Annual Sustainability Report
April 2021

TM Fulcrum Diversified Liquid Alternatives Fund

FULCRUM

Executive Summary

At Fulcrum, we believe that Responsible Investing requires an innovative, holistic and integrated approach that, if done well, can lead to improved investment outcomes over the long term. We have developed the three pillars below to reflect the size and shape of our business given our multi-asset approach to investment. We feel that a clear understanding of this, our place in the investment ecosystem and a strong culture are key to maximising the effectiveness of our Responsible Investment efforts. Throughout this report, we reference our actions to each of the nine core elements to demonstrate to you how this works in practice.

We are pleased to report how we voted on your behalf, the portfolio's weighted average carbon intensity (WACI), your investments' alignment with UN Sustainable Development Goals and a breakdown of the portfolio's ESG risk level. All the data are reported to end of December 2020.

Three Pillars Governing our Vision

Innovative

Driving positive change

Thought Leadership
Contributing new ideas that move the industry forward

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Action
Selective adoption of genuine change

- Page 7 -

Evolution
Through action and adoption comes further change

- Page 9 -

Holistic

Thinking outside the box

Stakeholders
Applying the "multiplier effect" through third-party interactions

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Asset Classes
Integration of thinking across asset classes

- Page 8 -

Time Horizons
Assessment of the impact of RI over a range of time periods

- Page 7 -

Integrated

Working as one team

Cohesive
Embedding thinking throughout the whole of Fulcrum

- Page 4 -

Inquisitive
Constantly seeking to challenge the accepted norms

- Page 9 -

Ambitious
Desire to be at the Frontier of Investing

- Page 10 -

Firmwide Commitment to Responsible Investing

UN PRI Rated A Overall

Fulcrum has been a signatory of the UN PRI since 2015 and is committed to the six principles. Our overall UN PRI score in 2020 was **A** and we were awarded **A** for how we integrate ESG in our equity investments.

Supporting Decarbonisation

This year we became a member of the Institutional Investors Group on Climate Change to ensure our work is aligned with industry best practice. We signed up as supporters of ClimateAction 100+ to aid our engagement efforts and show our support on their work on decarbonisation. We also signed up to CDP (formerly Carbon Disclosure Project) and are one of 137 global financial institutions urging companies to set science targets in-line with net-zero by 2050.

Aligned with UN SDGs

For portfolios managed by the Fulcrum Alternative Solutions team, we aim to proactively identify investments with a positive linkage to the UN Sustainable Development Goals. Later in the report we demonstrate which SDGs are applied to our investment themes.

Integrating Better Data

We continue to explore the potential of new datasets and have expanded out range of data provides to include Trucost in addition to MSCI, Iceberg Datalab and Sustainalytics.

UK Stewardship Code 2020

Whilst not a direct signatory, Fulcrum is dedicated to the seven principles set out by the 2012 Stewardship Code, and we expect to submit our application for the next reporting deadline in October 2021.

Thought Leadership and Action

Fulcrum's investment approach is rooted in academic rigour and analytical tenacity. We believe in generating thought provoking research that stimulates debate and pushes boundaries. Last year we produced several whitepapers that are also published on our website. Click on the icon below to access our research.

Strategy Cycles, Mania and the Lessons for ESG Funds

"We propose that investment strategies move in cycles. From the initial seed of the idea, wherever that comes from, through to either its ultimate "expiry", or possibly a "reincarnation". It is clear to us that ESG (for want of a more clear and cohesive term) funds are very much in vogue at present and entering their Growth phase of the Strategy Cycle. Maximising the long-term chances of success for ESG funds is going to be pivotal in achieving individual and collective objectives. So, what lessons can be learnt from previous investment Strategy Cycles and what are the consequences for the ensuing growth of ESG funds?"

Global Equity Investing – Alignment with the Paris Agreement

"As carbon pricing begins to take hold and more asset managers and investors pay attention to climate change, we believe that climate aligned companies will benefit from both valuation expansion and profit growth. Our solution thoughtfully balances climate-alignment with expected returns and diversification benefits. In summary, it is committed to a weighted average portfolio temperature that is below 2°C – in line with the Paris Agreement; and is highly diversified across sectors and regions, thereby behaving much like the broader equity market."

