among these providers, Sustainalytics were deemed most suitable for our needs across coverage; scope; data sources; and analysis and output. Sustainalytics, owned by Morningstar, is an ESG research, ratings and analytics firm. Our prior familiarity with Sustainalytics data through Morningstar Direct access informed our decision.

To ensure data accuracy and consistency, members of our investment team maintain constructive two-way relationships with providers. Sustainalytics data is used to supplement analysts' research, with ongoing conversations with managers providing a real-time review of this data.

We review key ESG indicators provided by Sustainalytics to assess investment risks. These include the 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.

In the event of a decline in the quality of Sustainalytics data, we will reassess our original selection process and explore alternative options. Various members of the team will have discussions and demonstrations of other service provider's tools on a regular basis to assess if there are better options that could supplement our existing offering; such as Clarity AI's carbon emissions analytics tool or Bloomberg's ESG data points for companies/equities.

This commitment to continuous evaluation and trialling of additional service providers ensures that we maintain the integrity and reliability of our ESG data sources.

### Examples

Meetings with our third-party managers and analysis of quantitative data via service providers, led to decisions in our portfolios over the period, as demonstrated in the following examples (fund names have been omitted where relevant due to sensitive information):

### Example 1:

One notable change during the year involved the switch out of our US value equity fund. The decision to replace the incumbent was not solely based on sustainability metrics but was primarily due to concerns regarding style drift and decline in confidence in the investment manager's approach. In seeking a replacement, we prioritised finding a manager with stronger sustainability metrics alongside the various other metrics that we assess. The replacement manager emerged as a top candidate within the US value equity space, offering stability and a robust investment process which integrates ESG factor analysis. Although, at MGIM, we do not invest or divest from funds solely sue to strong or weak responsible investment processes, it is a key criteria for assessment and consideration.

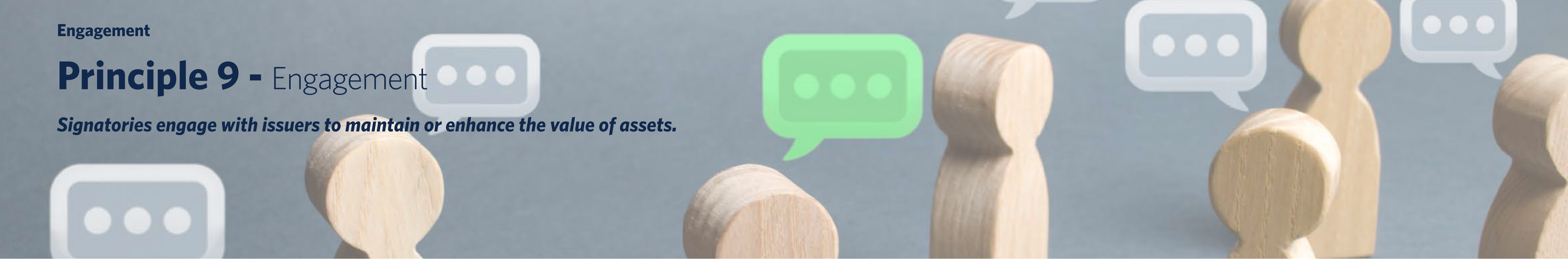
### Example 2:

MGIM have recently completed the due diligence for the Evenlode Global Equity fund, a Global quality equities manager. Although the search was not initiated with the intention to replace one of the existing funds, we found that this fund was superior with respect to various elements including a robust process, strong performance and also in terms of ESG integration and engagement processes. Evenlode's beliefs around sustainability and active ownership are aligned with those of MGIM which was one of the factors in selecting the fund. In addition to this, they have been open to listening to our feedback on their sustainable investment practices which is promising in terms of further alignment going forwards.

### Changes to our processes

We are currently enhancing our research database, Momentum Analysis Database ('MAD'), to serve as a central location for all of our research. This aims to boost efficiency across the team and streamline sharing of information with other teams within the business. As part of this effort, our engagement spreadsheet has now been integrated into MAD which records all interactions with our managers and companies, prompting members of the team to schedule meetings on at least an annual or semi-annual basis.

In addition, we conduct weekly investment research meetings attended by the entire team. These meetings serve as a platform to discuss relevant news related to existing portfolio holdings. We also allocate half of each meeting to delve deeper into different asset classes, with topics rotated weekly. This structured approach ensures comprehensive coverage and promotes informed decision-making across our investment strategies.



# Principle 9 - Engagement

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

This section is applicable to MGIM only (excluding MISC and CAIM).

MGIM's philosophy centres around helping clients achieve their investment goals through the Momentum Outcome-Based Investing approach. Following an investment philosophy that is outcome-based ensures that we focus on delivering on investor outcomes, and being stewards of our clients' capital goes hand-in-hand with this approach. This is why, alongside the integration of ESG factors within our investment process, stewardship is a key pillar of MGIM's responsible investment approach. We recognise that whilst ESG-leaders can have a place in portfolios, many organisations require capital in order to adapt and improve their environmental, social and/or corporate governance practices, and this can take time. Therefore, in many cases, remaining invested and engaging with companies to improve on material ESG metrics is our preferred approach to exclusions and divestment.

MGIM, and the wider Momentum Group, have been signatories of the UN Principles for Responsible Investment since 1996, and as a result we have committed to the six core principles, including Principle 2: "We will be active owners and incorporate ESG issues into our ownership policies and practices".

## Our approach to engagement

Within our Responsible Investment policy (published on our website here) we outline 'goal posts' which help to focus our approach to responsible investment. One of these goal posts is 'active ownership' which includes voting and engagement. Our engagement policy (published on our website here) outlines the Group's approach to active ownership although there are nuances between different business units due to differing locations, country-centric codes and policies, or for other business-related reasons, which are discussed below.

MGIM's approach to engagement differs by type of investment and asset class. The whole investment team are responsible for reviewing and monitoring engagement processes of third party fund managers within their area of coverage, and engaging directly with direct equity and investment trust boards/management teams where relevant. The information provided in the following sections of this report relate to MGIM's voting and engagement processes and activities.

Note that when referencing 'analysts' in the text below this is anyone in the investment team, including portfolio managers, whom also have analyst coverage.

### *Third party funds*

The majority of MGIM's assets under management are managed by third party fund managers. The investment team are responsible for researching, selecting and monitoring these funds and segregated accounts. MGIM's fund research due diligence has included analyses of ESG integration and active ownership for many years however, over the past year we have further formalised this part of the process which is discussed below.

The initial process begins with a responsible investment (RI) questionnaire, which is tailored to each asset class. This questionnaire includes an assessment of active management processes at both fund and company level. Once completed, these responses are used to guide our questioning when meeting with the fund manager, and RI specialist if relevant. In our assessment of active ownership, we consider:

- Whether the fund manager/RI team engage.
- How they identify material issues and candidates for engagement.
- Whether they set timelines and targets for engagements with companies.
- If relevant, what their process for escalation is and whether they divest if a lack of progress is being made on key issues.
- Do they engage collectively with other investors.

