Annual Sustainability Report 2022
Diversified Liquid Alternatives (DLA) Fund

Signatory of:

PRI Principles for Responsible Investment

UK STEWARDSHIP CODE

The Net Zero Asset Managers initiative

236 signatories with USD57.5 trillion in AUM

fulcrumasset.com

FULCRUM

Investment innovation
Macro foundations

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Working in harmony creates a reassuring investment process

2022 Sustainability Highlights

We are signatories to the Net Zero Asset Manager Initiative and support their goal of reaching net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius.

Our real asset optimal fund is classified under Article 8 and we also manage a climate change fund which is classified as Article 9 under EU SFDR. Please find our Principle Adverse Indicators (PAI) statement on our website. We look forward to expanding these PAIs and using them as Key Performance Indicators to measure our progress on ESG factors at a firmwide level.

In 2022, we grew our Human Resources team by hiring Tamsin Webster (Chief People Officer) and Gabrielle Tasker (HR Analyst). They have been instrumental in creating a management level training program and formalising our progression and promotion structure. We look forward to sharing updates on this in our Stewardship Report.

We are delighted to announce that we have joined the Diversity Project. We recognize there is a long way to go in creating a more diverse workforce in the asset management industry. We look forward to learning best practices from the initiative, collaborating with our peers and doing our part in building a workplace that embraces Diversity, Equity and Inclusion (DEI). Our DEI champions alongside our HR team are part of this effort. More details in our Stewardship Report.

DIVERSITY PROJECT

BUILDING INCLUSION IN INVESTMENTS & SAVINGS

Climate research is instrumental in how we think of sustainability issues from an innovative lens. In 2022, we formalised our climate risk team led by Gino Cenedese and Shangqi Han.

We have contributed a range of papers focusing on climate change risks and opportunities, which can be found on the research section of our website https://www.fulcrumasset.com/global/en/insights/#research

We are pleased to share our 2022 voting highlights:[1]

Fulcrum supported more climate related proposals than many of the world's largest asset managers during the 2021-2022 proxy season

452 votes against directors for insufficient oversight, disclosures, and targets in sustainability.

334 votes against pay for misaligned environmental and/or social incentives.

c. 1000 votes against companies, primarily for principles-based sustainability concerns.

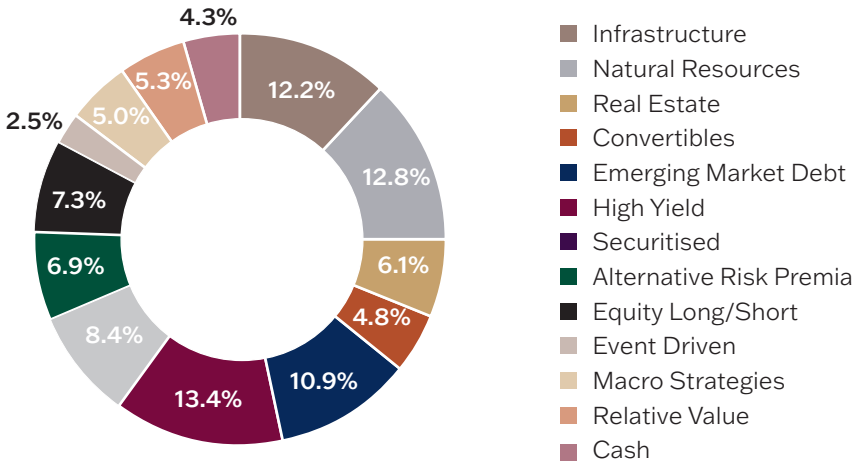
Click here to be taken to our detailed voting data You can find all our voting data.
An analysis on our 2022 proxy season can be found here.

