PARLIAMENTARY CONTRIBUTORY PENSION FUND

Review of managers' compliance with the Trustees' investment policies – July 2020

GROWTH MANAGERS – MFS, BlackRock

MFS	<u>Managing the Fund's mandates in line with its policies</u> MFS confirms that it has considered the policies and believes the portfolio is being managed in line with PCPF's statement of investment principles. MFS believes that its long-term investment approach in the Global Equity portfolio, which seeks to own companies with sustainable above-average growth prospects and below-average risk at reasonable valuations, and tends to invest in highly liquid securities, is supportive of PCPF's investment principles. MFS confirms climate change risks have been incorporated into the investment process.
MFS	<u>Assessment of ESG-related risks</u> MFS adopts an integrated approach to ESG-issues. ESG is a critical component of its investment analysis and engagement. MFS takes into account all material ESG risks and the potential for change in assessing the long-term sustainability of growth and returns for all potential investments, and assesses whether stock valuations have discounted the risks. MFS does not make decisions to own or not own a company solely based on ESG factors such as carbon footprint or climate risks. MFS believes that the integration of ESG factors into research is essential, as these issues often impact the long-term, sustainable value of businesses. MFS views ESG information as fundamental data that must be considered along with all other material information. The team's strategy includes both analytic and systematic elements, as set out below: <u>Analytic:</u> ■ MFS research analysts and portfolio managers collaborate directly with our ESG analysts on both an ad hoc basis and in advance of industry initiations to assess the materiality of ESG factors for specific securities or groups of securities. ■ Our investment team regularly develops ESG research with thematic, sectoral and regional implications. ■ Our ESG analysts produce an internal research series called ESG in Depth that explores ESG topics currently impacting securities we hold. ■ We have developed proprietary ESG sector maps that highlight ESG risks and opportunities within each sector.

	Systematic: ■ Semiannual risk reviews of MFS-managed portfolios monitor ESG trends. ■ Ongoing, automated dissemination of third-party ESG ratings changes ■ Research notes for each issuer within our global research system include a section dedicated to proprietary and third-party ESG research	
MFS	Largest exposure to carbon risk, and why? Based on Trucost Carbon Footprint analysis sourced from Style Analytics as of March 2020, portfolios holdings with the biggest contribution to carbon footprint included industrial gas companies Linde and Air Liquide, rail operators Canadian National Railway and Kansas City Southern, and consumer staples companies Danone and Nestle. MFS has provided justification for holding these stocks below: "We believe ESG factors/scores of individual companies should not be viewed in isolation. The Trucost data only captures Scope 1 (direct emissions) and Scope 2 (emissions from use of electricity). Importantly, it does not include Scope 3 (emissions from the whole supply chain). While industrial gas companies and rail companies have relatively high carbon footprints by themselves, a substantial portion of the revenue of industrial gas companies helps their customers to materially reduce their own carbon footprint; rail transportation is far more efficient in terms of carbon emissions than truck-based transportation, which helps to reduce carbon footprint for the society. It is also useful to consider not only a company's	Examples of investment 'engagement'. MFS states that the goal when engaging is to exchange views on environmental, social and governance topics that represent material risks or opportunities for companies or issuers and to effect positive change on such issues. MFS believes that large, long-term oriented asset managers who engage companies and issuers on ESG topics can positively influence governance and business practices by encouraging executive teams to view these issues as relevant to an increasingly broad investor base and worthy of further consideration. In its response MFS sets out its engagement framework, which includes: • Informal Investment-Led Engagement • Formal Investment-Led Engagement • Collective and Other Forms of Engagement, including participation in industry working groups and thought-leadership groups • Formal Proxy Voting-led Engagement

	current risks, but also how the company is taking steps to address the risks, which may potentially lead to positive changes. For example, while some large consumer staples companies such as Danone and Nestle have higher carbon footprints mainly due to their agricultural supply chains, they are working with farmers and suppliers to materially reduce carbon emissions.”	MFS highlights a few representative engagement activities in its 2019 Sustainable Investment Report and Quarterly Stewardship Report: ■ MFS consumer staples sector team leader, Stuart McPherson, met with the CEO of Nestlé to discuss sustainable packaging, among other topics. This meeting highlighted the proactive approach taken by the company to mitigate plastic pollution through more sustainable packaging. However, Stuart noted that Nestlé would be unlikely to pass the increased packaging costs on to consumers, so they would have to offset them with cost savings elsewhere in the organization. He included the required efficiencies in his margin forecasts. ■ Members of MFS proxy team have conducted 19 engagements over a nine-year period with a multinational food product corporation based in France. Over the course of engagement discussions, the company has made various changes, such as expanding the role of the lead independent director to include increased involvement in the director recruitment process and other responsibilities, lowering average director tenure and incorporating an ESG metric into its long-term incentive program.

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BLACKROCK (equities)	<u>Managing the Fund's mandates in line with its policies</u> BlackRock confirms that the index funds have been managed in line with page 5 of the Statement of Investment Principle, "in passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark and this approach is in line with the basis on which their current strategy has been set." From a Stewardship perspective BlackRock confirms that it has considered the policies and has also recently held a call with PCPF & Hymans to discuss the Trustees' expected measures of engagement.
BLACKROCK (equities)	<u>Assessment of ESG-related risks</u> N/A for the current market cap index funds. In January 2020, BlackRock's Global Executive Committee released an open letter to its clients, outlining how sustainability is becoming the new standard of investing at BlackRock. BlackRock summarises the changes which are centred on three primary objectives: 1. deeper integration of ESG considerations into our investment and risk management processes, with a commitment towards 100% ESG integration by the end of 2020 a. heightening our scrutiny on sectors with a high ESG risk, such as thermal coal producers, because of the investment risk they present to client portfolios b. putting ESG analysis at the heart of Aladdin and using proprietary tools to help analyse ESG risk c. placing oversight of ESG risk within our Risk and Quantitative Analysis group 2. growing our offering of ESG products d. developing new sustainable active investment strategies, such as impact investing and global energy transition strategies e. doubling our offerings of ESG ETFs to 150 f. simplifying and expanding ESG iShares, including ETFs with a fossil-fuel screen 3. an increased focus on sustainability by our Investment Stewardship team g. aligning our engagement and stewardship priorities to UN Sustainable Development Goals h. increasing transparency of our stewardship efforts

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i. voting against management with absent progress on sustainability issues

Over the past year, BlackRock has observed a significant increase in the number of investment teams that incorporate ESG information into the investment process. BlackRock provides thorough support to all teams in their efforts to deepen their own capabilities: including access to ESG data and research, access to enhanced tools that determine how ESG can impact portfolio characteristics, and access to proprietary sustainable investment insights.

BlackRock has also significantly enhanced its proprietary insights, refining the Low Carbon Transition Readiness signal, which assesses issuers based on how well-positioned they are for the Low Carbon Economy, developing the Carbon Beta tool to stress-test issuers and portfolios for different carbon pricing scenarios, and delivering its proprietary ESG materiality framework.
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<td>BLACKROCK (equities)</td>
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<u>Largest exposure to carbon risk, and why?</u>

All funds in question track market cap regional benchmarks. There are no carbon objectives or constraints in the benchmark.

The below table shows portfolio level carbon metrics for the Funds as at 31st May 2020.

