Fulcrum Asset Management
Stewardship Report – 2022–2023

STEWARDSHIP CODE

fulcrumasset.com

Investment innovation
Macro foundations

Contents

Statement from Management Board

We are delighted to introduce our Stewardship Report (the "Report") for the year ending 30th June 2023. During the reporting period, we have seen a sustained high level of interest in stewardship. Clients and consultants appear to be placing a growing emphasis on real world outcomes. This makes complete sense to us and is an encouraging development from our perspective. We have also been pleased to see how our ESG training sessions and our core value of Sustainability have been percolating across our business.

That being said, we recognise that the ever-increasing expectations around reporting have consequences for our work priorities. The number of ESG reporting templates we are asked to complete means we have had to be very focussed on efficiency as a business. We have strong relationships with other asset managers and our perception is that this is becoming a challenge across the industry, particularly given that many managers have been through a tough period since the liability-driven investment (LDI) crisis. In this report, in addition to the usual update on our Action Plan, we will discuss systemic issues including the consequences of the LDI crisis, inflationary pressures and industry consolidation, all of which remain topical.

Similar to last year, we have structured the Report in line with our approach to stewardship. As such, Principle 1, 2, 3 and 5 profiles our governance relating to stewardship activities. We follow this with Principle 6, 7, 8, 9, 11, 12, which discusses how we consider our clients and beneficiaries (P6), embed ESG considerations in our investment process (P7) and engage as part of our investment process. We believe engagement is the foundation that allows us to achieve our net zero ambitions, thus P8, 9, 11 and 12, showcases our approach to engagement. Finally, we have grouped Principle 4 and 10 together. These principles highlight our firmwide consideration of stewardship through the assessment of market-wide systemic risks and our participation in industry collaborations.

We hope that you find this Report useful and engaging and as always, we welcome your feedback.

The Management Board

Statement from Matthew Roberts, Partner and Chair of our Responsible Investment Committee

Fulcrum Asset Management LLP ("Fulcrum") believes that the most effective way of staying ahead of the increasing client needs and regulatory obligations is through having an innovative and integrated approach to stewardship.

Our business has a macro heritage; our work for clients is guided by macro-economic theory and disciplined risk management. The majority of our Assets Under Management are invested in macro strategies with meaningful use of derivative instruments. As a consequence, there are limits as to what can be done when it comes to ESG integration. Nonetheless, as part of these strategies and in our other capabilities, we do invest in physical equities, bonds and with external managers. Our priorities have been to focus on these investments when it comes to stewardship. Perhaps the most significant development during the reporting period at Fulcrum in this regard, has been that we have now moved almost all of our physical equity investments to be 'climate aligned'. This has been a large piece of work and has built on the development of the Fulcrum Climate Change equity strategy launched three years ago.

Our team has completed various other milestones during the year. We have formalised our commitment to the Net Zero Asset Managers Initiative, we have joined the Asset Owners Diversity Charter (given the services offered by our Alternative Solutions team), we have continued to evolve our engagement activities and we have further developed our monitoring and reporting. In last year's Report, we provided a summary of our key objectives for 2022-2023 in the form of an Action Plan. Below we provide a review of progress against those objectives during the year. Later, in the Direction of Travel section of this Report, we also discuss our Action Plan for 2023-2024 as well as our 3–5-year goals, which highlight our commitment to improve further.

Action Area	Update
Broadening our scope to present fair, balanced, and accurate reporting using internal and understandable assurance. As we reach the minimum threshold for TCFD reporting, such assurance will be pertinent in providing high quality disclosure to our clients and stakeholders.	We have made significant progress in this area during the reporting period. Our risk team has developed automated reporting on Principle Adverse Indicators (PAIs) and other ESG-related metrics for all funds across our physical equity and bond holdings. These can be produced at any time and draw on data from our chosen providers. Our ESG Taskforce is responsible for ensuring that data provided to clients has been sense checked. We have not yet finalised our position on whether the use of external assurance would be beneficial for our clients. The data we provide in our reporting is sourced from third party providers. At Fulcrum we then manipulate/aggregate the data based on industry standard calculations (rather than modifying the actual data). We intend to finalise the cost benefit analysis of external assurance and look forward to sharing insights with you next year.
Development of firm-level ESG key performance indicators: we look forward to using our PAIs as a foundation to create ESG KPIs to monitor and report on firm level progress.	Our research team has now developed an aggregated, normalized score using all the underlying PAI information. This is a significant step allowing us to assess, at various levels of granularity, how our portfolios score on these metrics. We are in the process of rolling this out across our fund range.
Enhancing our current recruitment approach in line with our commitment which includes building a robust, diverse talent pipeline.	We are very pleased with the progress made in this area including a new Independent Advisor appointment (Lisa Gordon) to our Management Board and our recruitment process more generally.
Rolling out an ESG-specific training program: this will include 8 topics ranging from ESG integration, data & metrics and biodiversity. We look forward to hosting external speakers and encouraging internal specialists to present these training sessions, which will be for all our people at Fulcrum.	The training program has been well received. Our 'lunch and learns' have taken on a 'life of their own' whereby many of our team members have presented on a range of interesting and different topics. There is a real sense across the business that our education level is improving.

There is always further work to be done. We need to take the KPI frameworks we have developed and move forward to implementation. Our attention is also moving towards biodiversity, which we still consider to be a nascent area despite a lot of debate across the industry. Finally, we need to further consider our level of resource given the growing demands from clients and consultants.

We fully support the Financial Reporting Council's updated and extended definition of stewardship as "the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

2022 – 2023 Stewardship Highlights

It is a pleasure to announce the appointment of Joe Davidson as Managing Partner. Andrew Stevens will be stepping down as CEO but will still continue as a founder.

We are pleased to introduce Lisa Gordon who has joined Fulcrum's Management Board as an Independent Advisor.

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

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 also hired two external consultants who are leading experts in the interaction between climate change and finance and economics: Marcin Kacperczyk (Professor of Finance at Imperial College Business School), and Glenn Rudebusch (non-resident Senior Fellow at the Brookings Institution and Senior Fellow at New York University).

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.

Data Source: ShareAction, Glass Lewis, Fulcrum Asset Management
As at June 2023

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

Fulcrum overview

During the reporting period, Fulcrum has grown from a team of 87 people to 102 people which includes economists, asset class specialists and researchers. We have offices in the UK (HQ), the US and a representative office in Japan. We are proud to have built a strong, experienced investment team with a real passion for investing. Our Assets Under Management (AUM) stand at £4.3bn / US $5.9bn (figures as at 30.06.2023). As an investment boutique we are large enough to enjoy economies of scale and a breadth of expertise but equally we are nimble enough to be able to respond quickly to market events or alter course whenever we see opportunities. Our aim is to build lasting relationships based on the alignment of our clients' interests with our own through our five key investment capabilities: Macro, Risk Premia, Alternative Solutions, Climate-Aligned Investing (newly defined this year) and Thematic Equities, spanning systematic and discretionary investments, managed both internally and externally.

Purpose

Our previous Stewardship Report discussed how we formalized our core values, including Sustainability, both at an enterprise and investment level. It helped engrain the belief that Sustainability at Fulcrum is a lens through which we consider our decisions.

As rigorous financial and economic modellers, it has become clear to us that it is crucial to consider ESG risks alongside more traditional risk metrics. This helps us to gain a more complete picture of a given investment opportunity and, we believe, make better investment decisions. Being thoughtful stewards of our clients' (and indeed our own) capital will be an essential part of achieving our purpose as a responsible investor and stewards of capital.

We would like to reaffirm the statement of purpose expressed in last year's Report:

"We work with clients to maximise the probability of meeting their objectives. We focus on providing innovative investment solutions that are aligned with our clients' objectives and risk appetite to deliver positive returns in the broadest range of market environments. We aim to manage our clients' money as carefully as we manage our own with as few conflicts of interest as possible. To that end and since our inception, we have invested alongside them, managing the money in the same way."

Business strategy

Our mission is to be guided by innovative macro research, a disciplined investment process and effective risk management, to be our clients' most trusted long-term partner. For all current and prospective clients, our focus on stewardship & sustainability will be paramount in achieving our business objectives.

Our strategy for future growth is as follows:

- Provide excellent service and thought leadership to our clients, including managing their assets responsibly and in a manner consistent with their stated objectives.

- Retain our focus on consultants and other intermediaries (such as wholesale distributors and independent financial advisor networks) as key relationships and efficient distribution channels.

- Innovate with existing and prospective clients to help them meet their goals. It will be incumbent on us to engage with our clients, the investment consultant community, and our industry more broadly to fully understand their needs. We see potential for growth in UK DC pension schemes and Master Trusts, Local Government Pension Schemes, Australian institutional, UK wealth management/wholesale clients and Japanese pension schemes.

- Continue our pro-active approach on engagement including voting activities, collective engagement and direct communication with companies.

Investment capabilities

Below we provide a summary of our five investment capabilities:[1]

Macro	Risk Premia	Alternative Solutions	Thematic Equities	Climate-Aligned Investing
These strategies are designed to generate absolute returns, offer downside protection, and provide diversification. We invest globally currently via index derivatives across equities, bonds, commodities and currencies.	A range of systematically implemented, quantitative investment strategies that includes trend following, volatility, carry, value and skewness. We invest globally via derivatives across equities, bonds, commodities and currencies.	Our guiding objective here is to support investors in overcoming the governance challenges of investing in Alternatives. We offer a range of pooled and bespoke solutions with exposure to Real Assets, Alternative Credit and Diversifiers across the liquidity spectrum, largely accessed through external managers.	We provide exposure to key megatrends through synthetic and physical equity investments. This results in highly diversified long/short portfolios with global, cross-sector exposures to a wide range of socioeconomic themes.	We invest in companies that are taking steps to align their business model to the net zero transition. We aim to balance climate alignment, return expectations and diversification benefits.

We have one investment team that covers a wide range of different asset classes and underlying investments. We need to ensure our team is educated and incentivised to be good stewards of capital and to incorporate ESG considerations effectively.

For us, this means supporting and enabling our investment professionals to: consider and integrate ESG risks and sustainability issues in their investment decision-making; vote effectively; engage with companies and the wider industry; and communicate and interact with our clients on these issues. Given our heritage and expertise in macro investing, we concentrate our efforts across all the asset classes that we invest in; not just equities where much of the responsible investment activity has historically occurred across the industry.

In our previous Report, we discussed how we have continued to develop ESG integration across our Alternative Solutions and Thematic Equities capabilities. We also discussed how we have started our ESG integration journey in our Trend Following strategy within our Risk Premia capability. This year we have further developed these capabilities and will share examples of engagements, research and voting in line with our objectives. We have also decided to allocate approximately 10% of the assets in the Diversified Absolute Return and Diversified Core Absolute Return strategy (two offerings within our Macro capability) to our Fulcrum Climate Change strategy. We look forward to sharing details on this journey with you in the report.

1 Our capability range is currently under review and is likely to evolve during the next reporting period.

Culture and investment beliefs

We operate with an inquisitive, thoughtful, and research-oriented culture in the pursuit of excellence on behalf of clients. This manifests itself in a focus on incremental improvements in all that we do: integrity in serving our clients day-to-day; the way we integrate ESG considerations in our investment process; our macroeconomic research; our research on specific underlying investments and the way we approach stewardship. We have fostered a culture that emphasises a collaborative team approach within which individuals want to be part of something bigger than themselves – where being the best stewards of our clients' capital plays a central role in attracting and retaining fantastic people to manage their money in the right way.

We believe that responsible investing at Fulcrum requires an innovative, multifaceted, and integrated approach that, if done well, can lead to improved investment outcomes for clients over the long term. There are numerous examples of the factors we consider to be important in this regard including: climate risk, biodiversity, diversity and inclusion, and human rights. These are important for investment outcomes as they either directly or indirectly impact long-term value creation for shareholders, or the ability of a borrower to repay.

We also believe that diversification is not a constant, but a function of the macro environment. In this context, independent risk management is a critical component of good fund management. Crucially, risk is a broad concept and includes a wide range of ESG factors that should be considered wherever possible. These risks can also meaningfully impact outcomes for clients and whether they are sustainable. We summarise our values and associated target behaviours as a business below:

Excellence	Integrity	Innovation	Collaboration	Sustainability
Each and every time we engage with clients, we endeavour to produce work of the highest quality. — We strive for investment excellence through a repeatable approach that is research-driven and evidence-based. — We must recognise our own limitations and be aware of our behavioural biases.	Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do. — Our clients are the real risk-takers. They are entitled to the bulk of the gains and fees should be fair. Clients should pay little for beta and nothing for luck.	We aim to challenge conventional wisdom and expand the frontier of knowledge by building on the work of academic experts and experienced practitioners. — We value reflection and continuous improvement. Even a small edge in expertise, if well defined, is of great value.	Firm-wide collaboration is integral to our success. We believe in leveraging our collective knowledge and improving decision-making through cooperation and constructive debate. We expect everyone to work as a cohesive team. — Our assets are our people. Managers are expected to foster an environment where team members feel supported and motivated.	We invest responsibly with a particular focus on mitigating climate change. — Meaningful integration of environmental, social and governance considerations requires much more than optimising "scores". — Achieving multi-dimensional diversity in our workforce is a gradual but essential process. We must include people from all backgrounds.

Our mission is to provide clients with innovative solutions built on solid macro foundations.
To achieve this, we aim to create an inclusive workplace that inspires excellence and offers deep professional satisfaction to our employees.

We are aware of the challenges facing the natural environment and believe that financial markets have an important role to play to create a more sustainable world.

For us, this means:

- Enabling our investment professionals to consider and integrate ESG risks in their investment decision-making.
- Channeling more capital to address ESG challenges such as climate change.
- Acting as good stewards of capital in the way we exercise our voting rights.
- Engaging with companies and the wider industry.
- Communicating and interacting with our clients on these issues.

2 As of 30 June 2023

Principle 2

Signatories' governance, resources and incentives support stewardship

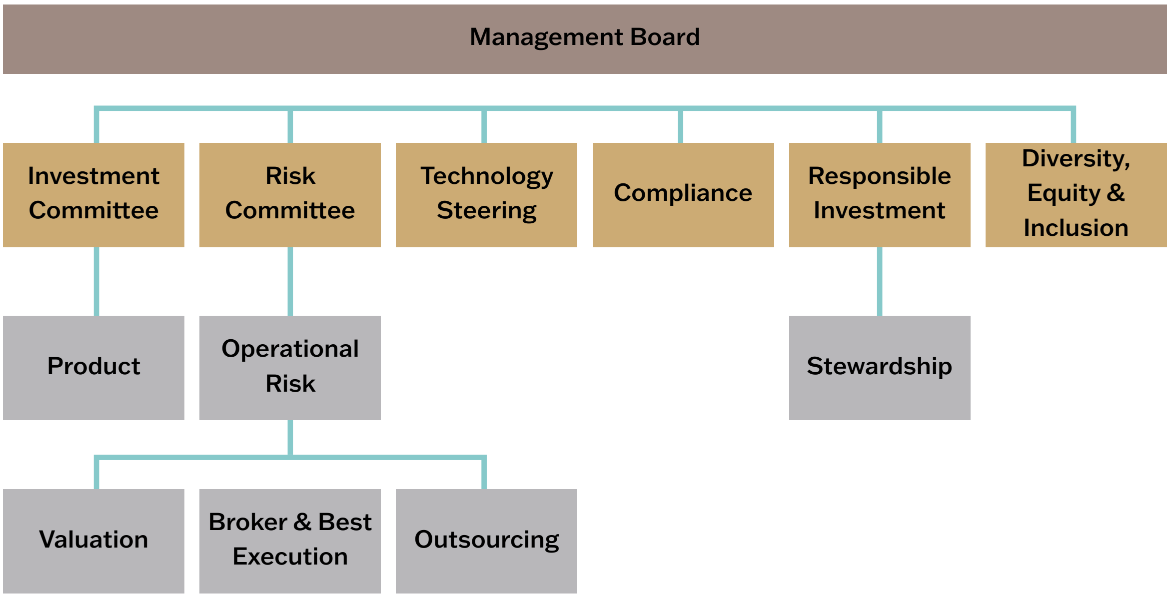
Governance and oversight

The firm's Management Board, which is ultimately responsible for the oversight of our stewardship approach, was created in 2021 to be the primary forum for the decision-making governance and shared equity of the firm. The Management Board comprises Gavyn Davies, Joe Davidson, Suhail Shaikh, Nabeel Abdoula, Andrew Stevens and Lisa Gordon. This group has reviewed and signed off on this Report. Our Management Board ensures that Fulcrum's governance is not reliant on one individual in terms of key person risk.

During the year, Andrew Stevens stepped down as CEO after performing the role for 19 years, taking on the title of Founder and remaining on the Management Board. We were all delighted to announce that Joe Davidson was named as our new Managing Partner having been Chief Operating Officer for many years. We feel that the creation of the Management Board last year has helped to ensure a smooth transition of responsibilities. We expect Andrew will continue his gradual transition over time.

We have also focused on improving the breadth of skillsets of our Management Board and to that extent we have hired Lisa Gordon as an Independent Advisor to our Management Board.

Fulcrum Committee Overview[2]



Management Board

Gavyn Davies, Co-Founder & Executive Chair

Prior to establishing Fulcrum in 2004, Gavyn was Chairman of the BBC from 2001. He joined Goldman Sachs in 1986 and became Partner in 1988 when he became the Chief Economist as well as Chairman of the Research Department until he left in 2001. Gavyn was a member of HM Treasury Independent Forecasting Panel (1992-1997). He joined the Government's Policy Unit as an Economist (1974) and was an Economic Policy Adviser to the British Prime Minister (1976-1979). Gavyn graduated in Economics from Cambridge University, followed by two years of research at Oxford University.

Joe Davidson, Managing Partner

Prior to joining Fulcrum in 2004, Joe worked for four years at Goldman Sachs Asset Management within the Performance Analysis and Client Reporting department and previously within the Investment Management Division of Schroders from 1998 to 2000. Joe has recently been promoted from Chief Operating Officer and Chief Compliance Officer to Managing Partner, expanding his role to oversee Global Client Group in addition to the internal infrastructure functions of the Company. Joe graduated from Warwick University and received his MSc in Organisational Behaviour from the University of London.

