Environmental, Social, and Governance

2024 Annual Report

For professional investors only

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About this report

This report is designed to consolidate and summarise our work on ESG topics that are important to Pyrford’s business and stakeholders. Metrics included are subject to measurement uncertainties given the evolving nature of sustainability reporting, and unless noted, all data is as of 31 December 2024. We reserve the right to update measurement techniques and methodologies in the future. The case studies and examples are provided for illustrative purposes only and may not be updated in the future. While we believe engagement is an important part of understanding the risks and opportunities facing companies held in our portfolios, such engagement may not be effective in identifying risks and opportunities and we do not guarantee any particular results or company performance as a result of such engagement.

Our public disclosures, including our voluntary ESG and climate-related disclosures, include a range of topics that we believe are relevant to Pyrford’s business and that may be of interest to clients and other stakeholders. This report describes Pyrford’s approach, which may differ from the approaches of Columbia Threadneedle Investments, and its parent company, Ameriprise Financial, Inc. References to “we” and “our” in this report refer only to Pyrford. Information contained in this report should not be construed as a characterisation regarding the materiality or financial impact of that information to Pyrford or any of its affiliates, including Columbia Threadneedle Investments, or Ameriprise Financial, Inc., as individual entities or collectively as a whole.

CEO foreword

Thank you for picking up our latest Environmental, Social and Governance (ESG) report. 2025 is the 9th edition of this report and brings with it a change. As part of our previously announced management succession plan, I have been promoted from the back page to the front and have the honour of writing this foreword for the first time. As always, however, the following pages illustrate the various ways in which ESG factors are considered by our team, be it through our proxy voting activities, engagements with companies, or the more thematic research which transcends individual companies.

Pyrford remains an independent and autonomous investment boutique within Columbia Threadneedle Investments. This means that all investment decisions, including how to respond to ESG priorities, are made by the Pyrford team. However, where non-investment functions can be provided in the highest quality, at scale, we benefit from our parent's capabilities. This has always applied in areas like HR, Cybersecurity and Legal, but this year we have also benefitted from their help with our maiden Taskforce for Climate-related Financial Disclosures (TCFD) reporting. Led by our newly appointed ESG Manager, Shea Bailey, a dedicated team of colleagues from multiple locations collaborated to successfully deliver this complex and entirely new form of reporting by the June 30th deadline (just!). I would like to personally thank them all again for their efforts.

The world has moved fast since I edited our first report in 2017. In 2018, the momentum behind the '#MeToo' campaign shone a light on poor cultures and governance in a number of industries, and perhaps in society at large.

2020 brought with it the Covid-19 pandemic, highlighting the frailty of supply chains, the importance of science and evidence-based research, and that the people in our societies who are paid the least often do the most important jobs.

In recent years, climate concerns have also increased. Average global temperature records have been set with alarming regularity and the intensity and frequency of extreme weather events has increased, with the misery that it so often brings.

Geopolitics has become more challenging too. Wars have erupted in the Middle East and Europe, and long-standing conflicts elsewhere in the world have ground relentlessly on. Political leaders have come and gone, and with them, policies of variable quality.

Finally, the opportunities that Artificial Intelligence (AI) brings were a key driver of financial markets in 2024. We believe there is a degree of "froth" in the valuations of some companies exposed to this, but the technology clearly has enormous potential. Whether and how this should be regulated, and whether it has the potential to help with some of the world's problems, or to exacerbate them, all needs to be determined. As a starter on this, we hope you enjoy the article on page 9 about the rapid expansion of AI and its associated climate emissions.

Whilst evaluating all these factors remains critical to making prudent, long-term investment decisions, they cannot be the only considerations. Our programme of visiting over 350 companies each year in search of the best business models, strongest balance sheets, and most attractive valuations continues, and our team combines all of this information in making their decisions.

I hope you enjoy reading about our activities. I thank the team for their help in compiling this report and, as Tony has always said, we welcome any questions or feedback you may have.

Paul Simons

Paul Simons
Co-Chief Executive Officer

ESG Milestones

Submits first statement of commitment to the UK Stewardship Code and awarded "Tier II" Status under code

2010

Becomes signatory to the United Nations-backed Principles for Responsible Investment (PRI)

2014

Subscribes to independent specialist ESG research from MSCI

2015

Submits first formal report to the PRI

2016

Publishes the first edition of the ESG report
Establishes the ESG Forum
Joins UK Investor Forum
Upgraded to "Tier I" firm under the UK Stewardship Code

2017

Commences engagement with focus companies under Climate Action 100+

2018

Commences work on internal ESG ratings

2019

Completes first annual internal ESG ratings across all stocks

2020

Commences work on incorporating climate-related analysis across portfolios

2021

Becomes a signatory to Net Zero Asset Managers Initiative and discloses targets

2023

Discloses entity-level and product-level TCFD reporting

2024

About Pyrford

Pyrford is a boutique, London-based provider of global asset management services for collective investment funds, investment management companies, local and state bodies, pension schemes, endowments, and foundations. Pyrford currently manages approximately £5.8billion in assets under management (as of 31 December 2024). The company has been operating from its base in London since 1987.

Pyrford is a global institutional investor in high quality companies and government bonds. Many of the jurisdictions we invest in place responsibilities on investors to promote and support good governance in the companies in which we invest, ultimately improving long-term returns to shareholders.

Pyrford is part of Columbia Threadneedle Investments, the global asset management group of Ameriprise Financial. Pyrford International remains an independent, autonomous boutique, that is a separate legal and regulatory entity operating from separate premises. Our investment philosophy, process, approach to ESG, and experienced investment team have remained remarkably consistent through the years.

Columbia Threadneedle believes in the boutique model and appreciates that continuing to operate as a boutique is crucial to the success of Pyrford. Pyrford has been placed in a division within the combined group, alongside other autonomous investment managers, which further reinforces our independent status.

ESG at Pyrford

We have one investment process across all portfolios at Pyrford. The process has always focused on quality, value, and the long-term sustainability of earnings and dividends. Our belief is that sustainable earnings are most reliably achieved through responsible environmental and social practices and that shareholders only fully benefit from these at well-governed companies.

Unless client directed, we do not apply negative screens to exclude entire sectors, nor do we set minimum weightings for sectors deemed to have positive sustainability credentials. Our approach is to consider both positive and negative ESG factors within the totality of our investment research alongside our customary regard for competitive advantage, balance sheet risk and valuation. We do manage accounts with restrictions in place for a number of clients, but these restrictions must be client directed.

We believe the best approach to ESG research is a combination of internal analysis and specialist external, independent research.

In addition to our analysis of companies, our internal ESG Forum provides a platform to encourage and promote best practice within our business, which is covered in the following section under "Governance".

ESG issues continue to be a standing item in our monthly Global Stock Selection Committee meeting, as well as an agenda item in every company meeting we attend where ESG risk has been identified.

Internal Research:

The first step in Pyrford's ESG research is background reading on the ESG factors that are relevant to each of the companies we look at. The sources of this information include specialist ESG research from MSCI (see below under external research), company sustainability reports, news publications, annual reports, and sell side brokers. Distillation of this material enables our investment professionals to identify the key questions to ask management during the face-to- face interviews, which have always been a fundamental part of our investment process. Once these meetings have taken place, the next stage is to complete an internal ESG rating template.

At Pyrford, our Portfolio Managers assign an ESG rating to every stock we research. This rating ranges from '1' where we feel a company faces no material ESG risks over the next 5 years to '5' where a company faces moderate to high ESG risks over the same period and we believe is not adequately addressing them.

The rating is derived by examining the 15 factors we concluded were the most relevant to our investment philosophy and process. The factors are split broadly evenly between Environmental, Social and Governance concerns and are shown below. These ratings must now be presented for any new stock proposed for inclusion in a portfolio.

These ratings are reviewed at least annually and, though they are assigned to individual members of the investment team responsible for each stock, each is reviewed by the ESG Forum to ensure consistency across the portfolio.

Pyrford Internal ESG Analysis Framework

Environmental	
GHG Emissions	Does the company measure and report on its GHG footprint? Does it have credible initiatives to reduce this?
Climate change	To what extent might climate change negatively impact the operations of the company?
Depletion of resources	Does the company rely on the use of natural resources (including water) which are becoming scarce in its area of operations?
Toxic chemical use and disposal	Does the company use chemicals, the accidental release of which into the environment would be damaging?
Business opportunities	Does the adaptation to climate change or other environmental issues present new business opportunities?

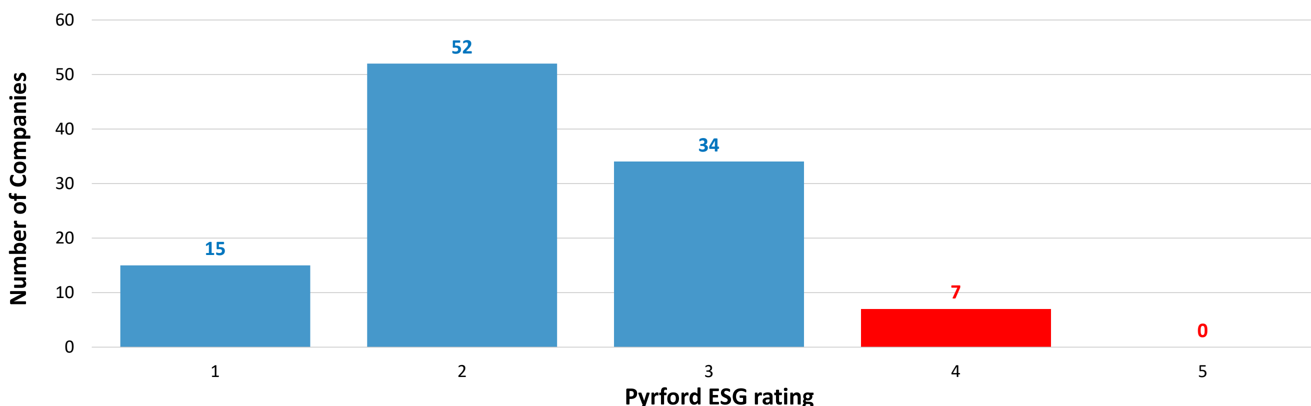
Social	
Social Impact	Do the company's products or services create negative societal impacts?
Health & Safety	If aspects of the company's operations are hazardous does it have clear policies, accountability and disclosure of Health and Safety metrics?
Discrimination	Does the company have public policies against workplace discrimination?
Diversity	Does the company have a public commitment to increase the diversity of its workplace against which it is reporting progress?
Political risk from involvement in troubled markets	Does the company have material operations in parts of the world where politics is volatile?
Living wage	Has the company made a commitment to pay all employees the local living wage?
Governance	
Executive compensation	Are the interests of shareholders and executives aligned?
Separation of Chairman/CEO	Are the roles of CEO and Chairman separate?
Dual or single share class	Do all shareholders have equivalent voting rights?
Board independence	Is the majority of the board independent?

Pyrford Internal ESG Ratings:

Rating	Description
1	The company faces no material ESG risks over the next 5 years.
2	The company faces low to moderate ESG risks over the next 5 years but has a public and credible plan to mitigate them.
3	The company faces low to moderate ESG risks over the next 5 years and is developing plans to mitigate them OR The company faces moderate to high risks over the next 5 years and has a public and credible plan to mitigate them.
4	The company faces low to moderate risks over the next 5 years but is not adequately addressing them.
5	The company faces moderate to high ESG risks over the next 5 years and is not adequately addressing them.

The following chart shows a summary of our internal ESG ratings, across all 108 companies held within Pyrford's portfolios. Of the companies we invest in, in our view, none of them face moderate to high ESG risks over the next 5 years that are not being adequately addressed. We have identified seven investee companies which we believe are not adequately addressing the low to moderate ESG risks facing them and we will engage directly with all of these companies in the year ahead.

Summary of Pyrford Internal Ratings



Source: Pyrford International Ltd

The potential impacts on company earnings of ESG related risks or opportunities are captured in the financial forecasts for a company through our forecasts of Return on Equity over the 5-year investment horizon. Where investment is proposed in a stock where we have identified material ESG risks the Portfolio Manager concerned must explain how these risks are captured in their forecasts.

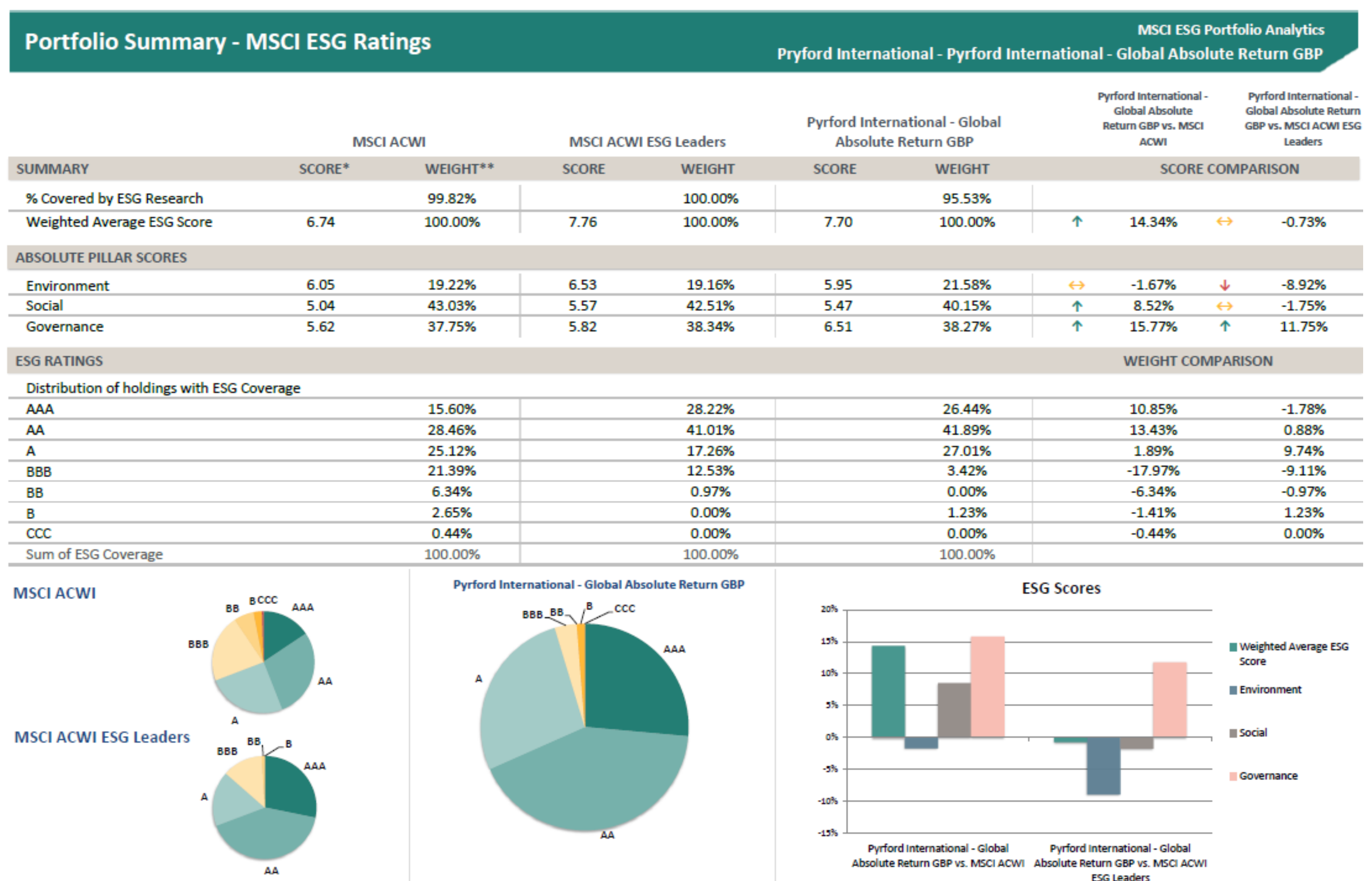
External Research

To provide independent external research, we have also engaged the services of a specialist ESG provider, MSCI ESG Research. MSCI provide us with detailed research reports examining the ESG impacts on investee companies and the wider universe. They have a team of over 200 experienced research analysts assessing thousands of data points across 35 key ESG issues, focusing on the intersection between a company's core business and the industry issues that can create significant risks and opportunities for the company.

MSCI assign ratings to all companies we look at on an AAA-CCC scale relative to the standards and performance of their industry peers.

If a company's MSCI rating falls, an alert is sent to the relevant Portfolio Manager or Investment Analyst and the reasons for the downgrade are discussed in detail by the Pyrford investment team. If the rating falls to B or CCC, an 'out-of-cycle' engagement takes place with the company to identify why.