<table>
<tr><th>Fund Name</th><th>Emissions Intensity (Tot. Capital) (metric tonnes / $ million total capital)</th><th>Emissions Intensity (Sales) (metric tonnes / $ million revenue)</th></tr>
<tr><td>Aquila Life European Equity Index Fund</td><td>135.72</td><td>151.74</td></tr>
<tr><td>Aquila Life Global Developed Fundamental Weighted Index Fund</td><td>166.02</td><td>214.82</td></tr>
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<u>Examples of investment 'engagement'</u>

BlackRock engages with companies held in index and active portfolios alike to encourage them to adopt the robust business practices consistent with sustainable long-term performance. During the 2019 calendar year, BlackRock's stewardship team held over 2,500 engagements in 44 markets to discuss governance practices and the sustainability of a company's business model.

BlackRock has ongoing private dialogue with companies to explain the firm's views and how it evaluates actions on relevant ESG issues over time. Engagement helps build mutual understanding on any issues where there are concerns that a company's practices fall short of operational excellence. It also helps BlackRock assess a company's approach to governance and other material issues in the context of its specific circumstances. Where concerns are not addressed by these conversations, BlackRock stands ready to vote against management for their action or inaction.
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Aquila Life Japanese Equity Index Fund	93.62	92
Aquila Life Pacific Rim Equity Index Fund	160.43	222.73
Aquila Life UK Equity Index Fund	138.09	126.33
Aquila Life US Equity Index Fund	99.26	157.7
iShares Emerging Markets Index Fund (IE)	230.77	290.01

BlackRock’s primary focus in engagement and voting in any year is **board quality**. BlackRock assesses this in terms of the relevance of the skills and experience of the directors, the apparent fit of the board’s profile with the stated strategy of the company, board tenure, diversity and the board’s track record of representing the interests of long-term investors.

BlackRock engages with companies for five main reasons which are set out below:

- We are preparing to vote at the company’s shareholder meeting and need to clarify the information in company disclosures
- There has been an event at the company that has impacted its performance or may impact long-term company value
- The company is in a sector or market where there is a thematic governance issue material to shareholder value
- Our corporate governance risk analysis has identified the company as lagging its peers on environmental, social or governance matters that may impact long-term value
- A company requests a meeting to discuss substantive governance matters

BlackRock prefers direct dialogue with companies on complex issues such as **climate related risks**. Conversations with companies are recurring, and cover a range of environmental, social, and governance (ESG) issues. Where BlackRock believes management’s approach is reasonable, it tends to support the management’s recommendations. On matters affecting the market as a whole, such as corporate disclosures, BlackRock is actively involved in a range of initiatives to develop practices that apply to all affected companies.

		BlackRock states that the aims of its climate risk engagements are threefold: (1) to gain a better understanding, through disclosures, of the processes that each company has in place to manage climate risks, (2) to better understand their processes and plans for mitigating climate risks and capitalizing on potential opportunities, (3) we engage with companies in order to make more informed voting decisions. For directors of companies in sectors that are particularly exposed to climate risks, we expect the whole board to have demonstrable fluency in how climate risk affects the business and management's approach to adapting and mitigating the risk. Assessments will be made both through corporate disclosures and direct engagement with independent board members, if necessary.

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INCOME/GROWTH MANAGERS – M&G, Schroders, UBS, BlackRock

M&G	<u>Managing the Fund's mandates in line with its policies</u> Having reviewed PCPF's prescribed Voting & Engagement Policy and Statement of Investment Principles, M&G confirms that the allocation is being managed in a way that continues to be aligned to trustees' investment belief in respect of an allocation to alternatives, namely: "The Trustees believe that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Trustees believe that investing across a range of asset classes (including (but not restricted to) equities, government bonds, corporate bonds and property) will provide the Fund with diversification benefits."
M&G	<u>Assessment of ESG-related risks</u> M&G has committed to fully integrating Environmental, Social and Governance (ESG) issues into investment analysis and decision-making in its leveraged finance lending activities, both in relation to new investment and existing portfolio investment monitoring. M&G makes ESG risk consideration a consistent, demonstrable part of its analysis and investment decision-taking given the objective to achieve sustainable returns over the long-term for clients. M&G's position as a secured lender puts it in a position of very limited influence over the policies of its portfolio companies, nevertheless, the team routinely consider ESG matters and their potential impact on company performance. M&G sets out more details below: • As a lender, we are preoccupied with identifying the most material risks that could so damage a company's business or brand that there is the possibility of impairment even of senior secured stakeholders. Such risks will vary, depending on company and sector but they will be considered in advance of full analysis as well as throughout the process. • We learn from our mistakes and we keep tabs on investments we have not pursued – for ESG reasons – in order to supplement our knowledge and confidence, to better resist any comparable risks in the future. We log all material declines in which an ESG factor has featured prominently. • We use our frequent interaction with our portfolio companies and their owners – that comes from our private- side status and the necessarily iterative relationship of lender and borrower - to attest to governance models, environmental and social

<table>
<tr><td></td><td colspan="2">operating guidelines and, as befits our status as a signatory to the United Nations Principles for Responsible Investment (UNPRI), to lobby for greater disclosure of ESG issues, where appropriate.
In addition, we conduct a regular calling programme with private equity sponsors, typically the owners of our portfolio companies, to better understand their approach and commitment to ESG and to make the case for improved disclosure for debtholders. In the minority of cases where we lend to a listed company, MSCI ESG analysis is recorded. These can also give valuable insight into potential areas of investigation for unlisted peers that may form part of our portfolio.
Lastly, though nothing that may formally be described as 'stewardship' is afforded to lenders, the ability to engage on ESG topics exists, thanks to an active relationship with company management and owners. This is the result of the lender-borrower relationship that arises from being a large, longstanding, private-side market participant.</td></tr>
<tr><td>M&G</td><td><u>How are material ESG-related risks identified and managed? Examples of any impact on investment decision.</u>

Since 2019, M&G has used the Sustainability Accounting Standards Board as a foundation, supplemented with its own investment expertise, drawn from across all of M&G's investment disciplines (including public assets) and contained within a new, bespoke, inhouse 'Dashboard.' This allows M&G to record ESG risks and view related companies in a sector in order to spot themes.

M&G has created a question databank of over 600 sector-specific ESG questions, which identifies key material risks and themes as identified by both SASB and its own internal experience of the effects of ESG factors on credit and equity positions. This includes 250 climate related questions and incorporates the Transition Pathway Initiative (TPI) and World Economic Forum (WEF) Climate Governance guidelines to further build capability to identify financially material risks on a sector by sector basis.

