# Redwheel Value & Income Team

## 2024 Stewardship Report

For professional investors only

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# Foreword

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**Welcome to our annual Stewardship Report for the Redwheel Value & Income Team. Through this annual publication, we wish to offer a clear picture of our stewardship activities over the past year. From various corporate engagements and voting records, to an insight into our collaborations with other investors. We also seek to illustrate the risks, exposures and challenges faced by the companies we hold on your behalf and the material sustainability risks at a portfolio level.**

In an era of increasing focus on environmental, social and governance issues (ESG), it is important to reaffirm our role as stewards of your capital. Most of our mandates have a simple, traditional objective; to generate returns by positioning the portfolio to whichever parts of the market look most undervalued, based on the team's judgements about long-term intrinsic value. As we do so, we consider sustainability issues; in particular, where this is linked to enhancing that return or reducing the risk attached to it. We firmly believe that the act of investing responsibly should incorporate the consideration of sustainability factors and this is therefore a core part of how we act as a fiduciary. We believe the companies in which we invest will likely deliver better long-term returns when they are themselves acting responsibly and not disregarding the environmental or social issues relevant to their businesses. The desire for good governance should not need explanation, nor should our desire to see strong shareholder rights; both are fundamental to protecting minority shareholders.

Recognising that many investors do have a greater focus on sustainability issues, we manage four funds subject to Article 8 of the European Sustainable Finance Disclosure Regulation (SFDR). Two of these are climate engagement strategies incorporating a climate aim; designed in this way, we are able to apply a more rigorous set of criteria to the management of the portfolio and incorporate issuer-level climate considerations to a greater degree in our voting decisions and on decisions regarding investment and divestment.



Last year, we began taking steps to influence policy directly. We recognise that without a clear and stable policy framework, many of our companies will struggle to transition their business and thus transition risks remain elevated. Examples of this work undertaken in a collaborative manner include:

- Meeting with Mark Pawsey MP (CON) to discuss decarbonisation of home heating. Mr Pawsey was at the time a member of the Energy Security and Net Zero Parliamentary Committee. Colleagues from our Greenwheel sustainability research team presented work to inform the debate.
- We helped draft and signed a letter to the new Prime Minister, highlighting the need to urgently "provide businesses and investors with a policy environment" to support decarbonisation.
- We helped draft and signed a letter to various airlines on contrails as non-$CO_2$ emissions are "at least equally significant in their contribution to global warming as $CO_2$ emissions" from aviation.

## Performance

Investment performance was very strong in 2024, exceeding the growth in the UK equity market. Our mandates benefitted from notable rises in the share prices of the three UK listed banks; NatWest Group, Barclays, and Standard Chartered. Returns were also helped by strong performances from Marks & Spencer and Currys. The one significant detractor in the year was Stellantis, whose share price fell by 40% in 2024.

NatWest, Barclays and Standard Chartered all continued to benefit from a benign economic backdrop, which in turn leads to healthy net interest margins and a low level of loan losses. All three companies are currently generating an attractive 10% plus return on equity, are strongly capitalised and are leveraging low stock market valuations to return profits to shareholders through dividends and value accretive share buybacks. Despite the strong share price performance in 2024, each is currently valued at around just 8 times 2024 earnings.

> We firmly believe that responsible investing incorporates sustainability considerations. Our companies will likely deliver better long-term returns when they act responsibly and address the environmental or social issues relevant to their business.

Currys traded strongly at the end of 2024, improving in both the UK and Nordics, where conditions have been very challenging post the COVID pandemic. This came on top of a takeover bid from Elliot Capital in February 2024 at a 40% premium to the prevailing share price. The mixture of takeover interest and healthy trading enabled the shares to rise by more than 80% in 2024. Again, despite the strong share price performance, at the time of writing, the company is valued at less than 10 times this year's expected earnings.

Also in the retail sector, Marks & Spencer continued to trade strongly, taking further market share in both the food and clothing sectors. For some time, we have believed that there is much potential in the M&S brand, and it is heartening to see that this is now being realised. With the shares having risen roughly threefold from very depressed levels in the last two years, today's valuation is clearly not as compelling as it was but nevertheless, it is modestly priced, and we continue to believe that the company can grow its profits at an attractive rate in the coming years.

