Investing for a
world of change

Multi-Asset Income

ESG integration report

June 2023

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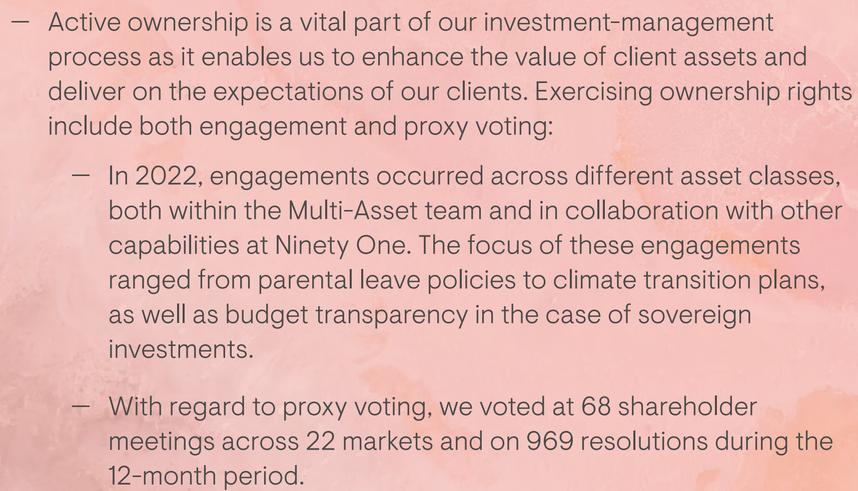
Contents

The fast view

- The Ninety One Multi-Asset team believes that sustainability is synonymous with successful long-term investing and that companies with strong sustainability credentials will outperform over time.
- In our third annual ESG integration report, we provide a reminder of our approach to sustainability, highlighting recent developments, as well as including analysis and commentary on a range of sustainability perspectives and an update on our engagement and voting activity.
- We are committed to being responsible stewards of our clients' capital and delivering sustainability with substance, and through 2022 we continued to incrementally evolve and enhance our approach:
  - The team developed a framework for assessing corporate culture
  - The Luxembourg-domiciled pooled fund was categorised under Article 8 of the EU's Sustainable Finance Disclosure Regulation (SFDR)
  - Progress was made on Ninety One's net-zero transition plan and targets, and we published our firmwide transition plan, including 2030 targets.

- Key highlights from our analysis of the portfolio's exposure to climate risk (as at end of December 2022) include:
  - The estimated carbon intensity for the assessable corporate securities held directly in the portfolio was 921.0t CO_2 e/$m revenue, which is 3% less than the estimated intensity of the MSCI ACWI.
  - The estimated carbon footprint for the assessable corporate securities held directly in the portfolio was 416.5t EVIC CO_2e/$mn invested, which is 6% less than the estimated carbon footprint of the MSCI ACWI.
  - About 89% of the portfolio's carbon footprint was attributable to Scope 3, with some improvement in company disclosure of carbon emissions figures over the year.
  - 39% of our equity holdings had approved SBTi targets.
  - The portfolio's MSCI ESG score for the assessable corporate securities directly held in the portfolio was 6.02, 4% higher than that of the MSCI ACWI.



- Active ownership is a vital part of our investment-management process as it enables us to enhance the value of client assets and deliver on the expectations of our clients. Exercising ownership rights include both engagement and proxy voting:
  - In 2022, engagements occurred across different asset classes, both within the Multi-Asset team and in collaboration with other capabilities at Ninety One. The focus of these engagements ranged from parental leave policies to climate transition plans, as well as budget transparency in the case of sovereign investments.
  - With regard to proxy voting, we voted at 68 shareholder meetings across 22 markets and on 969 resolutions during the 12-month period.

Sustainability integration approach

Ninety One's approach to sustainability

As stewards of our clients' capital, achieving long-term investment excellence is our primary goal. We are committed to being active and responsible investors. We want to be known for approaching sustainability with substance underpinned by a constant focus on understanding the drivers of change. Our sustainability framework helps us stay accountable and endeavour to get better. Ninety One's sustainability framework has three core components:

Invest

Sustainability analysis is integrated into all our investment strategies. We also offer sustainable investment strategies.

Advocate

We seek to lead the conversation on sustainable investing. A major focus of our work is to advocate for a transition that includes emerging markets and results in real-world carbon reduction.

Inhabit

We believe change starts at home. We run our business responsibly and act sustainably.

All our mainstream investment strategies seek high-quality integration of sustainability into their investment processes. By this, we mean understanding sustainability risks and pricing them appropriately. At Ninety One, each of our investment teams' approach to integrating sustainability has been tailored to their respective investment processes.

More details on Ninety One's sustainability initiatives can be found under the sustainability section of the Ninety One website.

Net zero strategy

Ninety One is a signatory to the Net Zero Asset Managers Initiative (NZAMI), working with investor networks, companies, and our clients to support the goal of net zero emissions by 2050 or sooner. When we joined NZAMI in June 2021, we made two commitments:

1. Our approach to cutting emissions will support real-world decarbonisation.
2. We will work for a fair transition that includes emerging markets.

We have sought to design net-zero targets aimed at driving real-world carbon reduction and allowing emerging markets to transition in a fair and inclusive manner. We have set the following targets for our investments:

- At least 50% of the corporate emissions financed by Ninety One will be generated by companies with Paris-aligned science-based transition pathways by 2030.
- The proportion of our corporate AUM covered by Paris-aligned science-based transition pathways will meet the SBTi requirements for Ninety One to obtain a verified SBTi. We calculate this requirement to be 56% of our corporate assets under management with science-based transition pathways by 2030.
- In practice, we will be engaging actively with our highest emitters and largest holdings to maximise the proportion of our corporate AUM with science-based transition pathways.

To work towards these targets, we focus on the heaviest emitters at a firm level, and engagement to encourage these companies to develop credible transition plans. To support this approach, our sustainability team has created a transition plan assessment framework that helps analyse key metrics of transition including, disclosure, transition strategy, financial planning, 'just transition' implications and governance. Based on our analysis of transition risk for a given company, we develop strategic engagement plans that consider where that company is on its transition journey.

In our Sustainability and Stewardship Report we provide an update on Ninety One's sustainability work over the previous reporting year across our ecosystem: our investments, advocacy and direct corporate footprint. We are committed to being responsible stewards of our clients' capital and delivering sustainability with substance.