M&G highlights two types of risks in particular:

<u>Climate Risk</u></td><td><u>Examples of investment 'engagement'</u>

M&G outlines its engagement approach below:
"We aim to contribute to a borrower's management of ESG-related risks through engagement – both big picture themes (Eg Raw material sustainable sourcing, Single-use plastic) and specific issues. As a credit investor, our access to management and ability to engage is somewhat different compared to our equity counterparts. However, we rely upon our market size and reputation (and our private-side status which permits a freer dialogue) to ensure our long-term ESG objectives are heard. As a private-side lender, we have active, iterative relationships with our borrowers, providing a conduit for engagement and lobbying. It should be acknowledged that our position as a secured lender puts us in a position of very limited influence over the policies of our portfolio companies from a formal perspective (no right to 'vote') so the power of influence is derived from the frequent interaction that comes from our private-side status and long-term relationships. "

M&G provides below written summaries of recent engagement examples:</td></tr>
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	Within M&G's Leveraged Finance business, the incidence of high-emissions companies is relatively low (versus the bond market). Most companies therein are private, meaning that their disclosure standards vary considerably and are rarely to the standard of the listed world. The team have no fossil fuel extractors in the fund and have recently decided to identify the highest emitters in the portfolio. The goal is to establish best practice disclosure standards and then propound them (including to sponsors) with a view to lobbying for sufficient commonality, such that they could at least calculate a Carbon Intensity score and understand the stated emission reduction targets to measure progress against. These are the companies at most material risk from costs, taxation or fines, should their carbon emissions be unchecked and come from the basic industries (Chemicals, Construction, Auto, Industrial), which collectively amount only to c.15% of the portfolio. While it has limited coverage for the M&G European Loan Fund, owing to the private nature of the underlying issuers, across the M&G Group, the MSCI carbon analytics tool is used as a means of assessing carbon risks within portfolios. <u>Cyber-Security risk</u> This is a significant risk that just increased further, with the pandemic and the sharp rise in home-working. It is one that can threaten a company's reputation and brand and therefore its valuation. Armed with focused questioning, using the SASB framework but supplemented by M&G's Stewardship team from their experience of engaging with listed plcs on the topic, the team attempt to identify how prepared our companies' management may be when it comes to exhibiting good cyber health.	<u>Iceland Foods</u> We have long had exposure to Iceland across the M&G Group including within the European Loan Fund and have adopted a stringent engagement programme with them. We engaged during March of this year and we have summarised this engagement below: • We welcomed the ambition they have for removing palm oil from their products – a unique position for a supermarket chain. Iceland have made this one of their three strands of corporate activism. We were keen to see that there would be no 'knock on' effect for a substitute material though; • Another focus of corporate activism for the company is the removal of plastics from products - notably Iceland are the only supermarket to pledge the removal of plastic from their own brand packaging. The supermarket hopes that by doing this, it will encourage their suppliers to do the same and they have engaged with several large well-known suppliers on the topic. Notably Iceland have reduced their overall plastic removal by 29% over the last two years. • The last strand of Iceland's corporate activism is helping to solve child poverty – with a focus on climate and social justice. Three NGO partners are funded by the Iceland Foundation and their endeavours in this space have been supported by Prince William and the Duchess of Cambridge. On this topic a recent a recent staff survey indicated that over 90% of staff believe the company are 'doing the right thing' in this area.

		• Carbon intensity – the supermarket chain thanked M&G for its long-standing focus in engagement on the topic with the company. Since 2011, the company has reduced GHG emissions by 45% and seeks to make a similar reduction over the next ten years while working towards a zero net carbon target. • Lastly, we engaged with the company on the topic of food waste for which they responded by stating to set a target of reduction of 50% by 2030. <u>Ineos Group</u> • A call was held with Ineos to discuss their latest sustainability reporting and 2025 targets to: (i) offer polyolefin products that contain at least 50% recycled material; (ii) incorporate 30% recycled material into polystyrene products; and (iii) incorporate 325 kt / a recycled into products; and (iv) ensure that all products are recyclable. As with all engagements on this issue, the challenge to secure enough feedstock to meet these targets is the challenge and Ineos are working with the waste collectors to secure supply. • Another big area of focus for the company is worker safety and Ineos pride themselves on their industry leading position with regard to health & safety. There are 20 principles – 10 behavioural and 10 process – that have to be adhered to across the organisation. • Actively reacted to COVID-19 focusing not only on FTE safety (e.g WFH) but also building new sanitizer plants in a number of European jurisdictions.

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SCHRODERS	<u>Managing the Fund's mandates in line with its policies</u> Having reviewed the Statement of Investment Principles (July 2019) Schroders confirms understanding and engagement. Schroders has also reviewed as referenced at note 28 the stand-alone Responsible Investment Policy detailing the Trustees' approach, which places emphasis on three key areas being: Integration, Stewardship and Transparency. It is noted that the Voting and Engagement Policy (June 2017) does not directly apply to the Schroder UK Real Estate Fund ("SREF", or "the Fund") in which PCPF are invested. SREF invests directly in UK real estate assets (and, in certain circumstances, in other real estate funds) rather than acquiring voting shares in companies. Schroders, however, does engage proactively with its occupiers, third party suppliers and investors on sustainability, as set out in more detail below.
SCHRODERS	<u>Assessment of ESG-related risks</u> Schroders believes that environmental and social governance ("ESG") supports investment returns for the long term. Responsible Investment is integral to how Schroder Real Estate manages its investments. Schroders states that a sustainable, 'Real Estate with Impact' investment programme should deliver: • Enhanced long term returns for clients; • Contribute to tenants' business performance; and • Deliver positive impacts to communities, the environment and society for the long term. In 2019 Schroders committed to full ESG investment integration across all managed assets by the end of 2020. Schroders Sustainability Accreditation system, launched in 2017, currently encompasses more than 80% of the assets managed on behalf of clients. Schroders Direct Real Estate desk which has responsibility for the Fund holds Schroders "Integrated" accreditation: Sustainability is a building block of the investment process. Schroders monitors sustainability data (energy, water, waste consumption and amounts) on a quarterly basis and sets sustainability improvement initiatives, targets and objectives for the Fund and portfolio assets which are reviewed twice a year. These are captured in the Fund Strategy Statement and Asset Business Plans which are submitted to the Investment Committee annually for approval. Schroders reports its sustainability strategy, progress and environmental data for the Fund annually in the annual report and accounts.

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<table>
<tr><td></td><td colspan="2">Schroders is evolving its investment philosophy to incorporate "positive impact" investing, with the aim to proactively take action to improve social and environment outcomes. Schroders has established four Pillars of Impact; people, place, planet and prosperity with key performance indicators for each pillar. Schroders has built an impact measurement framework to assess impacts within portfolios. An impact baselining exercise supports improvement opportunities across the Investment Manager's sustainability programme and supports impact aims and targets for 2020. This initial baselining exercise has been completed and the results reviewed to identify risks and opportunities in order to set improvement targets for 2020.</td></tr>
<tr><td>SCHRODERS</td><td><u>How do you incorporate ESG issues when acquiring and managing real estate assets? Examples of ESG's impact on property investments.</u>

Schroders sees ESG as the responsibility of the fund manager, supported by the investment management team, with oversight by the Head of Sustainability and Impact Investment for Real Estate. A Sustainability and Impact Action plan must be included in all proposals to the Investment Committee including potential investment acquisitions and capital expenditure. For successful acquisitions these action plans are developed by the investment and property management team as part of the asset strategy with regular review to ensure the asset management programme fulfils the investment requirements. Proposals for disposals also include a sustainability review.

Property management is integral to the delivery of an effective sustainability programme for the management and operation of buildings. Property managers for the fund are appointed on a rolling basis with annual reviews of the Service Level Agreements with the appointed third party property managers, alongside an annual risk assessment with the Procurement team. Schroders has established Sustainability Requirements for Property Managers to set service levels required by third party property managers to</td><td><u>Examples of investment 'engagement'</u>

Below is a selection of examples of investment engagement that Schroders has provided:

Schroder UK Real Estate Fund portfolio example: Department W, Mile End

SREF completed a historically sensitive refurbishment of its asset in Mile End during 2019 to create a modern, open-plan office and educational space. Materials were retained and reused where practical to do so, such as the steel frame, the masonry walls, concrete floors, roof and floorboards. The Fund achieved a Fitwel 1 Star rating upon completion of its redevelopment. Department W is the second asset in SREF's portfolio to receive accreditation for promoting occupier health and wellbeing alongside Battersea Studios, London.

