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# RESPONSIBLE HORIZONS

ANNUAL REPORT ON RESPONSIBLE INVESTMENT

2020



PLEASE CONSIDER THE ENVIRONMENT BEFORE PRINTING.

➤ BNY MELLON | INVESTMENT MANAGEMENT

# FOREWORD



**Abdallah Nauphal**  
**Chief Executive Officer**

The new decade has opened in dramatic fashion. The coronavirus pandemic will have far-reaching social and economic consequences for us all, with issues such as climate change and extreme weather adding to concerns for investors.

However, rather than simply trying to forecast the impact of these events, Insight will play an active role in partnership with our clients to influence long-term outcomes. I am very proud that environmental, social and governance (ESG) factors have long been at the

heart of Insight's approach. Understanding and engaging on ESG risks in our research activities is an essential part of establishing an accurate fair value for any investment.

With the consensus converging towards an agreement that ESG risks can materially affect financial performance, investors are focusing greater attention on how their investments impact the environment and society. Christiana Figueres, former Executive Secretary of the UN Framework Convention on Climate Change, explains in this report that climate science has become more specific and conclusive in recent years, reinforcing the urgency of tackling climate risks.

In terms of steps that we have taken to reflect the importance of the responsible investment agenda, more than 80% of our engagement meetings with sovereign and corporate debt issuers included discussions on responsible investment issues in 2019 (up from 54% in 2018). We also introduced a proprietary scoring system last year, providing customised data on a range of ESG criteria for more than 6,500 corporate issuers and 850,000 of their subsidiaries, enhancing our analytical capability and client reporting.

In collaboration with asset owners we have sought to actively influence policymakers and regulators on several issues related to the long-term sustainability of financial markets. As well as making technical submissions to several major industry consultations, we have provided clients with extensive education and support on important topics including LIBOR reform and proposals to change a key UK inflation measure, the Retail Prices Index (RPI).

I hope that our 2020 report explains our responsible investment activities and demonstrates our commitment to continuously improving standards. Please take the time to read our Responsible Investment Statement on COVID-19, included in this report, and do get in touch with us if you would like more information. We will be more than happy to discuss details of our responsible investment activities and how we can support you and your beneficiaries in achieving your goals.

Figure 1: Insight is a responsible investment leader – recent highlights



#### Insight's responsible investment credentials

- Insight was a founding signatory to the PRI in 2006, the world's leading proponent of responsible investment. Signatories to the PRI include investment managers and asset owners with trillions of dollars of assets under management.
- We have been supporters of the Institutional Investors Group on Climate Change (IIGCC) and CDP initiatives since our founding in 2002.
- Insight has integrated ESG considerations into our decision-making processes for over a decade.
- In 2016, Insight was given Tier 1 status by the UK Financial Reporting Council, recognising that we provide "a good quality and transparent description of [our] approach to stewardship and explanations of an alternative approach where necessary".
- Insight manages ESG strategies including those with best-in-class, climate, positive impact and exclusion objectives and criteria. As at 31 December 2019 we managed more than £10.8bn in ESG strategies.<sup>1</sup>
- In 2019, we were awarded A+ ratings across most of the relevant categories in the PRI survey, reflecting our ongoing commitment to integrating responsible investment practices across all aspects of our business.

Table 1: Insight's 2019 PRI ratings<sup>2</sup>

Area	PRI rating for 2019
Firm strategy and governance	A+
Investment grade	A+
High-yield	A+
Emerging market	A+
Rates	A+
Collateralised loan obligations (CLOs)	A
ABS	A
Loans	A

<sup>1</sup> Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients.

<sup>2</sup> PRI Annual Assessment Report, 2019.



# INTRODUCTION

WE BELIEVE A RESPONSIBLE INVESTMENT APPROACH CAN HELP EVERY INVESTOR AS THEY SEEK TO PURSUE THEIR LONG-TERM FINANCIAL AND NON-FINANCIAL OBJECTIVES. IN THIS REPORT WE AIM TO HELP INVESTORS CONSIDERING A RANGE OF ISSUES.



For investors considering how to approach responsible investment, we outline six principles that guide us as we seek to help our clients achieve their objectives.

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For investors seeking evidence of the difference a responsible investment approach can make, we offer examples from our own portfolio managers across fixed income, liability-driven investment and other areas.

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For investors seeking a positive long-term impact with their portfolio on society or the environment, we analyse the impact bond market and show how some investors put their impact objectives into practice.

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We hope you find this report useful, complementing your strategy as you put a responsible investment approach into practice.

### PROACTIVE ENGAGEMENT ON ESG ISSUES

In 2019, 82% of 1,151 engagements included ESG issues – up from 54% of 1,311 engagements in 2018

### WORKING TO SAFEGUARD INVESTORS' INTERESTS

We provide three examples of our work on regulatory and industry issues that supports millions of pensioners

### SEEING THROUGH IMPACT-WASHING

We analysed 126 impact bonds in 2019, of which only 33 fully satisfied our expectations

### DEVELOPING DEEPER INSIGHTS ON ESG RISKS

ESG ratings used by Insight's teams are generated by a new proprietary model, covering 850,000 securities

### INVESTING FOR IMPACT

We have developed a new approach for investors seeking a positive influence

### LOOKING TO THE FUTURE

Our revised responsible investment policy for 2020 sets a high standard, outlining six ways in which we pursue a responsible approach

### OFFERING ACCESS TO THE EXPERTS

Expert analysis is crucial as we seek to better understand sustainability issues

### RESPONDING RESPONSIBLY TO COVID-19

We encouraged companies and regulators to set the right priorities for the long term

### INSIGHT PRACTISES WHAT WE PREACH

We run our business how we expect others to run theirs

## HIGHLIGHTS





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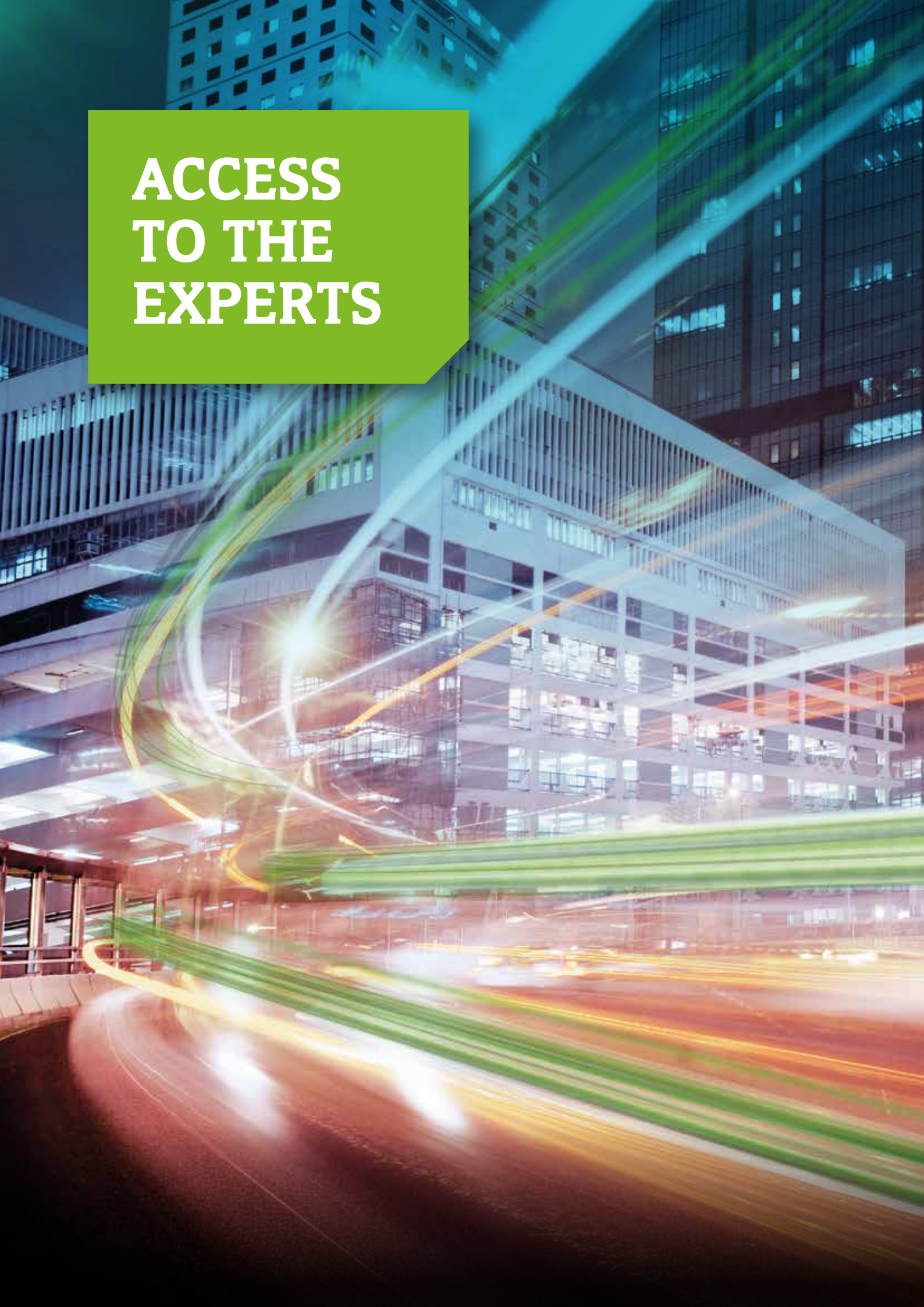
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# ACCESS TO THE EXPERTS







Insight seeks expert opinion on sustainability issues to ensure we offer cutting-edge analysis and insights to our clients.

Highlights offered here include:

- A call to action on climate change from Christiana Figueres, Costa Rican diplomat and architect of the 2015 Paris Agreement (page 10)
- An in-depth interview on sustainability issues including the dynamics underlying government policy, with Professor Sir Ian Boyd, former Chief Scientific Adviser to the UK Government on Food and the Environment (page 12)
- A discussion on the future of oil in a world seeking to decarbonise, with Paul Stevens, professor emeritus at the University of Dundee and a distinguished fellow at Chatham House (page 13)

# NEARING THE TIPPING POINT: A CRITICAL DECADE IN HUMAN RESPONSE TO CLIMATE CHANGE



CHRISTIANA FIGUERES, THE COSTA RICAN DIPLOMAT AND ARCHITECT OF THE 2015 PARIS AGREEMENT ON CLIMATE CHANGE, EXPLAINS WHY THIS DECADE IS THE TIPPING POINT FOR TAKING ACTION BEFORE CLIMATE CHANGE BECOMES IRREVERSIBLE.

This decade is the last in which we can make a meaningful difference to avoid the worst impacts of climate change. The science is now clear: if we continue on our current path, by 2030 we will have loaded the atmosphere so much that irreparable damage will have been done, putting us on a path to unavoidably pass tipping points. Basic ecosystems, including the Amazon, the Antarctic ice sheet and the Russian tundra would be on their way to irreversible transformations. If we do not shift successfully from our current trajectory, many other very sensitive ecosystems could quickly fail, resulting in a cascading and catastrophic domino effect.

## SCIENCE ILLUMINATES THE PATH AHEAD

Science has been shedding light on the facts of climate change for decades, and the extent of our knowledge is more specific and granular than ever. It is clear to us now that the margin set out in the Paris Agreement<sup>3</sup>, for the target temperature that could keep us within manageable boundaries, was too broad. Five years after the agreement, scientists now estimate that if the world were to heat by 2°C (as compared to 1.5°C), there would be three times as much infrastructure destruction, biodiversity destruction, human pain and death.

In order to deviate from our current trajectory, we will all need to make changes to how we live. This is leading many institutions and stakeholders worldwide to respond.

## THE GLOBAL RESPONSE TO DECARBONISATION

### Slow but definite decarbonisation in the US to remain competitive in the future landscape

Almost two thirds of the US economy continues to decarbonise in a bid to remain competitive in the future

landscape. This is based on the understanding that the direction of decarbonisation is irreversible; the only question mark is the speed and scale of transition, but there is increasingly broad acceptance that decarbonisation is the direction in which we are headed.

### European Union raises decarbonisation target

Meanwhile, the European Union earlier this year moved its decarbonisation target from 80% decarbonisation to 100% by 2050, which clearly shows the Union's commitment to tackling climate change, despite resistance from some member countries. There are further discussions scheduled to review other emissions targets.

### China and India look set to move away from coal emissions in years to come

China continues to burn coal, but I expect the levels of coal burned in the country to max out in the coming two to three years, before trending downwards. Meanwhile, India is in an interesting position as one of the many countries where solar energy is dramatically cheaper than coal. This, compounded by public pressure on the Indian government about air pollution and its damaging effect on health, means that the country is also beginning to reduce its coal burning, especially around cities.

### Asian countries moving to renewables despite the challenges

Some other developing nations, and particularly those in Asia, like Vietnam and Indonesia, will affect the overall growth of emissions. These countries are unfortunately in a difficult situation, as their governments understand that in order to bring their populations out of poverty, they must continue producing energy, just as the many of their developed

<sup>3</sup> The Paris Agreement is the first-ever universal, legally binding global climate change agreement, adopted at the Paris climate conference (COP21) in December 2015. Among other things, governments agreed a long-term goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels and aiming to limit the increase to 1.5°C, since this would significantly reduce risks and the impacts of climate change. Read more here: [https://ec.europa.eu/clima/policies/international/negotiations/paris\\_en](https://ec.europa.eu/clima/policies/international/negotiations/paris_en)



counterparts have done before them. However, these developing countries now understand that fossil fuels are not as benign as we thought they were decades ago. They need to provide quick, dependable and plentiful energy to their people. And they need financing from abroad. Fortunately, development banks and private financial institutions have turned away from coal and toward renewable energy financing.

## GREEN SHOOTS OF PROGRESS

### Digitisation and artificial intelligence will help transition

Technological advances, like digitisation and developments in artificial intelligence, have enabled some sectors, like energy and transport, to electrify and become cleaner, ubiquitous and less expensive. The textile industry could also stand to benefit from technological advances. That said, there remain plenty of sectors where technological advances still have some way to go, particularly in areas like agriculture and food technology.

### Climate change concerns are likely to drive advances

While ESG concerns will continue to mature as a core investment tenet, it is likely to be climate change that is going to be the most-focused-on aspect of ESG factors, for the simple reason that it is the easiest facet of ESG to understand and measure. For this reason, I expect that carbon concerns and climate change will be the areas to advance most quickly, and they will pioneer the direction for our tackling of other ESG issues.

### ESG is here to stay for the financial sector

In recent years, we have seen increasing numbers of financial institutions bring ESG concerns to the foreground. Fortunately, this trend looks set to continue. ESG risks are being integrated into core strategies and truly embedded into investment decisions.

The focus of financial institutions on these initiatives is for a good reason. From a business perspective, these institutions are aware that their typical clientele is increasingly demanding social and environmental purpose be a core tenet.

The current generation of adults in their thirties and forties that are likely to inherit wealth (around USD\$40 trillion is set to be inherited around the world over the next two to three years) have a different worldview to the generations before them. Increased focus on climate change has meant that these adults are demanding their asset managers invest their portfolios in a

responsible way, perhaps owing in part to the fact that their average life expectancy could see them live for a further 60-plus years, and therefore the impact of their investments on climate change may well affect them in later life.

Central banks are also tuning in to the importance of considering ESG risk. The Central Banks and Supervisors Network for Greening the Financial System is composed of central banks concerned about the risk to the economic system posed by climate change<sup>4</sup>.

The group, which began with eight banks three years ago, now comprises 42 central banks globally, including the Central Bank of China, although the US Federal Reserve is not a member. A comprehensive report released by the group in 2019 gives a very clear sense of how crucial they believe the role of the financial sector is in achieving and protecting the Paris Agreement.<sup>5</sup>

## A 10-YEAR WINDOW: FROM DENY, DELUDE AND DELAY TO PRODUCE, PROFIT AND PROSPER

Low carbon is not an enemy to economic growth.

We have a 10-year window and it is in this narrow window that we are going to decide collectively whether we continue to deny, delude and delay on climate change, or whether we wake up to the rewards of taking ESG risks seriously.

If we act within the coming decade, we have an opportunity to move to producing, profiting and prospering. Each of the paths open to us will result in a very different world.

After this decade, the window of opportunity will close. This means we all bear an enormous responsibility to act, particularly the institutions – be they financial, governmental or others – still sitting at the decision-makers' table.



This paper is adapted from a white paper by Christiana Figueres, available [here](#).