1 Data sources: ShareAction ("Voting Matters", 2021 and 2022 editions), Fulcrum Asset Management, Glass Lewis

Introduction to the Fund

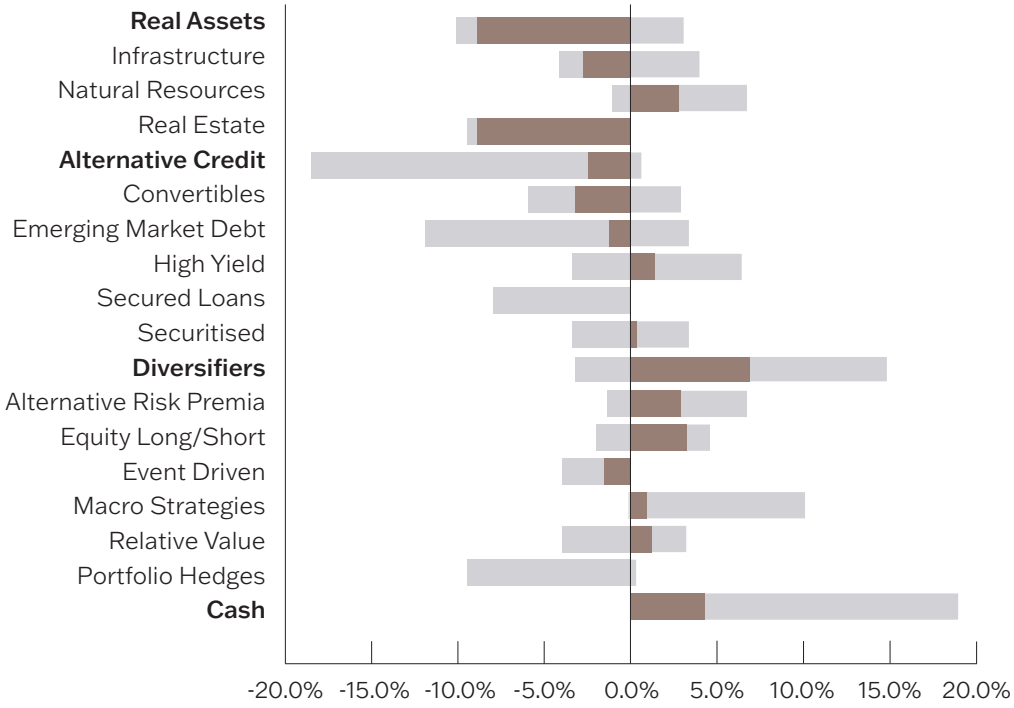
The TM Fulcrum Diversified Liquid Alternatives Fund (DLA) is an unconstrained, liquid portfolio investing across Real Assets, Alternative Credit and Diversifiers. The investment objective of DLA is to achieve long-term returns of the Bank of England Base Rate +4%, net of fees, over rolling five year annualised periods, with volatility lower than equity markets. Detailed research into megatrends is intertwined with a carefully selected mix of fully active third-party managers, passive strategies and bespoke internally managed themes, which reflect global megatrends such as climate change, changing demographic and rapid evolution of technology. There are no performance fees at any level across all investments and no additional layer of fees for internal strategies.

DLA Strategic Mix



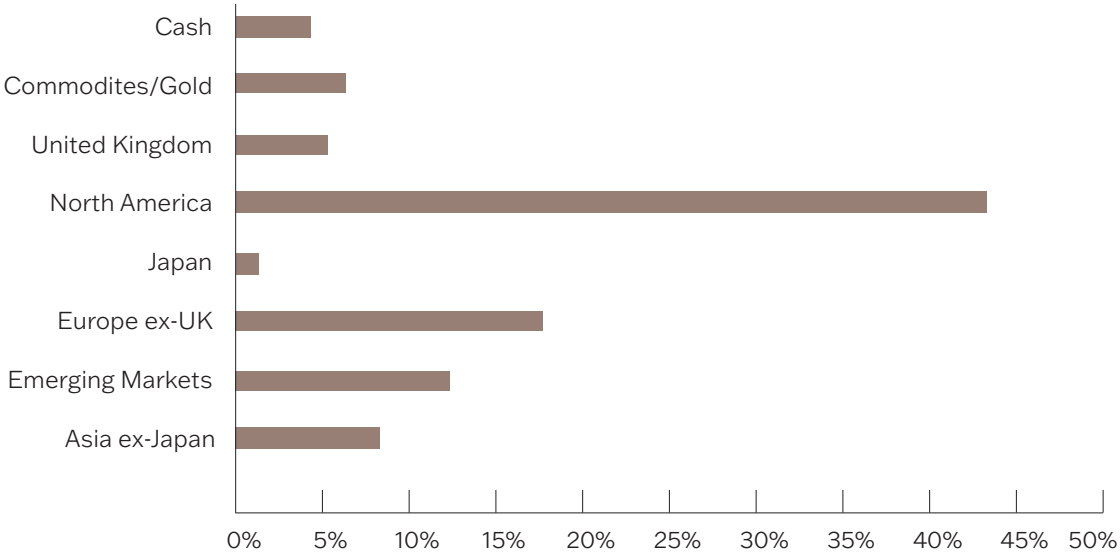
Source: Fulcrum Asset Management, 31 December 2022

DLA Positioning Relative to Strategic Mix



Source: Fulcrum Asset Management, 31 December 2022

DLA Regional Allocation



Source: Fulcrum Asset Management, 31 December 2022

Integrating ESG Considerations into our Investment Strategy

Our strategy

We have a long-term investment horizon and for each investment we consider several key elements including the expected return, volatility (and other risk measures), our ESG score, costs and liquidity.

Responsible Investing is critical to the construct of DLA alongside a disciplined impartial approach to implementation. At Fulcrum, we go beyond alignment with the UN Sustainable Development Goals (SDGs) when considering ESG integration into our investment strategy. We focus on the ESG factors associated with the investment process including risk assessment, due diligence, asset allocation, engagement and stewardship.

The Fund promotes environmental and social characteristics, such as investing in companies that have strong green credentials (e.g., renewable energy companies) and third-party managers who share our values. Additionally, we track themes that align well with sustainable trends, many of which marry with our megatrends e.g., Clean Energy, Agricultural Technology, Water and Waste & Recycling.