Suhail Shaikh, Chief Investment Officer (CIO)

Having started his career at Goldman Sachs Asset Management initially enjoying a wide variety of roles in investment, product and finally specialising in investment management. Suhail moved to Fulcrum in 2005 to build out our investment team. Suhail has a MSc in Management from the London School of Economics & Political Sciences.

Nabeel Abdoula, Economic Advisor

Prior to joining Fulcrum in 2011 Nabeel worked at Goldman Sachs for four years in the Investment Strategy Group. Nabeel graduated from Warwick University in 2007 with a BSc in Mathematics, Operational Research, Statistics and Economics. Since the end of the reporting period, we announced that Nabeel will be leaving Fulcrum. He remains on the Management Board for the next year but relinquished his position on the Responsible Investment Committee.

Andrew D. Stevens, Co-Founder

Before establishing Fulcrum in 2004, Andrew worked at Goldman Sachs (1992–2004) in the Equities then Investment Management Divisions, where he invested across all asset classes. Andrew has an MBA from Harvard Business School (1992) and a BA in Finance from Georgetown University (1988).

Lisa Gordon, Independent Advisor

Lisa joined Fulcrum in 2023 as an advisor to the Management Board. Lisa has over 25 years of Board experience, in both Executive and Non-Executive roles at listed companies and PE/Family office owned businesses. Prior to her non-executive career, Lisa has held several senior executive roles including Founder, Director at Local World Media (2012-2015), COO at Yatteden Group Plc (2007-2013).

Search for an Independent Advisor for our Management Board

Activity:
To support our continued growth and professionalism in 2023 we decided to appoint an additional non-executive individual to the Management Board. We sought to find someone who could bring a wealth of experience both at a leadership level and with broad business acumen, that would complement the existing members. It was also important to find an individual who had the depth of understanding of the workings of a global asset manager.

Outcome:
We were delighted to secure Lisa Gordon, who has experience in founding and leading successful businesses, but who also has served as Board member and Chair for organisations such as M&C Saatchi Group, Alpha FX, JP Morgan Mid Cap Investment Trust Plc and Cenkos Securities.

We welcomed Lisa to the firm in March 2023, where she has been actively involved in supporting us in a number of ways including; advising on governance and improving the Management Board meetings, coaching and mentoring to our CIO and Managing Partner, mentoring and support to our cohort of senior women, recommendations as to the formation of our Remuneration Committee and support in the creation of our 3 year business plan and roll out across the business.

Responsible Investment Committee

The Responsible Investment Committee (RIC) reports to the Management Board and has responsibility for day-to-day oversight and implementation of all aspects of stewardship. The RIC includes members from across Fulcrum's departments including members of the investment team. This governance framework, encompassing clearly defined roles and responsibilities, effective challenge processes and clear lines of accountability aids the firm to deliver an effective stewardship programme. The RIC further delegates certain specific stewardship responsibilities (such as the oversight of proxy voting) to our Stewardship Committee (Matthew Roberts, Fawaz Chaudhry and Sean Onyett).

Matthew Roberts, Partner, Head of Fulcrum Alternative Solutions and Chair of RIC
Before joining Fulcrum in 2018 to run Fulcrum Alternative Solutions, Matthew had been a Portfolio Manager for the Willis Towers Watson Partners Fund since 2014 and before that a manager researcher in fixed income, hedge funds and other alternatives since 2005. Matthew holds a BSc in Economics and Finance from University of Bristol.

Joe Davidson, Managing Partner

Fawaz Chaudhry, Partner, Head of Equities

Piotr Chmielowski, Partner, Chief Risk Officer

The RIC Terms of Reference include the monitoring of firm-level investment exclusions, Key Performance Indicators (KPI) relating to ESG integration, and training and development amongst other agenda items. Fulcrum annually (and more regularly in some cases) reviews the effectiveness of its stewardship governance structure and accompanying stewardship policies and procedures. This review takes the form of an appraisal by the Management Board (working as necessary with the chair of the RIC) as to whether our governance structure is fit for purpose and operating in the best interests of our clients.

ESG Taskforce

Our ESG Taskforce is responsible for brainstorming ideas, discussing integration and engagement solutions and challenges. The ESG Taskforce comprises members from risk, research, compliance, and our investment teams. It is integral to both internal sustainability discussions and ideas for research, innovation, use of technology and market best practices.

In 2022, we strengthened our climate research expertise by formalising our climate research group led by Gino Cenedese. We have also included Gino Cenedese and Shangqi Han in the Taskforce to further embed climate research into enterprise and investment level decisions. During the reporting period, Gino, Shangqi and the Taskforce worked collaboratively to develop the proprietary scoring methodology (detailed throughout this report).

The team meets every two weeks focusing on project prioritisation and action. The key discussions are fed into our RIC, which meets monthly. Unlike the ESG Taskforce which is a forum for creative solutions, the RIC is formalised, and meeting minutes are saved in our internal system.

Iancu Daramus, Responsible Investment Director and Co-chair of ESG Taskforce

Samriddhi Sharma, Responsible Investment Associate and Co-chair of ESG Taskforce

Matthew Roberts, Partner, Head of Fulcrum Alternative Solutions

Rahil Ram, Director, Equities Team

Bianca Libertini, Risk Management Director

Gino Cenedese, Director Macro Research

Shangqi Han, Associate Macro Research

Fulcrum's approach to stewardship requires a collaborative effort from our entire team. Thus, different departments are responsible for executing and implementing the firm's stewardship approach. Core responsibilities are borne by our Responsible Investment and Stewardship Committees. Examples of Fulcrum's day-to-day stewardship activities include:

- Monthly meetings held by the Responsible Investment and Stewardship Committees to discuss specific stewardship issues.
- Bi-weekly meetings held by the ESG Taskforce (a recent example includes discussing the impact of using short positions to engage on ESG concerns, or the development of data infrastructure for ESG reporting). Feedback from key discussions is fed into the RIC.
- Stakeholder engagement including company meetings and proxy voting for our Thematic Equities capability, as well as external manager meetings within our Alternative Solutions capability.
- Assessment of ESG risks within our investment processes across all asset classes considered by our Alternative Solutions capability.
- Relevant employees (e.g. ESG Taskforce members, Portfolio Managers, Marketing and Compliance teams) attending conferences and training on stewardship matters.

Diversity, Equity and Inclusion (DEI)

Fulcrum has a clear policy in place with regards to Diversity, Equity & Inclusion, which is governed by our DEI representatives. This group is tasked with collating and prioritising the views of all employees as opposed to being a discreet decision-making body and is made up of:

Mark Horne, Director, Fulcrum Alternatives Solutions and Lead DEI Representative
Mark joined Fulcrum in 2018 to be part of Fulcrum Alternative Solutions, before which he was an Independent Consultant, Asset Management. From 2008 to 2013, he was a manager researcher in fixed income and hedge funds at Willis Towers Watson. Mark began his career at Coutts Bank in 1986 and began undertaking fixed income research there in 2000. He became a CFA charterholder in 2003.

Tamsin Webster, Chief People Officer, Director

Emma Pickering, Partner, Head of Investor Relations

Shiwen Gao, Director, Fulcrum Alternative Solutions

Joe Davidson, Managing Partner

- The Group, which reports and is accountable to Fulcrum's Management Board, meet on a monthly basis (or more frequently if needed), in addition to which focus group meetings with a broad cross-section of employees will discuss and assess progress and issues.

- Our guiding belief is that better decisions are made in an organisation by having a wider range of opinions.

- Our goal, therefore, is to make our firm an attractive and inclusive place for diverse talent and to nurture and maximise their potential.

- Quotas, whilst positive in intent, may have the potential for unwanted consequences. Therefore, our approach is to positively build and develop our own pipeline of talent and not to just rely on poaching from others in our field. Ultimately, we seek to influence how our industry is perceived by broader society, to one that is open and inclusive.

Commitment

- Encourage equity, diversity, and inclusion in the workplace as they are good practice and make business sense.

- Make opportunities for training, development, and progress available to all staff, who will be supported and encouraged to develop their full potential, so their talents and resources can be fully utilised to maximise the efficiency of the organisation.

- Review employment practices and procedures when necessary to ensure fairness, and update them and the Diversity, Equity & Inclusion Statement to take account of changes in the law.

- Monitor the make-up of the workforce regarding information such as age, sex, ethnic background, sexual orientation, religion or belief, socio-economic background and disability in encouraging equity, diversity, and inclusion, and in meeting the aims and commitments set out in our equity, diversity, and inclusion statement.

- Create a working environment free of bullying, harassment, victimisation, and discrimination, promoting dignity and respect for all, and where individual differences and the contributions of all staff are recognised and valued.

- Assess how the Diversity, Equity and Inclusion Statement, and any supporting action plans, are working in practice, reviewing them annually and considering and taking action to address any issues.

From an ethnicity perspective, our representation of employees from an ethnic minority (31%)[3] is higher than it is in the general population in the UK (15% – this is data from 2019 ONS Population Survey). However, despite this also being echoed in our Management Board (33% ethnic minority) we recognise there is still work to do within the Management and Director level populations within our business.

Gender is another area where we recognise there is more work to be done. Our female representation (34%)[4] overall reduces significantly as seniority increases. In the past year, we are happy to announce the hiring of Lisa Gordon as an Independent Advisor to our Management Board. However, we are cognisant that there is more that we can do to improve diversity, equity and inclusion at Fulcrum; for example, our partner population has a female representation of only 6%[5]. Ultimately, we seek to influence how our industry is perceived by broader society, to one that is open and inclusive. One way we are doing this is through recruitment (further details below). During the reporting year, our new hires have been 50% female. We recognise that being a relatively small firm, stability and continuity of the team is of paramount importance for our clients. It is also essential for us to continue to deliver successful outcomes. Our initiatives are therefore focused both on the medium and the long term, such as hiring women and identifying existing women within the organisation who have potential to be successful in more senior positions over time and providing them with additional support and focus to achieve this potential. This includes attendance on externally led programmes (such as the Diversity Projects Pathway

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4 As of 30 June 2023

5 As of 30 June 2023

Programme for females with potential for Portfolio Management roles, sponsorship for formal training and qualifications and mentoring provided by our Independent Advisor Lisa Gordon and our Chief People Officer, Tamsin Webster.

Tamsin Webster is our Chief People Officer. With many years' investment industry experience, Tamsin is helping Fulcrum evolve and embed its culture, practices and process and help attract and retain the best and brightest talent. We continue to deepen the range and depth of diversity metrics captured on our HR System, which includes topics such as ethnicity, education level, sexual orientation, pronoun preference and, most recently, our first sweep of Social Mobility data captured through our annual employee engagement survey. This has enabled us to accurately understand areas for potential improvement from a diversity perspective and to prioritise areas of focus. Some of these are summarised below:

A. Flexible working

We continue to support a flexible working practice and have made these available to all employees with no requirement to apply individually for them. All employees as standard can now work from home two days a week and we provide equipment in order to ensure they can do this safely and productively. We recognise the importance of spontaneous discussions when working in person, especially given our entrepreneurial mindset. Therefore, we have favoured a hybrid approach, which allows for better work-life balance and enables collaboration due to proximity. We have 10% of our employees working on part-time contracts and this includes 9% at the most senior levels in the organisation (Director and Partners).[6]

B. Training

In 2021 we partnered with external experts to deliver two training workshops, one to the whole company which focused on the concept of unconscious bias and one to team leaders and partners which covered this topic in more depth and demonstrated ways that managers could lead, hire and support employees more inclusively. In 2023 we delivered a series of four learning modules to managers and partners, which were supported by individual coaching sessions, covering critical skills in leading people. Topics covered, critical thinking and decision making, boosting productivity, how leaders create culture, managing the impact they have on their teams, and coaching and mentoring skills. These sessions and future planned sessions are influencing the way our leaders and more broadly our entire organisation thinks about creating a healthy and inclusive working environment that respects and engages all team members. In the latter half of 2023 we are planning to deliver in-person workshops covering bullying and harassment, a topical area that the FCA are viewing as requiring greater guidance and focus from companies and our intent is to ensure our teams are fully conversant on what is required of them.

C. Recruitment and mobility

All open roles are managed through the firm's HR department (as opposed to being managed by hiring managers). Key aspects of the process include partnering with specialists who have a track record in sourcing the top talent in our industry as well as thinking more broadly in terms of diverse candidates, using gender-bias decoders on job descriptions, using varied objective assessment criteria that reduces the chance of unconscious bias and measuring all stages of recruitment to allow us to refine our process and manage bias.

We maintain an entry level talent pipeline for the business that is focused on building our talent internally for longer term progression into management, investment and leadership roles. This includes summer interns sourced through GAIN (Girls are Investors) and Investment 2020 (which focuses on social mobility), degree level apprentices sourced through Multiverse (who focus on social mobility) and investment analysts sourced and training supported via Investment 2020 (also focusing on social mobility) as well as providing work experience through Investment 2020 via a partnership with an inner city higher education college. We continue to explore other partnerships and initiatives that enable us to focus on improving social mobility. These early career initiatives support the building of a pipeline of talent into investment and leadership roles in the longer term. In addition, we are also aware we need to focus on our existing diverse talent and support their career progression proactively. To this end, we have developed sponsorship and mentoring programmes and the development of leadership skills in those individuals outside of the partnership with the ambition to fast track their development and increasing retention. We have also nominated

6 As of 30 June 2023

two of our investment team members to take part in the Diversity Project led Pathway Programme, which is designed to support firms develop female portfolio managers for the future. In 2023 we also took part in the cross company women returners programme, a charitable organisation. Founded in 2014 Women Returners, are experts in enabling the return to fulfilling work of experienced professionals, mainly women but also men, after an extended career break. After a six month internship, we offered our returner a full time role within our investment team.

Via the Investment 2020 traineeship programme organised by the Investment Association, we also provide speakers from our pool of employees to support an outreach programme designed to raise awareness, accessibility and attractiveness of the financial services industry as a whole to those who may not have had access to or awareness of it. This has the aim of increasing applicants from diverse backgrounds not only to Fulcrum, but more broadly into Asset Managers and Financial Services as a whole.

D. Compensation

For our 2022-2023 compensation review we commissioned compensation consultant McLagan to provide us with salary and total compensation benchmarking for our industry. We used this, not only to ensure that we pay all employees fairly for the role that they do, but also to examine our pay in relation to gender and ethnicity.

E. Incentives

All members of staff are compensated based on a salary and discretionary annual bonus. The latter is based on the performance of the firm and the individual over a calendar year. Each year, the company sets overarching goals for the organisation, followed by each department setting their departmental and individual team members goals. These goals are reviewed twice a year with a formal one-on-one between manager and team member.

In addition to the goals, team members' overall performance relating to their role is reviewed and discussed. Our company values (innovation, integrity, excellence, collaboration and sustainability) also feature in the review process, whereby performance against these is reviewed.

Since 2022, one of the overarching company goals has related to Stewardship & Sustainability, setting the objective that these tenets will be a foundational consideration across all the activities in the business, including how we manage our clients' assets. Examples of departmental and individual goals that cascade from this include the delivery of unconscious bias and inclusive leadership training, the development of KPIs to measure the ESG activities within the firm, the development of KPI's to monitor the SFDR PAIs (Principle Adverse Indicators) for select strategies within the firm and building the climate change capabilities within the research team.

Key members of the Portfolio Management team (including research) and business teams own equity in the firm. Fulcrum has deferred compensation for key partners and employees based on its Remuneration Policy.[7] This deferral vests over a three-year period and there will be suitable alignments of contracts through investment in internally managed strategies. Our base salaries, bonus payments and benefits are benchmarked on a regular basis to ensure that they remain competitive against firms of a similar size. We have committed to participate in and use the McLagan salary and compensation survey from 2022 in order to ensure our benchmarks are the most accurate, as this represents the largest consolidation of asset management compensation data worldwide. Our benefits provider Gallagher also provides us with global reports on a regular basis regarding trends in benefits to ensure we are competitive and also harnessing changes in provision and demand of different employee benefits.

F. Engagement and feedback

Each year we invite employees to complete an engagement survey, seeking to ascertain the levels of satisfaction across a wide range of subjects, including pay and benefits, culture, leadership, communication, development, accessibility, as well as their experiences with regards to diversity, equity and inclusion. Overall satisfaction results continue to be high, and the overwhelming sentiment is that employees enjoy coming to work at Fulcrum and intend to stay working here for the medium to long term.

We review the results to each question and the free text commentaries that employees make. We then follow this up with in-person focus groups to

7 Please find our Remuneration Policy on our website: here

further understand the sentiment behind scores to questions and common topics discussed in the free text. Outcomes that have resulted in this exercise of listening to employees include:

- Changing our working practices
- Establishing the DEI representation
- Changing benefits such as extending our paid maternity and paternity pay, offering gym discounts, cycle to work and electric car schemes
- Made flexible/hybrid working available to all
- Implemented a HR system, which made access to information easy, introduced an all company bulletin e-board
- Changed our company performance management process
- Introduced wellbeing activities (yoga, boot camp, massages, badminton and five a side football)
- Commenced regular lunch and learn series
- Introduced a set of company values
- Invested in external benchmarking of salaries and incentives to ensure we are market competitive
- Introducing a more formalized business planning and budgeting approach
- Built a career framework that outlines our titles and expectations as well as provide transparency in terms of progression

G. Industry collaboration

We are members of the Diversity Project https://diversityproject.com/, a group of leaders in the investment and savings profession who are focused on taking action to accelerate progress towards an inclusive culture within our industry. The purpose of our membership involvement is to gain valuable insights, support and guidance as we seek to improve our approach to diversity, equity and inclusivity. Our Managing Partner, Chief People Officer, Head of Investor Relations, and Chair of our DEI Group are all active participants of key committees as part of this membership.