Multi-Asset approach to sustainability

ESG and sustainability analysis has been incorporated throughout our investment research process for many years and we believe it is increasingly important for investors to understand and price externalities – the impact companies and governments have on individuals, society, and the environment. We perform sustainability reviews of business clusters, sustainability assessments of individual companies, and (for fixed income and currency) country level sustainability reviews. We carry out this analysis using the Capitals Framework, a proprietary research methodology designed to enable the analysis of externalities across various dimensions of sustainability: natural capital, social capital, and human capital.

The Capitals Framework: evaluating sustainability

Source: Ninety One. For illustrative purposes only.
For more information on the definition of externalities, our capitals framework and how we apply it, please refer to the following paper: "Sustainability disruption: capitalising on externalities".

We look to quantify the externalities where possible and there is a preference for those investments which have policies in place to manage harmful effects (i.e. negative externalities) on stakeholders, and in some cases have products or services with identifiable benefits (i.e. positive externalities) to society or the environment. The Capitals Framework allows us to conduct our sustainability research as part of our broader fundamental research on investments. Importantly, the Framework also allows us to combine quantitative and qualitative information on sustainability aspects which is critical given that data remains patchy and given that not all sustainability characteristics can be distilled into simple numbers.

A great example of this is diversity and inclusion where we do not believe that the percentage of females on the board of a company is a complete measure of diversity. Rather, we prefer to consider how inclusive a company's culture is, as this should drive more inclusive behaviours and ultimately improve diversity. We discuss our approach to assessing corporate culture in more detail later in this report.

Below, we highlight how we integrate sustainability throughout our investment process[1].

Sustainability assessments for corporates

For company investments, we undertake sustainability analysis in the context of the broader sector or business group in which the company operates. The sustainability reviews of industry business groups are a combination of qualitative and quantitative assessments with the purpose being to define high standards and identify red flags within each of the capitals (natural, social and human).

These reviews serve two purposes:

- to help identify potential business groups that should be excluded from the portfolio.
- to provide context for the subsequent fundamental research that is carried out on individual companies.

In addition to the firmwide controversial weapons exclusion policy, we exclude direct investments in certain business groups, based on a combination of the conclusions of our proprietary business group sustainability reviews and the responsible preferences of investors. Further information on our exclusions can be found on our website.

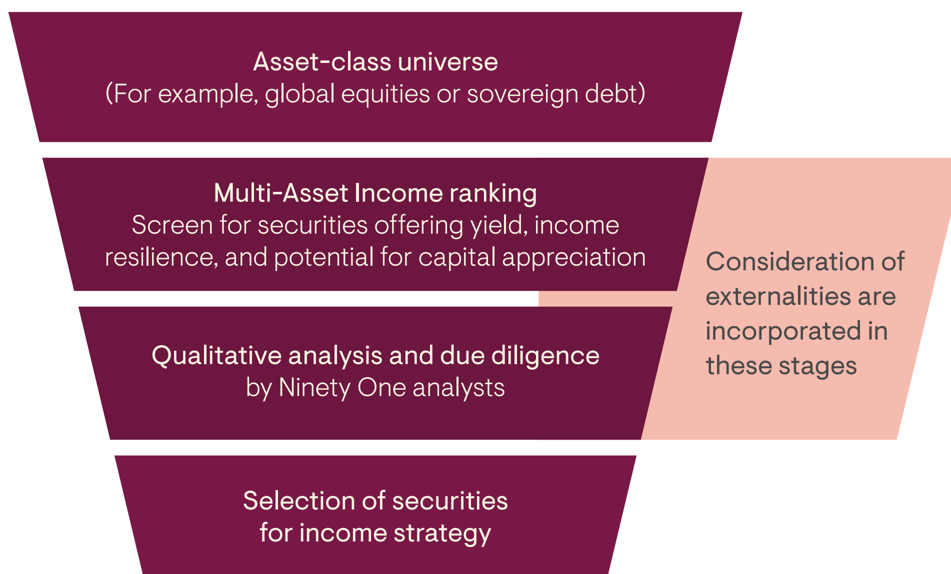
Sustainability assessments for sovereigns

When investing in countries (i.e. sovereign investments), we review the extent to which authorities are balancing long-term environmental and social sustainability with short-term growth and consumption goals. It is important that for many countries, there is a delicate balance between negative environmental and social externalities and the pursuit of economic growth, particularly in lower income nations. We assess the material sustainability issues for a country with the support of data where available, including the Ninety One/WWF Climate and Nature Sovereign Index and the Social Progress Index framework. We combine this use of data with a structural review of the country focused on forward-looking policies and outlook for the economy, with a view to identifying key risks and as well as opportunities for improvement.

1. For further information on our investment process, please see the Important information section.

Bringing it all together through our fundamental research

The income strategies are actively managed and apply a bottom-up process, making it possible to conduct fundamental analysis and to assess the externalities – both positive and negative – at an individual security level, as highlighted below:



When allocating capital to an investment, the Multi-Asset Income investment approach quantitatively and qualitatively assesses three main criteria:

1. The level of yield
2. The resilience of the cash flows underlying the dividend or coupon
3. The potential for capital appreciation

To be selected, a security must score well across all three criteria, with sustainability considerations integrated holistically when assessing each security. Ultimately, there is a preference for those securities that demonstrate sustainability leadership or deliver positive effects.

Engagement and voting

Engagement with a company's management team forms an important part of the team's overall process and monitoring. An engagement with a company's management team will be considered where opportunities to effect positive change such as improved carbon disclosure and net zero emission targets are identified. We have been active participants of collective cross capability engagement efforts and continued to work towards enhancing our capability specific efforts in this area. Details of recent engagements are outlined in the Engagements and Advocacy section of this report.

Recent developments

We are committed to incrementally evolving and enhancing our approach to sustainability over time. Below we describe the progress made in three areas of our sustainability work over the past 12 months:

Corporate culture

A key development in the team's sustainability work over the past year has related to our assessment of corporate culture.

Business leaders have long been vocal about the importance of culture in driving company performance. Despite this, investors tend to overlook culture, mostly because it is difficult to measure. But it is precisely in culture's multi-faceted, hard-to-pin-down nature that we believe the alpha opportunity lies for active investors.