Addressing the ESG Conundrum in a Reflationary Scenario

"During our daily scan of the financial news recently we noticed the clever (or coincidental) juxtaposition of two stories: one profiled an endowment that has recently decided to exclude fossil fuels from their portfolio and the other, which could be considered to lie in opposition, highlighted the increasing risks associated with reflation. The latter story suggested that traditional energy companies were one of the more effective ways to guard against rising inflation expectations. In the current climate, reflation is a *very real* scenario yet, running in parallel to this challenge, ESG risks are as prominent in our minds as they have ever been."

Using our Shareholder Voice

Where we invest in direct equities, we believe it is our duty to fulfil investors' rights to vote and engage with management. In order to assist the Firm in the independent assessment of governance issues, we use Glass Lewis, a leading independent corporate governance research provider, to analyse management recommendations and make vote recommendations. We receive Glass Lewis' research and conduct proxy voting on Broadridge's ProxyEdge platform.

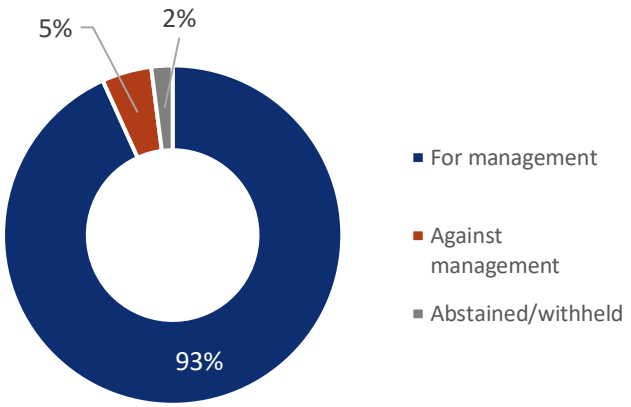
Within DLA's thematic equities, we particularly focus on climate change as a core engagement topic, encouraging companies to set science-based decarbonisation targets. With our external managers, we draw their attention to our position as a signatory to the UN PRI and encourage them to also be signatories and if they are not, explain why not and demonstrate their plans to do so.

Proxy Voting 2020

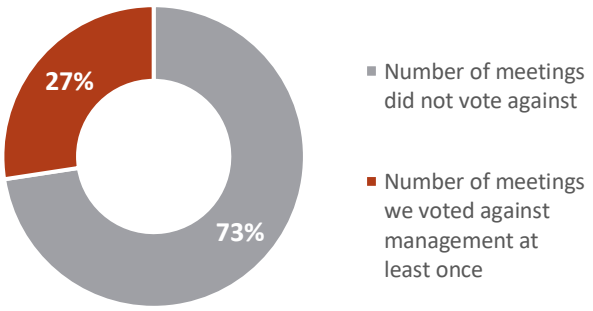
In the 12 months to end December 2020, we voted on 99% of all 2,242 eligible resolutions, of which 94% voted For, 4% voted Against and 2% Abstained. Out of the 199 meetings, we voted 73% For management proposals and 27% Against.

A variety of reasons could lead us to vote against management recommendation or abstain. These include lack of disclosures, non-executive directors serving on too many boards, disconnection between remuneration and performance or conflicts of interest.

How we voted



Voting against management



Challenging the Norm

Over the past year, an increasing number of companies and funds are reporting data on ESG metrics but the quality, standardisation and consistency remain an obstacle. In our portfolio, where we own direct equities and external managers in Real Assets, Diversifiers and Alternative Credit, non uniformity of data across these complex asset classes makes comparing and evaluating one set of ESG metrics incredibly challenging. This year we engaged with our managers, in particular in Diversifiers (hedge funds), to improve their data collection and reporting. We strongly believe it is our duty as money managers to make an impact on our industry.