As an asset owner within our Alternative Solutions Team, we have also signed up to the Asset Owners Diversity Charter, to help drive forward the integration and improvement of DEI-related policies across the asset management industry.

H. Future priorities

To support building our pipeline of female investment professionals we have engaged with two programmes supported by the Diversity Project, the Cross Company Returners Programme and the Pathway Programme. Both these initiatives seek to accelerate our efforts in building a more diverse investment team and to support the progression and retention of talented individuals into key fund management roles.

ESG focused Training

External events and conferences relating to sustainability and stewardship are often eligible for continual professional development certification, which is monitored by our compliance team. Over the past year our Head of Climate Research, Gino Cenedese, hosted a series of seminars on climate change. The seminars were attended by our investment and risk teams and aimed at providing a deep dive on key aspects of climate change, with the speakers and main research papers listed below:

- Stefano Giglio (Yale School of Management): A Quantity-Based Approach to Constructing Climate Risk Hedge Portfolios.
- Marcin Kacperczyk (Imperial College London): Carbon-Transition Risk and Net-Zero Portfolios.

There are a number of ESG-related seminars in the pipeline and we look forward to sharing them with you next year.

Examples include a regular debrief by our Head of Consultant Relations on the expectations and guidance coming from the investment consultants on what fund managers should be doing in the area of ESG integration.

In 2022, we expanded our firm wide training with lunch and learn sessions hosted by our two ESG specialists as well as other team members. The events were well received and furthered our commitment on hosting firm-level training focused on ESG-related topics. The training organised in 2022 focused on topics such as stewardship, ESG integration, metrics and data, client feedback on ESG-related considerations, Diversity, Equity and Inclusion (DEI).

Being a top-down, macroeconomic investor, economic research is integral to our success. Our research team provides our broader investment team with innovative and thoughtful material which translates into our investment and stewardship activity i.e., ESG integration, risk considerations and engagement. Our research team has a dedicated mandate focused on climate change, which is led by Gino Cenedese.

We have also expanded our research team by hiring two external consultants who are leading experts in the interaction between climate change and finance and economics: Marcin Kacperczyk (Professor of Finance at Imperial College Business School), and Glenn Rudebusch (non-resident Senior Fellow at the Brookings Institution and Senior Fellow at New York University). We are building upon our climate research foundations and are working on key climate finance projects as part of our research agenda. In our previous report we discussed three climate finance projects we were working on as part of our agenda. We wanted to provide you with an update on those projects as well as introduce a new project initiated during the reporting period.

Project 1: Portfolio alignment to the Paris Agreement

Activity:
We made significant progress and ran extensive backtests of a systematic equity strategy that builds a net-zero portfolio that penalises the least ambitious companies, not necessarily the largest emitters. We developed a proprietary methodology to assess companies' ambitions to decarbonise, which can be used to build net-zero portfolios.

The project builds on previously published research by Marcin and co-authors ["Net-Zero Carbon Portfolio Alignment." *Financial Analysts Journal 78*, no. 2 (April 3, 2022): 19–33], which we extend significantly in many directions, for example by the inclusion of forward-looking metrics, among other things. Marcin was a key contributor in the generation and development of such project.

Desired outcome:
We are finalising implementation details and may be able to launch it in the next few months.

Project 2: Carbon transition risk and Net-zero portfolios

Activity:
Net-zero portfolios (NZP), which aim to reduce carbon footprint exposure to zero by a target date, are becoming a popular vehicle to align investors' incentives with climate scenarios. We characterise the decision and timing to divest companies from NZP using a novel forward-looking measure, distance-to-exit (DTE), which calculates the distance, in years, until a company gets excluded from NZP.

Companies with greater DTE values have higher valuation ratios and lower expected returns, consistent with the idea that DTE captures carbon-transition risk. The effect is stronger when climate pressure intensifies, and it is robust to various specification choices.

Desired outcome:
The climate research team (Gino and Shangqi) co-authored with Marcin a research paper entitled "Carbon-Transition Risk and Net-Zero Portfolios" based on the aforementioned analysis; this is publicly available here. We plan to submit to a leading academic journal for review. The research has been presented so far at the Banque de France, HEC Lausanne, HEC Paris, IESEG, Imperial College, Korea University, Luohan Academy, Reichman University, UBS, University of Michigan, and University of Porto.

Project 3: A study on the carbon futures market and the social cost of carbon.

This project has been put on hold to prioritise the projects above.

Project 4: Scoring system aggregating Principle Adverse Impact Indicators

Activity:
The research team developed a scoring system for aggregating Principal Adverse Impact Indicators (PAIs) at portfolio level. It assigns numerical scores to indicators like carbon emissions and labour practices, providing a holistic view of sustainability. This helps investors align with ESG goals, manage risks, and make informed investment decisions while promoting transparency and accountability in the financial industry.

Desired outcome:
We aim to develop a comprehensive KPI monitoring programme (which will be aligned with the EU SFDR regulation). Our intention is that this also creates a core set of broader ESG factors (including social and governance factors) that will be routinely assessed across our business and that this is aligned with our expertise and purpose. Of course, one of the challenges with this is data coverage and accuracy. As such, we have been working with a number of data providers on this topic (progress on this is outlined under Principle 8).

We have also used this system within our Fulcrum Climate Change (FCC) strategy, which we will discuss under Principle 7.

In addition to Marcin's contributions highlighted above, Glenn Rudebusch joins weekly calls with the Research team and senior members of the Investment team. He actively participates to the discussions on the global macroeconomic outlook and the associated analysis by the Research team. In addition to the longer-term research projects discussed above, we have produced blogs, articles, podcasts and thought papers on multiple ESG topics during the reporting period, including:

- Adjusting the resolution: reflections on the 2022 proxy season[8]
- Buying is good, building is better[9]
- Sustainability: Now, Never or When?[10]
- The role of short-selling[11]
- Sustainability integration important to overwhelming majority of investors[12]

8 Found here
9 Found here
10 Found here
11 Found here
12 Found here

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

We acknowledge that we may encounter conflicts whilst running our business and understand the need for a robust framework to identify them as they arise to facilitate an optimal outcome for our clients.

We identify areas where actual or potential conflicts of interest may arise and have established several policies which apply to all Fulcrum staff and which cover how we manage certain business operations, such as proxy voting, in our strategies. We maintain a Conflicts of Interest Policy[13] and we also provide a summary below of the mitigation measures for the most material conflicts we have identified:

Conflicts of Interest: mitigation measures	
Information Barriers	Fulcrum does not permit any wall crossings or receipt of inside information. In the case Fulcrum inadvertently receives such information, it has established policies and procedures to create information barriers to reduce the risk of any conflicts of interest.
Proxy Voting Policy	Fulcrum will prioritise holding securities with voting rights where possible and where reasonable to do so given the strategy in question. Where a potential material conflict of interest has been identified in relation to a proxy vote, Fulcrum will call upon an independent third-party to make the voting decision or may elect not to vote. Stocks placed on the restricted list may not be voted.
Gifts and Inducements Policy	The giving and receiving of gifts or inducements has the potential to create conflicts of interest. Fulcrum employees must not solicit or provide anything of value directly or indirectly to or from anyone, except under limited circumstances, which would impair Fulcrum's duty to act in the best interest of the client.
Personal Account Dealing Policy	To prevent conflicts arising from the use of information obtained from clients, and market abuse generally, all employees are subject to personal account dealing rules.
Outside of business	Staff are required to pre-clear their outside business activities which are only permitted in limited circumstances.
Declining to act	Where Fulcrum deems that the conflict of interest cannot be managed in any other way, we may decline to act for a client.
Remuneration Policy	To ensure that Fulcrum attracts and retains the highest calibre of staff and aligns staff interests with that of the firm and of its clients.

13 Found here.

Conflict of Interest review process

If any Fulcrum staff recognise a potential conflict of interest with a company or individual working at the company, they must raise this with Fulcrum's Compliance team in the first instance and as soon as practical. We seek to avoid any potential conflicts for staff members at Fulcrum arising from engagements with companies in which they have personal investments or some material personal relationship with a relevant individual at the company. In this regard, Fulcrum maintains an Outside of Business Interest policy whereby all staff members are required to disclose any interests (either by equity ownership or participation) to Fulcrum's Compliance team upon joining the firm and thereafter, on an ongoing basis. As part of Fulcrum's quarterly compliance attestation programme, staff members are required to acknowledge that amongst other things, they have read and understood this policy.

Where a staff member has a personal connection with a company, they are required to make this known and cannot be involved in any related engagement activities.

During 2022-2023, Fulcrum's Compliance team partnered with a third-party electronic communications surveillance provider as a beta client to evaluate the implementation of artificial intelligence in identifying potential and actual conflicts of interest using predefined key trigger word policies. This voluntary participation as a beta client demonstrates Fulcrum's commitment to staying informed and up-to-date on cutting-edge technologies to maintain robust systems and controls.

Furthermore, following a comprehensive review of Fulcrum's Order Execution Policy, we have introduced additional controls pertaining to the pre-approval Compliance process for documenting conflicts of interest related to Fulcrum's trading activities. This new process mandates that the Investment Research and Trading teams clearly delineate any potential conflicts of interest, provide a rationale for each trade, and demonstrate how the order execution policy has factored into their decisions. The enhanced process ensures thorough documentation of all supporting information and establishes a transparent audit trail for the sign-off process.

Recording and escalation

Fulcrum maintains a conflicts of interest register. Where an instance of a material conflict of interest arises, this is discussed at the Stewardship Committee and if necessary, escalated to the Management Board level. All records are kept within Fulcrum's regulatory recordkeeping requirements.

Disclosure

Additional conflicts that are identified by Fulcrum in the future will be included within appropriate mechanisms or systems to manage those conflicts. Where we consider that there are no other means of managing the conflict or where the measures in place do not sufficiently protect client interests, the specific conflict will be disclosed to enable an informed decision whether to continue with our service in that situation.

Conflicts in the investment process

It is also possible that we will encounter conflicts in our investment process whereby ESG considerations could make decisions more challenging. Our Conflicts of Interest policy is reviewed annually with the last review in June 2023. The outcome of the review is described in Principle 5. More generally, our goal is for this review to drive continuous improvement in our management of any conflicts.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

Fulcrum has the below policies in place, which govern our approach to stewardship, and which are reviewed regularly by Fulcrum's Compliance team to ensure they remain relevant and accurate in describing existing controls and procedures. Where there has been a material change which impacts a policy and affects existing controls and procedures, for example due to a new regulation, Fulcrum's external compliance consultants will also perform a review of the policy to ensure it remains appropriate for its size and business operations.

Furthermore, the review process is designed to identify whether policies in place are effective and whether enhancements are required to meet Fulcrum's ESG objectives, with policy documents amended accordingly to ensure the attainment of those objectives.

The RIC is the key oversight body in relation to stewardship, and this Committee meets on a monthly basis, currently consisting of four voting members.

Policy	Responsibility	Frequency of Review	Last Reviewed	Outcomes (see below)
Responsible Investment	Responsible Investment Committee	Semi-annual	July 2023	A
Proxy Voting	Responsible Investment Committee	Semi-annual	July 2023	No change to the policy
Conflict of Interest	Compliance Committee	Annual	July 2023	No change to the policy
Renumeration	Compliance Committee	Annual	July 2023	No change to the policy
Engagement	Responsible Investment Committee	Annual	July 2023	No change to the policy
Modern Slavery	Compliance Committee	Annual	July 2023	No change to the policy
Diversity, Equity and Inclusion	Diversity, Equity and Inclusion Representatives	Annual	February 2023	B

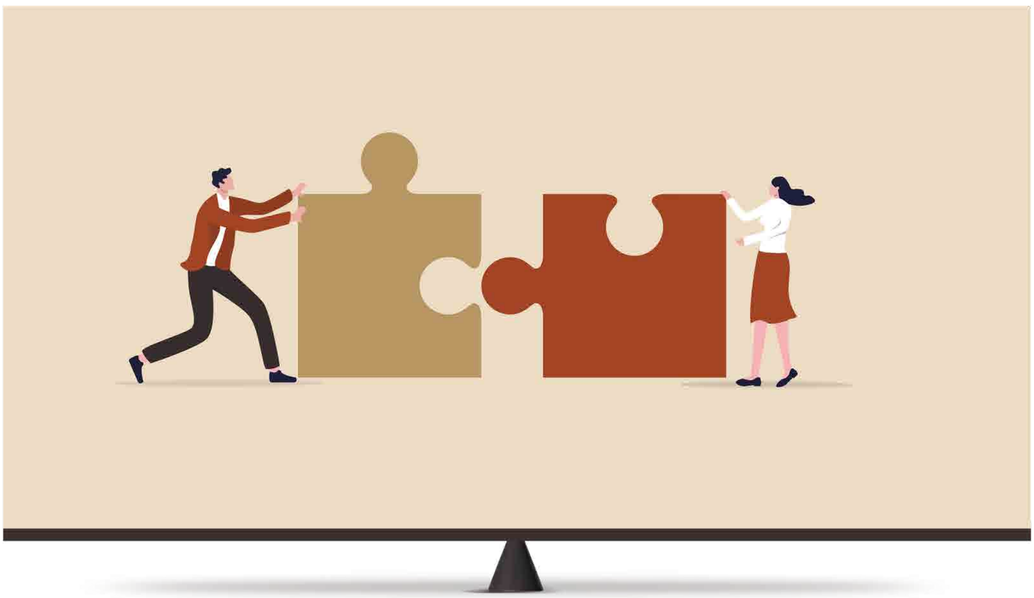
This year, we also performed a review of our standard responses to client questionnaires. A key reason to perform this review overseen by Head of the RIC, Matthew Roberts and our Compliance team, is to mitigate risks of misrepresentation as a result of inaccurate information presented in internal and client facing material. While there were no material discrepancies found as a result of the activity, this review will form a part of our internal process going forward. We are also cognisant that as we progress in our ESG journey, our reliance on external assurance will also increase and thus we believe continuous improvement will be central in our consideration of this Principle.

A link to all of our policy documents can be found here.

Outcomes

Our policies and procedures review process has led to several enhancements in relation to stewardship during the reporting period, and we hope and expect that this will continue to evolve as new information and data becomes available. Some examples are included below which link to the Policy documents listed above.

Responsible Investment (A)	We updated this policy to outline a clear exclusion criteria that we screen potential and existing investments against. Within this list, we have added a "Client Values" section whereby we state we will do our best to accommodate specific values and investment restrictions that they have. For example recreational cannabis is an example of a client specific or bespoke fund exclusion as opposed to a firmwide exclusion.
Diversity, Equity and Inclusion (B)	Fulcrum participated (a) in the Diversity Project's Returners program that resulted in a permanent offer being made; and (b) worked with GAIN (www.gainuk.org) and Investment 2020 (www.investment2020.org.uk) to select and offer a diverse group of individuals a summer internship. Fulcrum has signed up to the Armed Forces Covenant to support the armed forces community.



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

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

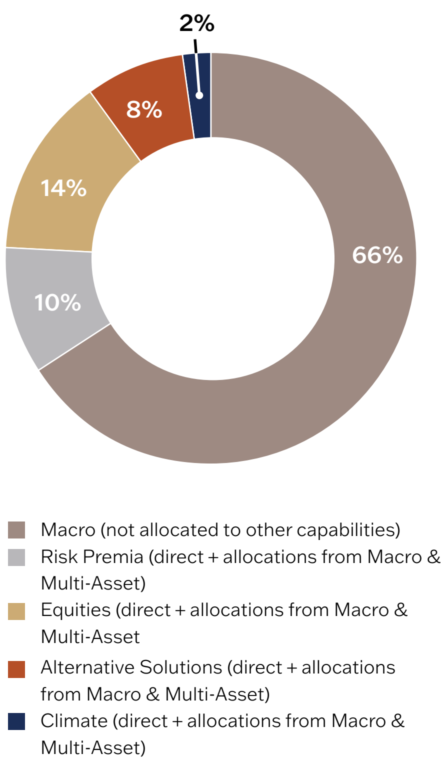
A breakdown of our Assets Under Management (AUM)[14]

We share below the breakdown of our clients' assets invested with us by geographical region and client type. Our client base is predominantly institutional in nature and, hence, long-term in their investment time horizon. This has become more diverse by region over time as we have worked more broadly with clients to help them to meet their investment objectives. We would expect this diversification to increase in the future.

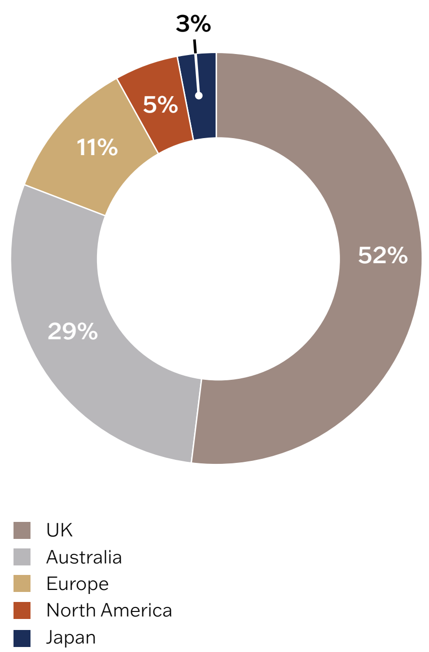
Of the $5.9bn AUM as at end June 2023, our Macro capability represents $5.2bn, which accounts for 87% of the total. The remaining 13% is invested by clients directly into our Risk Premia, Alternative Solutions, Thematic Equities and Climate-Aligned Investing capabilities.

Our Macro capability has traditionally invested in a broad range of index derivatives as well as our other capabilities including Risk Premia, Alternative Solutions, Thematic Equities and Climate-Aligned Investing, with the total of the allocations to these four amounting to approximately 16% of the $5.2bn.