Alongside occupier wellbeing, the refurbishment focussed on enhancing the energy efficiency and environmental credentials of the building. New glazing incorporates solar control glass where necessary to reduce heat gains and reduce cooling energy consumption. The lighting light sources are LED with DALI control gear. A lighting control system was installed that dims the luminaires in response to daylight and non-occupancy. For space</td></tr>
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	support the programme. The requirements cover: • Data analysis, monitoring and reporting for all managed assets quarterly, six monthly and annually • Understanding and managing landlord responsibilities, risks and opportunities • Tenant engagement, including with regard to fit outs • Improvement implementation and monitoring impacts • Health and wellbeing • Community engagement • Supply chain • Environmental compliance and reporting The property managers are regularly monitored against the requirements using Key Performance Indicators to drive continual improvement in service levels. Schroders Sustainability Requirements for Property Managers are updated annually. Schroders also sets out specifically how climate change risk is incorporated in the investment process: "Our investment philosophy and process is underpinned by fundamental research and an analytical approach that considers economic, demographic and structural influences on the market. We are considering how climate change may impact on these factors over time, as well as how government policies may require and enable mitigation of and adaption to climate change. This supports further integration of climate resilience considerations into our winning cities investment strategy for the Schroder UK Real Estate Fund. Through our approach of actively managing and improving the quality of our investments we are well placed to ensure assets remain fit for purpose in the transition to a low	heating and cooling, a hybrid VRF system was installed, rather than an industry standard VRF system. The Global Warming Potential (GWP) of the Hybrid VRF system is approximately one sixth of the GWP of comparable VRF systems. The building was designed to be largely naturally ventilated, but where mechanical ventilation systems have been installed, they include heat reclaim systems. ***Schroder UK Real Estate Fund portfolio example: The Lexicon, Bracknell*** The Fund has been invested in Bracknell, Berkshire (UK) for over 15 years and has developed a new town centre, in partnership with another institution. The new 54,000 square metre Lexicon Bracknell scheme opened in September 2017. Unusually, and alongside the development partner, SREF has control over the majority of this post-war town centre. The scheme delivers new retail, leisure and 1,000 homes, as well as renovating parts of the original retail. The regeneration plan involved working closely with local government and the community to identify the needs of the centre and the town as a whole. This collaboration helped shape the design and amenity of the scheme, including infrastructure and accessibility, and informed public safety and wellbeing. Apprenticeship and recruitment services were also developed to support the construction project. Approximately 3,500 new job opportunities were created for construction workers and staff for new occupiers.

	carbon economy and resilient to physical risks. We have a strong track record in reducing portfolio and asset-level energy consumption and greenhouse gas (GHG) emissions at assets where we retain operational control. As signatories of the Better Buildings Partnership (BBP) Member Climate Change Commitment, we have voluntarily committed to achieving net zero carbon by 2050, at the latest. The BBP is an industry association of leading UK commercial property owners committed to improving building sustainability. Not only the right thing to do as a responsible landlord, delivering on our commitment to net zero carbon will also enable us to better manage potential risks posed by climate change, such as an evolving regulatory landscape and carbon pricing, and therefore protect the long-term value of assets. We are reviewing our acquisition and asset business planning processes to identify areas to deepen the consideration of energy and GHG efficiency, as well as physical risks (e.g. flooding). The existing portfolio-wide sustainability programme covers the life cycle of assets and enables systematic and continual appraisal of potentially material climate related risks. Risk criteria assessed within due diligence inform our acquisition decisions (e.g. Energy Performance Certificates and Flood Risk), as well as business and sustainability plans during asset management. For existing investments, potential climate related risks are also tracked and managed through ongoing performance monitoring (e.g. energy and greenhouse emissions trends), action plans (e.g. energy efficiency improvement measures) and certification programmes (e.g. Energy Performance Certificates). Related key performance indicators for suppliers (e.g. property managers) also support climate risk management. However, our understanding of the potential impacts and risks from climate change is constantly evolving. Therefore, we are seeking to further embed climate related issues into our research process, as this will allow ongoing monitoring of emerging risks. This may also identify	The scheme delivers a wholly regenerated town centre to support Bracknell's position as a retail centre in Berkshire. The story does not stop there as our investment continues. We have more plans to evolve areas across the town to further improve the amenity and cohesion of the town centre. This continued investment should help attract further investment from the wider area to continue Bracknell's economic development and prosperity. ***Platform example: energy efficiency*** We have set energy and greenhouse gas emissions targets for the UK portfolio, which includes assets across a range of UK funds (including SREF) which are as follows: – Energy reduction of 18% by 2020/21(against a 2015/16 baseline) – 32% reduction in greenhouse gas emissions by 2020/21 (against a 2015/16 baseline) This programme has been extended from an initial two year period where we successfully achieved an energy reduction of 8.1% to March 2018 against our original target of 6%, at March 2019 the achieved energy reduction was 15%. In pursuing our energy targets and managing operational efficiency our energy programme involves looking at the potential for building management system optimisation initiatives to improve energy efficiency and reduce energy consumption. This includes monitoring and targeting programmes, use of intelligent software solutions such as Demand Logic as well as the introduction of voltage optimisation.

	possible enhancements to core components of our investment process, such as our risk assessment and management framework. We have a Climate Risk and Resilience research and analysis project which involves Real Estate Investment and Research together with the wider Schroder Sustainability team and Data Insights Unit. This project considers physical risk and transition risk across UK and European geographies. This work will support our understanding of climate risk and resilience for locations and assets to which we can develop asset, portfolio responses and strategy. We provide sustainability reporting within funds' annual report and accounts and which includes environmental performance data. This report includes detailed performance trend data, intensity ratios and assessment methodologies covering energy consumption, GHG emissions, water consumption and waste generation. Measuring energy consumption and GHG emissions across the portfolio supports our assessment and management of risks from transitioning to a low carbon economy, where for example, there may be increased regulation on building efficiency and carbon pricing. Measuring water consumption supports our understanding of exposure to potential future risks from certain physical climate change risks, such as water scarcity. We have an ambitious energy and GHG emissions reduction target against which we have made good progress. These targets are a driving force behind our energy and GHG reduction programmes and are under constant review to ensure they are sufficiently ambitious and effective in managing future transition risk. We are integrating TCFD recommendations into our fund reporting and the Schroder UK Real Estate Fund's 2020 Annual Report and Accounts will include a TCFD Disclosure."	Additionally we consider renewables. We have an ambition for 100% of landlord procured electricity to be on renewable tariffs with 98% achieved for the Fund at March 2020. In addition to this we are looking at the potential for installing solar photovoltaics and electric vehicle charging points across the Fund's portfolio. We have identified sites and are progressing feasibility studies for these. ***Engagement with tenants or the local community on ESG issues*** Occupier engagements vary depending on the nature of the asset, for example, there may be regular tenant meetings with large office occupiers, the use of online occupier portals tenant satisfaction surveys or annual newsletters for tenants at an industrial estate. ESG matters are discussed and highlighted as relevant to the management issues at the asset. For example discussions with occupiers to introduce a new food waste system at a retail and leisure scheme and to trial changes to the operational times of a building management system for a multi tenanted office. We have produced a Sustainability Fit Out Guide for Tenants to support them with ideas for why sustainable and healthy fit out is important to their employees heath, attraction and retention and guide them through how to implement, for example energy efficient lighting, indoor air quality and biophilia. We have developed a health and wellbeing framework to identify improvement to buildings and support the well being of tenants and which builds on the aspects of building certifications and their well being principles including BREEAM In Use, Well Building and Fitwel.