Once we have a clear picture of the third party's active ownership processes, in line with the above, we use this information to devise an 'active ownership' score on the overall fund scorecard. A low score in this area will impact the overall score of the fund and this would be highlighted for information however, it would not preclude us from investing in the fund. Each analyst in the MGIM team will monitor engagement activity for the funds that they cover. As a part of this process we will check if there are any changes to the engagement process and, if relevant, we will discuss engagement examples with the fund manager and team.

Currently, we have had limited engagement with third party fund managers based on the output of this analysis. However, our plan for late 2024 and into 2025 is to identify weaknesses in the RI processes of our fund manager line-up and then engage where it makes sense to do so. Our focus will be on funds with which we have segregated accounts and where the most assets are invested because this is where we could have the biggest impact.

### *Investment trusts (IC)*

MGIM portfolios have relatively small allocations to alternative investments including property, infrastructure, private equity, diversified financials etc. and most of this allocation is made via ICs (around 3.7% of MGIM's total AUM). Investment trusts are UK equities listed on the London Stock Exchange with independent boards overseeing the companies and appointed investment advisors managing the underlying assets. This means that the engagement process that we employ sits somewhere between that of direct equities and third party funds. Our analysts who analyse and monitor these ICs have regular contact with the management teams. Engagement activity includes:

- At minimum, a bi-annual meeting when interim and annual results are published.
- In many cases there will be contact with management on a quarterly basis because many ICs update NAVs (net asset values) on that frequency.
- General updates occur on an ad hoc basis throughout the year, particularly if there is a corporate action (e.g. an acquisition) or shareholder vote (such as LondonMetric's purchase of LXI REIT).

Meetings primarily focus on financial performance and portfolio/asset management i.e. are the assets performing operationally, and being managed by the investment advisor, in line with expectations. However, it is within these regular interactions that MGIM analysts will engage with IC management teams if a material issue has been identified. The depth of these engagements differs on a case-by-case basis but there is some level of engagement at most of these

Principle 1
Principle 2
Principle 3
Principle 4
Principle 5
Principle 6a
Principle 6
Principle 5a
Principle 7
Principle 8
Principle 9
Principles 10 & 11
Principle 12

## Principle 9 Cont...

meetings because the analysts know these portfolios and teams very well, meaning some level of feedback is usually provided. For example, at a recent update meeting, our analyst fed back to a private equity IC manager that they should reduce the size of one of the holdings in order to avoid overconcentration of assets in the portfolio. More in-depth and ongoing engagements also take place if the analyst deems it additive and necessary (see examples below).

MGIM analysts don't set specific targets to ICs on ESG matters because they set their own objectives as per the sustainability policies put in place by the respective Boards' Audit Committees and asset managers themselves. Instead, we will review ESG performance in the reports and accounts and look for improved outcome scores as per the various measures reported on. If there is a deterioration in the scores then the MGIM analyst will discuss this with the IC's management.

### Direct equities

The equity analysts at MGIM research and monitor around 40 UK companies, which comprises around 2% of MGIMs total assets under management . There are a number of other companies that are monitored but are not invested so therefore not considered as candidates for engagement.

The level of active engagement that the direct equities team have with Boards or other stakeholders depend on a number of factors, including (but not limited to):

- The size of investment within our portfolios and assets invested
- The performance of the investment (underperformance will typically attract closer attention)
- Time constraints and other portfolio demands requiring action at the time
- The likelihood of success
  - i.e. the level of our engagement with larger companies is conducted on a best-endeavours basis. Due to the relatively small size of our holdings, direct dialogue with Chief Executives, Finance Directors and Chairpersons, may not be feasible in the case of "large-cap" or FTSE-100 companies, so we have to accept that the opportunity for direct engagement is commensurately less. Thus, 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.

In conducting due diligence on any direct investment our analyst/s will conduct in-depth analyses on companies, in which material ESG issues may be identified. They read all shareholder communications, including reports and accounts, presentations, ESG reports, interim or final results, and any other news flow. One-on-one meetings (face-to-face or virtual) are a key component of the process; note that the analysts do not usually attend General Meetings, finding one-on-one private meetings to be far more productive than those held in a public arena. Our analysts also talk to sell-side analysts/brokers, which is particularly useful when the MGIM analyst/s are less familiar with that industry.

Governance is a key component of our direct equities research in terms of evaluating the quality of a management team and executing a business' strategy, at initiation and during ongoing monitoring. They look at the track record of the CEO/CFO as well as the Chair of the board to help form a view. Then, in meetings with management teams, the analyst will question if any reporting is vague or doesn't seem correct, usually following up with the CFO if the query is related to the accounts. It is predominantly within this part of the process that material issues are highlighted for engagement.

The team look at each company's sustainability/ESG report (most companies now produce one) to evaluate environmental and social (E and S) factors. Generally, the team are comfortable with targets that look achievable (i.e. in line with or better than industry average) but if the E and S targets are unrealistic or lacking then the MGIM analysts would discuss this at a meeting with management in order to gain a deeper understanding. As target setting is somewhat new for many of the companies under coverage there have not been any cases for engagement to date, although the team have discussed improvements on ESG reporting with some of the smaller companies under coverage.

Our analysts endeavour to identify problems at an early stage, and regular monitoring of company performance and activity is carried out through our analyst's due diligence process, as described above. Engagements are tracked on a central database and the analyst will outline any environmental, social and/or governance topics that have been discussed which can be referenced before future interactions. The analysts do not set specific targets for engagements but this engagement monitoring database enables them to track engagement progress over time and ultimately, they can choose to simply exit the shareholding if they wish to, albeit this would be in extreme cases.

### Direct fixed income holdings

MGIM have a small allocation to direct government and corporate bonds but engagement does not form a part of our investment process for these assets. We only invest in developed government bonds, predominantly US treasuries and UK gilts, where engagement prospects are extremely limited.

We do not purchase corporate bonds in primary market, but in the secondary market instead, which means the terms have already been agreed upon, thus limiting our potential to engage.

### Other asset classes

We have minimal investments in other asset classes such as alternatives via third party funds and therefore we do not allocate engagement resources in this area where the impact would be limited.