Breakdown of AUM by Capability



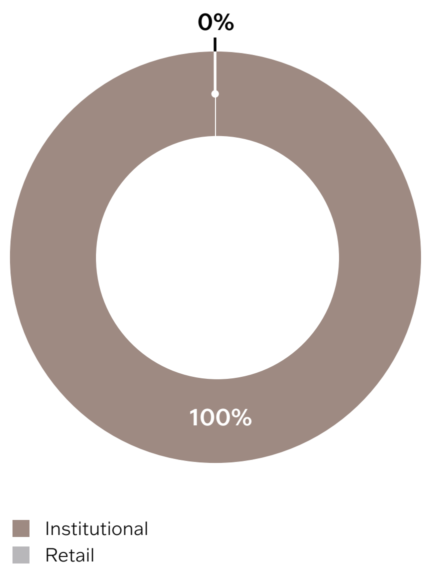
Breakdown of AUM by geography (client domicile)



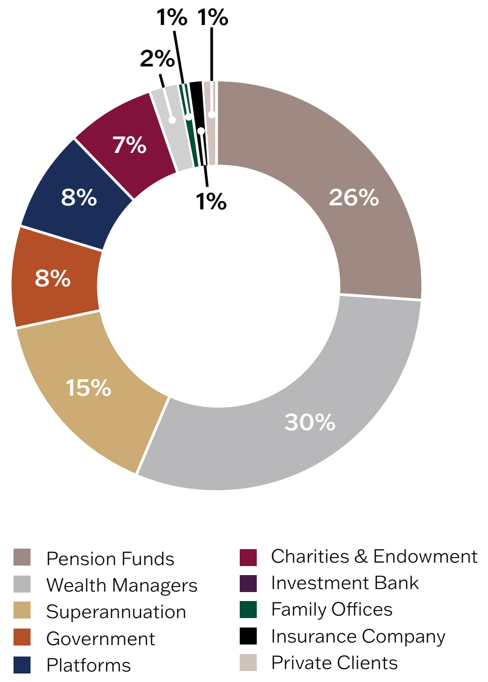
14 These figures are as at end June 2023

Source: Fulcrum Asset Management

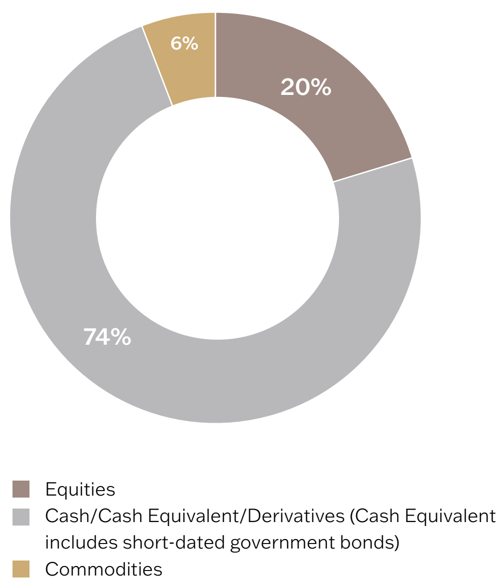
Breakdown of AUM by client base



Breakdown of AUM by client type



Breakdown of AUM by asset class



This chart does not showcase our exposure to fixed income assets done through allocations to third-party managers within our Alternative Solutions capability, which we have calculated to be c.2% of the total AUM.

Client communication and engagement

Communication and engagement is one of our key priorities to help maximise the chances of clients meeting their varied objectives (this includes objectives that relate to specific stewardship and/or ESG goals), during the initial discussions stage, the client onboarding process as well as in our regular review meetings. We communicate regularly with clients via monthly factsheets, quarterly reports, update meetings, review meetings and video/phone conversations. Importantly, we are open to enhancing and improving our client reporting proposition and more specifically with regards to thoughts on how we can better keep our clients informed – not only of their investments but in our investment outlook and the potential implications for them more broadly.

As a direct result of the employee engagement programme that we carried out at the end of 2021 around our core values, all of Fulcrum's client facing teams (Investor Relations, Business Development, Marketing & PR) were subsequently brought together under one umbrella in 2022. The result was the formation of a new client-facing team – The GCG (Global Client Group) – and was to ensure a greater alignment to Fulcrum's values.

This not only helped create a more collaborative environment (collaboration being one of the five core Fulcrum values) but ultimately this revised structure was designed to ensure a better overall client experience.

Many of our clients have direct, trust-based relationships with members of our Management Board and Senior Investment Team and have been invested with Fulcrum for a very long time. We pride ourselves on gathering in-person feedback as a formal agenda item or follow-up after client interactions and this is shared in our weekly Global Client Group meetings and with the Management Board where relevant.

Over the last few years, our number of client relationships has grown and the extent to which discussions have centred around evolving RI and ESG integration, as well as regular reporting, has increased. This, in part, supports the work we have done to further embed RI considerations into our investment processes, as well as to improve our stewardship and engagement efforts in relation to physical equities and external managers.

Institutional clients who invest in our strategies often take advice from investment consultants and these relationships are very important to us – we regularly gauge their feedback on our investment offerings and potential new investment solutions. We feel strongly that our collection of client and consultant feedback has been both relevant and useful, and this is best characterised by the following case studies. Our experience of discussing these types of issues with our clients is that they generally aim to achieve their objectives over relatively long-term time frame (five years plus). This tallies with our own time frame for achieving investment results as well as the stated objectives of a number of our solutions.

Sharing perspective on ESG topics with Alternative Solution clients

Activity:
Since July 2022, we have started sharing our perspective on key ESG topics with our clients on a quarterly basis. The format focuses on a key ESG-related topic and what we are doing about it from a portfolio perspective. This could be focused on integration, engagement, data, training or a combination of tools we are using to embed the topic in our investment decisions.

Previous topics have included Just Transition, integration of ESG-related considerations in our Infrastructure asset class and the role of stewardship in reaching net zero.

Outcome:
The goal is to highlight our point of view on ESG topics relevant to our portfolio and thus relevant for our clients. It aims to provide transparency in how we make ESG-related decisions. We feel that this is particularly important in the relatively nascent field of ESG integration and engagement, which is often qualitative in its assessment.

Additionally, it presents a deep dive on the progress we are making in the ESG space as it allows us to report on specific ESG topics in conjunction with our annual sustainability report.

Design of an ESG-integrated Private Markets LTAF solution

Activity:
Over the last 18 months, since the FCA's announcement of the new LTAF regulatory regime in Dec 2021, we have worked extensively to develop a market leading ESG integrated private markets solution for the UK defined contribution market. We have done this working in parallel with a leading UK pension scheme, who are focused on being leaders in ESG integration. The Pension Scheme has a specific focus on building and owning assets that are focused on select areas of Sustainability and we will be working with them over the coming decade to help deliver better pensions outcomes to their DC members.

Outcome:
We are proud to say we were selected to be the Scheme's LTAF provider earlier in 2023 and since then we have been readying ourselves for the launch of this innovative solution in H1 2024. We look forward to providing further details on this in next year's Stewardship Report.

Further integration of climate-aligned strategies within our flagship strategy to align with our client's Paris Agreement targets

Activity:
As mentioned, in the first half of 2023 the strategic equity component of our flagship Diversified Absolute Return strategy was fully climate-aligned. This has led to a greater proportion of our flagship funds being climate aligned and has been a key part in our reporting to clients on how we are transitioning on a strategy-by-strategy level.

Outcome:
This integration has been very well received by existing clients, helping outline a greater alignment within our portfolios to net-zero ambitions. Moreover, it was one of the reasons an LGPS client recently chose us to manage part of their assets which we expect to go live in H2 2023.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

ESG integration strategy and priorities

Responsible Investment has been established as one of the key strategic priorities for our firm and sustainability is one of our core values. Being a top-down, macroeconomic investor, the consideration of ESG risks is integral to our success. Our approach includes ESG integration into our investment decision-making process, effective governance and targeted engagement. The assessment of ESG risks is conducted as part of our investment analysis and we also monitor these risks whilst we hold the assets. It has been a challenge to coherently integrate multiple ESG factors given our top-down focus. However, we have made significant progress and we expect this to continue in the years ahead.

Based on feedback from our clients as to what is important to them, and as a consequence of our macro heritage, much of our work relating to ESG integration has focused on climate change. This is an expression of our inquisitive culture and our focus on this topic has been endorsed at our RIC and our Management Board. The depth of our work in this area reflects how important we believe it is to client outcomes and ultimately, achieving our purpose. We believe this to be a proportionate response which demonstrates our desire to make an impact whilst also recognising the constraints of our size.

As discussed in last year's Report and as part of our Action Plan, we aim to develop a comprehensive KPI monitoring programme (which will be aligned with the EU SFDR regulation). Our intention is that this also creates a core set of broader ESG factors (including social and governance factors) that will be routinely assessed across our business and that this is aligned with our expertise and purpose. Of course, one of the challenges with this is data coverage and accuracy. As such, we have been working with a number of data providers on this topic (progress on this is outlined under Principle 8).

A high-level overview of how ESG risks are currently considered across each of our capabilities is outlined below.

ESG integration by capabilities

- Macro: Our flagship multi-asset capability allocates to our other capabilities (listed below) as well as implementing a range of tactical views across a variety of different asset classes and time horizons using derivatives. ESG risks can also be an element of overall risk assessment for certain discretionary positions, for certain commodities and countries where they are most relevant. Quantitatively, the use of ESG data helps define the investment universe and sizing of certain positions (for our climate change strategy, for example), whilst qualitatively, ESG considerations may be reflected in the choice of investment themes (in the thematic equity portfolio).

In 2022, the most significant sustainability-related change is the completion of a climate alignment project of our strategic equity allocation. We therefore now consider approximately 10% of our flagship diversified absolute return strategy to be climate aligned. 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.

One of our biggest challenges is to work alongside the market to develop best practices for our asset base, as we are cognisant that derivatives form a large part of our investment universe. While we continue to participate in market discussions in this space (through our work with IIGCC), we are also working internally to increase the proportion of equities owned directly, not through derivatives, which come with voting rights and thus allow for increased engagement.

More details on our participation with industry groups can be found under Principle 10.

Climate-alignment of strategic equity allocation

Activity:
In early 2023, we 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.

Outcome:
Approximately 10% of our flagship macro strategy is now 'climate-aligned'. We aim to maintain this minimum discretionary 10% allocation to climate-aligned stocks. The dynamic asset allocation in our flagship strategy 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 core equity component of our diversified absolute return strategy[15]. This has also had the effect of increasing the proportion of directly held equities (not via derivatives). As a result of this increased allocation, 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.

- Risk Premia: ESG risk data from third-party vendors are systematically integrated into our quantitative models for the Trend-following component of our risk premia strategies. This has involved augmenting our risk assumptions across all instruments according to certain ESG risk metrics and will ultimately have the effect of reducing our maximum position sizes in those assets with higher unmanaged ESG risks.

  We use Sustainalytics' country risk ratings to measure the risk to a country's long-term prosperity and economic development by assessing how sustainably it is managing its assets. A country's ability to use and manage these assets in an effective and sustainable manner is determined by three broad groups of metrics, i.e. ESG performance, ESG trends and ESG events. More than 30 ESG indicators that fall into one of these three categories are used to provide a comprehensive ESG risk rating for each country.[16]

  Alternative Solutions: Sustainability and ESG integration are central 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

15 The majority of equities elsewhere in the strategy are in a market-neutral sub-strategy, and are thus constrained by the need to maintain zero beta to overall equity markets, and the need to balance the characteristics of the 'long' and 'short' legs. We did not consider it appropriate to set climate targets on this part of our flagship strategy, and have therefore focused on the long-only equity component of our strategy – equities held with a view towards long-term capital appreciation, over which time horizon climate considerations become increasingly relevant.

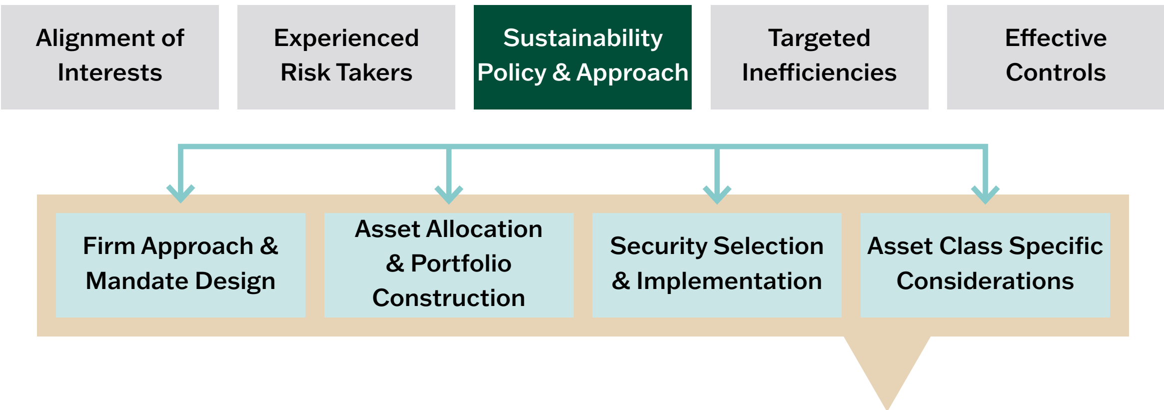
16 Details of our methodology are available on request.

managers about the Principles for Responsible Investment) 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. Our proprietary scoring system and research process has sustainability as a key consideration. We evaluate the manager, their mandate, the investment process and adjust as necessary for any asset class specific components of an investment opportunity 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, helping us proactively identify and seek out investment opportunities with positive scoring sustainability characteristics. Furthermore, our scoring process also helps with marginal decisions where two or more different implementation routes score similarly on our three other Key Factors.

We believe that "Sustainability Policy and Approach" can be a key ingredient for competitive advantage for asset managers and we use our scoring system to assess this. Importantly, it also means we can have an influence on underlying issuers through our interaction with them. Our goal is to consider ESG opportunities and risks across the entire portfolio as part of our research framework. Gradually, we expect to increase exposure to the range of investments that are rooted in sustainable characteristics.



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**	

It has been over five years since we launched our Alternative Solutions team and 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 considerations outlined below which help us score managers holistically, fairly and consistently in addition to assessing their ongoing engagement activities. We published our Thoughts on ESG Integration for Alternative Solutions that details ESG incorporation at each step of the investment process. The multi asset/sector nature of these portfolios gives rise to an interesting challenge that requires innovative and bespoke considerations based on the specifics of each asset class.

Asset Class	Example 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.

- Climate-Aligned Investing: We regard climate change as one of the largest risks facing investors over the medium- to long-term, and we believe that Climate-Aligned investing can boost risk-adjusted returns channelling more capital to address ESG challenges such as climate change.

  The climate change strategy invests in companies that are taking steps to align their business model to the net zero transition. The strategy invests only in companies that are below 2°C, thereby focusing on a forward-looking metric that incorporates historical, present, and future potential emissions (as opposed to "low-carbon" portfolios that focus on a backward-looking historical emissions measure). Moreover, the strategy recognises that all sectors must transition to a low-carbon economy, and incorporates engagement with investee companies in support of this objective. As a member of the Net Zero Asset Managers initiative, Fulcrum has made a commitment to net zero emissions across its assets under management by 2050.

In our climate change strategy, in addition to allocating more internal capital as the strategy approached its three-year anniversary, we have made a number of data-driven improvements to fund construction. In particular, the Fulcrum Climate Research team has developed a proprietary measure for Principal Adverse Impacts (PAI) on sustainability factors. The PAI 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. The result is that the climate strategy (and thus a significant proportion of our assets) is now designed to have a lower PAI score compared to a global equity benchmark.

- Thematic Equities: The relevance of ESG issues is assessed when new themes are researched and monitored. In the theme idea generation process, the exposure to ESG risks as well as ESG-related opportunities is considered (particularly long-term trends such as climate change) and ESG risks can be considered both an attractive investment opportunity or a risk signal. We assess the ESG implications within a theme based on external research, company meetings and sell-side analyst meetings. A number of the themes within the strategy are designed to take advantage of sustainability-related tailwinds in our long holdings or positioned to benefit from headwinds in the short exposures.

  The table below illustrates some of the key sustainability considerations that have significantly influenced our theme selection during the reporting period:

Theme	Key sustainability considerations
Long Clean Energy	Government support for switching to solar, wind and other renewables
Long Power Grid	Grid investments required for renewable generation and transport
Long Salmon	Lowest carbon footprint per kg amongst protein sources
'Impact engagement'	A 10-name concentrated sub-strategy, with companies selected from a combination of fundamental analysis and a belief in the potential for sustainability-related engagements to unlock upside (see more details under Principle 9)
Base Metals vs Coal	Coal demand in structural decline
Short Airlines	Airlines industry unable to reduce carbon footprint meaningfully
Long Timber & Forestry	Board and lumber are taking share in packaging and building materials
Long Rails	Rails are far more energy efficient than trucks for freight
Short Gig Economy	Contractors' terms are expected to be regulated more to ensure social protection

Consideration of E, S & G risks

A. Environmental risks: We place particular importance on risks stemming from climate change, including physical risks, transition risks and liability risks. As an example, the Fulcrum Climate Change strategy is designed around the concept of climate 'alignment', in which it uses an Implied Temperature Rise (ITR) metric to assess alignment with the Paris Agreement.

Another significant environmental risk relates to the degradation of biodiversity. Although this risk has global implications, it is more localised in nature and impact. Whilst we have started to think about specific biodiversity ideas in our portfolio, including embedding biodiversity metrics within our PAIs and searching for managers invested in nature-based solutions within our Alternatives capability, we are still nascent in implementing these ideas in our portfolio. However, this is part of our long-term Action Plan (outlined in our Direction of Travel). We are working to understand the landscape in industry and data availability, in much the same way we did for climate change.

Climate scenario analysis

The implied temperature metric that is the main measure of alignment for equities is the result of climate scenario analysis from our data provider.

In some of our systematic strategies, the ESG country risk score we use incorporates an assessment of countries' vulnerability to natural hazards. Going forward, we will be seeking to expand on our scoring system for sovereign issuers, by bringing in-house a measure of which climate scenario is most closely aligned with governments' stated climate policies.