<sup>4</sup> <https://www.ngfs.net/en>

<sup>5</sup> <https://www.ngfs.net/sites/default/files/medias/documents/ngfs-a-sustainable-and-responsible-investment-guide.pdf>

# ACCESS TO OTHER EXPERTS

AS SUSTAINABILITY ISSUES CLIMB UP THE AGENDA AND OUR CLIENTS INCREASINGLY SEEK TO REFLECT THESE WITHIN THEIR PORTFOLIOS AND STRATEGIES, INSIGHT SEEKS TO OFFER EXPERT VIEWS ON THESE ISSUES. WE OFFER SOME EXAMPLES BELOW.

## SEEKING A SUSTAINABLE FUTURE



Professor Sir Ian Boyd,  
Former Chief Scientific Adviser to the UK Government on Food and the Environment,  
Professor at the University of St Andrews



The focus is sharpening on the environment. Extreme weather events are dominating the headlines, green policies are increasingly influential, and activists are growing more vocal. Joshua Kendall, Senior ESG Analyst, spoke with Professor Sir Ian Boyd, former Chief Scientific Adviser to the UK Government on Food and the Environment, about issues including climate change, the dynamics that underlie government policy, and the future for food production and consumption.

## FIVE WAYS YOU CAN CREATE CLEANER AIR



Tim Smedley,  
Award-winning journalist specialising in environmental and social issues



Air pollution is a global issue. Tim Smedley, award-winning journalist and author of 'Clearing the Air: The Beginning and the End of Air Pollution', worked with Insight to help our staff understand the impact of air pollution, the issues involved and what we can all do to contribute positively to our local environment. To complement our internal events for Insight staff, Tim created this short guide with us to highlight five ways we can all contribute to cleaner air.



## UNDERSTANDING THE UK STEWARDSHIP CODE 2020



Claudia Chapman,  
Policy Adviser, Financial Reporting Council (FRC)



The UK Stewardship Code 2020, which took effect from 1 January 2020, aims to set high stewardship standards for asset owners, asset managers and service providers. It has been revised significantly since the previous edition of the Code in 2012. Insight's Joshua Kendall, Senior ESG Analyst, spoke with Claudia Chapman at the FRC to find out more about the Code, how it has changed since the previous edition, what it means for fixed income investors, and how to report against it.

## THE FUTURE OF OIL IN A WORLD OF ENERGY TRANSITION



Paul Stevens,  
Professor emeritus at the University of Dundee and distinguished fellow at Chatham House




Navigating global oil markets has become increasingly complex as the world moves to decarbonise and the focus on climate change intensifies. We ponder what this means for investors, in terms of both corporate investment and the wider geopolitical backdrop. Two of Insight's energy market experts, Cathy Braganza and Tim Doherty, spoke to Professor Paul Stevens, a distinguished fellow at Chatham House and international oil expert.



# RESPONSIBLE INVESTMENT IN PRACTICE





An aerial night view of a city, likely London, with light trails from traffic and buildings. A large, dark, angular building is prominent in the center. The image is overlaid with a green, semi-transparent filter and several glowing green location pins and light trails, suggesting a digital or data-driven theme.

Responsible investment in practice takes many forms. Understanding how a responsible investment approach makes a difference to investment decision-making, return potential and risk management can be complex.

In this section we:

- Provide our responsible investment policy, revised and expanded for 2020 (see page 16)
- Explain how our proprietary ESG ratings fill the gaps in third-party data (see page 18)
- Demonstrate the extent of stewardship and engagement activities we pursue (see page 22)
- Offer practical examples of ESG analysis in action (see page 25)
- Outline three major initiatives to safeguard investor interests, ultimately supporting millions of pensioners (see page 36)

# INVESTING RESPONSIBLY FOR THE FUTURE

IN 2020, WE EXPANDED AND BROADENED OUR RESPONSIBLE INVESTMENT POLICY TO BETTER REFLECT OUR APPROACH AND SET OUT OUR CORE BELIEFS.

The following text is our revised policy, which aims to explain and guide how we operate as we seek to help our clients achieve their goals. In our revised policy, we:

- Summarise our beliefs about responsible investment
- Specify six ways in which we seek to deliver on these beliefs
- Introduce our Corporate Conduct Statement, which outlines how we expect companies in which we invest to behave

## INSIGHT'S RESPONSIBLE INVESTMENT POLICY REVISED FOR 2020

Our purpose is to build a better future for our clients. To achieve this, we work to support stable and resilient social, environmental and economic systems and efficient, well-managed financial markets. These, in turn, will help us to achieve our clients' targeted investment outcomes.

We believe integrating environmental, social and governance (ESG) issues into our investment processes, and in our dialogue with issuers and other stakeholders, supports better investment decisions and can have the potential to help our clients achieve their desired outcomes.

We aim to deliver on our commitments and our beliefs by:



### 1. Putting responsibility at the heart of how we do business

Aligning our business objectives and personal incentives to the broad goals of clients is imperative for our business. We do this by aiming to provide investment solutions that deliver quality and excellence, by managing financial and non-financial risks and opportunities, and through operating to high ethical and professional standards.

Responsible investment is central to our investment activities, to our culture, to our relationship with clients and to how we seek to interact with counterparties and regulators.



### 2. Integrating ESG issues into our investment processes

ESG issues, such as a changing climate, demographic change and corporate governance, are important drivers of investment value, over the short and long term. We believe that taking account of these issues in our investment research and decision-making is essential to effectively identify and manage the risks that could harm clients' investments and the opportunities that may arise from these issues.

We believe companies should meet the minimum standards set within our Corporate Conduct Statement (see below) to be eligible for our clients' portfolios. We therefore constantly monitor and review companies, to ensure the resilience and success of our investment strategies.



For examples of how ESG factors have influenced our decision-making, see page 25.



### 3. Acting as effective stewards of companies and other entities

The integration of ESG factors requires holding companies and other entities to account to ensure that they manage their wider impact and their stakeholder interests. In turn, good stewardship can create investment opportunities and reduce investment risk.



We therefore engage as bondholders, counterparties and shareholders with management and other entities to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. We also recognise the responsibilities we have to our clients as shareholders; we vote with an objective to create long-term sustainable value in the companies in which we invest on their behalf.



For more information on our engagement and stewardship efforts, see page 22.

#### 4. Supporting efforts that seek to improve the operation, resilience and stability of financial markets

We recognise that public policy and regulation are key influences on corporate practice, the financial system and the wider economy.

We support efforts to develop and implement policy measures that look to manage and mitigate the systemic risks to society and to the environment.



For more information on work on public policy and regulation, see page 36.

#### 5. Collaborating with others on ESG issues

Many of the most pressing ESG issues we face require a collective response from the investment community and from wider society. We therefore work with our clients, other investors, governments, companies and civil society organisations to build knowledge and awareness, to share expertise and to create a common voice on these issues when engaging with stakeholders in relations to our clients' investments. By doing so we can effectively and efficiently provoke change and support building a sustainable environment.



For more information on our collaborative efforts, see page 23.

#### 6. Exercising transparency and disclosing our activities

We believe we should be held accountable for the actions that we take and for the outcomes that we achieve.

Each year we report on our approach to responsible investment. The report includes discussions on our actions and their impact to reflect on our successes and failures, to highlight the lessons we have learned and to set out our priorities for action.

The responsible investment policy has been revised for 2020 and is approved and endorsed annually by Insight's CEO.

### Corporate Conduct Statement

Insight believes companies that manage their ESG risks provide better investment opportunities. The Insight Investment Corporate Conduct Statement outlines how we expect companies to behave.

We use the Statement to explain our minimum expectations over the short and long term, and monitor the companies in which we invest client's assets. We believe companies that do not meet these minimum expectations create greater investment risks.

Where we identify that a company does not meet our corporate contact standards, or whose status we believe is deteriorating, Insight may address this through avoiding or selling the entity's bonds or through engagement with the issuer to seek to address our concerns.

Insight expects companies issuing debt for client portfolios to:

- 1 Protect the welfare of staff, suppliers and customers
- 2 Ensure robust management of biodiversity, water and climate impacts
- 3 Meet appropriate minimum corporate governance norms
- 4 Not break the law or undermine prescribed standards
- 5 Respect the opinions and feedback of all stakeholders including bondholders, regulators and citizens

# DEVELOPING DEEPER DATA ON ESG RISKS

INFORMATION ON ESG FACTORS AND RELATED RISKS IS OFFERED BY A WIDE RANGE OF INSTITUTIONS AND PROVIDERS BUT THERE ARE SIGNIFICANT GAPS. WE SEEK TO DEEPEN OUR UNDERSTANDING OF SUCH ISSUES THROUGH OUR OWN ANALYSIS, ENGAGEMENT AND USING PROPRIETARY ESG TOOLS. THE FIRST STEP IS EFFECTIVE DATA THAT COVERS OUR INVESTMENT UNIVERSE.

## INSIGHT'S CORPORATE ESG RATINGS

- Data providers disagree on ESG risks and there are gaps in available information – leading us to develop a proprietary model that aligns with our approach to corporate fixed income
- Insight's proprietary data covers 99% of our investment grade indices
- Our framework considers 29 key ESG issues, ranging from carbon emissions to corruption

We have historically used MSCI, Sustainalytics, Vigeo and CDP data. However, there is frequently poor agreement between data providers about corporate ESG risks (see Figure 2).

Also, for many smaller issuers, particularly emerging market or high-yield companies, the availability of relevant non-financial data lags information from larger issuers. Since 2016 we have generated internal ESG ratings for such issuers by sending tailored ESG questionnaires to management – these inform our credit analysts' assessment and help them identify issues to address through further engagement.

As we have strengthened our ESG capabilities, it became clear that developing proprietary ESG data would be essential in order to conduct in-depth ESG analysis and deliver better solutions for our clients. For this reason, we developed Insight ESG ratings, which have simplified the standard ESG framework and selectively customised the metrics to make the data as pertinent as possible to our analysis.

Our proprietary corporate Insight ESG score follows a risk-centric approach using advanced quantitative tools and avoiding subjective ethical biases to evaluate a company's ESG profile relative to sector peers. Our approach leads to high coverage of global benchmarks: over 850,000 subsidiaries for 6,500 different parent entities have an Insight ESG rating.

Around 99% of companies in global investment grade indices have a quantitative Insight ESG rating. For our European-focused ESG portfolios, 100% of companies have an ESG rating derived quantitatively (or qualitatively if the data is lacking). For our analysts, it is important to understand the ESG factors that are driving the ratings of an issuer, and the materiality of any risks that are present.

Our Insight ESG ratings aim to be more dynamic and complete, and to integrate our analysts' research more effectively, than relying solely on third-party data (see Figure 3). We reclassify, reweight and organise the data according to our analysts' current views on material risks facing industries to generate an ESG rating and momentum signal for a wide range of entities.



For more information on the methodology underlying Insight's corporate fixed income ESG ratings, please read our paper.

## THE INSIGHT CORPORATE ESG FRAMEWORK

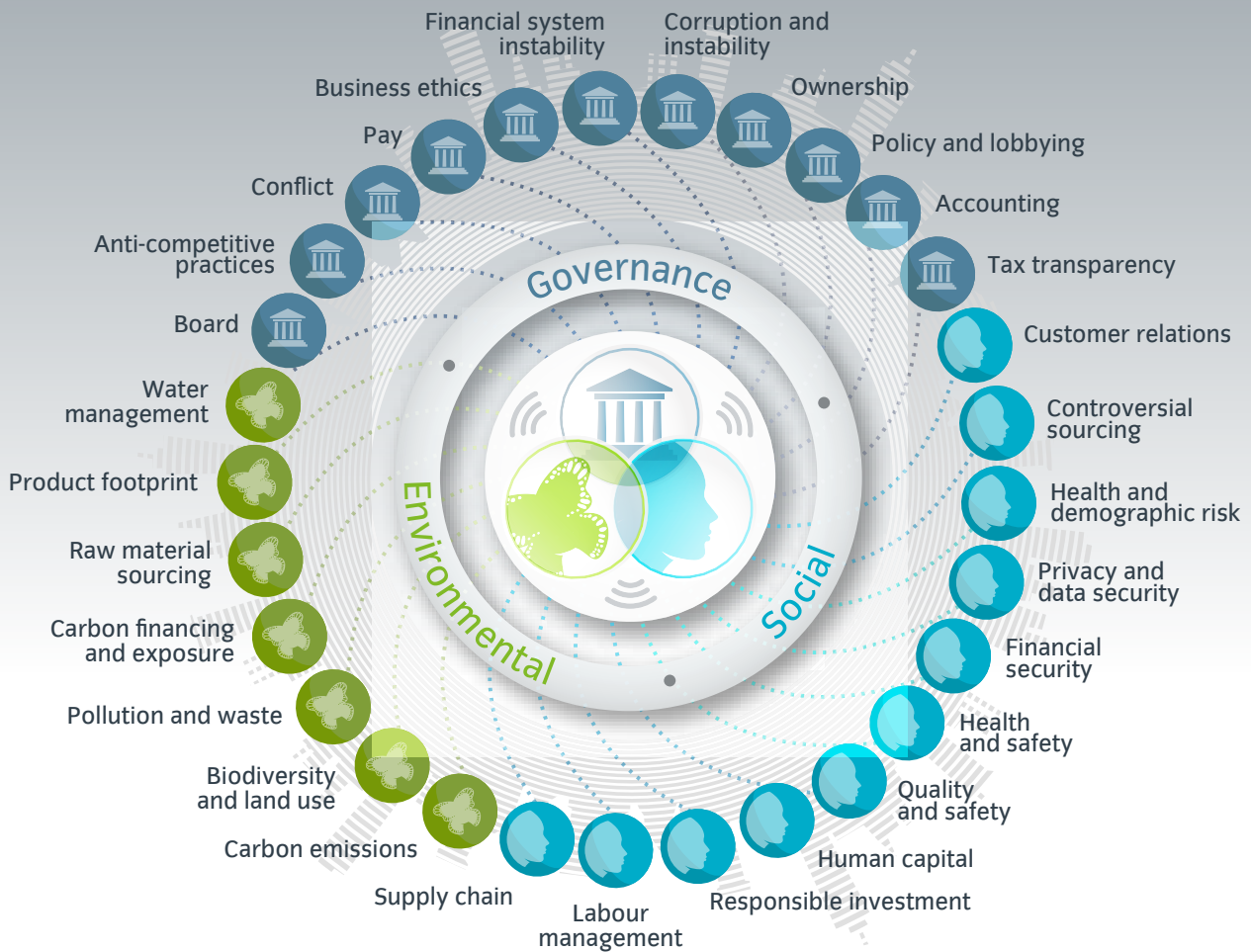
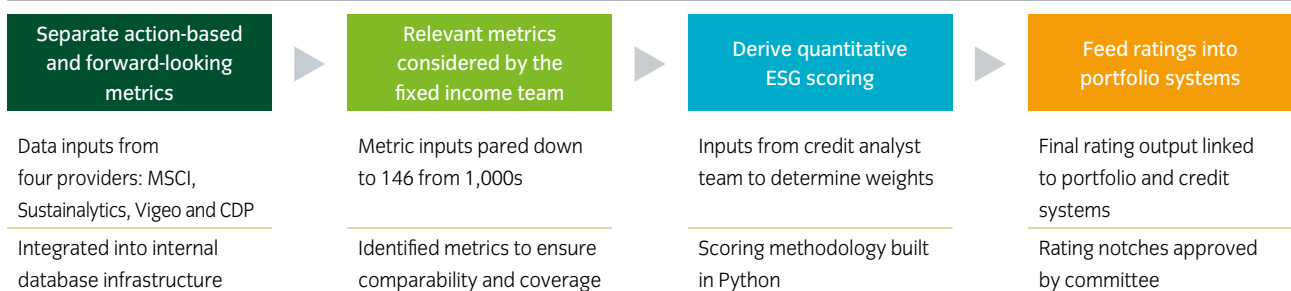


Figure 2: There is frequently poor agreement between data providers about corporate ESG risks<sup>6</sup>

Issuer	Sector	Provider 1	Provider 2	Provider 3
ALD	Rental auto/equipment	2	5	3
General Electric	Diversified manufacturing	3	2	4
SGSP	Gas-distribution	3	5	4
McDonald's	Retail-restaurants	4	2	3

Figure 3: Insight's ESG ratings are designed to align closely with our portfolio managers' processes and systems



<sup>6</sup> Source: Insight. As at October 2019. The specific securities identified and described are subject to change, for information only to demonstrate key ESG risk assumptions and no assumptions should be made that the securities identified and discussed were or will be profitable.



## ENHANCED CLIMATE RISK INDEX

In 2017, we introduced the Insight Climate Risk Index, the investment industry's first comprehensive ranking of fixed income corporate credit issuers.