In addition to stock level reports, MSCI ESG Research also provides us with portfolio level ESG analysis reports which help us to identify any potential risks to the portfolio as a result of underlying ESG issues. To show an example of the level of independent output we receive, the following snapshot is taken from MSCI analysis of one of Pyrford's core strategies; the Pyrford Global Absolute Return Strategy (equities only):



Portfolio Summary - MSCI ESG Ratings

MSCI ESG Portfolio Analytics
Pyrford International - Pyrford International - Global Absolute Return GBP

	MSCI ACWI		MSCI ACWI ESG Leaders		Pyrford International - Global Absolute Return GBP		Pyrford International - Global Absolute Return GBP vs. MSCI ACWI	Pyrford International - Global Absolute Return GBP vs. MSCI ACWI ESG Leaders
SUMMARY	SCORE*	WEIGHT**	SCORE	WEIGHT	SCORE	WEIGHT	SCORE COMPARISON	
% Covered by ESG Research		99.82%		100.00%		95.53%		
Weighted Average ESG Score	6.74	100.00%	7.76	100.00%	7.70	100.00%	↑ 14.34%	↔ -0.73%
ABSOLUTE PILLAR SCORES								
Environment	6.05	19.22%	6.53	19.16%	5.95	21.58%	↔ -1.67%	↓ -8.92%
Social	5.04	43.03%	5.57	42.51%	5.47	40.15%	↑ 8.52%	↔ -1.75%
Governance	5.62	37.75%	5.82	38.34%	6.51	38.27%	↑ 15.77%	↑ 11.75%
ESG RATINGS							WEIGHT COMPARISON	
Distribution of holdings with ESG Coverage								
AAA		15.60%		28.22%		26.44%	10.85%	-1.78%
AA		28.46%		41.01%		41.89%	13.43%	0.88%
A		25.12%		17.26%		27.01%	1.89%	9.74%
BBB		21.39%		12.53%		3.42%	-17.97%	-9.11%
BB		6.34%		0.97%		0.00%	-6.34%	-0.97%
B		2.65%		0.00%		1.23%	-1.41%	1.23%
CCC		0.44%		0.00%		0.00%	-0.44%	0.00%
Sum of ESG Coverage		100.00%		100.00%		100.00%		

* All scores are on a 0-10 scale, with 10 being the best.
** If ESG coverage is less than 100% holdings are adjusted to 100% for report calculations.

As at 31 December 2024. For illustrative purposes only, not intended as a solicitation or recommendation of the strategy.

Some of the findings from the report are as follows:

1. Overall, Pyrford's equity portfolio scores higher than the MSCI All Country World Index (ACWI): 7.7 v 6.7 (+14.3%).
2. The Pyrford portfolio scores marginally lower (0.73%) than the specialist MSCI ACWI ESG Leaders index (7.7 v 7.8).
3. When compared to the MSCI ACWI, Pyrford has higher scores in both Social and Governance.
4. Over 65% of Pyrford's holdings are invested in "leader companies" AAA or AA companies.
5. Pyrford currently holds no "CCC" rated companies in any portfolio.

We believe these high scores against the wider market, are reflective of our rigorous focus on quality, value, and the long-term sustainability of earnings and dividends.

Pyrford would be delighted to present the full findings from the detailed report in person to our clients, if required.

In conclusion, it is this combination of internal ESG analysis alongside specialist external and independent ESG research that provides us with an exceptionally high level of coverage.

Fixed Income Research:

Finally, a note on fixed income research. Within our multi-asset absolute return strategies, Pyrford can, and does, invest in bonds. Our investable universe is limited, however, to conventional and index-linked sovereign bonds from governments that achieve an AA or above credit rating. Currently this includes sovereign debt in the US, Canada, Australia, and the UK.

Internal research provides forward estimates of interest rate direction and the likely shape of the yield curve in order to determine potential returns in the next two to five years. This analysis allows us to manage the 'duration' (sensitivity to changes in interest rates) of our fixed income exposure.

Whilst we monitor the government level ESG rating assigned by MSCI to the countries in our fixed income universe, we do not yet believe there is a reliable way of differentiating between these sovereign issuers within our small investable universe on ESG grounds. We are, therefore, unable to provide the same level of ESG coverage as we do in equities. We believe it would be disingenuous to claim to our clients that we are choosing markets based in part on their ESG credentials. We keep under constant review fresh ideas and new sources of data that could meaningfully inform our investment process for this asset class.

Governance and Accountability for ESG Activity

In our view, one of the keys to our success as a business is having an effective governance structure which enables the business to operate as a boutique investment manager and in line with the expectations of our clients, regulators, and other stakeholders alike.

As described in the "About Pyrford" section, Pyrford International sits as an independently managed investment boutique, within Columbia Threadneedle Investments.

In 2017 we established the Pyrford ESG Forum which holds accountability for ensuring we are fulfilling our duty as responsible investors. The following chart shows where the ESG Forum sits within the overall governance structure of the business:

The ESG Forum acts under delegated authority of the Global Stock Selection Committee which is a committee that provides oversight of Pyrford's stock selection process undertaken by investment professionals in their respective regions. It is the formal forum in which material stock selection decisions are reviewed and debated.

Pyrford ESG Forum:

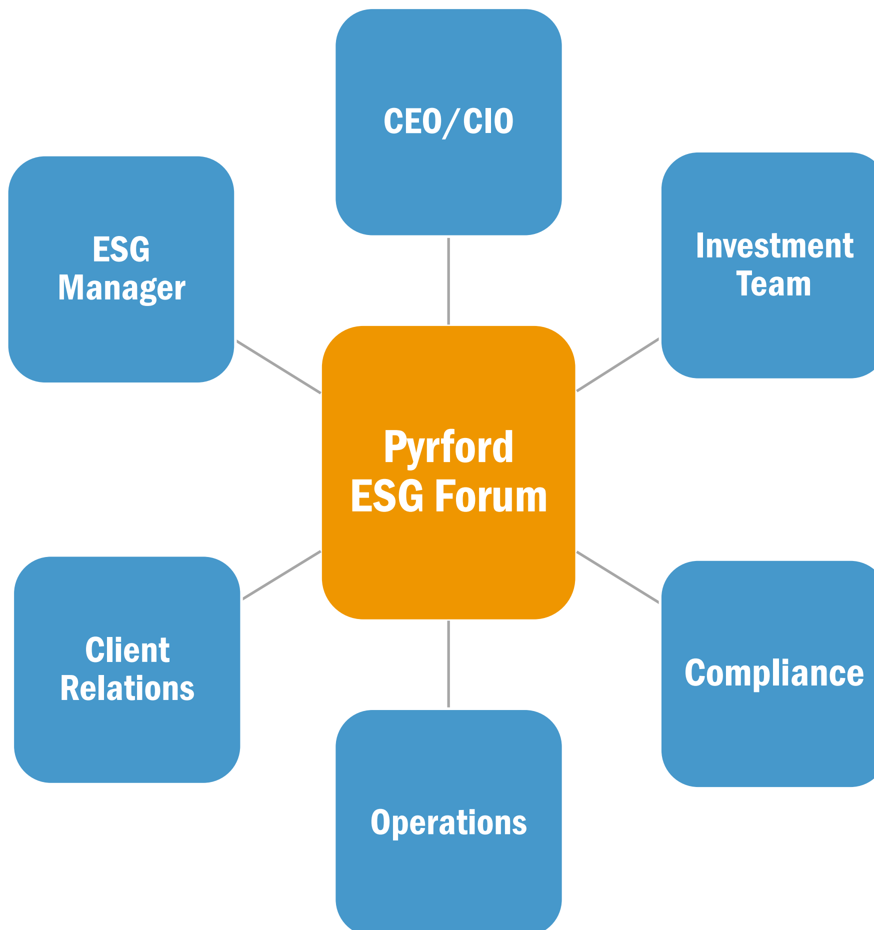
The Pyrford ESG Forum meets quarterly and is chaired by Paul Simons, Co-Chief Executive Officer and a member of our Investment Strategy Committee.

The aim of our ESG Forum is to:

- Promote awareness and communication between different areas of the business on ESG issues.
- Ensure we are meeting our regulatory requirements as a business.
- Provide an opportunity for our Relationship Management team to share feedback from our clients regarding any comments or potential concerns they may have on ESG matters and the companies we hold on their behalf.
- Encourage and promote best practice within Pyrford when it comes to incorporating ESG into every aspect of our role.
- Promote and discuss wider ESG industry issues and assess how they can impact our business and the companies we invest in.
- Report on the recent quarter's company engagement and proxy voting activity.
- Produce an annual report detailing our engagement activity over the previous calendar year.

To enable diversity of thought and input into the process, membership of the Pyrford ESG Forum is open to the entire business and not just investment professionals. Investment professionals are rotated annually to allow all members of the investment team to play a role and to provide input into the process. Members of the Forum are encouraged to undertake the CFA Certificate in ESG Investing, and several have done so already.

Membership is made up of representatives from across our business as shown in the following chart:



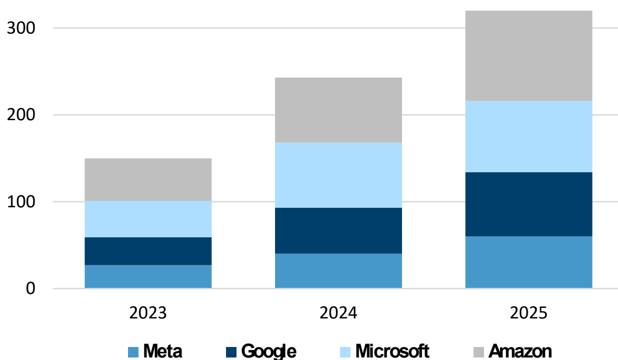
AI and the climate: carbon emissions from the rising energy demand of artificial intelligence

It's been a little over two years since OpenAI released ChatGPT, bringing widespread attention to artificial intelligence (AI). Once thought of as arcane subject matter reserved for science fiction, it has now entered the general public's lexicon and become a staple at the kitchen table.

The promised benefits of AI seem endless, from breakthroughs in healthcare and safety, to increased efficiency through automation and enhanced data analysis for decision-making. Many are touting the potential gains from AI as comparable to the transformative impact of electrification or the Industrial Revolution.

The AI boom

Since ChatGPT's release, the rapid advancements in the quality, ability, and speed of AI applications have only been matched, if not surpassed, by the eye-watering investments poured into the sector by investors, market leaders, and nations. In a move aimed at bolstering the US's AI capabilities, "The Stargate Project" joint venture was recently announced, set to raise over $500bn. Meanwhile, the four leading US tech companies – Microsoft, Meta, Alphabet and Amazon forecast a combined AI capital expenditure that could exceed $320bn in 2025, up from $246bn in 2024 and $151bn in 2023.[1]



Source: *Financial Times*

This level of investment is particularly surprising given the recent launch of DeepSeek's AI model in China, which is reportedly able to replicate much of the capability of its US counterparts in an innovative, far more cost-effective way. This release seemed to dampen investors' soaring expectations for AI, albeit temporarily. However, hyperscalers managed to reassure investors about both the disruption and exorbitant spending, by leaning on "Jevron's paradox" – the principle that states that increasing the efficiency of resource use will lead to a higher overall consumption of that resource. In essence, they're betting that the proliferation and commoditisation of AI models will drive up overall demand for AI, thus justifying their optimistic expectations and aggressive investment. If this were to come to fruition, an increase from the already one and a half billion global AI bot users would require substantial resources to sustain it.[2]

Hyperscalers are making varied investments, earmarked to align to their unique company strategies, ranging from developing advanced models and custom chips, to integrating AI into their product ecosystems. Yet, one common theme amongst these investments is the aggressive expansion of data centres. This approach is hardly surprising, as data centres play a fundamental role in AI by providing the computing power needed to run the complex operations.

Meeting this increase in computational demand has made AI incredibly energy intensive. Power is now imperative for many companies and countries that are racing to fully unlock AI's potential and secure a competitive advantage.

An important caveat

DeepSeek's arrival not only demonstrated that entities outside the US have the capability to develop highly competitive open-source large language models at a reportedly lower cost, but it claimed it could be achieved without the massive computational power typically required by industry-leading models. This sent shockwaves through the global stock market, affecting companies involved in AI, chip manufacturing, cloud computing, as well as energy providers. Notably, stocks like Constellation Energy and Vistra saw significant hits to their share price.

While the extent of DeepSeek's reported breakthroughs are still being fully tested and digested by the market, its emergence could potentially challenge existing projections of power consumption. However, for the purposes of this article, the figures and recommendations will be based on the current landscape, given that the cumulative demand is likely to continue to escalate alongside the broader proliferation of AI applications.

Quantum of power demand

Traditional data centres consuming significant amounts of energy is not a new revelation to the tech industry. Large-scale computing relies on thousands of physical servers running around the clock, with network infrastructure and cooling systems further driving up the already high power consumption. Prior to the increased usage in AI hardware, data centre energy consumption in the US remained relatively stable between 2014 and 2016.[3] In 2014, data centres in the U.S. consumed an estimated 70 billion kWh, representing approximately 1.8% of total electricity consumption.[4]

However, over the years, AI-focused data centres have dramatically increased power consumption. According to McKinsey, data centres now account for 3% to 4% of total US power demand and this is projected to rise to 11% to 12% by the end of the decade - representing an increase of 400 terawatt-hours.[5]

Why are AI data centres so power hungry?

The energy intensity of AI data centres stems from multiple factors that go beyond typical computing needs. Below are the key reasons for the high power requirements:

- **Compute-heavy operations**. Training large AI models, where the model “learns” how to behave based on large sets of data, requires billions, sometime trillions of calculations per second. The duration of training can vary, from minutes, to days, to even months, depending on the volume of data and model complexity.[6] Moreover, this process sometimes fails to improve model performance and must be refined and retrained. Researchers estimate that training OpenAI’s initial release of ChatGPT3 consumed the equivalent power to that of 120 American households over the course of a year.[7]

Another energy-intensive task that requires computational power is when AI models answer user queries - a process called inference. In this phase, the model needs to first “understand” the query, then “think” about the answer, before providing a response to the user.[6] While each inference consumes a fraction of the energy compared to the training phase, the cumulative impact is substantial, especially for popular models. ChatGPT alone has over 400 million people reportedly using their AI chatbot on a weekly basis, with 1 billion user messages sent every day.[8]

- **Specialised hardware.** AI workloads often rely on sophisticated chips like Graphical Processing Units (GPUs) or Tensor Processing Units (TPUs), which are far more energy-hungry than Central Processing Units (CPUs) that are used in traditional data centres. This is primarily due to their ability to perform simultaneous computations and transfer data at very high speeds.

Nvidia, a market-leading chip maker, manufactures chips that are widely known for their high performance and efficient computing. Their previous generation of chips, the H100s, consume between 350W and 700W (depending on the model and usage), corresponding to a 75% increase in GPU power consumption compared its predecessor, the A100s. The latest Blackwell B200 chips takes that even further, adding an extra 500W - a 70% increase in just one generation.[9]

Despite the rising energy demands, there has been a recent shift in focus from compute and memory to power consumption, bringing about more energy efficiency per iteration of chips. For instance, the H100s reportedly offer three times the performance-per-watt compared to the A100s.[9] However, as AI models continue to grow in complexity and size, the overall energy demand will continue to rise with each new milestone.

- **Cooling needs**. AI chips operate at high power densities, meaning they consume large amounts of power per unit of space. This produces tremendous heat, which data centres temper by using air, and increasingly, liquid cooling systems, further consuming energy.

- **Data storage and transfer.** AI models rely on vast datasets for training, requiring substantial storage capacity. Transferring these datasets between the storage and chips requires high-speed networking, further increasing power consumption.

- **Continuous operation**. To support training and real-time inference of AI applications, data centres must run continuously at full capacity day and night, which adds to the overall power demand.

The elephant in the room

The rapid rise of AI has generated immense hype and excitement, yet this enthusiasm has often overshadowed the ESG risks associated with it, leaving them largely overlooked or unnoticed. While this article focuses on the energy consumption and carbon emissions of AI data centres, it’s worthwhile briefly acknowledging the broader risks at play.

From an environment perspective, the water consumption required by cooling systems is enormous, with recent studies indicating that generating a single 100-word response from ChatGPT4 can use up to 1468ml of water.[10] Moreover, the water used in these systems needs to be free from impurities and bacteria, which means data centres often compete for the same water needed by the surrounding communities. This can lead to tensions and even civil unrest in water-strained areas, as seen in Uruguay and Peru, where protests erupted over planned Google data centres tapping into drinking water reservoirs. In The Dalles, Oregon, it was revealed in 2022, that Google’s three data centres consumed over a quarter of the city’s water supply.[11] Additionally, the environmental impact of sourcing rare earth metals for AI hardware is another issue, often involving environmentally harmful mining activities, as well as unethical labour practices. These metals are often the same ones used in technologies that play a vital role in the transition to a low-carbon economy.[13]

Socially, AI-driven automation threatens to displace jobs, potentially leading to widespread economic inequality. Dario Amodei, former OpenAI researcher and current CEO of Anthropic, a company specialising in developing AI aligned with human values, made a stark warning at the recent AI Action Summit in Paris. He predicts that within two years, AI systems will have the collective intelligence of a "nation of geniuses", which could create one of the largest changes to the global labour market in human history.[12] In addition to job displacement, AI raises concerns about bias and discrimination, privacy violations, and the spread of misinformation.