B. Social risks: Relative to Environmental factors, our approach to social risks is not as advanced and is more qualitative in nature, reflecting the inherent difficulty in measuring social risks. Nevertheless, the relevance of ESG issues is assessed more broadly. For example, in our Thematic Equity idea generation process, the exposure to social risks and opportunities are considered. We assess societal implications within a theme based on external research, company meetings and sell-side analyst meetings.

   Additionally, we have developed several ideas with clear societal linkages across our business, notably in our longstanding short position in the 'gig economy'. Increased competition from newcomers with easy access to capital are eroding the margins in this space, with longstanding controversies around the treatment and pay of the workforce setting the scene for increased regulation, adding to the headwinds in the sector.

   Last year, the invasion of Ukraine by Russia shaped our consideration on key societal issues. This year, the high interest rates and inflation were instrumental in sharpening our focus including:

   - Thematic equity: The disruptions caused by the pandemic – through the labour and energy markets – combined with the large amount of fiscal stimulus by governments and invasion of Ukraine by Russia created an inflationary environment that is uncomfortably above central banks' target. As a result, interest rate policies have been made restrictive, leading to higher interest rates for businesses and consumers. Interest rates and inflation are macro factors that underpin the valuation of financial assets. As an example, a higher interest rate implies a higher cost of capital for businesses, which in turn implies a higher hurdle rate for selecting investments, thereby potentially reducing investments and causing a slowdown in job creation.

   - As investors, we are always focused on factors driving the market. Hence, changes in inflation and interest rates as well as the factors behind such changes are considered when selecting themes. We prefer companies with strong balance sheets and low gearing, are long themes that can benefit from the current environment (e.g., energy companies) and are short themes that we think could suffer (e.g., consumer discretionary companies).

   - Alternative Solutions: We followed up with our external managers on the impact of high interest rates and high inflation on their strategies. Their responses ranged from it being an exciting entry opportunity to persistent inflation and high interest rates being a cause for concern. A commonality across investors was that using leverage in private assets is judged to be significantly less appealing.

C. Governance risks: The consideration of governance risks is instrumental to our investment decisions, and these include both corporate and sovereign risks. As stewards of our clients' capital, governance is a topic considered during preliminary due diligence and is essential to our engagement approach.

It is especially pertinent in the escalation process triggered through ESG engagement (where meaningful engagement without good governance is extremely challenging). Additionally, proxy voting represents an important avenue to reflect and respond to ESG risks. In 2023, our upgraded voting policy will sanction companies where:

- Large- and mid-cap companies have less than 30% women on their boards.
- There is no explicit disclosure of environmental and social oversight at board level.
- There is no sustainability disclosure in line with established frameworks (such as TCFD, SASB or CDP).
- There is no greenhouse gas emissions reduction target (or, for a subset of companies, there is no net zero target) .
- Companies are not signatories or participants in the United Nations Global Compact ("UNGC") or 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").
- No environmental and social criteria are used in the scorecard for executives' pay.

Details on our escalation process and examples of votes against due to governance concerns are found under Principle 11.

On the sovereign side, we consider such risks in our Risk Committee led by our Chief Risk Officer. We also derive country specific risk scores from Sustainalytics to help us quantify the nature of risks from an investment perspective. As mentioned above, our Trend Following strategy obtains ESG country risk ratings from Sustainalytics to measure the risk to a country's long-term prosperity and economic development by assessing how sustainably it is managing its assets.

Our aim in 2020-2021 was to lay a solid foundation required to integrate risks and opportunities at Fulcrum. Since then, we have gone further and started to focus on the nuances per capability based on aspects such as time horizon, client feedback, and capability specific risks and considerations. It is clear to us that ESG integration will vary across our capabilities as we work towards our net zero commitments, avoid risks, and realise opportunities. As we action our transition plan to reach our net zero goals, collaboration both internally and externally will allow us to innovate, better integrate ESG considerations within our capabilities and have real world impact.

Principle 8

Signatories monitor and hold to account managers and/or service providers

Fulcrum engages with several third parties in pursuit of our stewardship objectives:

A. External managers
B. Proxy voting firms
C. ESG data providers

External managers

Several strategies we manage include strategic allocations to external funds as part of their investment mandate and thus invest in collective investment schemes managed by other investment managers. This represents c.8% of firmwide assets under management.

Fulcrum performs in-depth initial due diligence prior to making an investment which includes an assessment of a third-party manager's commitment to stewardship and alignment with Fulcrum's own beliefs, with findings documented in investment and operational due diligence reports. This assessment is updated on an ongoing basis by Fulcrum's Alternative Solutions team during the investment holding period through a combination of desk-based reviews of fund and manager documentation, and direct communications with external managers. It includes for example whether the external managers are signatories to the PRI and Stewardship Code.

Proxy voting firms

Fulcrum has established and maintains a Proxy Voting Policy which is the governing document for the use and management of Glass Lewis, our third-party service provider in relation to proxy voting. Assessment of the effectiveness of each proxy voting provider falls under the scope of Fulcrum's Stewardship Committee.

On a quarterly basis the Stewardship Committee reviews, amongst other things, the quality of the third-party proxy voting advisor's recommendations. The key indicators used to monitor the effectiveness of a proxy advisor are a) the quality of the advice provided, and b) the timeliness of the advice provided.

Fulcrum retains discretion as to whether it acts on the advice of the proxy advisor or decides to take a different course of action and we capture and record instances in which the firm has voted against the proxy advice recommendation (as well as the rationale).

The frequency with which we vote differently from the main recommendations of our preferred voting advisor, Glass Lewis, is recorded in the Pension and Lifetime Savings Association (PLSA) reporting template which we produce and share externally on a quarterly basis. Our target is not to "go against" our proxy adviser but in certain circumstances this can be necessary where we do not believe that the provider is aligned with our views.

This has been the second full proxy season where Glass Lewis's Climate Policy was in operation, which we have adopted as our default recommendations to hold companies to a higher sustainability standard. Nonetheless, we have made provisions in our approach to allow for overrides versus this guidance should we believe it to be necessary. To monitor the application of our policy, over 200 significant or controversial votes have been flagged to the Stewardship Committee over the past year. We are generally satisfied that the policy is in line with our intentions – with the recommendations remaining unchanged, following internal review, in circa 60% of these votes (a similar percentage to the previous year).

The c. 40% of votes where we voted differently has generally not stemmed from systematic divergences but is more reflective of a proxy season which has seen a high number of shareholder proposals filed, varying considerably in the breadth and specificity of their requests, requiring judgment and careful considerations of company circumstances. We did identify a few areas where we repeatedly diverged from our proxy adviser[17], and we communicated our stance in a feedback session with Glass Lewis. As our proprietary scoring methodologies develop, we may consider integrating them into a bespoke voting policy. We are also open to discussions with clients who are interested in developing bespoke mandates and associated voting policies.

Transparency is important for stewardship; following engagement with Glass Lewis, in 2022 we decided to adopt their Vote Disclosure Service, displaying all our votes the day after the AGM, available on their website here. We intend to continue to engage with Glass Lewis, particularly on improving the voting rationales communicated to investee companies.

ESG data providers

Our approach is to combine third-party data with our own proprietary analysis, with the combination depending on the capability under consideration. As climate change has been the biggest thematic focus of our stewardship efforts, we have relied most heavily on 'E'-related data, drawing on multiple data providers to give us a more rounded view of companies' policies and progress as seen in the table below.

We often hear that there are issues with ESG data, and we understand this concern. Nevertheless, our

Data provider	Purpose
Sustainalytics	ESG Country Risk data (used in certain systematic strategies), activity involvement (used for firm-wide exclusions), carbon data (used for reporting), principal adverse impact (for reporting, and the basis of our proprietary PAI score)
MSCI	Activity involvement (currently relating to tobacco, controversial weapons and predatory lending, used for firm-wide exclusions)
Iceberg Data Lab	Temperature alignment
S&P Global Trucost	Temperature alignment
SBTi	Corporate climate targets
CDP	Carbon data, corporate climate targets and policies
Urgewald	Data on fossil fuel expansion (primarily thermal coal mining and oil sands expansion), used to support Fulcrum's net zero commitments and restrict exposure to misaligned activities in relevant funds
InfluenceMap	Data on companies' lobbying efforts on climate change to support stewardship
Bloomberg	Data on the sustainability profile of executive pay structures and company activities, to support stewardship
ESG for Investors	Publicly available data on potential share price upside from improving corporate sustainability used to support engagement

17 In particular: (1) what Glass Lewis deemed antisocial proposals (whereby a proponent's history of advocacy against sustainability measures was deemed a reason to vote against the proposal. We based our final decisions based on the merits of the proposal alone, not its proponent.); and (2) the analysis of emissions targets. The absence of long-term net-zero targets for priority companies was occasionally outweighed by the presence of shorter-term emission targets (particularly if validated by the Science-Based Targets initiative).

philosophy is that if there is no engagement on data, then it will not improve. That is why we regularly review and engage with data providers. We have had multiple one-to-one sessions to understand the climate methodologies of providers of carbon and sustainability data; and we have also participated in collaborative initiatives to improve the quality of data, for example by recommendations made in the working groups on portfolio alignment (GFANZ) or net-zero benchmarks (IIGCC).

Principle Adverse Impact Indicators (PAI) data provider on-boarding process

Activity:
Having selected Sustainalytics to be our provider for the PAI data during the previous reporting period, our risk management team onboarded their service this year.

Outcome:
Whilst data coverage is still a challenge for some of the PAIs, this is improving over time and it has been a smooth process to onboard the new data. We have embedded the information in our automated risk management reports which has formed a conversation topic at our Risk Committee. In addition, our climate research team has used the data to create a unified normalised PAI score, which we are in the process of rolling out across our portfolios and should ultimately become more decision useful in the future.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets

Given the nature and shape of our business, our culture and purpose, we have a multifaceted approach to engagement across all stakeholders including underlying companies, service providers and external managers. As a firm, we have decided to prioritise and focus on climate change as a significant environmental risk as part of our portfolio management and engagement with stakeholders. However, we are now looking holistically at how climate change risks affect broader environmental and social risks and are therefore striving to embed these in our engagement. These efforts are complemented by our voting policy which aims to hold companies accountable across broader E, S and G topics.

We believe that proactive and considered engagement is one of the best ways we can have an impact. Our two ESG focused specialists hired in 2021 have increased the level and scope of our engagement activities. It is important to note that our engagement varies by capability (given the nature of the underlying investments – i.e. physical vs. derivative investments) and currently the majority of our engagement work occurs in our Thematic Equities, Climate-Aligned and Alternative Solutions investment capabilities in line with our physically held assets.

We engage both individually with underlying companies and managers (as seen in this section) and collectively through industry initiatives (as seen under Principle 10). At Fulcrum we choose to focus on a narrower definition of engagement as a meeting, in person or virtual, where we make a request of a company or manager. On the equity side, this request primarily consists of calling on companies to set Science-Based Targets or other sustainability-related requests. On the alternatives side, engagement focuses on requests laid out in our bespoke engagement plans.

Thematic Equities and Climate-Aligned investing

Our equity investment approach is thematic by its nature and consequently we own large numbers of stocks in very diversified portfolios. However, the nature of climate change as an undiversifiable macro risk – coupled with our awareness of the potential for capturing 'transition alpha' as climate factors get priced by the market – has led us to focus our initial engagements in this area.

An overview of our engagement model for equities is below: [18]

Define Universe

1 Owned physical equities

2 Filter for:
- Largest emitters (Scope 1 & 2)
- Largest potential upside from addressing emissions (http/www esgforinvestors.com/)
- Largest Fulcrum equity positions
- Companies without 1.5°C Science-Based Targets

3. Diversify across sectors and regions

Engagement + Collaboration

Voting policy
Sanctioning **directors or misaligned pay,** supporting shareholder resolutions where appropriate. Intended to send a signal across investment universe

Engagement with companies directly and/or alongside industry networks
- ~40 engagement targets
- 10 names held in concentrated 'impact engagement strategy'
- Intensity of engagement and target list to evolve following company progress

Escalation

1 Rules-based:
- Votes against directors
- Votes against reports/ transition plans
- Votes for resolutions

2 Shareholder activism:
- Co-filing: resolutions
- Pushing: for strategy changes

3 Exclusions as last resort

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).

Separately, ten European names on the engagement list below have been selected for inclusion into a concentrated equity strategy, reflecting our belief that there is share price upside from improvements in sustainability – for example, as shown by the research on the 'engagement maximiser' of ESGforInvestors.com, which contributed to the choice of stocks.

Top companies by number of engagements[19]	
1	BP
2	AP Moeller-Maersk
3	BNP Paribas

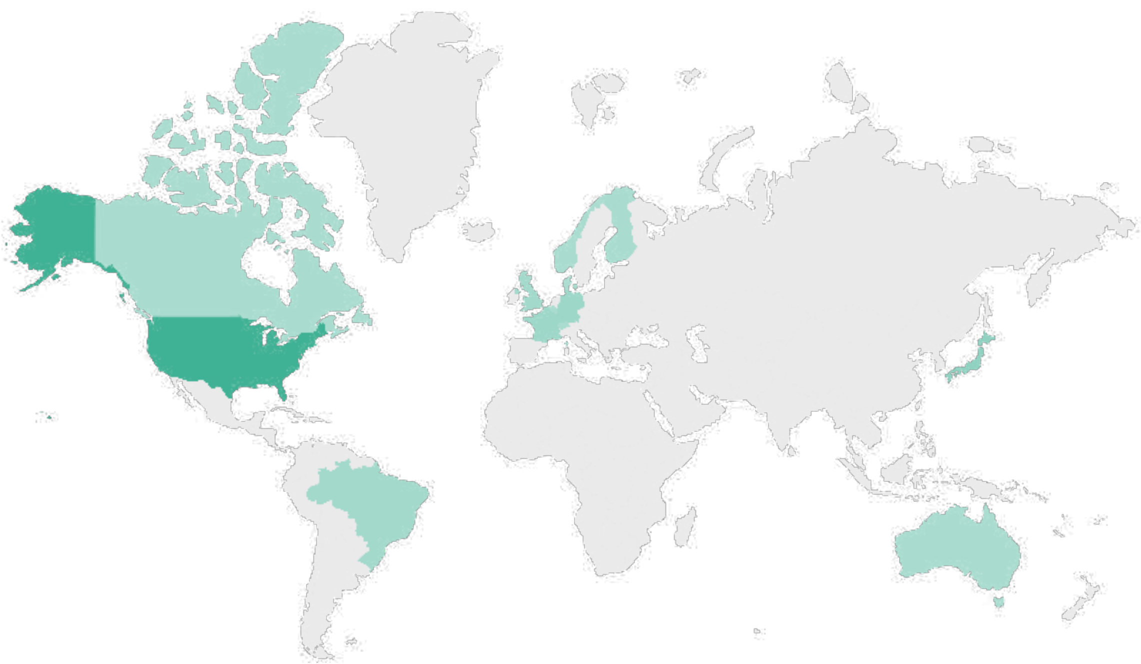
18 Source: Fulcrum Asset Management

19 Source: Fulcrum Asset Management

Companies in our 'impact engagement' equity theme[20]

Name	Sector	Area(s) of Engagement
AP Moeller – Maersk A/S	Industrials	• Alternative fuels • Marine pollution
Lonza Group AG	Health Care	• Chemical production processes • Pollution, toxicity, water usage
ArcelorMittal SA	Materials	• Zero-carbon steel
Yara International ASA	Materials	• Shift to clean ammonia • GHGs and Scope 3 emissions • Chemicals
BP plc	Energy	• Execution of net-zero strategy and accelerated transition to clean energy
Glencore plc	Energy	• Coal spin-off
RWE	Utilities	• Accelerated transition of coal phase-out (potentially halting gas conversions)
Infineon Technologies AG	Information Technology	• Alternatives to perfluorocarbons in chip etching
BNP Paribas	Financials	• Fossil fuel portfolio
WDP	Real Estate	• Warehouses – energy use • Supply chain – sustainable materials

Countries of headquarters for the companies in our engagement campaign[21]



20 Source: Fulcrum Asset Management

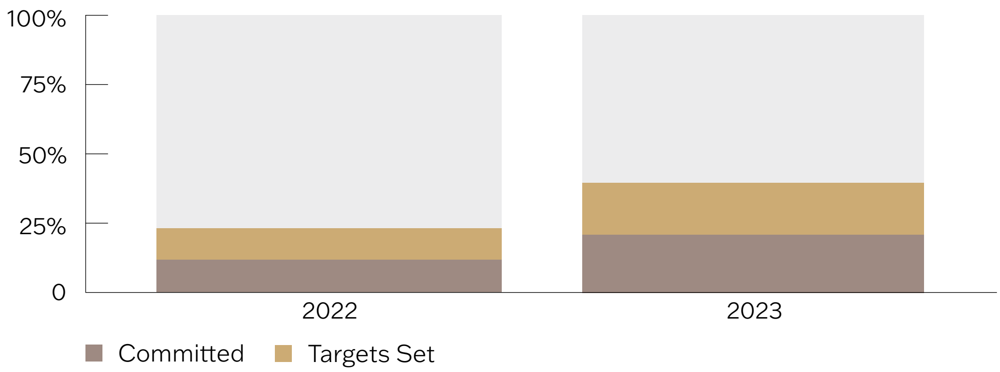
21 Source: Fulcrum Asset Management

The diagram below showcases a qualitative measure of engagement status, which 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).

Engagement status[22]

Notably, since 2022, we have seen a significant increase in the number of companies on our engagement list that have (committed to) set Science Based Targets (highlighted in the diagram below). 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.

Companies on our engagement list committed to Science Based Target Initiative and companies with Science Based Targets 2022 vs 2023[23]



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.

