Annual Sustainability Report 2022
Fulcrum Diversified Absolute Return Strategy

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

Contents

Working in harmony creates a reassuring investment process

2022–2023 Firm-Wide Highlights

We are signatories to the Net Zero Asset Managers initiative, and the vast majority of our strategic equity allocation are now invested only in climate-aligned securities

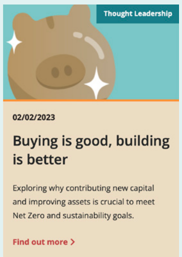
Our Real Assets Optimal Fund is classified as ‘article 8’ under EU sustainable finance classifications, and our climate change strategy has retained the most ambitious classification – as ‘article 9’. Please find our Principal Adverse Indicators (PAI) statement on our website. We look forward to expanding these PAIs and using them as key performance indicators to measure our progress on sustainability factors at a firmwide level.

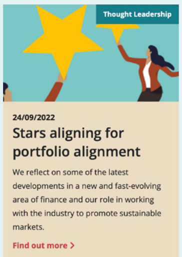
We are delighted to announce that we have joined the Diversity Project, to create a more diverse workforce in the asset management industry

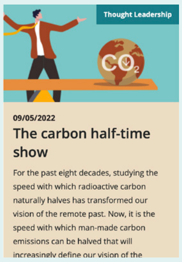
DIVERSITY PROJECT
BUILDING INCLUSION IN INVESTMENTS & SAVINGS

In 2022, we formalised our Climate Research team, led by Dr. Gino Cenedese and Dr. Shangqi Han, which have been instrumental in developing proprietary methodologies and datasets on climate risks and opportunities.

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 some of our voting highlights relating to sustainability:

Over the 2022-2023 proxy season, we continued to support more climate-related proposals than many of the world's asset managers.

We have cast over 2200 votes against companies due to environmental or social reasons, such as the lack of disclosure, targets, or diversity

C. 900 votes against directors for environmental reasons

Over 600 votes against pay packages due to concerns around the management of material environmental and social risks

Note: this is an update on our inaugural sustainability report for our flagship Diversified Absolute Return (DAR) strategy, covering July 2022 to June 2023. It should be read in conjunction with that report and our Stewardship report. Data sources: ShareAction, Glass Lewis, Fulcrum Asset Management

Introduction to the Strategy

The Fulcrum Diversified Absolute Return Strategy (DAR) has been designed to help our clients generate medium to long-term (3-5 years) returns of cash plus 3-5%. The strategies include investing globally in traditional asset classes, such as equities and bonds, as well as a wide variety of uncorrelated return streams. Investments are predominantly in highly liquid instruments so that our clients can access their capital when they need it. Beyond investment, risk management is central to our approach. Specifically, we seek to limit ex-ante volatility and performance drawdowns to realistic and acceptable levels so that clients can maintain an appropriately long investment horizon and avoid common behavioural mistakes that stem from unexpected volatility.

The risk profile of the strategy is shown below:

	Dynamic Asset Allocation		Discretionary Macro		Diversifying Strategies		Diversified Absolute Return
Description	Directional views across all asset classes (core & satellite)		Market neutral inter and intra asset class views (core & satellite)		Liquid diversifying strategies		**Absolute Return**
Percentage of Risk	30-40%	+	30-50%	+	10-15%	=	**6-8% volatility**
Historical Beta to Equities (Since August 2008)	+0.3		-0.1		+0.1		**+0.2**

Climate alignment of strategic equity allocation

In early 2023, we have completed the project to shift the vast majority of our strategic equity holdings to climate-aligned companies. Such holdings represent a component of the 'dynamic asset allocation' part of the strategy, and refer to long-only positions in companies, held directly (not via derivatives). The climate alignment has been achieved by doubling the allocation to our Fulcrum Climate Change (FCC) sub-strategy. FCC aims to only select companies whose past and future potential emissions trajectories are deemed compatible with meeting the goals of the Paris Agreement – to limit global warming to below 2°C. We therefore consider approximately 10% of the DAR strategy to be 'climate-aligned'. We aim to maintain this minimum discretionary 10% allocation to climate-aligned stocks. The dynamic asset allocation also involves an algorithmic component that will automatically make additional and potentially shorter-term allocations to equities and other asset classes. As at June 2023, climate-aligned stocks represent c. 40-50% of the overall equity component in the dynamic asset component of DAR. This represents a significant milestone in Fulcrum's journey towards net zero, and the cornerstone of our interim targets submitted as part of the Net Zero Asset Managers initiative.