On the downside, Stellantis fell sharply in 2024 as it downgraded its profit guidance for the year. Demand for autos has weakened quite considerably in recent months, in the US, Europe and China, thus prompting a slew of profit warnings from companies in the industry. Auto manufacturers have large, fixed cost bases and accordingly small changes in demand have an outsized effect on profitability. The company's operating margin expectations for this year were therefore cut back significantly. Nevertheless, the company is still expected to generate a reasonable profit for the year and sentiment in the shares is so poor that the company is valued at around 4 times 2024 earnings. Even if we assume therefore that profit margins never recover from last year's depressed levels, in our view, the shares have considerable upside potential.

Last year saw a continuation of the 2023 pickup in the number of takeover bids for UK listed companies as both corporate and private equity investors (most often from overseas) sought to take advantage of the low valuations available in the UK stock market. Four holdings were subject to takeover bids in the year, in each case at a significant premium to the prevailing share price. The premiums offered ranged between 40% and 70% and the bids thereby crystalized significant value for our investors. Our response to a takeover bid is always to compare the bid price to our view of the long-term value of the company and turn it down where we deem it to be inadequate.

We are prepared to be vocal in such instances. This was the case in respect of Elliott Capital's bid for Currys, which despite being at over a 40% premium to the prevailing share price, in our view, materially undervalued the company. Here we put out a statement saying that the 67p bid was inadequate. At the time of writing, since 1 January 2025, the price has consistently remained above 80p.

## Conclusion

We again commit to be a voice for sustainability and for responsible business behaviour, and to hold our investee companies to high standards of practice. We very much favour a focus on the long-term, eschewing short-term share price gains for more sustained growth, emphasising financial resilience and prudence. This approach considers all stakeholders, and we believe it will also deliver the best outcome for long-term shareholders and help us deliver market beating returns for you, our investors.

Best wishes,

**John Teahan, Ian Lance, Nick Purves**

# 2024 in numbers

The following highlights top-level characteristics at a portfolio level and individual company sustainability credentials from the past year (2023 in brackets). We endeavour, via our 'active owner' approach, to be a force for higher standards over time.

**Net Zero Targets**

- 33 out of 33 companies have disclosed an ambition to achieve net zero emissions (29/29).

**Science-Based Targets** 19/33 companies (vs. 16/29 in 2022)

- 19 out of 33 companies have target status of 'targets set', meaning they have had their targets independently validated by the SBTi. (16/29).

**United Nations Global Compact**

- 21 out of 33 companies are signatories to the UN Global Compact (20/29).

**Sustainable Development Goals**

- 23 out of 33 companies have set a target against at least one of the 17 Sustainable Development Goals (21/29).

**S&P Sustainability Yearbook**

- The S&P Sustainability Yearbook contained 7 out of 33 portfolio companies (10/29).

**CDP**

- 4 out of 33 companies received an A grade in the CDP Climate report, 12 companies an A- grade, 13 companies a B grade and 2 C grade (6, 7, 13, 1/26).

*The data between 2023 and 2024 is not directly comparable due to changes in portfolio holdings*



# A year in review


**Chris Anker**

**Head of Stewardship**

Redwheel


## 2024: A year for policy

Without doubt, the main area of focus for 2024 was to make a meaningful contribution to the debate and discussion taking place within the UK market on the future for stewardship and the form of the UK Stewardship Code in particular. Given that the UK is our home market, and given the stewardship heritage of many of our investment teams, we felt it important to lend our experience to the many conversations that were taking place relating to the future for stewardship.

In doing so, we were grateful to many others who were able to bring groups of stewardship professionals together, in particular the Investor Forum, the Investment Association, and the Pensions and Lifetime Savings Association. The Financial Reporting Council is much to be applauded for its extensive outreach in a "pre-consultation" phase as part of securing a proper sense of what is working well within stewardship (and what is working less well), with the separate and distinct views of asset managers, asset owners, companies, and service providers including proxy advisors taken into account.