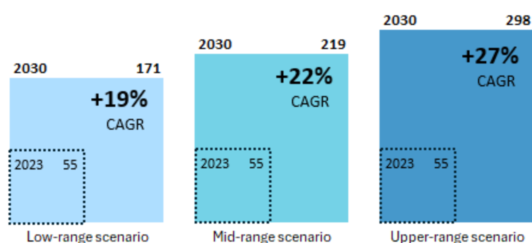
From a governance standpoint, the lack of traceability and accountability in AI decision-making is of particular concern. This is due to the "black box" issue with modern AI models, where it's difficult to understand or trace the internal workings of a model and how it arrived at its conclusion. Furthermore, governance factors relating to legal risks and cybersecurity threats are a growing concern.

The carbon footprint from AI data centres

As outlined already, the vast computational resources required to train and run AI workloads makes them exceptionally electricity hungry. The International Energy Agency (IEA) projects global data centre electricity consumption in 2026 will be double that of 2022, roughly equivalent to Japan's total electricity consumption.[11] All this increased electricity consumption, showing no sign of slowing down in the near-term, has led to a surge in greenhouse gas emissions, particularly in regions where electricity is primarily generated from fossil fuels.

Global demand for data centre capacity could more than triple by 2030

Demand for data centre capacity, gigawatts.



Source: McKinsey & Company

The carbon footprint of data centres can be viewed through two primary lenses: the software lifecycle and the hardware lifecycle.

Software lifecycle. This encompasses data collection and preparation, model development, training, inference, validation, as well as the maintenance and eventual decommissioning of AI models. Much of the environmental impact from the AI software cycle was thought to originate from the training phase of model deployment. However, recent findings indicate that the inference phase can consume equal, if not more resources.[13] The scope 2 carbon emissions from these activities stem primarily from the electricity required to power data centres that support AI operations.

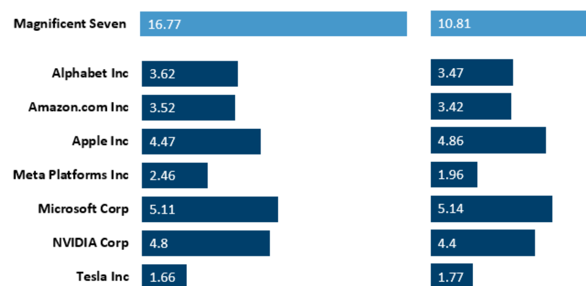
Hardware lifecycle. This involves the manufacturing of the chips, along with the construction, operation, and upkeep of data centres.[13] Calculating the carbon footprint of AI hardware is far more difficult to assess and quantify, due to the numerous stages involved, from production to operation, and eventually disposal. AI chips, servers, and storage are produced using high-precision manufacturing that require substantial energy and involve complex chemical and thermal processes. Additionally, mining of rare earth metals needed for AI hardware, along with the global transportation of various components contributes to emissions. These emissions are largely classified as scope 3 emissions, which are more challenging to quantify, but significantly impact the carbon footprint.

Emissions from AI market leaders

Gathering accurate information on energy consumption from AI is notoriously difficult. The reasons for this difficulty can vary, from the lack of a standardised approach of data collection and calculation, to fears of revealing competitive advantages, to deliberately attempting to avoid scrutiny. This has prompted investors managing billions of dollars to start pressuring tech companies for greater transparency. This lack of information poses a challenge for sustainability funds categorised as Article 8 and 9 funds under the European Union's Sustainable Finance Disclosure Regulation (SFDR) framework. Tech stocks have been a favourite amongst these funds, due to their strong market gains and relatively low greenhouse gas emissions compared to other stocks and sectors. However, without sufficient information on energy consumption, investors may be need to reduce exposure to these stocks to comply with the regulation's criteria. The chart below shows the share of Article 8 and 9 funds, worth a total $2.24 trillion, that are invested in the "magnificent seven".[15]

"Magnificent Seven" stocks in sustainable funds

Percent weighting of seven major tech companies in strictly-defined funds



Source: Morningstar Direct

Specific information on AI power consumption may be scarce, but extrapolating from broad emissions disclosures from leading tech companies provides valuable insights. It's safe to assume that much

of the increase in emissions presented in these disclosures can be attributed to the rapid expansion of AI and the corresponding surge in data centre energy demands. Between 2020 and 2023, Microsoft's annual emissions rose by around 40%, from 12.2 million tonnes of CO2 equivalent to 17.1 million tonnes. Alphabet reported a 50% increase in emissions from 2019 to 2023, while Meta experienced a 65% rise in scope 3 emissions in just two years.[16] These figures, though substantial, may understate the true environmental impact. A recent analysis suggested that the emissions from data centres owned by Alphabet, Microsoft, Meta and Apple from 2020 to 2022, could be up to 7.72 times higher than reported. This discrepancy is largely due to the use of renewable energy certificates (RECs), which allow companies to offset emissions without directly reducing their energy consumption, thereby engaging in what some critics call "creative accounting".[17]

Studies mimicking the real-world conditions of data centres are complicated and results can often vary due to the many variables at play, including the scale and complexity of AI workloads, the fluctuating energy grids, and the sometimes elaborate infrastructure. One such study estimated that the training phase of a large language model can generate up to 300,000 kilograms of CO2 emissions – equivalent to the lifetime emissions of an average car or 125 round-trip flights between New York and Beijing.[13]

A low emissions future with AI

To mitigate the environmental impact from AI, it's clear that the advancements in AI should be met with commensurate improvements in sustainable solutions. Potential remedies focus on reducing energy consumption, improving efficiency, and leveraging AI itself to promote sustainable practices. However, in light of recent statements by US politicians about aggressive AI growth strategies and deregulation, some of the following approaches may be more pragmatic than others.

Transparent reporting. Accurate measurement and transparent reporting of AI's energy consumption and emissions is essential for developing effective strategies to offset its environmental impact. This will not only ensure accountability, but also enables the tracking of progress, informs decision-making, and promotes innovation in sustainable practices.

Renewable energy. A direct way to lower the carbon footprint from data centres relying primarily on fossil fuels, is to shift energy usage to renewables. The bulk of the clean energy used in data centres is derived from solar and wind. Companies are increasingly investing in on-site solar farms and wind turbines or strategically placing data centres in regions with abundant renewable energy sources. However, these sources can be intermittent, as solar and wind availability fluctuate. Hydropower and geothermal energy offer more stable sources of power, but they are costly and are geographically constrained.

Though technically not renewable, nuclear is a low-carbon, highly efficient alternative that is gaining traction in the industry. Microsoft recently entered into a 20-year agreement with Constellation Energy to recommission one of its reactors.[21] Similarly, companies are exploring small modular reactors (SMRs), which are smaller, more flexible, and easier to deploy than traditional nuclear power plants. Alphabet and Amazon have recently announced SMR agreements with Kairos Power and X-Energy respectively, with the latter involving a $500mn commitment. Despite their potential, the widespread adoption of nuclear options is unlikely in the short term, as they come with high costs and lengthy deployment timelines.

Using AI. Ironic in some sense, but AI can be a key player in reducing the environmental harm caused by AI systems. Below is a non-exhaustive list of ways in which AI is finding new and innovative ways to limit resource use.

- **Optimising model efficiency**. AI can optimise model efficiency by removing redundant components, lowering the precision requirements, and using smaller, more nimble models (often referred to as small language models or optimised models).

- **Data centre improvements**. AI improves the efficiency of cooling systems and dynamically allocates computing tasks based on real-time demands.[18] For example, Google applied its very own DeepMind to its data centres and were able to reduce the amount of energy consumed for cooling by up to 40%.[20]

- **Using renewable energy**. AI assists in forecasting available energy sourced from solar and wind. This allows AI applications to adjust operations accordingly to rely on renewable power, when available, rather than fossil fuels.[19]

Efficient hardware. The goal to creating efficient AI systems should be to maximise processing power but minimise power use. Taiwan Semiconductor, a holding of ours, boasts lower power consumption and increased performance from its most advanced 3nm and 2nm nodes.[9] Some companies are resorting to custom chips in the search for efficiency, like Google's TPU's, which are specifically designed to optimise for AI computations. Additionally, the rise of Edge AI – where AI algorithms run directly on devices (e.g. smartphones and tablets), enables real-time data processing and decision-making locally, without relying on data centres.

The environmental upside

The surge in AI isn't all doom and gloom for the environment. In fact, AI has the potential to drive significant positive impacts across a range of industries beyond technology. Leveraging AI to reduce global emissions has been incredibly fruitful already, by optimising energy consumption, supply chains, and transportation. Here are a few examples of these use cases that illustrate the importance it plays in emissions reduction currently.

- A 2024 study found that AI used to optimise energy consumption in buildings can cut emissions up to 8%. This is significant, given that heating and lighting of buildings account for 18% of all global energy consumption, according to the International Energy Agency (IEA).[22]

- Soil stores roughly twice the amount of carbon found in the atmosphere. AI is currently being used to collect and analyse soil carbon data, assisting farmers in implementing effective carbon sequestration practices, which in turn reduces overall emissions.[23]
- Oil and gas companies are using AI to enhance drilling precision and efficiency. This decreases the number of drilling attempts, the associated fuel consumption, and the need for flaring and venting.[24]
- A recent study by the Intergovernmental Panel on Climate Change (IPCC) estimated that contrails from airplanes account for 35% of aviation's global warming impact. Google has developed an AI application that recommends flight paths to pilots to avoid contrail formation, achieving a 54% reduction in contrails during test flights.[25]

The difficult balancing act

As AI advances at a rapid rate and continues to reshape industries, its growing energy consumption can pose significant challenges to the environment. While it holds immense potential to drive transformative improvements, its environmental impact shouldn't be overlooked. By promoting transparent reporting, optimising AI workloads using energy-efficient hardware and models, and integrating renewable energy, market leaders in this space can ensure the benefits of AI are not overshadowed by its ecological cost. The difficulty in doing so, however, is striking a balance between allowing for AI innovation, without undermining climate commitments or the urgency to reduce emissions.

[1] https://www.stockholmresilience.org/research/planetary-boundaries.html

[2] https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf

[3 & 5] https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

[4] Dasgupta Review,2021 https://assets.publishing.service.gov.uk/media/60182857d3bf7f70c2afe5bb/Dasgupta_Review_-_Headline_Messages.pdf

[6] https://web-assets.bcg.com/fb/5e/74af5531468e9c1d4dd5c9fc0bd7/bcg-the-biodiversity-crisis-is-a-business-crisis-mar-2021-rr.pdf

[7&10&12] IPBES (2019): The global assessment report on biodiversity and ecosystem services

[8&11] https://wwflpr.awsassets.panda.org/downloads/lpr_2022_full_report_1.pdf

[9] https://www.un.org/sustainabledevelopment/blog/2019/05/nature-decline-unprecedented-report/

[10] https://www.washingtonpost.com/technology/2024/09/18/energy-ai-use-electricity-water-data-centers/

[11] https://e360.yale.edu/features/artificial-intelligence-climate-energy-emissions

[12] https://anthropic.com/news/paris-ai-summit

[13] https://wedocs.unep.org/bitstream/handle/20.500.11822/46288/AI-Environmental-Impact-Issues-Note.pdf?sequence=3&isAllowed=y [14] https://www.theverge.com/24066646/ai-electricity-energy-watts-generative-consumption

[15] https://www.reuters.com/sustainability/sustainable-finance-reporting/power-thirst-complicates-esg-investors-love-affair-with-tech-stocks-2024-09-26/

[16] https://planetdetroit.org/2024/10/ai-energy-carbon-emissions/

[17] https://www.theguardian.com/technology/2024/sep/15/data-center-gas-emissions-tech

[18] https://www.digitalrealty.co.uk/resources/articles/sustainable-data-centre-ai

[19] https://www.bloomenergy.com/blog/ai-data-center/

[20] https://deepmind.google/discover/blog/deepmind-ai-reduces-google-data-centre-cooling-bill-by-40

[21] https://nypost.com/2024/09/20/business/infamous-three-mile-island-is-back-and-microsoft-wants-its-nuclear-power-to-fuel-ai-ambitions/

[18] https://www.digitalrealty.co.uk/resources/articles/sustainable-data-centre-ai

[19] https://www.bloomenergy.com/blog/ai-data-center/

[20] https://deepmind.google/discover/blog/deepmind-ai-reduces-google-data-centre-cooling-bill-by-40

[21] https://nypost.com/2024/09/20/business/infamous-three-mile-island-is-back-and-microsoft-wants-its-nuclear-power-to-fuel-ai-ambitions/

[22] https://time.com/7201501/ai-buildings-energy-efficiency/

[23] https://time.com/7201501/ai-buildings-energy-efficiency/

[24] https://www.offshore-mag.com/drilling-completion/article/14301447/artificial-intelligence-applications-promise-improved-drilling-efficiency

[25] https://sites.research.google/contrails/

Proxy voting at Pyrford

Pyrford’s policy with respect to the voting of proxies is straightforward. Firstly, if our clients direct us to vote in a particular way with regard to the funds under our management for them, we will, of course implement their instructions. Assets would have to be managed on a segregated basis.

In the absence of such instructions from clients, it is Pyrford’s policy to consider every resolution individually and to cast a proxy on each issue which supports the long-term investment case for the holding.

Pyrford has appointed ISS Proxy Voting Services to monitor meetings data and to produce a voting schedule based upon individual client proxy voting guidelines, or Pyrford’s guidelines where a client does not provide its own. Pyrford’s Portfolio Managers have the final authority to decide on how votes are cast in line with the relevant guidelines. A copy of our Proxy Voting Policy can be found in the appendix to this report and on our website.

Pyrford does not engage in stock lending on behalf of our clients.

Proxy voting portal

Pyrford has a dedicated online proxy voting portal, where details of how we voted on every resolution across our pooled fund range can be found. Where we have voted against management in a resolution, the reason for our decision is highlighted.

Please visit our website (www.pyrford.co.uk) to access the full portal and proxy voting policy.

2024 voting summary in numbers

Our approach to voting is to vote all proxies in the best interest of our clients. Pyrford will only abstain on a vote where it proves impossible to obtain adequate or reliable details of the proposals to be voted on within the required time frame.

Voted in **1540** resolutions across all portflolios

at **101** individual company meetings

in **17** different countries

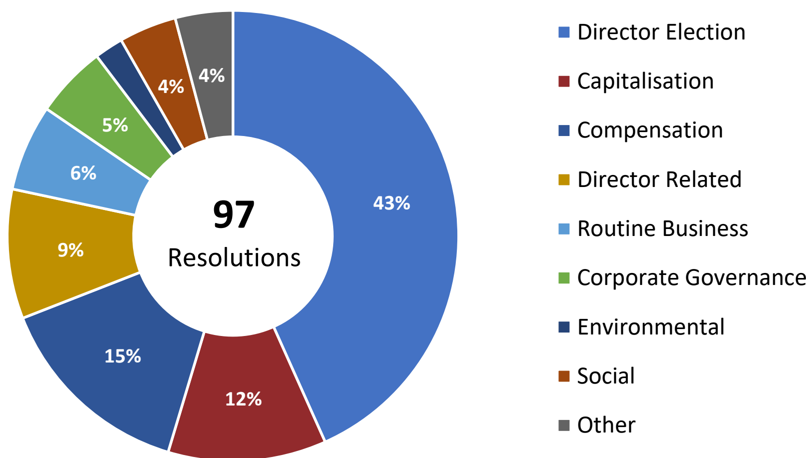
We voted **100%** of meetings in 2024

In over **45%** of meetings Pyrford voted against management in one or more resolution

2024 voting summary in charts

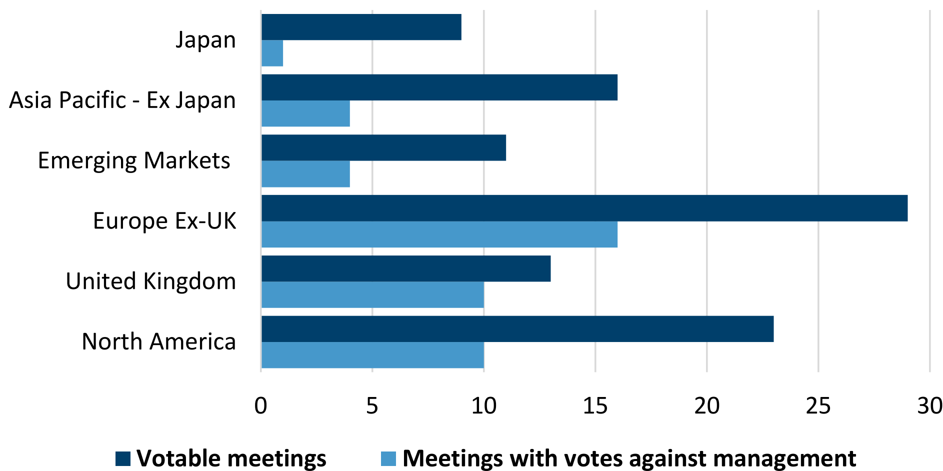
In 2024, we voted against management in 97 separate resolutions and in 45% of the meetings voted. The following charts break down those votes against management by proposal type and region:

Votes against management - proposal type



Source: Pyrford International Ltd

Votes against managment - regional split



Source: Pyrford International Ltd

Proxy voting case study examples

As detailed in the previous section, Pyrford voted in 1,540 resolutions at 101 separate company meetings. We voted against management in over 45% of meetings for one or more resolution.