		Another example of our occupier engagement has been the business' response to the Covid-19 pandemic. Our rent collection strategy for the March quarter focussed on acting responsibly and balancing our clients income requirements with supporting tenants during a difficult trading period through bespoke rent arrangements, ranging from monthly payments to rent deferrals and holidays in exchange for lease re-gears. This approach helped reduce the risk of tenant failure and provided a constructive backdrop for more challenging discussions with those tenants less willing to engage on solutions. We are continuing to work with and support tenants on an individual basis to navigate this unprecedented situation. The opportunity for community engagement is dependent upon the type of asset and how it and its users relate to the local community. For example with a shopping centre there may be communications to help determine local attitudes to the centre, amenity, safety and security, access and open space as well as support opportunities for recruitment. In contrast for a fully let office building there may be more limited scope for community involvement and examples include sponsorship for a street festival and a youth centre. Our ownership of the Lexicon Shopping Centre, Bracknell is a good demonstration of the importance of working with the community to support the development of a new town centre which meets the needs and ambitions of the town. At City Tower, Manchester The Shed offers a popup shop for local businesses at no cost in the office foyer. This facility has helped engagement with the local community and recent residencies have included local start-ups as well as Barnados, Didsbury Gin and The Book People.

PARLIAMENTARY CONTRIBUTORY PENSION FUND

Review of managers' compliance with the Trustees' investment policies – July 2020

<table>
<tr><td>UBS</td><td colspan="2"><u>Managing the Fund's mandates in line with its policies</u>

UBS has reviewed the Voting & Engagement Policy and Statement of Investment Principles and has commented that this is not all directly relevant given the scheme invests in the pooled real estate fund, Triton Property Fund LP, and much of the policy and SIP focus on traditional asset classes, such as equity. UBS confirms that sustainability and consideration of ESG related risks is a key component of its investment process as evidenced by the Fund's 1st placed ranking in its GRESB peer group for the third consecutive year.</td></tr>
<tr><td>UBS</td><td colspan="2"><u>Assessment of ESG-related risks</u>

In its response UBS states that the REPM Sustainability Workgroup was established in 2010 to develop a responsible investment policy and identify and implement industry-leading strategies. The workgroup sets strategies and objectives at a global level and ensures sustainability objectives are incorporated into all funds' investment strategies and property operations, with appropriate variation by country due to different certification and legislative requirements.</td></tr>
<tr><td>UBS</td><td><u>How do you incorporate ESG issues when acquiring and managing real estate assets? Examples of ESG's impact on property investments.</u>

UBS states that ESG considerations are integrated throughout the entire ownership cycle, as demonstrated below:

(1) Investment decisions (acquisition and disposition)
▪ incorporate environmental, climate change, resilience and social risks into the evaluation criteria when making investment decisions at both an asset level and fund level,
▪ integrate responsible investment strategies, but not at the expense of long-term client financial performance.

(2) Development / refurbishment (Engineering/construction and development)</td><td><u>Examples of investment 'engagement'</u>

UBS provides the below case study regarding social value to highlight how it engages with tenants, property managers and other relevant stakeholders on ESG issues.

Whilst environmental considerations have started to become mainstream in assessing real estate and infrastructure, the 'S' in ESG has been traditionally harder to measure. UBS recognises that standing investments – offices, shopping centres, industrial estates – benefit local communities even though it may not be obvious at first sight.

In order to assess the social value of investments UBS has undertaken appraisals of a sample of its portfolio. UBS has worked with tenants and its property and facilities management teams</td></tr>
</table>

	▪ incorporate responsible investment, climate change and resilience strategies into the design and financial analysis of all new developments, property renovations and infrastructure projects, ▪ evaluate obtaining certifications applicable for each property type and location to expedite approval process and maximize occupancy, rental rate, tenant quality, occupier wellbeing and value, ▪ engage with planners, developers and other external project partners and consultants to achieve objectives, ▪ implement energy saving devices/upgrades or improve operations of inefficient equipment. ***(3) Operations / maintenance (asset management)*** ▪ define and implement best practice measures to improve energy efficiency, water conservation and waste management to promote sustainable practices, reduce operating expenses and increase asset values, ▪ evaluate green building certifications applicable for each investment type and location to enhance the investment's competitive position, maximize occupancy, rental rate, tenant quality, occupier wellbeing and value, ▪ monitor changes in regulations and laws in order to adopt and implement responsible investment strategies, ▪ collaborate with tenants, property managers and suppliers of services and materials to achieve objectives, ▪ measure energy consumption and monitor energy performance. UBS works with an external sustainability consultant EVORA to set sustainability targets. EVORA analyses consumption, water and waste data and issues quarterly risk reports on all assets in the	onsite to understand and measure things such as local employment levels, traineeships, jobs for young offenders, community events held at the property and volunteering. UBS commissioned a third-party, the Social Value Portal, to collect the data from which they were able to calculate, in monetary terms, a social value for each property using the TOMs framework. The TOMs framework is a bespoke social value assessment tool widely used by local authorities in their procurement processes. The social value is then mapped to the UN Sustainable Development Goals. UBS wants to prompt conversations with occupiers and suppliers. These assessments will act to benchmark value and help connect interested parties at properties with the ultimate aim of further enhancement. The first assessment commenced with Springfields Outlet Shopping Centre in Spalding, Lincolnshire. UBS has extended assessments to two offices and a large industrial estate in the UK. Further assessments include student accommodation and an Amsterdam office development. The ambition is to have a social value for the portfolio as a whole. That social value is the value to the community. This is both important to UBS as manager and to investors.

	portfolio. The quarterly risk reports highlight actions required – short term, medium and long term. Some actions can be achieved quickly with tenant engagement, some may require long term CAPEX. The actions are then fed through to property managers who will implement active changes for each asset. Sustainability objectives are also part of the annual business plans for each asset. The scope of EVORA's involvement is listed below: *1) Programme management and innovation* · Strategic advice to advance responsible property investment programme across REPM Europe (ex DACH) and GRESB scoring. · Provide ongoing advice regarding new industry/technological trends that have an impact on sustainability/GRESB ratings, in particular health and wellbeing, resilience and smart buildings. *2) Data collection* · Collect operational environmental performance data · Check and validate environmental performance data *3) Data management* · Collect and collate asset-level property, environmental and social characteristic data · Logging and tracking of sustainability initiatives implemented across the REPM Europe portfolio. · Analyse and benchmark environmental performance data *4) Risk management* · Sustainability risk assessments at asset and portfolio level · Additional UK Specific Risk Management · ESOS compliance for qualifying UK assets *5) Asset Enhancement*	

	· Engagement with property managers and UBS asset managers (annual workshops, ad hoc practice notes and legislative updates). · Initiating European-wide local initiatives to improve sustainability with a focus on programme management and co-ordination. · Continuation of ongoing initiatives to reduce water consumption and measure air and light quality across the REPM Europe portfolio. *6) Disclosure* · Preparation and submission of annual GRESB reporting · Quarterly environmental performance reporting · Present to REPM European Sustainability Committee to recommend strategy for responsible property investment at least annually	

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<table>
<tr><td>BLACKROCK (properties)</td><td colspan="2"><u>Managing the Fund's mandates in line with its policies</u>

BlackRock Real Assets recognizes the environmental, social and economic impacts of investments. BlackRock confirms it is committed to managing these impacts in a compliant and responsible manner and to offering sustainable investing solutions to the clients.</td></tr>
<tr><td>BLACKROCK (properties)</td><td colspan="2"><u>Assessment of ESG-related risks</u>

BlackRock believes that a robust, integrated approach to sustainable investing is essential in preserving and enhancing the value of assets throughout the investment lifecycle. Given the long term and physical nature of real assets investments, BlackRock considers effective environmental, social and corporate governance (ESG) assessment and management to be a fundamental component of risk management.