Direct Listed Real Asset investing

Investing directly in individual equities forms a relatively small part of DLA. Nevertheless, where we do invest in equities, the governance practices of these companies is rigorously assessed. This includes the management oversight structure, board composition, employee relations and remuneration of staff. These are assessed directly by us from discussion with management and also with third-party input based on governance metrics provided by Sustainalytics.

At Fulcrum, we understand the importance of stewardship and take our voting responsibilities seriously. Voting allows us to engage effectively with board and management teams on areas of concern and our voting decisions reflect our investment approach.

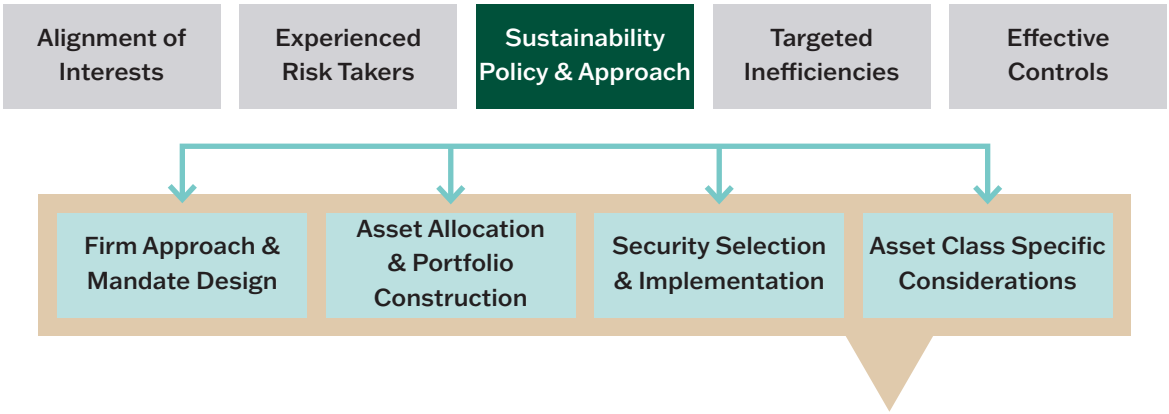
Glass Lewis are our chosen proxy adviser, utilising their climate aligned voting service. Our default is to vote as per Glass Lewis. However, in some instances, we do our own research and vote against their advice should there be a good reason for doing so. Decarbonisation is a key area we focus on and we vote to encourage science-based target setting through our voting and engagement.

Transparency is an important component of effective stewardship. To see our voting record, please go to our dedicated website here.

Please click here to find out more about our Proxy Voting Policy.

Third-party manager selection

Sustainability and ESG integration are integral to our third-party manager selection process. This involves using both third-party data/analysis as well as forming our own proprietary views on the sustainability characteristics of all investments. ESG risks are a formal part of our assessment process. The nature of the due diligence will have some general elements (such as asking third-party managers about the United Nations Principles for Responsible Investing (UN PRI)) and some specific elements that vary depending on the asset class in question. This might include an assessment of climate transition risk for an equity fund, for example. The below diagram illustrates how we integrate our work on third-party managers into our Four Key Factors framework. This allows comparison across different implementation routes.



Idea	Sub-Strategy	Target Net Return	Sustainability Adj.	Diversity Factors				Sustainability	Terms and Conditions	
				Target Volatility	Sustainability Adj.	Geography	Equity Beta	Aggregate Score	Total Fees (OCF)	Liquidity
Manager 1	High Yield	4%	+0.25%	8%	–	US	0.3	4	30bps	Daily
Bespoke Theme 1	Agricultural Technology	6%	–	15%	+0.25%	Global	1.0	4	0bps	Daily
Manager 2	Securitised Debt	4%	–	7%	–	Global	0.3	2	55bps	Daily
Objectives	**15-20**	**Cash + 4%**		**4-8%**		**Diverse**		**Aim to improve average scores over time**	**Manage within agreed cost and liquidity parameters**	

Our goal is to consider ESG opportunities and risks across DLA's entire portfolio as part of our research framework. Gradually, we expect to increase exposure to the range of investments that are explicitly 'sustainable', such as clean energy companies (or indeed, funds managed by third-party managers that are catagorised as Article 8 or 9 under the EU SFDR.

Sustainability is key to our process. We evaluate each manager and strategy holistically, covering areas like their asset class, mandate, investment process and implementation methodology. Adjustments are made to make each asset class comparable to arrive at an aggregate score for our "Sustainability Policy and Approach" key ingredient for competitive advantage. This process scores potential investments from one to four (one represents a poor score and four represents a leading score) based on specific considerations for each investment.

Our structured sustainability research also impacts our assumptions for return and volatility, both positively and negatively, helping us fully incorporate sustainability characteristics. Furthermore, our scoring process also helps with marginal decisions where two or more different implementation routes score similarly on our other three Key Factors.

Derivatives

Derivatives are used infrequently in DLA and are generally for risk management purposes. Derivative trades will be relatively simple in construction, such as S&P 500 options or 10-year Treasury futures. As such, we do not pursue any sustainability objectives through our synthetic exposures.