### Monitoring engagements

At MGIM engagements are monitored in various ways:

- Meeting notes – all analysts make notes at every meeting including those that include engagements or discussions on engagement activity, in the case of third party funds. These meeting notes are stored on a central, cloud-based database (Momentum Analyst Database: 'MAD') that the whole team can access and that the analyst will refer back to when planning for future meetings.
- Meeting summaries – analysts will send summaries of meetings conducted with a third party fund manager, investment trust or direct equity holding via Microsoft Teams. The whole team will get an alert when there is an update.
- Engagement spreadsheet – on MAD there is an engagement spreadsheet which details when a meeting was conducted, who attended, any E, S or G issues discussed including outcomes, whether there was any escalation or collaboration, and a link to the full research note. This monitoring is fully utilised by the direct equities and investment trust analysts. Fund analysts are starting to use this spreadsheet as well, and the intention is for all meetings and engagements to be tracked and monitored here.

## Engagement

### *Principle 9 Cont...*

### Policies

Our Responsible Investment Policy and Engagement policies, available on our website, guide our analysts when they engage. These can be found on our website via the link below.

**Responsible Investment Policies**

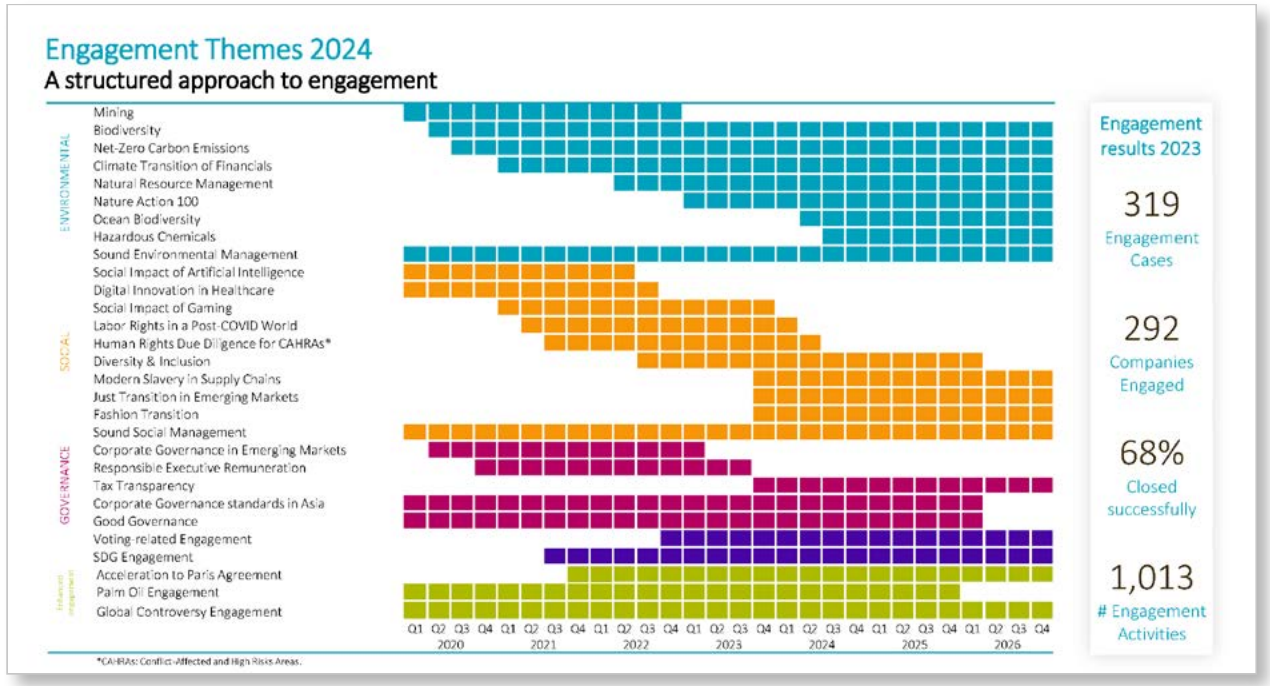
### Examples

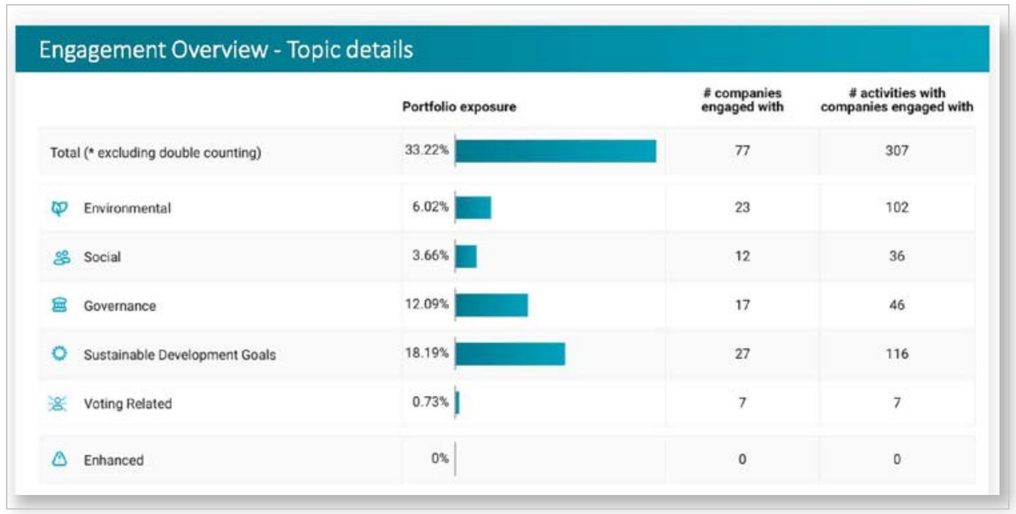
#### Robeco – systematic equities (various strategies)

Momentum have partnered with Robeco, a systematic, third-party manager, that integrates ESG analysis across its investments and leads a longstanding, effective engagement effort. As Robeco manage a significant level of AUM across various equities products on behalf of MGIM (over $2bn therefore representing by far our largest third party manager), various members of the investment team have very regular contact with them and discussions regarding their engagement activity will form a part of some of these meetings. Engagement at Robeco is a fundamental part of their philosophy surrounding responsible investment and this resonates strongly with MGIM.

Robeco outlines material themes for engagement across environmental, social and governance topics and then they engage with companies over time to strive for change. This may begin with setting targets and timelines, then firstly reaching out to company management teams in writing, followed up with face-to-face meetings and in-depth monitoring of progress as the engagement progresses. This process is driven by the ESG/sustainability team although portfolio managers have varying levels of involvement and are kept informed via a central database throughout the process.

Robeco provide us with sustainability (and voting) reports on a quarterly basis for mandates managed on our behalf. Below is an excerpt of the engagement data that Robeco provide within the quarterly sustainability reports; note that this information is not portfolio specific as engagements are conducted at company level on behalf of all portfolios.