Aligned with the framework developed by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the Index ranks over 1,800 issuers based on how they manage climate change-related risks and opportunities, and how they are positioning themselves for the transition to the low carbon economy.

### New for 2020:

- We are considering adding data on evaluating how to add physical risk analysis to our model. For companies with physical assets, or supply chains that depend on physical assets, climate change can present material risks (such as damage from rising water levels or temperatures). Incorporating such data could help to highlight additional factors relevant to the Index.
- We plan to start reporting on Paris Alignment using data from Trucost.



To read more about the Insight Climate Risk Index, please read our paper on the 2019 results.

## ENHANCED COUNTRY SUSTAINABILITY RISK INDEX

In 2018, we introduced a proprietary Country Sustainability Risk Index, which generates ESG ratings for 186 countries. This aims to help us better understand the ESG risks at the country level across our portfolios.

Fixed income investors are sharpening their focus on the sustainability risks of individual countries. We believe investing effectively in sovereign debt requires analysis of ESG matters. We complement our research with a proprietary index to help us better understand country ESG risks across our bond portfolios.

The Insight Country Sustainability Risk Index generates two sustainability ratings for each country: an overall ESG rating and an ESG momentum score. It is used in four principal ways:

- 1 To expand the scope of our existing risk models
- 2 To guide the management of client-specific portfolios with ESG guidelines
- 3 To support reporting to clients on ESG-specific factors
- 4 To indicate issues for dialogue

### New for 2020:

- We plan to extend the model to generate impact scores, which reflect the extent to which a sovereign issuer is moving to support positive developments either for the environment or its population. These will reflect the UN Sustainable Development Goals. This is driven by our belief that sovereign issuers with positive momentum in these areas will, in the long term, have stronger economies and lower environmental and social risks.
- We are reviewing the inputs within the Index to ensure effective coverage of all relevant ESG factors.

## INSIGHT'S IMPACT BOND ASSESSMENT

To manage sustainability objectives for our clients, Insight analyses impact bonds using our proprietary framework.



For more information on impact bonds and how we assess them, see page 40.



# STEWARDSHIP AND ENGAGEMENT TO DRIVE CHANGE AND SUPPORT EFFECTIVE INVESTMENT

- In 2019, Insight conducted 1,151 engagements, of which 82% incorporated discussions of ESG issues – up from 54% of 1,311 engagements in 2018
- Across every industry sector, most of our engagements with management incorporated ESG matters
- Insight was appointed to the ICMA's Advisory Council for the Green and Social Bond Principles, globally the most prominent group guiding the development of impact bond guidelines

Figure 4: More of our 2019 engagements included ESG matters (% of total engagements)

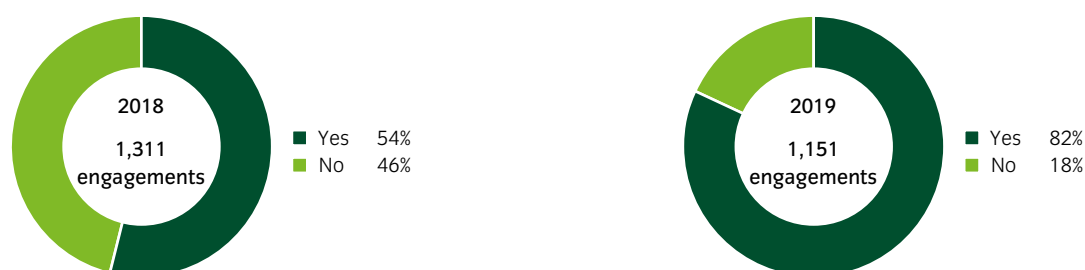
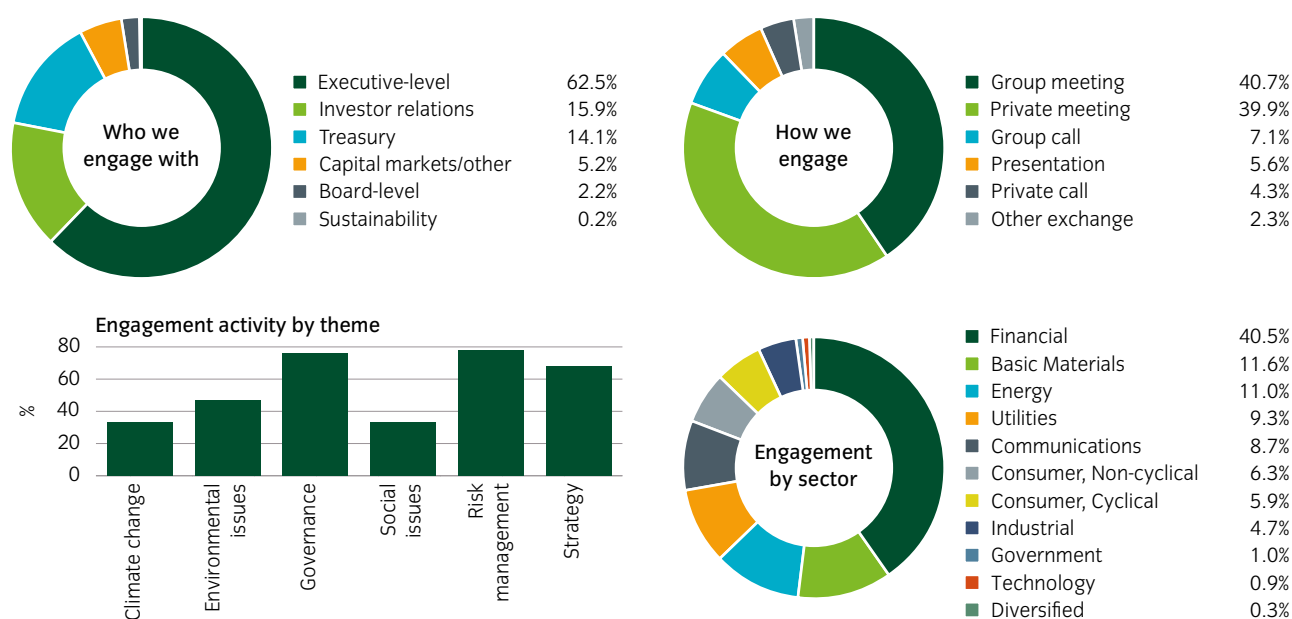


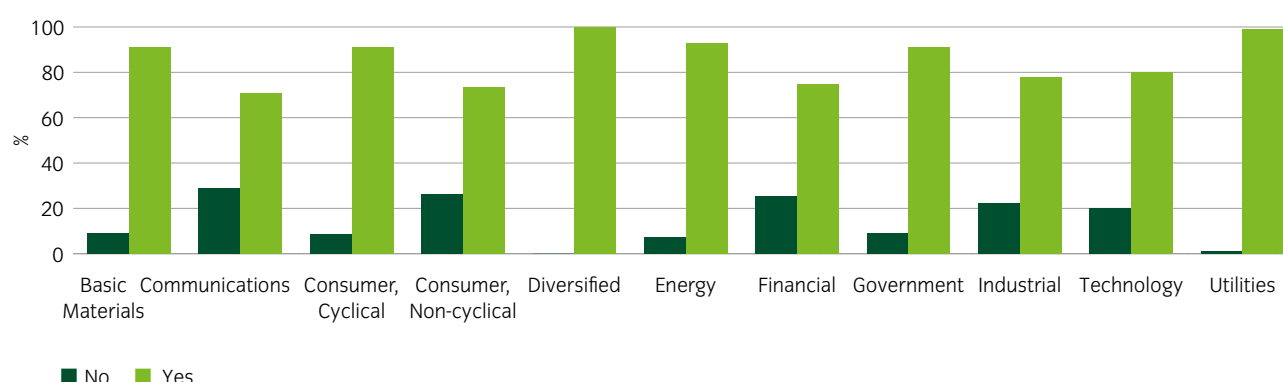
Figure 5: Our 2019 engagements covered a wide range of issues and issuers (% of total engagements)<sup>7</sup>



<sup>7</sup> Source: Insight. As at 31 December 2019.



Figure 6: Across all sectors, most of our engagements address ESG issues (% of total)<sup>8</sup>



## COLLABORATIVE ENGAGEMENTS

- **Climate Action 100+:** Insight is supporting engagement with Enel and BHP as part of our monitoring of their climate-reduction strategies. Engaging with both issuers since inception, there has been a noticeable improvement in their communication and leadership. In the case of Enel, they issued the market's first sustainability-linked bond. Both companies made additional commitments regarding their management of coal-related business practices.<sup>9</sup>
- **PRI Advisory Council for Credit Risk and Ratings:** Insight has supported the initiative since inception. The group has been instrumental in creating a new movement among rating agencies to proactively integrate ESG factors into credit valuations. A significant investment by the agencies has been made, including the development of internal ratings. Insight supports the development of new related groups on investment consultants and the ESG research providers.<sup>10</sup>
- **Institutional Investors Group on Climate Change (IIGCC):** Introduced a new collaborative group focusing on building portfolios that are aligned with a two-degree Paris Agreement-aligned world. We participate in two groups, one focusing on corporate portfolios and a second on sovereign portfolios.<sup>11</sup>
- **International Capital Market Association (ICMA):** Insight was appointed to the Advisory Council for the Green and Social Bond Principles. Here we advise and share our feedback on how to strengthen and grow the impact bond market. The group brings investors, underwriters and issuers together and ICMA is the flagship group promoting impact instruments and educating the market.<sup>12</sup>
- **UK social housing ESG reporting:** Insight is part of a working group seeking to encourage investment in social housing by establishing standards for the sector's reporting on ESG criteria. Insight has invested in the housing association sector on behalf of its clients, and we believe it often underplays its best-in-class approach to ESG issues. The working group published a white paper on the topic, proposing reporting criteria and themes for adoption by the sector.<sup>13</sup>



<sup>8</sup> Source: Insight. As at 31 December 2019.

<sup>9</sup> <http://www.climateaction100.org/>

<sup>10</sup> <https://www.unpri.org/signatories/advisory-committees>

<sup>11</sup> <https://www.iigcc.org/>

<sup>12</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/advisory-council/>

<sup>13</sup> <https://thegoodeconomy.co.uk/resources/reports/UK-Social-Housing-Building-a-Sector-Standard-Approach-to-ESG-Reporting-May-2020.pdf>

## UK STEWARDSHIP CODE 2020

The UK Financial Reporting Council (FRC) introduced a revised Stewardship Code last year, taking effect from 1 January 2020.

Insight is committed to fulfilling the reporting and transparency requirements of the updated Code and in 2020 will aim to publish a response in full. We are pleased the FRC has broadened the Code to capture all asset classes, especially fixed income, in line with our recommendations during the consultation phase. More information on the Code is available at [www.frc.org.uk](http://www.frc.org.uk).

To help our clients understand the new Code and its implications, Insight's Joshua Kendall, Senior ESG Analyst, spoke with Claudia Chapman at the FRC. For more information, see page 13.

Table 2: Principles in the UK Stewardship Code 2020<sup>14</sup>

Principles for asset owners and asset managers		Principles for service providers	
Purpose and governance			
	1. Purpose, strategy and culture		1. Purpose, strategy and culture
	2. Governance, resources and incentives		2. Governance, resources and incentives
	3. Conflicts of interest		3. Conflicts of interest
	4. Promoting well-functioning markets		4. Promoting well-functioning markets
	5. Review and assurance		5. Supporting clients' stewardship
			6. Review and assurance
Investment approach			
	6. Client and beneficiary needs		
	7. Stewardship, investment and ESG integration		
	8. Monitoring managers and service providers		
Engagement			
	9. Engagement		
	10. Collaboration		
	11. Escalation		
Exercising rights and responsibilities			
	12. Exercising rights and responsibilities		

<sup>14</sup> Source: Financial Reporting Council.

# PRACTICAL EXAMPLES OF ESG ANALYSIS IN ACTION



**Investment grade credit – Lucy Speake,  
Head of European Credit and Deputy Head of Fixed Income**

*"Our credit analysts are expected to consider ESG research in their analysis across every issuer in our investment universe."*

26



**High yield – Ulrich Gerhard,  
Senior Portfolio Manager**

*"We believe analysis and engagement over ESG issues are crucial in high yield – we use direct engagement to support our research."*

28



**Emerging market debt – Colm McDonagh,  
Head of Emerging Market Fixed Income**

*"We have worked directly with sovereign issuers to inform their green bond issuance."*

29



**Sovereign debt – Isobel Lee,  
Head of Global Government Portfolios**

*"We are enhancing our sovereign ESG risk model, creating impact scores alongside ESG risk scores."*

30



**Secured finance – Shaheer Guirguis,  
Head of Secured Finance**

*"We have led the way in developing an ESG questionnaire for originators of secured finance assets."*

30



**Liability-driven investment – Jos Vermeulen,  
Head of Solution Design**

*"We have engaged on high-profile issues with regulators and policymakers on issues that could affect our liability-driven investment (LDI) clients."*

32



**Multi-asset – Matthew Merritt,  
Head of Multi-Asset Strategy Group**

*"We aim to be early adopters of ESG screened derivatives and continue to directly engage on any ESG issues with portfolio companies."*

33



**Specialist equities – Andy Cawker,  
Head of Specialist Equities**

*"The intelligent application of ESG data, supported by direct engagement, is vital to implement an effective responsible investment approach."*

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## INVESTMENT GRADE CREDIT



Lucy Speake,  
Head of European Credit and Deputy Head of Fixed Income



## KEY INSIGHT

Our credit analysts are expected to consider ESG research in their analysis across every issuer in our investment universe.



### Q How have you applied a responsible investment approach in corporate credit portfolios?

ESG is integrated into everything we do; our analysts look at all material risk factors, including ESG issues where relevant. We make sure our credit analysts have clear incentives to maintain their focus on ESG, and for several years we have linked their annual performance appraisals to analysis of relevant ESG risks in their research. The outcome of the performance appraisal is linked closely to any discretionary compensation element.

In 2019, our focus on responsible investment led us to look more closely at the carbon intensity of portfolios and exclusions, improved ESG reporting and enhancing our engagement process. For companies where information provided by external providers is lacking, we send out questionnaires that include questions on ESG risks.

Our impact bond framework is now integrated into daily morning credit discussions around new issues. We look to see how it meets our own internal ratings and whether there are incremental impact benefits (see page 40) while also maintaining a financial focus on risk and reward.



### Q What specific investment decisions have you made in 2019 in light of your ESG analysis?

On a sector basis, we do not hold longer-dated tobacco companies in our buy and maintain portfolios as we start to see a market shift away from the once lower-risk tobacco companies.

In addition, there are various company-specific decisions we have made; in some cases, ESG issues were the primary driver while for many they form an important but not overriding contributory factor. As an example, we made the decision to underweight our holding in an automobile company after our analyst's engagement with the company highlighted a lack of research and development spending relative to their competitors on electric and autonomous vehicles, as well as a high level of product recalls which indicated potential safety issues. These factors, combined with poor operating fundamentals and a weak balance sheet, meant we did not feel the risk/reward in this name to be appropriate for portfolios.



Our impact bond framework is now integrated into daily morning credit discussions around new issues

LUCY SPEAKE



**Table 3: Examples of investment decisions driven by ESG issues in credit portfolios**

Sector	Asset class	ESG risk factor	Comments	Investment decision/ Buy and maintain suitability
Pipelines	Active/buy and maintain	Environment	Controversial business activity and continued poor performance on key risk issues	HOLD to NO
Pharmaceutical	Active/buy and maintain	Environment	No discernible improvement nor any appetite from the company to engage	HOLD to NO
Retail	Buy and maintain	Accounting	Fraud issues now behind the company and governance significantly improved	NO to YES
Leisure	Buy and maintain	Environment	Review required for material risks not sufficiently actioned	HOLD
Mining	Active/buy and maintain	Environment	Despite an improving trajectory, problems remain	YES to NO
Property	Active	Governance	Concerns over governance practices and litigation against company	SELL
Chemicals	Active	Social	Laggard for chemical safety and weak on environmental risks. Avoided adding bonds as they benefited from an upgrade	AVOID
Consumer	Buy and maintain	Environment	Controversial activities related to environment and wider concerns about the environmental impact of the company	YES to NO
Consumer	Active	Environment, social, and governance	Starting an engagement with the company following a downgrade to worst-in-class on their ESG rating	HOLD
Automotive	Active	Social and governance	Following a fall in the ESG rating, we engaged with the issuer to understand the steps being undertaken to improve product quality, governance and disclosure. There was an underwhelming response to our engagement and plans for improvements had no tangible commitment targets	BUY to SELL
Utilities	Active	Environment	The issuer committed to clear environmental targets, which were linked to the bond's coupon payments meaning the issuer would pay more by way of a coupon if it did not meet its overall target objectives	BUY
Mining and Materials	Buy and maintain	Environment, social, and governance	After a significant environmental incident and recognising the potential for future environmental concerns we decided to move to a hold rating with a view to engaging with the issuer to understand future plans before considering a sale	HOLD
Industrials	Buy and maintain	Governance	Following a whistleblower incident we decided to keep the issuer on a HOLD rating. Engagement activity is ongoing to understand the materiality of the issues and to assess the future plans to address these risks	HOLD

## HIGH YIELD



Ulrich Gerhard,  
Senior Portfolio Manager



## KEY INSIGHT

We believe analysis and engagement over ESG issues are crucial in high yield – we use direct engagement to support our research.