In this section we will provide a few case study examples of significant votes carried out by Pyrford. We believe that all proxy votes are important, and we aim to vote all ballots received on behalf of our clients. All proxy votes are reviewed by our ESG Forum on a quarterly basis. Those deemed to be "significant" are where we believe the outcome could have a meaningful impact on shareholders' returns over our five-year investment horizon. These could include board appointments and compensation, decisions affecting capital structure, as well as company responses to social, environmental, or competitive pressures.

In the spirit of full transparency, Pyrford make a public disclosure of all votes cast on behalf of our investors. Full details can be found on our website at www.pyrford.co.uk under "proxy voting".

COMPANY: Geberit **COUNTRY: Switzerland** **DATE: 17 April 2024**

ISSUE: Remuneration report disclosure

BACKGROUND: In line with Swiss standards the company has requested shareholders for an advisory vote on the 2023 Remuneration Report.

ACTION: We voted against the remuneration report. We believe that the company has not provided adequate disclosures on the ex-post outcomes under the STI and LTI plans. This is of concern because it comes on top of changes in the remuneration scheme which increase the weight of individual objectives in the STI (at the expense of quantitative elements) and lowers the level of outperformance required for maximum investing of options under the LTI. This was a consultative vote only.

COMPANY: SGS **COUNTRY: Switzerland** **DATE: 26 March 2024**

ISSUE: Scrip dividend capital increase

BACKGROUND: The company is asking for the approval of a share capital increase, of up to 9 million shares with nominal values of 0.04 CHF per share. These new shares will solely be used for the issuance of a scrip dividend.

ACTION: We voted for this proposal at the meeting. The company has made the offer of a stable cash dividend but also with the option for shareholders to take a scrip dividend. With the scrip, the shares will be offered at a discount of 6% to the market price. We voted for this as we believe that the dilution is not too large. Net of the cancellation of shares from the share buyback program, the share capital will only increase by a maximum of 3.3%, according to ISS. The scrip should allow the company to retain balance sheet strength.

COMPANY: Endeavour Group Ltd **COUNTRY: Australia** **DATE: 11 November 2024**

ISSUE: Director elections

BACKGROUND: Endeavour had a turbulent time during 2023 as directors representing different shareholding interests clashed over the right strategy for the company. This culminated with the failed attempt of an outside, and unapproved, candidate to stand for election at the 2023 AGM. That episode caused the previous Chairman to stand down and Ari Mervis, an experienced executive in the food and beverage sector, was brought in to signal a refresh. Peter Margin, also an experienced director in the sector, was brought in to replace the former Woolworths appointee who stood down at the end of 2023. Bruce Mathieson Jr, representing the 15% stake of the Mathieson Group stood down in June 2024 thus completing a significant rebuild and hopefully the resumption of normal proceedings.

ACTION: Pyrford believes that both Ari Mervis and Peter Margin are knowledgeable and experienced in the sector and are good director appointments to the Board. Pyrford decided to vote with management and For the election of Ari Mervis and Peter Margin.

COMPANY: Rubis **COUNTRY: France** **DATE: 11 June 2024**

ISSUE: Approve compensation for Executives

BACKGROUND: Rubis distributes LPG, bitumen and other petroleum products in Europe, the Caribbean and Africa. In 2022 it acquired Photosol, a leading French solar energy company.

Over the last few years the share price performance of the stock has been weak, in contrast with the strong underlying financial performance of the company.

Rubis is a 'partnership limited by shares'. This is a hybrid between a partnership and a limited liability company. The capital and ownership of the company is divided between shareholders who have limited liability and several partners who have full liability for the remainder of the company's debts.

The past year has seen the emergence of new shareholders revealing that they own 5%+ of Rubis' shares: the Bollore Group via the Compagnie des Terres Rouges holding company, Mr Partick Molis via Compagnie Nationale de Navigation, joined by Mr Ronald Samann, a long-time shareholder who passed the 5% threshold in April 2024. The aim of these shareholders is to shake up the company's governance and potentially its limited partnership structure.

Pyrford previously engaged with Rubis management on the topic of the composition of the Supervisory Board in Q2 2023. The result of this engagement was Pyrford voting against the re-election of Olivier Heckenroth as Chairman of the Supervisory Board at the AGM on 8th June 2023. Our rationale was that Mr Heckenroth had been Chairman of Rubis since 1995 and we felt that at this critical stage of the company's development (the push into renewables and management succession) the company would be better served by having a fresh pair of eyes at the Supervisory Board.

The outcome at the 2023 AGM resulted in Mr Heckenroth deciding to stand down as he viewed the approval rate of his mandate as 'not high enough' to continue with his duties. He was replaced by Mr Nils Christian.

Pyrford arranged a meeting with Mr Nils Christian, Chairman of the Supervisory Board ahead of the meeting to discuss specific items on the upcoming 2024 AGM agenda, including succession issues and scrutiny of the M&A process.

ACTION: The AGM took place on 11th June 2024. Mr Christian explained the advantages of Rubis' partnership limited by shares' structure; it allows Rubis to enact a long-term strategy without pandering to the shorter-term needs of speculators in the stock. Mr Christian stated that "family companies perform better, especially of this size", although he took our counterpoint that often the best performing ones have external management in charge.

He suggested that the two founding General Partners would likely retire by 2028 and that an external candidate is "not impossible" to help Ms Clarisse Gobin-Swiecznik before that date.

Resolution A: We voted For the shareholder proposal (and against management) to remove Mr Olivier Heckenroth from the Supervisory Board as we feel he has been on the Board too long and is too close to the Managing Partners to be independent.

Resolution E: We voted For the shareholder proposal (and against management) to elect Mr Philippe Berterottiere to the Board as we have met him in his role as CEO of GTT and were impressed by his abilities – we feel he would add expertise and critical thinking to the Board.

Resolution H: We voted For the shareholder proposal (and with management) of electing Ronald Samann to the Board. He is a long-term shareholder who brings constructive criticism to the Board and is agreed by Rubis management.

COMPANY: Woodside Energy **COUNTRY: Australia** **DATE: 24 April 2024**

ISSUE: Climate report

BACKGROUND: As a major global producer of oil and gas, Woodside is one of the world's largest corporate greenhouse gas emitters when Scope 3 emissions are included. Having submitted its 2021 Climate Report to a shareholder vote at its 2022 AGM (where it was supported by 51.03% of votes) Woodside presented its "Climate Transition Plan and 2023 Progress Report" to shareholders in April 2024. The resolution was advisory only and is non-binding on the directors or the company, however it was designed as a means of engaging with shareholders and giving them the opportunity to signal their view on the company's climate strategy.

ACTION: We are broadly supportive of Woodside's efforts in reducing its emissions. The company has aspirational targets to be Net Zero for Scope 1 and 2 emissions by 2050 and has committed to make investments of $5bn in new energy products and lower carbon services. We also recognise the challenges in an oil and gas company reducing its Scope 3 emissions. However, given the urgency of the requirement we felt it was appropriate to vote against the report at this meeting. In doing so we aim to signal our expectation that work continues in hardening the current "aspirations" to firm targets by accelerating work on developing new technologies and reducing their cost.

Pyrford company engagement

Pyrford has always taken a long-term view to investment decisions. At no point do we ever take a short term, speculative position in a company. We invest in high quality companies that can clearly demonstrate robust and sustainable business models.

As long-term shareholders of companies, we have the responsibility to encourage stronger business practices on ESG issues through a process of ongoing company engagement. In our opinion, this is a key factor in reducing risk in the portfolio. Companies are made aware that we expect them to manage their businesses responsibly whilst pursuing profit growth. It may even be that through our exposure to competitors, suppliers, customers, or to similar companies elsewhere in the world, that we can help them identify risks facing them earlier than they might otherwise have.

It is Pyrford's belief that engagement through direct discussions with not only management of investee companies, but also with all companies we meet, is the most effective way for us to do this. At Pyrford, we use a range of engagement methods. However, our engagement is typically one-to-one with companies as we believe this method yields the best results. Our Portfolio Managers must visit every investee company prior to initial investment and we aim to meet with the company at least annually thereafter.

In almost every meeting with companies, questions on ESG issues will be raised. However, we would not necessarily classify these as actual "ESG engagements". For an engagement to classified as such, it needs to be a purposeful communication on particular matters of concern with the goal of encouraging change at the company level.

Company Engagement Framework

Pyrford have put in place a clear framework where escalation with company management is required and how this should be carried out in the event of issues coming to light. Engagement with companies we invest in has always been an integral part of our ongoing research process. Our engagement escalation framework is as follows:

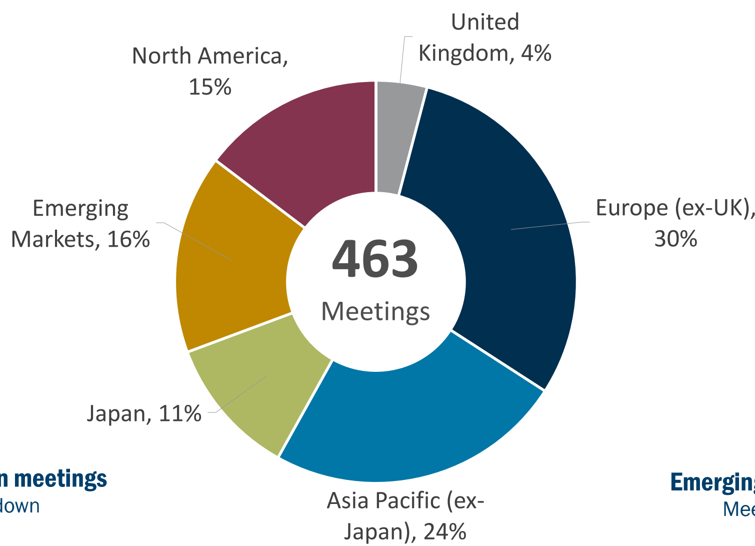
Level	Comments
Level 1	Investor Relations contact through email, call or meeting.
Level 2	Divisional or executive management via call, meeting or in writing.
Level 3	Vote against relevant resolutions if presented to shareholder meetings.
Level 4	Board member contact, in writing or by call or meeting if available.
Level 5	Collaborative engagement with other shareholders.
Level 6	Sponsoring or co-sponsoring resolutions at company meetings.

2024 Engagement Activity

In 2024, Pyrford's investment team carried out one-on-one meetings with over 355 global companies. When preparing for a meeting, our Portfolio Managers and Investment Analysts will assess if there are any ESG issues that they wish to raise. The source of this information might be MSCI ESG Research reports (our external provider) or our own ESG analysis, as covered in the "ESG at Pyrford" section.

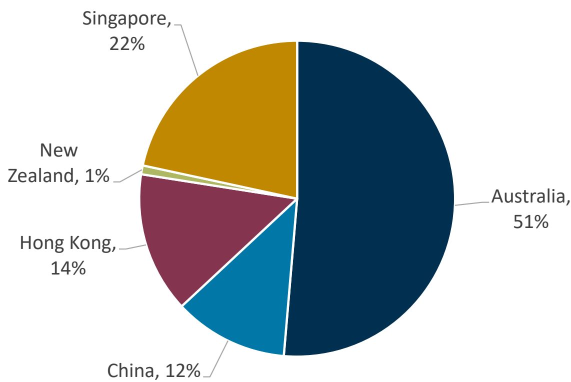
We track and record the results of every company meeting. Below we have provided a geographical split of all company meetings held in 2024:

Company meetings, split by region in 2024



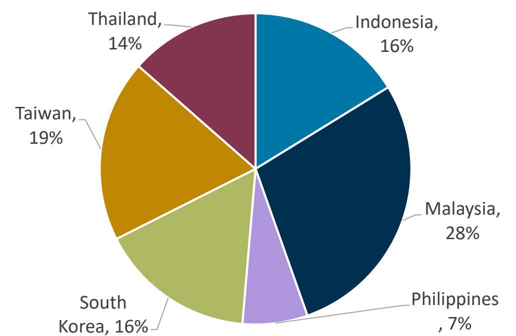
Asia Pacific ex-Japan meetings

Meeting breakdown



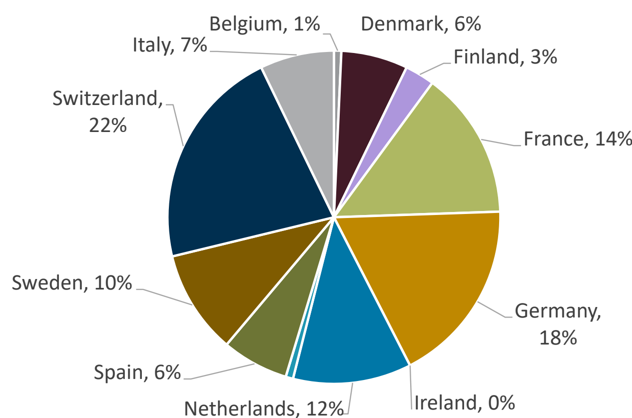
Emerging Markets meetings

Meeting breakdown



Europe (ex-UK) meetings

Meeting breakdown



Pyrford engagement examples

As detailed in the "Pyrford company engagement" section, Pyrford carried out 463 meetings with companies in 2024. Of those meetings, 11 were strictly ESG engagements.

In this section, we will provide case studies of those ESG engagements, across our investment regions, and on a variety of important issues.

We have included both companies where we own shares, and companies within our investment universe that we potentially could invest in. At Pyrford, we believe engagement on issues of ESG should not be limited to companies where we have investments, rather with all companies we meet. We have provided engagement case studies from 2024 with the following companies:

Company	Country	ESG Issue	Holding
ComfortDelGro	Singapore	Environmental - Greenhouse gas emissions	Yes
Nestle	Switzerland	Environmental - Deforestation regulation preparedness	Yes
Rio Tinto	Australia	Social – Workplace culture	Yes
Power Asset Holdings	China	Environmental – Net Zero	Yes
Rubis	France	Governance - Supervisory Board composition	Yes
BP	United Kingdom	Environmental – Hydrogen implementation	Yes
Wolters Kluwer	Netherlands	Governance – Executive remuneration	Yes
Amcor	Australia	Environmental – Plastics reduction	No
Philips	Netherlands	Social – Patient safety	Yes
National Grid	United Kingdom	Environmental – Connection of EV infrastructure	Yes
Sumitomo Rubber	Japan	Environmental - Tyre particulate matter and EUDR preparedness	Yes

Engagement case studies are provided for informational purposes only. Positive engagement outcomes are not guarantees of future engaged company, firm, or product performance. Fund holdings as of the date given, are subject to change and are not recommendations to buy or sell any security.

COMPANY: ComfortDelGro **COUNTRY: Singapore** **HOLDING: YES**

ISSUE: Greenhouse gas emissions

BACKGROUND: ComfortDelGro (CD) is one of Asia's largest land transport operators offering public transport and taxi services across its key markets of Singapore, Australia, the UK, and China. The nature of the business means that CD ranks within the top quartile of our portfolios for greenhouse gas intensity.

PURPOSE of ENGAGEMENT: The objective of the engagement can be distilled into two key points: (1) understand the implications of regulatory developments, and (2) assess CD's progress towards achieving its environmental targets.

OUTCOME of ENGAGEMENT: Our conversation began with a recap of changes to regulation over the last year, since our previous engagement, which mostly focused on enhanced reporting requirements, particularly in the UK and Australia. Jonathan, the Group Chief Sustainability & Risk Officer, noted that CD's disclosure is already well ahead of the expected minimum, so the additional workload from these changes will be quite limited. When questioned about the impact of the recent political change in the UK, the outcome was also muted, and if anything, surprised to the upside. The new Labour government has sought to dissolve centralised power such that local authorities will have a greater say in managing their own public transport operations. CD has already won a new bus contract in Manchester as a result. Expanding bus operations in the UK is a positive for CD's sustainability credentials, given that the UK leads the way in electric bus adoption.