Over the last year, the team developed a framework for assessing culture, with the aim of helping our portfolio managers and analysts identify investments with underappreciated long-term potential. The framework comprises two core components: The 'universal perspective' which considers four cultural attributes that arise more often in high-performing, high-quality, sustainable businesses over time. The second component is the 'contingency perspective' which considers the elements of culture that are particularly valuable in certain circumstances. Examples of how this culture framework has been applied to holdings within the strategy can be found in the Engagement section.

The four 'universal' features of strong corporate cultures

For further detail, please see our paper "Culture as a driver of sustainable alpha".

Sustainable Financial Disclosure Regulation (SFDR) categorisation

Over the last year, we implemented the SFDR requirements for Article 8 disclosures for our Luxembourg-domiciled pooled funds. Our approach to meeting the requirements for Article 8 is underpinned by:

(a) the capitals cross-asset framework described elsewhere in this report,

(b) the industry group and business activity exclusions implemented last year, and

(c) a detailed climate assessment across the portfolio.

As part of our commitment in meeting the Article 8 requirements, we will report on the portfolio's sustainability characteristics on a regular basis. This report will form the basis of our reporting work and will be supplemented by SFDR periodic reports which will be published for this strategy along with the firm's other Article 8 and 9 disclosure funds as part of the relevant report and accounts. Further information on our disclosures can be found on our website in the Literature section of each fund.

Progress in Ninety One's net-zero transition plan and targets

We consider climate change the biggest challenge confronting humanity in the current century. As a firm, we wholeheartedly support the objectives of the Paris Agreement and joined the Net Zero Asset Managers initiative in 2021, committing to reach net zero emissions by 2050 or sooner. From a firm perspective, our focus is on financed emissions, paying the most attention to those corporate holdings with the highest emissions today ensuring that we help and encourage them to set transition plans. But across all corporate holdings, we want to see alignment with a net-zero pathway through the setting of credible targets e.g. targets approved by the Science Based Targets Initiative (SBTi). In this year's report, we include analysis on the proportion of direct equity holdings that have alignment with a net-zero pathway through the setting of SBTi targets.

We are making good progress towards our 2030 targets, with details of this in Ninety One's Sustainability and Stewardship report.

Evaluating sustainability: case studies

To bring to life our sustainability approach, we provide detail below on the sustainability characteristics of two investments in the portfolio – one corporate investment, and one sovereign investment.

Corporate investment case study: Roche

Founded in 1896, Roche is a Swiss multinational healthcare company that develops and manufactures pharmaceutical and diagnostic products worldwide. Most of its earnings are attributable to pharmaceuticals with the rest attributable to diagnostics. The company produces prescription drugs in the areas of cardiovascular, infectious, autoimmune, respiratory diseases, dermatology, metabolic disorders, oncology, transplantation, and the central nervous system.

Roche has commercialised 36 breakthrough therapy designations since 2013, contributing positively to individuals and healthcare systems. Roche stands out from its peers for extending healthcare access to underserved populations, though this is difficult to quantify.

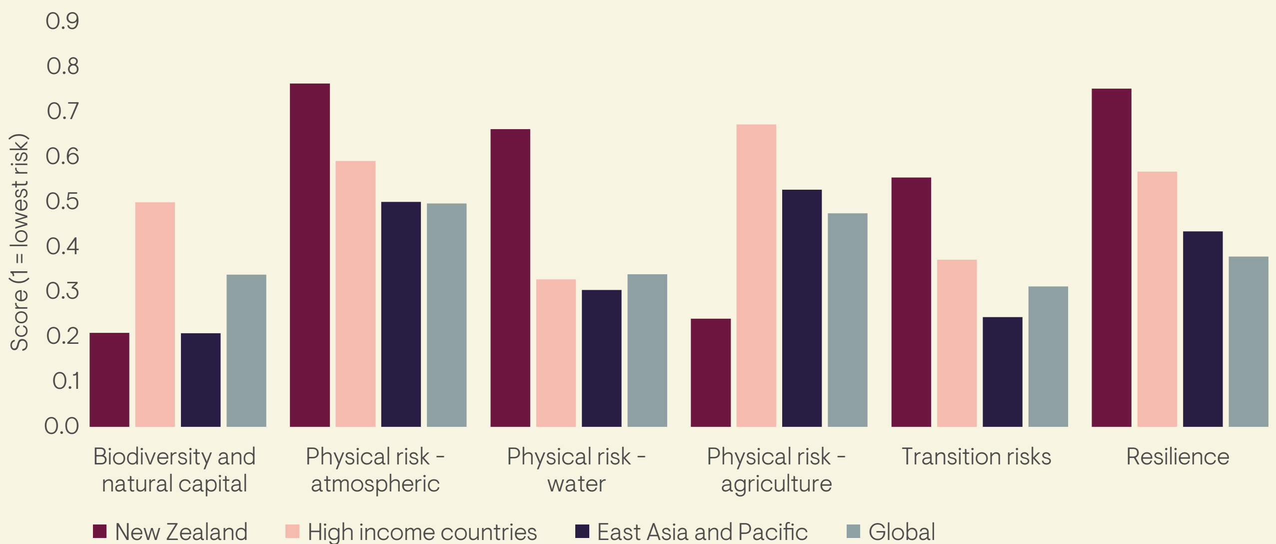
Roche has its own internal emissions targets, with a long-term goal to reduce Scope 1 and 2 emissions to zero by 2050. Shorter term, the company is aiming to reduce Scope 1 and 2 emissions by 40% from 2019-2025 and to move to 100% renewable electricity by 2025.

Case studies

Sovereign investment case study: New Zealand

New Zealand's Climate Change Response (Zero Carbon) Amendment Act 2019 sets out a framework to reduce net greenhouse gas (GHG) emissions to zero by 2050 (except biogenic methane, which has a target of 24-47% below 2017 levels). The country has also established an independent Climate Change Commission to provide advice to government on the transition to a low emissions economy. The country is a success story for the development of renewable energy, including hydropower and geothermal energy, without government subsidies. Its updated NDC in November 2021 strengthens the country's 2030 target, but the integrity of the target is an area for monitoring given the methodology used for calculation.

Figure 1: New Zealand CNSI data



Source: Ninety One, WWF, CNSI; as at 2019/2022 (latest available data). Scale: 0-1 (1 is lowest risk).