## Q How have you applied a responsible investment approach in your portfolios?

In high-yield debt markets, ESG risks can be more significant than for investment grade debt due to the prevalence of some sectors – such as energy – which have higher short and long-term ESG risks. Taking these into account has been vital for our analysis for many years, with governance being the most important issue so far. ESG scores from independent data providers generally assign worse ESG ratings to high-yield debt issuers. They are often not covered by ratings providers as many high-yield issuers are private.

The acceptable margin for error in making bad high-yield bond investments is less than for investment grade credit. We therefore demand more legal restrictions on what a high-yield borrower can do, and we require greater disclosure as a starting point. We use our research tools and regular meetings with borrowers to constantly assess their exposure to, and management, of ESG risks. As creditors, our interests are very closely aligned with the management of ESG factors. We look at the whole supply chain to understand all the risks associated with a company. Where external data is not available, we currently use a questionnaire to produce internal ESG scores and are engaging with companies to achieve complete disclosures.



## Q What specific investment decisions have you made in 2019 in light of your ESG analysis?

In our high yield portfolios, many of our decisions are based on close dialogue with management teams to ascertain ESG risks.

After multiple discouraging interactions, we decided not to invest in a US bottle manufacturer. The company issued a green bond which, upon further inspection, we believed did not qualify as green: in a face-to-face meeting we asked whether they were using any renewable fuels, or if they were using more recycled glass in their feedstock, but they were not in either case. The company could also not provide full transparency around the source of its cashflows.

To offer another example where dialogue and understanding the company was key, despite a poor governance rating on our framework, we invested in a UK chemical company. The purely quantitative analysis highlighted a weakness in the board which consists of only three people. While not best practice, such board profiles can often be the case for issuers in high yield. However, following the company closely, we believe that on a granular level, the company is doing the right thing and excels in other areas like worker protection: the company uses dangerous chemicals such as chlorine gas, but in our visits it is clear the plants have a range of safety measures to protect the health of their workers, such as windsocks to indicate wind direction. We believe this demonstrates that while quantitative metrics give a useful starting point for ESG analysis, engagement is key to develop a more nuanced and well-rounded view on which decisions can be made. In contrast to this example, on another occasion for a different company in the same sector we learned through engagement that the company was being dishonest and treating their employees badly. We believed this might reflect a negative attitude towards bondholders, and the company did not want to engage when we contacted them. We did not invest in the bond.

Table 4: Examples of investment decisions driven by ESG issues in high yield debt portfolios

Sector	Asset class	ESG risk factor	Comments	Investment decision
Telecom	High yield	Governance	Laggard for accounting, reflected in weak governance performance	SELL
Metals	High yield	Governance	Board accountability concerns	SELL



## EMERGING MARKET DEBT



Colm McDonagh,  
Head of Emerging Market Fixed Income



### KEY INSIGHT

We have worked directly with sovereign issuers to inform their green bond issuance.



### Q How have you applied a responsible investment approach in your portfolios?

It is noteworthy that the three largest emerging market corporate defaults in 2019, totalling \$5bn in bond debt, all suffered from significant ESG issues, with very poor disclosure and weak governance. That is why, for every investment we make – both corporate and sovereign – we analyse the ESG risks that issuer faces, and their ability to manage those risks.

But responsible investment in emerging markets is not just about managing risk. Over the course of 2019 we expanded our efforts to take advantage of the significant positive impact opportunity. Along with our work to extend our country sustainability risk model (see page 20), we have been working with sovereign issuers to help with their green bond issuance. We believe this will ultimately help them to lower borrowing costs while generating measurable positive impact.



### Q What specific examples in 2019 can you provide of decisions made in light of your ESG analysis?

We identified a Russian transportation issuer with no external ESG rating, so worked with them to understand the ESG risks they faced, how they managed them in practice, and their direction of travel. Following our engagement, the company provided the additional disclosure we required in order to retain exposure.

We also engaged with a sub-Saharan African infrastructure company on their energy inputs, and their considerable progress in transitioning from diesel to solar. We expect this to become a significant component of emerging market investing, identifying opportunities to deliver ex-ante impact, coupled with attractive returns.

Table 5: Examples of investment decisions driven by ESG issues in emerging market debt portfolios

Sector	Asset class	ESG risk factor	Comments	Investment decision
Industrial	Emerging market	Governance and Environment	Weak and high-risk environmental and governance performance record.	AVOID
Financial	Emerging market	Governance and Environment	Debut issuer. Data provider said no evidence of risk committee, poor disclosure on structure, pay and environment. Following engagement issuer satisfactorily addressed these issues.	HOLD
Financial	Emerging market	Governance and Environment	Very weak corporate governance, with corruption issues and no due diligence to assess environmental risks in lending activities.	AVOID

## SOVEREIGN DEBT



Isobel Lee,  
Head of Global Government Portfolios



### KEY INSIGHT

We are enhancing our sovereign ESG risk model, creating impact scores alongside ESG risk scores.



### Q How have you applied a responsible investment approach in your portfolios?

We continue to include ESG factors in our long-term risk assessment for sovereign debt. For clients that request it, we bias allocations towards better performers, or can exclude sovereign issuers from their portfolios.

The relevance of ESG factors for sovereign issuers remains at a developmental phase, with less consensus in the market on how to approach assessing ESG performance in sovereign debt, unlike corporate bonds, for example. That said, sovereign issuance in specialist areas such as green bonds continues apace, so there may be increased scope for dialogue with issuers in such areas.

We believe it's important to invest in countries that already exhibit strong performance with regard to ESG factors, and to countries improving their performance. This explains why our country sustainability risk model delivers an overall ESG score and a momentum score. In 2020, we plan to extend our country sustainability model to generate separate risk and impact scores (see page 20), and we may also expand the number of inputs to more closely reflect the underlying factors that may affect the performance of sovereign issuers.



### Q What specific examples in 2019 can you provide of decisions made in light of your ESG analysis?

In late 2019, the huge environmental risk in Australia due to climate change became clear as wildfires spread. They are also large exporters of heavy carbon commodities. In 2019, our country sustainability model showed that the momentum score of Australia was deteriorating. We are following the scores closely as such risks could ultimately prove to be more financially material over time.

## SECURED FINANCE



Shaheer Guirguis,  
Head of Secured Finance



### KEY INSIGHT

We have led the way in developing an ESG questionnaire for originators of secured finance assets.



### Q How have you applied a responsible investment approach in your portfolios?

Awareness of ESG issues across secured finance assets is growing. We believe Insight is a first mover in encouraging issuers to consider ESG risks.

For any direct lending, we ask borrowers to provide information on ESG risks to which they are exposed, and how they manage them. If a borrower does not provide this information we decline the loan. Credit analysts and portfolio managers therefore have clear incentives to ensure that borrowers provide the necessary information on ESG factors.

We consider ESG factors as part of the rigorous fundamental analysis undertaken on originators, which is vitally important to the decision-making process. This includes detailed due diligence on the originators both prior to making an investment, as well as on an ongoing basis.

More specifically, ESG risks are an integral part of a broader assessment of non-financial risk factors such as corporate governance, data quality or regulatory standards. In undertaking our fundamental assessing, we examine the list of individual holdings and potential exposure to sectors, countries or issuers that may indicate ESG risks. As part of this, if a sponsor scores poorly it would be unlikely to be recommended for investment.

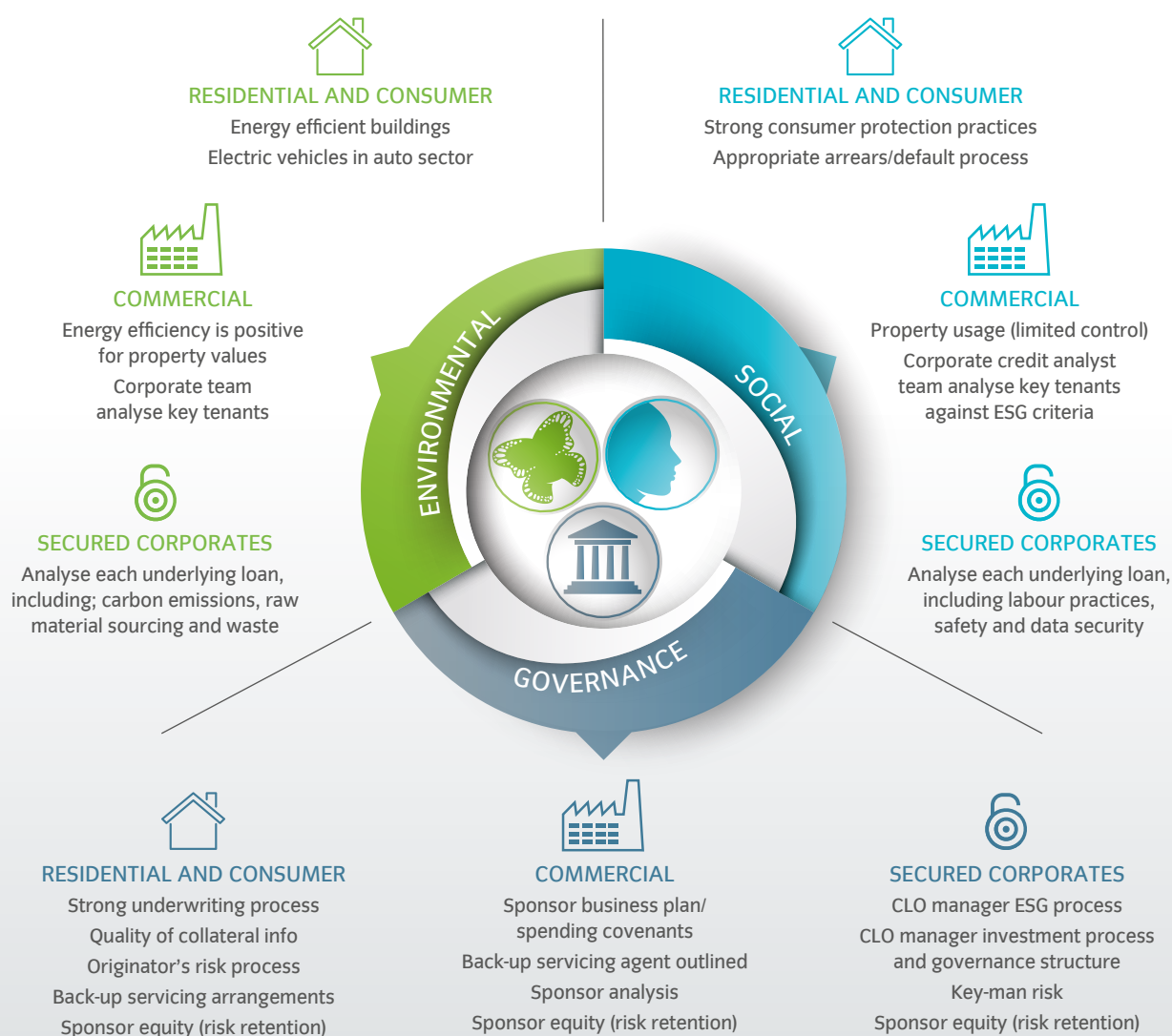
### **Q** What specific investment decisions have you made in 2019 in light of your ESG analysis?

Applying ESG scores to secured finance securities can be complex. There can be many stakeholders in the supply chain, and special purpose vehicles (SPVs) are often not discrete: for example, the mortgages within a SPV can change and so the ESG score for the security can vary as the environmental quality of the houses might change over time.

We are combining qualitative analysis with the results of our new questionnaires to make sure that ESG risks are identified and managed, as this information is often not provided by independent ratings agencies. Questionnaires for auto loans, credit cards, and residential property are currently in use and we are developing questionnaires for commercial property and collateralised loan obligations (CLOs), which we expect to finalise in 2020. We plan to compare results over time to understand how the market is evolving and to foster a culture of transparency within the secured finance space.

Given this is a new process, in 2019, we did not make any investment decisions driven primarily by our ESG analysis.

Figure 7: Examples of ESG issues that can influence secured finance asset performance





## LIABILITY-DRIVEN INVESTMENT



Jos Vermeulen,  
Head of Solution Design



### KEY INSIGHT

We have engaged on high-profile issues with regulators and policymakers on issues that could affect our liability-driven investment (LDI) clients.



### Q How have you applied a responsible investment approach in your portfolios?

For LDI strategies, ESG considerations are important factors in respect of the investment securities and instruments held, and the derivative counterparties used. Insight embeds ESG analysis in our LDI portfolio management process and we engage actively with bond issuers and counterparties.

These two pillars of our approach – analysis and engagement – are important in helping mitigate investment risk for clients. But perhaps most impactful is a third pillar: Insight works for clients in supporting sustainable markets; we work with regulators and policymakers to help manage costs and risks effectively, seeking to protect clients' interests for the ultimate benefit of both pension scheme beneficiaries and scheme sponsors.

To help our clients better understand Insight's approach to responsible investing, we are creating a wide range of ESG reporting which can include information updates on our engagement activity and ESG scores on bond issuers, soon to include scores on counterparties.



### Q What specific examples in 2019 can you provide of decisions made in light of your ESG analysis?

In 2019 we proactively engaged with clients and led the national conversation on proposed changes to RPI, which could have major implications for UK pension schemes. We also continued to engage on the transition away from LIBOR, and on issues around central clearing for European pension schemes. See page 36 for more information on these initiatives.



### FURTHER READING

#### Responsible investing and LDI

We outline the pillars of Insight's responsible investment approach for LDI, covering our integrated ESG analysis, active engagement with issuers and how we support sustainable markets and protect client interests.

Contact your usual Insight contact or email [ri@insightinvestment.com](mailto:ri@insightinvestment.com) if you would like to find out more.

## MULTI-ASSET



Matthew Merritt,  
Head of Multi-Asset Strategy Group



### KEY INSIGHT

We aim to be early adopters of ESG screened derivatives and continue to directly engage on any ESG issues with portfolio companies.



### How have you applied a responsible investment approach in your portfolios?

Our flagship multi-asset approach, Insight's broad opportunities strategy, dynamically invests across a wide range of asset classes including equities, fixed income and real assets. We make extensive use of derivatives and index instruments to gain market exposures. Where appropriate, we take ESG risks into account when making investment decisions. For direct investments we have an engagement programme: we raise ESG issues and actively encourage management to improve practices, and we exercise our stewardship responsibilities by actively voting on our shareholdings.

As we make significant use of derivative instruments in the strategy, we have long been proponents of the development of these markets to help enhance responsible investment. The recent expansion of exchange-traded futures and funds on potentially suitable indices could become attractive as access instruments for our strategy. Our aim is to be early adopters of such instruments. Currently we are close to introducing ESG-screened derivatives in the strategy.

To access certain fixed income exposures, our strategy can invest in Insight-managed pooled vehicles. For such capabilities, ESG considerations are a fundamental part of our corporate and sovereign research and engagement processes.

We have also introduced proprietary ESG scores for all infrastructure holdings. We developed an internal questionnaire with the ESG team and, consistent with other investment desks, use the questionnaire to close information gaps and better inform the investment team on sustainability risks.



### What specific investment decisions have you made in 2019 in light of your ESG analysis?

With regards to our direct holdings in infrastructure, we exercise our stewardship role through engagement with investee management and company boards to discuss governance, strategy and other relevant issues, and we actively vote on our shareholdings. Over 2019 we had 27 contacts, including seven where we engaged with company boards. We also voted on 138 proposals across 11 holdings.

Beyond this, we have found attractive investment opportunities in energy generation from renewable sources. Our strategy's renewable energy holdings provide an important source of potential returns with underlying portfolio exposures to operational investments in mature renewable technologies including wind, solar, hydropower and anaerobic digestion. The strategy's exposure to renewable energy helps to power an increasing number of homes with clean energy, avoid CO2 emissions and support local communities. Moreover, some portfolio holdings assist with waste recycling, reducing landfill and treating water resources.

Lastly, we are working towards a transparency report which would highlight the strategy's ESG scores implied from our indirect market exposures. The report is expected to be available in the near future.