We consider long-only equities to be the most natural starting point for alignment, noting that the remainder of DAR is invested in instruments and asset classes (e.g. derivatives, currencies, government bonds), for which alignment methodologies are not readily available. You can access our whole submission, including details of commitments made in other parts of the business, here.

(Fulcrum NZAMI targets)

Our decision was prompted, first, by our belief that climate-aligned solutions must play a core role in investors' portfolios; and, second, by our renewed confidence – as the FCC sub-strategy approaches its third-year anniversary – in the risk/return profile of this climate-aligned strategy, which was also recently awarded *Best ESG Investment Fund: Thematic (Climate-Alignment)* at the ESG Investing Awards 2023. Following the alignment of strategic equities in DAR (which builds on existing integration of sustainability datapoints in the Trend-following component of DAR) we intend to submit the European-registered version of the strategy for certification as an 'article 8' fund, referring to funds that promote sustainability characteristics.

Engagement update

Throughout the year, we have continued our engagement programme with companies. Since June 2022, we have had 30 direct engagements with companies where we discussed sustainability topics (primarily relating to emissions).[1]

Top companies by number of engagement	
1	BP
2	AP Moeller-Maersk
3	BNP Paribas

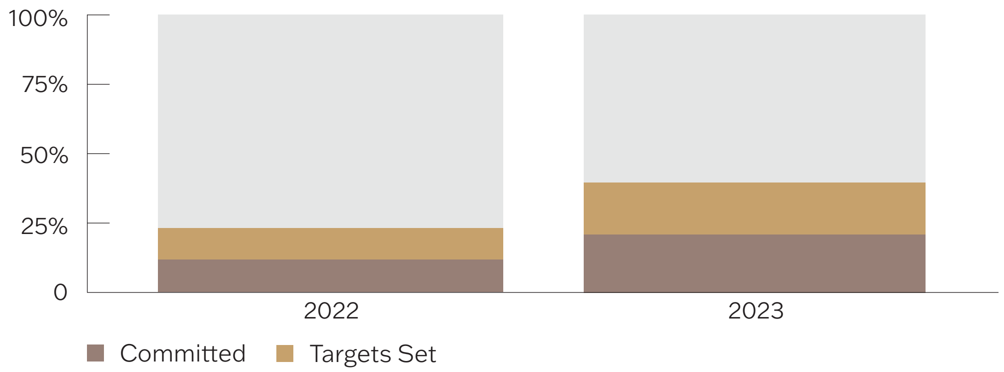
Source: Fulcrum Asset Management, as at June 2023. All data in this report is as at this date, unless specified otherwise.

1 Note – we are using a strict definition of engagement as a meeting – in person or virtual – where we make a request of a company, which primarily consists of calling on companies to set Science-Based Targets or other sustainability-related requests. The equity team has had another 100 meetings with companies over the same period, for example; we also do not count email exchanges as engagements

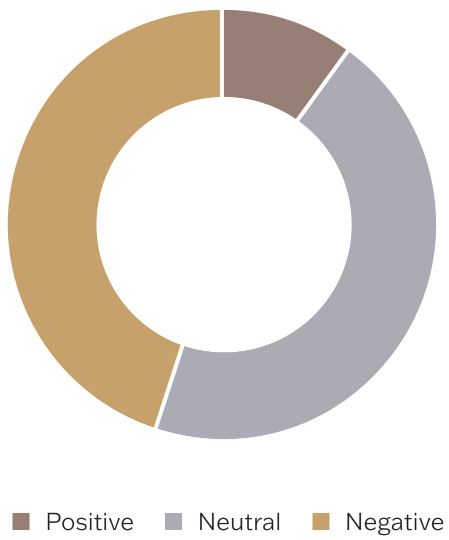
As shown below, the status of our engagements varies – our qualitative measure reflects responsiveness both to our requests to engage, and to the requests made during engagement (primarily, but not exclusively, relating to the setting of Science-Based Targets). Some case studies of engagement and escalation are provided below. At the same time, for a more granular assessment, we have constructed a quantitative scoring framework building on several datapoints, comprising companies' governance, strategy, risk management and targets. Notably, since 2022, we have noticed a significant increase in the number of companies on our engagement list that have (committed to) set Science-Based Targets.

