TT UK – ESG Reporting

TT INTERNATIONAL

Author

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Basak is Head of Sustainability and Stewardship at TT. Working alongside the Investment, Risk and Marketing teams, she helps to integrate ESG across our long-only products. Before joining TT in 2020, Basak spent six years at Norges Bank Investment Management, where she collaborated closely with the Investment teams and senior management to integrate ESG into their investment process. Prior to Norges, she was a Portfolio Manager on Harvard University's endowment fund, investing in Emerging Markets in a long/short equity strategy. Basak graduated cum laude with an A.B in Economics from Princeton University. She also has an MSc in Management and Regulation of Risk from London School of Economics.

Firm ESG update

We strongly increased our collaborative engagements in nature and climate in 2024, including through the Nature Action 100 initiative and our involvement in Climate Action 100+'s first sector policy engagement.

ESG products: We won the ESG Investing award for 'Best ESG Investment Fund: Global Thematic' for our Environmental Solutions strategy for the third year in a row in 2024. We successfully completed audit for the Responsible Investment Association Australasia (RIAA) certification for this strategy, where we were recognised as a Responsible Investment Leader, ranking in the top 20% of 272 investment managers. We finalised our sovereign SDG scoring and our Sustainable Bond Framework ahead of the launch of the EM Debt strategies, which are Article 8 strategies.

Active ownership: We had 83 targeted ESG engagements with 67 companies. We voted at 378 meetings and published our voting records on our website.

We most often engaged with our investee companies on climate change, natural resource use/impact (biodiversity and water), executive remuneration, human and labour rights, conduct, culture and ethics (tax and anti-bribery), capital allocation, and reporting (accounting and sustainability disclosure).

We started the Nature Action 100 collaborative engagements with Grupo Mexico, Glencore, Vale, Zijin Mining, and Inner Mongolia Yili. Nature Action 100 is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. Our team prepared detailed assessments of each of the companies, and we are an active participant in all these engagements.

We joined Climate Action 100+'s first collaborative sector policy engagement on green steel, working with the Institutional Investors Group on Climate Change (IIGCC) and two other asset managers on a "green steel" policy paper. TT's focus was on stimulating demand for green steel and what measures policy makers can take. In July 2024, we travelled to Brussels to meet with DG Energy, the European Commission department responsible for the EU's energy policy, and Eurofer, European Steel Association which represents the entirety of steel production in the European Union. The policy paper titled "Investor Priorities for Transitioning the European Steel Sector" was published in September 2024.

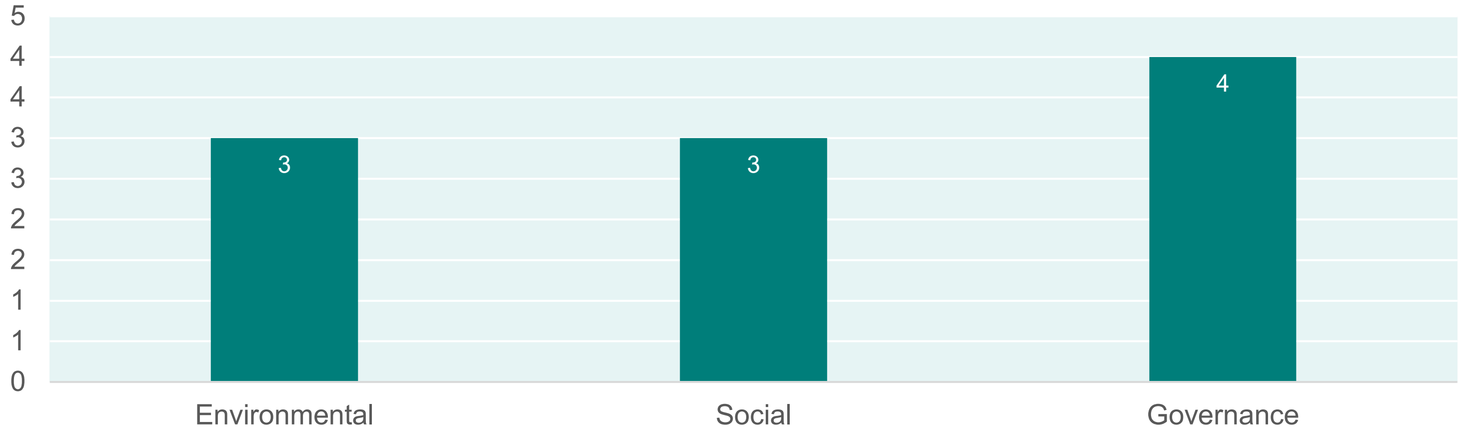
We participated in Jefferies EU Policy Trip to Brussels in November 2024 with policymakers in defense, agriculture, sustainability reporting, and climate adaptation and resilience. We also had two calls with DG Energy on the financial market barriers to energy transition in the EU and highlighted where the EU loans could be utilised with the greatest impact and where regulation was holding back investment.