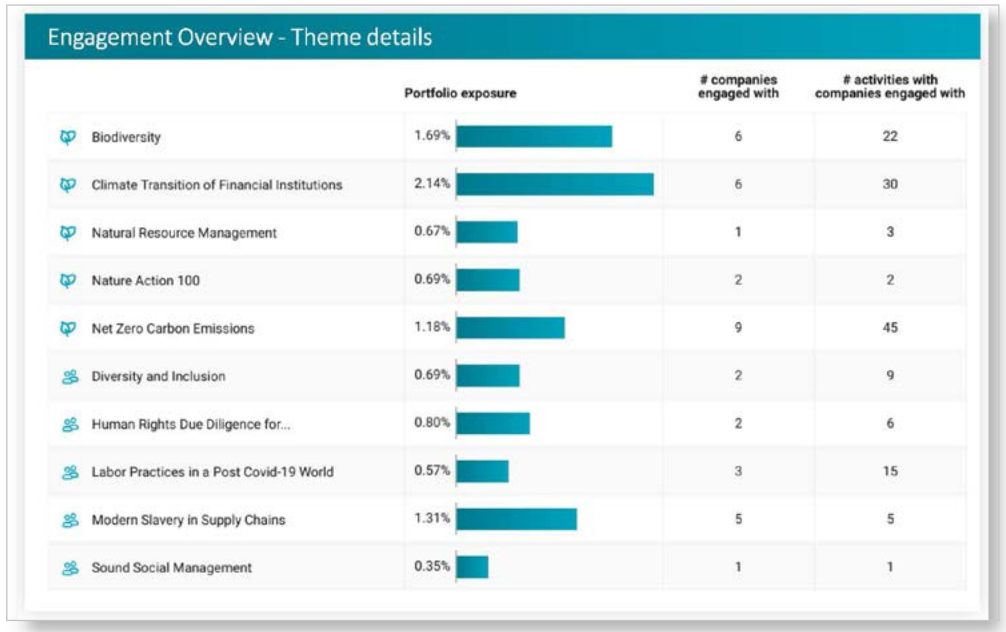


Engagement Overview - Topic details

| | Portfolio exposure | # companies engaged with | # activities with companies engaged with |
|---|---|---|---|
| Total (* excluding double counting) | 33.22% | 77 | 307 |
| Environmental | 6.02% | 23 | 102 |
| Social | 3.66% | 12 | 36 |
| Governance | 12.09% | 17 | 46 |
| Sustainable Development Goals | 18.19% | 27 | 116 |
| Voting Related | 0.73% | 7 | 7 |
| Enhanced | 0% | 0 | 0 |

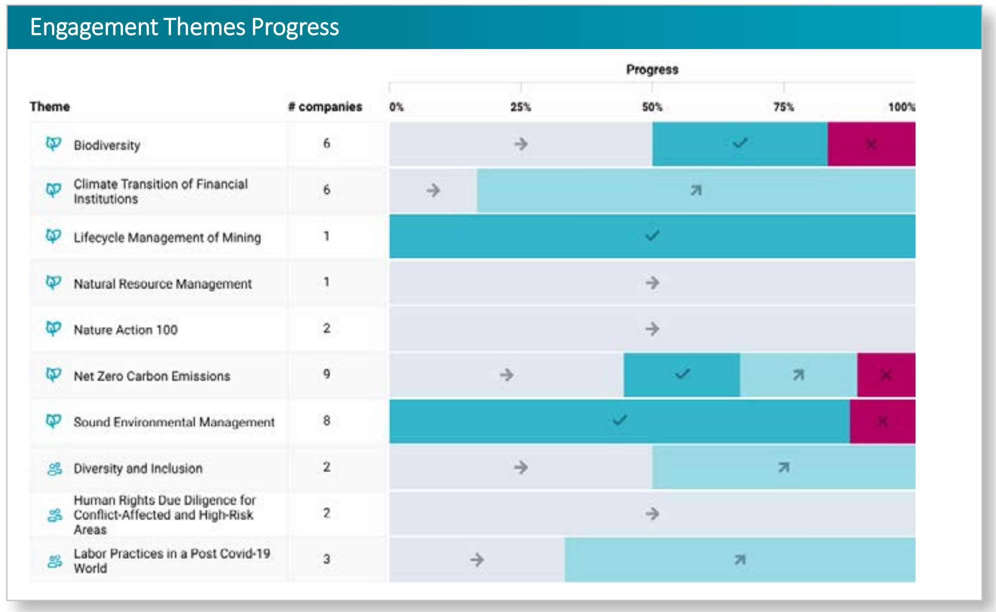
The following charts are from Robeco's engagement overview presentation. Note that the below shows 4 charts out of a presentation of around 32 slides that provides an in-depth analysis of engagement activity and progress over a specific time period (in this case during the full year 2023).