For details on our multi-asset team's shareholder voting in 2019, please see page 65.

## SPECIALIST EQUITIES



Andy Cawker,  
Head of Specialist Equities



## KEY INSIGHT

The intelligent application of ESG data, supported by direct engagement, is vital to implement an effective responsible investment approach.



### Q How have you applied a responsible investment approach in your portfolios?

We have continued to reflect all material risks, including ESG risks, within our equities portfolios. ESG transparency reports help identify relevant risk factors.

In 2019, the number of worst-in-class investments – as defined by their ESG scores – decreased in our portfolios. The results from our ESG models are continuously monitored to see if any company's scores start to deteriorate. If we observe a poor score, we will research further and engage before we decide whether to adjust our allocation. However, we would note that a bad ESG score does not necessarily reflect a material risk (as per the example provided below).

Our income funds continue to have what we believe to be strong ESG scores and green footprints. In 2020, we will continue to adapt our ESG scores and improve transparency to demonstrate that we manage all of the ESG risks in our portfolios.



### Q What specific investment decisions have you made in 2019 in light of your ESG analysis?

To support our analysis we regularly engage with companies on ESG risks and issues. For example, a European asset manager was flagged after it received the worst possible ESG score on our model. Our engagement with the company and data providers highlighted this was predominantly due to the company not having the capacity to respond to many of the data provider's questionnaires. The company discussed with us the difficulties they had as a relatively small company, with a small investor relations team, in responding to all the surveys. That said, we were able to discuss directly with them the issues and topics that such questionnaires would have covered and we were able to evidence the company's robust approach to ESG risks and issues. As a result, we did not change our holding. We believe this experience highlighted how the intelligent application of ESG data, supported by direct engagement, is vital to implement an effective responsible investment approach.



For details on our specialist equity team's shareholder voting in 2019, please see page 64.



The intelligent application  
of ESG data, supported by  
direct engagement, is vital

ANDY CAWKER







# SUPPORTING SUSTAINABLE FINANCIAL MARKETS

AS A RESPONSIBLE INVESTOR, WE TAKE A PROACTIVE ROLE IN ENSURING THE LONG-TERM SUSTAINABILITY AND RESILIENCE OF THE MARKETS WHERE WE OPERATE. THIS IS IN OUR CLIENTS' LONG-TERM INTERESTS, AS WELL AS THAT OF WIDER SOCIETY. IN THIS SECTION WE OFFER HIGHLIGHTS OF OUR EFFORTS TO ENGAGE ON SIGNIFICANT REGULATORY AND MARKET ISSUES.

## RPI REFORM

**Insight is driving the national conversation on proposed reforms to the UK's Retail Prices Index (RPI) – which could have negative implications for millions of pensioners.**

In September 2019, Her Majesty's Treasury published letters between the Chancellor of the Exchequer and the Chair of the UK Statistics Authority on proposed changes to RPI. These suggested the UK government was on a pathway to amend the underlying calculation of RPI to align the measure with the Consumer Prices Index including owner occupiers' housing costs (CPIH), the main measure of UK inflation from March 2017.

If RPI is simply aligned with CPIH then, all else being equal, we believe pension fund benefits received by millions of people would be reduced – and it could result in a transfer of wealth from index-linked gilt holders to the UK government of £90bn to £120bn. Pension schemes with CPI-linked benefits, hedged with index-linked gilts will be especially impacted by the proposed change.

Our aim has been to draw attention to the potential impact of the proposed change and to ensure everyone has an opportunity to make their voices heard. Our most significant actions include:

- In November 2019 we published a detailed white paper and open letter urging pension funds, insurers, advisers and asset managers to engage with policymakers about the future consultation.
- We launched a dedicated website, [www.rpireform.com](http://www.rpireform.com), to connect with a broader audience of stakeholders and collate news articles in a single resource.
- In December 2020 we hosted an event for the Society of Pension Professionals focusing on RPI reform.
- In March 2020 we wrote to the Chancellor and the Chair of the UK Statistics Authority urging that the consultation deadline, then set for 22 April 2020, be extended given the unprecedented backdrop caused by the coronavirus pandemic. The deadline was subsequently pushed back to 21 August 2020.<sup>15</sup>
- We made our response to the consultation available to clients and consultants to provide an additional information point to help others prepare their own responses.



Insight believes that there should be an independent process created to find a fair and equitable outcome that adequately addresses the economic implications of this change. An example of such a solution would be to change RPI to become CPIH plus a margin. This margin would be agreed via an independent body after consultation, and transparently calculated to reflect the expected long-term average premium of RPI over the new inflation measure. If established via a market-wide public and impartial consultation, and managed transparently, it would ensure that the transition occurred in a way which all parties perceived as fair.



For more information on this issue, please refer to our dedicated website, [www.rpireform.com](http://www.rpireform.com).

<sup>15</sup> <https://www.insightinvestment.com/rpi-reform/perspectives/letter-consultation-on-rpi-reform/>



## EMIR AND CENTRAL CLEARING

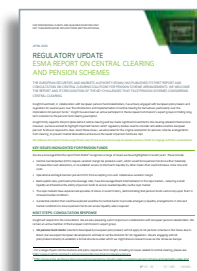
Insight is proactively engaging on key issues on behalf of pension schemes across Europe, responsible for the current and future income of millions of European pensioners.

In collaboration with European pension fund stakeholders, Insight has actively engaged with European policymakers and regulators for several years over the introduction and implementation of central clearing for derivatives, particularly over the implications for pension funds.<sup>16</sup> Insight has also been an active participant in the European Commission's expert group on finding long-term solutions to the pension fund clearing exemption.

Insight firmly supports the principles behind central clearing and has made significant investments into clearing-related infrastructure. However, we have worked to highlight important factors which regulatory bodies need to consider and address before European pension funds are required to clear. Given these issues, we advocated for the original exemption for pension scheme arrangements from clearing, to prevent market dislocations and ensure the needs of pension funds are met.

In April 2020, the European Securities and Markets Authority (ESMA) published its first report and consultation on central clearing solutions for pension scheme arrangements.

We were encouraged that the report from ESMA<sup>17</sup> recognised a range of issues we have highlighted in recent years.



## LIBOR TRANSITION

**Insight is playing an active role in the interest-rate benchmark reform process, which will have implications for financial markets worldwide.**

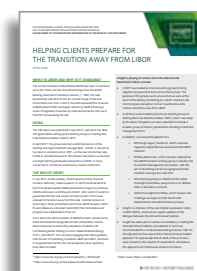
In July 2017, Andrew Bailey, then Chief Executive of the Financial Conduct Authority, made a speech in which he declared that the FCA had persuaded LIBOR panel banks to agree to continue LIBOR submissions until the end of 2021, after which it could not guarantee that the rate would continue to exist. Firms were advised to transition away from the rate.

In 2017 we created an internal working group to bring together key personnel from across the business. The purpose of this group was to ensure that we were at the heart of the debate, protecting our clients' interests and minimising any disruption to their investments as the market transitions away from LIBOR.

In 2018 we were invited to join the UK Working Group on Sterling Risk-Free Reference Rates (RFR) as it was expanded to include a broader group of industry participants including investment management firms.

In addition, we have participated in the:

- RFR Tough Legacy Taskforce, which examines regulatory dependencies associated with LIBOR transition.
- RFR Buyside Forum, which was later replaced by the LIBOR transition working group, hosted by the Investment Management Association, with the aim of facilitating and encouraging benchmark transition amongst buy-side firms.
- ISDA Working Group on LIBOR and the SONIA Oversight Committee, set up to focus on fallback rates in derivative contracts.
- SONIA Oversight Committee, which reviews and challenges all aspects of the benchmark determination and administration process.
- Insight is a member of the Loan Market Association (LMA) and receives regular updates on the dialogue between the LMA and relevant parties. Insight has also met with the CEO of the LMA regarding the LIBOR transition.
- Insight has taken part in various consultations, including the ISDA Benchmark Fallback Consultation, in which we recommended the 'compounded setting in arrears rate' for the adjusted risk-free rate and the 'historical mean/median approach' for spread adjustment. Both of these choices were chosen by the majority of respondents. We believe this approach will minimise uncertainty for clients.



<sup>16</sup> For a range of past communications and policy responses from Insight, including on issues related to central clearing, please see <https://www.insightinvestment.com/uk/responsible-investment/ri-literature-library/>.


<sup>17</sup> <https://www.esma.europa.eu/press-news/esma-news/esma-consults-clearing-solutions-pension-scheme-arrangements-under-emir>



# IMPACT AND SUSTAINABILITY





- 
- Investors are increasingly seeking to make a positive impact with their portfolios, either through impact bonds or through other means, including proactive engagement
  - The supply of impact bonds has boomed to over \$1 trillion in response, though 'impact washing' is prevalent – highlighting an ongoing need for detailed analysis
  - Insight has developed a new approach to help investors achieve sustainability objectives while pursuing a financial return

# OVERVIEW OF IMPACT BONDS MARKET TODAY

ENVIRONMENTAL OR SOCIAL IMPACT CAN BE ACHIEVED THROUGH A COMBINATION OF LABELLED IMPACT BONDS, THE IDENTIFICATION OF SUSTAINABLE ISSUERS, AND CORPORATE ENGAGEMENT (SEE PAGE 44). THE GROWTH OF THE IMPACT BOND MARKET HAS SHARPENED THE FOCUS ON THE ASSET CLASS FOR INVESTORS SEEKING TO MAKE A POSITIVE IMPACT.

When impact bond issuance surged to USD\$300<sup>18</sup> billion in 2019 alone, we saw an important turning point for fixed income investors. With outstanding bonds passing the \$1trn mark in 2020, no longer are these instruments seen simply as a niche, seed-stage asset class, but rather an undeniably viable addition to portfolios in their own right.

## THE DRIVERS OF GROWTH

There are four key drivers of the expedited growth rate we have seen in the issuance of impact bonds:

- 1 Shifting attitudes:** As the investor landscape shifts toward encompassing Millennials and Generation-Z, so too have investor preferences. Investors are increasingly seeking out companies that consider their environmental and societal impact.
- 2 Demonstrate commitment to achieve positive environmental and societal impacts:** Businesses recognise the importance of supporting local communities and environments. Impact bonds are an increasingly popular way for corporate, multi-national and sovereign issuers to demonstrate their commitment to achieving their sustainability strategies and to wider efforts such as the Paris Agreement on climate change and UN Sustainable Development Goals.
- 3 Regulatory pressure:** In some sectors, such as utilities, regulation has threatened their business models; without changes they face uncertain futures. For example, commitments to phase out coal power requires a replacement technology. Automobile manufacturers are investing in electric vehicles due to the widespread ban of diesel and petrol companies over the next 20 years.
- 4 Ease of impact bond issuance:** It is easier than ever before to come to market with an impact bond. There is more advice and support for issuers and investors are increasingly asking for impact investments.

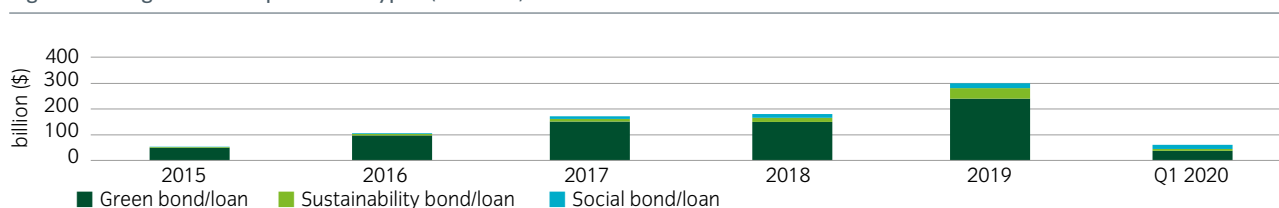
The underlying force is investor demand, driving governments and corporates alike to deliver on the premise of impactful investing.

## GREEN BONDS DOMINATE ISSUANCE, BUT GROWTH IN THE OTHER TYPES IS ACCELERATING

Green bonds dominate the market of impact bond issuance. More than \$820bn<sup>19</sup> has been raised in green bond issuance since 2007, when the European Investment Bank issued its inaugural impact bond. The vast majority of this growth in green bond issuance came following their rise to prominence in 2013 with issuance from EDF and Bank of America, spurring more than 500 entities to issue green bonds since then.

Social and sustainable bonds in particular have been following green bonds' trajectory and steadily increasing their market share, with social bond issuance in the first quarter of 2020 almost equalling the total amount issued in 2019.

Figure 8: The growth of impact bond types (USD\$ bn)<sup>20</sup>



<sup>18,19</sup> Source Bloomberg. As at 31 December, 2019. <sup>20</sup> Source: Bloomberg. Data as at 31 March 2020.



## INVESTOR SUSCEPTIBILITY TO IMPACT WASHING EXPANDS ALONGSIDE THE INSURGENCE OF IMPACT BOND ISSUANCE

In large parts of the impact bond market there are lower levels of disclosure, which is a significant enabler of ‘impact washing’ – an issuer falsely claiming to be impact-focused, with little intention of demonstrating any positive impact achieved. This, in turn, creates challenges around comparability in the issuance of, and reporting on, so-called impact bonds.

While there are some commonly used frameworks and standards, such as the International Capital Market Association’s (ICMA) Green Bond Principles, these are not a prerequisite for issuance – and only cover a portion of the universe. Likewise, a lack of consistent reporting renders it difficult for investors to identify whether bond proceeds are used as initially marketed or are simply impact in name only.

### HELP FOR INVESTORS: IMPACT BOND ASSESSMENTS

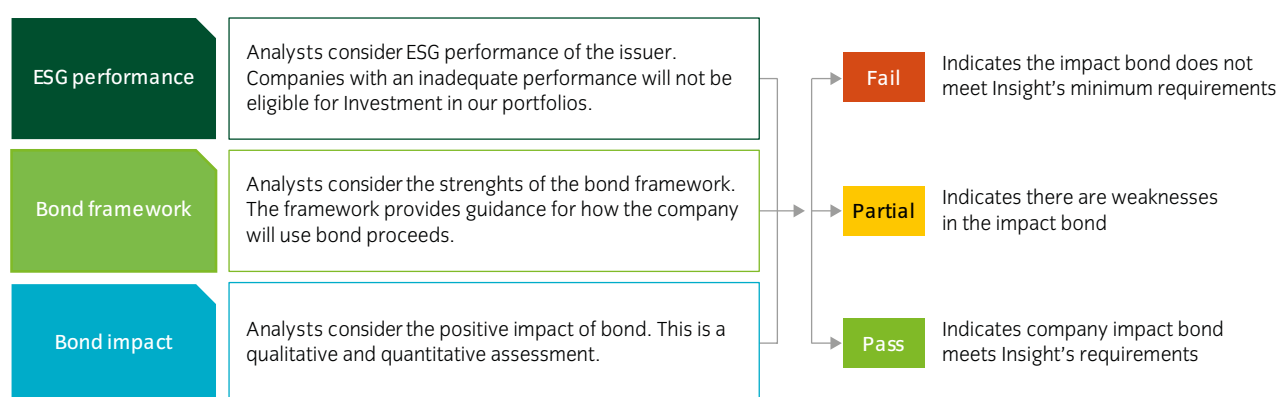
To manage sustainability objectives for our clients, Insight analyses impact bonds using our proprietary framework (see Figure 9). We have found some misalignment in how these instruments are defined, posing issues of integrity in measuring objectives for investors. As the universe expands, these issues are likely to only be further compounded.

**Out of the 200 impact bonds we have rated since 2017, it has been concerning to see that just 31% have met all our requirements to be classified as a genuine impact bond<sup>21</sup>.** Conversely, 19% received a red score meaning they did not pass the criteria, with the remaining 50% rated amber, indicating weaknesses in their adherence to impact classification measures.

The new EU green bond standards and the EU taxonomy should introduce more market standardisation and give access to more complete information that will be genuinely relevant to investors. For issuers, alignment with the ICMA Green Bonds Principles, along with external verification, will prevent them from giving any unintentional impression of impact washing.




































Until more formal frameworks are enforced, it will be vital for investors to exercise appropriate due diligence to avoid falling victim to the rising risk of impact washing.

Figure 9: Insight’s impact bond evaluation process



<sup>21</sup> As at 31 March, 2020.