Sustainability considerations

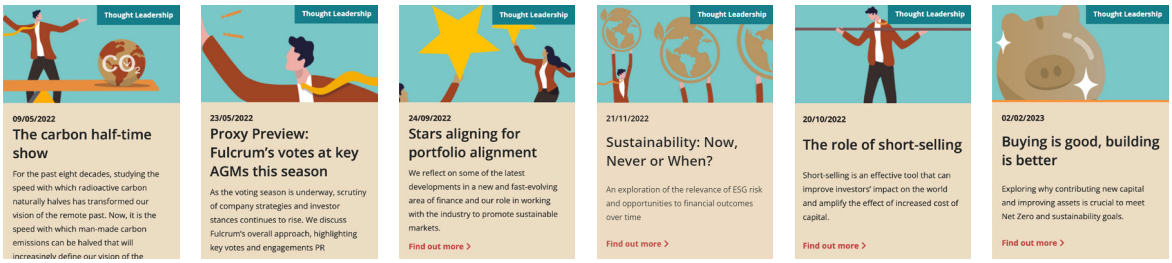
It has been five years since DLA was launched, over that time our approach to ESG has improved markedly, as has that of our underlying managers. As we continue to push for further ESG innovation in alternative investments, leveraging our experience across Real Assets, Alternative Credit and Diversifiers, we have developed a matrix of asset-specific questions (seen below), which help us score managers holistically, fairly and consistently. In conjunction to these questions, we have started building out a repository of best practices for each asset class in our portfolio or pipeline.

One of the privileges we have is the ability to meet a range of external managers who are specialists in their respective fields. Some have thought very deeply about sustainability and ESG, with considered nuances to how they integrate and consider ESG factors in their portfolio. In 2023, we started curating our ESG repository or "cheat sheet". This is aimed at collating lessons learnt from the conversations we have across industry initiatives, external managers and investment research (both internal and external). This helps us challenge and share insights with our managers during ESG engagement meetings. The goal is for our portfolio managers to refer to the cheat sheets before any of their manager meetings.

The following chart highlights some of the key considerations we review for each asset class:

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 well being 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.

In addition to the matrix of asset specific questions and the cheat sheet, we continue to innovate and share our research through thought leadership. In 2022 – 2023, we have written several pieces on ESG issues, which can be found here.



ESG Engagement Approach

Our Philosophy

Since inception, we aimed to integrate ESG throughout DLA's portfolio. In 2022, we expanded our approach from creating a fund that integrates sustainability to one that encourages innovation area and thus ESG engagement is now at the heart of our sustainability strategy.

This was primarily due to the creation and subsequent communication of our short-and mid-term engagement areas with our external managers. These engagement plans are going to be key in how we discuss E, S and G risks and opportunities with our managers. We intend to have biannual ESG discussions (in line with our sustainability and stewardship reporting cycles) with our underlying managers.

The area of engagement that we focus on with external managers depends on the extent to which ESG integration is effective in their business and investment processes. For example, we have engaged with small hedge fund managers who are very new to ESG integration, and we have also dealt with much larger, more established asset managers. We understand and appreciate that the level of maturity varies and therefore have curated short and mid-term engagement plans unique to each manager to ensure an effective discussion.

The table below shows a redacted version of these short and mid-term engagement plans.

		Engagement Plan
Manager	**Credit Manager**	**Short-term:** • Details on engagement with smaller companies and how firm responds to the SEC's recent policy changes, increase in scope and new climate legislation. • Following-up on firm's commitment on broader range of ESG targets e.g.: water reduction and biodiversity (planning to add 14 ESG metrics). • Interim action plan for NZAMI. • Thoughts on relative impact of return to office vs remote working on company. **Mid-term:** • NZAMI and net zero pathway and targets (set and achieved). • Developments on ESG integration into asset allocation and security selection. • Keep an eye on PM/investment team's role in ESG integration to better understand the ESG culture within the team.
Firm	4.0	
Asset Allocation	3.0	
Security Selection	4.0	
Strategy specific	3.0	
Total	**3.5**	

		Engagement Plan
Manager	**Real Asset Manager**	**Short-term:** • More proactive consideration on ESG i.e. engagement with seller on ESG potential. • ESG governance structure (including ESG target setting and creating an environment for ESG discussions to take place). • Better reporting on carbon emissions. **Mid-term:** • More research on ESG innovation within asset class invested, evolving ESG integration. • Going beyond GRESB in their ESG considerations (using a wide range of metrics and including themes such as "just transition"). It would be helpful to see improvement in their engagement and research on relevant topics such as GRESB disclosure and link between ESG and change of use strategy. • A recognition that ESG integration is not inherent (due to the nature of their product) but needs to be used as a value add to make a difference e.g.: engagement, innovation, etc. (it has to be active). • Evidence of action on ESG integration and measurement of ESG success (evolution of data management) e.g.: solar panels, EV charging points, etc.
Firm	3.0	
Asset Allocation	2.0	
Security Selection	2.0	
Strategy specific	3.0	
Total	**3.0**	