On the topic of carbon taxes, CD reiterated that there had also been no change to the targeted sectors (e.g. manufacturing, refineries) in Singapore. As such, the company remains only indirectly impacted via the resultant higher electricity prices. Within the public transport operations, CD has embedded indexation clauses, allowing it to pass through these elevated costs.

Our discussion then turned to CD's own sustainability targets, which principally aim for a 54.6% reduction in Scope 1 and 2 emissions and a 61.2% reduction in Scope 3 emissions by 2032, versus 2019 levels. Although some progress towards these targets has been made, the majority will be back-ended due to the timing of government commitments. For example, the Singaporean government has committed to transitioning 50% of the bus fleet to electric by 2030. CD also submitted these targets when some of the taxi fleet had over eight years remaining of its useful economic life, so transitioning to clean energy vehicles ahead of this didn't make financial sense. Jonathan was confident that all of these reduction goals would be achieved by 2032.

At the same time, the company did admit there were challenges that it needed to overcome. Firstly, capacity constraints on the supply of electric buses may become more acute as we approach 2030. Secondly, another barrier to change comes from the taxi drivers themselves. In Singapore, the average driver is aged over 65 and is accustomed to filling up their vehicle quickly at a petrol station. This often results in them being unwilling to get their head around a new technology and factor in additional time for electric charging. To tackle this, CD is looking to educate drivers of the benefits and to offer subsidised charging. In China, over 70% of CD's taxi fleet are already electric, so transformation is clearly achievable.

The company was cognisant that longer term aspirations, such as Net Zero by 2050, do depend on the development of new technologies. As a result, CD has taken a proactive stance by investing in a nascent battery recycling company.

In sum, CD is very much awake to the adverse environmental impacts of its operations and the potential for more stringent regulation. It has taken an active stance in managing these risks by setting its own sustainability targets and investing in next generation technologies. We are confident that CD remains committed in addressing this matter.

TAKEAWAYS: Until clean energy vehicles are the norm, the transport industry will inherently remain a major contributor to global greenhouse gas emissions. As such, regular engagement will be crucial to assess the company's continued commitment to minimising its carbon footprint and reaching Net Zero by 2050.

COMPANY: Nestle **COUNTRY: Switzerland** **HOLDING: Yes**

ISSUE: European Union Deforestation Regulation preparedness

BACKGROUND: Nestle is a Swiss multinational food and beverage conglomerate headquartered in Vevey, Switzerland. It's the largest food company in the world, with many brands across product categories including coffee, pet food, infant foods, and confectionary.

The European Union introduced the Deforestation Regulation (EUDR) in June 2023. This regulation aims to ensure that products placed on, or exported, from the EU market are not linked to deforestation or forest degradation. It requires companies to confirm that products like beef, wood, cocoa, soy, palm oil, coffee, and rubber are not linked to deforestation. The regulation will achieve this through stricter traceability and due diligence requirements.

At the time of this engagement, the EUDR was scheduled to become enforceable on December 30, 2024. However, since then, the date has been pushed back by another year.

Penalties for non-compliance include fines (up to 4% of annual turnover in the EU), product seizures, and temporary exclusion. With this in mind, it is crucial that Nestle is well-prepared to comply with this regulation, due to its reliance on some of the abovementioned commodities.

PURPOSE of ENGAGEMENT: The objective of this engagement was to evaluate Nestle's readiness ahead of the enforcement of the regulation in December 2024.

Specifically, Pyrford wanted to ensure Nestle have the sufficient resources, supply chain transparency, and systems in place to cover the extensive requirements of the regulation.

OUTCOME of ENGAGEMENT: A range of topics were covered in this engagement.

We began with a general discussion on the regulation and the impacts it has on Nestle. It was reiterated that Nestle was one of the first companies in the sector to commit to deforestation-free sourcing back in 2010, with a policy defining exactly what that means – greater traceability and the mapping of defined boundaries of farmlands. In 2020, they achieved 99% deforestation-free sourcing for 5 commodities, including cattle, soy, and paper, which was independently audited by Ernst and Young. They are pleased that the EUDR is using some of the key requirements that they've been using since 2010, including due diligence statements, traceability data, farm polygons and satellite imagery. They feel, based on their knowledge on the matter, they are quite advanced in their preparations and are ready for the regulation.

What remains an unknown is how the data will be exchanged with the EU through their API. Nestle have teams working on this to ensure the systems are communicating with one another. Pyrford commented that there were reportedly issues with the previous EU testing cycle, where it seemed the EU's systems didn't have the functionality or capacity to upload the vast amounts of data required from companies. Nestle mentioned that they were fortunate enough to be one of the companies that assisted in the initial testing that failed and are working with the EU to fix the issues with the API. They will also be included in the second round of testing that commences in October.

Pyrford asked if Nestle, through communication with industry bodies, believes if variations of this regulation will emerge on a global scale. They were of the opinion that instead of several regulatory variations, these current requirements will become a global industry norm. However, they acknowledged that it will take time to implement and that certain players in the industry will model their supply chains in the short term to mitigate the risk exposure to specific jurisdictions.

The ability of the EU to enforce this regulation strictly and consistently was discussed, considering that the onus of policing this could fall disproportionately to countries (like the Netherlands) with large ports. They were of the opinion that there's no reason to suspect that it would not work and that it's a feasible endeavour for the EU to implement. They cited the example of the US effectively implementing a law banning imports of palm oil and cotton that were connected to child labour and forced labour.

We then turned our attention to the level of disclosure required and if they were having any specific pain points with certain commodities or geographies. They mentioned that collecting and storing data relating to the due diligence, traceability, polygon mapping, and satellite imagery, and making this available on-demand, was already in place. Cocoa is something that is requiring attention from them. They have all the mappings of the farms and plantations, but the challenge is the mixing that occurs in the factories. This point in the supply chain needs to be addressed, as this could potentially lead to penalties and the need to segregate the different sources of cocoa. One way to solve for this is to have factories that are entirely dedicated to Nestle's requirements. They suggested this won't lead to additional costs, as they are finding innovative ways to mitigate the costs.

We then asked about the necessary maneuvers Nestle have had to make to satisfy the requirements of the EUDR. They mentioned they have had to make adjustments, like moving to new regions and suppliers, however they did this years ago when they committed to deforestation-free sourcing. One of the remaining challenges which they need to address is around cocoa and its manufacturing and sourcing footprint. They stressed that the shift in operations previously hasn't come at the expense of sourcing flexibility. They deliberately source from a number of regions to ensure this. They augment this with innovative technology that allows them to operationalise this easily and adapt at scale.

We questioned if they've had to change certain products that were deemed risky, like coffee, where blended coffee might not be feasible anymore given the added costs in due diligence. They mentioned coffee had very well-developed programs in place already and a lot of coffee products already had a one-to-one relationship with the source. There was a need to reformulate certain products, where the byproducts, like glycerine from soy, are very difficult to accurately trace back to source. For these products, they've moved to simpler alternatives that are much easier to trace and easier to verify from a deforestation-free standpoint.

The ~94% coverage of Nestle's primary supply chains was raised and whether or not this fully satisfies the requirements from the EUDR. Pyrford was concerned that there may be a difference between the coverage requirements of the EUDR and the company's approach. Nestle were confident that they would meet the requirements of the regulation and pointed out that 'low-risk countries' (e.g. US, France) need the same level of due diligence as high-risk countries. They are currently working with their suppliers to get this data ready in time. The likelihood of the EU requesting data for products coming from such origins isn't likely. Nestle have approached the EU regarding this, however it is hesitant to change the requirements based on risk levels, given it could become political.

We then asked about the added cost of satisfying the regulation, as well as potential fluctuations in the price of commodities, and how that would be absorbed by the company. Nestle said that because they started this initiative years ago, which was largely self-funded, the added costs have already been baked into the business model for years now and is part of the normal cost of doing business.

We then asked if there has been a shift from sourcing from smaller holdings to larger institutions. Excluding small farm holders could lead to negative feedback loops, resulting in more poverty and deforestation and Nestle have made a concerted effort not to exclude small farm holders from their sourcing. Additionally Nestle believe they have all the necessary data on these small holdings to fulfil the regulatory requirements. They do this by using a "state" verification method, where they don't treat each individual farmer on a case-by-case basis, but rather aggregate all small holdings in an area and verify the area (however all the required data points necessary for the regulation are still obtained).

We addressed the primary supply chain coverage metrics and the extent to which it covers Nestle's entire supply chain. Nestle mentioned that their secondary supply chains refer to items that they purchase/use that may contain derivatives or byproducts of the commodity in question, like soy that's present in cattle feed. They've approached the EU to discuss whether or not this should be included under the regulation.

Lastly, we wanted an idea of the exposure Nestle has to high-risk areas and if that has any effect on them, seeing as they must provide the same level of disclosure across all risk levels. Nestle confirmed that it doesn't have an effect on them, but were able to provide a rough estimate of the breakdown between risk levels. 70% of sourcing is from high-risk areas (e.g. Brazil, Indonesia, China) and 30% is from low-risk areas. It was stressed that the area is a function of where these commodities are grown and if they were able to find an area with lower risk, they would.

TAKEAWAYS: Nestle has taken a proactive approach towards sustainable sourcing and supply chain transparency starting well before the implementation of this regulation. Nestle's actions not only ensure compliance with the stringent regulation, but also contribute significantly to the company's broader climate action plan. Nestle has a Forest Positive strategy and its own Global Reforestation Program, independent of the EU's requirements. They are committed to restoring nature, protecting biodiversity, and promoting regenerative farming practices.

It is evident that Nestle have prepared themselves well in advance for a policy like this one and that they take issues such as deforestation extremely seriously. We have little concern and believe that they have sufficient resources, systems and competence to meet the requirements of this particular regulation.

We will continue to monitor the situation, as the scope and enforcement of this regulation is still unknown. If we deem it necessary, we will follow-up with Nestle once the enforcement period is underway.

COMPANY: Rio Tinto **COUNTRY: Australia** **HOLDING: Yes**

ISSUE: Workplace culture

BACKGROUND: Rio Tinto is the world's second largest metals and mining group.

The company has been working to improve its workplace culture through its "Everyday Respect Taskforce" since 2021.

PURPOSE of ENGAGEMENT: To understand the progress the company had made implementing the recommendations from the 2022 report "Everyday Respect" and to call for public updates on progress. Specifically, we sought to understand how progress was being monitored, who had accountability for it, how progress was linked to variable pay for executives, what training initiatives had been put in place, and whether cost considerations were an obstacle to progress being faster.

OUTCOME of ENGAGEMENT: In the time between us requesting the meeting and it taking place, the company released a progress report on the "Everyday Respect Report" agenda. Though this accomplished one of our goals for this engagement before the meeting took place, it did mean we were able to discuss the updates in greater detail than would otherwise have been possible. Of the 26 recommendations of the 2022 report, 17 have been implemented and the remaining 9 are underway. A number of the metrics reported showed positive trends. Of the survey respondents, 50% reported an improvement in relation to bullying, 47% reported an improvement in respect of sexual harassment, and 46% in regard to racism.

We began the meeting by confirming where accountability for the "Everyday Respect" programme fell. Overall, the CEO and Exco have responsibility for progress, but three key Exco members have been given ownership of the project – the company's Chief People Officer, Chief Legal Officer and the CEO of Australia. Within this group, responsibility for the infrastructure for reporting issues lies with the Chief Legal Officer; issues related to DEI and training fall to the Chief People Officer; and responsibility for facilities upgrades belongs to the CEO of Australia. The board is updated on progress regularly, partly through a new agenda item at board meetings, a direct report from the Chief People Officer, alongside the CEO and CFO reports. Elizabeth Broderick, who initially conducted the report, also presents to the board regularly.

We moved on to discuss how remuneration was linked to the priorities of the programme. Metrics related to "People and Culture" and "Social licence", both key under the programme, account for 20% in total of the Short-Term Incentive Plan (STIP) calculation for the group. At CEO and CFO level, the STIP has a target payout of 21% of total remuneration and 24% for executives who report to the CEO.

We then discussed how training and hiring practises have been adapted to bring about the cultural change targeted. Compliance training, which now includes cultural awareness components, has been increased and is required of all Australian employees. There are also plans to introduce human rights training, and recently, there was a week-long offsite meeting for managers focused entirely on cultural issues. Hiring practises have also been upgraded, with a greater emphasis put on psychological assessments to identify potentially problematic attitudes.

The final issue we discussed related to any restrictions put on improvements by limited budgets. The team explained that the types of facilities improvements that were identified as necessary (e.g. better lighting, better bathroom facilities, greater leisure provision) were not major investments in relation to the overall spending on developing or operating a mining operation. They were not aware of any projects which had been delayed or refused due to funding constraints and highlighted improvements which had been made at camps which are close to their end of life, which might not have been made had cultural improvement not itself been seen as a critical investment.

TAKEAWAYS: In commissioning Elizabeth Broderick initially and then publishing her report and recommendations in full, Rio Tinto has taken a bold step which none of its peers have followed, and the company should be given credit for that. There is no evidence to suggest that the problems identified are unique to Rio Tinto, or worse at the company than elsewhere in the industry.

That said, some of the experiences described in 2022 were appalling and our aim with this engagement was to ensure that the impetus to address the problems has not been lost following the initial publication of the report. We left the meeting satisfied that this is not the case. The company has put in place structures and processes which should, over time, significantly improve employee experience. Both parties acknowledged that this is a long-term project, not one which could have been completed inside 2 years.

Whilst, on the face of it, some metrics are going backwards and might be a cause for concern, it could also be taken as a sign that change is taking place and the issues are now more widely understood, where individuals are more confident in reporting issues and find it easier to do so.

We also note that working patterns in the mining industry, with fly-in, fly-out schedules, and staff resident on company facilities, brings on to the company's account out-of-hours behaviours that would not be linked to an employer in other industries. This is not to excuse them, but to acknowledge the particular challenge the company faces.

We are satisfied that the management of Rio Tinto remains committed to improving its culture and have taken concrete steps to achieve it. We do not plan to escalate the engagement at this point. However, we will monitor progress and encourage public updates.

COMPANY: Power Asset Holdings **COUNTRY: Hong Kong** **HOLDING: Yes**

ISSUE: Net Zero

BACKGROUND: Power Asset Holdings is an investment holding company mainly engaged in the energy and utility-related businesses. It has investments in thermal and renewable power assets, as well as in transmission and distribution assets. It operates across Hong Kong, China, UK, Australia, New Zealand, Thailand, the Netherlands, Portugal and Canada.

PURPOSE of ENGAGEMENT: We wanted to take this opportunity to address the following areas:

1. Understand how Net Zero targets impact their acquisition strategy.
2. Understand the regulators position on Net Zero and the implications on the company and its customers.
3. Find out if there are any incentives offered to assist companies to meet Net Zero targets by 2050.
4. Understand the remaining life cycle of existing coal assets and the retirement schedule.
5. Encourage Power Assets to accelerate retirement of coal assets and to disclose new timelines and targets.
6. Understand main contributors of scope 1 and 2 emissions.
7. Understand how long gas will be a transition fuel.
8. Understand the challenges of green hydrogen becoming the replacement of natural gas and the corresponding implications on customers and businesses.
9. Challenges around carbon capture.
10. Challenges in connecting renewables to the grid.

OUTCOME of ENGAGEMENT:

1. Understand how Net Zero targets impact their acquisition strategy.

Power Assets acquisition strategy comes down to the economics of the business and the valuation. If the opportunity is attractive, they invest. They have done 3 acquisitions of renewable assets in the UK in 2024. There are a number of options on the table, including renewables, but they must be value accretive acquisitions. From a risk perspective, they will not invest in coal. As for other renewable projects, acquisitions will depend on the valuation and return of the project. They utilise ESG screening for M&A which excludes the negative emitting projects.

Some people believe gas is not a clean enough fuel, however it will be a very important intermediary fuel for the next few decades. There will be huge implications on the supply chain and big cost pressure if governments try to eliminate gas in the next 10 years. Power Assets see gas for heating as clean enough.

Power Assets recently acquired a gas distribution business in Northern Ireland. A lot of houses there still use oil for heating. They will cut emissions by 50% by switching customers from oil to gas.

Power Assets does not want to do upstream hydrogen production. They will collaborate with other players to promote green hydrogen into their existing networks. Energy reliability from green hydrogen is not the best. They continue to work with the industry and regulators to support more green hydrogen development.

2. Understand the regulators position on Net Zero and the implications on the company and its customers.

The transition to Net Zero differs between countries. There have been a lot of political changes recently. The Labour party in the UK seems more focused on green energy on the surface, but they await their plan. They need to have the government's full support to continue with energy transition.