We have also noticed improvements across sectors on a number of variables, both in overall disclosures and more specific datapoints (e.g. 'green' revenues and capex) spurred by regulatory requirements such as the EU Taxonomy of sustainable activities.

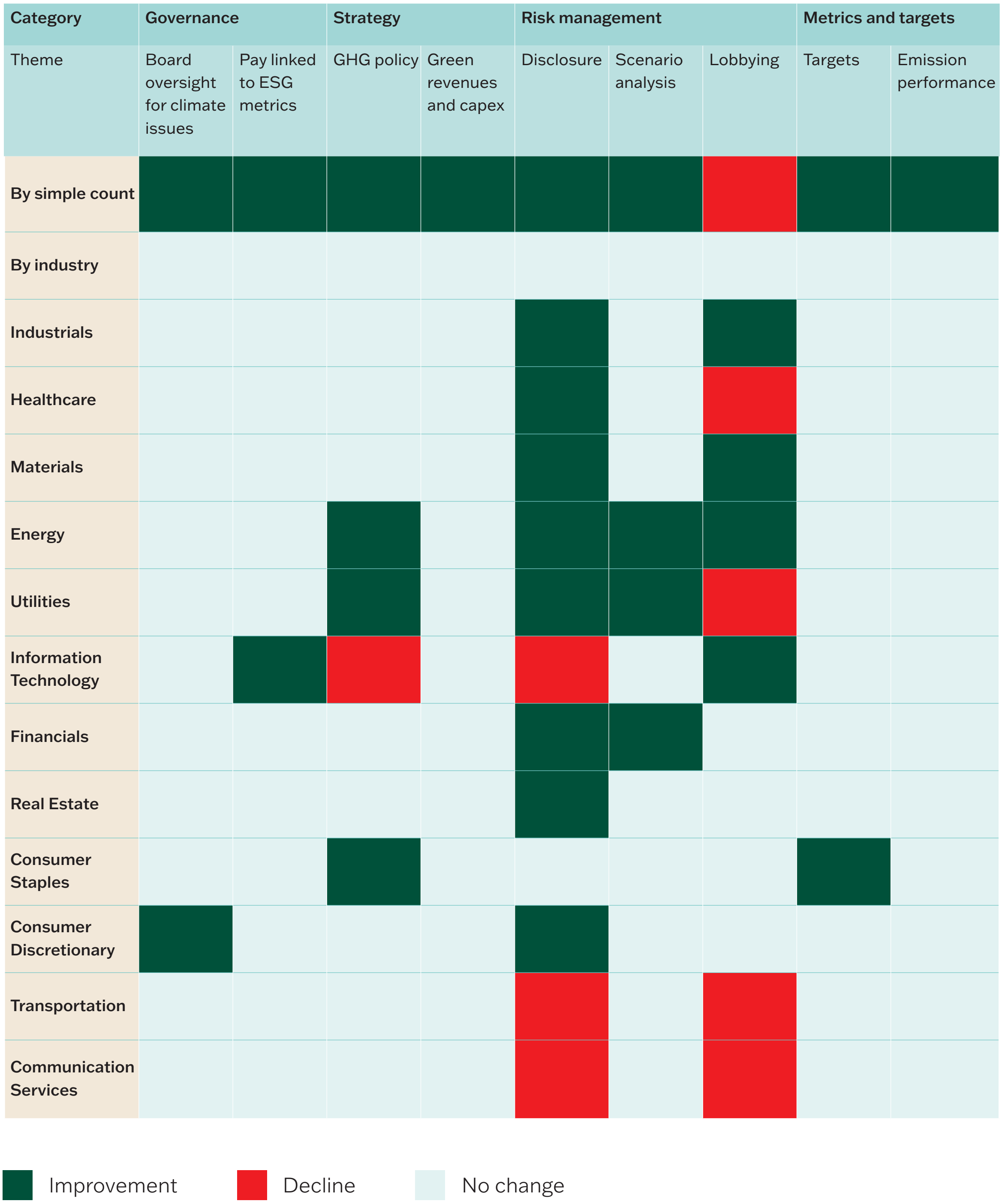
SBTi status



Engagement status



Progress in climate scoring metrics for engagement companies since 2022



'Simple count' tracks the total number of companies on our list; Where the underlying datapoint is continuous (e.g. the climate lobbying score), if the average for the relevant group is higher/lower in 2023 than 2022 we show green/red; if a variable is discrete (e.g. Yes/No – such as the use of scenario analysis), we count instances where more than 50% of the group now scores Yes/No. Sources: Fulcrum, Bloomberg, Sustainalytics, InfluenceMap. For more details on our scoring framework and datapoints, please see our 2022 stewardship report.