		Engagement Plan
Manager	**Diversifier Manager**	**Short-term:** • Review and engage on their new ESG policy. • Review and engage on their efforts to incorporate ESG more into their investment process. • Review and engage on their intended use of a third-party data provider to produce an ESG score for the portfolio. **Mid-term:** • Engage on pre-trade ESG considerations and engagement with issuers and brokers. • Monitor relationship with ESG Consultant for developments. • Review ESG committee progress and push for ESG-related KPIs.
Firm	2.0	
Asset Allocation	1.0	
Security Selection	1.0	
Strategy specific	1.0	
Total	**1.3**	

The reason we have chosen to create bespoke engagement plans is due to the inherent comparability challenge faced by a multi-asset portfolio. We are mindful that focusing purely on improving our sustainability scores and lowering our carbon intensity figure can be reductive. Therefore, a hybrid approach where we layer qualitative engagement with these two data points allows us to challenge and learn from our managers on their ESG considerations holistically.

We aim to report on how we engage with managers in our Annual Sustainability Report and our Stewardship Report. This will include any changes to our approach, amendments to our engagement plan, case studies and any escalation decision. Our engagement and escalation approach is guided by our engagement policy, which can be found here.

Alternative Solutions Engagement Highlights:

31

managers engaged on climate change[2]

7

managers engaged on biodiversity

17

managers engaged on social factors such as human rights, lending practices and social license to operate

6

managers engaged on just transition

1

manager engaged on antimicrobial resistance

15

NET ZERO ASSET MANAGERS INITIATIVE

managers are signatories to the Net Zero Asset Manager Initiative[3]

13

funds in our portfolio are classified as Article 8 under SFDR

2 As signatories to the Net Zero Asset Manager Initiative, we particularly focus on mitigating climate change. As a result, we engage with all our managers on climate change.

3 We encourage our managers to set net zero targets and sign up to initiatives such as the Net Zero Asset Manager Alliance. However, this is not a pre-requisite as we understand the challenges faced by certain asset classes and funds when setting net zero targets. Our approach is to encourage, challenge and nudge where appropriate but not push our underlying managers to such an extent that it leads to greenwashing risks.

Annual External Manager Sustainability Review

In addition to our continued engagement with external managers, exploring and encouraging their sustainability progress, during 2022, we performed a detailed sustainability review of all our managers within DLA. The exercise involved completely re-underwriting each manager with respect to sustainability and updating the scores assigned to them during our due diligence process. We score managers across four metrics, considering ESG factors and sustainability holistically (as seen below).

In general, higher-scoring managers had a more thoughtful, multi-faceted and forward-looking approach. Sustainability leaders offer comprehensive policies, reporting, and actively contribute to targeted industry bodies. They want to move our industry forward and report on their progress.

Through this process and our ongoing monitoring, we expect to see an improvement in the portfolio's score over time. Our review and engagement with each manager is done annually at a minimum.

	Firm Approach & Mandate Design	Asset Allocation & Portfolio Construction	Security Selection & Implementation	Asset Class Specific Considerations
Real Assets	3.2	2.8	3.0	3.4
Alternative Credit	3.6	2.4	3.1	2.8
Diversifiers	2.0	1.8	1.9	1.8

Our review has shown the following trends:

- Real Assets:
  - Real Assets had the highest overall average score, above 3.
  - We have engaged with our Real Asset managers on topics beyond climate change, including Biodiversity, Social License to operate and Just Transition.

- Credit:
  - While ESG best practices are most pronounced within the Equities asset class (the ability to vote is a key tool to engage on ESG factors), we found that proactive Credit managers can influence the cost of capital through engagement.
  - Due to the challenges faced by credit managers on engagement, we have tended to focus on managers which have strong a strong firm approach and mandate design.
  - Sovereign engagement continues to be a challenge due to the complexities of geo-politics. However, our sovereign fixed income managers rely on collective industry initiatives to facilitate engagement and tend to have thorough ESG integration methodologies in their security selection process.

- Diversifiers:
  - As expected, the Diversifiers lagged as ESG integration is typically harder and more nuanced here. A number are weaker in Security Selection & Implementation, within limited engagement and ESG not being formalised in their process.
  - We raise awareness and encourage managers to do more research and depart industry best practice on them, from a firmwide and portfolio perspective.
  - We have also seen an uptick in interest from our hedge fund managers to learn more about ESG best practices during our ESG Engagement discussions.

Case Study 1: Pureplay Clean Energy Strategy

Activity:
Climate change is one of our key risk and opportunity megatrend. In 2022, we decided to onboard a standalone clean energy manager in our portfolio alongside our sustainable infrastructure manager and the direct clean energy equities we own. Our manager selection approach here was to review the whole clean energy infrastructure sector to find the best fit with our existing portfolio and return profile. One of our key assessment criteria was the different approaches to ESG integration in the area. Our research resulted in the inclusion of Duff & Phelps' Clean Energy Fund which we felt complemented existing portfolio well while giving us high-quality active exposure.