From our perspective, it has become clear that one of the main issues that has created confusion in the market reflects a conflation of terms relating to "responsible investment". Sometimes this term is used in reference to the concept in its broadest sense, to act responsibly as a market participant. Other times it is being used to refer to a set of processes undertaken to achieve specific investment outcomes. The work done by portfolio managers as part of delivering responsible investment in practice, and the corporate views of the asset management organisation which wishes to be seen as a responsible investment business, can be very different though and it is because of this that a degree of confusion persists.

That said, stewardship considerations can be extremely important inputs to a portfolio manager's investment process; this is particularly the case where insight relates to portfolio holdings or the policy outlook for the markets and sectors in which investments are made. The portfolio manager's time horizon is however constrained by the ability to model the impact of changes to outlook over time and the systematic integration of sustainability considerations will also be a function of the availability of relevant datapoints. Where data is broadly available, it may make sense to integrate sustainability considerations within investment selection for in-scope products; where it is not, it may be more relevant for inclusion only within investment research.

The time horizon of the asset management organisation can however be far longer than that of its portfolio managers, and it is the views held by the corporate entity and its engagement in policy advocacy that many asset owners appear increasingly interested to understand. Typically, this information is requested as a means to assess consistency in the practical expression of the organisation's values and beliefs.

It is important to recognise though that the stewardship of client assets by those involved in portfolio management, and of client interests more broadly by those involved in shaping corporate strategy, necessarily has scope to involve a broad range of activity and to require different levels of resource. Precisely how this activity is undertaken, by whom, and to what end, remain areas of key interest for asset owners. Being able to understand the rationale for the approach adopted gives comfort that the portfolio manager's approach to delivering responsible investment on the one hand, and the entity's approach to advocating for the adoption and ongoing development of responsible investment practices on the other, remain coherent.

In order to provide greater clarity for our clients on the expectations we have of our investment teams in relation to stewardship, at the end of the year we began work to update the Redwheel Stewardship Policy.

On the purpose of stewardship, given that we are and will only ever be an asset management organisation, we see the role of our portfolio managers as being to foster alignment between the interests of corporates (as the consumers of capital) and asset owners (as the providers). Whilst sustainability considerations may often feature within stewardship work, our approach does not seek to limit stewardship to focus only these matters; holding companies to account for the accuracy of financial statements and the delivery of strategy, and making the case for fair valuation in takeover situations, remain extremely important and tangible aspects of the work done by our investment teams.

We have also clarified how we understand engagements to be structured, reflecting one or more objectives, each of which is company-specific and relates to a topic which maps to a theme. The objectives of engagement tend to be generic, reflecting an effort either to expand disclosure, deepen disclosure, contribute to decision making, encourage change, or otherwise to intervene in a "special situation" e.g. takeover bid. Where objectives are considered to have been achieved (and even where they are not achieved), the results of the engagement may lead to associated investment outcomes.

In parallel to revising our Stewardship Policy, we also submitted a response to the FRC's consultation on the UK Stewardship Code, a copy of which is available on our website. Whilst we concluded that we could support the FRC's approach as proposed, we made clear our conviction that a broader high level definition would be more appropriate given the FRC's stated intention to develop counterpart guidance on stewardship best practices.

Working with peers and regulators, participating in conversations, and shaping the debate is of course hard to evidence in practice. This kind of influence does not tend to lead to firm outcomes that can be clearly tied back to our involvement. It is therefore extremely heartening to have been awarded the Simon Fraser Stewardship Award by the Investor Forum, in reflection of work done across the year to guide conversations taking place within the market relating to stewardship. With clearer separation of the roles and responsibilities of portfolio managers, as compared to the roles and responsibilities of others within the same business, I firmly believe that better decisions can be made regarding resourcing and so better outcomes can be delivered to clients. Needless to say, there remains plenty of work to do!



# Our approach

*"Over the last couple of decades, many asset managers have pushed CEOs to pursue shareholder value maximization policies and deliver results in the shortest possible time. We are fundamentally at odds with this mindset and instead believe that CEOs should run the company with long term sustainable value creation in mind."*

**Redwheel UK Value & Income Team letter to the Chair, 2017**

We are humbled by the trust placed in us by our investors to manage their capital and we are very clear in our fiduciary duty to protect and grow that capital over time. We believe that our stewardship role is wholly consistent with supporting companies to grow in a sustainable way, for executive teams and board members to run their companies for the long term and for the benefit of all stakeholders. We would venture further that companies not run in a sustainable manner, from lack of prudence on financial strength and recklessness in the pursuit of growth, at the expense of the environment and relations with other stakeholders, create enormous risks to shareholders' capital. Whereas companies run in a prudent, sustainable manner for all stakeholders are usually more successful, resilient, and financially rewarding for shareholders.