The BlackRock Real Assets Sustainable Investing Policy outlines BlackRock Real Assets' position on sustainable investing, including ESG integration, across all of its real estate and infrastructure investments and related activities. The Policy also provides employees with guidelines on how sustainable investing principles, including ESG considerations, can be further embedded into the business.

The Policy outlines BlackRock's sustainable investing philosophy and principles, which are underpinned by five core commitments to:
1. Fully embed sustainable investing principles;
2. Mitigate ESG risk and maximise opportunities;
3. Understand the materiality of specific ESG issues;
4. Ensure compliance and continual improvement; and
5. Remain transparent on ESG performance.

The Policy also provides details of how BlackRock's ESG principles are fully integrated within all investment processes, including sourcing and screening, due diligence, Investment Committee approval, asset ownership and ESG measurement and monitoring.</td></tr>
<tr><td>BLACKROCK (properties)</td><td><u>How do you incorporate ESG issues when acquiring and managing real estate assets? Examples of ESG's impact on property investments.</u></td><td><u>Examples of investment 'engagement'</u>

Case Study – Sustainable design and development at Leicester Distribution Park</td></tr>
</table>

	BlackRock states that as a standard procedure, when evaluating any real estate and infrastructure investments, potential environmental, social and governance (ESG) factors and risks that may have material economic consequences throughout the investment life-cycle are considered by the investment management team. Such issues are also considered within the wider real estate and infrastructure investment strategies. ESG risks and opportunities are comprehensively analysed for all new acquisitions and are further factored into investment decision and business plan processes for holding, disposal and asset management strategies. ESG issues that are considered include, but are not limited to, energy and water efficiency, energy and water supply, waste management, biodiversity and the local environmental, contaminated land, climate risk, flood risk, health and safety factors, and local community impact. Opportunities for third party green building certifications and/or sustainability labels and standards will also be considered. As part of a wider strategy to improve the integration of ESG considerations and analysis throughout all of the firm's investment processes, at the start of 2018 BlackRock Real Assets developed and implemented a proprietary Investment ESG Questionnaire which must be completed by the investment teams for all new acquisitions across the global real estate and infrastructure equity investment platforms. The ESG Questionnaire provides a comprehensive framework to assist with identifying and collating information on material ESG risks associated with any new investments. Key findings, including the ESG Summary Table, must be included within the Investment Committee Papers for all new acquisitions. The production of EPC's is also required at acquisition	At the end of 2016, the BlackRock UK Property Fund started implementing the major redevelopment of a 1 million sq ft warehouse into a mixture of mid size industrial units ranging from 35,000 sq ft up to 200,000 sq ft. Outline planning was granted for 750,000 sq ft in total of which 410,000 sq ft has been constructed over 4 units of which three are let. Sustainable features were considered throughout the design stage, including specifications on building orientation to reduce solar gain, window glazing within all units and the installation of wall and roof insulation. Air permeability assessments were also undertaken to further improve the efficiency features. Waste materials from the demolition processes, including over 20 tonnes of crushed concrete and aggregate, were reused on site as part of the new development, reducing total waste arisings and the requirement for new raw materials. Infrastructure for electric vehicle charge points are being fitted across the site for use by all occupants and visitors. Motion-sensored and daylight-sensored T5 and LED lighting are being fitted as standard across all units. 15% roof glazing will further maximise natural daylight within the warehouses. The final development aims to be highly energy efficient and is targeting an Energy Performance Certificate (EPC) rating of 'A'. The development will also achieve a minimum of BREEAM 'Very Good'. ***Case Study – Sustainability Tenant Engagement Programmes*** Sustainability campaigns including Sustainability Tenant Engagement Programmes have been implemented at a number of assets within the BlackRock UK Property Fund portfolio. An example of where such a campaign has been successfully launched is Birmingham Business Park (BBP), which aims to

	stage and details of all certificates are held for each of BlackRock's UK properties, down to an individual unit level. BlackRock has a formal process to request and review relevant policies associated with all suppliers and vendors, including appointed property managers. All new suppliers and vendors must complete a formal questionnaire that encompasses various key topics, including control documents, legal, health and safety, environmental and insurance. Existing suppliers and vendors must also complete the questionnaire to update their answers annually. Meetings may also be held between the Real Assets Sustainable Investing Manager and key property managers to ensure they are meeting their environmental obligations and objectives. BlackRock works closely with its appointed third-party property managers and environmental consultants, WSP Parsons Brinckerhoff, to maintain an accurate record of Energy Performance Certificates and ratings across all of the UK real estate portfolios, together with the European-wide real estate portfolios that have assets within the UK. BlackRock regularly reviews its real estate holdings to ensure they continue to meet all regulatory and, where applicable, voluntary best-practice ESG standards. This also includes review of standing lease agreements to ensure both the tenant and landlord are fulfilling their contracted obligations. As part of this process, BlackRock also reviews the opportunities for improving the use of 'Green Clauses' within all lease agreements, to increase the opportunities for enhanced environmental management, data sharing and reporting, and collaborative sustainability initiatives at each asset.	engage with tenants on a range of sustainability topics; from energy efficiency and carbon reduction, to sustainable transport and travel, waste management and recycling, wildlife conservation, and health and well-being. Companies on the Park have embraced the sustainability and environmental strategies to work collectively as opposed to individually resulting in the following: 1. Lift sharing across businesses 2. Wider community engagement, actively supporting local charities including Age UK 3. Improved communication between businesses and employees from different companies 4. Sustainability initiatives being shared between companies, driven by businesses and employees 5. Greater awareness for employees with quantified and qualified outcomes 6. A wide and diverse range of initiatives to appeal to an extended audience 7. Combining sustainability initiatives with health and wellbeing from cycling, walking and yoga to gardening ***Social and Tenant Engagement*** Where possible and practical, BlackRock's real estate portfolios strive to actively engage with tenants to further communicate and progress sustainability performance across assets. The range of activities that may be implemented will vary from asset to asset, considering factors such as property type and tenant type, but often include a combination of campaigns, activities and events that address sustainable best practice, such as energy and

	Regular site visits and walkovers are also undertaken for all standing investments by BlackRock's Real Estate Asset Management Teams and appointed Property Managers. Compliance against ESG standards, together with relevant lease requirements, including any breaches of lease, which are observed during these visits are formally documented and actioned to ensure they will be corrected by the tenant. Where appropriate, the Real Assets Sustainable Investing Team may also attend tenant meetings with key tenants from across all portfolios. This includes tenants from some of BlackRock's largest office and retail properties. The meetings are used to discuss key sustainability issues, such as on-site energy efficiency, water efficiency and waste management, and to develop asset-level initiatives and campaigns. The meetings are also used to review tenant sustainability policies and practices and to ensure they are operating the assets in line with best practice and legislative requirements.	resource efficiency. Opportunities may also be explored for participating in tenant meetings and conducting annual tenant surveys and questionnaires that address ESG factors, such as environmental improvement, energy efficiency and occupier health and well-being. Working with its Property Managers, BlackRock also undertakes annual Tenant Satisfaction Surveys across the properties within the real estate portfolios. These questionnaires include dedicated sections on property-level environmental and sustainability performance, occupier health and well-being, and a broader array of questions focussed on facilities management, property maintenance, security, housekeeping and satisfaction with property management services. The results of these annual surveys, together with regular tenant engagement activities, help inform portfolio-level and asset-level sustainable investing strategies and identify areas where sustainability performance and health and well-being within the properties could be improved.