Case studies

Portfolio climate risk analysis

There are two broad categories of climate risk: **Physical risk** and **Transition risk**.

Physical risks

May result from weather-related risks to corporate assets or impacts of weather-related risks on value chains.

Transition risks

Occur because of changing regulation, changing consumer preferences, and disruptive or replacement technologies. The impacts may be felt by corporates with high operational emissions (Scope 1 and 2 emissions) and the knock-on effects may be felt where high emissions are found in the value chain (upstream and downstream Scope 3 emissions). With our proprietary Climate Risk Tool, we are looking to understand Transition risk considering Scope 1, 2 and 3 emissions.

Understanding carbon "scope"

We see Scope 1 and 2 emissions as a good proxy for how carbon-efficiently a company is managing its business; the upstream part of Scope 3 proxies the carbon-efficiency of a company's supply chain; and the downstream part is representative of the carbon-efficiency of a company's products.

- **Scope 1:** This relates to the direct emissions from owned or controlled sources, for example fuel burned on site and company owned vehicles
- **Scope 2:** This relates to the indirect emissions from the generation of purchased energy, steam, heating and cooling for the company's own use
- **Scope 3:** There are 15 separate categories of Scope 3 emissions including eight that relate to the supply chain and seven that relate to the emissions of the products once they are sold/used:

15 Scope 3 categories

Upstream

Purchased goods & services	Capital goods	Fuel & energy related activities	Upstream transportation & distribution
Waste generated in operations	Business travel	Employee commuting	Upstream leased assets

Downstream

Downstream transportation & distribution	Processing of sold products	Use of sold products	End-of-life treatment of sold products
Downstream leased assets	Franchises	Investments	

More companies are reporting detailed carbon footprint data; not just direct emissions (Scope 1 carbon) and indirect emissions from purchased energy (Scope 2 carbon), but indirect emissions from the companies' supply chains and products and services once they are sold (Scope 3 carbon). We believe it is vital that companies begin to quantify carbon risk not just in their own businesses but in their supply chains, which will then allow investors to build climate-resilient portfolios. The vast majority of carbon emissions for most companies are within Scope 3, but calculations for Scope 3 are inherently complex and most companies still report on Scope 1 and 2 only.

Corporate securities carbon profile analysis

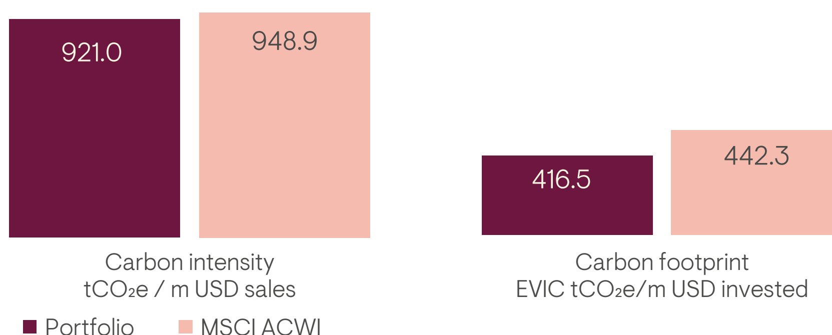
The analysis below is based on data from all assessable corporate securities (equity, listed property and credit, where relevant) held directly within the portfolio[2]. This relates to c.31% of the portfolio as at 31 December 2022 but for the purposes of this analysis (Figure 2), it has been reweighted to 100% for fair comparison with the index comparator shown. The remaining portion of the portfolio is invested in assets including sovereign fixed income securities, cash and derivatives (including active currency positions and equity index hedging positions), as well as some credit positions where data is not available.

While carbon reporting continues to improve, the picture over time can be volatile, with data subject to a significant time lag, as well as ongoing changes to numbers as organisations update their methodologies and restate emissions data. Our previous ESG Integration Report, issued in March 2022 and based on end December 2021 holdings, used FY2019 MSCI carbon data. For this report we are using FY2020 carbon data. The sources of portfolio company carbon data also changed over the year to now include company reports, information from the CDP database and MSCI carbon data. We believe that this combination of data sources should offer a better picture of individual company and portfolio level emissions. The source for the MSCI ACWI comparator remains the same, using MSCI carbon data. The year on year change in emissions at the portfolio level is therefore primarily driven by improvements in emissions reporting methodologies and our changes to portfolio carbon data sources.

The estimated carbon footprint for the portfolio as at 31 December 2022 is 416.5 tCO_2e/\$m. This is c.6% less than the estimated carbon footprint of the MSCI ACWI, which is 442.3 tCO_2e/\$m.

2. The portfolio may change significantly over a short space of time.

Figure 2: Scope 1, 2 and 3 carbon profile of the portfolio and MSCI ACWI



Source: For the portfolio, CDP data used where available, otherwise MSCI data. MSCI data used for the Index.

Carbon intensity

This measures the carbon emissions of a given entity per USD million of products or services sold (revenue). When collated up to the portfolio or index level, the figure shows the average carbon intensity of each assessable security, weighted by their allocation in the portfolio/index to determine an overall carbon intensity.

Carbon footprint

This figure is derived by taking the sum of the 'financed emissions' based on the percentage held of each assessable security's enterprise value (total of market cap and outstanding debt). This is normalised by dividing by the total USD invested in the securities to give a comparable footprint.

As we detail below in the section titled 'Highest carbon emitting companies', the biggest individual company contributors include a mining company (Rio Tinto), which has a carbon intensive business, and a car manufacturer (Volkswagen) which has most of its carbon emissions categorised as Scope 3. However, we continue to hold both companies in the portfolio as Rio Tinto's activities are important in enabling the energy transition, while Volkswagen (VW) is focusing its future growth on electric vehicles. Both have carbon emission reduction plans in place, with VW's being SBTi approved.

Figure 3: Contribution of Scopes
(% of portfolio carbon footprint)

Source: Ninety One, as at 31 December 2022.

About 89% of the portfolio's carbon footprint is attributable to Scope 3. As highlighted earlier, due to limited disclosure, much of this Scope 3 data has been estimated. In Figure 4 we provide the proportion of companies in the portfolio that disclose carbon emissions figures.

Figure 4: Data quality summary
Proportion of companies in the portfolio which disclose carbon emissions figures

Source: Ninety One, as at 31 December 2022.

