For professional investors only

Environmental, Social & Governance Report

2018/19

Pyrford

Contents

1. CEO foreward

It gives me great pleasure to introduce the third edition of the annual Pyrford Environmental, Social and Governance (ESG) Report.

Pyrford has been operating as an investment management business for over 30 years. Whilst our approach to corporate governance and ethical investing issues has evolved over this period, these important issues have always been an integral part of our investment philosophy and process.

2018 was an incredibly challenging year for investors. Against a backdrop of market volatility, geopolitical concerns and economic slowdown most major asset classes ended up in the red for the year, with equity investors in particular facing a difficult environment. A lot has been written in recent times about the positive link between a company's track record addressing ESG issues and positive returns to shareholders. This does not come as a surprise to Pyrford and we believe this impact can be amplified in difficult market environments.

At Pyrford we have always looked to invest in companies with good corporate governance. A key part of our investment process is to find companies that are managed with a view to creating shareholder value through prudent dividend payments and long-term growth in Earnings per Share (EPS) by careful management of the Return on Equity (ROE) of the company. We believe that companies that manage their overall impact on society at large will be able to deliver better long term returns. In particular we aim to limit downside by avoiding surprises as poor practices will inevitably come to light and impact share prices negatively.

In our last edition, we reported that Pyrford had signed up to Climate Action 100+, a five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. In this year's report we will report back on how our engagement with our investee companies has progressed so far.

As signatories to the United Nations Principles of Responsible Investing (UNPRI), the world's leading proponent of responsible investment, and to the UK Stewardship Code, Pyrford takes its responsibilities as an investment manager extremely seriously. We are, after all, managing our clients' money.

At Pyrford, we are strong believers in direct engagement. We recognise that as an investment manager we are in a unique position to influence and indeed help to transform the businesses that we invest in on behalf of our clients by encouraging them to adopt best business practice. In 2018, the team visited over 400 companies worldwide and ESG issues are a standing agenda item in every meeting we conduct.

This report covers our work in this important area throughout the calendar year 2018. Following our report last year on the case for investing in fossil fuels, this year we have included our current thinking on the case for investment in tobacco, a contentious area that many of our clients ask us about. I hope you find it informative and we welcome any views and feedback you may have.

Tony Cousins, Chief Executive & Chief Investment Officer
Pyrford International
April 2019

Timeline showing significant ESG milestones at Pyrford

Pyrford submits first statement of commitment to the UK Stewardship Code
Awarded "Tier II" Status under code

2010

Signatory of:

Pyrford becomes signatory to the United Nations backed Principles for Responsible Investment (PRI)

2014

Pyrford subscribes to independent specialist ESG Research from MSCI

2015

First formal submission to the PRI

2016

First edition of Pyrford's annual ESG report released
Pyrford ESG Forum established
Pyrford joins UK Investor Forum
Upgraded to a "Tier I" firm under the UK Stewardship Code

2017

Commences engagement with focus companies under Climate Action 100+

2018

2. About Pyrford

Pyrford is a boutique London based provider of global asset management services for pension funds, charities, endowments, foundations and other institutional investors. Pyrford currently manages £8.4 billion (US $10.7 billion) in assets under management (as at 31 December 2018).

The company has been operating from its base in London since 1987. In 2007, we became a wholly owned subsidiary of BMO Financial Group, but maintain full autonomy and independence in investment management and client servicing.

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, which ultimately help improve long-term returns to shareholders.

3. ESG at Pyrford & how we approach research

At Pyrford we believe the best approach to ESG research is a combination of internal analysis and specialist external independent research.

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 can only be achieved through responsible environmental and social practices and that shareholders only fully benefit from these at well governed companies.

In addition to our analysis of companies, in 2017 we established our internal ESG Forum which aims to encourage and promote best practice within our business.

Pyrford ESG Forum

The Forum meets quarterly and is chaired by Paul Simons, a Senior Portfolio Manager at Pyrford and a member of our Investment Strategy Committee. Membership of the forum comprises of our CEO & CIO, a representative from each of our main regional investment areas (Europe, Asia and Americas), Client Relationship Management, Operations and Compliance.

The ESG Forum looks to promote awareness and communication between different areas of the business on ESG issues. It provides an opportunity for our Relationship Management team to feed-back our clients' comments and any concerns they may have on areas of ESG and the companies we hold on their behalf. The group discuss wider industry ESG issues and assess how they can impact our business and the companies we invest in. Finally the group also report on the recent quarter's company engagement and proxy voting activity.

Internal Research:

At Pyrford our portfolio managers assign an ESG score to every stock we cover in our universe. This rating forms part of our internal stock summary analysis, which is one of the outputs from our rigorous bottom-up stock selection process. This analysis known as our "Investment Grade Checklist" sits within our wider stock reports.

An ESG rating is applied to every stock, along with a "Corporate Governance" rating. Within Corporate Governance, four areas are evaluated and assigned a score:

1. Ownership structure,
2. Voting structure,
3. Accounting disclosure, and
4. Governance track record.

It is the responsibility of the portfolio manager/ analyst to score each of these from 1 to 5 (1 being highest) and to act on any rating changes.

Senior management of all holdings are interviewed on areas of ESG 'controversy' as part of our in-depth analysis of every company we invest in.

Furthermore ESG issues are an agenda item on monthly Global Stock Selection Committee meetings where any areas of contention or any changes in ESG ratings are discussed in detail.

Where further analysis is required, the investment team must carry out engagement directly with the company.

External Research:

To provide independent external research, we have also engaged the services of a specialist ESG provider, MSCI ESG Research, a company that has been voted "Best Firm for SRI research" (IRRI Survey 2015, 2016, 2017) for the past three years.

MSCI provide us with detailed research reports examining the ESG impacts on investee companies and the wider universe. They have a team of over 180 experienced research analysts assessing thousands of data points across 37 ESG Key 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.

CCC	B	BB	BBB	A	AA	AAA
LAGGARD		AVERAGE			LEADER	

If a company's MSCI rating falls, an alert is sent to the relevant portfolio manager or 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. A downgrade will trigger an engagement with the company to encourage them to improve, as will an ESG 'controversy' arising.

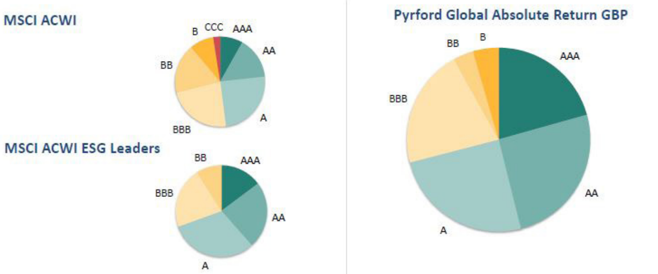
In addition to stock level reports, MSCI ESG Research also provides us with portfolio level ESG analysis reports which help us to identify any potential risks to the portfolio as a result of underlying ESG issues.

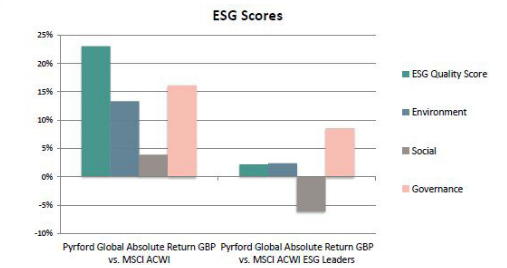
To show an example of the level of independent output we receive, the following snapshot is taken from MSCI analysis of one of Pyrford's core strategies; the Pyrford Global Absolute Return Strategy (equities only):

Portfolio Summary - MSCI ESG Ratings

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

	MSCI ACWI		MSCI ACWI ESG Leaders		Pyrford Global Absolute Return GBP		Pyrford Global Absolute Return GBP vs. MSCI ACWI	Pyrford Global Absolute Return GBP vs. MSCI ACWI ESG Leaders
SUMMARY	SCORE*	WEIGHT**	SCORE	WEIGHT	SCORE	WEIGHT	SCORE COMPARISON	
% Covered by ESG Research		99.90%		100.00%		100.00%		
ESG Quality Score	5.67	100.00%	6.83	100.00%	6.98	100.00%	↑ 23.01%	↔ 2.13%
ABSOLUTE PILLAR SCORES								
Environment	5.52	23.40%	6.11	23.52%	6.25	25.26%	↑ 13.30%	↔ 2.36%
Social	4.59	45.25%	5.08	45.63%	4.77	44.96%	↔ 3.87%	↓ -6.13%
Governance	5.17	31.35%	5.53	30.85%	6.01	29.78%	↑ 16.10%	↑ 8.55%
ESG RATINGS							WEIGHT COMPARISON	
Distribution of holdings with ESG Coverage								
AAA		8.19%		14.79%		20.67%	12.48%	5.87%
AA		15.04%		23.67%		25.43%	10.40%	1.76%
A		24.76%		31.00%		24.88%	0.12%	-6.12%
BBB		23.11%		21.60%		20.93%	-2.17%	-0.67%
BB		17.71%		8.92%		3.59%	-14.12%	-5.33%
B		8.69%		0.01%		4.49%	-4.20%	4.48%
CCC		2.51%		0.00%		0.00%	-2.51%	0.00%
Sum of ESG Coverage		100.00%		100.00%		100.00%		





MSCI | MSCI ESG RESEARCH LLC

*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.

Some of the key findings from the report are as follows:

1. Overall Pyrford's equity portfolio scores higher than the MSCI All country world Index (ACWI): 7.0 v 5.7 (+23.0%)

2. Pyrford's equity portfolio also scores higher than the specialist MSCI ESG ACWI: 7.0 v 6.8 (+2.1%)

3. When compared to the MSCI ACWI Pyrford has higher scores in all 3 categories: Environmental, Social and Governance.

4. 46.1% of Pyrford companies are invested in "leader companies" AAA or AA companies.