We pride ourselves on being long-term investors. The very core of our investment strategy is that short-term sentiment amongst many market participants causes them to overreact to news which has little or no impact on the long run value of a business. Our long-term value strategy allows us to take advantage of such market dislocations, which provide an opportunity to purchase shares at less than their true value. This long-term approach also allows us to develop a deep understanding of the companies in which we invest, allows us to get to know the executive teams and board members, and to develop a deep understanding of their business strategies. We believe this approach enables better engagement with our investee companies, particularly when circumstance necessitates heightened levels of engagement.

Sustainability issues can have a material financial impact on the value of a company along with their social licence to operate and, therefore, on the value of our investors' capital. The following summarises our approach:

## Environment

The potential for climate issues to cause a material financial impact on the value of individual companies and sectors has increased dramatically in the past decade. Climate change risks, both physical and transition, are top of the list. Pressures on natural resources, such as water scarcity and biodiversity loss along with pollution and waste are further prominent risks. As value managers, our companies tend to be old economy stocks and, on balance, more exposed to environment-related issues. Energy, materials, food retailers are all exposed in their own way. Few sectors, particularly in manufacturing, are without their exposure to such risks. However, services providers, for example banks providing credit and insurance companies providing property cover, are also exposed.

We believe that the answer to environmental problems is not as simple as divesting from challenged sectors. By actively engaging with companies, by supporting them in the transition to a sustainable business model, we believe the outcome can be better for the shareholder returns, for the environment and supporting wider economic prosperity.

The transition to a low carbon economy necessitated by climate change, is one of the most important non-financial risks we assess. The transition is happening now, and few companies are immune to it. The biggest business unknown with regards the transition is the pace with which it unfolds, including the speed of technological development. Other risks include the additional policies, laws, and regulations that will be introduced to support the transition. The kind of policies required are clear, but the pace of implementation remains unclear and is not in a straight line. It is also a big challenge for politicians facing an electorate not willing to pay for the transition, to quote former European Commission president Jean-Claude Juncker "We all know what to do, we just don't know how to get re-elected after we've done it".

> "We all know what to do, we just don't know how to get re-elected after we've done it".
>
> Jean-Claude Juncker, Former European Commission President

A political consensus in the last few years did drive the policies and regulations that were deemed necessary to support the transition and more sustainable business practices, but these are now incurring a back lash from voters across the globe, as are the politicians that put them in place. It illustrates the challenge of the transition and the unstable policy environment in which companies operate.

## Social

The financial impact from social issues can be substantial as we further set out in our 2017 Letter to the Chair:

*"[W]e believe companies should act in the interests of all stakeholders. Putting pressure on employees, customers and suppliers may enrich shareholders in the short term but can damage the long run sustainability of the business. Too often, investors seem to believe you are either a champion of the shareholder or of the other stakeholders, but in our view, they are not mutually exclusive. There should never be any inherent tension between creating value and serving the interests of employees, suppliers, and customers."*

Companies treating their employees, customers, or suppliers badly store up future problems for the business in terms of human capital (lower productivity, disruption to production, staff turnover), brand value (dissatisfied customers, litigation) and reputation (supply chain issues, health and safety). Local communities are also important to consider, particularly in extractive industries. To ignore the concerns of local communities, is not just wrong, it is bad business as it may lead to violent conflict, disruption of production or to the actual closure of mines. Exposure to conflict regions is monitored as an elevated risk of human rights abuses, which itself is challenging as information from conflict regions is often unreliable and contested.



Cyber security is a notable risk for many companies, particularly for those holding customer information, including sensitive sectors such as banks or utilities, or where intellectual property is the basis of the value of a company.