Power Assets electricity networks play a key role in continuing to decarbonise the economy, and their capex will continue.

For their electricity networks, they see a higher for longer capex requirement. As for the cost implication, customers will have to bear more on T&D charges, so that they can make a reasonable return. For the UK, they don't think full electrification is ideal. It will lead to a huge jump in cost. There is a need to balance affordability with Net Zero. Labour have brought forward their Net Zero targets to 2030 from 2035, which was the Conservatives target. They need to think about the implication of this. The government needs to accommodate and encourage more investment. If the returns are low, then no-one will do it.

For renewables, Power Assets does not have a big presence, but are buying more in the portfolio. There is a lot of green energy demand so they will now strike long term offtake agreements themselves.

Overall, the regulator needs to ensure a viable return for operators, but ensure customer bills are manageable.

3. Find out if there are any incentives offered to assist companies to meet Net Zero targets by 2050.

There are no incentives, more obligations. Operators need to align with each country's position on Net Zero. Governments need to have the right policies and regimes in place for the operator to follow. The UK and Australian regulators have incentive mechanisms for green energy and renewable power. For the electricity network, they have to stick to a formula to get a reasonable return. Load management grid enhancements have to happen. Green hydrogen development in the UK has hit a crossroad and the government is not sure to invest heavily or to just keep it going.

4. Understand the remaining life cycle of existing coal assets and the retirement schedule.

Power Assets have coal fired assets at Hong Kong Electric. There is also one more coal asset in China which is 45% owned. This coal plant has an end of life in 2033.

Hong Kong Electric has 4 remaining coal units, which will be phased out over the next 11 years. Over the next 2 years, they will retire another 2. The remaining 2 will be retired before 2035. The speed of retirement depends on whether they can source base level nuclear power from China. Globally, people and governments recognise that nuclear will need to be the base load power source to achieve Net Zero.

Hong Kong Electric has a clear pathway to Net Zero by 2050. Hong Kong Electric's new L11/L12/L13 plants are hydrogen compatible. In 10 years time, if they can get green hydrogen to Hong Kong, they can likley switch from gas to hydrogen straight away.

Another option for Hong Kong Electric is to cherry pick places for likely renewables, but that can only play a small role, as it will be very expensive. Offshore wind in Hong Kong would be expensive due to high construction costs. The more affordable solution is nuclear in the near term. CLP also have a dedicated offtake agreement for nuclear power in China. Power Assets is also in discussion with Chinese nuclear players for Hong Kong Electric.

Nuclear waste, issues, and incidents will need to be looked at from a risk management perspective though.

5. Encourage Power Assets to accelerate retirement of coal assets and to disclose new timelines and targets.

Pyrford encouraged Power Assets to update their disclosures and targets having met their current targets in 2023. Pyrford spoke about potentially accelerating retirement of their coal assets, which in Hong Kong Electric's case, is a function of sourcing nuclear power from China. For the 45% investment in the China Coal plant, this will not be retired early as they are the minority investor.

6. Understand main contributors of scope 1 and 2 emissions.

Power Assets coal fired assets generate the majority of their Scope 1 emissions. There will be a material reduction when coal power generation stops.

7. Understand how long gas will be a transition fuel. Is the aim to replace natural gas completely over the medium term?

Gas will be the transition fuel for another 2 decades at least. They can generate green hydrogen today, but it is very expensive. Electrolysis uses a lot of power. It is doable, but it is not cheap. It is a function of how they can reduce the cost curve. As their role as a gas distributor, they need to show the regulators that hydrogen is safe. The industry has already proved this at Hong Kong Electric and China Gas. They are using more than 50% grey hydrogen now, which comes from naphtha. This has been blended into their gas network already without any safety issues.

Transmission networks need to replace cast iron pipes with PVC pipes, which will not rust. They have enough support and it is now down to the cost side to get it commercial. For green hydrogen, there is a lot of rationale to make it happen. Gas as a form of energy is critical for a number of applications. Some industries can't be run off electricity, e.g. cement and steel production. You cannot heat a furnace to over 1000 degrees with electricity - it is too inefficient.

The aim is to replace natural gas over the medium term. That is the commitment and that must be the direction. They need to make the networks ready for it to happen.

8. Understand the challenges of green hydrogen becoming the replacement of natural gas and the corresponding implications on customers and businesses.

The main challenge is cost which is 90% of the problem. Technology is not the issue. They are testing the blending of green hydrogen phase by phase. They believe customers will need to replace their boiler eventually. As for them, there will be little investment in the transmission network apart from replacing old pipes for PVC. 20% blending is in place now under which appliances work fine. The governments need them to blend phase by phase. To date, there have been no reported issues from customers regarding the 20% blending.

For a business, they need to invest either way. For full electrification, they will need to buy an electric furnace. Businesses are more mindful on future energy cost and by how much green hydrogen will impact their bills.

9. Challenges around carbon capture.

Power Assets has a waste to energy plant in the Netherlands which has a government subsidy for their carbon capture project to capture CO2 when they burn waste. For their carbon capture (CCUS) project, they are sending CO2 to a greenhouse which needs carbon. They also send it to another factory to make dry ice. They also have another project to capture and send carbon into storage underground. This is quite difficult as it is too expensive. They need government support to make it happen.

10. Challenges in connecting renewables to the grid.

This is not a big issue in the supply chain. They need to order incremental equipment to connect these assets to the grid. They just need to spend more. Once these renewable projects are connected, the demand and supply loading changes more frequently. They then need to spend more on better systems to monitor the two-way energy flows, otherwise it can lead to blackouts. The regulator understands this, so they can invest more into the network.

TAKEAWAYS: No further steps planned. Power Assets is moving in the right direction for Net Zero by retiring coal plants, investing in renewables, and modernising their distribution networks.

COMPANY: Rubis **COUNTRY: France** **HOLDING: Yes**

ISSUE: Supervisory Board composition

BACKGROUND: Rubis distributes LPG, bitumen and other petroleum products in Europe, the Caribbean, and Africa. In 2022 it acquired Photosol, a leading French solar energy company.

Over the last few years the share price performance of the stock has been weak, in contrast with the strong underlying financial performance of the company.

Rubis is a 'partnership limited by shares.' This is a hybrid between a partnership and a limited liability company. The capital and ownership of the company is divided between shareholders who have limited liability and several partners who have full liability for the remainder of the company's debts.

The past year has seen the emergence of new shareholders revealing that they own 5%+ of Rubis' shares: the Bollore Group via the Compagnie des Terres Rouges holding company, Mr Partick Molis via Compagnie Nationale de Navigation, joined by Mr Ronald Samann, a long-time shareholder who passed the 5% threshold in April 2024. The aim of these shareholders is to shake up the company's governance and potentially its limited partnership structure.

In advance of the Annual General Meeting in June, Pyrford held a call with Mr Nils Christian, the recently appointed Chairman of the Supervisory Board, on 14th May 2024.

PURPOSE of ENGAGEMENT: The objective of the most recent engagement was to evaluate Mr Christian's improvements to Rubis' governance structure to date and to discuss specific items on the AGM agenda, including succession issues, scrutiny of the M&A process, and concerns over remuneration policy.

OUTCOME of ENGAGEMENT: Mr Christian explained the advantages of Rubis' 'partnership limited by shares' structure; it allows Rubis to enact a long-term strategy without pandering to the shorter term needs of speculators in the stock. Mr Christian stated that 'family companies perform better, especially of this size', although he took the counter-point that often the best performing ones have external management in charge.

He suggested that the two founding General Partners would likely retire by 2028 and that an external candidate is 'not impossible' to help Ms Clarisse Gobin-Swiecznik before that date. We were reassured by this comment and will closely monitor developments here.

On the topic of M&A, Mr Christian stated whilst the Group Management Committee overseas acquisitions, the final decision lies with the three General Partners (GPs), and that Ms Gobin-Swiecznik drove the move to acquire Photosol and Hydrogen de France. When it was pointed out that the latter had been a very poor acquisition to date, Mr Christian suggested that it is a 'seed project' and a 'long-term investment'. Our concerns remain, and we will be looking for a more rigorous breakdown of Rubis' M&A process going forward.

On the topic of remuneration, Pyrford pointed out that General Partners get paid for their Chairmanship role of the subsidiary companies, close to 45% of their total pay, which escapes the 'Say on Pay' review. Mr Christian pointed out that the absolute amount of statutory compensation is 'modest' by peer comparisons. However he did state that the Supervisory Board has evolved over the past year and half and will look at this issue.

Pyrford also questioned the partnership dividend. The formula includes a 3-year-high water mark component, whereby if the share price reaches €32 by the end of 2024, the dividend to the General Partners will be 10% of net income after tax. We think that this is disproportionate in view of the absolute and relative underperformance of the stock in the past 5 years. It was suggested to Mr Christian that the formula should be re-visited, for instance, by bringing the cap down to 5% of net income versus 10%.

The AGM took place on 11th June 2024. Pyrford voted against the re-election of Mr Olivier Heckenroth to the Supervisory Board, against the remuneration package of two of the General Partners, and for the appointment of Mr Philippe Berterottiere (CEO of GTT) and Mr Ronald Samann to the Supervisory Board.

Mr Samann was elected, though the other resolutions were rejected despite some of them attracting over 40% of shareholder votes.

TAKEAWAYS: We are pleased with the election of Mr Samann to the Supervisory Board, and we are encouraged by the open dialogue we have been permitted with Mr Nils Christian.

Over the coming 12 months we plan further dialogue on the issues mentioned above, and would like to see some concrete evidence of improvements in governance and supervision over this period. We believe the stock in hugely undervalued due to these governance concerns, and management needs to act swiftly to address them.

COMPANY: BP **COUNTRY: United Kingdom** **HOLDING: Yes**

ISSUE: Hydrogen implementation

BACKGROUND: BP is a global hydrocarbons producer with ambitions to move towards a greener portfolio of energy assets over time.

This ambition has been diluted in recent times as the company has sought to balance the requirements of the Energy Transition with the needs for making adequate returns for shareholders on projects that enhance decarbonisation.

Hydrogen is one of the five transition growth engines that BP have identified alongside bioenergy, electric vehicle charging, convenience (fuel retail sites) and renewables.

PURPOSE of ENGAGEMENT: The aim of the engagement was to get an update on the company's thoughts on the role that hydrogen would play in the global Energy Transition.

In addition, the intention was to examine the ambitions that BP have for making use of hydrogen in its own strategy when seeking to adhere to its Net Zero targets that have been communicated to the market. The prominence of hydrogen at BP appeared to have been downgraded earlier in the quarter when BP scaled back their ambitions from undertaking 30 hydrogen-related projects to a more modest 5-10 projects in the medium term. This was an opportunity to get further insight into the remaining hydrogen projects, as well as the divested projects.

OUTCOME of ENGAGEMENT: The discussion began with an examination of the prominence of hydrogen in the move to decarbonisation. BP are of the view that hydrogen will continue to be an essential part of industrial decarbonisation especially in the form of fuel for heavy vehicles and shipping. However, they do believe that the time frame over which this will occur has become elongated. This was the primary motivation behind reducing their immediate commitment to the gas that was seen in December 2024.

Originally, when BP communicated how it was going to incorporate hydrogen into its strategy, it envisaged three components. First, BP would produce sufficient blue or green hydrogen for its own refinery related needs – BP currently uses 450,000 tonnes of grey hydrogen in its operations per annum. Second, in addition to its own requirements, BP would develop regional hubs where it could sell hydrogen to third parties on industrial sites where their refineries tend to be located. Finally, there would be greenfield sites that would be developed at scale to provide green hydrogen production for the wider needs of the economy.

Now, BP is talking about concentrating on the first of these ambitions in the immediate future, using hydrogen in their refinery complex that's partly produced using their carbon capture capability. The reason for the slower adoption of hydrogen has several features. The pace of the development of the supply ecosystem has not progressed as quickly as originally anticipated. Consequently, the cost of the electrolysers involved in the production of clean hydrogen has not fallen as quickly as expected and this has made it difficult to allocate finite capital effectively going forward. Progress has also been slowed by a mix of other factors; the level of subsidy support for projects provided by governments has not always been as forthcoming as required; the growth in end market demand for hydrogen as a fuel for transport has been modest; and the financing for projects has become more expensive as interest rates have increased.

BP is very clear that their grand ambitions for hydrogen have been delayed rather than permanently abandoned. The company state that they have not cancelled any existing projects, but they have decided not to take up the option to develop some potential projects that they had in the pipeline. The time frame in which to realise their original hydrogen ambitions has been extended.

With their existing projects, BP will continue with the more competitive projects that are supported by the respective governments. These are currently located in places like Spain, UK, and potentially the US, depending on the actions taken by the incoming administration. They were positive about their carbon capture capability and the role it will play in building a blue hydrogen capacity in Teesside operations.

Regarding their remaining growth engines, BP is directing their attention towards bioenergy and biofuels, which they believe will offer competitive returns. In a similar vein to hydrogen, they have narrowed their focus on EV charging to 4 key countries that present the best opportunity for them. BP has also recently entered a joint venture with JERA, which will increase its renewable capability from offshore wind in a capital-light manner.

BP still believe they have the core skills necessary to participate in the growth of hydrogen demand whenever it transpires and become a player in the market. The company notes that hydrogen can be a hazardous substance and that they have a long track record of working with such materials. BP also see themselves as possessing core skills such as the engineering capability, project delivery expertise, and relationships that facilitate permit origination that allow projects to come to fruition.

TAKEAWAYS: BP have not been the only company to discover that the prominence of hydrogen as an enabler of the Energy Transition has been delayed. Originally, BP were targeting the production of 0.5-0.7 million tonnes of hydrogen per annum by 2030. This target will be revised, although there has been no explicit replacement communicated at this time.

We will continue to observe the extent to which the company uses hydrogen as a means to achieving its wider decarbonisation objectives. This will include investments at all stages of the project cycle, from origination to delivery. No official capital expenditure guidance has been provided in relation to levels of hydrogen investment.

The central message from BP is that there is currently a renewed focus on value in its capital allocation policy. As such, hydrogen has become a less prominent driver for the group in the current environment.

COMPANY: Wolters Kluwer **COUNTRY: Netherlands** **HOLDING: Yes**

ISSUE: Executive remuneration

BACKGROUND: Wolters Kluwer is a global provider of information, software, and services for industries such as healthcare, tax, accounting, finance, and legal. It provides content and integrated technology solutions to assist professionals in managing workflows.

Under Dutch law, shareholders should have a binding vote on a company's remuneration policy in respect of its directors at least every four years. The vote for Wolters Kluwer's proposed remuneration policy will take place at their next Annual General Meeting (AGM) in May 2025. The firm is seeking to amend the long-term incentive plan (LTIP) for executives, by decreasing the weighting of relative total

shareholder return (TSR) and increasing the weighting of diluted adjusted EPS. Ahead of this AGM, the firm has started to consult with shareholders to gauge their interest and provide further context to the proposed change. This added context is potentially needed, as Dutch law requires a 75% majority of votes cast to accept changes to remuneration policies.

This was an opportunity for Pyrford to review the rationale behind this proposed change and voice our reservations over such adjustments.

PURPOSE of ENGAGEMENT: The aim of this engagement was to understand the rationale behind the proposed change and voice our reservations over such adjustments.

OUTCOME of ENGAGEMENT: We began with covering the proposed changes to the LTIP. They explained that in 2021, several shareholder friendly changes were made to the remuneration policy, including cuts to the CEO's compensation. Subsequent to that, they were not inclined to make many changes to remuneration. The proposed changes to the policy were on the back of a benchmarking exercise, as well as taking into consideration feedback from shareholders. The benchmarking exercise pointed towards their TSR weighting being high relative to peers in the market. They also had some shareholders criticise TSR being used as a measure of performance. Their intention with this change is to decrease the weighting of TSR from 50% to a range between 30% and 50%, offsetting that with an increase in weighting of diluted adjusted EPS.

We questioned the exact percentages that will be applied for this, and how often they would evaluate and adjust these within the 30%-50% range. They noted this would only go live starting in January 2026, as they won't retrospectively amend the existing policy that will still be in place in January 2025. The reason they want a range is to provide them flexibility to lower it over the next four years. They haven't decided how quickly they would like to decrease the TSR weighting, or if they would decrease it all the way to the minimum percentage (30%), as they are still awaiting feedback from shareholders.

We then discussed the rationale behind this decision. They reiterated that it was as a result of a benchmarking exercise performed by an external adviser, as well as feedback from shareholders. We queried the shareholders that were voicing their concerns over TSR as a measure and if there was a particular type of shareholder that was against it. They mentioned they have a global shareholder base with varying views on this. For the most part, there wasn't an obvious type of shareholder requesting this, however investors from France seem to be less inclined to have TSR as a measure. The reason provided by these shareholders is that TSR can be out of management's control and the share price movement can be due to market circumstances.