5. Pyrford currently holds no "CCC" rated companies in our Global Absolute Return Strategy.

6. Despite outperforming the specialist MSCI ESG ACWI overall, Pyrford does not score as high on "social issues".

We believe these high scores against both the wider universe and the specialist ESG Index are as a result 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, we believe it is this combination of internal ESG analysis alongside specialist external independent research that provides us with an exceptionally high level of coverage in this important area.

4. Investing in tobacco – the burning question

In recent years tobacco companies have become an increasingly controversial investment. Opinion is split between those focused on the health impact of tobacco products and those whose focus is profit potential. The former group worry that investment in tobacco companies is tantamount to promoting the spread of smoking related disease whilst the latter observe that tobacco products are legal and far from the only harmful investment option.

For now, tobacco stocks remain key constituents of major global indices. If you are invested in a passive investment product (otherwise known as an index tracker), the likelihood is that you will have exposure to tobacco, along with other "sin stocks", unless you actively seek out ex-tobacco strategies. In this section we look at the question of investing in the tobacco sector and how trustees deal with this fiduciary dilemma.

Background

The history of commercial tobacco production dates back to the 17th century when the first commercial crop was planted in the US. Mechanisation of cigarette manufacturing in the 1880s helped grow the market for cigarettes dramatically, increasing demand for tobacco.

Today the global tobacco market is composed of smoking tobacco products or "combustibles" (cigarettes, cigars and pipes), smokeless tobacco (snus, snuff, chewing tobacco and dissolvables) and finally next generation products which we will look at later in this section.

Retail sales for global tobacco totalled $786 billion in 2017, up 4% over the year. It is estimated that more than one-fifth of the world's adult population smokes with around 80% of the world's 1.1 billion smokers living in low- and middle-income countries.

The industry comprises a handful of players – known as "big tobacco" - that grow, sell, and distribute tobacco-related products in the global market. Over 80% of the market (ex-China) is in fact controlled by five leading tobacco companies. That percentage has nearly doubled since the turn of the century. Whilst these companies are in the early stages of shifting their combustible tobacco business towards "next generation products", cigarettes remain the industry's core business and will be for the foreseeable future. Nearly 90% of global sales come from cigarettes.

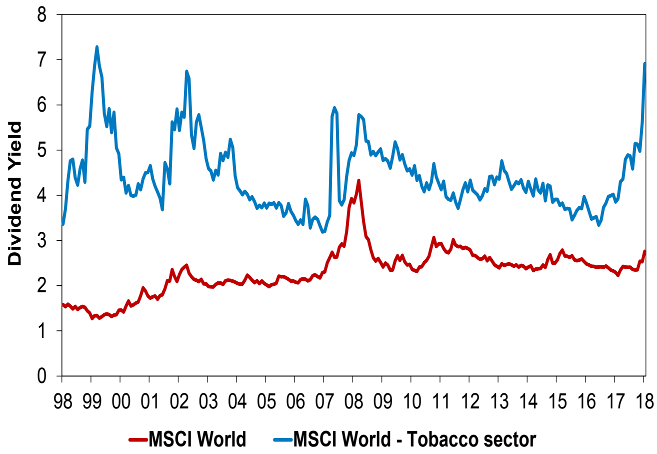
According to the World Health Organisation, tobacco kills more than 6 million people directly each year with up to a further million people killed from exposure to smokers. For many within the investment community, the question of whether tobacco should sit within an investment portfolio remains firmly on the agenda.

The investment case

Without wanting to appear like a lobbyist for the tobacco industry it is important to look briefly at why tobacco stocks might be viewed as an attractive investment. Broadly speaking tobacco stocks can be seen as defensive in nature, historically performing well in uncertain and low interest rate markets.

Perhaps most importantly, tobacco companies are favoured by investors seeking strong and sustainable dividends as highlighted in the chart on page 8. The chart shows that the tobacco sector has consistently paid generous dividends resulting in a dividend yield higher than the market over the last 20 years. These companies generate huge amounts of cash and historically tobacco companies have rewarded their shareholders in the form of increasing dividends. At least in part because they can no longer spend their cash on advertising!

Dividend yields: World Index vs Global Tobacco Index



Source: MSCI

Furthermore, Tobacco products enjoy high degrees of brand loyalty, they are not easy to substitute and typically spending on them is not economically sensitive, allowing tobacco companies to push through price increases to offset any decline in volumes. In addition, the investment required to build large-scale manufacturing, meet regulatory requirements and establish new brands also tends to disadvantage new entrants.

The investment case for investing in tobacco stocks has long been made and the results are compelling, albeit perhaps not in recent times.

Take the UK for example. This year marks the 35th anniversary for the FTSE 100 (launched in January 1984). Of the original 100 companies, only 30 remain intact today. The best performer of the original 30 companies over that period? British American Tobacco (BAT), by a country mile. And this despite BAT's share price falling significantly in 2018. Over the period the company has delivered an annualised total return of 18.0%. Second place delivered 15% per annum. To highlight the income component, £100 invested in BAT at the inception of the FTSE 100 would be worth over £33,000 today, had dividends been reinvested, highlighting the powerful nature of compounding.

This is not just specific to the UK. A report from Credit Suisse released in 2015 showed that going back to 1900, tobacco has been the all-time best-performing industry in the US stockmarket.

For some, this performance may be all that is required to close the debate on investing in the industry. However, as all disclaimers say: 'the past may not be representative of the future'. Indeed in 2018, tobacco was the single worst-performing sector out of the 39 industry groupings that form the FTSE All-Share, falling 41%, compared with a 9% decline across the broader All-Share index.

What happened in 2018 and is this a sign of the beginning of the end for big tobacco?

Whilst traditionally, tobacco stocks have been favoured in weak markets due to their defensive characteristics, 2018 was certainly a year to forget for the sector with all major tobacco companies experiencing sharp share price declines, even as global markets fell nearly 10%. The MSCI World Tobacco Index fell nearly 35% over the year.

So why has tobacco been so weak this year? In a nutshell, regulation. The weakness for the sector began in July 2017, when the US Food and Drug Administration (FDA) began a consultation on the potential introduction of non-addictive levels of nicotine in cigarettes. In 2018 the tobacco sector as a whole has continued to suffer as fears that the FDA's consultation process in the US could materially impact volumes for global brands. The regulator has also called into question whether menthol cigarettes, a meaningful part of the US market, should face further regulation.

In addition to regulatory pressures, there are clearly concerns that the market for "next generation products" (see below) will exacerbate volume declines in traditional cigarettes but will not replicate the profitable oligopolistic structure currently seen in combustibles in the long term. Despite the high dividend yields on offer across the tobacco sector, share prices have still felt the effects of these regulatory pressures.

With regards to the substitution effect, next generation products are a growth area for tobacco companies. However, they are currently less profitable. At present they are not a significant proportion of earnings. There are new entrants in the next generation product space, though it is possible that the incumbent tobacco companies will be winners over the long-term. The incumbent tobacco companies have deep pockets and are able to acquire assets and/ or technology without jeopardising their balance sheets. Moreover, success in this sector comes down to brand building and manufacturing efficiency at scale, which are the core competencies of the established players.

In our view, whilst next generation products are a disruption to traditional combustible products it is difficult to justify the de-rating of the entire sector. Currently, earnings have not taken a hit meaning the dividends remain well covered. The sector now trades at multiples last seen at the height of concerns about litigation risk in the late 1990s.

Is this the beginning of the end for "big tobacco"? If it is, it is hard to see how it will happen overnight. Today, the industry is undeniably facing a number of significant headwinds, not least because sales volumes are falling year on year. In most industries a seemingly never ending decline in consumers would set alarm bells ringing. It is worth commenting however that whilst there is no denying that cigarette sales are in terminal decline, this has been the case for several decades. In the US, adult smoking rates have been declining since they peaked in the mid-1960s.

As a result, what we are seeing is a significant shift in focus from developed to developing markets where tobacco companies are able to take full advantage of less regulatory pressures, growing populations and increasing incomes. Awareness levels and education of the dangers of smoking are without a doubt lower than that of developed markets.

Whilst global volumes continue to decrease (1.5% in 2017), sales are increasing in Asia Pacific, the Middle East and Africa. In 2017 the Asia Pacific region made up a staggering 64% of global sales, up from 55% in 2005.

Furthermore there have been restrictions on advertising for tobacco products since the 1970s. Taxes on tobacco products have been steadily increasing with the consumer seemingly willing to pick up the subsequent, price increases. Health awareness and the dangers of smoking continue to grow. Regulatory pressures and litigation is certainly nothing new with a wave of litigation action against the tobacco industry in the 1950s, 80s and again the 90s (this time largely successful). In all cases big tobacco has survived the challenge. If anything the regulatory environment has only strengthened the significant barriers to entry.

The question from here is can tobacco companies survive in an ever competitive, evolving and highly regulated market?

The next generation of tobacco products

Whilst the headwinds mentioned above are nothing new for big tobacco, the rise and acceleration of next generation products is making tobacco companies sit up and take note and perhaps represents the biggest threat to big tobacco. The question for investors is will this "substitution effect" significantly disrupt the industry enough to affect the level of cash flow.

Broadly speaking there are two alternative products, (1) E-cigarettes (or vaping) and (2) Heat-Not-Burn. These alternative tobacco and nicotine products seek to deliver nicotine to the end consumer without actually burning tobacco. Tobacco companies claim they are significantly less harmful than conventional cigarettes, as the combustion of tobacco is a source of a large number of the carcinogens derived from smoking.