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PROTECTION/CASH MANAGERS – PIMCO

PIMCO	<u>Managing the Fund's mandates in line with its policies</u> PIMCO has reviewed the policies and commented that the GIS Global Libor plus fund is a UCITs fund rather than a segregated mandate or equity fund therefore the voting policy does not apply. PIMCO notes that the SIP applies to the Scheme as a whole rather than specific investments within it but confirms that an investment in the GIS Global Libor Plus Fund should not, of itself, be inconsistent with the SIP. There is a robust ESG policy at PIMCO that details how the firm engages with companies.
PIMCO	<u>Assessment of ESG-related risks</u> PIMCO recognizes that ESG factors are increasingly material inputs into our understanding of global economies, markets, industries and business models. Whether climate change, income inequality, shifting consumer preferences, regulatory risks, talent management or unethical conduct, ESG factors are important considerations when evaluating long-term investment opportunities. Integrating material ESG factors into the research process does not mean that ESG information is the sole consideration for an investment decision; instead, PIMCO's portfolio managers and analyst teams evaluate a variety of financial and non-financial factors, which can include ESG considerations, to make investment decisions. By integrating material ESG factors into the evaluation process, PIMCO is increasing the total amount of information assessed to generate a more holistic view of an investment, in efforts to deliver the best performance outcomes for clients. As such, portfolio managers are not focusing singularly on PIMCO or third party ESG scores or exposure to carbon risks when constructing the portfolio. There are times when PIMCO will own an issuer with a large exposure to carbon risks because the markets may be overcompensating for such ESG risks. ***PIMCO ESG Initiatives*** PIMCO's ESG Leadership provides business leadership for further developing the firm's ESG thinking and capabilities. The group sets objectives and evaluates strategic initiatives on a continuous basis throughout the year. Similar to the long-term orientation of PIMCO's investment process, the firm's ESG Leadership team establishes long-term strategic objectives that are unlikely to change month-to-month or quarter-to- quarter.

	PIMCO sets out its key recent ESG milestones below: • UN PRI score of A+: PIMCO received an A+ across all categories in 2019, for the second year in a row. We believe that the UNPRI is a leading force in the ESG conversation within the investment management industry. PIMCO signed on as a UNPRI signatory in 2011. • Designed and implemented ESG evaluation capabilities within our municipal bonds and securitized assets. • Continued to grow our credit research team coverage with respect to ESG factors. • Launched new ESG dedicated products including a global investment grade credit ESG commingled fund, municipal bond ESG solutions, emerging markets ESG fund, a climate bond commingled fund, an ultrashort maturity ESG ETF, and smart beta equity ESG ETF. • Broadened our ESG team, including hiring dedicated ESG specialists in research, like Samuel Mary, a climate expert and ESG integration analyst and Kaboo Leung, an ESG engagement analyst, in addition to hiring Gavin Power from the U.N. Global Compact to focus on sustainable development and global policy advancements. • Grew dedicated ESG AUM by over 50% to $13.8 billion as of December 2019. ***Climate Risk Tools*** To help analysts evaluate climate risk, PIMCO's ESG specialists designed seven proprietary tools, drawing on decades of experience in fixed income analysis. The insights these tools provide are intended to help portfolio managers to better manage and mitigate climate-related credit risks and align ESG dedicated portfolios with the Paris Agreement targets. These analytical frameworks serve the whole spectrum of PIMCO's ESG-specific and broader investment strategies and enable PIMCO's ESG dedicated strategies to align with the recommendations of the Task Force on Climate- related Financial Disclosures (TCFD). PIMCO sets out the details of these tools below: • <u>Tool #1: Climate Macro Tracker</u>: To ensure we have a robust long-term, top-down perspective on climate risk, PIMCO designed and developed our own Climate Macro Tracker. This tool monitors the broad momentum in climate change across key themes and scenarios, and measures the gap between the real-world metrics and global climate goals. Along with the challenges and risks, we also keep an eye on climate-related macro trends (regulations, energy, and technology, for example) likely to create business and investment opportunities. • <u>Tool #2: Portfolio Climate Risk Heat Map</u>: When evaluating climate-related risks and opportunities of specific sectors and issuers, we begin with two broad categories: 1) transition risks (e.g., tighter regulations on carbon emissions) and 2) physical risks (e.g., how the rising intensity and frequency of extreme weather events affects critical assets and natural resources used by

	the issuer). The Portfolio Climate Risk Heat Map, gives a high-level overview of exposure to climate risk (both transition and physical) among relevant sectors and assets. Looking across the range of risks in a portfolio helps a portfolio manager assess and fine-tune exposures. • Tool #3: Issuer Climate Risk Score: PIMCO's Issuer Climate Risk Score assesses climate change risks for a wide range of relevant sectors and issuers. As with the heat map (Tool #2), the climate risk scores are divided into transition risks and physical risks. Our transition risk scores are typically favorable for the most carbon-efficient issuers and for those proactively seeking to align with the Paris Agreement in light of their respective business and geographical contexts. The transition risk score draws on metrics such as the issuer's current and future carbon emissions using a lifecycle approach and recognized methods, for example, the science-based target approach, as well as business mix outlook (e.g. revenues, capital expenditures) considering technology pathways enabling issuers to align with the limits on rising temperatures. • Tool #4: Portfolio Energy and Technology Mix Measured against the Paris Agreement: We complement our sector-based and bottom-up analysis of carbon risks with a portfolio tool that monitors the carbon impact of corporate holdings across a portfolio and seeks ways to mitigate emissions beyond exclusion screens. PIMCO's Energy and Technology mix compared with the Paris Agreement assesses the average technology and energy mix of a portfolio compared with global energy scenarios modeled by the International Energy Agency, including the potential impact of green bonds, considering their specific environmental features and issuer-level data. • Tool #5: Portfolio Carbon Intensity Analysis: Moreover, as part of PIMCO's Portfolio Carbon Intensity Analysis, we have developed high-level portfolio screens that allow comparison of carbon intensity of different portfolios and benchmarks based on the weighted average sum of both direct greenhouse gas emissions and greenhouse gas emissions due to purchases of electricity, heating, and cooling (i.e., scope 1 + scope 2 emissions in tonnes of carbon dioxide equivalent, or tCO2e / revenues in USD (weighted based on percentage of market value)). • Tool #6: Green Bonds Score: Our ESG process integrates analysis of debt instruments geared toward climate solutions via our proprietary Green Bonds Score. We assess green bond instruments both prior to and after issuance, mapping them across a spectrum based on strategic fit, potential impact, red flags, and reporting, resulting in PIMCO's impact score for green, social, or SDG bonds. PIMCO's green bond scores aid the investment process and security selection, allowing for stronger differentiation among green bond issuers and frameworks. • Tool #7: Engagement with Issuers on Climate Change: We engage with bond issuers both to bolster their Paris Agreement alignment and to help them improve their management of the underlying credit risks, moving from awareness to readiness, and ultimately commitment. PIMCO is part of Climate Action 100+, an investor-led climate engagement coalition that works with selected issuers among the largest carbon emitters in a broad range of sectors.