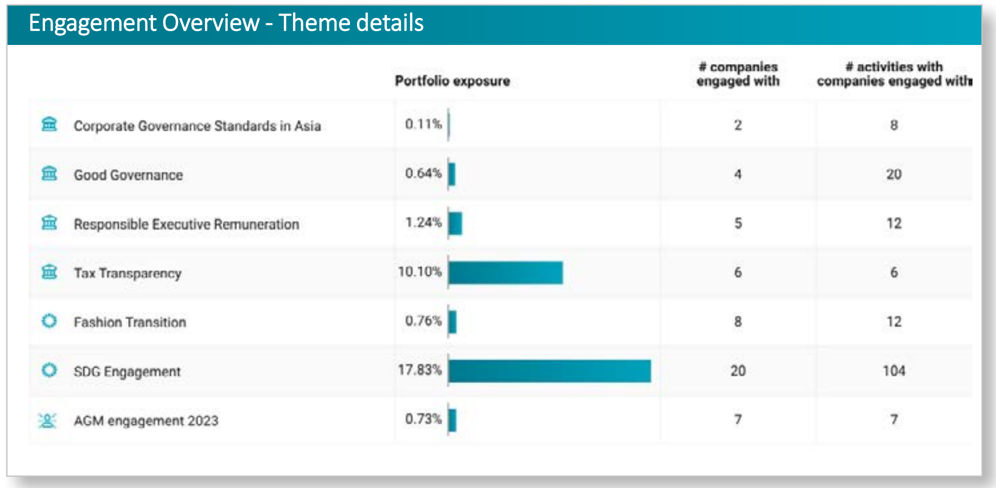


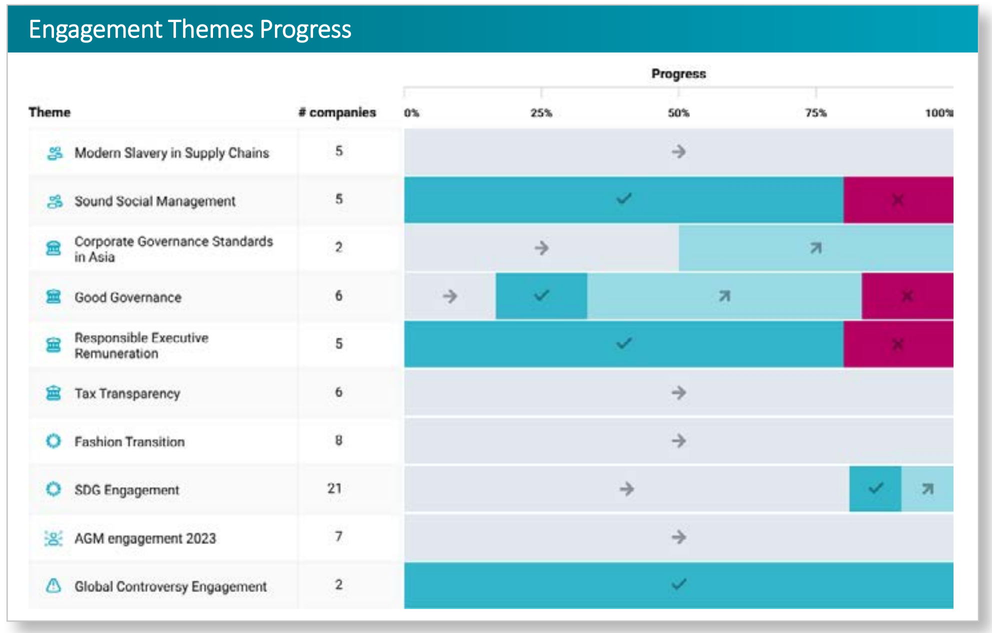
Engagement Overview - Theme details

| | Portfolio exposure | # companies engaged with | # activities with companies engaged with |
|---|---|---|---|
| Biodiversity | 1.69% | 6 | 22 |
| Climate Transition of Financial Institutions | 2.14% | 6 | 30 |
| Natural Resource Management | 0.67% | 1 | 3 |
| Nature Action 100 | 0.69% | 2 | 2 |
| Net Zero Carbon Emissions | 1.18% | 9 | 45 |
| Diversity and Inclusion | 0.69% | 2 | 9 |
| Human Rights Due Diligence for... | 0.80% | 2 | 6 |
| Labor Practices in a Post Covid-19 World | 0.57% | 3 | 15 |
| Modern Slavery in Supply Chains | 1.31% | 5 | 5 |
| Sound Social Management | 0.35% | 1 | 1 |

## *Principle 9 Cont...*




**Below we have included various examples of Robeco's engagements and the status of these engagements as at end 2023.**

### Robeco

| | |
|---|---|
| **Company** | LyondellBasell Industries |
| **Engagement topic** | Net zero carbon emissions |
| **Contact dates** | 9 engagements between March 2022 to November 2023 |
| **Engagement outcome** | Ongoing |
| **Key engagement takeaways** | » The company made progress by setting medium term targets for scope 3 emissions.<br>» The company feels their CA100+ benchmark score should be better but accepted feedback on how to improve.<br>» They are actively working on a just transition plan for their Houston refinery closure. |

| | |
|---|---|
| **Company** | Suzano |
| **Engagement topic** | Biodiversity |
| **Contact dates** | 8 engagements between October 2020 to June 2023 |
| **Engagement outcome** | Closed - Effective |
| **Key engagement takeaways** | » Certification levels have increased from 88% to 97% and from 33% to 44% for its purchased wood.<br>» Controversies around a local social movement invading Suzano's land and the limited management response lead us to leave the 'Social Management' objective on positive progress.<br>» Successfully closed the 'Zero Deforestation' and 'Sustainability Reporting' objectives and hereby conclude the overall engagement as effective. |

| | |
|---|---|
| **Company** | Meta |
| **Engagement topic** | SDGs |
| **Contact dates** | 8 engagements between October 2020 to June 2023 |
| **Engagement outcome** | Ongoing |
| **Key engagement takeaways** | » Meta shared their approach to responsible AI in detail, highlighting transparency, testing, and evaluation as key steps in development.<br>» The company has a comprehensive approach to content moderation in crisis situations through its Crisis Policy Protocol.<br>» With its online safety measures, Meta aims to protect children and teenagers on their platforms. |

## *Principle 9 Cont...*

### Aikya - Emerging Market equities

| | |
|---|---|
| Company | Chinese A-Shares |
| Engagement topic | Disclosing Emissions Data |
| Contact dates | Various |
| Engagement outcome | Ongoing |
| Key engagement takeaways | » Most companies in the Aikya Portfolio have made solid progress in terms of disclosing their direct carbon footprint in recent years.<br>» Understandably, a number of the smaller and medium-sized companies are earlier in their journey, and the manager has been working with these companies to improve disclosure.<br>» Two of the Chinese holdings have agreed to disclose direct emissions from next year, which is progressive in the context of the A-Share market. |

### Jupiter - UK small-cap equities

| | |
|---|---|
| Company | Jubilee Metals |
| Engagement topic | Corporate governance arrangements and ESG disclosures keep pace with the company's growth |
| Contact dates | Multiple since December 2021 |
| Engagement outcome | Ongoing - remain invested and continue to monitor progress |
| Key engagement takeaways | » Opportunities to deliver positive sustainability outcomes by recovering metals that enable the energy transition and rehabilitating hazardous tailings sites. Seen progress on both points.<br>» Welcomed appointment in 2022 of first independent Chairman, an independent director and newly created Sustainability Committee.<br>» In 2023 met directors to gauge development of the company's governance and sustainability frameworks.<br>» Encouraged Board to establish updated remuneration policy but the remuneration report revealed recommendations had not been implemented.<br>» Escalated the engagement by voting against the Chair of the Remuneration Committee. |

### Jupiter - Emerging Market Debt

| | |
|---|---|
| Company | Suzano |
| Engagement topic | Controversies flagged by data providers |
| Contact dates | Various |
| Engagement outcome | Closed (with ongoing monitoring) |
| Key engagement takeaways | » Civil action lawsuit due to socio-environmental degradation linked to eucalyptus plantations in Bahia, Brazil.<br>» Suzano explained they have engaged with local communities and native indigenous populations. Provided evidence to refute allegations.<br>» Sustainability representatives emphasised Suzano's social investment.<br>» Allegations of poor working conditions for migrant workers.<br>» Ministry of Labour ruled Suzano had to cover workers costs and change its practices.<br>» Suzano changed hiring process in affected regions and clarified minimum requirements for working and living conditions for contractors.<br>» More positive post engagement. Management to provide external audit report on above topics. |