E-cigarettes (Vaping) are battery-powered devices that aim to mimic the action of smoking. It works by heating a liquid which generates an aerosol, or "vapor", that is inhaled by the user. In most cases they offer the user nicotine, but aim to do so without the toxic effect of tobacco smoke. They have been available in the UK for around 10 years and continue to grow in popularity with an estimated 3 million UK consumers.

Heat-not-burn tobacco products (HnB) are electronic devices that heat processed tobacco instead of combusting it in order to deliver an aerosol with supposedly fewer toxicants than in cigarette smoke. Some products include a charger, a holder and tobacco sticks, plugs or capsules. Inserted into the holder, tobacco sticks are heated with an electronically controlled heating element. Other products produce vapour from a non-tobacco source and pass it through a tobacco plug to absorb flavour and nicotine.

In addition to E-cigarettes and Heat-not-Burn, it is also worth mentioning the rise of another potential disruption to traditional tobacco, especially in North America – Cannabis. The debate surrounding the legalisation of marijuana continues to gather pace with Canada fully legalising the drug in 2018. Ten US states have also fully legalised the recreational use of cannabis, with a further 13 states decriminalising the drug. Many other countries, Germany, Italy and the Netherlands, have legalised the use of medicinal cannabis. The UK is a little bit behind but the direction of travel appears to be moving in the same direction, albeit at a slower pace. The industry's leading tobacco companies are no doubt well positioned to move into this market. In fact, big tobacco has already begun making acquisitions in the area. See previous note about "deep pockets".

The next generation of tobacco – are they really "less harmful"?

Whilst there are numerous claims that these alternative methods offer a "less harmful" way to smoke, at this stage there is no definitive evidence to back up these claims categorically. We would certainly not support any claims of this nature or wade into the debate.

Indeed in January 2018 shares in Philip Morris International/ Altria Group took a hit after an FDA advisory panel rejected Philip Morris' proposed claim that "Heat-not-Burn" products presents less of a health risk than combustible tobacco.

That said, in 2015 Public Health England (PHE) said in the first official recognition that E-cigarettes are less damaging to health than smoking tobacco. The health body concluded that, on "the best estimate so far", E-cigarettes are about 95% less harmful than tobacco cigarettes and could one day be dispensed as a licensed medicine in an alternative to anti-smoking products such as patches.

Whilst the health risks of next generation products remain uncertain, there is evidence to support the claim that many people are switching to alternative products as a way to gradually to quit smoking altogether, which has to be viewed as a positive. In 2017, the UK Office for National Statistics showed that the number of smokers in Britain had reached its lowest point since records began in 1974, while more than a million people said they were using e-cigarettes to help them quit smoking.

On the flip side however, there are fears that next generation products are encouraging a new and younger consumer to start smoking for the

first time. Whilst traditional smoking rates amongst young people have declined sharply in recent years, this has coincided with the growth of next generation products. Some young people are trying "vaping" or using alternative smoking methods, having never smoked combustible tobacco products. Furthermore, there is concern about the use of "confectionery-flavoured" E-cigarettes, such as "bubble gum-flavoured e-liquid" attracting a younger audience for the first time.

The ethical question & divesting v engagement

Institutions and individuals face continued pressure to divest from investments in areas of controversy, especially so called "sin stocks". Despite the tobacco industry creating significant returns for investors historically, there is clearly a dilemma for investors who are concerned about supporting the industry given the impact smoking has on its consumers and society. Aside from the ethical question, there is also the concern that tobacco stocks may struggle to perform well as regulatory pressures, and other risks discussed in this report, continue to intensify.

Whilst on an individual basis taking a view on this is less complex, the same cannot be said for trustees of pension funds who face a fiduciary dilemma. Trustees are ultimately responsible for making investment decisions on behalf of their underlying members, who in some cases may not feel strongly about the issue. There is also the uncertainty regarding the legal extent to which they can make a tobacco disinvestment (or indeed any ethical led) decision.

In 2014, the UK's Law Commission looked at this question and concluded that "Trustees may take account of any factor which is financially material to the performance of an investment, including environmental, social and governance factors." They also went on to set out criteria for assessing "non-financial factors", meaning factors which "might influence investment decisions motivated by other (non-financial) concerns, such as improving members' quality of life or showing disapproval of certain industries". No doubt this guidance will provide support to those that seek to adopt a process of disinvesting.

Alternatively investors may adopt a policy of asking their asset managers to engage with the tobacco industry on their behalf. Some commentators question the logic of this approach given that the whole purpose of engagement would be to ultimately try and encourage tobacco companies to stop making tobacco products - something they are clearly not going to do. Similar arguments, however, have been made before regarding engaging with fossil fuel companies. What we are seeing evidence of (see section 7 on our engagement as part of Climate Action 100+) is that investor engagement is helping to push oil and gas companies to increase investment in low-carbon technologies. For example, in January 2019 BP announced that they would support investor calls for alignment with the Paris Agreement.

A parallel argument can also be made that tobacco companies are increasingly looking to generate more of their revenues from next generation products, which could demonstrate that they are responding to investor concerns. Potentially "harm reducing products" could be creating a different future for the industry. Recently, Philip Morris International vowed to phase out cigarettes and move further into smoke-free products, with a focus on their HnB offering - IQOS. Sceptics will question whether or not this move is just the company adapting to consumer demand.

It is difficult to know what method of investor protest works better – divesting or engagement. Perhaps both strategies have a role to play in helping to encourage companies to tackle the sustainability challenges we face today.

Pyrford's view on disinvestment vs engagement

Pyrford portfolios can, and in some cases do, invest in tobacco companies as part of well diversified portfolios. The question for us as an investment manager will always be a question of fiduciary duty. At Pyrford, we take the approach that if a client wishes to apply investment restrictions based on ethical or indeed financial reasons, this can be achieved utilising a segregated portfolio. In fact, we already manage portfolios ex-tobacco for some clients. For pooled investors, this is clearly more challenging and we would encourage dialogue with our clients and their advisors to see if ex-tobacco solutions can be provided. Indeed in some jurisdictions, Australia for example, pooled funds are provided "ex-tobacco".

In our view, we would be in breach of our fiduciary duty as an investment manager if we imposed the ethical views we might have on client portfolios. As it stands today, tobacco remains in our investible universe – the MSCI All Country World Index – and therefore we will consider investing in the sector alongside all other sectors, unless our clients explicitly instruct us otherwise.

That said, Pyrford fully recognises that as we continue to move towards societies where smoking rates are decreasing tobacco companies will come under significant financial pressures. The potential impact of this move forms part of the ongoing research and analysis we carry out on all companies. Pyrford would like to see tobacco companies continue to generate more of their revenues from Next Generation Products and hopefully from "reduced harm" smoking products. As investors, we are able to use our influence to encourage companies to do so and by "disinvesting" we would lose that influence. By disinvesting, we would be giving up this right.

We have therefore taken the approach that engagement should be our focus as asset managers, unless instructed differently by our clients. As long-term shareholders of companies, we have the ability, and in our view the responsibility, to try to influence the business practices of companies by encouraging best practice through a process of ongoing company engagement. In sections 6 & 9, where we show examples of engagement with companies, you will note engagement with a number of companies on a range of issues, including an engagement with Japan Tobacco in 2018 on the monitoring of labour standards in the tobacco supply chain. By disinvesting, we largely lose this influence to engage directly with tobacco companies on a range of important issues.

5. Proxy voting at Pyrford in 2018

Pyrford's policy to consider every resolution individually and to cast a proxy on each issue; the sole criterion for reaching these voting decisions being the best interests of the client.

Approach

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

In the absence of such instructions from the Trustees, it is Pyrford's policy to consider every resolution individually and to cast a proxy on each issue with the sole criterion for reaching these voting decisions being the best interests of the client. This is part of Pyrford's broader fiduciary responsibility to its clients.

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. We are delighted to share our firm's proxy voting policy and a copy can be found on our website.

Proxy voting portal

Pyrford has a dedicated on-line 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.

2018 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. In 2018, we voted 99% of ballots cast.

2018 voting summary in numbers

Voted in **1440** resolutions across all portfolios

at **108** individual company meetings

in over **20** different countries

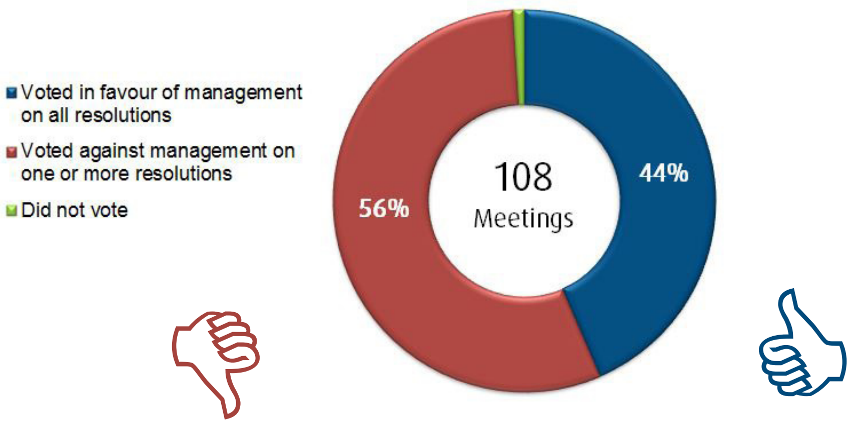
We voted over **99%** of possible ballots