Targets: We submitted our initial net zero commitment to the Net Zero Asset Managers initiative. We anticipate that the total AUM for our sustainable funds and assets managed for clients with net zero targets will reach 51.3% of the total AUM under our long-only equity strategies by 2030. Our 2030 target is that 50.5% of the AUM for our sustainable funds and assets managed for clients with net zero targets will have adopted science-based targets.

Reporting: We completed our inaugural TCFD report which covers TT's governance, strategy, risk management for climate change risks and opportunities, and metrics and targets. We published our fourth stewardship report and successfully renewed our status as a signatory to the UK Stewardship Code; we have now been a signatory to the UK Stewardship Code since 2021.

Engagement Breakdown by Theme

We had 7 targeted ESG engagements in 2024 with 7 companies in the UK strategy covering environmental, social, and governance topics (at some engagements, we discussed multiple topics across environmental, social, and governance areas.)



Engagement highlights

Governance

Shareholder Rights

In January 2024, we questioned **Renewi**'s response and disclosure of the Macquarie takeover, specifically asking the company why it chose to not make the offer public in the first instance. The management explained they did not feel the offer reflected the value of the underlying business and they could increase the optionality by executing the exit from the UK Municipal business. This was successfully executed in late-May 2024, and Macquarie came back with a higher offer for the remaining business at the end of November.

Anti-Corruption

We engaged with **Endeavour Mining** in January 2024 on the ongoing investigation regarding a security payment orchestrated by the CEO to an unauthorised bank account. The CEO was terminated for not requesting permission for the £5.9 million payment to be transferred to a third-party account, and it was also revealed that there was a whistleblowing complaint made against him in October 2023 regarding his behaviour. Endeavour maintained that it has the controls in place, and the operations are continuing as normal. We discussed the company's succession planning. Endeavour assured us that they were working to claw back the money lost, and the CEO was later stripped of remuneration worth $29 million.

Environmental

Climate

In February 2024, we co-signed a Climate Action 100+ letter to **BP**'s new CEO, expressing our concerns about BP's lack of consultation before announcing its revised climate-related targets in the prior year. The letter urged the company to avoid further downward revisions and to prioritise implementing its climate strategy while maintaining ongoing dialogue with investors as it plans its 2025 energy transition updates. We also sought assurance regarding BP's investment in short-cycle oil and gas projects, requesting details on break-even prices, carbon intensity, and the allocation of capital between new and existing assets, particularly in the context of the company's $8 billion additional investment in oil and gas by 2030. Finally, the letter welcomed BP's investments in transition growth engines and emphasised the need for the company to demonstrate the value and returns from these initiatives to the market.

Trainline has also been proactive in reducing its environmental footprint. In February 2024, we engaged with the company to better understand the environmental benefits of the company's business model. Trainline pointed that It aims to lead awareness on sustainable rail in the UK, and noted that its e-ticket service saves paper and has improved convenience and accessibility for passengers, thus encouraging more people to travel by rail, which is significantly less carbon-intensive compared to other modes of transport – three times less carbon-intensive than driving and seven times less carbon-intensive than flying.

Social

Indigenous People

After **Smurfit Kappa**'s acquisition of Westrock, we engaged with the company to assess the merger's impact on the company's ESG practices and sustainability targets, focusing on biodiversity, engagement with indigenous communities in Colombia, and water quality. Smurfit emphasised its ongoing dialogue with the Misak indigenous group, including their visits to its Dublin offices, and criticised MSCI's controversy designation, citing the omission of its constructive dialogues and refuting accusations from opposition campaigners, SumOfUs.