Highest carbon emitting companies

In the table below, we have provided additional commentary on the top five contributing corporate holdings to emissions in the portfolio based on Scope 1, 2 and 3 carbon footprints.

Company name	Comment on emissions level and management
Rio Tinto	Rio Tinto's emissions are predominantly Scope 3 and fall in the Processing of Sold Products classification. This means they are indirect and generated by its customers. Within the stock analysis of the company, there is specific focus on Rio Tinto's climate transition plans and its commitments to reduce emissions over various time frames. With respect to Scope 1 and 2, Rio Tinto's target-setting goes back to 2008 when it set a goal to cut intensity by 24% by 2020. The company exceeded this target and Rio Tinto's current ambitions are to reduce – from the 2018 baseline – 15% by 2025 and 50% by 2030. In its 2022 Sustainability Report, the company stated that a 7% reduction has been achieved so far, mainly due to renewables installed at Escondida and Kennecott. Decarbonisation capex was US$94 million in the 2022 financial year.

Company name	Comment on emissions level and management
VW (credit)	While VW is among the highest emitters, we are comfortable with our investment in the credit as the firm has a high-quality transition plan, which has been assessed independently by the Science-based targets initiative and the Transition Pathway Initiative. Furthermore, as an EU auto OEM, regulatory pressures will call for a further 15% reduction in EU fleet-wide CO_2 emissions by 2025. VW intends to achieve this by growing the share of zero tailpipe emissions vehicles (i.e. EVs) in its sales mix – which already stood at 572k vehicles last year. We sold this position in H1 2023, as we explain in the MSCI ESG section.
Kinder Morgan (credit)	Although we classify Kinder Morgan as a high emitter, we note its business is principally focused on natural gas. Even under the IEA's Net Zero Emissions by 2050 scenario, we can expect natural gas to play a crucial role as an industrial feedstock and energy source. As such we view transition risk for Kinder Morgan as manageable relative to its midstream peer group. Moreover, Kinder Morgan is actively pursuing opportunities into future energy sources including renewable natural gas, biodiesel, sustainable aviation fuel and hydrogen.
Daimler Truck Holding (credit)	While Daimler Truck is a top five contributor to emissions, it is a leader in developing electric heavy-duty trucks. The company has developed several new truck products to overcome the challenges of making heavy duty transport carbon neutral. Although a small contribution to volumes currently, the firm targets 60% of sales to come from zero-emission vehicles by 2030.
Dow Chemical (credit)	Dow Chemical may be a high emitter, but it has ambitious targets in place. Specifically, by 2030, Dow Chemical plans to reduce its net annual carbon emissions by 5 million metric tons, which represents a 15% reduction from its 2020 baseline and a 30% reduction from the 2005 baseline. By 2050, Dow Chemical intends to be carbon neutral (which includes Scopes 1, 2 and 3 plus product benefits). In addition, it will enable 100% of its products sold into packaging applications to be reusable or recyclable by 2035.

Corporate net-zero analysis

To meet the climate goals of the Paris Agreement, global emissions must fall by 7.6% annually over this decade, and our natural capital research seeks to understand how companies are contributing towards that outcome. To form a view on expected progress, we consider the climate transition plans for companies using the Science-Based Targets Initiative (SBTi), where applicable, as well as our own analysis.

As at the end of December 2022, 39% of our equity holdings had approved SBTi targets. In the medium-term we recognise that companies are in the process of establishing targets and assessing their current emissions. Particularly in emerging markets, patience and company engagement is required. We will carefully monitor progress on carbon-emissions reduction plans and expect the proportion of companies committing to credible targets to increase.

Sovereign securities carbon analysis

In the table below, we have provided details on the carbon emissions (intensity per GDP basis) of the top five country exposures by portfolio weighting, as well as information on material climate considerations through a proprietary framework:

Country	Emissions intensity per GDP basis (tCO_2e/ million US$ GDP)	Material climate considerations
Australia	437.2	The May 2022 elections heralded a change in Australia's Federal government, which led to a significant improvement in the ambition of its 2030 climate target. The newly elected government moved swiftly to update its NDC in June 2022, submitting to the UNFCCC a new target of a 43% reduction of greenhouse gas emissions below 2005 levels by 2030, and net zero by 2050. The new laws were passed in September 2022, containing a clause that any future targets must be a progression beyond current commitments. In general, these laws are a positive step from a relatively weak position and we will be monitoring implementation developments closely.
Canada	445.5	Canada has made significant progress in its commitment to reduce greenhouse gas emissions. In 2021, the country passed the Canadian Net-Zero Emissions Accountability Act, which enshrines its 2050 net zero target into law. The act also sets a stronger Nationally Determined Contribution (NDC) target, with Canada now committed to reducing emissions by 40-45% below 2005 levels by 2030. This is an improvement on the previous target of 30%, and it puts Canada on a more ambitious path to reducing emissions. Canada has more work to do to meet its climate goals. The country's current policies are not yet sufficient to achieve the 40-45% NDC target, and they fall short of the 54% reduction needed to be Paris compatible. Success will depend on effective policy implementation, which has been a challenge in the past. Despite these challenges, Canada is committed to reducing its emissions and playing its part in addressing climate change. The country is investing in clean energy technologies and infrastructure, and it is working with other countries to develop international climate agreements.
Mexico	528.5	Mexico's climate change policies are rated as insufficient by the Climate Action Tracker, but there are some positive signs. For example, Mexico has managed to reduce CO_2 emissions per capita and energy intensity over the past five years, in excess of peers. Additionally, the country has a history of implementing renewable energy policies, and there is still potential to expand these efforts. However, there are also some challenges that Mexico needs to address. The most recent update to the NDC saw a deterioration in absolute targets, as the country revised its business-as-usual path upwards. Additionally, the policy decision not to pass-through higher oil prices to the consumer will increase inefficient fuel subsidies. Overall, Mexico's climate change policies are still insufficient, but there are some positive signs. With continued effort, the country can make progress towards meeting its climate goals.