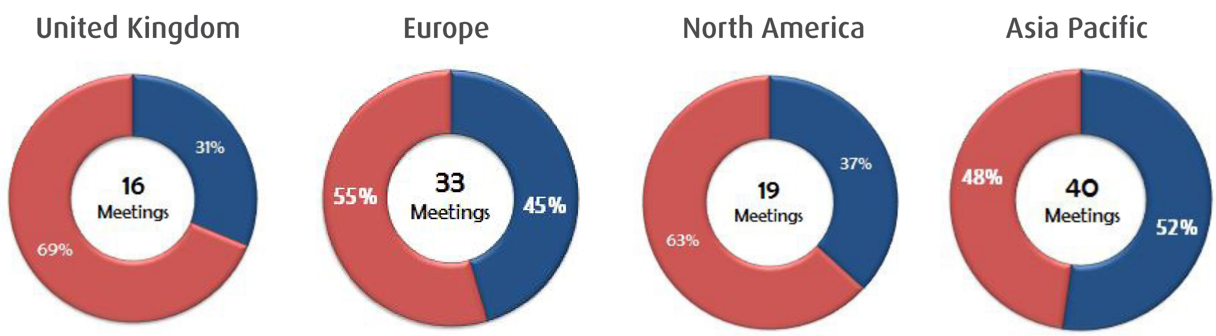
In over **55%** of meetings Pyrford voted against management in one or more resolution

2018 voting summary in charts

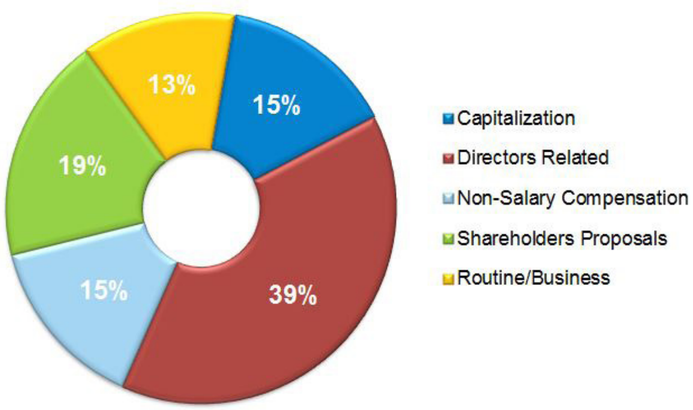
In 2018, we voted against management in over 55% of the meetings voted in (including votes withheld and abstained). The following charts breakdown those votes against management by region and proposal type:

Voted against management recommendation





Voted against management: proposal type



6. Proxy voting case study examples from 2018

As detailed in the previous section, Pyrford voted on over 1400 resolutions at 108 separate company meetings in 2018 and voted against management in over 55% of meetings for one or more resolution. In this section, we will provide just a few case study studies where we have voted against management and explain our reasons for doing so.

Company: **British American Tobacco** Country: **UK** Issue: **Director Election**

BACKGROUND: British American Tobacco is a global tobacco manufacturer and distribution company headquartered in London.

At the 2018 annual general meeting agenda item 8 asked shareholders to vote on the approval for the re-election of Dr. Marion Helmes as a non-executive director. Management recommended that shareholders vote to approve her candidacy.

SUMMARY: Pyrford voted against management's recommendation by voting against the re-election of Dr. Marion Helmes to the Board of Directors.

There are several aspects to the decision to vote against this candidate. The primary consideration was the risk of "over boarding"; Dr. Helmes held directorships at six other boards at the time of the vote including Heineken, Uniper, ProSiebenSat.1 Media and Siemens Healthineers. All of these companies are large and complex and they represent a diverse range of industries, which raised the obvious question of whether she would be able to dedicate sufficient time to her role at British American Tobacco. Her tenure in four of the six roles was less than two years, which suggests a comprehensive understanding of the business models could not be relied upon to lighten the work load. These commitments were deemed excessive even after the announcement that she would step down from the Supervisory Board of Bilfinger at its 2018 Annual General Meeting. Recent history suggested that the risks associated with so many roles were not purely theoretical. Dr. Helmes missed a February Board meeting and did not attend the General Meeting in July 2017 to approve the Reynolds America acquisition due to prior commitments.

Despite these compelling arguments for voting against Dr. Helmes' re-appointment, the effect of our stance on Board diversity was also considered. As one of only three female representatives on the eleven person Board of British American Tobacco at the time of the vote it was recognised that the ambition of progressing towards greater gender balance on the Board would not be enhanced by our voting position. It should also be noted that the candidate qualified as an independent director, which is an additional positive.

However, in light of the issues outlined above it was clear that a vote against her candidacy was still warranted.

Company: **Imperial Oil Limited** Country: **Canada** Issue: **Shareholder Proposal/Environmental**

BACKGROUND: Imperial Oil is Canada's largest integrated oil company.

At the 2018 annual general meeting agenda item 3.2 was a shareholder proposal requesting better disclosure from management on its exposure to and management of water-related risks. The Board recommended voting against this proposal.

SUMMARY: Pyrford voted against management's recommendation by voting for this shareholder proposal.

Additional disclosures on water usage on a company and facility basis, management oversight, adopting and reporting on water targets, and the effectiveness of implemented strategies would aid shareholders in their assessment of the water-related business risks.

Imperial oil is the largest integrated oil company in Canada and holds a prominent position in the development of Canada's oil sands. As such Imperial Oil could face exposure to physical, regulatory and reputational water-related risks across its business segments. Imperial is currently not providing enough information for shareholders to understand the water-related risks and impacts of its operations and assess whether the company is appropriately mitigating those risks.

Pyrford fully support pressing management to produce comparable, comprehensive, meaningful and measurable data on its water risk and management.

Pyrford will raise this issue with Imperial Oil at our next company meeting.

Company: **Kone** Country: **Finland** Issue: **Director Election**

BACKGROUND: Kone offers installation and maintenance services for elevators and escalators.

At the 2018 annual general meeting agenda item 12 asked shareholders to re-elect board members Matti Alahuhta, Anne Brunila, Antti Herlin, Iiris Herlin, Jussi Herlin, Ravi Kant, Juhani Kaskeala and Sirpa Pietikainen as Directors of Kone. Management recommended that shareholders support the proposal.

SUMMARY: Pyrford voted against management's recommendation by voting against the re-election of the board members.

There is no doubt that the board and management of Kone have done an excellent job, delivering impressive financial performance and shareholder returns. However, there was clearly insufficient independence among the board members proposed by the company.

An additional factor in our decision was that one of the proposed members was on the audit and remuneration committees and we consider this not to be best practice.

Pyrford's Proxy Voting Policy (section 1.2), which can be found on our website, states that Pyrford will "vote in favour of proposals that boards be comprised of a majority of independent or unrelated directors".

Furthermore our policy states that Pyrford will "vote in favour of proposals suggesting that a board's nominating, compensation and audit committees be comprised mostly or entirely of unrelated directors".

In this case, Pyrford felt that both these criteria had not been met and therefore warranted a vote against management.

Company: **C.H. Robinson** Country: **US** Issue: **Shareholder Proposal/Environmental**

BACKGROUND: C.H. Robinson (CHRW) is a provider of multimodal transportation services and third-party logistics.

At the 2018 annual general meeting agenda item 4 asked shareholders to vote on whether the company should report on the feasibility of adopting Greenhouse Gas (GHG) disclosure and management. The proposal specifically requested that "that C.H. Robinson Worldwide, Inc.'s (Company) board oversees the adoption of time-bound, quantitative, company-wide, science-based targets for reducing total greenhouse gas (GHG) emissions, taking into account the goals of the Paris Climate Agreement, and report, at reasonable cost. Management recommended that shareholders vote to against the proposal.

SUMMARY: Pyrford voted against management's recommendation and supported the proposal.

Pyrford believe the proposal had validity, particularly in light of MSCI rating for CHRW at the time – awarding a lower environmental impact score, versus peers on the grounds that the company's disclosure and mitigation efforts are inferior to that of peers like Expeditors International. The independent proponent suggested that GHG reduction targets would enable shareholders to better evaluate emissions performance trends and the effectiveness of C.H. Robinson's strategies. In addition given that the 2017 Financial Stability Board's Task Force on Climate-related Financial Disclosures recommended companies adopt and disclose targets to manage climate-related risks. Pyrford largely felt that although the company's business model as an asset light carrier precluded the significant control of emissions and even the measurement of GHGs, given the ongoing efforts to assist customers in measuring and reducing emissions the board should disclose more fully the specific issues preventing disclosure of GHG emissions and mitigation management. The company does not outline the policies and practices of contracted carriers in relation to GHG emissions and their reporting requirements or goals. Disclosure of such information would assist more effective analysis of the company's climate change initiative and risk management.

Pyrford felt it reasonable to vote in support of the proposal to provide information as to the feasibility of adopting GHG disclosure and management. This is the second year that the company has received this proposal. Despite Pyrford's support the vote was not carried.

Pyrford subsequently engaged with the management about this at their meeting on 17th September 2018 and MSCI upgraded the company's overall score on 27th September 2018 from BBB to A, based on the improved carbon mitigation measures.

7. Climate Action 100+

In our last edition, we reported that Pyrford had signed up to Climate Action 100+, a five-year initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. In this year's report we report back on how our engagement with our investee companies went.

The Climate Action 100+ initiative was launched at the "One Planet Summit" in 2017. It followed the signing by 200 countries of the 2015 Paris agreement, which aims to limit the increase in global average temperatures to less than 2˚C above pre-industrial levels. The programme is designed to allow institutional investors to collaborate and coordinate in encouraging those listed companies responsible for the most greenhouse gas emissions to develop business strategies which are consistent with the aims of the Paris agreement.

The initial focus list of 100 companies was identified as those 100 constituents of the MSCI All Country World Index (which represents 85% of global investable equity) whose emissions of carbon were modelled or reported to be the highest. Direct emissions of carbon from companies' facilities or vehicles (Scope 1), emissions related to electricity, heat or steam they purchase (Scope 2) and emissions embedded in the goods or services they purchase, employee commuting, the use of the products they produce, transportation and broadly any other emissions that are a consequence of the activities of the company (Scope 3) were considered in total in producing the list.