Carbon Footprint

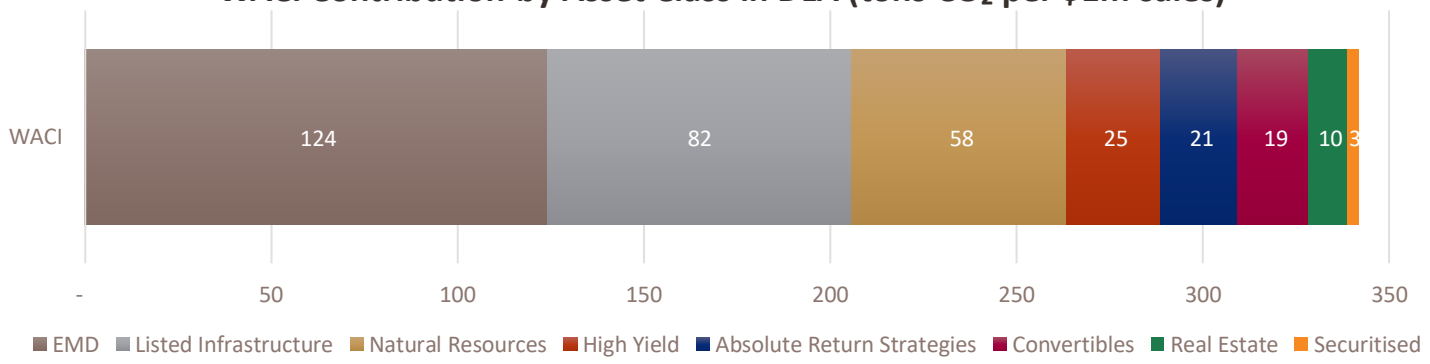
Carbon footprint is one way we can measure the exposure of our portfolio to climate change-related risks, namely our holding companies' carbon emissions of greenhouse gases (GHG). There are many methods of calculating carbon footprint and since becoming signatories to the Task Force on Climate-related Financial Disclosure (TCFD) in 2019, Fulcrum has adopted their definition and methodology.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

We believe the most comparable metric is the weighted average carbon intensity (WACI), measuring a portfolio's exposure to carbon-intensive companies for both equities and fixed income. This year, we have also requested our external managers to report on this and we are pleased to report that our integrated ESG investment process has led to a coverage ratio of 67%. Where managers were not equipped to do so, we actively engaged and offered our experience, hoping for a higher participation next time we report to you. With the remainder of the 33% portfolio, we proxied using published data of ETFs.

For the full year to December 2020, we can report that the Fulcrum DLA fund's WACI was **342 tons CO_2 per $1m sales**. We prefer the WACI as it measures the portfolio companies' emissions efficiencies but it has drawbacks using US dollar sales figures as these can fluctuate with currency and commodity prices. This is the method currently recommended by TCFD and we support greater comparability.

WACI Contribution by Asset Class in DLA (tons CO_2 per $1m sales)



Source: WACI was calculated with carbon data sourced from Sustainalytics and our external managers. Where figures were missing, the nearest ETF proxy was used.

Alignment with UN SDGs

The UN SDGs are an internationally recognised set of goals to help the world develop in a more sustainable way by 2030. Where possible, we align our idea generation and investment selection to have a positive impact on some of the goals. Given our long-term thematic approach to real assets, we are pleased to showcase how each of our themes are aligned. In Alternative Credit and Diversifiers, we believe our external managers can do more to identify key targets and measure themselves against the set goals.

ESG Considerations for Alternatives

Three years since our fund launch, traditional asset classes like equities and to some extent fixed income have evolved their ESG frameworks, but we still feel the alternative space requires further development and innovation. Leveraging our experience across Real Assets, Credit and Diversifiers (hedge funds) we have developed a proprietary matrix of asset specific questions, which helps us to score managers completely and consistently as well as ongoing engagement activities.

In conjunction with this report, we have published our Thoughts on Responsible Investing in Alternatives that details how we incorporate ESG at each step of the investment process. The following chart highlights some of the specific considerations we review for each asset class that forms one of our four key scores (explained next page).