Country	Emissions intensity per GDP basis (tCO_2e/million US$ GDP)*	Material climate considerations
New Zealand	340.1	New Zealand's Climate Change Response (Zero Carbon) Amendment Act 2019 sets out a framework to reduce net GHG emissions to zero by 2050 (except biogenic methane, which has a target of 24-47% below 2017 levels). The country has also established an independent Climate Change Commission to provide advice to government on the transition to a low emissions economy. The country is a success story for the development of renewable energy, including hydropower and geothermal energy, without government subsidies. The updated NDC in November 2021 strengthens the country's 2030 target, but the integrity of the target is an area for monitoring given the methodology used for calculation.
United States	270.1	In 2021, President Biden signed an executive order that seeks 100% carbon free electricity by 2035. To achieve this, the Biden administration intends to set a Clean Energy Standard (CES) and invest US$65 billion in modernising the power grid as part of its infrastructure plan. In 2022, Congress passed the Inflation Reduction Act, a US$700 billion initiative that includes incentives for clean energy. This is part of the new US target which aims at a c.50% reduction in US greenhouse gas pollution from 2005 levels by 2030. By re-signing the Paris Agreement on day one of his presidency, Biden committed the US to reaching net zero by 2050. At State level, according to the EIA, 31 states and the District of Columbia had renewable portfolio standards (RPS) or clean energy standards (CES). These policies require electricity suppliers to supply a set share of their electricity from designated renewable resources or carbon-free eligible technologies.

Source: Climate Watch Data, CAIT, CO_2 gases. Given the complexities of calculating the emissions data for countries, there is a significant time lag. This data relates to 2019.

Portfolio MSCI ESG snapshot

The overview below is based on the MSCI ESG Ratings Methodology for all assessable corporate securities (equity, credit, listed property and infrastructure) directly held within the portfolio. This relates to 35% of the portfolio. The remaining portion is invested in assets including sovereign fixed income securities, cash and derivatives (including currency positions and equity index hedging positions). There is also a small portion of the portfolio (c.4%) where data is not available, typically due to credit positions where the issuer is not listed. The MSCI ACWI has been used for comparison purposes only.

Understanding MSCI ESG ratings and scores

Deriving scores and ratings for ESG is notoriously challenging; these issues generally require value judgements and incorporate complex considerations which are not easily captured in a single score or rating. In our view, ESG ratings should not be used to make investment decisions and instead, the underlying research should be used to inform and prioritise fundamental research. Having highlighted the limitations of MSCI ratings, we also recognise these metrics are widely used and provide a starting point for clients to understand ESG and to compare with other managers or indices. For this reason, in the section that follows, we have provided the aggregated MSCI ratings and scores across the relevant holdings and compared to the MSCI AC World index.

Portfolio ESG analysis

As at 31 December 2022, the MSCI ESG score of the portfolio's corporate holdings was 6.02. This score was 4.1% higher than the comparison index score – the MSCI ACWI.

Portfolio ESG score

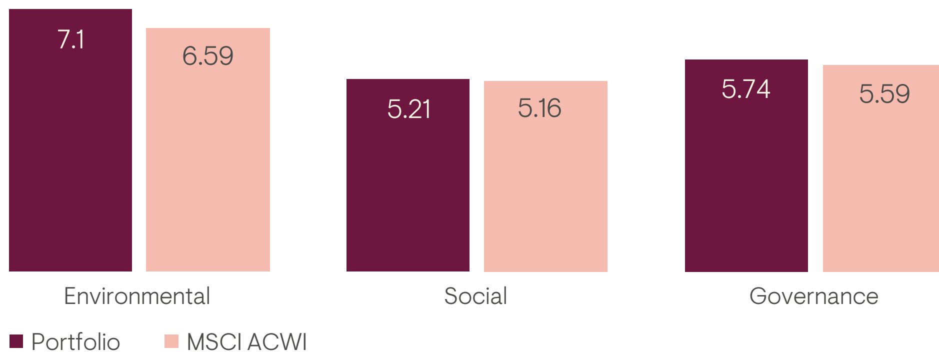
6.02

Relative ESG score

+4.1%

Source: Ninety One, MSCI as at 31 December 2022.

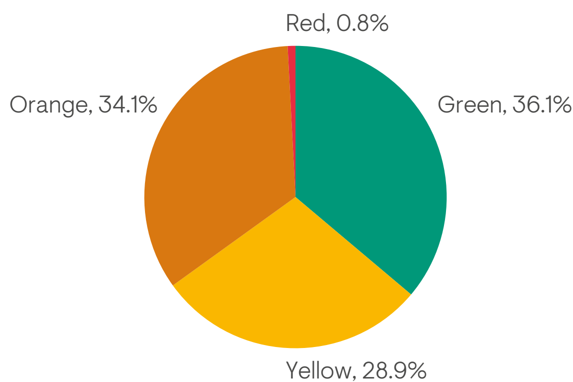
Figure 5: ESG pillar scores (portfolio weighted ESG scores)



Source: Ninety One, MSCI as at 31 December 2022.

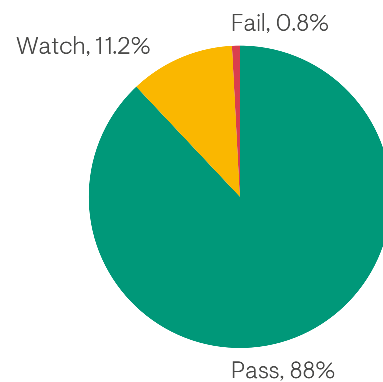
The ESG pillar scores represent weighted average scores across the key issue areas that MSCI identifies for a given company's industry. The weight that each key issue is assigned is determined based on the contribution of the industry to negative or positive impacts on the environment or society, relative to all other industries. The timeline within which a risk or opportunity is expected to materialise is also considered when determining the weights.

Figure 6: MSCI controversy flag distribution (% assessable corporates in portfolio)



Source: Ninety One, MSCI as at 31 December 2022.

Figure 7: MSCI UNGC compliance



Source: Ninety One, MSCI as at 31 December 2022.

The red controversy flag refers to exposure to two Volkswagen corporate bonds, totalling 0.8% as at the end of December 2022. Volkswagen had been under fire for its operations in Xinjiang, China. The region is home to a large Uyghur Muslim population, and there have been reports of human rights abuses, including forced labour. Volkswagen has denied any wrongdoing, but it has been criticised for not doing enough to address the concerns. In February 2023, the head of Volkswagen's China business visited the company's plant in Xinjiang. He said that he saw no evidence of forced labour, but his comments were met with scepticism. Volkswagen has said that it is committed to human rights, however given that it is not possible to independently verify the absence of any wrongdoing we sold out of our exposure in H1 2023.