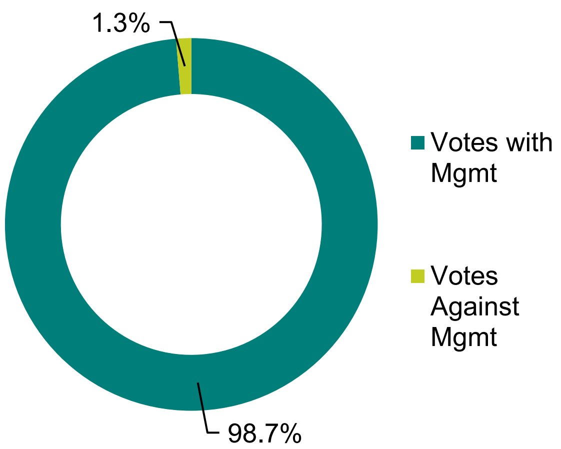
Health and Safety

In December, we contacted **Balfour Beatty** over a report alleging negligent maintenance of military housing and sought engagement with the company on its failure to address a sewage leakage which caused a life-altering infection in a child. Balfour Beatty said that since the matter is the subject of litigation, it cannot comment beyond saying it believes the claims are entirely without merit and that it will defend itself vigorously. Balfour also clarified that the Department of Justice (DoJ) are aware of the litigation but are not investigating the matter separately to the ongoing monitoring, which is expected to end in September 2025.

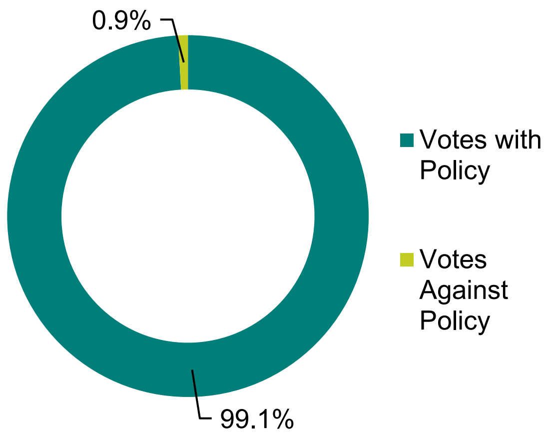
Cross-Cutting

We engaged with **Puma** in January over concerns about its remuneration policy as well as potential exposure to forced labour through its connection with supplier Gain Lucky. The company acknowledged the compensation plan as a legacy of the previous management and reassured us that it was in the process of being amended. We recommended that the renewed policy provide more transparency on short-term incentives and simplify long-term incentives to align with best practice standards. Puma also clarified that it has a policy against sourcing from Xinjiang and that suppliers do not produce garments for brand with less stringent stipulations. The company is introducing random isotope testing to improve traceability and has targets in place to continually improve labour standards. Puma updated its remuneration policy in 2025 and set a more ambitious TSR target for the long-term incentive plan; although the below-median vesting still persists, albeit much less severely vs before.

Proxy voting – Alignment with management



Proxy voting – Alignment with Policy



Source: ISS

Proxy voting - Highlights

- We voted at 60 meetings (out of 60 meetings, or 100%) in the twelve months ending 31-December-2024.
- Votes cast during the reporting period were least in line with management on non-routine business matters related to environmental matters.

Proxy voting – Significant examples

- **AstraZeneca PLC (04/2024) Approve Remuneration Policy**
  We had previously abstained when ISS recommended voting against, sympathetic to the company's argument that overall pay is conservative versus global peers but still concerned that AstraZeneca was going off-cycle to adjust policy after having its three-year policy approved in 2020. We maintain that the increase to executive pay is important for CEO retention as well as senior and R&D roles, and specifically important for the UK stock market by preventing de-listings and relisting in the US. We disagree with the practice of comparing AstraZeneca solely to European peers or the FTSE 100, as Glass Lewis and ISS do. Our analysis showed that the company's performance-conditioned pay is more stretching than US peers. We therefore diverged from ISS and voted in favour of the proposal.

- **Beiersdorf AG (04/24) Elect Wolfgang Herz to the Supervisory Board**
  ISS recommended voting against Wolfgang Herz, along with the other non-independent nominees, Reinhard Poellath and Frederic Pflanz, citing the failure to establish a sufficiently independent board and remuneration committee. We followed ISS's recommendation and voted against these affiliated board members, noting that board independence has not improved over time, and committee independence will actually decrease following this AGM. While the company has a controlling shareholder, it should still prioritise improving independence of board committees, and excluding employee representatives (6 out of 12) from the independence calculation is not entirely accurate, as some serve on key committees (audit and remuneration).