One notable ‘red flag’ emerging from the data concerns climate-related lobbying. Given the geopolitical situation, we understand a degree of pragmatism is needed with regards to the short-term use of fossil fuels, however we remain concerned if companies are using their influence to undermine legislation on climate action – this has been a specific topic of engagement with utility **NextEra Energy,** given allegations around one of their subsidiaries.

Separately, ten European names on the engagement list have been selected for inclusion into a concentrated equity strategy, reflecting our belief that there is share price upside from improvements in sustainability. We provide three case study drawn from these ten names below.

Update: proprietary scoring

Following ongoing work by the Climate Research team, we are currently developing a proprietary internal framework for scoring issuers’ climate commitments; this is intended to be applicable to a universe of many hundreds of issuers, thus superseding the existing framework which was developed solely in order to monitor only companies on the engagement list.

Case study: BNP Paribas

The banking giant remains as a significant fossil financier, despite multiple sustainability commitments. Following an initial engagement request that did not unfortunately lead to a meeting, in early 2023 we have joined investors managing $1.5tn+ as part of a campaign by responsible investment NGO ShareAction, calling on the bank to halt the financing of new fossil projects; a natural first step towards the ultimate wind-down or disposal of the ‘brown’ loan book.

Our position has been featured in the media:

And there could be financial benefits to employing the approach, according to Fawaz Chaudhry, head of equities and partner at Fulcrum Asset Management. London-based Fulcrum signed the letter sent to BNP Paribas because “a cleaner loan portfolio would help improve BNP’s cost of capital, reduce reputational risk and support the company’s stated ambitions to be a leader in sustainable financing,” said Chaudhry

Bloomberg, February 2023

BNP, Barclays Among Banks in Crosshairs Over New Oil, Gas Loans

Source: Bloomberg

In May 2023, we were pleased to see the company has tightened its fossil policy, pledging to halt financing for new oil and gas. This was discussed in more detail with the company in Q2 2023.

Case study: BP

Fulcrum is co-leading engagements with BP under Climate Action 100+, the world's largest single-issue engagement initiative, comprising over 700 investors. CA100+ engagements have led to the company repeatedly strengthening its climate strategy, with Fulcrum attending the 2022 AGM and pressing the company on accelerating its cleantech capex.

CA100+ investor criticises BP's 'lack of consultation' on emissions scale-back

Fulcrum Asset Management's Iancu Daramus shares a CA100+ co-lead investor take on oil major's recent decision to row back on medium-term targets.

Source: Responsible Investor

In 2023, we have expressed publicly some reservations around the governance of the company's revised emissions targets. Nevertheless, we believe the company's plans remain broadly compatible with the goals of the Paris Agreement.[2] We have therefore opposed a shareholder proposal on this issue. Given that the company has pledged to reduce its own oil and gas production, we do not believe investors unilaterally forcing further targets on the amount of *third-party* products sold in BP's petrol stations, for example, is appropriate at this stage. Undoubtedly, the scramble for short-term supplies of oil and gas in the wake of the Ukraine conflict has further complicated a global decarbonisation trajectory that was unlikely to be linear in the first place. That said, we will continue to engage with the company around the speed and scale of its low-carbon investments, and the lifecycle and payback profile of its oil and gas production.

Case study: Glencore

We believe the mining giant has potential to re-rate from sustainability improvements, particularly an accelerated exit from coal, a position which seems to have been echoed by the company in some of its recent announcements surrounding a planned merger/demerger with another mining company. In 2023, we have pre-declared our support for a shareholder proposal calling for clarity on the climate alignment of the company's coal assets. Our position was quoted in multiple articles and at Glencore's 2023 AGM, c. 30% of shareholders supported the resolution on coal, which will thus require a formal response from the company under UK corporate governance rules. We expect to discuss this with the company in an upcoming meeting.