Outcome:
We helped to seed Duff & Phelps' new Clean Energy UCITS Fund. Based in Chicago, the firm was founded in 1932 originally as an investment research firm for utility companies but following the success of their research capabilities moved to manage investment portfolios in 1979. Duff and Phelps have a deep knowledge of the clean energy sector and have a precise definition of their investment universe. Companies must qualify under one of the following 3 categories: Clean Energy Producer, Clean Energy Technology & Equipment Providers, and Clean Energy Transmission & Distribution.

Duff & Phelps operate with a value driven investment style which is uncommon among peers. It is a conviction approach with a reasonably concentrated portfolio of 30-40 stocks. ESG considerations are further integrated into the research/investment process, which is built from the bottom-up (including a review of long-term sustainability company visions) and top-down proprietary data.

Case Study 2: Carbon Offsetting

Activity:
One of our underlying managers is considering the use of offsets to tackle their firmwide CO2 emissions. We ended up having a dedicated meeting with them to answer their questions and share our view of offsetting schemes. Broadly this involved discussing: 1. The regulatory uncertainties and lack of oversight around offsets, 2. The difficulty ascertaining the additional positive impact using offsets and 3. In instances where offsets are used, the importance of transparency and reporting to prevent greenwashing risks.

Outcome:
The manager is continuing their search for an offset provider and will keep us informed on their due diligence process. The manager understood the need to conduct due diligence similar to any investment decision with the inclusion of regular site visits to the offset project. We also communicated that any offset project would need to be reported separately to the overall WACI score (i.e. gross and net WACI). While offsetting emissions is not an approach we have used at Fulcrum thus far, we are conscious that if done well, certain offsetting projects can have positive biodiversity impact.

Case study 3: Delving into our Manager's WACI Methodology

Activity:
This year, we looked beyond the WACI figure provided to us by our managers and questioned their methodology. This was especially true in cases where there was a shift in the WACI figure compared to the previous year.

Outcome:
This exercise increased our discipline in questioning the data given to us by our managers and ensuring that it aligns with our understanding. Interestingly it created a bridge between questioning the security selection of a fund through both an investment and sustainability lens. E.g.: why a certain security was selected even though it increased the portfolio's WACI and there is an engagement plan in place to address this issue.

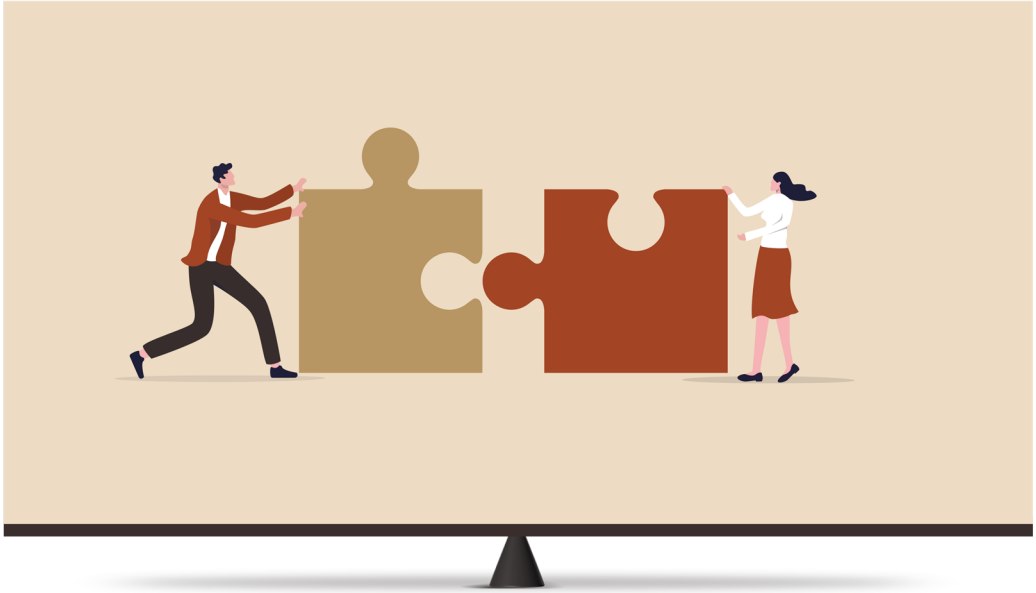
Client engagement

In the latter half of 2022, we started an ESG specific section in the DLA quarterly reports for our investors. The aim is to discuss ESG topics impacting the fund in a bitesize and regular manner. Thus far, we have focused on topics such as carbon reporting, our engagement approach and the importance of culture in integrating ESG. The next few reports will focus on our ESG approach within our invested asset classes. Please do let us know how we can better engage with you and if you would like to discuss any specific ESG issues in detail.

Diversity, Equity and Inclusion

Building on our association with the Diversity Project and our commitments as an asset manager, in our role as fund selectors (and therefore asset owners) within FAS, in late 2022 we signed up to the Asset Owners Diversity Charter (AODC). Through this initiative, asset owners seek to promote best practices among asset managers with respect to Diversity, Equity, and Inclusion. These commitments serve towards our ambition of making the asset management industry a welcoming and inclusive industry for participants from all walks of life.