Asset Class	Key Considerations	Impact
Real Estate	GRESB credential	The GRESB ("Global Real Estate Sustainability Benchmark") credential is key in the Real Estate sector as it sets the tone for how these assets are developed, perform and managed.
Infrastructure	Climate scenario analysis	Climate scenario analysis is key to measuring transition and physical risk due to temperature impact, and the eventual risk of stranded assets, which in turn can lead to adjustments in position sizing.
Natural Resources	Engagement prioritisation	The philosophy and approach to working with energy majors is critical within natural resources and reflects how voting rights are used as a tool to enact longer term change.
High Yield	Paucity of data	Active engagement with smaller companies to encourage greater consideration and transparency of ESG-related issues, particularly new issues where greater support is required.
Emerging Market Debt	Social & Environmental policy	Government action and support for the financial and physical wellbeing of its population and environment is critical. Green bonds and engagement during the price discovery phase of new bond issues is a key mechanism to encourage improving behaviour.
Securitised	Lending and mortgage servicing standards	Engagement with lenders and servicers to reduce the prevalence of predatory lending practices.
Convertibles	Creditor rights	In the absence of voting rights, where a manager is reviewing a new issue, engagement on bond terms to encourage greater ESG transparency and improving practices, especially where they are made 'private.'
Quant Hedge Funds	ESG risk influence	ESG data availability and reliability are common issues that are improving, however the ability to measure ESG impact quantitatively is in its infancy.
Fundamental Hedge Funds	Shorting ESG laggards	Understanding the due diligence and reasoning behind the decision to short a stock vs. engage is key in assessing the sustainability of returns over the long term.
Event Driven	Transaction announcement threshold	Assessing minimum ESG thresholds in place to initiate a position could lead to improved risk-adjusted returns.

At the Frontier of Knowledge

Proprietary Scores

External Manager Selection: We consider 'ESG Policy and Approach' a Key Ingredient for Competitive Advantage. We assign each investment opportunity a Sustainability Score of 1-4 using Sustainalytics and internal inputs, which directly impacts target returns and our decision making.

Bespoke Themes: We seek strategies that have long-term benefits from ESG factors e.g. Clean Energy, Agricultural Tech, Water & Recycling.

Research Pipeline

At the heart of every research project we consider ESG factors as part of our investment thesis to determine the return and risk potential. Our current pipeline include ideas that are directly related to climate change such as Renewable Energy as well as asset classes where ESG has driven product innovation in REITs and Sustainable Convertible Bonds.

Holistic Approach Across Asset Classes

Real Assets

Ideas are long-term and reflect global mega-trends such as demographic change, climate change and technology revolution.

Clean Energy Theme	4
Transportation Theme	2
Water & Recycling Theme	2
Sustainable Infrastructure Fund	4
Global Mid-cap Infrastructure Fund	3
Agricultural Tech Theme	3
Timber Theme	3
Water Fund	4
Gold ETF	2
REITs Themes	3
Global REITs Fund	4

Alternative Credit

Corporate Credit - Consider direction and quality of management intentions, gender diversity on Board, Independent Directors etc. Mindful of the nature of industries in which the companies operate and how they impact the supply chain.

Global Convertibles Fund	2
Asian Convertibles Fund	3
Global Mortgage Securities Fund	3
Sustainable Short Duration High Yield Fund	4
Global Senior Secured Bond Fund	3

Sovereign Credit - Understanding individual government policies across ESG factors identifying worst culprits, leaning towards best in class given risk/return objectives. Engagement to improve practices.

Emerging Market Total Return Fund	3

Diversifiers

Varying strategies from short-term to long-term significant alpha generation.

Often harder to embed ESG considerations into an investment process due to the nature of the underlying investments.

There are instances where we assigned fund managers a "1" ESG score and did not pursue further.

Systematic Macro Fund	2
Discretionary Macro Fund	2
Relative Value Fund	2
Equity Market Neutral Fund	3
Multi-Asset Trend Fund	2
Risk Premia Fund	2

Scores: 1 – Poor, 2 – Satisfactory, 3 – Good, 4 – Leading/Focused

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