'Cat and mouse': Australia's biggest coal miner faces investor revolt over climate stance

Simon Johanson and Nick Toscano
April 19, 2023 – 9.00am

2 minute read · April 19, 2023 12:03 AM GMT+1 · Last Updated a day ago

Investors pile climate pressure on Glencore ahead of May AGM

Reuters

Sources: Sydney Morning Herald, Reuters

2 By 2030, median oil and gas demand is only 10% lower relative to 2019 across 1.5°C scenarios with 'no overshoot'. (Source: Table TS.2 in the IPCC AR6 WG III report) This is broadly compatible with BP's 2030 production aims.

Non-disclosure and Science-Based Targets campaigns

We continue to support collective engagement campaigns calling on companies or policymakers to step up on climate. Of note are the twin campaigns organised by non-profit CDP.

The detailed disclosure of carbon data, baselines and targets via the CDP platform drives much of the infrastructure for climate-aligned investing in the market, and is a key part of the datapoints used in our proprietary scoring of issuers, mentioned above. We have therefore joined over 250 investors with over $30 trillion in assets, writing to companies asking them to disclose via CDP.

We are seeing the impacts of this campaign: in 2023, CDP reported that companies were more than 2 times as likely to disclose data after being targeted by financial institutions.[3] As they relate specifically to our holdings, out of the investee companies we have targeted, **28% have now submitted their CDP questionnaire**. We continue to support this campaign in its 2023 edition.

Disclosing your emissions is only the first step, what is needed is taking action to reduce them. We have similarly continued to support CDP's joint investor campaign calling on companies to set Science Based Targets. Out of over 1600 companies targeted, in late 2022 CDP reported **13% of companies have joined the Science-Based Targets initiative**.[4]

Alignment with voting

Our engagement stance is echoed by our voting policy. Beginning in 2023, we are now voting against companies that:

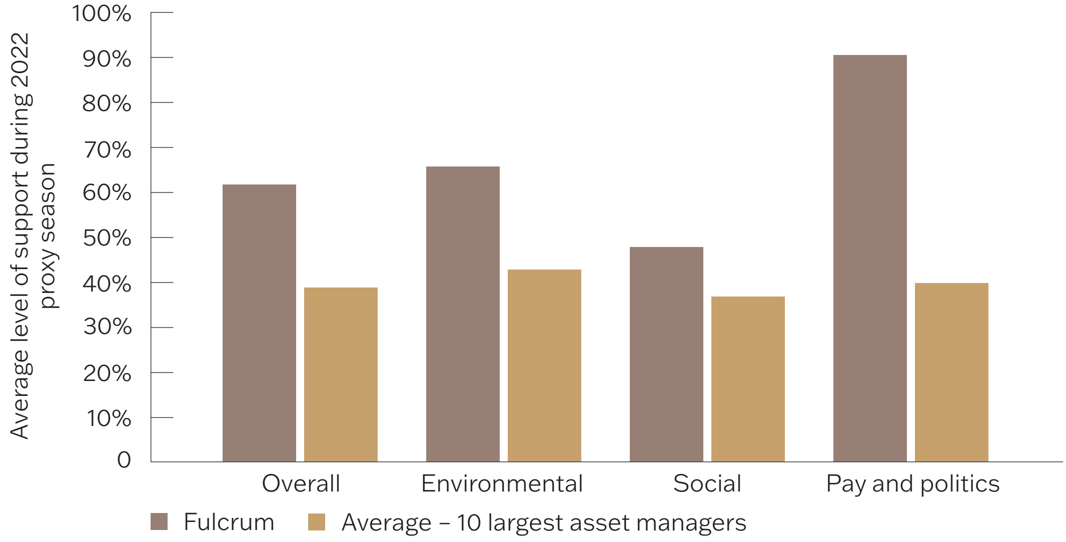
- have no targets to reduce their emissions and/or do not disclose information in line with recognised disclosure frameworks.[5] This is a minimum expectation – for certain high-profile companies, our expectations are higher, with our policy sanctioning the chair of the sustainability committee or the board if the company has not set ambitious, science based targets.
- are not signatories or participants in the United Nations Global Compact ("UNGC") or that have not adopted a human rights policy that is aligned with the standards set forth by the International Labour Organization ("ILO") or the Universal Declaration on Human Rights ("UDHR")
- do not have environmental or social metrics as part of directors' pay indicators