Figure 10: Examples of Insight Investment's impact bond analysis in 2019

Sector	Name	Bond type	ESG performance met?	Bond framework criteria met?	Impact criteria met?
	ENEL SPA				
Analyst assessment	<p>Enel SpA is aiming to reach targets of a 55% share of renewables by 2021 and 125g/kWh scope 1 GHG emissions by 2030. They have issued USD 5-year, EUR 4-year and 7-year bonds under the first target and a EUR 15-year under the second target. Both of these groups of issues are aligned with the Paris Agreement and the coupon has a one-off 25bp step-up if the company misses its targets. They are the first to issue a bond with this structure.</p> <p> <b>Rated green:</b> The structure of the bonds allows the bonds' performance to be linked with the targets set, creating an outcomes-based framework for the bonds, which we view positively.</p>				
	PNC BANK NA				
Analyst assessment	<p>The bond's proceeds may be used only to finance (or refinance) projects focused on renewable energy (solar and wind), energy efficiency in owned properties (25% improvements), green buildings (Leadership in Energy and Environmental Design platinum and gold), completed at most three years ago. A Sustainable Finance Working Group and Green Bond Approval Committee will select projects. Net proceeds will be monitored internally with unallocated capital to be held in cash.</p> <p> <b>Rated amber:</b> The categories targeted for the bond's proceeds were very broad, with limited information on how the cash would be allocated across each. Also, a second-party opinion on the bond's sustainability characteristics was not available when we assessed the bond.</p>				
	ELLAKTOR SA				
Analyst assessment	<p>The bond's proceeds may be used to finance renewables (wind and solar), toll roads and environment (waste) operations. Projects for the bond are to be selected by the business division and treasury teams, with proceeds to be managed via a green bond register, which logs how proceeds are allocated and which projects are considered. Ellaktor has committed to providing allocation and impact reporting.</p> <p> <b>Rated red:</b> Part of the proceeds were intended to be used to repay existing debt rather than to fund the above projects, which has no clear connection to green projects. Additionally, other operations such as toll roads are not considered to be green projects.</p>				
	KFW				
Analyst assessment	<p>Uses of proceeds only include renewable energy from wind, water, photovoltaics and biomass. Selection of projects is based on construction, expansion and acquisition, or equipment and grids, that meet the requirements set out by the reform of Germany's 2014 Renewable Energy Act.</p> <p> <b>Rated green</b> as the framework is clear and specific, impacts are potentially material and reporting is regular and incorporates external assessments of impact.</p>				
	YORKSHIRE WATER				
Analyst assessment	<p>The company classes the majority of its operations as eligible for sustainable bonds, with exclusions relating to personal expenditures, financing costs, landfill assets and expenditures, fossil fuel fleet, and assets and expenditures linked to the incineration of waste and potential fines and legal costs associated with pollution incidents. Use of proceeds includes water resource management and conservation, and water supply, waste management and remediation activities. Projects selected by a committee including finance and sustainability executives. Unallocated proceeds can be put towards paying down revolving credit facility or to refinance existing debt maturities.</p> <p> <b>Rated amber</b> as we believe the bond has a weak framework, though it has the potential to have a positive impact through operations focusing on activities such as flood prevention and water leakage reduction.</p>				
	STARBUCKS				
Analyst assessment	<p>Use of proceeds includes buying responsibly grown and sourced coffee, defined according to Starbucks standards; developing centres for farmer support and agronomy research and development; and supporting new and refinanced loans through the company's Global Farmer Fund, which aims to alleviate problems regarding with access to finance. Selection of projects conducted by Starbucks' global coffee sourcing and responsibility teams, with unallocated proceeds to be held in cash and Treasuries. Reporting is annual.</p> <p> <b>Rated red</b> as a green bond framework could not be sourced, and it is difficult to determine whether the proceeds of the issue will have a meaningful impact overall. Criteria for responsibly sourced and grown coffee are managed by Starbucks, and 99% of the company's purchased coffee is already 'ethically sourced' (according to its own figures).</p>				

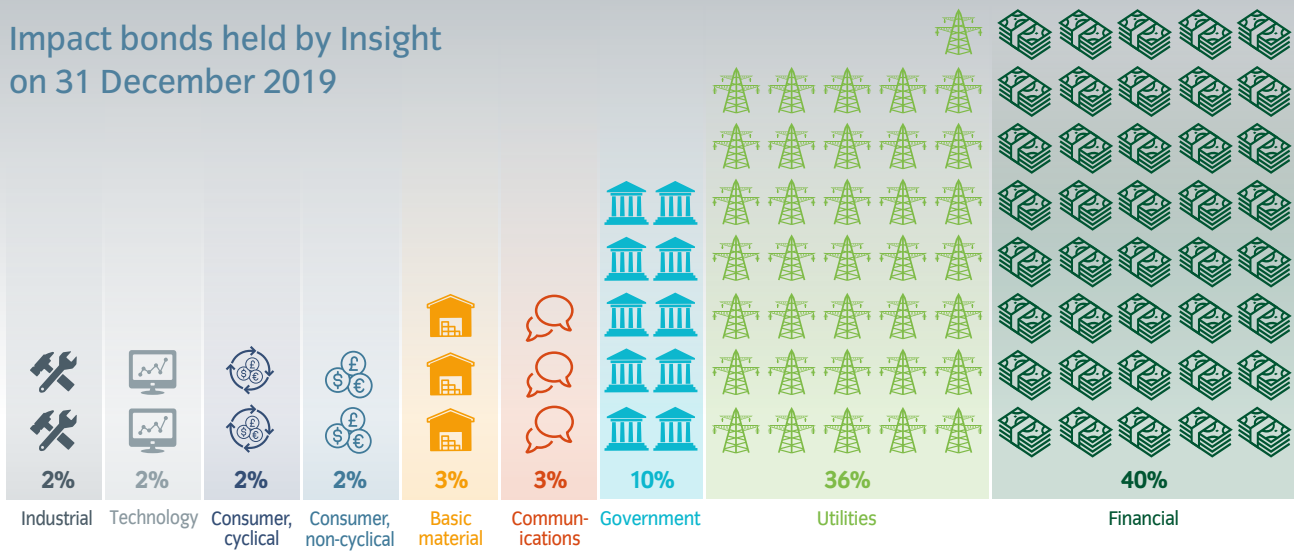
#### Key to bonds type



#### Key to sector



## Impact bonds held by Insight on 31 December 2019



For full details of impact bonds held across Insight portfolios, see page 60.

# INTRODUCING OUR EURO STRATEGIC IMPACT BOND STRATEGY



Rob Sawbridge,  
Senior Portfolio  
Manager

INSIGHT'S EURO STRATEGIC IMPACT CREDIT STRATEGY IS A NEWLY DEVELOPED IMPACT APPROACH WHICH DELIVERS VALUE TO OUR CLIENTS BY INVESTING IN A WAY THAT ALIGNS WITH THEIR VALUES WHILST ALSO DELIVERING A MARKET LEVEL OF RETURN.

We believe environmental or social impact can be achieved through a combination of the following:

- **Labelled impact bonds:** These bonds ensure the use of capital is directed towards projects aimed at achieving positive environmental or social outcomes (see previous section). As part of this we will consider the overall alignment of these projects to the UN Sustainable Development Goals (SDGs).
- **Sustainable companies:** Identification of issuers who are already 'sustainable', which generate greater than 25% of their revenues from positive impact allows us to invest in bonds where the issuer's strategy is aligned with achieving a positive impact.
- **Corporate engagement:** This forms a key part of our investment process and is fundamental to our approach for monitoring and ensuring impact is achieved by the issuers in which we invest. We engage with issuers individually and collaboratively on various matters, including encouragement of disclosure on carbon data and what we require of companies in their transition to a low carbon economy. If a company we hold fails to meet transitional objectives after engagement, we would sell from the portfolio.

Figure 11: The principles of our approach to impact investing







Corporate engagement forms a key part of our investment process and is fundamental for monitoring and ensuring impact is achieved by issuers

ROBERT SAWBRIDGE



#### KEY FEATURES OF INSIGHT'S NEW EURO STRATEGIC IMPACT CORPORATE BOND APPROACH

The strategy has a climate focus but also considers other impact themes. The strategy:

- Invests primarily in euro-denominated credit, reflecting the investable universe and core investor base. The remit of the strategy, however, is global given the broad impact of climate change and the limited opportunity set for regional strategies.
- Follows an enhanced buy and maintain rather than active approach to investment, in line with the strategic nature of end-investors' allocations in this space and the long-term timeframes for many impact objectives.
- Will invest c.75% in labelled green bonds but is able to invest in instruments with other positive impacts under our framework, aligned with the UN SDGs.
- Emphasises company engagement, giving the portfolio management team flexibility to invest in issuers with a long-term improvement plan.

# BUILDING ON OUR SUSTAINABLE BOND STRATEGY

OUR NEW EURO STRATEGIC IMPACT STRATEGY BUILDS ON THE SUSTAINABLE INVESTMENT PRINCIPLES THAT HAVE BEEN DEPLOYED IN OUR SUSTAINABLE EURO CORPORATE BOND STRATEGY FOR A NUMBER OF YEARS. OUR SUSTAINABLE STRATEGY AIMS TO BALANCE THE REQUIREMENTS OF MANY OF OUR CLIENTS FOR AN APPROACH THAT INCORPORATES BOTH SUSTAINABILITY AND IMPACT TARGETS, WHILE MAINTAINING A PERFORMANCE TARGET RELATIVE TO A CONVENTIONAL FIXED INCOME INDEX.

Our sustainable euro corporate bond strategy has three distinguishing features:

- 1 It only invests where minimum standards for ESG factors are met
- 2 It seeks to positively allocate to impact opportunities and issuers with superior sustainability profiles
- 3 We actively engage with companies held to encourage better management of social and environmental issues

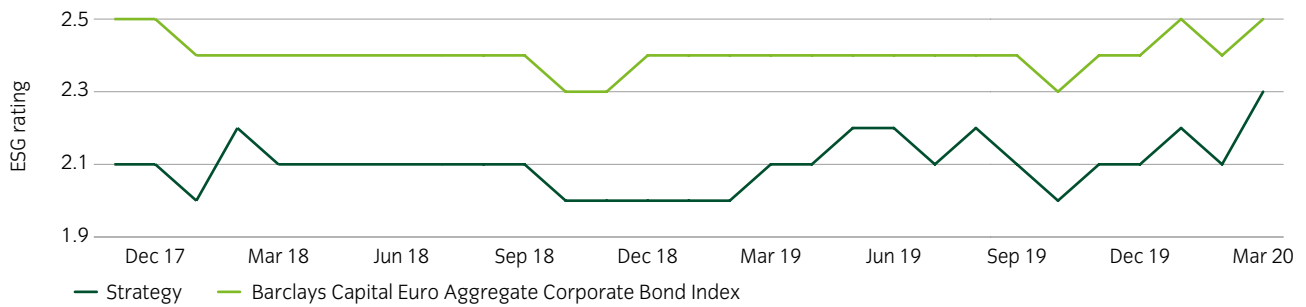
Figure 12: Insight's sustainable euro corporate bond strategy – a sustainable approach





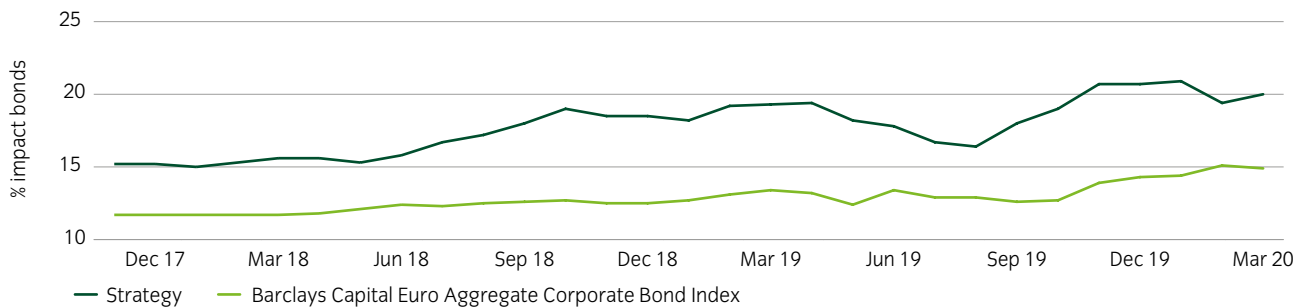
## Better ESG rating than the benchmark<sup>22</sup>

The strategy's ESG score remained largely steady over 2019, with a better overall ESG rating than its benchmark. The portfolio reflects a best-in-class tilting strategy that aims to invest in better ESG-rated companies and avoid those with the lowest ESG ratings.



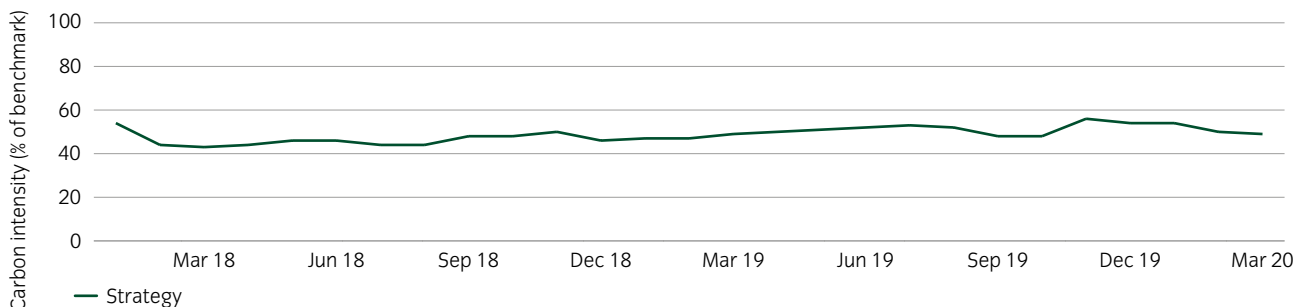
## Substantial exposure to impact bonds<sup>22</sup>

The strategy's exposure to positive impact bonds grew over the year. By the end of 2019, 20% of the strategy had a strong link to positive impact opportunities. Our aim is to see this grow over time.



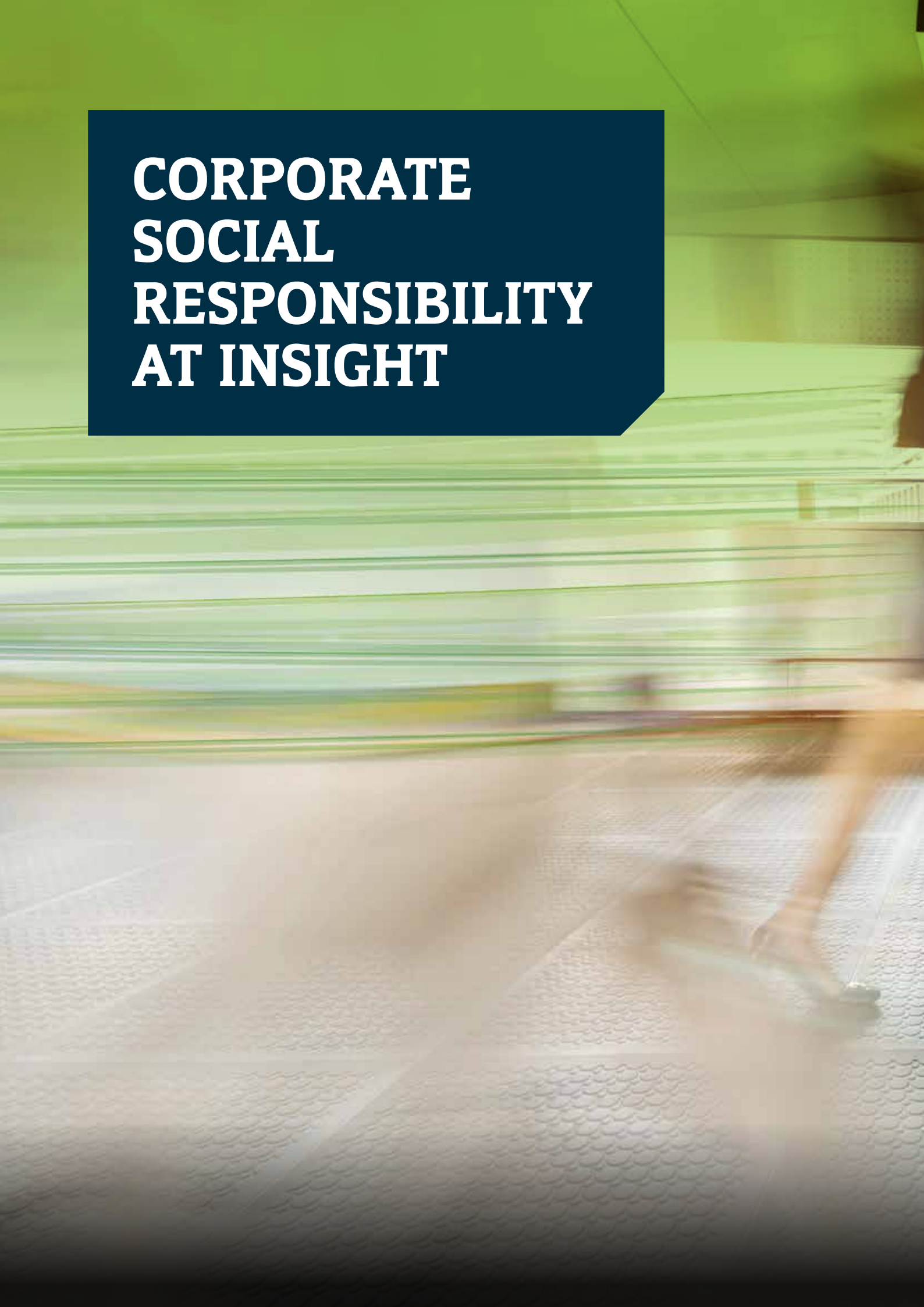
## Much lower carbon intensity than the benchmark<sup>22</sup>

The carbon intensity of the strategy was c.50% lower than its benchmark over 2019. This was achieved by removing the most carbon-intensive issuers from the portfolio.