We acknowledged that there's no perfect standard remuneration policy and it should be considered on a case-by-case basis. We raised our reservation about companies moving away from metrics relating to share price towards accounting metrics, and that there is potential for companies to manipulate these. They responded by saying they have kept the formula for EPS steady for many years now. They believe keeping restructuring costs included in the figure provides a fairer, more conservative reflection of the EPS figure. They mentioned that that their adjustments, mostly amortisation and disposals, are in line with their peers. They also noted that share price appreciation or depreciation is partly a function of EPS. We agreed with that sentiment, however raised that the flipside to that could mean less attention is paid on market sentiment and competitiveness.

We commented that EPS figures can also be influenced with items like share buybacks, and Wolters Kluwer have actioned several over the past year. They noted that the buybacks are included in the first year's target. For subsequent buybacks, the board has discretion to include or exclude the buybacks in targets for years two and three. They mentioned that the recent buybacks haven't enhanced EPS greatly.

Part of the rationale for the change in policy was to align with market practices. We asked them to expand on this to get a better idea of the factors that lead them to this. They noted that, as with other policies, remuneration policies evolve, as well as investor's attitudes towards these policies. Years ago, TSR was deemed to be a good measure of management performance, but recently there's been a shift away from this view. They want to ensure they are consistently improving and staying in line with current practice.

We then queried what accounting safeguards are currently in place. Besides external auditors, they reiterated that their formulae for accounting metrics have stayed constant for many years and there haven't been changes to any definitions.

We were interested where the proposed change initiated from. The supervisory board is responsible for initiating this. They perform routine benchmarking exercises to ensure target pay is aligned and competitive. In the current review, they primarily focussed on LTIP weightings and ESG, and chose TSR to re-weight, as it was clear it was high.

We asked whether they've calculated the compensation packages retrospectively and what impact this would have on total remuneration. They noted that they performed an independent analysis and there's minimal impact to compensation, somewhere between 2%-3%.

To conclude this engagement, we asked what kind of feedback they've received from shareholders thus far in the consultation. They mentioned it was largely supported by their shareholders, however there was a portion that shared similar reservations to us, especially regarding the ranges, as opposed to exact weightings. Their remuneration committee have acknowledged this feedback and will deliberate over it ahead of the next AGM in May 2025.

TAKEAWAYS: We are pleased with the opportunity this engagement provided to gain clarification on the rationale of the proposed changes to the policy. It provided us with the necessary background to make an informed decision when voting at the AGM in May 2025.

We will closely monitor this leading up the AGM, as it is subject to change. If we deem it necessary, we will reach out to Wolters Kluwer to provide further details.

COMPANY: Amcor **COUNTRY: Australia** **HOLDING: Yes**

ISSUE: Plastics reduction

BACKGROUND: Amcor is the leading global packaging company. It develops and produces flexible and rigid plastic packaging and speciality cartons for food, beverages, pharmaceuticals, medical-devices, and home and personal care products. Plastic is the key substrate, accounting for ~75% of Amcor's packaging materials.

The ubiquitous use of plastic has come under scrutiny in recent years, due to concerns over its environmental impact. It is estimated that over 12 million tonnes of plastic is dumped in the sea every year, with 5.25 trillion macro and microplastics now thought to be floating in the open ocean. As a result, 100,000 marine animals and 1 million sea birds are killed by marine plastic pollution every year, and 1 in 3 fish caught for human consumption now contain plastic.

PURPOSE of ENGAGEMENT: The objective of the engagement was threefold: (1) to ascertain whether Amcor takes this issue seriously, given the major role it plays in the plastic supply chain globally, (2) to learn what Amcor is doing to address the environmental impact of plastic, and (3) to analyse whether this jeopardizes Amcor's business.

OUTCOME of ENGAGEMENT: Our discussion began by looking back to when the tide had started to turn on plastic. Damien Bird referred to David Attenborough's Blue Planet documentary, released in 2018, which sought to raise awareness about plastic pollution in oceans and rightly ignited rage on the matter. From this point onwards, public discourse and sentiment started to shift, which at the fringe led to a backlash against single-use plastic bags, and also incentivized regulatory change at a larger scale. Today, the consensus solution is focused on preventing plastic ending up in the environment and thus encouraging recycling and reuse, rather than stopping the use of plastic altogether. Alternatives, such as glass and aluminium, are not always a practical substitute and their weight can actually mean transporting products is more carbon intensive.

The regulatory backdrop still varies considerably by region. The UK has some of the most extreme policies, having implemented a tax on non-recyclable plastic. The EU is planning to harmonize regulations with overarching legislation from 2030. This will specifically set targets for reducing packaging waste, specific design requirements, and criteria for Extended Producer Responsibility (EPR) schemes that reward more sustainable packaging. Regulation in the US has thus far been implemented on a State-by-State basis. Amcor is supportive of these changes and did not express any concern over negative consequences for its business.

Rather, Amcor has actually played a leading role in setting industry standards, upon which many regulations are based. In 2018, Amcor signed up to the Ellen MacArthur Foundation, which aims to accelerate the transition to a circular economy. As the first plastic producer to do so, Amcor was given a seat at the table and led on recyclability definitions. For example, it was decided that PVC shouldn't be included in plastic packaging, given how difficult it is to recycle, and that if a product is to be labelled as polyethylene, then it must contain a certain percentage of this material. More uniformity in plastic packaging is critical in advancing recycling, as it makes waste collection and sorting simpler. Amcor's visibility and say in setting standards also has clear operational advantages at a company level. As a signatory, Amcor has committed to ensuring that all of its packaging is recyclable or reusable by the end of 2025.

Damien frequently referred to products being 'technically recyclable'. When questioned, he explained that this meant that although products could be recycled, the infrastructure may not exist to facilitate this. In Amcor's view, to avoid a 'chicken and egg' situation, it is better to continue advancing recyclable packaging to encourage infrastructure providers to invest. That said, Amcor is not just waiting idly on the sidelines and does partner with infrastructure companies to accelerate that investment. For example, it has collaborated with a waste collection company in Indonesia, to help them rollout curb-side collection and educate consumers. The latter raises another obstacle, customer behaviour. When combining this and inadequate infrastructure, although 75% of Amcor's portfolio can be recycled, data from the WWF shows that only 20% is currently. There is thus ample room for improvement.

The conversation then moved to Amcor's own product portfolio. Amcor has an annual R&D budget of $100mn which, in the majority, is allocated to developing more sustainable products. Over the last few years, Amcor has launched four key platforms: AmLite, AmFibre, AmSky, and AmPrima to improve the recyclability potential of flexibles packaging. To expand on one, AmFibre aims to address issues where paper is being used but can't actually be recycled, such as paper coffee cups that are typically lined with wax or plastic to prevent leaks. AmFibre is a recyclable paper, which doesn't leak and thus can be used in its place. Amcor guided that around 89% of its current products could be produced using these new platforms, but there is still some work to be done on certain medical packaging. Despite the high R&D spend, these platforms will be margin accretive for Amcor given the price premium that these new products warrant. Peers across the industry are also stepping up to the challenge of creating more environmentally friendly packaging, but none at the same scale as Amcor. Damien thought that we could see industry consolidation, as the smaller players struggle to keep up with the pace of innovation.

In sum, it is evident that Amcor take this matter seriously. The company has signed up to global initiatives, partnered with organisations committed to the cause, and invested millions in developing more sustainable packaging. Amcor's business is evolving, rather than becoming less relevant, and the company will play a major role in the recyclable plastic packaging supply chain for years to come.

TAKEAWAYS: We will continue to monitor Amcor's progress, particularly as regulation becomes more stringent and further studies are carried out on the adverse impacts of plastic. We would hope that Amcor manages to meet its target that all packaging is recyclable or reusable by the end of 2025, and that further goals are set if this is achieved.

COMPANY: Philips **COUNTRY: Netherlands** **HOLDING: Yes**

ISSUE: Patient safety

BACKGROUND: Philips sells health care equipment and services. The company is a global leader in several segments, including diagnostic imaging, image-guided therapy, ultrasound equipment, monitors, and sleep & respiratory care. Philips also sells oral care and personal care products to consumers.

In June 2021 Philips Respironics, initiated a voluntary recall for some sleep and respiratory care products to address potential health risks related to polyester-based polyurethane (PE-PUR) sound abatement foam in these devices. The company subsequently launched a major programme to repair or replace all the affected devices. Philips also conducted a major test and research programme to better understand the potential patient health risks. Philips faced several legal claims for economic loss, personal injury, and medical monitoring litigation in the US. The company reached agreement with the US government on a consent decree in 2024.

PURPOSE of ENGAGEMENT: The aim of this engagement was to understand the steps taken by Philips to improve patient safety.

OUTCOME of ENGAGEMENT: Philips launched a new strategy in 2023 where patient safety and quality became the "highest priority". In the meeting, Philips explained the steps taken to achieve the new strategy. This includes revising the quality management systems; streamlining workflow to reduce the time it takes to react and close a problem; embedding safety into the design control of all new products; and the expansion of the internal audit function to identify and address problems sooner.

When we questioned them about their high number of recalls compared to the industry average, they mentioned that the added scrutiny on patient safety from their new strategy could be a contributing factor to this. Under this strategy, their firm-wide regulatory and compliance reviews, across the lifecycle of their products, are identifying more issues, earlier. Another factor, which applies to all industry peers, could be the increase in the total number of patients and the speed of innovation in technologies.

The intangible changes are arguably even more important as the CEO Roy Jacobs, appointed in 2022, has tried to change the culture at Philips. This includes a new patient safety and quality chief (Steve C de Baca), who has been added to the executive management team. He is prioritising cultural change and accountability. 10,000 positions were cut across Philips to improve efficiency, but the company has added approximately 1,000 people with medical device and health tech backgrounds. A high percentage of the executive management team has been replaced with people that have a background in the medical device industry. Patient safety is now a key performance indicator (KPI) for everyone in the company to view, including the CEO. All employees now have safety and quality components added to their training and surveys, and all employees take a day off across the organisation to discuss patient safety and quality.

We questioned whether the Board has increased their oversight over patient safety and if any changes have occurred considering the new strategy. They mentioned that although the Board deem it very important, this new strategy needs to be predominantly executed by the workforce. However, given the importance of the issue, Philips has established a patient safety and quality committee within the board.

Philips had a reputation as an industrial conglomerate with lots of bureaucracy and inefficiency. The hardest challenge will be to change the culture at the company. The new CEO has tried to do this with a new organisational structure and operating model. We held a separate 1-1 meeting with the CEO and new CFO Charlotte Hanneman, in October 2024 where they explained some of the changes. The move away from a complex matrix structure with more responsibility given to business leaders should help to drive a culture change towards greater accountability.

TAKEAWAYS: This meeting was useful to understand the tangible and intangible steps taken by Philips to improve patient safety. There is no doubt that product recalls and safety issues are an occupational hazard in medical technology. We cannot rule out the possibility of further problems but feel that Philips has taken the correct steps to reduce the risks associated with selling products and services in this industry.

We will continue to monitor the progress made by Philips. There is huge potential upside for shareholders if the company can deliver on the current strategy.

COMPANY: National Grid **COUNTRY: United Kingdom** **HOLDING: Yes**

ISSUE: Connection of EV infrastructure

BACKGROUND: National Grid is a utility that owns and operates gas and electricity transmission and distribution networks in the UK and the North Eastern US.

The engagement was intended to focus on the central role that the electricity network infrastructure owner plays in the UK effort to decarbonise the economy.

PURPOSE of ENGAGEMENT: The aim of the engagement was to get details on the progress made towards the provision of EV charging

infrastructure. This is crucial to providing consumers with confidence that the range anxiety, historically associated with owning an EV, is no longer warranted.

Specifically, the intention was to explore the impediments to progress and to examine whether there had been any material shift in the company's commitment to provide this essential infrastructure.

OUTCOME of ENGAGEMENT: We began the discussion by questioning whether there had been any change in investment plans or commitments to expand EV infrastructure. It was noted that a slowing of the pace of EV adoption had been observed in the UK on the back of concerns about the depreciation rate of vehicle values, the cost of repairs, battery life, range anxiety, and price. National Grid contended that the current adoption rate lay within their existing range of expectations, so there had been no dilution of the commitment to provide infrastructure to support 1.5 million EVs by 2028.

We asked about the quality of the relationships between the main stakeholders who will need to work together to achieve a smooth energy transition; government, OFGEM (the regulator), the ESO (Electricity Systems Operator) and National Grid itself. Those relationships were described as healthy, characterised by open, constructive conversations, which will make the achievement of goals much more probable.

Next, we turned to the biggest impediments that threatened the successful delivery of the plan. The key factor identified as the biggest barrier to deployment was the delays to grid connections that are being experienced in the UK. This is a legacy of the system being designed in an era when the need for new connections were few and far between; power stations were only rarely commissioned and this meant that a "first come, first served" approach to connection was adopted. This principle has caused a plethora of proposed projects to clog up the system in the current environment. Some of these projects are unviable and represent so called "zombie" projects. They retain a place in the queue in the hope that other parties will monetise this for them by buying them. The sheer number of proposed projects makes it difficult to get visibility on what network investment needs to be prioritised to connect the most mature projects. This is what leads to connection delays. A crucial element in the successful delivery of the planned rollout of EV infrastructure will therefore be the reorganisation of the current connection framework to establish a "first ready, first connected" approach.

This queue management can be improved using a variety of tools. Increasing the barriers to entry to the queue will filter out some of the more speculative projects; proof of land ownership, planning permission, and adequate financing should be required to claim a place in the queue. The introduction of milestones that are necessary for a project to hit to retain a place in the queue will also help. Giving National Grid the ability to prioritise "strategic" projects that are crucial to enabling the anticipatory investment required would also assist an orderly transition to green energy. Another possible aid that has been mooted has been the concept of community compensation. This would reward local communities for any inconvenience caused by the reconfiguration of the electricity network.

These initiatives are at varying stages of the approval process and time will tell how many of them are successfully adopted. However, the direction of travel looks promising.

TAKEAWAYS: The energy transition is a key opportunity for National Grid to grow its asset base as it connects renewables to the grid and ensures a changing pattern of demand (including EV charging points) is adequately catered for. As such, the connection question is central to both the investment thesis and the ESG credentials of the company.

We will continue to monitor how progress develops, as this will be a multi-year journey.

COMPANY: Sumitomo Rubber **COUNTRY: Japan** **HOLDING: Yes**

ISSUE: Tyre particulate matter and EUDR preparedness

BACKGROUND: Sumitomo Rubber is a global tyre and rubber company based in Japan. It specialises in producing a variety of rubber-based products, including automobile tyres, golf balls, and tennis balls.

The European Union introduced the Deforestation Regulation (EUDR) in June 2023. This regulation aims to ensure that products placed on, or exported, from the EU market are not linked to deforestation or forest degradation. It requires companies to confirm that products like beef, wood, cocoa, soy, palm oil, coffee, and rubber are not linked to deforestation. The regulation will achieve this through stricter traceability and due diligence requirements.

The EUDR has postponed its enforcement from December 2024 to December 2025. Nevertheless, it's crucial that Sumitomo Rubber is well-prepared to comply with this regulation, as penalties for non-compliance range from fines (up to 4% of annual EU turnover), to product seizures and temporary exclusion from the EU market.

PURPOSE of ENGAGEMENT: The objective of this engagement was to evaluate their readiness ahead of the enforcement of the regulation, and the associated cost implications of complying with it.

OUTCOME of ENGAGEMENT: We began with a broad discussion on the regulation and the current and potential impacts it will have on Sumitomo Rubber. They mentioned it will have a negative impact on costs for their sales across the EU. This doesn't only apply to their tyres, but additional items like repair kits and other rubber products. The increase in costs is as a result of only procuring premium natural rubber that they are able to trace accurately, and that will meet the specific requirements of the regulation.

We questioned whether the cost of the premium rubber would be passed onto global customers or only allocated to EU customers. They said that for now, as it's an EU regulation, that they will pass the costs onto EU customers.

It was raised that their targets for sustainable raw materials is 40% by 2030 and 100% by 2050. We questioned if they had the necessary resources and capacity to surpass these figures if more regions were to start adopting regulations similar to this. They mentioned that the EUDR relates to natural rubber sourcing, and it will be a function of supply and demand. For this regulation to work, there first needs to be available supply. For that reason, we need to view their ability to cope with this regulation differently to how they will manage their sustainability targets.

We queried if they were any material impediments or issues when trying to satisfy the requirements of the regulation. We noted that 85% of their sourcing is from smallholders, which must make detailed traceability an arduous process. They mentioned that there were a few big disruptions in the beginning of the process relating to farms in Indonesia, where they were falling short of meeting the requirements. To remedy this, they had to shift sourcing from this region to places like Thailand and Cote d'Ivoire.