22 Source: Fulcrum Asset Management

23 Source: Fulcrum Asset Management

Progress in climate scoring metrics for engagement companies since 2022[24]

Category	Governance		Strategy		Risk management			Metrics and targets	
Theme	Board oversight for climate issues	Pay linked to ESG metrics	GHG policy	Green revenues and capex	Disclosure	Scenario analysis	Lobbying	Targets	Emission performance
By simple count	Improvement	Improvement	Improvement	Improvement	Improvement	Improvement	Decline	Improvement	Improvement
By industry									
Industrials	No change	No change	No change	No change	Improvement	No change	Improvement	No change	No change
Healthcare	No change	No change	No change	No change	Improvement	No change	Decline	No change	No change
Materials	No change	No change	No change	No change	Improvement	No change	Improvement	No change	No change
Energy	No change	No change	Improvement	No change	Improvement	Improvement	Improvement	No change	No change
Utilities	No change	No change	Improvement	No change	Improvement	Improvement	Decline	No change	No change
Information Technology	No change	Improvement	Decline	No change	Decline	No change	Improvement	No change	No change
Financials	No change	No change	No change	No change	Improvement	Improvement	No change	No change	No change
Real Estate	No change	No change	No change	No change	Improvement	No change	No change	No change	No change
Consumer Staples	No change	No change	Improvement	No change	No change	No change	No change	Improvement	No change
Consumer Discretionary	Improvement	No change	No change	No change	Improvement	No change	No change	No change	No change
Transportation	No change	No change	No change	No change	Decline	No change	Decline	No change	No change
Communication Services	No change	No change	No change	No change	Decline	No change	Decline	No change	No change

Improvement   Decline   No change

24 Tracks the total number of companies on our list, where the underlying datapoint is continuous (e.g. the climate lobbying score). If the average 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% 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.

Defence and Human Rights Exclusions and Engagement

Activity:
As a firm, we have restrictions around investing in controversial weapons. One of our data providers had flagged BAE Systems as being involved in white phosphorous, which, if used in an incendiary weapon, can have a disfiguring effect, including on civilians.

As a precaution, we exited our position pending further clarification.

We then wrote to the chair and CEO of the company asking for clarification on their position, noting the company had made a commitment to exit white phosphorous. We had a follow-up meeting with the company, who confirmed that their involvement is not weapons-related, as they were under a contractual obligation as the sole munitions supplier to the UK Government. Their obligation was to provide smokescreens used by UK troops (e.g. when entering a building during a rescue mission).

Outcome:
The company has confirmed they will phase out white phosphorous when the current contract expires.

Proprietary Scoring Methodology

Activity:
Following ongoing work by the Climate Research team, we are currently developing a proprietary internal framework for scoring issuers' climate commitments.

Outcome:
Alongside its role in providing PAI scores for our portfolios, it is 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.

We provide three engagement case studies drawn from the companies in our engagement list.

BNP Paribas Climate Engagement

Activity:
Following ongoing work by the Climate Research team, we are currently developing a proprietary internal framework for scoring issuers' climate 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.

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

Source: Bloomberg, February 2023

Outcome:
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.

BP Climate Engagement

Activity:
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.

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.[25]

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

Outcome:
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.

25 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.

Glencore Climate Engagement

Activity:

We believe the mining giant has potential to diverge 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.

'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

Outcome:

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.

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[26]. 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

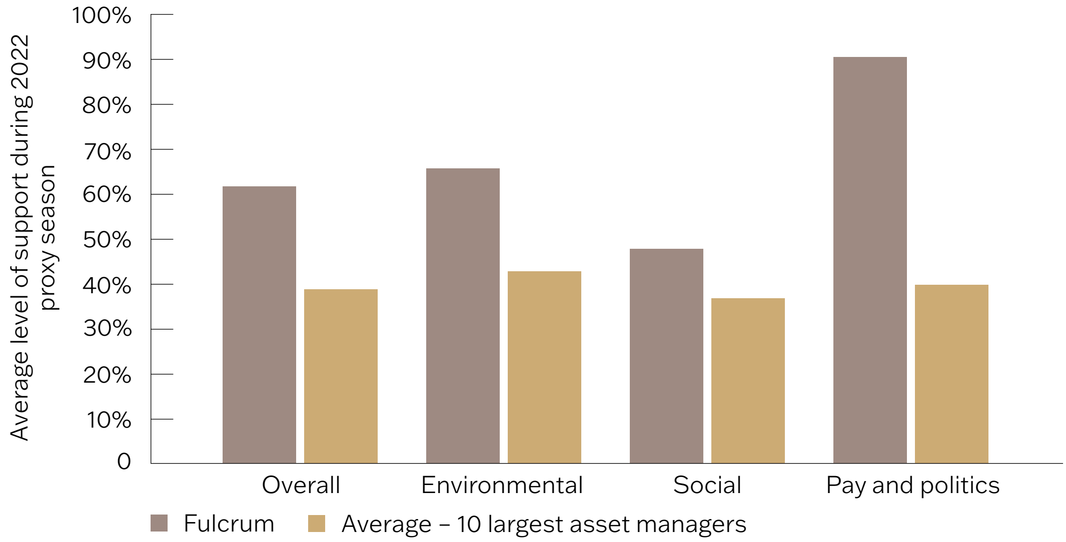
From the 1st of July 2022 to mid-June 2023, we have cast:

- 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[27]

26 Such as TCFD, CDP or SASB

27 Note – these represent individual votes casts across our funds, not individual companies (which may be held in more than one fund)

In early 2023, we published our analysis[28] 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.



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.[29] 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.

Please note that this section is relevant under both Principle 9 and as outcomes under Principle 12.

Alternative Solutions

As discussed under Principle 7, we use a proprietary scoring system for each of the alternative investments we review as part of our due diligence process. This includes a detailed review of an external manager's policy and approach, asset allocation, portfolio construction, stock selection and any asset class specific considerations. We use third-party ESG risk data for certain aspects of this work, including carbon emissions and country risk scores.

In 2022, we expanded our approach from creating a fund that integrates sustainability to one that encourages innovation in this 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 annual (in reality more frequent) ESG discussions with our underlying managers. We have now communicated these engagement plans with our external managers and look forward to sharing outcome driven case studies on an on-going basis (as seen below) in our annual Sustainability and Stewardship Report.

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

28 Source: https://www.fulcrumasset.com/global/en/views-and-research/adjusting-the-resolution-reflections-on-the-2022-proxy-season/

29 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

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. This reporting period, we have shared our engagement plans with all our managers in the form of bilateral engagement. We have presented some case studies below but foresee these to develop over the next few years as managers action our feedback. We understand that effective engagement can be a lengthy process and often non-linear. We look forward to sharing our insights, challenges and lessons next year (which will also align with one year since we communicated these plans formally with all our managers).

		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**	

Manager	Diversifier Manager	Engagement Plan
Firm	2.0	**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.
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.

Introducing a Pureplay Clean Energy Strategy

Activity:
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 a manager which we felt complemented our existing portfolio well while giving us high-quality active exposure.

Outcome:
The manager has deep knowledge of the clean energy sector, a precise definition of their investment universe and operate with a value driven investment style which is uncommon among peers. 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.

We have helped to seed the manager's new Clean Energy strategy and are excited to work closely with them on developing their ESG capabilities both at firmwide and portfolio level.

Outlining the Risks of Carbon Offsetting Projects

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 the manager 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 Weighted Average Carbon Intensity (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.

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.

Annual External Manager Sustainability Review

Activity:
In addition to our continued engagement with external managers, exploring and encouraging their sustainability progress, on an annual basis we perform a detailed sustainability review of all our underlying managers. 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. 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.

Outcome:
Real Assets:
- Real Assets had the highest overall average score.
- 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 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 impart 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.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers

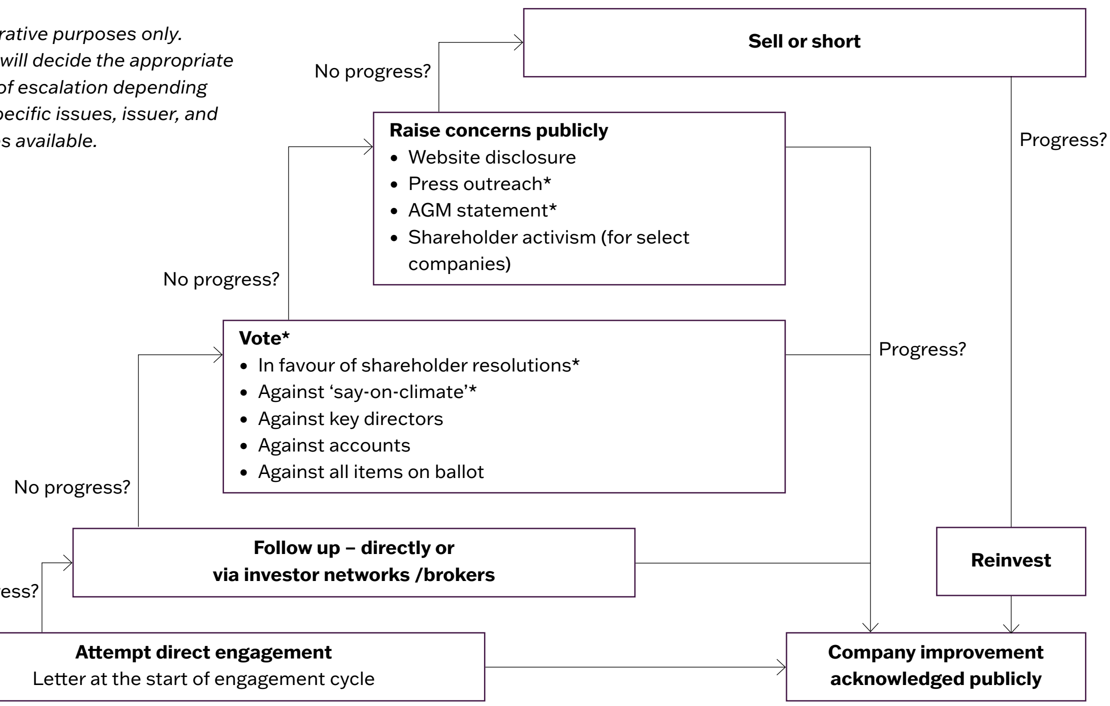
This year, we have formalised our escalation process; further details can be found in our Engagement Policy (and for further details on our approach to exclusions, please see our Responsible Investment Policy). As noted in Principle 9, there are three areas of Fulcrum's business where engagement is most applicable and hence where escalation is sometimes required. Our escalation approach may differ to traditional bottom-up methods used by stock-pickers. We have designed it to be consistent with our business model and the predominantly top-down nature of our investment capabilities. We address each of these below.

Thematic Equities and Climate-Aligned investing

In our engagement, our aim is to initiate a dialogue with companies directly, in the first instance. In the case of an unsuccessful (attempt at) engagement, we will seek to leverage the variety of tools at our disposal, including our membership in investor networks that conduct collective engagement, the ability to vote (or file proposals) at companies' annual general meetings. Where appropriate, we may seek to apply public pressure through public statements in the media or in our reporting. Finally, if we feel a company's unmanaged ESG risks have reached an unacceptable level, we may sell or take a short position in a company's securities.

A schematic illustration of our escalation toolkit for corporate engagements is illustrated below:[30]

For illustrative purposes only. Fulcrum will decide the appropriate method of escalation depending on the specific issues, issuer, and resources available.



*Voting sanctions displayed in ascending order of severity
*Where applicable

30 For illustrative purposes only, Fulcrum Asset Management.

During the reporting period, there have not been any instances where we have escalated to the point of divestment (although there are of course many companies where we have chosen not to invest in the first place, given for example, the temperature alignment criteria in the Fulcrum Climate Change strategy).

There have, however, been several instances of applying voting sanctions and public pressure to send a signal to investee companies and their boards. At the same time, we are mindful that some topics of discussion that we have initiated with company management generally represent long-term gradual changes, we are at the early stages of these transitions (for example, some companies have raised with us the challenges in gathering Scope 3 emissions data across a highly fragmented supply chain).

Given our increasing allocations to single equity investments we will continue to improve our engagement efforts. As described in our Action Plan in last year's Stewardship Report, we have hired two resources to ramp up our engagement strategy. This has resulted in us taking a more proactive stance at company AGMs, which represents a further escalation option. Details on how we have engaged at AGMs and broader initiatives can be found throughout the Report (for example at oil majors like BP) and on our website here. Where necessary, we will seek to escalate our engagement to influence companies by issuing public statements and disclosures detailing our expectations and collaborating with investors (we regularly discuss the progress of ongoing Climate Action 100+ engagements, as part of quarterly strategy calls with other investors in the network).

Alternative Solutions

Our process for escalation with external managers is as follows:

- We explain to managers the importance of ESG factors in our investment process and how we believe they can improve outcomes if considered thoughtfully.
- We share several key specific topics in advance of meetings to provide managers with a chance to consider them in detail and to add their thoughts and input accordingly. We supplement this with additional questions during meetings to ensure they are not simply paying ESG lip service.
- If we are duly concerned, we can assign them a score of 1 in our proprietary scoring system (1-4 with 1 being the lowest). From 2023, we have decided to no longer invest in any new managers with an overall ESG score of 1.

Voting sanctions

Voting sanctions currently remain our main avenue for escalation – we may vote against management or the election of specific directors both in response to ongoing engagements (see more details under Principle 12). In general, we have cast at least one vote in opposition to management at more than 50% of meetings in the reporting period.

Glencore: voting escalation and pre-declaration of intent

Activity:
We have been discussing climate strategy with mining giant Glencore. The company has made progress on the issue in recent years, including by adopting a comprehensive 2050 net zero target. However, we remain concerned that the company's interim emission targets (particularly for the phaseout of its coal assets) are not aligned with science-based pathways for fossil fuel production (with the latest Intergovernmental Panel on Climate Change assessment report estimating coal usage must drop by 65-80% by 2030 in 1.5°C-consistent pathways with 'no overshoot') – which we have raised directly with the company. Last year, we voted against the company's 'say on climate' report, and against the reelection of several directors, a stance we reiterated this year. In addition, we took additional steps by pre-declaring our support for a shareholder proposal on coal alignment.

Outcome:
Our pre-declaration and engagement objectives were cited repeatedly in the media[31]; the company is also expected to formally respond to and consult with shareholders to better understand the rationale for voting dissent; we will be monitoring the response as part of future engagement.

BNP Paribas Climate Engagement

Activity:
As mentioned under Principle 9, our initial request for a meeting with the bank was not successful; we then joined forces with other investors, writing to the company as part of a campaign coordinated by NGO ShareAction.

Outcome:
Our position on the upside from a cleaner loan portfolio was cited in the media; the company accepted the offer of a joint engagement meeting following the escalation – and agreed to cease the financing of new oil and gas (which was one of the main engagement requests).[32]

31 E.g. https://www.smh.com.au/business/companies/cat-and-mouse-australia-s-biggest-coal-miner-faces-investor-revolt-over-climate-stance-20230418-p5d1c6.html

32 See more on: https://www.fulcrumasset.com/global/en/views-and-research/proxy-battles/

Principle 12

Signatories actively exercise their rights and responsibilities

Our proxy voting policy can be found here on our website, it is updated at least annually and covers the key areas of our approach including governance, the appointment of research providers, our procedures, and conflicts of interest.

We have selected independent proxy adviser Glass Lewis and use their thematic Climate Policy as our default voting recommendations, reflecting our belief in the importance of encouraging companies to adopt more sustainable business models.

Policy updates

There have been several changes introduced in the policy in 2023, codifying strengthened expectations in several areas:

- Board Diversity
  - We will vote against nomination committee members where large- and mid-cap companies have less than 30% women on their boards
- Board-Level Oversight of Environmental and Social Risks
  - Vote against nomination committee members if there is no explicit disclosure of such oversight
- Sustainability Disclosure
  - Vote against chair if there is no sustainability disclosure in line with established frameworks (TCFD/SASB/CDP disclosure)
- Climate Risk
  - Vote against chair of the board if there is no greenhouse gas emissions reduction target (or, for a subset of companies,[33] if there is no net zero target)
- Stakeholder Considerations
  - Vote against the chair of the board in instances where companies 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")
- Linking Compensation to Environmental and Social Criteria
  - Vote against pay if no E&S criteria are used in the scorecard

An overview of the Climate Policy, broader governance expectations (on the election of directors, pay, board structures and qualifications etc.) is available on Glass Lewis' website here.

The below table summarises our voting activity as a firm to the 12 months ending on 30th June 2023. We have embraced the industry standard PLSA template and we continue to feel this is a useful resource for investors.[34]

33 Companies on the ClimateAction100+ priority list.

34 Sources: Fulcrum, Glass Lewis.

Voting Statistics	2021-22	2022-23
How many meetings were you eligible to vote at?	694	756
How many resolutions were you eligible to vote on?[35]	30,973	54,751
What % of resolutions did you vote on for which you were eligible?	99.9%	99.9%
Of the resolutions on which you voted, what % did you vote with management?	90%	87%
Of the resolutions on which you voted, what % did you vote against management?	9%	10.7%
Of the resolutions on which you voted, what % did you abstain from voting?	1%	1.8%
In what % of meetings, for which you did vote, did you vote at least once against management?	48%	55%
What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable)	4%	3.6%

A breakdown of our votes for, against, and abstentions, over the same period is provided below[36]:

Proposal Category Type	For	Against	Abstain
Totals	**47,608**	**5379**	**488**
Audit/Financials	7174	20	92
Board Related	25,911	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

35 This reflects the total number of resolutions we have voted on, across all strategies. They do not reflect unique resolutions.

36 Source: Glass Lewis We have ommitted c. 200 votes that have been classed by Glass Lewis as ‘unvoted’ or ‘take no action’

To further our commitment to transparency and aid our clients and beneficiaries, we continue to disclose real-time voting information, including rationales for key votes against, here.

Significant votes

Both the number and media scrutiny of shareholder proposals have increased in 2023. Whilst we generally welcome this increased engagement which can play a positive role in encouraging companies and investors alike to step up on sustainability, the nature of the proposals varied widely in the demands made of companies; we do not believe that the mere fact that a proposal relates to an environmental or social topic necessarily means it promotes the best interest of shareholders and the company. We therefore aim to apply careful consideration in this area.