Our obligation as a participant in the Climate Action 100+ initiative is to engage with at least one company a year from the list. However, as several of the oil and gas stocks we hold in client portfolios were included, we elected to engage with them all, and in fact, also the remaining energy company we hold which didn't feature in the initial list.

The work of the Carbon Tracker Inititative, and independent think tank, was the basis of our engagement with these companies. Their report "2 Degrees of Separation", published in conjunction with the PRI (Principles for Responsible Investment), highlights the potential risk to the investment plans of oil and gas companies from the Paris agreement. This agreement has now been ratified by 185 nations, all of whom are in the process of committing to domestic policies which will limit the future release of carbon into the atmosphere and hence may leave some of the current repositories of that carbon (tomorrow's oil and gas fields) uneconomic.

Climate Action 100+
Global Investors Driving Business Transition

Engagement

The following questions we put to the management of BP, Exxon, Imperial Oil, Royal Dutch Shell, Total and Woodside were:

	Questions sent by Pyrford to every fossil fuel company held in a portfolio at Pyrford
1.	Do you accept the conclusions of the Carbon Tracker Initiative? This implies that a significant portion of your capex will be outside the 2D budget even with modest carbon reduction assumptions.
2.	Do you think any of the assumptions in the report are misleading, false or overly pessimistic? If so, please explain where and why they are not fair.
3.	If the assumptions are correct, how will your company manage this challenge?
4.	Is there board level accountability for monitoring the company's adaptation to climate change pressures?
5.	How do you incorporate environmental factors into your capital investment decisions?
6.	Have climate related considerations changed the assumptions used in calculating your 2P reserves? Are your assumptions verified by auditors or independent experts?
7.	Have 2D budget considerations led to any change in the mix (either geographic or by fuel type) of Capex investments that the company is prioritising?
8.	How do you plan to respond to the recommendations of the "Task force on Climate-related Financial disclosures"? (The TCFD developed four recommendations on climate-related financial disclosures).

Responses to these questions were received in a variety of formats with several companies offering direct meetings or calls to focus on this issue, outside of our normal cycle of company meetings. The most impressive fielded two senior executives who spent well over an hour on the phone with our team discussing each question in turn.

Common themes from the responses:

- Though the relevant Carbon Tracker Initiative report on each company was sent alongside our questions, most companies responded that the methodology used in the report was unclear and that the data on costs was modelled rather than based on actual costs. They all, individually, had clarity on their own costs but very little insight into others'.
- The consensus was that the assets with the lowest embedded costs faced the lowest risks of being stranded as they could best absorb increases in the cost of carbon.
- None of the companies thought that any of their assets faced this risk. This would not be a credible response if we had engaged with the entire industry, but these stocks are in the Pyrford portfolio largely because of their cost competitiveness.
- The better responses confirmed that "2D" considerations are factored into capital allocation decisions and the assumptions for calculating 2P (Proven and Probable) reserves.
- Most companies pointed to Board level accountability for the company's adaptation to climate change pressures. Several publish dedicated Sustainability reports with comprehensive data, case studies and clearly-defined targets.
- Several companies pointed out that the "carbon budget" available for oil and gas under the 2D scenario was materially impacted by the speed with which coal is phased out as a fuel. The faster this happens, the more oil and gas can be used without breaching the 2D commitment.
- There was some concern about the disclosure of confidential information but companies were generally supportive of greater financial disclosures of climate related risks. They argued that scenarios under which risks were modelled needed to be tightly defined to ensure comparability.

The detailed responses from each company will be used by our analysts and portfolio managers to determine how exposed each company is to carbon abatement pressures and whether any changes are required to the forecasts which initially saw them added to the portfolio. We believe that this is a more pragmatic and positive approach to take than a blanket divestment of all holdings as some campaigners have advocated.

Second round of engagements

In July 2018 61 additional companies were added to the focus list of the initiative. These were nominated by participants as companies with the potential to drive the clean energy transition or which are exposed to climate related risks, but ones that are not captured solely by emissions data.

As these companies are not producers of oil and gas the questions we posed in our second round of engagements were modified and the following were put to the management of Air Liquide, Colgate Palmolive, National Grid, Nestle, SSE, Power Assets Holdings, Rio Tinto, Walmart and Woolworths.

	Questions sent to additional 61 companies added to the focus list
1.	Have you analysed the way in which rising global temperatures will impact your business?
2.	What steps have you taken to reduce the amount of carbon emissions that your business is responsible for either directly (Scope 1) or indirectly (Scope 2 and 3)?
3.	What targets have you set for reductions and will you report publically on progress against these targets?
4.	Has a member of the board been given specific responsibility for monitoring the company's progress in this area?
5.	Have you or do you plan to make climate related financial risk disclosures?

Responses were received during late 2018 and were all positive and constructive. In summary:

- All companies were thinking about the climate change could impact their business.
- All companies were taking steps to reduce their carbon emissions and most had set public targets against which they would report progress.
- All companies had either a Board member or combined Board responsibility for their sustainability strategy
- Most companies have committed to making climate related financial risk disclosures.
- Most companies have also released comprehensive Sustainability reports alongside their Annual Financial reports covering their activities in this area.

As with the initial engagements covered earlier these responses will be discussed at future company meetings to monitor progress against the targets set.

Stop Press – further update from companies that we engaged with

Whilst it's too early to judge what lasting effect the Climate Action 100+ initiative will have, there are a few signs already that the industry is taking note of collective shareholder pressure:

Following discussions with a number of participants of the Climate Action 100+ initiative Royal Dutch Shell published in its 2018 Annual Report several initial commitments. 1) A target to reduce the company's net carbon footprint (encompassing Scope 1, 2 and 3 emissions) by 2-3% from its 2016 level. 2) Linking the remuneration of its top 150 executives to delivery of this target. 3) A commitment to set a further three year reduction target in 2020.

Royal Dutch Shell's release follows the announcement by the board of BP that they will support a resolution at their AGM calling on the company to describe how its strategy is consistent with the goals of the Paris agreement. BP has also incorporated emissions reductions as a factor in employee awards.

8. Pyrford company engagement

Pyrford has always taken a long term view to investment decisions. The average holding period of our stocks is in excess of 8 years. At no point do we ever take a short term, speculative position in a company.

As long-term shareholders of companies, we have the ability, and in our view the responsibility, to try and influence the business practices of companies by encouraging best practice on ESG issues through a process of ongoing company engagement.

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, typically our engagement is one-to-one with companies as we believe this method yields the best results. Our Portfolio Managers must visit every company we invest in prior to first investment and we aim to meet with the company at least annually thereafter.

Company Engagement Framework

Pyrford have put in place a clear framework where escalation with company management is required and how it is carried out in the event of ESG issues coming to light. We implemented this framework in response to the UK Stewardship Code, Principle 4 "Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value." Engagement with companies we invest in has always been an integral part of our ongoing research process.

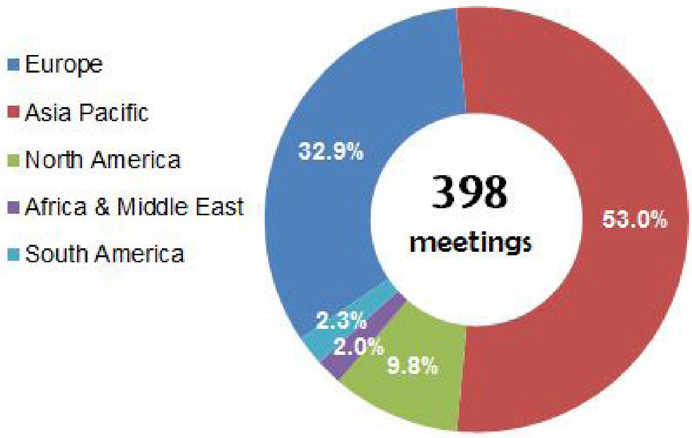
Our engagement escalation framework is as follows:

	Comments
Level 1	Investor Relations contacts 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 – 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

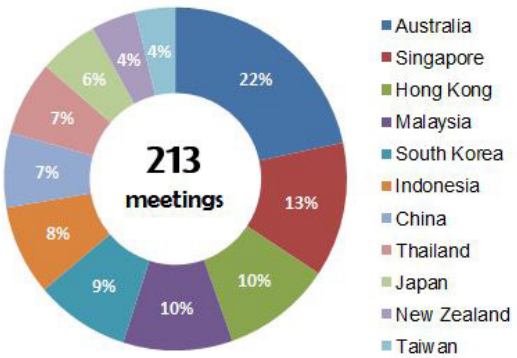
2018 Engagement Activity

In 2018, Pyrford's 14 member Investment team engaged with near 400 companies in over 20 countries worldwide. We track and record the results of every company engagement and below we have provided a high level geographical split of all company meetings held in 2018, breaking out engagement in Asia and Europe.

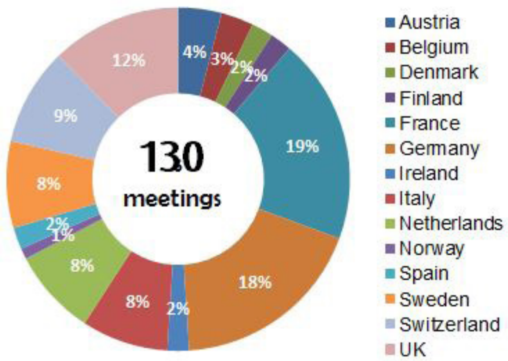
Geographical split of company engagement activity in 2018



Asia Pacific engagement breakdown



Europe engagement breakdown



Source: Pyrford International

9. Pyrford engagement examples, 2018

As detailed in section 8, Pyrford carried out nearly 400 meetings with companies in 2018.

In this section we will provide case studies from just some of a range of company meetings held, across geographies and on a variety of important ESG 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 all companies we meet.