Their reporting mentioned that that they are focussing on system development and broadening their industry collaborations to address this regulation. We asked them to expand on this and any other items they might be pursuing. They noted that they created a project team to deal with this regulation, with representatives from procurement, materials, sales, factory, and systems, to establish the risk management framework, which allows them to trace their products without any issues.

We inquired into whether they were confident that their methodology would satisfy and match the specific requirements of the regulation. They assured us that their methodology would comply, as it was purpose-built based on the guidance from the EU (as opposed to adapting current processes and systems).

Finally, we asked if there are any ongoing costs associated with this now that they've dealt with the regulation and established a risk management team. They mentioned there were no more significant costs from here onwards, as they were prepared for this to become mandatory in December 2024.

Turning to the follow-up on particulate matter. The company has mentioned that the Tyre industry has created an association to jointly try and address the technical challenges presented by heavy EVs and the resulting tyre particulate matter. Sumitomo has developed a new active tyre composition which changes function according to weather conditions and they think this should be able to also improve the wear characteristics of an EV tyre.

TAKEAWAYS: We are comfortable that Sumitomo Rubber have taken the necessary steps to ensure that they will satisfy the requirements of the regulation. Like others, they were under the impression that this regulation would be enforced in December 2024, which means they have already absorbed the upfront costs of complying with the regulation, including assembling the relevant teams and systems needed to address it.

We believe no further engagement is needed to assess their readiness ahead of the enforcement of the regulation. However, we will continue to monitor this, as conservation of biodiversity is gathering momentum globally. We will need to ensure that they have the capacity to scale their processes and systems should other regions follow suit.

Pyrford's environmental policy

At Pyrford, we are committed to limiting the impact of our business operations on the environment and to demonstrating leadership by integrating environmental considerations into our wider business practices.

To finish, we would like to share with you how we consider sustainability at Pyrford within our everyday working practice. Broadly speaking, our approach is across four main areas of our operations: premises, travel, recycling, and consumables.

Premises: In July 2023, Pyrford moved into a mixed-use building at 7 Seymour Street, London, W1H 7JW. The commercial portion of the building achieved an "outstanding" rating from BREEAM (Building Research Establishment Environmental Assessment Method), placing it in the top 1% of all registered non-domestic buildings in the United Kingdom. To achieve this rating, the building must meet the highest of standards of sustainability across energy efficiency, procurement of materials, and responsible specification. The building also obtained an equivalent rating for its residential portion of the property (level 4 from the Code for Sustainable Homes), marking it as the first development to achieve both prestigious ratings.

In addition to this, the development was also shortlisted for a BREEAM award in the Western Europe category.

Travel: 7 Seymour Street was selected by Pyrford due to its easy accessibility via public transport and the provision of cycle storage, along with shower and change facilities. No parking is provided to employees, most of whom arrive on foot, bicycle or by public transport.

Though travel to clients and research opportunities remains an important aspect of many Pyrford employees' work, video conference facilities have been installed in several meeting rooms to avoid the need for it when possible. Following the great success of implementing video conferencing throughout the COVID-19 pandemic, this has been utilised more frequently, cutting non-essential travel where possible. All travel that is undertaken is monitored to optimise itineraries.

Recycling: Within the office, all cans, PET bottles, glass, and print toner cartridges are collected for recycling. Spent coffee 'pods' are returned to the manufacturer for reclamation.

Our paper is responsibly sourced, and we engage with our suppliers, ensuring high environmental standards are met. All paper is recycled where possible and we encourage staff to use "soft copy" documentation over printing.

Consumables: Purchases of consumables with high recycled content are favoured when possible.

Contacts

We hope readers find our Annual ESG Report useful and we would welcome comments and feedback for future editions. Furthermore, we would be delighted to meet with clients and peers to engage on any of the issues raised.

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Appendix

Proxy Voting Policies

1.0 Specific policies

The following guidelines are a summary of Pyrford's philosophy on major Proxy Voting Issues.

It is not an exhaustive list and the test of how Pyrford should vote will remain on a case-by-case basis judged by overall shareholder interests.

1.1 Social responsibility

- Proposals protecting the environment must be individually examined. Vote in support of reasonable disclosure type
- proposals. Vote for reports on the extent to which the company conforms with the CERES Principles;
- Proposals regarding nuclear energy must be individually examined. Vote in support of disclosure type proposals;
- Proposals disclosing human rights issues should be supported after being individually examined;
- Vote for resolutions that request the company to develop criteria for military contracts and report on its activities to shareholders;
- Vote against resolutions regarding conversion or diversification into civilian fields, interfere with management prerogatives or demand that the company abandon its military business;
- Vote for resolutions requesting reasonable disclosure of hiring, evaluation and promotion policies and practices;
- Withhold votes from, or vote against, a suggested slate of directors that has been unresponsive to social or
- environmental issues and where corporate performance has been unsatisfactory;
- Vote in favour of proposals for increased regulation in the area of testing and approval of genetically engineered
- foods. Vote in favour of proposals for stronger long-term testing procedures and protocol in genetically engineered foods.

1.2 Board of Directors

- Support having the positions of Chair and CEO filled by separate individuals;
- Vote against cumulative voting unless cumulative voting will provide an independent voice on an otherwise unresponsive board of directors;
- Vote in favour of shareholders being permitted to vote for individual directors rather than as a slate;
- Vote in favour of shareholders being permitted to express their approval of the contribution made by each director;
- Vote in favour of shareholders being permitted to require each director to provide greater accountability of their
- effectiveness on the part of the Board;
- Vote in favour of proposals that boards be comprised of a majority of independent or unrelated directors. Companies should disclose on an annual basis whether individual directors are unrelated directors;
- Vote in favour of proposals suggesting that a board's nominating, compensation and audit committees be comprised mostly or entirely of unrelated directors;
- Vote in favour of confidential voting procedures;
- Vote in favour of the annual election of all directors;
- Vote against increases in the size of the board above acceptable thresholds and when the proposed change might be used as an anti-takeover device;
- Vote against staggered Boards;
- Vote for director liability and against indemnification;
- Vote against or withhold voting for those directors who have a poor attendance record (less than two thirds) at board meetings;
- Where applicable, vote for proposals that are consistent with the following positions:

Diversity
Boards should have members with differing backgrounds and expertise.

Commitment
Individual board members should be expected to attend all board meetings and prepare in advance of the meetings. A director's continued service should be reviewed if he/she does not attend at least two thirds of board meetings.

Number of Directorships
Individual directors should not serve on an excessive number of boards.

Effectiveness
Boards should have processes in place to rate the effectiveness of both the board as whole and individual directors, and be prepared and willing to make changes as necessary.

Terms
Boards should consider establishing a maximum length of service for Directors.

Approach to Corporate Governance
Boards must be willing to engage in dialogue concerning corporate governance practices, establish acceptable corporate governance standards, disclose those standards and regularly evaluate the effectiveness of those standards.

Approach to Shareholders
Boards must ensure there is a corporate willingness to communicate directly with shareholders and disclose information that demonstrates accountability to shareholders. There should be full disclosure of director compensation and meeting attendance.

Proxy Voting
Boards should include opposing views on proxy circulars and should publicly communicate proxy voting results.

1.3 Executive Compensation

- Vote against any compensation measures which can be construed as excessive or likely to diminish the value of
- the corporation;
- Vote in favour of stock option plans, provided that such plans are not excessively generous having given due regard to:
- Stock option plans are intended to tie compensation to performance;
- Options must be priced at a level that conforms to the pay-for-performance principle;
- Any plan that authorises shares representing 10% or more of the existing outstanding shares should not be supported;
- Any plan that authorises shares representing 5%-10% of the existing outstanding shares should be given close scrutiny;
- The price should not be lowered on options already granted in the event of a reduction of share price or market
- under-performance;
- The number of options granted in a given year should be restricted to less than 1% of the shares outstanding
- (or 20% of the options available under the plan);
- Awards to employees/employee directors and to non-employee directors should be allowed provided that
- awards to non-employee directors are non-discretionary, clearly defined, contain fixed issue and exercise rules and do not represent excessive dilution;
- Restricted stock should not be 100% vested when granted. The usual time period is 5 to 10 years. Options
- should have a minimum holding period of at least 3 years before they can be exercised;
- The following forms of stock options should be supported: non-qualified stock options granted at fair market
- price, incentive options, restricted stock with adequate restrictions, performance shares, stock appreciation
- rights and phantom shares (Note 1);
- Support stock option plans with change in control provisions which do not allow for option holders to receive
- more for their outstanding options than shareholders would receive for their shares;
- Oppose change in control arrangements developed in the midst of a takeover fight specifically to entrench management;
- Oppose plans that give the Board of Directors broad discretion in setting the terms of the grant (price, form,
- replacement etc.);
- Support plans that allow employees to acquire stock options with a company loan that is reasonable in relation
- to annual salary and at market rates (Note 1);
- Oppose plans that do not require periodic shareholder approval;
- Oppose Omnibus plans. Shareholders must be able to vote on each component of such a plan;
- Companies should clearly disclose the cost of option plans.
- Vote against 'golden parachutes' that may provide excessive compensation to management and/or materially reduce the value of the company to an acquirer.

1.4 Takeover Protection

- Support plans ("poison pills") to provide the target company with sufficient time to maximise value in a takeover situation;
- Support plans that provide for equal treatment of the shareholders of a corporation with a change of control;
- Do not support provisions ("poison pills") that are designed to prevent a takeover from occurring;
- Do not support plans ("poison pills") which entrench management to the detriment of shareholder interest;
- Support Boards of Directors that:
- Submit major corporate changes to a committee of - independent directors for review and approval;Submit major corporate changes to a vote of shareholders not controlled by management (without impediment);
- Give shareholders ample time for review and enough information (usually audited financial statements) to make informed judgements;
- Do not allow management to short track a takeover bid by using the company's retained earnings or borrowing power to buy up large blocks of stock or by seeking out a friendly third party to buy large blocks of stock without extending the offer to other shareholders;
- Propose a shareholder rights plan with a renewable lifetime of not more than three years at which time the plan must be re-submitted to shareholders for approval;
- Approve only break fees that are computed by reference to the direct costs of the acquirer's bid and do not discourage competitive bids (See previous, Note 1);
- Allow for exemptions for lock-up agreements so that a bid may proceed and not be prevented by a lock-up agreement.
- Vote against shareholders rights plans unless it is determined that a specific plan is in the best interests of the shareholders;
- Vote against 'Crown Jewel' defence proposals unless there is evidence that shareholder interests are protected;
- Vote for "going private" transactions only if shareholder interests are protected;
- For leveraged buy-outs and/or lock-up arrangements which do not meet the above criteria, withhold votes from or vote against the slate of directors at the first opportunity, if it is evident shareholder interests are not protected;
- Vote in favour of re-incorporation proposals that are justified on financial, commercial or economic grounds;
- Vote against re-incorporation proposals that are used as part of an anti-takeover defence or to limit directors' liability.

1.5 Shareholder Rights

- Keep informed about corporate governance issues and manage proxy votes to protect stock ownership rights from
- protection;
- Do not allow a preoccupation with the short-term to interfere with management's ability to concentrate on long-term returns, productivity and competitiveness;
- Vote against proxy systems which do not permit shareholders to vote on issues individually and without links to other proposals;
- Vote against issuance of a new stock with rights beyond those in shares outstanding unless offered on a pro-rata

- basis to existing shareholders before being sold to outsiders;
- Vote against the granting to, extension of or restoration of any multiple-voting privileges held by any officer or
- director of the company;
- Vote for the replacement of dual class shares with one-share, one-vote shareholder democracy, provided that the
- cost of such charge is modest and in the non-controlling shareholders best interests;
- Vote against any super-majority voting requirement that exceeds two-thirds of the outstanding shares;
- Vote against greenmail or equivalent transactions. If no vote is offered on a general transaction, withhold vote from or vote against the slate of directors at the first opportunity;
- Vote against linked proposals where contrary to shareholder interests;
- Vote against share issues or equivalents for which voting privileges have not been defined, such as blank cheque
- preferreds;
- Vote for increase in authorised common stock, not to exceed 100% of existing authorised shares;
- Vote in favour of price provisions as long as they are not linked to other governance issues;
- Shareholder proposals should be viewed on a case-by-case basis. Do not support proposals that:

– Require management or directors to consider a wide range of discretionary factors in making business decisions;

– Are submitted for the purposes of enforcing personal grievances or for securing publicity for a personal matter;

– Do not have a significant relationship to the corporation's business or affairs;

– Are not within the authority of shareholders to decide.

1.6 Appointment of Auditors

- Review the recommendations by the Audit Committee and board of directors to ensure the independence and accountability of auditors, especially in the following circumstances:

– The recommended auditor is replacing a previous auditor because of a disagreement between the previous auditor and management or the board;

– The audit firm receives significant non-audit consulting fees from the company;

– The same firm and/or partner in the firm has performed the audit for excessively long periods of time;

– The audit firm has been derelict in its duties in the past.

- Companies should disclose all relationships with the audit firm and the amount of fees paid to the auditors for the audit and non-audit consulting fees;
- Recommendations will be considered on a case-by-case basis. Vote against the auditors recommended by the board if companies fail to disclose all relationships with the audit firm, or the fees paid to the auditors for non-audit consulting services exceeded the fees paid for the audit.

2.0 The Ceres (formerly Valdez) Principles

2.1 Protection of the Biosphere

We will minimise and strive to eliminate the release of any pollutant that may cause environmental damage to the air, water, or earth or its inhabitants. We will safeguard habitats in rivers, lakes, wetlands, coastal zones and oceans and will minimise contributing to the greenhouse effect, depletion of the ozone layer, acid rain or smog.

2.2 Sustainable Use of Natural Resources

We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve nonrenewable natural resources through efficient use and careful planning. We will protect wildlife habitat, open spaces and wilderness, while preserving biodiversity.

2.3 Reduction and Disposal of Waste

We will minimise the creation of waste, especially hazardous waste, and wherever possible recycle materials. We will dispose of all waste through safe responsible methods.

2.4 Wise Use of Energy

We will make every effort to use environmentally safe and sustainable energy sources to meet our needs. We will invest in improved energy efficiency and conservation in our operations. We will maximise the energy efficiency of products we produce or sell.

2.5 Risk Reduction

We will minimise the environmental, health and safety risks to our employees and the communities in which we operate by employing safe technologies and operating procedures and be being constantly prepared for emergencies.

2.6 Marketing of Safe Products and Services

We will sell products or services that minimise adverse environmental impacts and that are safe as consumers commonly use them. We will inform consumers of the environmental impacts of our products or services.

2.7 Damage Compensation

We will take responsibility for any harm we cause to the environment by making every effort to fully restore the environment and to compensate those persons who are adversely affected.

2.8 Disclosure

We will disclose to our employees and to the public incidents relating to our operation that cause environmental harm or pose health or safety hazards. We will disclose potential environmental, health or safety hazards posed by operations, and we will not take any action against employees who report any condition that creates a danger to the environment or poses health and safety hazards.

2.9 Environmental Directors and Managers

At least one member of the Board of Directors will be a person qualified to represent environmental interests. We will commit management resources to implement these Principles, including the funding of an office of Vice President of Environmental Affairs or an equivalent executive position, reporting directly to the CEO, to monitor and report upon our implementation efforts.

2.10 Assessment and Annual Audit

We will conduct and make public an annual self-evaluation in implementing these Principles and in complying with all applicable laws and regulations throughout our world-wide operations. We will work toward the timely creation of independent environmental audit procedures which we will complete annually and make available to the public.

3.0 Proxy voting procedure

Pyrford have appointed ISS Proxy Voting Services to monitor meetings data and to produce a voting schedule based upon individual client's proxy voting guidelines or Pyrford's guidelines where a client does not provide their own.

This schedule requires authorisation by an appropriately authorised member of our Investment team before the votes are registered.

Pyrford's practice in voting proxies clearly reflects the issues that we consider important in making investments. Pyrford seeks to invest in well financed companies with a strong management team and sound strategy which is capable of delivering attractive earnings and dividend growth over the long term. It is in this way that we believe our clients will achieve the best investment performance. This practice will involve the active consideration of all relevant and material factors pertaining to environmental, social and governance issues.

The proxy voting policy outlined above is applied to all countries in which we hold shares on behalf of our clients. We receive proxy notices from the account's custodian, or a third party appointed by the custodian. ISS carry out a reconciliation of the number of shares on the proxy ballot and our internal records.

Pyrford will seek to vote on all proxies who have delegated responsibility to vote such proxies. We will only abstain on a vote where it proves impossible to obtain adequate or reliable details of the proposals to be voted on within the required time frame. Having appointed ISS, this is now only likely to happen in exceptional circumstances.

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