### Royal London - High yield corporate bonds

| | |
|---|---|
| Company | Drax Group & Rolls Royce |
| Engagement topic | Climate transition risk as part of net zero engagement programme |
| Contact dates | Various during 2023 |
| Engagement outcome | Ongoing |
| Key engagement takeaways | » Civil action lawsuit due to socio-environmental degradation linked to eucalyptus progress of their Bioenergy with Carbon Capture and Storage (BECCS) project.<br>» Progressing well. Drax has successfully captured carbon on-site, a significant milestone. However, still significant uncertainties regarding government support for the project. Continue to monitor.<br>» Sent letter to Chair of Rolls Royce board to introduce net zero engagement programme. Awaiting response. |

## *Principle 9 Cont...*

### Lyrical - Global impact equities

| | |
|---|---|
| Company | Elis |
| Engagement topic | Impact measurement |
| Contact dates | Various during 2023 |
| Engagement outcome | Ongoing |
| Key engagement takeaways | » Civil action lawsuit due to socio-environmental degradation linked to eucalyptus progress of their Bioenergy with Carbon Capture and Storage (BECCS) project.<br>» Progressing well. Drax has successfully captured carbon on-site, a significant milestone. However, still significant uncertainties regarding government support for the project. Continue to monitor.<br>» Sent letter to Chair of Rolls Royce board to introduce net zero engagement programme. Awaiting response. |

The following engagement examples are from MGIM's internal analysts / portfolio managers who research and monitor investment trusts and equities. One example from each area is provided below as these investments comprise a smaller part of MGIM's total assets under management.

### MGIM - Investment trust

| | |
|---|---|
| Company | Digital 9 Infrastructure (DGI9) |
| Engagement topic | Asset purchase driving weakened balance sheet |
| Contact dates | Various from September 2022 |
| Engagement outcome | Closed – very minor remaining exposure |
| Key engagement takeaways | » DGI9 purchased a holding (Arqiva) that analyst felt would put strain on the balance sheet. Reduced holding but remained invested, partly for engagement purposes.<br>» Arqiva took out an inflation swap meaning financial position of DGI9 suffered and this restricted their dividend paying ability.<br>» Engaged with the Chair of the board and the underlying asset manager as believed dividend commitment threatened capital investment plans.<br>» When key members of asset manager departed, engaged with board to replace asset manager.<br>» Circumstances deteriorated and when DGI9 needed to raise cash, MGIM analyst provided counsel on sale of one of the underlying assets which was followed.<br>» The Company's long term survival as a listed entity is impossible and priority is to enable the realisation of as much value as possible for shareholders. |

### MGIM - Direct equity

| | |
|---|---|
| Company | Marston's |
| Engagement topic | Capital return programme |
| Contact dates | Various during 2023 |
| Engagement outcome | Ongoing – continue to monitor |
| Key engagement takeaways | » Despite good operational and financial progress since 2021, shares have steadily de-rated due to concerns about rising interest rates and consumer outlook.<br>» Wrote to Chair and CEO suggesting a capital return programme by which shares are repurchased on the open market using a pre-defined percentage of property disposal proceeds and proceeds from any other asset sales.<br>» Proposition acknowledged. Other shareholders also engaging on same topic. |



Principle 1 Principle 2 Principle 3 Principle 4 Principle 5 Principle 6a Principle 6 Principle 5a Principle 7 Principle 8 Principle 9 Principles 10 & 11 Principle 12

# Principles 10 & 11 - Collaboration & Escalation

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

This section is applicable to MGIM only (excluding MISC and CAIM).

We have opted to cover collaboration and escalation of engagements in tandem as much of the information is the same for both aspects within our investment process.

We have focused on collaboration and escalation of engagements by our third party fund managers as well as internally by our equity and investment trust analysts at MGIM.

## Third party funds

As part of MGIM's responsible investment due diligence process, there are specific questions within the questionnaire regarding the process followed by fund managers and teams with regards to collaboration and escalation. During follow-up meetings, once we have received these completed questionnaires, we will discuss how managers implement these processes including relevant examples of how they have done so. We find that discussing examples with management teams not only brings the full engagement process to life but also helps in identifying where fund managers both understand and also truly follow the process that they have outlined in the questionnaire. At regular monitoring meetings we will discuss ongoing engagements, escalations and collaborations with management teams where relevant.

Throughout the initial research and monitoring process we outline MGIM's beliefs surrounding engagement, including collaboration and escalation. We do not endeavour to tell third party fund managers how to engage with their underlying investment companies but we will assess their practices which feed into our rating sheet for each fund. Additionally, where we feel there are weaknesses in processes we will highlight this in our research notes. For example, one of our European equities fund managers (whom we have purposefully not named as we feel it would not be fair) claims to have robust engagement processes in place. However, when conducting the RI due diligence meeting with them and discussing their active ownership practices we found that they consider any contact with an investment company as an engagement even if it is just to discuss performance, for example. They do not identify material ESG issues, set engagement objectives, monitor engagements, or escalate and collaborate. Therefore, this fund's active ownership scores in the fund scorecard were downgraded and, in part due to this, it was removed from our sustainable multi-asset portfolio.

Our engagement policy is published on our website (link **here**); this document guides our process and is also a useful aid in providing third party managers with guidelines surrounding our approach. For investments where we have an investment management agreement (IMA) in place we do not currently have a section dedicated to responsible investment or sustainability however, one of MGIM's objectives during 2024 is to include specific guidelines in order to align third-party manager's practices with our own, where we have the power to do so.

## Investment trusts (ICs) & Direct equities

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 cooperate with other shareholders if necessary, the likelihood of success and whether a successful outcome would give suitable reward to our investors. Our analysts will escalate engagement topics and collaborate with other stakeholders in certain circumstances although this tends to be relatively infrequent. This is partly due to us predominantly holding relatively small stakes in companies and, in the case of collaboration, because coordinating shareholder action takes time. We believe that an effective active ownership strategy must ensure resources are allocated effectively, ensuring that we spend resource on the most value-adding activities for clients as stewards of their capital.

Circumstances where we have collaborated with other shareholders has usually been when we have been approached by a larger shareholder who wishes to lead in taking a course of action. Additionally, 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 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.

In terms of escalation, the MGIM analyst's first step is to identify a material issue which may come to their attention via poor performance, the Board/directors not acting in the best interests of shareholders or when a conflict of interest arises. If the first steps of the engagement, as discussed in the previous section, and use of our voting rights, proves unsuccessful then the MGIM analyst will first speak to company management, then the company advisers, and finally escalate to the Board if concerns have not been 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 also discuss our concerns with major shareholders to gauge how much influence we may be able to exert.