<sup>22</sup> Source: Insight and Bloomberg.

# **CORPORATE SOCIAL RESPONSIBILITY AT INSIGHT**





A blurred photograph of a modern office interior. In the background, several people in business attire are walking through a brightly lit space with large windows. The foreground shows a close-up of a person's legs and feet walking on a grey, textured carpet. The overall image has a greenish-yellow tint and a sense of motion.

Insight holds itself to a high standard, and that is reflected across our corporate social responsibility initiatives. These include:




- Environmental initiatives
- Efforts to enhance diversity and inclusion
- Supporting charitable initiatives and encouraging employees to volunteer
- Advocacy for science education and communication
- Efforts to enhance governance, protecting wider society and our clients

# CORPORATE SOCIAL RESPONSIBILITY AT INSIGHT

AT INSIGHT, WE REGARD CORPORATE SOCIAL RESPONSIBILITY (CSR) AS A WAY TO REFLECT OUR BROADER CULTURE, WHICH IS UNDERPINNED BY FOUR CORE VALUES:



There are three key elements of our work in CSR. These relate to our corporate responsibilities to:

-  **Our markets:** we seek to protect client interests and operate our business with integrity and resilience
-  **Our people:** we seek to encourage effective leadership, well-being, diversity and inclusion for our staff
-  **Our world:** we seek to invest and act responsibly to protect the wider world and, locally, to support the community, including through the sponsorship of the arts and sciences and charitable partnerships

This means ensuring that Insight is doing the right thing for our clients, our colleagues and the environment.



We seek to invest and act responsibly to protect the wider world and, locally, to support the community





## KEY FEATURES

### ENVIRONMENTAL INITIATIVES

- **Moving to environmentally friendly printing:** In 2019, we moved to environmentally friendly print production in all locations, including renewable and 100% recyclable card covers and paper sustainably sourced from FSC certified suppliers. It is acid-free, with cotton-based fibres to minimise environmental impact and low carbon steel, PET-coated wire binding.
- **Carbon-neutral flights:** In 2019 we signed up with charitable partner Trees for Cities and planted more than 2,000 trees in an initiative to offset the carbon generated by our flights. As a result, Insight was carbon-neutral on all business travel in 2018.
- **Reducing plastics in our offices:** Over 2019, we removed single-use plastic items and rolled out reusable cups and water flasks to staff globally.

### ENCOURAGING DIVERSITY AND INCLUSION AT INSIGHT

- **Insight has signed up to The Diversity Project**, which aims to accelerate progress towards an inclusive culture within the investment and savings industry.
- **We support the involvement of our senior female employees in a mentoring programme offered by The 30% Club**, which aims to foster greater gender balance in business leadership.
- **A leadership programme focused on female employees**, conducted with Henley Business School, is now well-established.

### CHARITY PARTNERS AND VOLUNTEERING

Employees select charity partners that we seek to support through regular events and fundraising over the calendar year. All staff are encouraged to take paid volunteer days to support chosen charities.

### ADVOCACY FOR SCIENCE EDUCATION AND COMMUNICATION

We support institutions whose purpose is the further public engagement with the sciences.

**The Insight Investment Astronomy Photographer of the Year competition:** In 2019, the 'Annie Maunder prize for image innovation' (for images processing big data from open source telescopes) was added to the Astronomy Photographer of the Year competition. Annie Maunder (1868-1947) was a leading researcher in solar physics. Her diligent management of data, and talent for exploiting the imaging systems of the day, supported her important advances in our understanding of sunspots, the solar wind and other phenomena of the solar magnetosphere. Mrs Maunder was unable to collect her degree, by law had to resign from her job upon marriage and was excluded from scientific organisations of the time due to her gender, but she preserved a long association with the Royal Observatory and its fieldwork, and was eventually made a Fellow of the Royal Astronomical Society.

**The Royal Society Insight Investment Science Book Prize:** This competition awards authors who challenge conventional wisdom in the sciences. In 2019 Caroline Criado Perez won for her book, *Invisible Women*. The prize has been previously awarded to Gaia Vince (*Adventures in the Anthropocene*), Andrea Wolf (*Invention of Nature*) and Cordelia Fine (*Testosterone Rex*).

### GOVERNANCE

**Insight enhanced brand protection services to prevent fraud:** In 2019 we enhanced our ability to challenge online frauds targeting the general public and Insight contacts by adding an online brand protection service to identify groups seeking to use Insight's trademarks and identity to mislead contacts and commit financial fraud. Several fraudulent enterprises have been identified and shut down in 2019 and ongoing monitoring of the digital landscape has been enhanced as an early warning system.

**Certification of information security:** Insight places great importance on the integrity of its information processing and has a low appetite for information risk. As well as its own operational requirements, Insight commits to protecting clients' information and individual privacy to the highest standards. To provide assurance that management of these priorities is aligned with best practice, the appetite of the firm, and the needs of stakeholders, Insight has obtained and maintained public certification of compliance with the relevant standards, obtaining and retaining certification to ISO 27001 (Information Security) since 2008, and ISO 22301 (Business Continuity) since 2012.




For more detail on our CSR initiatives, please visit our dedicated web page at <https://www.insightinvestment.com/uk/introducing-insight/corporate-social-responsibility/>



# RESPONDING TO THE COVID-19 PANDEMIC







The global spread of the novel coronavirus, COVID-19, in early 2020 led to extensive measures to contain the outbreak. This in turn prompted a wide range of responses.

Notably, the UN-supported Principles for Responsible Investment (PRI) published actions for responsible investors in response to the pandemic, stating that “an immediate, robust response to the COVID-19 crisis is needed across the global economy”.

Insight’s Global Chief Investment Officer, Adrian Grey, wrote a letter to key stakeholders in the economy, outlining our expectations and actions and our response to the PRI’s suggestions. Insight also made donations to support workers on the front line in the pandemic.

# OPEN LETTER TO STAKEHOLDERS IN RESPONSE TO THE PANDEMIC

Dear stakeholder,

The global spread of the novel coronavirus, COVID-19, is having a severe impact on how our societies and economies function. Strong leadership and collaborative action is critical in response, and already, governments, central banks and regulators have taken unprecedented action.

In our role as a leading investment manager, we actively encourage stakeholders to consider how they will address the current situation, as outlined below.

- **Corporates:** Management teams and boards of directors face difficult short-term choices. Decisions should take into account the welfare and safety of employees. For companies under financial stress, we encourage employers to use government support where available to protect employees as much as possible. Companies should consider redundancies or furloughing staff only after exhausting all other options.

We generally support prudent decisions that aim to ensure the long-term success of businesses, which may include, if necessary, suspending dividends, implementing measures to support cashflows and reviewing capital expenditure plans. Financial reporting, investor dialogue and financial responsibility remain essential for investors.

- **Governments:** Governments should remain focused on the health risks from COVID-19 and follow the advice of healthcare professionals and the World Health Organization. Restrictions should only be lifted on the basis of expert advice.

The crisis should not be used as an opportunity to suppress freedoms, control economic rights or privileges, or to weaken governance standards.

- **Financial policymakers and regulators:** We encourage continued global efforts to stabilise financial markets with both monetary and fiscal policy in the short term. As markets stabilise, communication with market participants will be crucial as any stabilising initiatives are withdrawn.

We support regulators adapting rules to alleviate short-term pressure related to COVID-19 that may be facing companies and investors – where this is possible without increasing long-term risks. We would also support regulators looking to extend deadlines for all outstanding consultations, and examine whether regulations coming into force in 2020 and 2021 should be delayed.

- **Financial counterparties:** We encourage regular communication with financial counterparties, based on established risk protocols, with all material developments communicated to senior management, regulators and market participants. This is vital for markets to function effectively.

## Insight's response to the PRI COVID-19 statement

The UN-supported Principles for Responsible Investment (PRI) has introduced seven action points for investors<sup>23</sup>. We list these PRI actions below together with a brief description of Insight's activity in each area.

### 1. Engage companies that are failing in their crisis management

We encourage our credit analysts to engage in frequent dialogue with companies, across investment grade, high yield and emerging market debt asset classes. We discuss, where appropriate, action the business is undertaking to

<sup>23</sup> <https://www.unpri.org/covid-19>



protect employees. We report on these company engagements as part of our stewardship process.

**2. Engage where other harm is being hidden behind, or worsened by, the crisis**

Our due diligence process puts analysis and monitoring of environmental, social and governance (ESG) factors at the centre of our approach. We believe that if a company's activity threatens its reputation, it will also impact our clients' reputations.

**3. Deprioritise engagement on other topics**

We continue to engage on all material topics with issuers. We are not putting on hold our dialogue on ESG factors at this time. We believe companies need to continue their engagement with us on long-term risks.

**4. Publicly support an economy-wide response**

As a leading asset manager, Insight aims to help clients allocate their assets prudently, and to support stable financial markets and investment conditions. We engage with central banks, policymakers and counterparties frequently in this regard.

**5. Participate in virtual AGMs**

We support introducing virtual AGMs and introducing some flexibility around scheduling AGMs. AGMs should not be delayed indefinitely.

**6. Be receptive to requests for financial support**

We endeavour to support businesses that demonstrate strong management of all risk factors. We aim not to expose our clients' capital to unnecessary business or financial risks.

**7. Maintain a long-term focus in investment decision making**

We continue to focus on long-term risks to investment portfolios, including from ESG factors, as well as governance and business activity.

**Looking beyond the crisis**

We encourage all stakeholders to continue to review and enhance their ongoing planning, risk management, and oversight programmes in light of these events.

We share a responsibility to support a sustainable economy and play a positive role in society. We believe that this will support investors, including our clients, in achieving their long-term outcomes.

Signed by

Adrian Grey, Global Chief Investment Officer

## SUPPORT FOR THE FRONT LINE

DURING THE COVID-19 PANDEMIC WE WISHED TO OFFER SUPPORT AND THANKS TO FRONT-LINE WORKERS.

In the UK, we made a donation to support Insight's UK event catering partners, Rocket Food, in providing meals for key workers in the NHS. As part of the #FuelforNHSHeroes' campaign, launched by The Conduit, Rocket staff volunteered to run this service.<sup>24</sup>

In the US, we made a donation to the New York Chapter of Frontline Foods. This charity provides funding to local restaurants to support their efforts to provide healthy meals to the frontline workers leading the response to the pandemic.

<sup>24</sup> For more information on the campaign, please see <https://theconduit.com/fuel-for-nhs-heroes/>

# APPENDIX I. LEADING OUR RESPONSIBLE INVESTMENT PROGRAMME

IN 2020 WE ENHANCED OUR OVERSIGHT AND STRUCTURE ON ESG ISSUES. THE INSIGHT RESPONSIBILITY OVERSIGHT COMMITTEE (IROC), CHAIRED BY INSIGHT'S CEO ABDALLAH NAUPHAL, OVERSEES A RANGE OF COMMITTEES FOCUSED ON DIFFERENT ASPECTS OF OUR COMMITMENT TO RESPONSIBLE INVESTMENT ON BEHALF OF OUR CLIENTS.

Our responsible investment governance committees include representation from investment, client, commercial, operations, product, legal, risk and marketing divisions. Joshua Kendall, Senior ESG Analyst, has responsibility along with our Corporate Risk Team for managing the scope, procedures and documentation for each committee, which is described in full within the terms of reference documentation reviewed and approved by IROC.

Figure 13: An overview of Insight's responsible investment governance arrangements



<sup>25</sup> The Insight Responsibility Oversight Committee (IROC), chaired by Abdallah Nauphal, CEO, includes representatives from our Executive Management Committee in addition to members of the Investment, Commercial, Communications and CSR committees reporting to IROC. Membership of IROC includes: Adrian Grey, Global Chief Investment Officer; Serkan Bektas, Head of Client Solutions Group; Jonathan Eliot, Chief Risk Officer; Lynne Dalgarno, Head of Human Resources; Jon Eilbeck, Chief Operating Officer; Jane Iverson, General Counsel; Angus Woolhouse, Global Head of Distribution; and Mark Stancombe, CEO, North America. These individuals and representatives of their respective divisions participate in committees throughout our responsible investment governance structure.

## APPENDIX II. INSIGHT'S WEAPONS POLICY

INSIGHT DOES NOT INVEST IN COMPANIES INVOLVED WITH THE PRODUCTION, SALE OR MAINTENANCE OF CLUSTER MUNITIONS OR LANDMINES.

There are two major international conventions that address cluster munitions and landmines specifically:

- **The Convention on Cluster Munitions (2008):** This Convention restricts the manufacture, use, and stockpiling of cluster munitions and the components of these weapons.
- **The Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction (1997):** This Convention, often referred to as the Anti-Personnel Landmines Convention, aims to eliminate antipersonnel landmines around the world.

In line with these international conventions and following their ratification into domestic law by a number of countries, Insight has adopted a global policy which commits it to avoiding direct investments in companies that:

- Design, produce, sell or maintain cluster munitions and/or landmines.
- Undertake research and development to develop cluster munitions and/or landmines.
- Breach the requirements of the Convention on Cluster Munitions or the Anti-Personnel Landmines Convention.

This policy:

- Applies across all asset classes.
- Excludes affiliated companies: that is, companies with affiliations or commercial relationships with screened companies will not be excluded from investments.
- Does not apply to passive holdings in index-tracking instruments.



## APPENDIX III. INSIGHT'S CREDIT INVESTMENT PROCESS

IN DISCUSSION WITH PORTFOLIO MANAGERS, WE APPLY FILTERS TO OUR CREDIT UNIVERSE TO ARRIVE AT A SMALLER GROUP OF INVESTABLE ISSUERS. THIS SHORTER LIST IS THEN SUBJECT TO RIGOROUS FUNDAMENTAL ANALYSIS BY OUR CREDIT ANALYSIS TEAMS IN LONDON AND NEW YORK. WE TEND TO SCREEN OUT INVESTMENTS IN ISSUERS THAT OFFER INSUFFICIENT ACCESS TO FINANCIAL DATA AND COMPANY MANAGEMENT, AND ISSUES WHICH ARE INSUFFICIENTLY LIQUID (SEE FIGURE 14).

Our analysts conduct a fundamental review of a company's financial risk, in particular its cashflow, revenue and profitability. We pay particular attention to the scoring of key business risks using a checklist that identifies important sources of risk that can lead to a sudden deterioration in credit quality and that identifies sources of risk that may not be readily apparent from an examination of a company's financial performance (see Figure 15).

Default risk is the prism through which our analysts consider every issue. A full investment analysis is required to inform an investment decision and ESG risk scores are a necessary element in assigning a credit rating that indicates the relative risk of default loss. Insight's Credit Analyst Team is charged with determining the materiality of issues on the checklist, defined as the contribution these make to the default likelihood of a potential investment.

It is through the combination of ESG risk screening and financial analysis that Insight's extended credit risk appraisal process brings together an assessment of the financial risks associated with a company's performance with a clearly defined set of key business risks, including ESG considerations, as a part of the mainstream investment process. Insight believes that its approach exemplifies Principle 1 of the PRI.

### IDENTIFYING ESG RISKS

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Insight ESG ratings are placed on a five-point risk scale that we use to assess the significance of non-financial risk factors. Our ESG assessment focuses on the material risks in each sector or business. For example, we consider health and safety, and carbon emissions, as important risks for companies operating in the mining sector, but we see these as generally of lower importance for financial services companies. The exception is with corporate governance, where we consider the risks an important part of our evaluation for every type of issuer and credit quality.



For more information on our corporate ESG ratings and the range of ESG risk issues considered, please see page 18.