Although, on average, we have tended to support more shareholder proposals than we have opposed over the period, we believe it is important to look beyond just aggregate statistics to focus on the more significant proposals. 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.[37]

Internally, we have also developed a methodology for identifying 'significant votes' that is reflective of our business and investment capabilities. We have identified four types of significant votes:

- Votes relating to climate change or the environment
- Shareholder proposals
- Votes where we voted against the proxy adviser's recommendation as these could be considered significant given it is a diversion from our usual voting pattern
- Meetings related to companies that have a high weighting in the portfolio

Significant votes that require further attention will be escalated to the Stewardship Committee for further discussion where any potential override can be debated. Below we provide several examples of significant votes over the past year.

BP plc	Date of vote: **27/04/2023**
Approximate size of holding as at the date of the vote (as % of portfolio)	**<1%**
Summary of the resolution **Shareholder proposal on emissions targets**	
How you voted	**AGAINST**
Did you communicate your intent to the company ahead of the vote?	**Yes**
Rationale for the voting decision **Given that the company has pledged to reduce its own oil and gas production and associated emissions, we do not believe investors unilaterally forcing further targets on the amount of third-party products sold in BP's petrol stations (which is a key implication of the resolution) is appropriate at this stage**	
Outcome of the vote	**AGAINST**
Implications of the outcome, e.g. were there any lessons learned and what likely future steps will you take in response to the outcome? **We will continue to engage with the company under our role as CA100+ co-leads**	
On which criteria have you assessed this vote to be "most significant"? **Sustainability-related shareholder proposal**	

37 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

Wells Fargo	Date of vote: **25/04/2023**
Approximate size of holding as at the date of the vote (as % of portfolio)	<1%
Summary of the resolution	
Shareholder Proposal Regarding Transition Plan Report for Financing Activities	**Shareholder Proposal on Prevention of Workplace Harassment & Discrimination**
How you voted	
FOR	**FOR**
Did you communicate your intent to the company ahead of the vote?	**No**
Rationale for the voting decision	
Adoption of proposal will allow shareholders to more fully assess risks presented by climate change	**Additional reporting will better allow shareholders to understand how issues of discrimination and harassment are being managed**
Outcome of the vote	
AGAINST	**FOR**
Implications of the outcome, e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	
Approximately 30% of shareholders supported the proposal. We continue to support increased climate transparency from large (fossil) financiers	**We look forward to the company's response following the successful vote**
On which criteria have you assessed this vote to be "most significant"?	
Sustainability-related shareholder proposal	**Social-related shareholder proposal**

Glencore plc	Date of vote: **26/05/2023**
Approximate size of holding as at the date of the vote (as % of portfolio)	<1%
Summary of the resolution **Shareholder Proposal Regarding Climate Action Transition Plan**	
How you voted	**FOR**
Did you communicate your intent to the company ahead of the vote?	**YES***
Rationale for the voting decision **A vote in favour is applied as further clarity on coal alignment would be in the interest of shareholders. We currently do not consider the company's emissions reductions plan can be considered climate-aligned, and have therefore supported the shareholder proposal, whilst also opposing the company's climate report and the re-election of several directors**	
Outcome of the vote	**AGAINST**
Implications of the outcome, e.g. were there any lessons learned and what likely future steps will you take in response to the outcome? **Approximately 30% of shareholders supported the proposal. We continue to support increased climate transparency from large emitters and/or companies pivotal to the energy transition (both applicable, in this case)**	
On which criteria have you assessed this vote to be "most significant"? **Escalation of ongoing engagement**	

*We communicated this publicly, including via collaborative engagement initiative with several other investors

Southern Copper	Date of vote: **26/05/2023**
Approximate size of holding as at the date of the vote (as % of portfolio)	<1%
Summary of the resolution **Re-election of chairman**	
How you voted	**AGAINST**
Did you communicate your intent to the company ahead of the vote?	**No**
Rationale for the voting decision **Lack of emissions reduction targets, which we believe represents a material business risk for large emitters**	
Outcome of the vote	**FOR**
Implications of the outcome, e.g. were there any lessons learned and what likely future steps will you take in response to the outcome? **We will continue to use our votes to encourage companies to meet our expectations**	
On which criteria have you assessed this vote to be "most significant"? **We believe the sanctioning of directors and/or their pay can send an important signal, over and above the shareholder resolutions that happen to be on the ballot in a given year**	

DR Horton	Date of vote: **18/01/2023**
Approximate size of holding as at the date of the vote (as % of portfolio)	<1%
Summary of the resolution **Election of several directors; Pay report**	
How you voted	**AGAINST**
Did you communicate your intent to the company ahead of the vote?	**No**
Rationale for the voting decision **For the largest US homebuilder, we believe the lack of emissions targets and of sustainability-related incentives in remuneration represents an oversight; we have therefore opposed the re-election of directors on relevant committees (including the chair) and the advisory vote on executive pay**	
Outcome of the vote	**FOR**
Implications of the outcome, e.g. were there any lessons learned and what likely future steps will you take in response to the outcome? **We will continue to use our votes to encourage companies to meet our expectations**	
On which criteria have you assessed this vote to be "most significant"? **We believe the sanctioning of directors and/or their pay can send an important signal, over and above the shareholder resolutions that happen to be on the ballot in a given year**	

Visa	Date of vote: **24/01/2023**
Approximate size of holding as at the date of the vote (as % of portfolio)	<1%
Summary of the resolution **Proposal for Independent Chair**	
How you voted	**AGAINST**
Did you communicate your intent to the company ahead of the vote?	**No**
Rationale for the voting decision **A vote in favour has been applied as an independent chair provides a better balance of oversight compared to the combination of roles**	
Outcome of the vote	**AGAINST**
On which criteria have you assessed this vote to be "most significant"? **Governance-related shareholder proposal**	

Given our business model, equity-related rights and responsibilities are the most suitable entry point for exercise. In fixed income, we have negligible exposure to corporate debt, and direct engagement with governments is not usually feasible given the size of our assets, and the fact that our exposure is often achieved through derivatives.

Our interactions with governments are primarily via responding to regulatory consultations (e.g. the FCA consultation on sustainability disclosures) and by joining collective engagement campaigns (e.g. the 2022 Global Investor Statement to Governments on the Climate Crisis, available here).

Snapshot of the statement:[38]


THE INVESTOR AGENDA
ACCELERATING ACTION FOR A NET-ZERO EMISSIONS ECONOMY

2022 Global Investor Statement to Governments on the Climate Crisis

This statement, coordinated by the seven Founding Partners of The Investor Agenda, is signed by 602 investors representing almost USD $42 trillion in assets under management.

The 2021 United Nations Climate Change Conference (COP26) reaffirmed governments' commitments to the goals of the Paris Agreement on climate change, and the importance of taking action to limit global temperature rise to 1.5°C above pre-industrial levels.

In Alternative Solutions, we have a dedicated engagement programme with third-party managers, and seek to use our influence for positive impact. Where relevant we engage with our external managers on their voting policy, including transparency of their voting policy, voting data and disclosure of their votes in the public domain. Our goal is to collaborate with our underlying managers on key ESG-related risks and opportunities in an effort to create a multiplier effect in the industry. More details on our engagement approach with external managers can be found under Principle 9.

38 Source: Investor Agenda

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well functioning financial system

We support the Sustainability Accounting Standards Board's (SASB)[39] consideration of sustainability as a systemic risk because of the widespread social impacts that may occur when certain industries, entities, or institutions were to go through periods of operating disruption or experience widespread shocks with the risk of collapse with wide impact. Our time horizon for systemic risk considerations focuses on the short and medium term (3-7 years).

Our Risk Committee, chaired by our Chief Risk Officer (CRO), Piotr Chmielowski, is responsible for discussing market-wide and systemic risks including their potential drivers such as major geopolitical issues, climate change, and other developments such as inflation.

The Risk Committee meets on a weekly basis and includes senior individuals from across the firm, each of them bringing different perspectives and experience to the meetings. The way in which we respond to risks in terms of our investment process and decisions will vary depending on the nature of the risk and the solution in question.

The CRO and the Compliance team maintain a Risk Register which details the characteristics of identified systemic risks at the firm and their impact on our clients and wider stakeholders. This Register is reviewed every six months by our Risk and Compliance team and discussed in the monthly Operational Risk Committee as necessary. Risks that are identified in the Risk Register must, after mitigation, result in a residual risk deemed to be compatible with Fulcrum's risk appetite.

Fulcrum's risk appetite for residual risk is determined to be generally low, except for a small number of risks where substantial mitigation is not possible and the residual risk can remain at the medium level. We also have zero tolerance for some types of risks including legal, regulatory and financial crime amongst others. These considerations impact our collaborations, strategic priorities, and feed into our investment approach. It is also one of the reasons why we are focused on climate change which is by its nature non-diversifiable at the macroeconomic level, without however ignoring other risks within the ESG risk group.

The development of PAIs will be key to monitor and hold us to account with respect to the main ESG risks. An example of how wider considerations are fed into our overall stewardship approach is looking at our votes, which are now focused on more than just climate – for example on DE&I, biodiversity etc. Please find evidence of this in our voting statistics under Principle 12. Additionally, there is a reciprocal relationship between our risk and research teams, where identification of market-wide and systemic risks is fed to the research team with their analysis driving our risk mitigation strategy.

On an industry level, Fulcrum participates in the meetings of the European Risk management Council, which is an independent international organisation providing a peer-to-peer forum for sharing industry best practices in risk management, and, amongst others, produces its quarterly Risk Landscape Review. Our CRO attends its meetings and events regularly in addition to responding to the Council's surveys.

More generally, Fulcrum is a signatory or member of the initiatives listed under Principle 10. Collaborating with these industry bodies further aids our understanding of market-wide systemic risks and allows us to contribute to discussions that facilitate best practice and engagement.

Piotr Chmielowski is also a member of the RIC, thereby enabling an important feedback loop. In addition to climate change (identified as a core systemic risk which is discussed in detail elsewhere in this Report), below we provide some examples of other key risk areas that have been discussed in our Risk Committee (and across the broader business) over the last year.

39 SASB Standards guide the disclosure of financially material sustainability information by companies to their investors. More details can be found on their website here.

Impact of Ongoing War in Ukraine on Inflation

Activity:
The ongoing war in Ukraine is a volatile situation and continues to have knock-on effects. Beyond the obvious geopolitical risk that it represents, it has played a role (alongside, for example, the lagged effects of the Covid-19 pandemic and other idiosyncratic factors such as the UK mini budget in the latter part of 2022) in the higher inflation rates we have all witnessed.

Higher interest rates and inflation have had a profound effect on the global economy and the way that investors are considering markets. For example, our wealth management clients are suggesting to us that individuals are finding cash to be more attractive, with the marginal pound more likely to be saved in cash as opposed to invested in the markets. The dramatic rise in interest rates has also unequivocally impacted the prices of bonds and equities (particularly during 2022), which will have had an impact on client portfolios.

Response:
An extended period of higher interest rates/inflation is very much a scenario we are considering in our risk committee. It is a very difficult situation for the central authorities to judge and the potential for a hard landing can't be ignored, which would potentially have further consequences for the equity and bond markets (and thus, our clients). In addition to the above and as discussed in last year's report, we have been repositioning our portfolios in response to the ongoing geopolitical situation. For example, we believe companies and governments are seeking to reduce the risks of Russian cyberattacks and have therefore increased our position in providers of cybersecurity solutions. Separately, as the shortage and subsequent price spike of fossil fuels in Europe have increased, so has the attractiveness of alternatives to Russian energy, and our conviction in our long clean energy theme. We have thus augmented this position.

Within our Alternative Solutions strategy, we followed up with all external managers with possible exposure to Russia to understand their positioning and ultimately decide the necessary exit route.

The Liability-Driven Investment (LDI) Crisis

Activity:
The above point is linked to the specific impacts felt by UK (pension) investors during the LDI crisis. Whilst, overall, this episode appears to have been positive for many DB pension schemes in terms of their funding levels, there were clearly several that experienced acute liquidity challenges.

We are regularly in touch with many UK asset managers through our Global Client Group and our Alternative Solutions team and it is clear that the impact has been very significant both on a business and human level. In our thought piece The Great Reversal, we tried to address the potential risks embedded in the 'LDI system' but the severity of the impact still took the market by surprise.

Response:
This did impact Fulcrum as a business and we did have some redemptions from our UK DB pension scheme investors during this phase. Thankfully, we managed to weather the storm well as these were modest and we had inflows from our existing and new DC pension scheme and wealth management clients; the business strategy helped.

Industry Consolidation

Activity:
A further topic that is perhaps indirectly linked to the LDI crisis, is that of industry consolidation. This has been a talking point of increasing frequency and we decided to write a thought piece on this trend titled Has there been enough consolidation in the pensions industry?

Response:
We recognise there are different opinions on this but felt that it was important to share our views. In short, and recognising that many asset managers may have a vested interest, we are concerned about the systemic risks linked to asset owner consolidation. We feel there is limited evidence that greater size leads to improved outcomes and that it is more of a governance point as opposed to a size point (issues that are easily conflated). The thought piece was well received by clients and consultants and we have had several constructive conversations on this topic.

A key systemic risk during the reporting period was the failure of regional banks in the US. However, this issue did not have a significant impact on our operations as we do not have any US venture capital or real estate exposure and our listed exposure was very small as a proportion of our assets. Other discussions relating to systemic risks at our risk committee and at our Management Board have included: climate change, working from home, cyberwarfare and central clearing counterparty failure.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers

Whilst it is our ambition to 'punch above the weight' of our assets, we are equally mindful of the importance of 'strength in numbers'. That is why we will seek to collaborate with like-minded investors on promoting more sustainable markets.

One notable example is under Climate Action 100+, the world's largest single-issue engagement initiative, gathering 700 investors with $68tn in assets. Fulcrum is co-leading engagements with oil major BP under this initiative, with CA100+ engagements contributing to BP adopting what is generally recognized as one of the most ambitious climate strategies in its sector, notably by pledging shorter-term curbs in oil and gas production.[40] Amid a turbulent geopolitical context, the company announced some strategic changes in early 2023, pledging an increase in both fossil-fuel and cleantech-related expenditures, whilst revising its emissions targets. We have expressed both publicly and privately reservations about the *governance* around those changes.[41] At the same time, the company remains noticeable for being the only oil major with a significant plan to curb oil and gas production – the revised plans, although planning for less aggressive curbs than previously estimated (c. -25% by 2030 vs -40% previously) remains, we believe, broadly compatible with the goals of the Paris Agreement.[42] We continue to engage, alongside CA100+ co-leads, with the company, and in particular around the acceleration of low-carbon technologies.

Other industry collaborations we support include:

Initiatives	Our role and responsibility
Principles for Responsible Investment (PRI) *Signatory of:*	• We have been a signatory to the PRI since 2015 • Attendee of the Global Policy and Regulation Working Group
Task Force on Climate-related Financial Disclosures (TCFD)	• In spring 2019, Fulcrum became a supporter to the TCFD to further strengthen our commitment to climate change mitigation. • As part of our commitment to TCFD, we have disclosed TCFD related information in this Report on a voluntary basis (ahead of meeting the AUM threshold). Please see the appendix of the report for a mapping of this Report's content against the main TCFD recommendations.
Institutional Investors Group on Climate Change (IIGCC)	• In 2022, we joined the working group on derivatives, resulting in a discussion paper and public consultation. The insights from the working group have been a significant driver of internal strategy relating to derivatives and use of short-selling in our overall ESG strategy. • We also joined a working group on the creation of net-zero benchmarks.

40 Consider the report from Accela Research, comparing European oil majors' strategies: https://static1.squarespace.com/static/6438ec6c7cc59128759c692c/t/64923d9a5913cf09b24a11ed/1687305671235/26+April+2023_Accela+Research_%20European+Majors+2023+AGMs+Progress+towards+low+carbon.pdf or Carbon Tracker Initiative https://static1.squarespace.com/static/6438ec6c7cc59128759c692c/t/64923d9a5913cf09b24a11ed/1687305671235/26+April+2023_Accela+Research_%20European+Majors+2023+AGMs+Progress+towards+low+carbon.pdf

41 See, for example, https://www.responsible-investor.com/ca100-investor-criticises-bps-lack-of-consultation-on-emissions-scale-back/

42 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.

Initiatives	Our role and responsibility
Pensions for Purpose (P4P)	• Having joined as an Influencer member in 2021 we sponsored the Paris Alignment Awards at P4P's annual stakeholder event, recognising industry leadership from asset owners.
CDP	• We are a supporter of their collective engagement campaigns (on emissions disclosure and targets) • We are also a lead engager on their Glencore engagement campaign
Net Zero Asset Manager Initiative	• We are signatory to the Net Zero Asset Managers Initiative and committed to support the goal of net zero greenhouse gas ('GHG') emissions by 2050. • We have submitted our first interim targets in 2022, which can be found on their website here.
Science Based Target Initiative	• We are a supporter of the initiative • We call on companies to set SBTs, both directly through our engagements and voting (sanctioning certain priority companies if they do not have set SBTs). We also engage on target setting using SBT collectively through initiatives like CDP.
Glasgow Financial Alliance for Net Zero (GFANZ)	• We joined in 2022, and are contributors to the working group on portfolio alignment measurement • In November 2022, GFANZ published an important report on *Measuring Portfolio Alignment*, featuring our climate change strategy as a case study, and reflecting our contribution to the alignment working group over the previous year. • In 2023, we have joined the GFANZ technical expert group on measuring the decarbonization contribution of investment strategies. On a bi-monthly basis during the consultation period.
Climate Action 100+	• We signed up as supporters of ClimateAction 100+ to aid our engagement efforts and show our support of its work on decarbonisation. • Co-lead engagements with BP under ClimateAction100+ (as discussed above).