## *Principles 10 & 11 Cont...*

### Aikya Emerging Market equities (third party fund)

| | |
|---|---|
| Company | Multiple Emerging Market companies |
| Engagement topic | Collaborative Engagement: Nutrition |
| Contact dates | Multiple dates with various companies since 2022 |
| Engagement outcome | Ongoing |
| Key engagement takeaways | » Engaging with portfolio companies to demonstrate a commitment to nutrition. Report and set targets.<br>» Aikya's nutrition engagement framework is well aligned with the work of Access to Nutrition Foundation (ATNI), therefore, working alongside them.<br>» Made investee companies aware of ATNI's work and engaged on specific topics.<br>» Direct engagement examples with Marico and Unilever provided (details available).<br>» This engagement is a multi-year process since different companies are at different stages.<br>» Continue to adopt a mixed approach of both direct and collaborative engagement with companies, regulators, and other stakeholders. |

### Jupiter UK Small Companies equities (third party fund)

| | |
|---|---|
| Company | Hyve Group |
| Engagement topic | Collaborative engagement: Takeover bid |
| Contact dates | March/ April 2023 |
| Engagement outcome | Closed - Successful |
| Key engagement takeaways | » Participated in a collective engagement with the Board after it recommended a takeover by a private equity firm.<br>» Objective and rationale for collective approach to ensure the Board had a clear understanding of the magnitude of investor dissatisfaction with the bid and to gain greater clarity on the process leading to the Board's recommendation.<br>» Bidder announced 12% increase in the offer price and acquisition approved by shareholders. |

### Robeco – systematic equities (third party funds and segregated mandates)

| | |
|---|---|
| Company | Archer-Daniels-Midland Co |
| Engagement topic | Engagement escalation: Biodiversity |
| Contact dates | 12 engagements between September 2020 to December 2023 |
| Engagement outcome | Closed - Successful |
| Key engagement takeaways | » ADM committed to eliminate primary non-forest native vegetation conversion by 2025, with a verification date for indirect suppliers by 2027.<br>» ADM mapped forest and non-forest vegetation, high risk areas and degraded land, leading to a clear picture as to where suppliers can still expand.<br>» Robeco closed the case successfully and transferred it to the Nature Action 100 theme to continue engaging on its wider biodiversity footprint. |

## *Principles 10 & 11 Cont...*

### Jupiter Emerging Market Debt Fund (third party fund)

| | |
|---|---|
| Company | OCP SA |
| Engagement topic | Engagement escalation: Breach of UNGC Principle 2 (human rights) |
| Contact dates | Multiple |
| Engagement outcome | Ongoing |
| Key engagement takeaways | » Company's operations in Western Sahara whose legality is dependent on the consent of the people of the territory.<br>» OCP explained plans to integrate a human rights framework across their supply chain, and to create a human rights action plan by 2025.<br>» Assessment by KPMG will be carried out to assess their actions in the region, including an assessment of operations meeting non-discrimination criterion, and not being harmful to the environment<br>» Asked OCP to re-contact ESG rating providers to progress talks about rectifying their UNGC violation.<br>» Jupiter's sentiment towards the company remain unchanged following engagement, and they will monitor their progress. |

### MGIM - Investment trusts

| | |
|---|---|
| Company | Investment trust universe |
| Engagement topic | Escalation and collaborative engagement: Campaign to initiate legislative change on cost disclosures |
| Contact dates | Multiple since 2022 |
| Engagement outcome | Partially closed - Successful |
| Key engagement takeaways | » In 2022, the Investment Association (IA) adopted FCA guidance that implemented the 2013 PRIIPs and AIFMD regulations which resulted in IC fees being treated like funds, although they are traded via a share price which already discounts the operating costs as disclosed in their Report & Accounts.<br>» Resulted in withdrawal of capital by investors.<br>» Arguably in conflict with Consumer Duty which was introduced in 2023.<br>» MGIM liaised with a body of market participants on the buy-side and sell-side ("action group").<br>» MGIM initially increased awareness by making public statements re the risks.<br>» Large investors removed ICs from platforms due to optical costs.<br>» Baroness Bowles, Baroness Altmann and John Baron MP raised the matter in both Houses of Parliament on behalf of the action group which resulted in a Private Members Bill. MGIM have participated in meetings with various stakeholders, including in the House of Lords, to discuss the matter and plan a course of action. In November 2023 the IA announced reversal of FCA guidance.<br>» His Majesty's Treasury (HMT) have tabled two Statutory Instruments that will place the Mifid and PRIIPs regulations onto the FCA rulebook. Consultation finishes in Jan 2024 and MGIM is coordinating a response with the action group. |

# Principle 12 - Exercising Rights & Responsibilities

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

This section is applicable to MGIM only (excluding MISC and CAIM).

Our approach to proxy voting 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.

Direct investments

In the case of directly held securities, we will vote on a resolution if:

» MGIM is a top twenty shareholder across all portfolios; or

» If the investment team deem the subject matter to be material1 ; or

» When there is a special resolution[2].

*[1]Materiality of the subject matter is decided by the lead and secondary analysts who monitor the holding, as they will have extensive knowledge of the company.*

*[2]A special resolution is a company resolution that requires a 75% majority in a vote held with shareholders (whereas an ordinary resolution requires a simple majority of over 50%). Certain important decisions require a company to make a special resolution as outlined in The Companies Act 2006.*

MGIM do not commit to voting on all matters arising, do not use default recommendations of proxy advisors and do not lend stock. 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.

MGIM have a standalone voting policy and an annual voting summary (available on our website here). The key elements of 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.



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.

### Third-party managers

For investments made via third-party managers, voting responsibility resides with that manager. We believe that this is appropriate because these managers, selected by the MGIM team, are closer to the business in question and are therefore best placed to assess matters put forward to shareholders for voting.

We recognise the need to engage with fund managers on a regular and 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.

#### *A - Segregated mandates*

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 proxy voting summary reports on a regular basis from all such third-party managers.

#### *B - Pooled investment vehicles*

In the case of investments that are held via third-party pooled investment vehicles, there is no bespoke IMA between MGIM and the third-party manager and any voting activity on the portfolio investments are ultimately dictated by the manager's own policies. 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.

### Exerting influence in asset classes outside of equities

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.

### Future objectives around voting

MGIM are exploring ways in which we can increase our voting efforts and improve our voting processes. We are discussing the option of Robeco voting resolutions on our behalf and also looking at third party proxy voting services.