Engagements and advocacy

As a business, we are active (not passive or activist) investors. We believe that effective boards and management that are aligned with our long-term objectives should be supported.

Ninety One's global engagement policy is driven by a clear purpose to preserve and grow the real value of the assets entrusted to us by our clients over the long term. The following section explains how that policy has been implemented over the reporting period. Ninety One seeks to ensure company boards focus on creating and preserving sustainable value. Investing client capital in an uncertain future requires each investment team to include governance as part of its fundamental analysis. A low level of governance comfort requires engagement to justify the investment.

Engagements take place as an integral part of the investment process, with the investment team initiating engagements based on the investment processes and priorities. The Sustainability team provides engagement advice and targets material ESG themes and specific holdings that are significant to Ninety One and our clients. The team is accountable to executive leadership through the Investment Governance Committee for policy implementation and engagement on a quarterly basis.

We take a targeted approach to engagement, prioritising strategic engagements where we can influence an issuer to reduce risk. We believe strategic engagements enhance our understanding of sustainability risks and can provide the opportunity to improve outcomes. Ninety One regards the shareholder vote as a fundamental part of preserving and growing the real purchasing power of our clients' assets.

In the following table we have provided examples of portfolio holding[3] engagements that have taken place across different asset classes over the course of 2022, both within the Multi-Asset team and also in collaboration with other capabilities at Ninety One.

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3. No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided.

This is not a buy, sell or hold recommendation for any particular security. For further information on specific portfolio names, please see the Important information section.

Equity

Company	Focus
Valmet	Despite engaging with the company last year on its short performance periods in remuneration, and specifically regarding Long-Term Incentive Plans (LTIPs), not enough action has been taken to address the issues we identified in our view (only adding vesting periods to the award, not extending the performance period). The company's ability to meet its targets was partly hindered by the merger with Neles which was a complex and time-consuming process that required a lot of attention from Valmet's management team. As a result, there was less time for the team to focus on achieving its remuneration targets. Additionally, the merger led to some changes in Valmet's business, which also impacted the company's ability to achieve its targets. We voted against the remuneration report and subsequently arranged a call with the company to discuss our rationale.
Partners Group	We met with Partners Group's head of HR to engage with the company on its Cultural support work practices and Diversity & Inclusion (D&I). We previously highlighted concerns regarding parental support, considering it important for the company to address to meet its MD-level diversity targets, which are currently lacking. We also took the opportunity to get another perspective on the company's culture from the head of HR. Overall, Partners Group is driving positive change by continuing to launch positive cultural work practices. The meeting was timely as the firm had recently announced new fertility treatment support. That said, we think it could do more on support and we will continue to push for improvements here.
Iberdrola	Iberdrola is a global leader in renewable energy with a commitment to net zero by 2050. It has leading positions in Spain, the UK, Mexico and Brazil. As part of its transition plan, Iberdrola lobbies governments to encourage a transition to clean renewable energy. The company has committed to increasing transparency around lobbying practices. Our engagement continues to focus mainly on succession planning and the joint Chairman/CEO role. We have had a number of conversations with management on this, and have met with people from across the organisation, which has given us confidence in the depth of talent. However, we continue to believe that an explicit succession plan would be helpful.
AIA Group, Intact Financial, Partners Group, Roche, Home Depot and Texas Instruments: Parental leave policies	In 2022 we contacted several of our holdings regarding their parental leave policies. We have undertaken work which suggests that parental leave is a significant positive marker with respect to broader workplace practices and there is academic evidence to suggest that it is a driver of higher employee engagement across both parent and non-parent employees. We requested additional insight regarding the companies' approach to parental leave policies and disclosure. To further our understanding of the corporate culture, we are encouraging sharing of both quantitative and qualitative information on parental leave policies. We are interested in any further colour available – such as additional support programmes, regional standards, uptake by gender, impact on engagement.

Credit

Company name	Focus
ZF Finance	ZF Finance is the fourth-largest automotive supplier in the world. It has a product portfolio that is 77% focused on electric vehicles and other sustainable technologies. The company has set ambitious environmental targets, such as climate neutrality by 2040. We wanted to understand the credibility of these longer-term targets and what initiatives the company was undertaking. In 2022, ZF Finance hired Jochen Berner as its new Head of Sustainability. He has a wealth of experience in the automotive industry and is well-versed in sustainability issues. He is leading the company's efforts to transition to a more sustainable business model. Our engagement with him gave us comfort as to the achievability of the targets. To achieve these goals, ZF Finance is investing in new organisational structures, technologies, and processes. It is also in the process of completing a TCFD scenario analysis to further shape its strategy. ZF Finance's environmental targets are ambitious, but they are achievable. The company has the resources and commitment to make its goals a reality. Its progress in this area will be closely monitored.
Volkswagen	Volkswagen (VW) is the second largest automaker globally. The company has ambitious environmental targets, including becoming net carbon neutral by 2050. VW has also implemented several reforms to its corporate culture since the Dieselgate[4] scandal, including a new compliance programme and an external whistle blower programme. However, VW's supervisory board is still not sufficiently independent or professional, and the chairman was previously the CFO. We highlighted these concerns to VW management, which acknowledged them, adding that the chairman is being pushed on these matters. We believe that debt investors have more opportunity to push for change at VW than minority shareholders, given the company's reliance on debt capital markets. Furthermore, there have been concerns raised around VW's plant in China's Xinjiang region, where China has been accused of human rights abuses. VW has denied that forced labour is taking place however our view is that it is difficult to verify labour standards in the region. The position was sold in H1 2023 as a result of these concerns.
CPI	The European real estate public credit market has grown substantially over the past decade, and private and public real estate companies have pursued strong, acquisitive growth during a period of low interest rates. This rapid acquisition-led growth in the sector has created some of the governance concerns facing investors in the sector today. These include complex capital and ownership structures; cross ownership across businesses with poor board independence; family owned/single majority shareholder ownership structures; undisclosed related party transactions; and the abuse of minority shareholder rights. Although many governance related risks are company specific, the sector can do better on disclosure, both in terms of the quality and consistency of information given to the market.