From the 1st of July 2022 to mid-June 2023, we have cast:

- Over 2200 votes against companies due to environmental or social reasons, such as the lack of disclosure, targets, or diversity
- C. 900 votes against directors for environmental reasons
- Over 600 votes against pay packages due to concerns around the management of material environmental and social risks

In early 2023, we published our analysis[6] showing that over the previous year's proxy season we supported more shareholder proposals on responsible investment topics than many of the world's asset managers'

3 https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/764/original/CDP_2022_Non-Disclosure_Campaign_Report_18_01_23.pdf
4 https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/586/original/CDP_Science-Based_Targets_campaign_-_progress_report_2021-22.pdf?1666699727
5 Such as TCFD, CDP or SASB
6 Source: https://www.fulcrumasset.com/global/en/views-and-research/adjusting-the-resolution-reflections-on-the-2022-proxy-season/



Zooming in on the subset of 'resolutions to watch' flagged by responsible investment NGO ShareAction – highlighting what were deemed to be more high-profile votes – in both the 2022 and 2023 proxy seasons we have supported 86% of such resolutions.[7] Note that we did not always support some of the votes if we believed they were too prescriptive (such as the example of BP mentioned above), reflecting our own analysis and the discussions in the Stewardship Committee.

More broadly, our firm-wide voting record over the July 2022 to June 2023 period is shown below

Proposal Category Type	For	Against	Abstain
Totals	**47608**	**5379**	**488**
Audit/Financials	7174	20	92
Board Related	25911	2500	243
Capital Management	4190	371	9
Changes to Company Statutes	1758	157	19
Compensation	5418	1669	13
M&A	329	12	0
Meeting Administration	1108	56	5
Other	899	113	66
Shareholder proposal: Compensation	34	82	5
Shareholder proposal: Environment	243	79	0
Shareholder proposal: Governance	281	108	32
Shareholder proposal: Miscellaneous	33	16	0
Shareholder proposal: Social	230	196	4

Sources: Fulcrum, Glass Lewis. Above are shown firm-wide votes for individual proposals. Some companies may be double-counted if held in more than one fund. Note that our voting records are publicly available at: https://viewpoint.glasslewis.com/WD/?siteId=Fulcrum

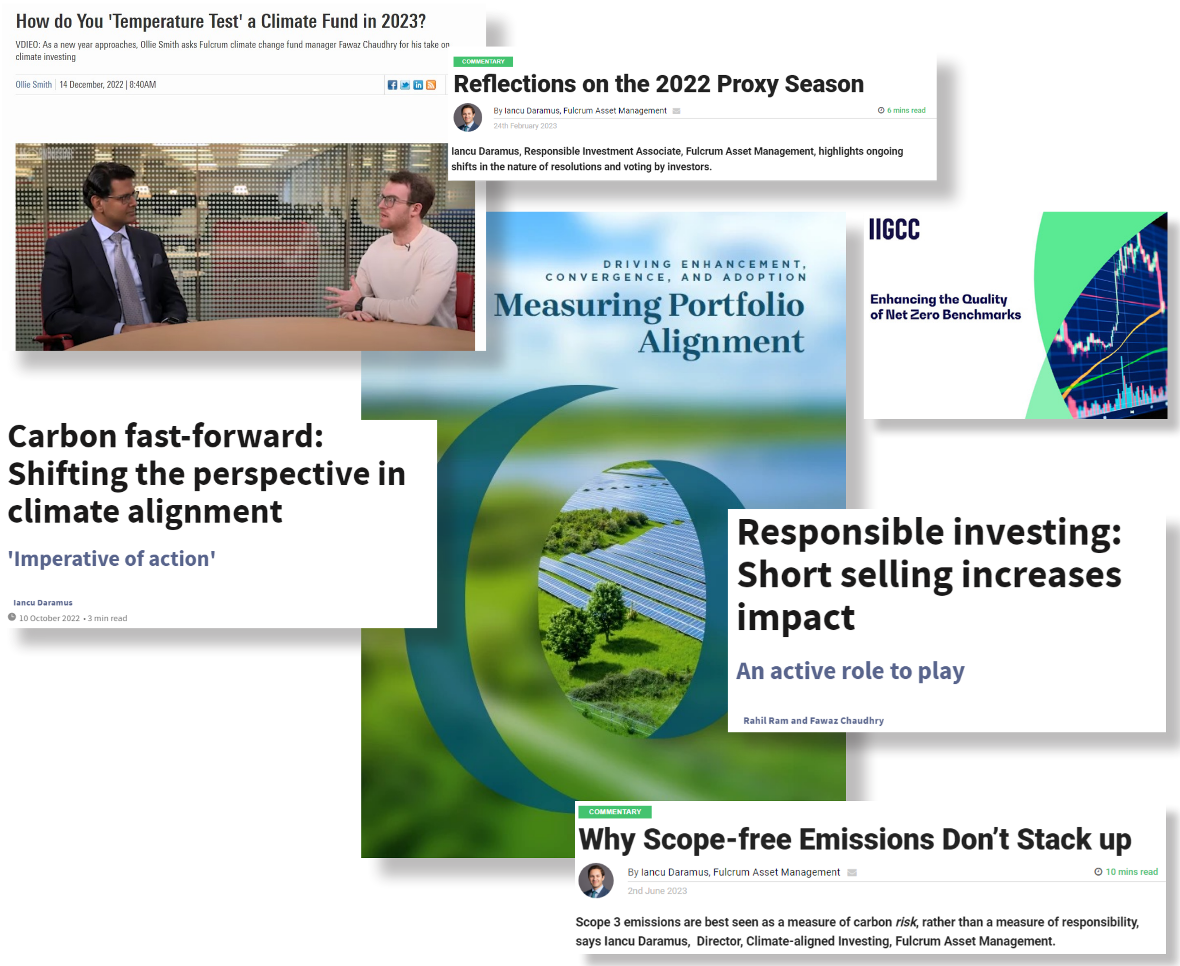
7 Full list of resolutions can be found at https://shareaction.org/resolutions-to-watch2023 and see also: https://shareaction.org/news/shareactions-resolutions-to-watch-2022-what-have-we-learnt-from-this-years-agm-season