We have provided engagement examples from 2018 with the following companies:

Company	Country	Issue	Holding
AirAsia Group	Malaysia	Health & Safety	No
Air Liquide	France	Environmental	Yes
Bursa Malaysia	Malaysia	ESG Practices	No
ComfortDelGro	Singapore	Environmental	Yes
Essity	Sweden	Environmental	Yes
Hasbro Inc.	US	Product Safety	Yes
Imperial Brands	UK	Collective Engagement	Yes
Japan Tobacco	Japan	Child Labour	Yes
Microsoft Corporation	US	Workplace Discrimination	Yes
Power Assets Holdings	Hong Kong	Environmental	Yes
Rio Tinto	Australia	Data & IT Infrastructure Security	Yes
Sanofi	France	Vaccine Safety	Yes
Texas Instruments	US	Executive Compensation	Yes
Westports Holdings	Malaysia	Health & Safety	No

COMPANY: **AirAsia Group** COUNTRY: **Malaysia** ISSUE: **Health & Safety** HOLDING: **No**

BACKGROUND: AirAsia Group is the leading low cost carrier with the highest market share, largest fleet size and most extensive route network in Asia. Due to the nature of their business with a heavy focus on cost and fleet efficiency, Pyrford were concerned that safety of aircraft, and so passengers, may be compromised as a result. In 2014, an AirAsia flight crashed over Indonesia resulting in the death of all 162 people on board.

SUMMARY: AirAsia Group expressed that the safety of their aircraft and passengers was paramount. They also highlighted that their engineers are bound by their own license to only certify a plane when it is 'good to go,' and stressed that they are 'rather confident that our engineers will not be compromised.' AirAsia Group also have a whistleblowing hotline or 'chat' in place which the CEO Tony Fernandes has sight of.

While satisfied with AirAsia's response, Pyrford will continue to engage with AirAsia on this topic given safety is critical to the ongoing success of an airline.

COMPANY: **Air Liquide** COUNTRY: **France** ISSUE: **Environmental** HOLDING: **Yes**

BACKGROUND: Air Liquide is a global industrial gases company. They produced 26.2 million tons (Mt) of CO_2 in 2017, of which 14.5Mt were direct (Scope 1) and 11.7Mt were indirect (Scope 2). Although Air Liquide has been committed to sustainable growth for many years now, Pyrford wanted to understand how Air Liquide was approaching this important issue in further detail.

SUMMARY: We attended the Air Liquide Climate Objectives day in Paris. At this event Air Liquide presented their objective to reduce their carbon intensity by 30% by 2025 (based on 2015 levels). This is one of the most ambitious climate objectives within the sector.

Their strategy for achieving this reduction is focused around gaining efficiencies in their own operations whilst working with customers to promote low carbon solutions. Within their own operations they aim to increase the amount of renewable electricity purchased by 67% to 10TWh. As an example of their progress, the company presented the signing of a long term power purchase agreement for 50MW of wind energy for its production assets in Texas. This will save 1.5Mt of CO_2 over the length of the agreement.

Furthermore, with innovation in new plants and the modernisation of their existing asset base they will reduce energy consumption per volume of production by 5%. 0.7Mt of their CO_2 emissions comes from transportation activities, which they aim to reduce by converting 20% of their truck fleet to alternative fuels. With customers, they work on capturing waste CO_2 in the production process and either reusing it or using technology to store it. We also had the opportunity to meet experts from the Electronics business and discussed how they were working to create a new family of gases that can replace some of the most harmful greenhouse gases used in the etching process for semiconductors.

Air Liquide also highlighted other initiatives for contributing to a new low carbon society. Two main areas, which are already producing revenues for the company, are biomethane and hydrogen. Within biomethane Air Liquide already has 60 retail stations and 12 production units. Their value lies in the biogas purification process with the proprietary membrane technology they hold. The main end-users include transport and industry.

In hydrogen there are uses in mobility, decarbonising end uses and also in enabling the renewable energy system. Air Liquide currently has 120 stations worldwide and is investing in the world's first large-scale liquid hydrogen production unit dedicated to hydrogen energy markets. This investment will be on the west coast of the United States and will help enable the deployment of hydrogen fuel cell vehicles across this market. Air Liquide is directly driving investment in the hydrogen market and via its position on the Hydrogen Council with 53 other leading global businesses. Together their technology and investments will help foster the energy transition. The Hydrogen Council believes that hydrogen energy could account for a 6 gigaton annual abatement in CO_2 and 18% of final energy demand by 2050. Finally, the Group CFO showed that approximately 50% of the yearly innovation expense (or ~€100m) is used to reduce the carbon footprint and 30% of the NEOs efficiency objectives are linked to reducing Air Liquide's carbon footprint.

Overall, the Climate Objectives day clearly presented how Air Liquide is working to reduce its own carbon intensity whilst preserving growth and returns for investors. Their ambitions lead the industry and their investments are helping to drive energy transition to less polluting means. Pyrford will continue to monitor the progress of Air Liquide in reaching its internal emissions objectives and also the investments it is making in driving a low carbon society.

COMPANY: **Bursa Malaysia** COUNTRY: **Malaysia** ISSUE: **ESG Practices** HOLDING: **No**

BACKGROUND: Bursa Malaysia is a fully integrated stock exchange based in Malaysia. The company is the sole operator of the securities and derivatives exchanges and their clearing houses in Malaysia.

Pyrford sought to understand how Bursa Malaysia, as a key participant in the financial market in Malaysia, were fulfilling their social duty to improve the ESG practices and disclosure of those companies listed on their exchange.

SUMMARY: Bursa Malaysia highlighted that it became compulsory two years ago for companies to publically produce a sustainability report. The initiative was brought in on a phased basis with the hard deadline coming into place this year. In 2018, all companies listed on the Bursa Malaysia exchange will have to produce a sustainability report.

Bursa Malaysia also noted that non-compliance does not cause too much concern; rather they expect there will be large differences in quality initially. The regulation team will continually work with companies to improve the quality of their policies and disclosures in this area. Bursa Malaysia's requirements are in line with other exchanges globally.

Pyrford are confident that Bursa Malaysia is putting the necessary steps in place to increase the awareness and highlight the importance of ESG in Malaysia. Pyrford look forward to gaining more insight on the ESG credentials of potential investee companies in Malaysia.

COMPANY: **ComfortDelgro** COUNTRY: **Singapore** ISSUE: **Environmental** HOLDING: **Yes**

BACKGROUND: ComfortDelgro is a land transport operator based in Singapore with taxi, bus and rail operations across Singapore, UK/Ireland, Australia, China as well as Vietnam and Malaysia.

Our external ESG research providers, MSCI, had highlighted that ComfortDelgro's carbon emission intensity had increased by 27% between 2015 and 2016.

Pyrford wanted to understand ComfortDelgro's policy to reduce carbon emissions and what their quantifiable reduction targets are.

SUMMARY: ComfortDelgro's carbon emissions are mainly from their bus and taxi divisions. The company stated that their objective is to reduce carbon emissions, however for buses, the type of buses used is not within their control. The Land Transport Authority decides what kind of buses are used as they are the owners of the assets. For their taxi division in Singapore, all of their taxis are moving to Euro 6 engines, which are more fuel efficient.

They see the next transition for their taxis and buses is from internal combustion engines to electric which will help them reduce their carbon emissions. The representative from ComfortDelgro thinks there are set quantifiable reduction targets but was not aware of what they are.

Pyrford will continue to engage with them to reduce their carbon footprint and to disclose their reduction targets.

COMPANY: **Essity** COUNTRY: **Sweden** ISSUE: **Environmental** HOLDING: **Yes**

BACKGROUND: Essity is a hygiene and health company based in Sweden. The company sells consumer tissue products including toilet paper, facial tissues, wet wipes and napkins. The company sells complete hygiene solutions including hand towels and soap dispensers to professional customers. Essity is also a leading player in personal care, selling incontinence products, feminine care, nappies and medical solutions.

Pyrford wanted to understand what the environmental impact of Essity's operations are.

SUMMARY: We met with the company to discuss this in August 2018. We have been particularly impressed by the company's sourcing of raw materials. They require all suppliers to produce or purchase sustainable timber and paper. They must also verify their compliance. All products are FSC® or PEFC™ certified and this is considered best practice in the industry.

We also engaged with Essity on the other chemicals used in their products. These are often essential elements in the absorption of liquid. We are pleased that the company has plans to reformulate certain chemicals while others chemicals of concern have already been phased out.

COMPANY: **Hasbro Inc.** COUNTRY: **US** ISSUE: **Product Safety** HOLDING: **Yes**

BACKGROUND: Hasbro is one of the world's largest play companies; designing, manufacturing marketing toys, games TV programmes in North America and Internationally. Our external ESG research providers, MSCI, highlighted a controversial claim made by a third party consumer rights body in the USA. The U.S. Public Interest Research group (US PIRG) which is a consumer advocacy group, alleged that Hasbro's products (Hasbro Playskool pencil crayons marketed to playschool aged children), contained toxic levels of asbestos. The allegation was made on 8th August 2018.

Pyrford enquired about the controversy and sought further information and clarification as to the extent of the problem and risks associated. Furthermore, Pyrford was keen to explore the mitigation processes in place and whether this was an indication of wider problems, subsequent litigation and reputational damage

SUMMARY: The company representative made clear that the allegations were taken very seriously and when they were made the products concerned were manufactured by a small single manufacturer and sold in two stores (including the Dollar General stores in the US). The interest group (US PIRG) provides back to school product recommendations and other reports and allegedly found Tremoline inside the crayons. Tremoline is a type of asbestos that can lead to lung cancer and mesothelioma if ingested or inhaled.