## *Principle 12 Cont...*

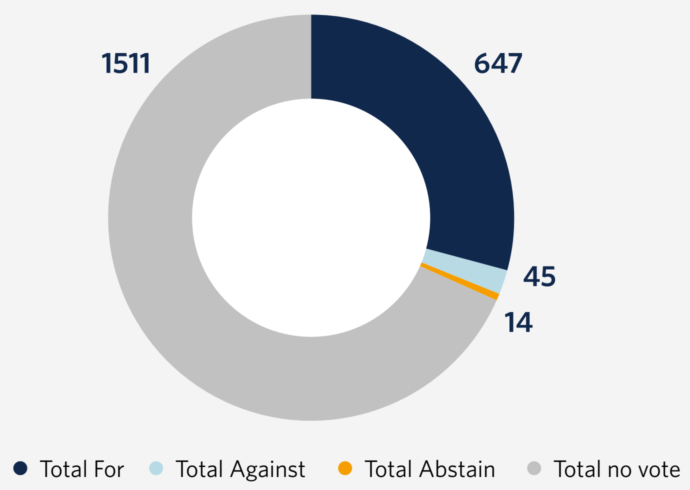
### Activity

#### *A - Voting on our direct investments*

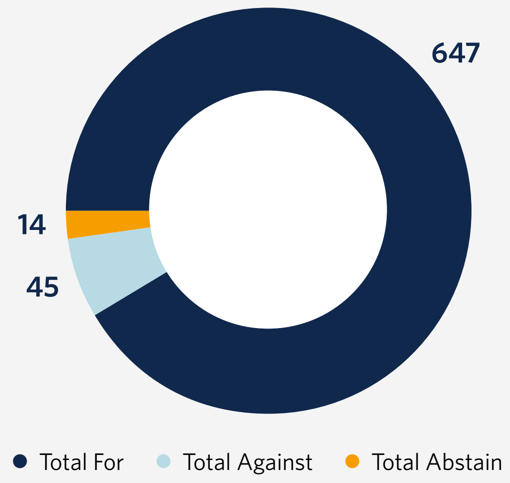
Of the 2217 resolutions over the period, we voted 757 (35%). This is up from the 20% that we voted in 2022, as stated in the previous Stewardship Report.

85% of our votes were 'For', 6% were 'Against' and 2% were 'Abstain'. In the previous report we voted 'For' 100% of the resolutions.

**2023 voting summary**




**2023 voting summary - for votes cast**



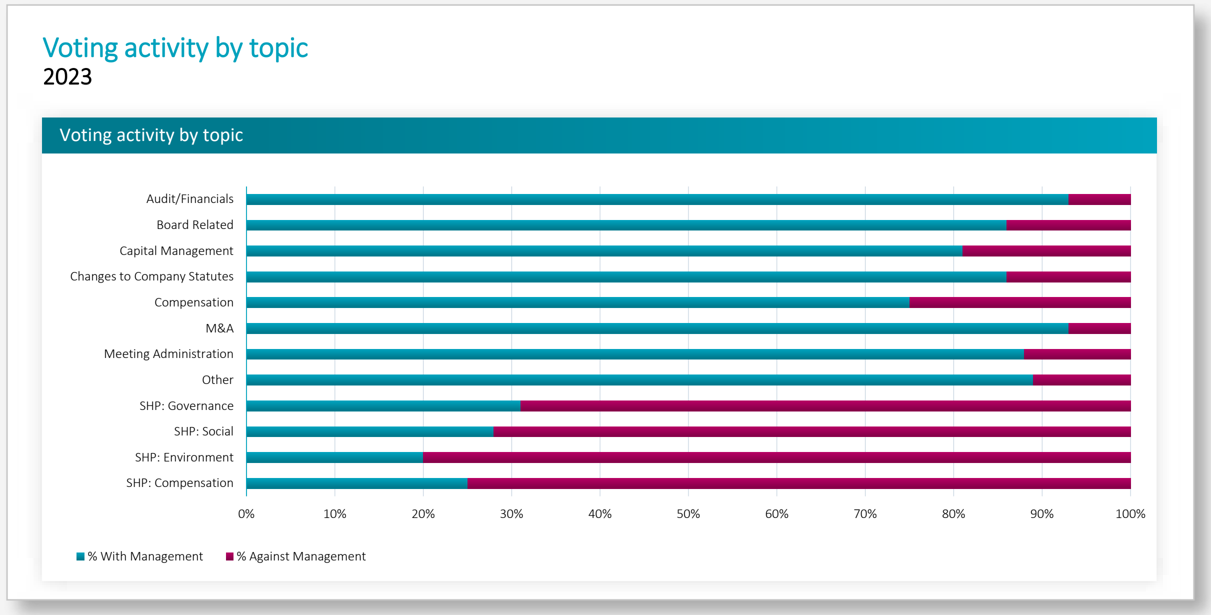

The increase and variation in these results demonstrates our continued efforts in improving our voting processes and increasing our voting efforts.

#### *B - Voting by our sub investment managers*

We monitor voting by our sub investment managers particularly those where we have significant assets invested. We receive regular voting reports and will discuss voting (alongside engagement) in regular update meetings with management.

For example, we have appointed Robeco to manage the Momentum GF Global Sustainable Equity Fund and they provide quarterly voting summaries for this portfolio specifically. During 2023, Robeco voted 7338 resolutions and held 487 meetings to support their voting efforts, for this portfolio. 6252 votes were 'For', 885 were 'Against' and the remaining were 'Abstain'.

Robeco manage various other mandates on MGIM's behalf and therefore, much of the voting that they do is applicable to our holdings. More broadly, Robeco's annual voting summary states that they voted almost 60k resolutions across over 5k meetings, split as follows:




### Monitoring voting in pooled investment vehicles

As with mandates, we receive regular voting summaries for pooled investment funds that we are invested in. Primary and secondary analysts discuss these voting records with managers during our regular review meetings.

For example, during Q1 2023 Aikya cast 75 votes and all of these were 'For' which would prompt a discussion around the process that they followed in deciding how to vote and what led them to vote in favour of all resolutions and against none.

# Supporting Documents

**For ease, please see links to relevant documents produced by MGIM and at Group level (MMH).**

## Group Level (MMH)

**Momentum Metropolitan Holdings TCFD report**

**Momentum Metropolitan Holdings Sustainability Report**

**Momentum Metropolitan Holdings Integrated Report**

**Momentum Metropolitan Life Ltd PRI Assessment Report**

**Momentum Metropolitan Life Ltd Transparency Report**

**Momentum Investments Stewardship Report**

## MGIM

**Momentum Global Investment Management Responsible Investment Policy**

**Momentum Global Investment Management Climate Change Policy**

**Momentum Global Investment Management Proxy Voting Policy**

**Momentum Global Investment Management Engagement Policy**

# Stewardship Signatures

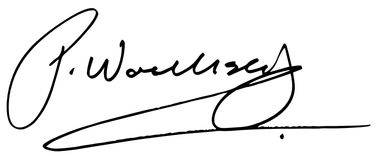
The MGIM annual Stewardship Report for the year ended 30th June 2023 was reviewed and approved by the MGIM Manco who consider it to be a complete and accurate report on how we have applied the principles of the Code over the period.

**Jonathan Barnard**
**acting Chief Executive Officer**

**Jade Coysh**
**RI Specialist & Senior Analyst**

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

**Philip Woolliscroft**
**Head of Legal, Risk & Compliance**



***"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"***

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### Important Information