Thought leadership and collaboration

In 2022, we formalised our climate risk team led by Gino Cenedese and Shangqi Han. The Team, in collaboration with external academic advisers, conducts research that informs our investment process. One upcoming publication has developed a method to allocate carbon budgets to listed equities, and will inform our investment and engagement process going forward. Working closely with colleagues in equities and macro, the Team have also been pivotal in developing our proprietary measures for **principal adverse impact.** Under EU legislation, funds classed as the most ambitious in terms of their sustainability objectives (so-called 'article 9' funds) must report on how they are addressing potential adverse impacts on sustainability factors associated with their investments. We were pleased that our climate change strategy has retained its classification as article 9, even amid a wave of industry downgrades.

The proprietary scores are now used to quantitatively assess such potential impacts in the strategy, and the Fulcrum Responsible Investment Committee is currently assessing the suitability of the scores in other areas of risk management.

We have continued to contribute thought leadership content, both as part of industry initiatives (such as the Glasgow Financial Alliance for Net Zero (GFANZ), or the Institutional Investors Group on Climate Change (IIGCC)), as well as via articles, reports, blogs and commentary in the media.



Sources: Morningstar, Investment Week, ESG Investor, GFANZ, IIGCC

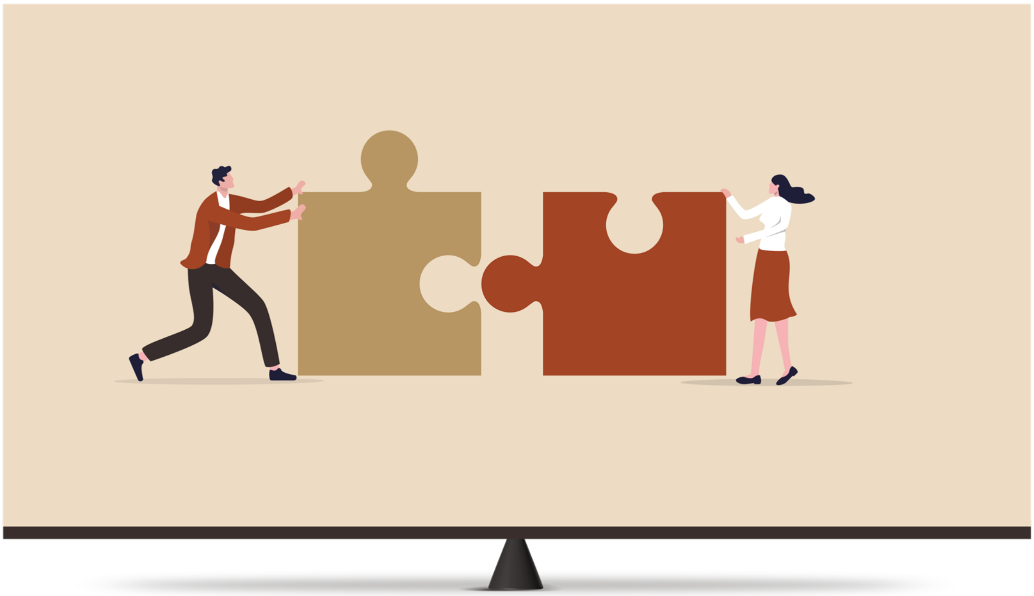
We were pleased to be featured as a case study of a climate-aligned strategy in the GFANZ report on portfolio alignment,[8] and to contribute our views on the importance of having portfolios where *each security* is aligned, rather than merely the fund *on average* – a key design principle of our climate strategy – in the IIGCC report on enhancing net-zero benchmarks.[9]

Last but not least, in recognition of our efforts we have garnered three accolades over the past year, at Investment Week's Sustainable Investment Awards 2022[10] and at the aforementioned ESG Investing Awards 2023.

ESG Investing
WINNER AWARDS 2023
Best ESG Investment Fund: Thematic (Climate Alignment)

Summary and the road ahead