The company had launched an internal investigation into the allegations. The manufacturing facilities; sourcing and ingredients used were all evaluated, and the crayons were sent to an independent third party for testing. The 3rd party laboratories were those used by the US regulatory oversight body themselves; who found the products to be entirely free of asbestos; with no traces detected.

The interest group also alleges that there were other noxious chemicals found in other products such as dry markers; plastic ring binders etc. and phthalates in plastic bottles. The company highlighted that the products were sold in two small retail locations in the country and it was hard to verify whether the items bought by the PIRG were Hasbro's products. Furthermore, the single manufacturing company used had been thoroughly inspected and ongoing checks were being made as a precaution. However, the representative emphasised that such incidents were potentially highly damaging and took the claims very seriously; yet this case seemed entirely unfounded.

Pyrford were satisfied with this response and will not pursue the issue further. However, dangerous contaminants in products and strict regulatory oversight of ingredient quality are a central aspect to Hasbro's operational performance, given potential reputational risk and the company's responsibility to provide safe and high quality products to customers.

COMPANY: **Imperial Brands** COUNTRY: **UK** ISSUE: **Collective Engagement** HOLDING: **Yes**

BACKGROUND: Imperial Brands is a global tobacco manufacturer and distribution company headquartered in Bristol, England. Following a period of weak share price performance driven by significant regulatory activity in the US and several governance issues, the opportunity arose to be part of a collective engagement with other investors who wished to examine these events in further detail with the company.

SUMMARY: In February 2018 Pyrford received an invitation from the Investor Forum to participate in a Collective Engagement in respect of Imperial Brands. The Investor Forum is an organisation set up to facilitate dialogue between shareholders and company representatives by highlighting areas of common concern that members may have about a company. The Forum then plays a role in explaining these issues to the Boards in question in a clear and concise manner.

An initial conference call was set up between Pyrford and the Investor Forum to explore the details of the grounds for engagement before deciding whether to participate or not. That discussion revealed several areas of common concern between Pyrford and other Forum members. Some of these issues were operational, such as the best way to meet the challenge from the rise of Next Generation Products (NGPs - vaping and heat not burn products) but the conversation also encompassed some traditional governance issues such as the integrity of accounting practices given the frequent use of restructuring charges, whether the current Board composition included enough relevant experience to face the challenge posed by NGPs and whether the remuneration policy was optimally designed. Based upon this common ground it was decided to opt in to a collective engagement for the first time since our membership of the Forum had begun.

The Investor Forum then proceeded to draft an engagement strategy document to accurately reflect the views of the various member participants. This outlined the core issues of engagement and the next steps to be taken.

An initial letter was composed and sent by the Investor Forum in April 2018 to the Chairman of the Board at Imperial Brands, Mark Williamson, outlining the topics that had been raised during the exploratory conversations that had been conducted with its members.

Mr. Williamson replied in writing at the beginning of June 2018 having shared the content and points of view in the Forum's letter with the rest of the Imperial Brands Board at their May 2018 Board meeting. In this letter Mr. Williamson addressed the main points raised by the Investor Forum, in particular providing a robust defence of the strategy to address Next Generation Products and outlining the progress made on innovation in the vapour category such as the introduction of a pod based device and the use of nicotine salts. He also extended an invitation to meet in person with himself and the CEO, Alison Cooper, to further discuss the key issues for Investor Forum members.

That invitation was accepted and so a meeting was held between the Investor Forum representatives and Imperial Brands on 5th September 2018. This provided an opportunity to delve into some of the issues in more detail. In this meeting the Chairman emphasised that the issues raised during the collective engagement process had already been considered closely by the Board during their normal course of business. Mr. Williamson was keen to stress the breadth of staff skills and experience that were available to the company to combat the challenge posed by Next Generation Products. He also offered his thoughts about how to provide better reporting disclosure on those parts of the business that were new (essentially the Next Generation Product portfolio).

Given the progress that had been made over the course of several months the engagement was formally closed in October 2018. In the eight months since the engagement had been initiated there had been an open and productive discourse between management and the group of investors represented by the Investor Forum. Should events unfold in a manner that once again ignite investor concern on the topics that were covered then the option remains to re-engage in the future if required.

Pyrford will continue to monitor the situation going forward in future contact with the company. Given the high level access and dialogue that resulted from the episode Pyrford was impressed by the results of its first foray into the world of collective engagement. Although joining such actions will clearly not be suitable every time the opportunity arises, this experience has suggested to Pyrford that collective engagements will be a valuable addition to the tools at our disposal when needing to effectively communicate displeasure to a company management and press for suitable change.

COMPANY: **Japan Tobacco** COUNTRY: **Japan** ISSUE: **Child Labour** HOLDING: **Yes**

BACKGROUND: Japan Tobacco is one of the world's largest cigarette manufacturing companies.

In June, the Guardian newspaper published an article focusing on the child labour practises within the tobacco industry and Japan Tobacco was highlighted. We contacted the company for a response.

In the article Japan Tobacco does set out the various policies and initiatives pursued by different tobacco companies, including Japan Tobacco. We wished to find out whether there were any further initiatives, which were not already mentioned in the report and to use our influence as shareholders to ensure that everything was being done to address this issue.

SUMMARY: The company sets out clear polices on its supply chain management on its website and our contact at the company referred us to some of the specific policy documents relating to child labour. Japan Tobacco recognises the importance of supporting the communities which supply tobacco leaf to the company; this includes helping farmers become profitable over the long term through their Grower Support Program.

The company publish their agricultural labour policies document, which specifically states that child labour is not acceptable, with polices based on International Labour Organisation Conventions.

Japan Tobacco has also set up a joint initiative called ARISE in conjunction with the International Labour Organization (ILO) and Winrock International, with the aim of eliminating child labour in tobacco growing communities where the company is active. The organization supports funding for and access to education for children in countries such as Malawi, Brazil and Zambia. We will continue to engage with Japan Tobacco at every opportunity to ensure they retain high levels of industry best practice within their supply chain.

COMPANY: **Microsoft Corp.** COUNTRY: **US** ISSUE: **Workplace Discrimination** HOLDING: **Yes**

BACKGROUND: Microsoft Corporation is an American multinational technology company.

Following allegations of sexual discrimination and harassment – first reported by Reuters in March 2018 – the company faced wider press scrutiny with regards to the internal culture at the company. The story reported that the company was being sued for systematically denying pay rises or promotions to females. Plaintiffs who files a lawsuit in Seattle Federal courts in 2015 cited that 238 such complaints about gender discrimination or sexual harassment between 2010 and 2016.

Pyrford contacted the company to gain further information and insight into the situation and events; to ascertain whether such allegations were indicative of a systematic problem with the firm and for further information as to the reputational risk mitigation efforts. In addition to express Pyrford's concern that the company's internal culture in reality does not reflect stated values around gender equality and unease that sexual harassment might have occurred.

SUMMARY: The company was at pains to respond publicly and directly to explain that these reports were in conflict to the company's actual values. The press coverage was amplified in the context of wider exposure and press coverage of many public cases at the time involving high profile names.

The Governance Director also pointed Pyrford to the corporate email sent to all employees and posted on the public website. The email, from the Chief People Officer on 15th March was comprehensive in its defence.

In essence the company defends itself and argues it has strong policies against discrimination of any kind and sexual harassment and has multiple mitigation strategies in place. The company became the first of the Fortune 500 to endorse legislation in favour of public court hearings for any claims of sexual harassment. The company has argued any complaints to HR should be kept confidential and non-public in order to avoid deterring future reports by staff who have any issues.

The Governance Director also emphasised the extent of the processes and safeguards in place to investigate any allegations and respond expediently. The company did not comment on the reports that attorneys are attempting to file a class action lawsuit covering 8000 women as the Judge has not yet ruled on this request.

Pyrford were satisfied that appropriate action was being taken and shareholder concerns were taken on board. However Pyrford will follow up with the company once further legislative responses have been disclosed.

COMPANY: **Power Assets** COUNTRY: **Hong Kong** ISSUE: **Environmental** HOLDING: **Yes**

BACKGROUND: Power Assets Holdings Limited (PAH) is a global investor in energy and utility-related businesses with investments in electricity generation, transmission and distribution; renewable energy; energy from waste; gas distribution and oil transmission. We contacted Power Assets Holdings to gain their response to Climate Action 100+ initiative which is led by investors to engage with systemically important greenhouse gas emitters and other companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the 2015 Paris Agreement.

We raised a few questions to understand if the company has analysed the way in which rising global temperatures will impact their business and whether the company has taken steps to reduce the amount of carbon emissions as well as any specific targets set for reductions. We also asked Power Asset whether a member of the board has been given specific responsibility for monitoring the company's progress in the Climate Action 100+ initiate.

SUMMARY: The company responded that they have analysed how rising temperatures impact their business and gave a detailed breakdown on their steps to reduce carbon emissions. For example, they planned to reduce coal fired plants from 5,590MW to 3,200 MW after 2020 whilst increase gas fired plants from 4,377MW to 5,547 MW. In the renewable energy sector, they are willing to support the development of Renewable Energy and help combat climate change by purchasing electricity generated by the grid-connected Renewable Energy Power System.

They also highlighted their plans for both electricity and gas distribution in a low carbon economy such as setting up smarter network to facilitate the influx of renewable energy generation and the reduction of voltage utilising smart meters. They also aim to convert the gas grid in the North of England (see H21 North of England) from natural gas (methane) to zero-carbon hydrogen.

PAH said that they, together with its investments, are collaborating with the governments of various jurisdiction, industry peers, and academia towards an hydrogen economy. The focus point is safe and cost effective hydrogen generation and high-efficiency carrier which is zero or near –zero carbon emission at point of use.