4. Knowledge At Warton, March 2019 – Exhausted by Scandal: 'Dieselgate' Continues to Haunt Volkswagen.

Company name	Focus
CPI (continued)	In light of this, we have used recent meetings with the companies whose debt we own (such as CPI Property) to push management teams and boards to improve on the following: — Provide more granular information on M&A activity. — Increase disclosure on related party transactions with a more cautious stance on who is defined as a related party. — Provide more disclosure on board members' history with the company, management, and key shareholders. — Report key non International Financial Reporting Standards (IFRS) ratios. — Where applicable, make corporate and ownership structures less complex. These engagements have generally been met favourably by management and we have started to see evidence of improvement, such as improved board quality. Continued improvements in the sector's disclosure and governance will play a key role in reestablishing investor confidence in this sector and its management teams. This is vital before these companies require access to debt capital markets for refinancing over the next few years.
CVC	We met with several members of CVC Credit's European Collateralised Loan Obligation (CLO) management team to discuss their ESG integration approach. We were pleased to learn that ESG is a key focus for the team, and that they are working to improve their reporting in line with the EU's Sustainable Finance Disclosure Regulation. We also requested that they complete the CLO Manager ESG Diligence Questionnaire. Recent advancements include the development of a proprietary ESG scoring system and the commitment to publish portfolio level scores for one of their recently issued CLOs. They are also working with external advisors to understand whether they can produce ESG reporting aligned to the EU's Sustainable Finance Disclosure Regulation. We were satisfied with the team's commitment to ESG and will continue to work with them to improve their ESG reporting.

General risks. The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth. Past performance is not a reliable indicator of future results. If any currency differs from the investor's home currency, returns may increase or decrease as a result of currency fluctuations. Investment objectives and performance targets are subject to change and may not necessarily be achieved, losses may be made. Environmental, social or governance related risk events or factors, if they occur, could cause a negative impact on the value of investments.

Emerging market sovereigns

Country	Focus
Chile	We engaged with the Head of the Debt Management Office (DMO) during a roadshow call for Chile's first sovereign linked bond issuance. The discussion confirmed the KPI's the bond was expected to meet which includes emissions reductions by 2030, in line with Chile's NDC and to increase the share of non-conventional renewables energy (NCRE) (excludes large-scale hydro) to 60% of total energy production by 2032. To meet these targets Chile intends to: — Increase NCRE in the energy generation matrix. The share increased recently, not because of public investment, but because of changes in regulations in energy auctions, incentivising private renewables. This will continue. — Adapt transportation, in partnership with the private sector. The aim is to electrify public buses – the metro in Santiago is already electric. — Phase out coal, in coordination with the private sector. — Impose green taxes: 3 GHG emissions taxes have been implemented. We sent the DMO our Net Zero Sovereign Index to engage and will continue to track performance on KPIs with future impact reports.
Ecuador	As a part of the Emerging Market Investors Alliance, we followed up on our initial engagement with the Advisor to the Ministry of Finance. We raised the profile of the Open Budget Survey with the Ecuadorian representative and linked up with our contact at the International Budget Partnership. We will continue to follow up and engage on this issue of fiscal transparency. Ecuador's transparency efforts and willingness to engage with investors reinforces our confidence in Ecuador as an attractive investment opportunity.

Specific risks. Currency exchange: Changes in the relative values of different currencies may adversely affect the value of investments and any related income. **Default:** There is a risk that the issuers of fixed income investments (e.g. bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss. **Derivatives:** The use of derivatives may increase overall risk by magnifying the effect of both gains and losses leading to large changes in value and potentially large financial loss. A counterparty to a derivative transaction may fail to meet its obligations which may also lead to a financial loss. **Interest rate:** The value of fixed income investments (e.g. bonds) tends to decrease when interest rates rise. **Equity investment:** The value of equities (e.g. shares) and equity-related investments may vary according to company profits and future prospects as well as more general market factors. In the event of a company default (e.g. insolvency), the owners of their equity rank last in terms of any financial payment from that company. **Emerging market (inc. China):** These markets carry a higher risk of financial loss than more developed markets as they may have less developed legal, political, economic or other systems.

Proxy voting

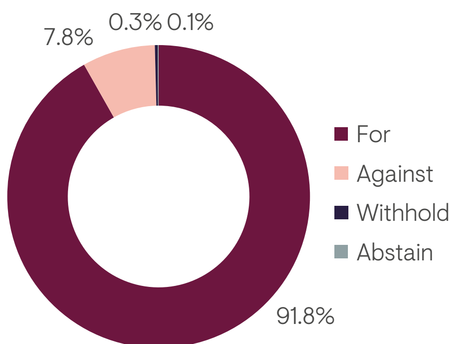
Firm-wide voting activity

As a firm, we report our voting activity on our website. Full details of our voting activity over the 12 month period to 31 March 2023 can be found in our latest annual Sustainability report. Over the period, we made vote recommendations at 1,101 shareholder meetings worldwide, analysing 14,689 resolutions in accordance with Ninety One's voting policy. On a resolution-by-resolution basis, we voted 'for' on 90% of the resolutions, and cast a dissenting vote ('against', 'abstain', ' do not vote' or 'withhold') on 10% of resolutions.

Portfolio voting activity

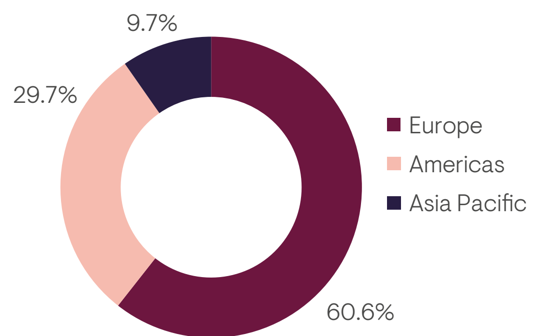
Relating specifically to this strategy, we voted at 68 shareholder meetings across 22 markets and on 969 resolutions during the 12-month period to 31 December 2022. On a resolution-by-resolution basis, we voted 'for' on 91.8% of the votes cast, and a dissenting vote ('against', 'abstain', 'withhold', or 'do not vote') on the remaining 8.2% of votes cast. Our voting activity on the strategy is broken down into more detail in the charts below:

Figure 8: Votes cast on per resolution basis



Source: Ninety One, ISS as at 31 December 2022.

Figure 9: Votes cast on per region



Source: Ninety One, ISS as at 31 December 2022.

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