At the same time, we remain mindful of the road still ahead. In our latest stewardship report,[11] we outlined an action plan up to 2026, detailing new areas of focus, both with regards to our investment processes, as well as our culture, recruitment and incentives. We invite clients and stakeholders to consult our plans and, as always, to get in touch with suggestions for improvement.



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

8 See more at https://www.fulcrumasset.com/global/en/views-and-research/stars-aligning-for-portfolio-alignment/
9 Available at https://www.iigcc.org/news/five-principles-improve-net-zero-benchmarks/
10 https://event.investmentweek.co.uk/sustainableinvestmentawards2023/en/page/2022-winners
11 Available at https://www.frc.org.uk/getattachment/0aed3322-b6b9-42f8-95a2-81ef5c299e88/Fulcrum-Main-Report-October-2022-FINAL-SUBMISSION.pdf

Appendix – Carbon statistics for the strategy

Carbon metrics for equities	
Gross Exposure %	32
Net Exposure %	27
Carbon Intensity Net (tons CO2e/$M revenue)	234
Carbon Intensity Gross (tons CO2e/$M revenue)	231
Weighted Average Carbon Intensity (WACI) Net (tons CO2e/$M revenue)	41
WACI Gross (tons CO2e/$M revenue)	54
Total Emissions Scopes 1&2 (tons CO2e)	12715
Total Emissions Gross Scopes 1&2 (tons CO2e)	22321
Emissions Scope 1&2&3 (tons CO2e)	88174
Emissions Scope 1&2&3 Gross (tons CO2e)	119112
Emissions Scope 3 (tons CO2e)	76196
Emissions Scope 3 Gross (tons CO2e)	97583
Total Emissions per Mln Invested (tons CO2e/$M invested)	18
Emissions per Mln Invested Scope 1&2&3 (tons CO2e/$M invested)	128
Emissions Mln Invested Scope 3 (tons CO2e/$M invested)	110

Carbon metrics for sovereign bonds	
Gross Exposure %	27
Net Exposure %	27
Total Territorial Emissions Net (tons CO2e)	16793
Total Territorial Emissions Gross (tons CO2e)	16793
Total Portfolio GDP Net	143
Total Portfolio GDP Gross	143
Carbon footprint AUM Method (tons CO2e/$M invested)	90
Carbon footprint AUM Method Gross (tons CO2e/$M invested)	90
Carbon footprint Output Method (tons CO2e/$M GDP)	117
Carbon footprint Output Method Gross (tons CO2e/$M GDP)	117
WACI Net (tons CO2e/$M GDP)	33
WACI Gross (tons CO2e/$M GDP)	33

Sources: Fulcrum Asset Management, Sustainalytics as at 30 June 2023. Data shown for the OEIC version of our DAR strategy.

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