As part of our commitment to the AODC, in 2023 we plan to deepen our engagement with managers on DEI-related topics, leveraging the work the AODC has undertaken in developing comprehensive questionnaires. Our goal is to better understand their current policies and practices, as well as their ambitions. Thereafter we will engage on their progress and share examples of best practice that we observe as we all learn and evolve in this complicated but important area.



Working together to create bespoke solutions that fit our clients' needs perfectly

Weighted Average Carbon Intensity (WACI)

WACI Methodology

Carbon output is one way we can measure the exposure of our portfolio to climate change related risks. There are a variety of methodologies to calculate carbon exposure and since becoming signatories to the Task Force on Climate-related Financial Disclosure (TCFD) in 2019, Fulcrum has adopted their definitions and methodology.

As part of this commitment, we report on the Weighted Average Carbon Intensity (WACI), which allows us to measure a portfolio's carbon efficiency across a range of asset classes. To measure the WACI of the fund, we collect statistics from third-party data vendors and the managers we invest with. We get full look through to all the underlying holdings for the managers we hold in DLA. The WACI is calculated annually and this year our coverage ratio was 68%. Where managers were not equipped to produce the WACI, we calculate the score ourselves using underlying holdings data or proxy data. We also engage with our managers on WACI methodology and offer our experience doing the calculation. Finally, at Fulcrum we take a considered approach on ESG integration and Responsible Investment. In the case of our WACI calculation, this approach is reflected in the data we choose from proxy sources, which tend to be on the conservative (i.e. higher) side. As data on commodity derivatives is not as mature, we tend to use natural equities as a proxy (which tend to have a higher WACI score) rather than discounting these trades from our overall WACI calculation.

Carbon footprint and intensity information is dependent on certain assumptions when calculated at the underlying company level. We are reliant on the calculations performed by these companies.

We aim to reduce the WACI of the portfolio over time through funding environmentally aligned companies and asset managers as well as engaging with stakeholders. Our goal is to achieve this in a considered fashion and not to simply divest from the highest carbon emitters.

As part of this effort, we engage with third-party vendors and managers periodically. This includes, for example, questioning the methodologies used for calculating certain metrics (such as carbon footprint), pointing out inaccuracies and asking for recalculations. ESG ratings are the product of reported corporate data and assessments by data providers. We are conscious of the limitations in reporting and methodology when using this data in our analysis.

WACI score[4]

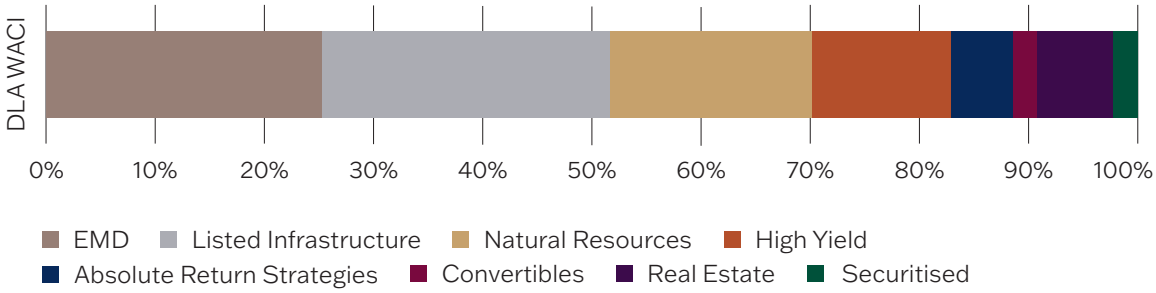
For the full year to December 2022, we can report that the Fulcrum DLA fund's WACI was 344.7 tons CO2 per $1m sales. This is an increase of 21.7 tons CO2 per $1m sales from our 2021 WACI score.[5]

A key reason for an increase in the WACI figure in 2022 compared to 2021 is due to an increase in the portfolio's allocation in Emerging Market Debt (EMD). As seen in graph 1, the EMD part of the portfolio has the highest WACI followed by listed infrastructure and natural resources. This is what we refer to as asset allocation bias, whereby an increase in WACI is not a result of poor sustainability performance compared to the previous year but due to changes in our asset allocation.