PIMCO	<u>Largest exposure to carbon risk, and why?</u> As of 31 March 2020, the three issuers within the GIS Global Libor Plus Bond Fund with the highest exposure to carbon risks (i.e. highest carbon intensity) are outlined below: • DTE Electric • Duke Energy Corporation • NextEra Energy Capital Holdings **DTE Electric:** • DTE Electric (aka Detroit Edison Company) is a fully regulated utility engaged in the generation, purchase, distribution, and sale of electricity in southeastern Michigan. • DTE Electric remains tethered to the auto industry, both in terms of direct industrial load and indirect resident load through overall employment levels. While short-term retreat in the sector would be manageable, a long-term downturn in sales could put pressure on DTE's earnings. As a result, DTE is prepared to further cut O&M ahead of schedule and reduce capex. However, many commercial buildings have kept the lights on even without employees and large automakers have begun to restart production. • The company also benefits from a constructive regulatory environment with authorized ROE's slightly above industry averages, strong credit metrics, and the regulated nature of the business. Other risks facing the company include the possibility of pressure on allowed rates of returns and increased capex spend needs as the company makes the transition from coal exposure (58% as of FYE18) to clean-energy.	<u>Examples of investment 'engagement'</u> In an ESG dedicated portfolio, PIMCO aims to engage intensively with the issuers in the portfolio to help influence ESG policies and drive more sustainable business practices. This can take the form of encouraging companies to issue green, social or sustainable bonds, outline emissions targets or align to TCFD reporting recommendations. ESG portfolios benefit directly from this level of increased, intensive ESG-specific engagement. Non-ESG portfolios like the PIMCO GIS Global Libor Plus Bond Fund can indirectly benefit from the engagement work pursued in the ESG portfolios, given that issuers may be held in both strategies. At the firm level, PIMCO credit research analysts engage regularly with the companies that they cover on an annual basis; PIMCO's team of over 65 credit analysts conduct more than 5,000 meetings and calls with company management teams. In addition to discussing financial matters, such as corporate strategy, leverage, and balance sheet management, the team also focus on strategic issues that relate to ESG risks and sustainable business management practices, like climate change targets and environmental plans, human capital management, and board qualifications and composition. For portfolios like the PIMCO GIS Global Libor Plus Bond Fund, this engagement is focused on material ESG issues that can have significant impacts on the credit profile of the issuer. PIMCO has provided examples of ESG engagement below. ***Food and Beverage Company (Environmental Issues Surrounding a Corporate Bond Holding)***

	• While DTE Electric continues to have a large coal exposure, the company has advanced its focus on clean energy initiatives in 2019 and issued a green bond toward that end. The goal is to reduce carbon emissions by 80% by 2040, and have net zero carbon emissions by 2050. **Duke Energy Corporation** • Duke Energy is one of the largest electric power holding companies in the U.S. with 51,000 megawatts of electric generation capacity through its regulated utilities and 3,000 megawatts through its Renewables unit. Duke's utility platform consists of six regulated utilities that serve ~7.7m electricity customers across six states. The Duke Energy Renewable unit operates wind and solar generation facilities across the U.S. in addition to energy storage and micro grid projects. • With operations in regulated utilities, Duke Energy has a low business risk profile. Approximately 95% of the company's cash flows come from its rate-regulated utility operating companies that service a diverse geographic customer base, which limits the amount of regulatory and service territory risk associated with any particular region. • Additionally, the company has stable regulatory relationships in mostly favorable jurisdictions and benefits from customer and volume growth tailwinds due to population migration to the Southeast. Key risks facing the company include the possibility of adverse regulatory outcomes relating to allowed returns, nuclear generation regulatory risk since it operates the largest nuclear fleet in the U.S., and relatively high debt levels. • The company retired ~6 GW of coal between 2010 and 2018, and plans to retire an additional ~1 GW of coal by	With a significant amount of water use and pollution associated with agricultural production, the company's relative performance to peers is important as well as the security of water resources. The company's product portfolio is exposed to water stress. Its risk on this issue is elevated by a reliance on 1) regions like California for key ingredients, such as carrots and tomatoes, and 2) a growing fresh food segment that increases its exposure to adverse weather that damages crops and profits. For example, there was a 28% drop in its California-based carrot division in early 2015 due to a drought, followed by intense rains. The company has had strong performance on managing this risk, taking active steps to apply best practice including: • Expectations of water management included in its supplier monitoring scorecard • Specific water targets, e.g. reduce water use by pound of tomatoes by 20% by the end of 2020 • Explicit financial incentives for the CEO and executive officers that are tied to water performance This example shows the relative importance of the company's environmental considerations with regard to long term returns and is a good example that illustrates how we evaluate long-term credit worthiness of issuers using environmental criteria, in this case water and pollution risks. ***Telecommunications Company (Governance Issue Regarding a Corporate Bond Holding)*** This telecommunications company engaged to focus on three main issues: privacy and cybersecurity, people management, and governance.

	2024. At the end of 2018, approximately 32% of output was produced by natural gas, ~32% from nuclear, ~31% from coal/oil, and 5% from hydro/wind/solar, although the company plans to move its product mix away from coil/oil with an emphasis on expanding its natural gas and renewable businesses. • While the company's renewable mix is still relatively small compared to the broader business, Duke has invested more than $5bn in commercial renewables over the last ten years and the business is growing across the US. That being said, the company is still facing reputation damage from a 2014 coal ash spill which has increased regulatory, political, and public scrutiny of the company's coal ash ponds. **NextEra Energy Capital Holdings** • NextEra Energy is a diversified clean energy company that owns, develops, constructs, manages, and operates electric generation facilities in wholesale energy markets in the United States, Canada, and Spain. • NextEra Energy remains focused on maintaining its strong credit ratings through a strong balance sheet. Although management has indicated they are in the market for new acquisitions should they present themselves, we find them capable of maintaining appropriate leverage as they focus on expanding their regulated utility profile. • Approximately 37% of total energy generation is in renewables while ~46% is natural gas, and 3% in coal. The company is taking steps to reduce emissions through coal retirement and methods of removing pollutants. Further renewables development programs remain strong and a priority.	• Privacy and Cybersecurity: Companies with exposure to personal data will face increasing regulatory pressure. For example, a number of US states have enacted laws pertaining to privacy, notably the California Privacy Act. The company has developed a set of security control standards, including global ISO 27001 certification for its customer-facing services. In relation to third party (i.e. law enforcement and government) requests for user data, the company privacy controls include disclosure on procedures for how such requests are handled, and a commitment to notifying users to the 'extent permitted by law' (as covered under Foreign Intelligence Surveillance Act-FISA). • People Management: Although the company has the largest full-time union workforce among US telecom peers, it is not short of labour-related controversies. Furthermore, with increased direct-to-consumer content as well as distribution channels (e.g. similar to Amazon), the company is transitioning towards a converged industry with higher reliance on skilled workforce and creative talents. But unlike Time Warner before the acquisition, the company does not have comparable initiatives on talent management and diversity, which are crucial for creative skilled employees. • Governance: From a bondholder perspective, the company is paying down its debt load as a priority to meet its leverage goal. Around 20% of management incentive compensation is tied to achieving the target of debt reduction in 2019. This example shows the relative importance of the company's governance considerations with regard to long term returns and is

		a good example to illustrate how we evaluate long-term credit worthiness of issuers using governance criteria, in this case management incentive compensation.