Initiatives	Our role and responsibility
Investor Coalition for Equal Votes (ICEV)	• We were the first asset manager to join ICEV, a coalition launched by leading UK and US pension funds, calling on companies to improve the governance by upholding the democratic 'one share, one vote' principle. • ICEV aims to achieve this by: "Organising virtual (or in person, where relevant) engagements with pre-IPO companies, their counsel and advisors, and other financial market participants", and by "supporting the advancement of equal voting rights regulation and legislation where practicable and most effective."[43]
Girls Are Investors (GAIN)	• Joined the initiative in 2022 • We sourced some of our summer interns through GAIN • One of our ESG specialists is also a mentor and panelist for the program
Diversity Project	• We joined the Diversity Project in 2022 • Our Managing Partner, Chief People Officer, Head of Investor Relations, and Chair of our DEI Forum are all active participants of key committees as part of this membership.
Asset Owner Diversity Charter	• As an asset owner within our Alternative Solutions Team, we have also signed up to the Asset Owners Diversity Charter https://diversityproject.com/asset-owner-diversity-charter/, to help drive forward the integration and improvement of DEI-related policies across the asset management industry.

In addition to the above list of industry affiliations, where we deem it to be of significant importance/interest to our clients, we also commit to liaising with regulators and other industry bodies in an appropriate manner. Our macroeconomic research team produces nowcasts for major economic indicators and these are regularly shared with central banks,[44] asset owners and the press. Also, as part of our research and education effort, we run an academic seminar series for Fulcrum staff as well as clients (where relevant) which is organised by our macroeconomic research team.

We expect that, given the size of our business and nature of our investment processes, we are most likely to have an impact on underlying company and government behaviours by being involved in collaborative engagement activities. We fully intend to vote our shares wherever possible and we will use our vote to express our opinions, but collaboration is likely to be our most powerful tool. The following are some examples from the reporting period.

43 See more at: https://www.railpen.com/knowledge-hub/our-thinking/2023/icev-one-share-one-vote-1/

44 For a recent example, the New York Fed referenced and incorporated aspects of Fulcrum's nowcasting methodology into their own work: https://www.newyorkfed.org/medialibrary/media/research/blog/2023/NYFed-Staff-Nowcast_technical-paper

BNP Paribus Climate Engagement

Activity:
The banking giant remains 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 – this is a natural first step towards the ultimate wind-down or disposal of the 'brown' loan book; our position has been featured in the media.

Outcome:
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.

CDP Climate Engagement

Activity:
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. We have for several years, alongside over 200 investors with over $30 trillion in assets, been writing to over a thousand companies asking them to disclose via CDP. We took an additional step in 2023, by leading the CDP collective engagement with mining major Glencore.

Outcome:
Whilst we have not yet had success with this specific company, the disclosure and targets campaigns have led to improvements elsewhere in influencing issuers: in 2023, CDP reported that companies were more than 2 times as likely to disclose data after being targeted by financial institutions.[45]

By August 2023,

- 17% of targeted companies had provided the required information, whilst another
- 8% were considering or in the process of finishing their response

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.[46]

45 Source: https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/764/original/CDP_2022_Non-Disclosure_Campaign_Report_18_01_23.pdf

46 Source: https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/586/original/CDP_Science-Based_Targets_campaign_-_progress_report_2021-22.pdf?1666699727

Benchmarks and Climate Alignment

Activity:

As a firm we have consistently highlighted our position that climate alignment requires a willingness to deviate from too closely tracking standard, market-capitalisation-weighted benchmarks. During the reporting period, we also expressed our thoughts in our paper The tracking error error paper.

We were also invited to join an IIGCC working group focused on developing appropriate benchmarks for the low-carbon transition.

Outcome:

This resulted in a new report Enhancing the quality of net zero benchmarks, with Fulcrum research featuring in the report.

We believe this case study is relevant under Principle 4 and 10.

Direction of Travel

Thank you for reading our 2022-2023 Stewardship Report and for your feedback on our 2021-2022 Report. We look forward to receiving feedback on this year's Report in due course.

Firstly, we want to discuss how we addressed the feedback provided to us before moving to our 3–5-year Action Plan.

- As mentioned in the feedback we received on our prior year report, we have now provided a breakdown of our AUM by asset class. This can be found under Principle 6. We have also outlined why we have prioritised our stewardship efforts within our Thematic and Climate-aligned capability and Alternative Solutions capability under Principle 9 and 12. In 2022, the most significant sustainability-related change is the completion of a climate alignment project of our strategic equity allocation highlighted under Principle 7. 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 hope this provides context to better understand the scope and coverage of our activities.

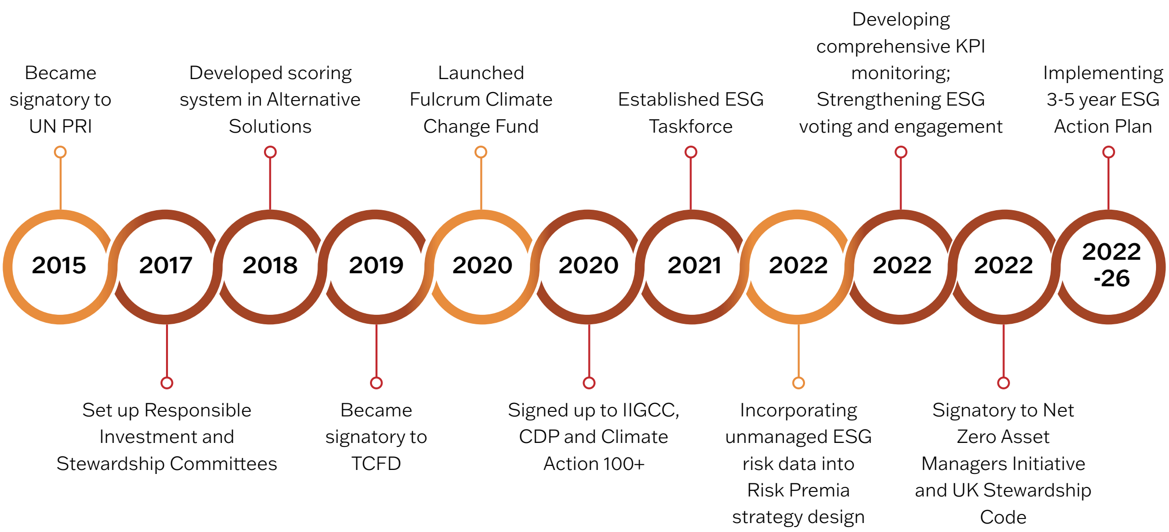
- We thank you for your positive feedback on how we monitor our external managers and how we integrate and engage on ESG-related risks and opportunities within our Alternative Solutions capability. We have continued to showcase our process and progress under Principles 7, 8 and 9.

- Thank you for your positive feedback on the development of our escalation approach. Glencore continues to be part of our engagement strategy and thus we detail how we continue to use our escalation process under Principle 11. Pre-declaring our support for a shareholder proposal calling for clarity on the climate alignment of the company's coal assets is one of the escalation tools that we used during the reporting period.

- We received feedback to provide case studies on how we have worked with others to engage and influence issuers within the reporting period. Under Principle 10, we have not only continued to outline the work we are doing with CDP and Climate Action 100+ but we have also shared our work with IIGCC on benchmarks, BNP Paribus and Glencore.

- We received feedback to better explain the content of our voting policy as well as our approach to exercising rights and responsibilities in non-equity classes. Under Principle 12, we have outlined the updates to our voting policy as well as provided the four types of significant votes. We have also provided examples of significant votes. In addition to better illustrating our voting policy, we have shared our approach to exercising rights and responsibilities within our Alternative Solutions capability and fixed income asset class.

Timeline of key Fulcrum sustainability milestones



We see the pursuit of Stewardship, 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 (which we established in our 2021-2022 Stewardship Report), we committed to making progress on the following topics:

- Understanding the biodiversity risks embedded in our investments.
- Further developing our engagement abilities beyond climate change as well as in other asset classes.
- Implementing a comprehensive KPI monitoring programme within our RIC.
- Increasing gender balance at a senior level and other DEI metrics.
- Continuing, monitoring, and where needed enhancing our active stewardship approach across various channels. This includes direct engagement with companies and third-party managers, industry initiatives, research and voting in line with our values. It will also include pushing our envelope to think about value chain driven engagement such as ESG engagement with our prime brokers.

Our goal for 2023-2024, is to focus our attention on the following key activities:

1. Development of firm-level ESG key performance indicators: we look forward to using our PAIs as a foundation to create ESG KPIs to monitor and report on firm level progress.
2. Ensuring we have sustainability leaders across each of our investment capabilities and clarify roles and responsibilities of central resources. We are planning to consolidate the different capabilities at Fulcrum and for each of our strategic capabilities, we aim to have a Sustainability Lead. We will also have a central sustainability function led by one of our ESG specialists. We plan on showcasing our new organisational structure and how we have embedded sustainability across the business in our next report.
3. Make progress (including completing due diligence) towards initial targeted investments relating to biodiversity and understanding material biodiversity risks in our portfolios.

Thank you again for supporting our stewardship journey. We welcome your feedback on our 2022 – 2023 Stewardship Report and would be happy to answer any questions that you may have.

Please contact IR@fulcrumasset.com for all queries related to our approach to stewardship.

TCFD Report

We illustrate below how we are reflecting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

TCFD disclosure requirement	Page no.
Governance: Disclose the organisation's governance around climate related risks and opportunities.	Page 9 – 19
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Our strategy on climate related risks and opportunities can be seen throughout the Report. The completion, in 2023, of the climate alignment of strategic equities, mentioned under Principle 7 marks an important milestone for the firm's journey to net zero, particularly given our asset classes. Principle 4 deals with systemic risks and Principle 3 discusses our conflict of interest process. In terms of opportunities, Principle 7 and 9 best capture how we consider addressing the climate crisis as a win-win from an investment and solution perspective. Finally, our section on governance showcases the infrastructure we have in place do consider such risks and opportunities in a meaningful manner.
Risk management: Disclose how the organisation identifies, assesses, and manages climate-related risks.	• Page 20 Conflict of Interest (Principle 3) • Page 22 Review and Assurance (Principle 5) • Page 61 Promoting well-functioning markets (Principle 4)
Metrics & targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	Please see high level information on our metrics below, granular data can be provided on request.

Metrics & Targets:

Net-zero targets

We recognise that our biggest climate impact is achieved more indirectly, through our underlying investments. We will continue to engage with investee companies and third-party managers, encouraging them to take climate action, and to engage with industry participants to help develop and implement best practice in new areas around climate investing, from macroeconomic research to portfolio alignment in different asset classes. Fulcrum supports the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C. It also commits to support investing aligned with net zero emissions by 2050 or sooner.

In early 2023, we 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 our flagship 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 Fulcrum Climate Change in our flagship strategy – approximately 10% of whose AUM we now consider 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.

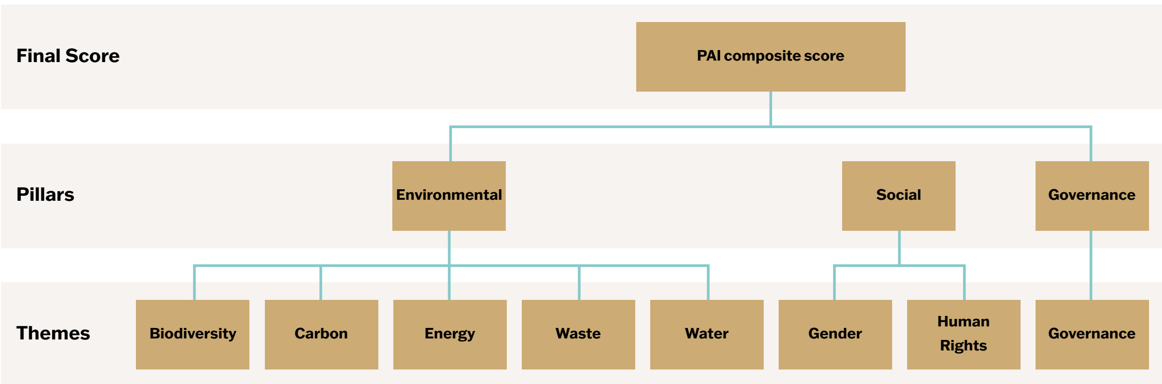
As at June 2023, climate-aligned stocks represent c. 40-50% of the overall equity component in the dynamic asset component of DAR. This represents a significant milestone in Fulcrum's journey towards net zero, and the cornerstone of our interim targets submitted as part of the Net Zero Asset Managers initiative. We consider long-only equities to be the most natural starting point for alignment, noting that a significant part of our AUM is invested in instruments and asset classes (e.g. derivatives, currencies, government bonds), for which alignment methodologies are not readily available. This includes our Alternatives Solutions capability, where we are targeting a 50% reduction in weighted average carbon intensity by 2030. You can find more details on our interim net-zero targets here.

Principle Adverse Impacts (PAIs)

In 2022-23, we have expanded this to include a broader range of sustainability metrics, in line with EU regulation on 'principal adverse impacts' (PAIs) on sustainability factors. We have developed a proprietary PAI score, which is now used to quantitatively assess such potential impacts in our climate change strategy, and the Fulcrum Responsible Investment Committee is currently assessing the suitability of the scores in other areas of risk management.

An overview of the PAI score construction process is below:

We adopt a best-in-class approach, whereby individual datapoints for each PAI are standardised within industry using percentile scores (100 marks the highest adverse impacts, 0 the lowest). Adjustments are made to account for missing datapoints and the scores are then aggregated into themes, pillars, a PAI composite score, and a final score which also takes into account PAIs relating to controversies (breaches of UN and OECD guidelines, and identified cases of severe human rights incidents).



The scores are standardised and equally averaged at every layer of the 'tree'. Following the completion of the PAI scoring project, at the latest quarterly rebalancing of our Climate Change strategy (which comprises the majority of our long-term long-only equity allocation as a firm) we have imposed a constraint in the optimising algorithm that helps determine the size of individual positions, such that the strategy has an average PAI score that is lower than that of its benchmark. For more information, please see our firm-wide PAI statement.[47]

Carbon metrics

Our capability to report on a suite of carbon and climate metrics is now established, covering both absolute measures (i.e. the total Scope 1,2, and 3 emissions associated with equities and total territorial emissions associated with government bonds), and relative metrics (which scale emissions relative to another measure - for example, the amount invested in a security, the revenues of a company or the GDP of a country).[48]

47 Found here.

48 Illustrative carbon metrics for Fulcrum's equity and bond exposure for Fulcrum's flagship diversified absolute return strategy. Sources: Fulcrum Asset Management, Sustainalytics as at 30 June 2023.

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

Carbon metrics and third-party managers

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 supporters of the Task Force on Climate-related Financial Disclosure (TCFD) in 2019, Fulcrum has adopted its 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. We collect statistics from third-party data vendors and the managers we invest with and get full look-through to all the underlying holdings for the managers we hold. As an example, in the Fulcrum Diversified Liquid Alternatives strategy the WACI is calculated annually. Where managers are not equipped to produce the WACI, we calculate the score ourselves using underlying holdings data, engage with them and offer our experience where appropriate to help them with their 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.

For the full year to December 2022, we can report that the Fulcrum Diversified Liquid Alternatives strategy's (DLA) WACI was 344.7 tons CO2 per $1m sales and Fulcrum Real Asset Optimal strategy (RAO) WACI was 398.5 tons CO2 per $1m sales.

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.

Implied Temperature Rise (ITR) and Distance-to-Exit (DTE) metrics

We strongly believe in the importance of adopting a forward-looking perspective in analysing the climate alignment of an issuer. The high emitters of today may not be the high emitters of tomorrow, and they may also play an important part in enabling a low-carbon future (mining being a notable example, given the importance of critical minerals for clean energy technologies).

The ITR measure that is at the heart of our climate change strategy aims to combine a measure of companies' past and future potential emissions performance, and it is used to only select companies deemed to be 'climate-aligned' (with an ITR below 2°C, in line with the goals of the Paris Agreement).

In 2023, we updated our investment process to incorporate multiple data providers and data points, for a more robust assessment of companies' ITR. Under a 2 out of 3 for 2 degrees model, at least two out of three data providers must agree on the climate (mis)alignment of a company for it to be eligible in the investment universe of the strategy.

In parallel, we have developed a proprietary, forward-looking measure of issuers' climate commitments. The distance-to-exit (DTE) was developed by the Climate Research team in collaboration with our academic adviser, Professor Marcin Kacperczyk (Imperial College London). It aims to capture companies' environmental performance relative to a portfolio's carbon budget allocation, and forms the basis of a forthcoming academic paper, which was presented in seminars at the Banque de France, Fulcrum Asset Management, HEC Lausanne, HEC Paris, IESEG, Imperial College, Reichman University, UBS, the universities of Porto and Michigan. We are exploring the suitability of the metric for use in systematic equity strategies.

Managing our own carbon footprint

We believe it is prudent for us to consider and manage our business emissions. In the past year, we calculated our internal WACI metric, and the exercise was overseen by the Matthew Roberts, Head of the RIC. Our WACI for the year was 7 tons CO_2 per $1m sales.

While our scope 1 and 2 emissions are at the lower end of the spectrum, through our calculation we realised, the main source of our emissions can be attributed to business travel. As signatories to NZAMI our aim is to reduce our emissions directly and through engagement. From a firm-level greenhouse gas (GHG) perspective, we are looking at our business travel policy to bring down emissions and considering the use of offsets as last resort for remaining GHGs which are hard to abate. Due to the limited regulation and oversight of the offsetting industry, we recognise the importance of choosing an appropriate offset, which has an impact in bringing down real world emissions.

We are passionate about sustainable workplaces. Our office building has BREEAM 'very good' certification, recycling facilities and uses 100% electricity backed by renewable energy guarantee of origin (REGO) certificates. In 2022, we engaged with the management of the building to create environmental targets including replacement of all lighting to LED to significantly reduce energy consumption. A demand-driven system was installed to reduce HVAC usage by monitoring the CO_2 levels and floor temperatures instead of outside conditions/time programming – this is yet to be fully implemented post the Covid-19 pandemic. The landlord will also be looking at reducing the building dependence on fossil fuel by replacing chillers for air source heat pumps which can do cooling as well as heating, therefore, becoming less reliant on gas for heating and hot water.

We are also looking at avenues to add green space, which promote biodiversity as well as designing the office to include more social and collaborative areas.

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