The company further confirmed that CEO Mr. Charles Tsai is responsible for monitoring the progress in this area. However, they also admitted that they have not made plans to make climate related financial risk disclosures yet.

We will continue to engage with Power Asset Holdings to ensure they retain best practice to drive the clean energy transition and help achieve the goals of the 2015 Paris Agreement.

COMPANY: **Rio Tinto** COUNTRY: **Australia** ISSUE: **Data & IT Security** HOLDING: **Yes**

BACKGROUND: Rio Tinto is an Anglo-Australian multinational and one of the world's largest metals and mining corporations. In recent years Rio Tinto have been pioneering the use of autonomous and remotely controlled vehicles and equipment in the mining industry as a path to increasing safety and efficiency. By mid-2018 they were controlling most operations at their mine complex in the Pilbarra in Western Australia from an operations centre on the outskirts of Perth, more than 1500km away. This includes running fully autonomous iron-ore haulage trains from the mines to the ports.

Given the increasing reliance on computer controlled heavy equipment and the concentration of control at a single site we wanted to ensure that the company was taking appropriate action to ensure safety and security in the event of communications between the control centre and operations failing.

SUMMARY: At a meeting with senior members of the Investor Relations (IR) team in London in June we asked what protections were in place against accidental or deliberate interruption to the communication between the Perth operations centre and the mine complex. We were the first investors to have asked this question so IR were unable to answer on the spot but did come back to us a day later with a response.

For sensible reasons the company did not disclose the full details of their security provisions but they did confirm that their communications network is designed with backup and alternative routes which can be used if necessary. In addition the control centre has two separate connections to the power and fibre networks as well as back-up generators and uses cloud computing which would allow for operations to be managed from a new venue if necessary.

All systems are regularly tested with business recovery exercises and all systems can revert to independent local operation in the event of a complete failure of the control network.

COMPANY: **Sanofi** COUNTRY: **France** ISSUE: **Vaccine Safety** HOLDING: **Yes**

BACKGROUND: Sanofi is a global healthcare company. Its growth areas include Diabetes, Vaccines, Rare Diseases and Consumer Health. In December 2017, the Ministry of Health in the Philippines decided to suspend the Dengue fever vaccination program in the country pending further review of the safety of Sanofi's vaccine, Dengvaxia. The Philippines Department of Justice announced that they were filing charges against Sanofi employees involved in the clinical trials of the vaccine, as well as members of the former administration.

In light of these developments, Pyrford was concerned about the safety profile of this vaccine in other high endemic countries, as well as the possibility of negligent or unethical behaviour on the part of Sanofi employees.

Dengvaxia provides persistent protective benefit against dengue fever in those who had prior infection. Sanofi has confirmed, however, that for those not previously infected by the virus, 'more cases of severe disease could occur following vaccination upon a subsequent dengue infection.'

SUMMARY: Our first engagement with Sanofi on Dengvaxia was in June 2015 with Oliver Charmeil (SVP Vaccines). At the time there was considerable hype surrounding a 'blockbuster' vaccine for dengue fever. We had read reports about some safety and efficacy issues surrounding the vaccine and quizzed Mr Charmeil on these issues. His comments at the time were that the vaccine was most efficacious on dengue serotypes 3 and 4. There had been some negative studies, but Mr Charmeil stated that 'the data doesn't show that the situation gets worse' post vaccination.

Subsequent to this meeting, it was clear that there were some genuine safety concerns with the vaccine. This culminated in its suspension by the Ministry of Health in the Philippines.

We have talked to Sanofi throughout the past year about some of the issues surrounding Dengvaxia, in meetings and through email correspondence. Our concerns with conclusions - were as follows:

1. Ensuring that Sanofi was doing all it could to tighten the labelling of its vaccine to protect future patients. Conclusion: Vaccination will only be recommended when the potential benefits outweigh the potential risks. For individuals who have not been previously infected with the disease, vaccination will not be recommended. The new label proposal will be reviewed by national regulatory agencies in each of the countries where the vaccine is registered or under registration.

2. Understanding how much Sanofi knew about these safety concerns prior to the immunisation programmes beginning, and who is being held accountable. Conclusion: On this issue the company has been vague and non-committal in its answers. They have simply stated that 'Dengvaxia was launched in the Philippines in 2016, based on twenty years of clinical research conducted to the highest ethical standards involving thirty thousand people in large scale trials.'

3. Whether the individuals that had become ill with a severe form of the disease had fully recovered. Conclusion: All cases recovered after symptomatic treatment and re-hydration therapy.

4. Establishing if there are any other countries where the vaccine poses a risk. Conclusion: The company has stated that the situation they see in the Philippines 'is very different to what we see in the rest of the world.' However, as stated above, Sanofi is in contact with the health authorities where the vaccine is available or registered to update the prescribing information of Dengvaxia.

5. Whether a 'Rapid Diagnostic Test' (RDT) had been developed that can assess prior dengue infection as an aid to vaccination. Conclusion: Sanofi is developing such a test, and an optimised RDT is expected to be available at some point in 2020.

We will continue to engage with Sanofi about this important issue at every opportunity.

COMPANY: **Texas Instruments** COUNTRY: **US** ISSUE: **Executive Compensation** HOLDING: **Yes**

BACKGROUND: Texas Instruments (TI) is the largest US semi-conductor chip vendor. The company designs, manufactures and sells a diverse portfolio of embedded processors and analogy chips. Whilst the company has an overall high ESG score, the company's corporate governance score is lower than average. Five directors have served on the board for over ten years together and these include the Chairman (Richard Templeton and CEO up to June 2018) and lead director Wayne Sanders. Even though three new directors have been added since 2015, long standing directorship and low turnover remains a concern as this could compromise the effectiveness of the board. Additional concerns around the long tenures of the Pay Committee and unchecked CEO pay practices have been highlighted. A significant portion of CEO pay (73%) is derived from stock options that include early vesting provisions unrelated to performance. For example $36m in 2016 realised pay for Richard Templeton (CEO) was from stock options vesting in 2018. Options with more direct performance related vesting provisions would align pay better to shareholder interests.

SUMMARY: Pyrford held a call with the company to explore further performance based pay. Pyrford were keen to express the need for adequate shareholder alignment and understand the risks inherent in any incentives based on short term targets or financial metrics that encourage excessive risk taking and/or erosion of long term shareholder capital appreciation in order for executives to meet their compensation targets.

The company explained that the executive compensation process was carefully thought through and shareholder alignment a priority – for the long term as demonstrated by the cash returns to all owners in the business (common shareholders and insiders/executives alike).

Long term incentives are central to the performance based pay and whilst a portion of the stock awards have significant early vesting options the majority of awards are not vested within the 4 year holding period.

Additionally the company has carried out a comprehensive review and employed third party analysts to measure the impact of a changed incentive policy, to bring into parity with peers. The findings implied that compensation plans more directly linked to performance comps and metrics used by peers would encourage the wrong strategy or short term or chasing of a metric to the detriment of long term economic investment.

Specifically the performance compensation is 50% equity. Of this, 50% is in the form share units that are retention based and can vest after 4 years. 50% is option based. These vest over 4 years at 25% a year or extend 2 more years average period is 6 years of holding. Hence, there is limited evidence of early vesting, or that such awards encourage a short term focus on performance in order to gain and cash out post vesting.

Performance based compensation will is structured to align with all owners – the wider shareholder base and executives. Pyrford will continue to engage with the company to ensure that compensation remains aligned to shareholders interest.

COMPANY: **Westports Holdings** COUNTRY: **Malaysia** ISSUE: **Health & Safety** HOLDING: **No**

BACKGROUND: Westports primarily manages port operations dealing with container and conventional cargo. It also provides a wide range of port services, including marine services, rental services and other ancillary services. Westports experienced 3 fatalities in 2016 and also continue to have one of the highest Long Term Injury Frequency Rates compared to global peers. Pyrford sought to understand the cause of the fatalities, whether any review/change of practices had been undertaken and finally whether there is any direct link between Health & Safety and senior management remuneration.

SUMMARY: Westports outlined that the fatalities were caused by workers 'deciding to undertake short cuts' and not follow the standard operating procedures that they have in place for all tasks. As a result of the fatalities they reminded the 800-1000 workers to follow the standard operating procedures. Westports are also reviewing their standard operating procedures with help from their majority shareholder Hutchinson and a third party consultant.

Disappointingly, Westports indicated that there is currently no link between senior management remuneration and Health and Safety. For all staff there is only an incentive for productivity. Following the meeting, the Head of Investor Relations Mr Chang KM raised the issues with the Group MD, Datuk Ruben. In response Westports 'will now look at whether and how we can incorporate and link fatality with remuneration for designated certain senior management levels, including Group MD himself and the CEO. The internal remuneration processes would need to be evaluated and assessed on how it can be amended to incorporate the changes required. We will include this in the Sustainability Report 2018 when the amendments have been adopted and approved.'

While initial signs are positive, Pyrford will continue to engage with Westports on this issue and monitor any change to policies and procedures.

10. 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 can be outlined across four main areas of operations: premises, travel, recycling and consumables.

Premises: In February 2014, the company moved into a recently completed purpose built office building. The building was designed to achieve high degrees of sustainability through the maximisation of natural light, adoption of energy saving lighting controlled by motion sensors, energy-efficient elevator programming and part-solar heating of water supplies. The building has been assessed by the "Building Research Establishment Environmental Assessment Method" (BREEM) and awarded "Excellent" certification for sustainability.

The building 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, all of whom arrive on foot, cycle or by public transport.

Within the office all paper, cans, PET bottles, glass and print toner cartridges are collected for recycling. All organic waste is sent for composting and spent coffee 'pods' returned to the manufacturer for reclamation.

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

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. Travel that is undertaken is monitored to optimise itineraries.

11. 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 indeed peers to engage on any of the issues raised.

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