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

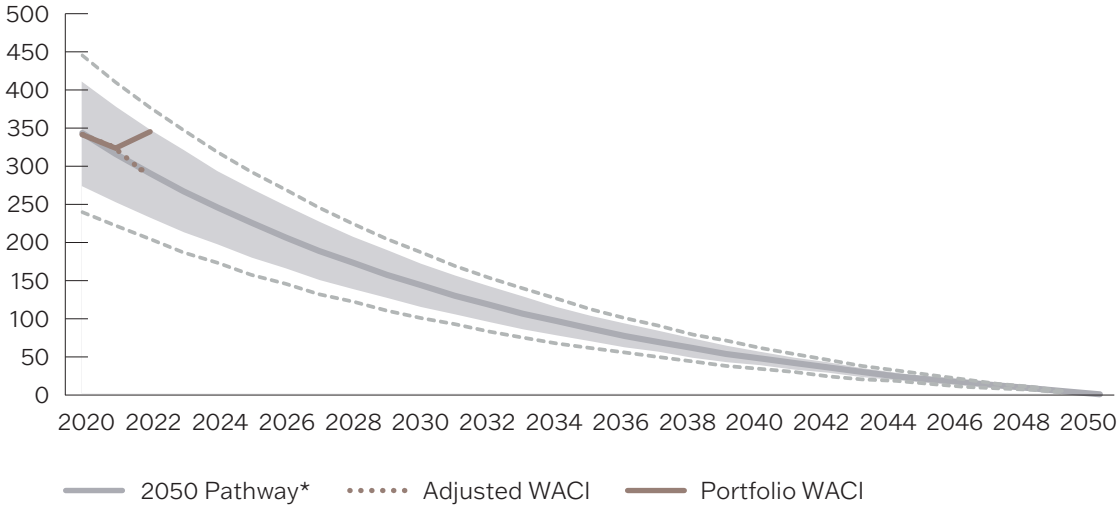
5 Our full year to December 2021 WACI score was 323 tons CO2 per $1m sales

WACI Contribution by Asset Class in DLA (tons CO2 per $1m sales)



Graph 2 showcases the comparison between the current portfolio WACI (presented by the Portfolio WACI line) and the adjusted WACI (represented by the Adjusted WACI line), which strips away the asset allocation change and models the WACI based on a like for like portfolio between 2021 and 2022.[6] Nevertheless, we are signatories to the Net Zero Asset Manager Initiative and have an ambition to reach net zero by 2050. The graph illustrates this pathway and the tolerance we accept in our journey to net zero. It is important to note, that we collect WACI data on an annual basis from our managers and direct investments to track our progress along our carbon pathway, however this is one metric in a toolbox which we use to assess the success of our engagement activities (as detailed in paragraphs above).

Illustrative DLA Carbon Pathway (Weighted Average Carbon Intensity)



*The 2050 pathway shows the central scenario and 20% (solid grey) and 30% (dotted grey) tolerance bands around this.

While the WACI metric is a useful measurement of our route towards net zero, its path will not always be linear in nature. For us, the WACI metric is one of the many tools used to measure our progress on ESG and showcase our direction of travel towards net zero. Our commitment towards net zero extends beyond our WACI score and looks at the success of our engagements, our approach to stewardship, our commitment in recruiting and training as well as our involvement with industry bodies. We are encouraged by our constant, incremental improvement across all areas stated and creating a strong ESG culture within our strategies, both at Fulcrum as well as within our wider industry.

6 This methodology results in a WACI score of 286.7 tons CO2 per $1m sales instead of the unadjusted 344.7 tons CO2 per $1m sales

More broadly, it is important to note that WACI is a measure of carbon intensity and not a measure of ESG innovation, research, engagement, and development. It doesn't consider the positive impact of areas that may have high carbon intensity but are essential for a green transition. An example would be a clean energy company will typically have a higher WACI than a financial services company, though they are doing very important work in facilitating a green transition to net zero. Similarly, we can artificially reduce our WACI score by divesting from EMD (as seen in graph 1, this is the most carbon intensive asset class). However, such divestment does not align with our aim to tackle climate change in the real world and aid the transition to net zero by 2050 in a just and sustainable manner.[7]

This aligns to our overall Responsible Investment strategy, which values engagement and views divestment as a last resort (this allows us to have real world impact rather than offloading our investments for someone else to invest, who might not have the same environmental ambition). We believe in using our strengths and capabilities to influence change in companies that have the potential to innovate and are integral to a green transition.

The Direction of Travel

Timeline of key Fulcrum sustainability milestones

We see the pursuit of ESG integration and engagement, in its broadest sense, as an ongoing journey. We are proud of the steps taken so far and are mindful of the road still ahead. In terms of our 3-to-5-year Action Plan, we commit to making progress on the following topics:

- Understanding the biodiversity risks embedded in our investments alongside opportunities in this area
- Further developing our 'cheat sheet' per asset class
- Implementing a comprehensive KPI monitoring programme within our Responsible Investment Committee
- Engaging with our managers on their WACI methodology, including improving the coverage and quality of manager scores
- Continuing biannual engagement with our external managers including a focus beyond climate change (expanding on issues such as biodiversity and social considerations)

7 We recommend reading this article on Just Transition for further information: https://www.oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf

Thank you for your continued interest in our services. We welcome your feedback on our 2022 Annual Sustainability Report and would be happy to answer any questions that you may have.

Please contact Matthew Roberts (matthew.roberts@fulcrumasset.com) or Samriddhi Sharma (samriddhi.sharma@fulcrumasset.com) for all queries related to our ESG approach.

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Joined Fulcrum: 2018, Investment Industry: 2005

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