- **Glencore Plc (05/2024) Approve 2024-2026 Climate Action Transition Plan**
  ISS recommended abstaining from voting, finding it difficult to reconcile the company's activities around coal with Paris goals whilst also positively noting the introduction of a new 2030 target which covers all scopes and is absolute in nature. Most concerning in our assessment was the company's explicit unalignment with IEA's Net Zero Emissions scenario, the increasing capex on coal, and that they will progress the brownfield investments at Hunter Valley, Ulan, and Hail Creek. Notably, we found in nominal terms CAPEX on coal increased by 27% year on year in 2023 from 2022. Indeed, we found Glencore's efforts to reduce coal usage insufficient, exposing the company to potential legal challenges in the long-term, and voted against the company's 2024-2030 climate action transition plan.

Weighted average carbon intensity – (t CO_2E/$m sales)

	Portfolio	Benchmark
Weighted Avg. Carbon Intensity	75	73

Source: MSCI
Carbon intensity: Portfolio coverage 98%, Benchmark coverage 94% (not scaled to 100%)

Top 5 contributors to weighted average carbon intensity

Rank	Company	Portfolio weight	GICS Subsector	Carbon intensity	Contribution to weighted average carbon intensity
1	Breedon Group	1.5%	Construction Materials	893	18.1%
2	CRH	1.1%	Construction Materials	866	12.8%
3	Jet2	2.0%	Passenger Airlines	425	11.1%
4	Shell plc	1.9%	Integrated Oil & Gas	275	6.8%
5	Glencore	4.2%	Diversified Metals & Mining	118	6.7%

Source: MSCI

Comments

- **Breedon Group** (18.1% of the portfolio's carbon intensity) is a leading vertically-integrated construction materials group. The SBTi has verified Breedon's near-term target to reduce absolute gross Scope 1 and 2 GHG emissions and Scope 3 emissions from purchased clinker and cement by 23.3% by 2030 vs 2022. Breedon aims to achieve these through the increased use of alternative fuels; the firm achieved a combined rate of nearly 50% fossil fuel replacement with its modern plant in Kinnegad, exceeding over 90% at times. Breedon has also increased sales of CEM II cement, a lower clinker content product. Breedon reduced the carbon emissions per tonne of product by 5% in 2023.
- **CRH** (12.8% of the portfolio's carbon intensity) is a leading global building materials business. Due to CRH’s higher use of agglomerates, it has a significantly lower carbon footprint than pure-play cement peers. The company has SBTi-approved targets to reduce Scope 1 and 2 GHG emissions by 33.5% per tonne of cementitious product by 2030 from a 2021 base year. CRH is working to reduce the clinker content in its cements by substituting with low-carbon ingredients called supplementary cementitious materials. In 2023, the company's Scope 1 and 2 emissions decreased by 8%.
- **Jet2** (11.1% of the portfolio's carbon intensity) is the #1 UK tour operator and the third largest UK airline. The company has pledged to Net Zero by 2050, and has also adopted a medium-term target to reduce Scope 1 and 2 emissions intensity by 35% by 2035 to 43.6 grams of carbon dioxide per revenue passenger kilometre (gCO2/RPK) from a 2019 calendar year baseline of 67.0g. JET2 is seeking SBTi validation for this target. The company is aiming to use 15% Sustainable Aviation Fuel in its total fuel mix by 2035 and reduce the carbon intensity of fuel by 80% on average compared to conventional jet fuel.
- **Shell plc** (6.8% of the portfolio's carbon intensity) is a global energy and petrochemicals company. Shell has a target to become a net-zero emissions energy business by 2050 across its Scope 1, 2 & 3 emissions. Shell also has an absolute emissions reduction target to halve Scope 1 & 2 emissions from its operations by 2030 compared to 2016 levels. In 2024, Shell abated more than 1 million tonnes of CO2 from its operations, keeping total Scope 1 and 2 emissions roughly flat compared to the previous year despite increased utilisation.
- **Glencore** (6.7% of the portfolio's carbon intensity) is one of the world's largest globally diversified natural resource companies - a major producer and marketer of commodities with its mix skewed to later-cycle commodities, including copper, zinc, nickel, cobalt and coal; it is also a leading global trader of oil and agricultural products. Glencore aims to reduce Scope 1,2 and 3 industrial CO2e emissions by 25% by 2030, compared to a 2019 baseline. Additionally, the company is aiming for a 15% reduction by the end of 2026 and a 50% reduction by the end of 2035.

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