Figure 14: ESG risks are integrated within Insight's credit analysis<sup>26</sup>

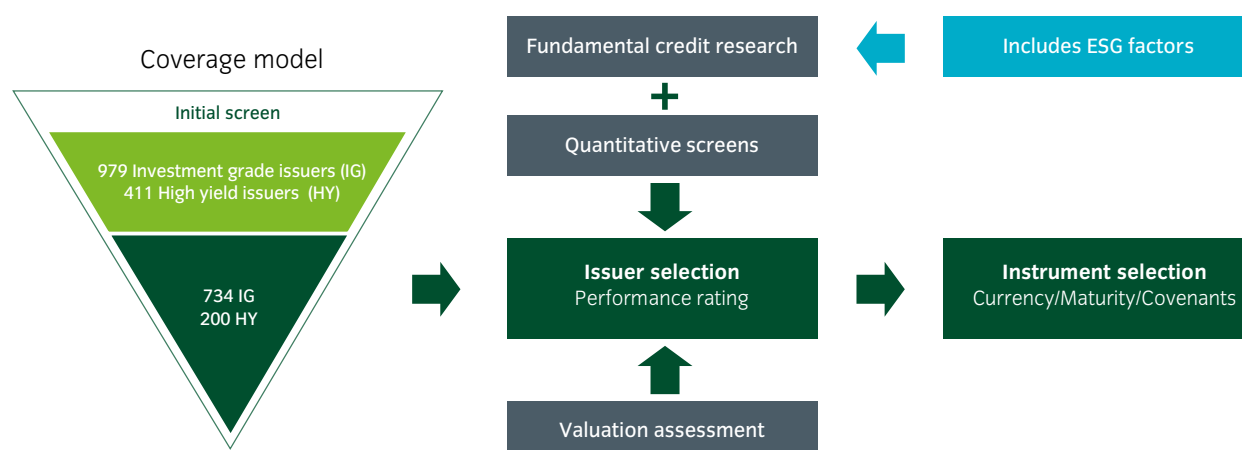


Figure 15: Insight's risk checklist

ESG risk assessment – internal and external analysis		
✓	Liquidity	Assuming no access to capital markets in the next 24 months, what is the impact on the issuer's liquidity?
✓	Contingent liabilities	What is the magnitude of the issuer's off balance sheet liabilities such as pension deficits, operating leases, acquisition earn-outs etc?
✓	Regulatory risk	To what extent is the issuer's industry subject to regulation and changes in regulation?
✓	Environmental, social, governance (ESG)	Is the issuer properly managing environmental, social and governance risks?
✓	Event risk	Does the issuer have an appetite for debt financed M&A? Does a weak share price pressurise management?
✓	LBO/Activist risk	Could the issuer be subject to an approach from private equity or an activist shareholder?
		1-5 rating

<sup>26</sup> As at 31 December 2019. For illustrative purposes only.

## APPENDIX IV. IMPACT BONDS ADDED TO CLIENT PORTFOLIOS IN 2019

Table 6: Impact bonds added to Insight portfolios in 2019<sup>27</sup>

Issuer	Sector	Impact theme	Issue date	Maturity
ABN AMRO Bank NV	Financial	Green	09/06/2015	09/06/2020
ABN AMRO Bank NV	Financial	Green	15/04/2019	15/04/2026
AES Gener SA	Utilities	Green	07/10/2019	07/10/2079
AES Gener SA	Utilities	Green	07/10/2019	07/10/2079
ALD SA	Consumer, Non-cyclical	Green	11/10/2018	11/10/2022
Alliander NV	Utilities	Green	24/06/2019	24/06/2032
Anglian Water Services Financing PLC	Utilities	Green	10/08/2017	10/08/2025
Anglian Water Services Financing PLC	Utilities	Green	26/10/2018	26/10/2029
Apple Inc	Technology	Green	15/11/2019	15/11/2025
Apple Inc	Technology	Green	15/11/2019	15/11/2031
Assicurazioni Generali SpA	Financial	Green	01/10/2019	01/10/2030
Australia & New Zealand Banking Group Ltd	Financial	Sustainable	21/02/2018	21/02/2023
Avangrid Inc	Utilities	Green	16/05/2019	01/06/2029
Banco Bilbao Vizcaya Argentaria SA	Financial	Green	14/05/2018	14/05/2025
Banco Santander SA	Financial	Green	04/10/2019	04/10/2026
Bank of America NA	Financial	Social	25/01/2019	25/01/2023
Barclays PLC	Financial	Green	14/11/2017	14/11/2023
BNP Paribas SA	Financial	Green	01/12/2016	01/06/2022
BPCE SA	Financial	Social	26/09/2018	26/09/2023
BPCE SA	Financial	Green	04/12/2019	04/12/2024
CaixaBank SA	Financial	Social	26/09/2019	01/10/2024
Celulosa Arauco y Constitucion SA	Basic Materials	Sustainable	29/10/2019	29/01/2030
Celulosa Arauco y Constitucion SA	Basic Materials	Sustainable	29/10/2019	29/01/2030
Celulosa Arauco y Constitucion SA	Basic Materials	Sustainable	29/10/2019	29/01/2050
Chile Government International Bond	Government	Green	25/06/2019	25/01/2050
Chile Government International Bond	Government	Green	02/07/2019	02/07/2031
China Construction Bank Corp/Luxembourg	Financial	Green	24/09/2018	24/09/2021
Citigroup Inc	Financial	Green	29/01/2019	29/01/2022
CNP Assurances	Financial	Green	27/11/2019	27/07/2050
Consortio Transmuntaro SA	Utilities	Green	16/04/2019	16/04/2034
Cooperatieve Rabobank UA	Financial	Green	11/10/2016	11/10/2021
Credit Agricole Home Loan SFH SA	Financial	Green	06/12/2019	06/12/2029
Credit Agricole SA	Financial	Green	21/10/2019	21/10/2025
Credit Agricole SA/London	Financial	Green	05/12/2018	05/12/2023
de Volksbank NV	Financial	Green	16/09/2019	16/09/2024
DNB Boligkreditt AS	Financial	Green	19/06/2018	19/06/2025
DTE Electric Co	Utilities	Green	15/02/2019	01/03/2049
Duke Energy Carolinas LLC	Utilities	Green	08/11/2018	15/11/2028

<sup>27</sup> For illustrative purposes only. The specific securities identified and described are subject to change, for information only. No assumptions should be made that the securities identified and discussed were or will be profitable.



Issuer	Sector	Impact theme	Issue date	Maturity
Electricite de France SA	Utilities	Green	27/11/2013	27/04/2021
Electricite de France SA	Utilities	Green	13/10/2015	13/10/2025
EnBW Energie Baden-Wuerttemberg AG	Utilities	Green	05/08/2019	05/08/2079
Enel Finance International NV	Utilities	Green	16/01/2017	16/09/2024
Enel Finance International NV	Utilities	Green	21/01/2019	21/07/2025
Engie SA	Utilities	Green	19/05/2014	19/05/2020
Engie SA	Utilities	Green	28/09/2017	28/02/2023
Engie SA	Utilities	Green	21/06/2019	21/06/2039
Engie SA	Utilities	Green	24/10/2019	24/10/2030
ESB Finance DAC	Utilities	Green	11/06/2019	11/06/2030
EUROFIMA	Government	Green	10/12/2018	09/02/2024
European Investment Bank	Government	Green	27/08/2015	15/11/2023
European Investment Bank	Government	Green	05/07/2017	15/11/2047
European Investment Bank	Government	Green	08/08/2019	15/11/2024
French Republic Government Bond OAT	Government	Green	31/01/2017	25/06/2039
Hera SpA	Utilities	Green	05/07/2019	05/07/2027
HSBC Holdings PLC	Financial	Sustainable	22/11/2017	22/11/2023
HSBC Holdings PLC	Financial	Green	04/12/2018	04/12/2024
Iberdrola Finanzas SA	Utilities	Green	07/12/2016	07/03/2024
Iberdrola Finanzas SA	Utilities	Green	07/03/2017	07/03/2025
Iberdrola Finanzas SA	Utilities	Green	28/06/2018	28/10/2026
Iberdrola International BV	Utilities	Green	24/04/2014	24/10/2022
Iberdrola International BV	Utilities	Green	22/11/2017	N/A (perpetual bond)
Iberdrola International BV	Utilities	Green	12/02/2019	N/A (perpetual bond)
ICADE	Financial	Green	13/09/2017	13/09/2027
ING Bank NV	Financial	Green	24/11/2015	24/11/2020
ING Groep NV	Financial	Green	15/11/2018	15/11/2030
innogy Finance BV	Utilities	Green	19/10/2017	19/10/2027
Interstate Power & Light Co	Utilities	Green	26/09/2019	30/09/2049
Intesa Sanpaolo SpA	Financial	Green	04/12/2019	04/12/2024
Ireland Government Bond	Government	Green	17/10/2018	18/03/2031
Koninklijke Ahold Delhaize NV	Consumer, Non-cyclical	Sustainable	26/06/2019	26/06/2025
Kookmin Bank	Financial	Sustainable	02/07/2019	N/A (perpetual bond)
Korea International Bond	Government	Sustainable	19/06/2019	19/06/2024
Kreditanstalt fuer Wiederaufbau	Financial	Green	24/10/2018	28/09/2026
LeasePlan Corp NV	Financial	Green	07/03/2019	07/03/2024
LG Chem Ltd	Basic Materials	Green	15/04/2019	15/04/2023
MAF Sukuk Ltd	Financial	Green	14/05/2019	14/05/2029
MAF Sukuk Ltd	Financial	Green	30/10/2019	28/02/2030
MidAmerican Energy Co	Utilities	Green	01/02/2017	01/08/2047
MidAmerican Energy Co	Utilities	Green	01/02/2018	01/08/2048
MidAmerican Energy Co	Utilities	Green	09/01/2019	15/04/2029
MidAmerican Energy Co	Utilities	Green	09/01/2019	15/07/2049

Issuer	Sector	Impact theme	Issue date	Maturity
Mitsubishi UFJ Financial Group Inc	Financial	Green	26/01/2018	26/01/2023
Mitsubishi UFJ Financial Group Inc	Financial	Green	09/10/2018	09/10/2023
National Australia Bank Ltd	Financial	Green	07/03/2017	07/09/2022
National Australia Bank Ltd/New York	Financial	Green	20/06/2018	20/06/2023
NBM US Holdings Inc	Consumer, Non-cyclical	Sustainable	06/08/2019	06/08/2029
Netherlands Government Bond	Government	Green	23/05/2019	15/01/2040
OP Corporate Bank plc	Financial	Green	26/02/2019	26/02/2024
Orsted A/S	Utilities	Green	24/11/2017	26/11/2029
Orsted A/S	Utilities	Green	09/12/2019	09/12/3019
Otto GmbH & Co KG	Communications	Sustainable	10/04/2019	10/04/2026
Raiffeisen Bank International AG	Financial	Green	05/07/2018	05/07/2021
Raiffeisen Bank International AG	Financial	Green	25/09/2019	25/09/2026
Republic of Poland Government International Bond	Government	Green	07/02/2018	07/08/2026
Royal Schiphol Group NV	Industrial	Green	05/11/2018	05/11/2030
Russian Railways Via RZD Capital PLC	Industrial	Green	23/05/2019	23/05/2027
Scottish Hydro Electric Transmission PLC	Utilities	Green	27/09/2019	27/09/2035
Shinhan Bank Co Ltd	Financial	Sustainable	23/04/2019	23/04/2029
Shinhan Financial Group Co Ltd	Financial	Sustainable	05/08/2019	05/02/2030
Skandinaviska Enskilda Banken AB	Financial	Green	17/02/2017	17/02/2022
Societe Generale SA	Financial	Green	25/11/2015	25/11/2020
Southern Power Co	Utilities	Green	20/06/2016	20/06/2022
Southern Power Co	Utilities	Green	20/06/2016	20/06/2026
Starbucks Corp	Consumer, Cyclical	Sustainable	16/05/2016	15/06/2026
Starbucks Corp	Consumer, Cyclical	Sustainable	13/05/2019	15/08/2049
State of North Rhine-Westphalia Germany	Government	Sustainable	26/11/2019	25/11/2039
Swedbank AB	Financial	Green	07/11/2017	07/11/2022
Telefonica Emisiones SA	Communications	Green	05/02/2019	05/02/2024
TenneT Holding BV	Utilities	Green	05/06/2018	05/06/2028
TenneT Holding BV	Utilities	Green	03/06/2019	03/06/2030
TenneT Holding BV	Utilities	Green	03/06/2019	03/06/2039
Terna Rete Elettrica Nazionale SpA	Utilities	Green	23/07/2018	23/07/2023
Terna Rete Elettrica Nazionale SpA	Utilities	Green	10/04/2019	10/04/2026
UDR Inc	Financial	Green	11/10/2019	01/11/2034
Unibail-Rodamco-Westfield SE	Financial	Green	26/02/2014	26/02/2024
Vattenfall AB	Utilities	Green	24/06/2019	24/06/2026
Verizon Communications Inc	Communications	Green	08/02/2019	08/02/2029
Vesteda Finance BV	Financial	Green	24/05/2019	24/05/2027
Vodafone Group PLC	Communications	Green	24/05/2019	24/11/2026
Westpac Banking Corp	Financial	Green	22/11/2017	22/11/2024
Yorkshire Water Finance PLC	Utilities	Sustainable	18/04/2019	18/04/2041

## APPENDIX V. VOTING COMMITMENT

With respect to share ownership, in the majority of the current equity investment strategies Insight does not have material investments in physical holdings. Where Insight does hold physical equity positions, we routinely vote on behalf of our clients with regard to the UK companies in which they have a shareholding.

Insight retains the services of a third party for proxy voting services and votes at all meetings where it is deemed appropriate and responsible to do so. The third-party provider offers research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent governance analysis is drawn from thousands of market, national, and international legal and best practice provisions from jurisdictions around the world.

Independent and impartial research provides advance notice of voting events and rules-based analysis to ensure contentious issues are identified. The third-party provider analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote. Where contentious issues are identified these are escalated to Insight for further review and direction. Insight will undertake a review of the voting policy templates on an annual basis.

## APPENDIX VI. SHAREHOLDER VOTES IN 2019

Table 7: Specialist equities funds – voting on management resolutions in 2019

Category	Abstain	Against	For	Total
Appropriate Profits			1	1
Auditor – Discharge			1	1
Auditor – Election			69	69
Auditor – Remuneration			63	63
Authorised Share Capital			1	1
Board Committee			1	1
Bonds & Debt			1	1
Capital Structure			3	3
Directors – Discharge			3	3
Directors – Elect	1		600	601
Dividends			56	56
Environmental Practices	2		2	4
General Meeting Procedures			50	50
Human Rights & Workforce			1	1
Issue of Shares & Pre-emption Rights		1	187	188
Meeting Formalities			2	2
Other A&R related			1	1
Other Articles of Association			11	11
Other Corporate Action			1	1
Political Activity			42	42
Remuneration – Non-executive			12	12
Remuneration – Policy (All-employee Share Plans)			11	11
Remuneration – Policy (Long-term Incentives)	6		1	7
Remuneration – Policy (Overall)	16			16
Remuneration – Report	60		4	64
Report & Accounts			68	68
Share Buybacks & Return of Capital			78	78
Sustainability Reporting			1	1
Transactions – Related Party			2	2
Transactions – Significant			11	11
Treasury Shares			1	1
<b>Grand Total</b>	<b>85</b>	<b>1</b>	<b>1285</b>	<b>1371</b>



Table 8: Multi-asset holdings – voting on management resolutions in 2019

Category	For	Total
Auditor – Election	9	9
Auditor – Remuneration	9	9
Change of Name	1	1
Directors – Elect	47	47
Dividends	14	14
Issue of Shares & Pre-emption Rights	16	16
Other Articles of Association	2	2
Other Board/Director related	1	1
Other Corporate Action	2	2
Remuneration – Non-executive	3	3
Remuneration – Policy (Overall)	1	1
Remuneration – Report	7	7
Report & Accounts	9	9
Share Buybacks & Return of Capital	8	8
Transactions – Significant	2	2
Treasury Shares	1	1
<b>Grand Total</b>	<b>132</b>	<b>132</b>

## IMPORTANT INFORMATION

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### RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

### ASSOCIATED INVESTMENT RISKS

#### Fixed income, liability-driven investment and multi-asset

Where the portfolio holds over 35% of its net asset value in securities of one governmental issuer, the value of the portfolio may be profoundly affected if one or more of these issuers fails to meet its obligations or suffers a ratings downgrade.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

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## IMPORTANT INFORMATION

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**Past performance is not indicative of future results.**

Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

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