## Governance

Governance has always been at the heart of our process as we believe it sets the basis for the culture of a firm, supporting positive environmental and social outcomes. We want management to run the business as owners, thinking long-term and about customers, employees, suppliers, and community, which ultimately benefits shareholders. To ensure this outcome, we believe in the importance of a strong board, with non-executive directors possessing the requisite skills, experience, and independence to counter the impact of a powerful or dominant CEO. Diversity can support this aim and helps to counter 'group think' and incorporate better the views of all stakeholders. We also observe the growing demands on non-executive directors (NEDs), and how those demands can surge at times of crisis. We therefore believe that NEDs may be over stretched and need to consider devoting more time to their roles.

Good corporate governance also guides how a company interacts more directly with its shareholders. The right structure supports trust, transparency and accountability. This is fundamental to minority shareholders, the investors we represent. Good governance is intertwined with shareholder rights, protecting the minority shareholder. The undervaluation in the UK market and lack of IPOs, has led to calls for a roll back of some of the shareholder rights for London listed companies. While there may be a case for some reform, there is a danger of a misdiagnosis of the causes of low valuations and therefore of the appropriate solutions. There is a danger that high governance standards, for which the UK is known, are sacrificed to no positive effect, just a loss of protection for minority shareholders.

## Corporate behaviour

Governance in a sustainability context must go further than traditional boundaries. We look for responsibility for sustainability issues at a board level, ideally sitting with an independent director with relevant experience, who can challenge management on related sustainability issues.

We encourage companies to commit to both global and industry level principles and codes that support high levels of sustainability practices. By committing to such codes, we can hold management to account should they fail to uphold the standards they have set for themselves. This is supportive of 'soft law' such as the UN Global Compact Ten Principles and shared values and the OECD Guidelines for Multinational Enterprises; in requesting companies commit to such values, they set the standards investors should expect of them, it is then our role to monitor subsequent behaviour and to sanction for breaches. We believe this too links to shareholder value, reducing risk to brand, reputation and litigation risk.

It is difficult for shareholders to anticipate events and often to identify corporate governance weaknesses. However, corporate structures aligned to the high standards of the UK Corporate Governance Code, reinforced by commitments to international codes and principles, and demonstrated by a company's day to day behaviour towards other stakeholders and the way they run the business, gives a strong indication of corporate culture and future behaviour.

## Engagement and collaboration

Engagement is central in communicating with our investee companies on areas of concern or where we want to express an opinion on strategy, with a long-term investment horizon and a concentrated portfolio we can build meaningful engagements. The engagement process is led and carried out by us, the portfolio managers, supported by the central Redwheel Sustainability function, including Greenwheel. Engagements are an extension of monitoring, and it is important to add that we feel management time should be protected from excessive demands from shareholders, so we will typically focus on annual meetings with management where a company is operating as expected. We will also interact with the non-executive directors, on general strategy, succession or on points of particular importance with the chair of the board, and on remuneration with the chair of the remuneration committee. A record of our engagements is included in this report. With our Climate Engagement strategies, engagement is core to the aim of encouraging companies to improve on their transition plans and to accelerate those plans where appropriate.

While directly engaging with management is our preferred approach, collaborative engagements are a useful tool for shareholders to further specific objectives. We are open to engagement with other individual shareholders in common holdings and have done so this past year and in previous years. Our main approach to collaborative engagement is via the Investor Forum and ClimateAction100+.

We seek to join and to initiate engagement with other shareholders on issues that are important to us and where we feel a bigger voice will increase the chances of success. It may also be necessary where management or a board is refusing to engage on specific issues, or where our shareholding is not significant enough to get the attention of management.

## Voting policy

We recognise our responsibility to actively exercise our voting rights and the opportunity voting affords us to convey a message to a company in the strongest terms, outside of divestment. It is therefore our policy to vote on all shares at all meetings, except where there are onerous restrictions, such as share-blocking (where we must surrender our right to dispose of the shares for a period). We do not lend stock.

As an independent investment team within Redwheel we set our own voting approach, however, we draw on the support of the central Redwheel Sustainability function in developing that approach. We vote in the best interests of our clients and in line with the high standards of corporate governance as set out in the UK Corporate Governance Code 2018 (with the new code becoming effective in 2026). Our voting is shaped by our fundamental research, by our engagements with our investee companies and by Institutional Shareholder Services (ISS), the proxy voting service. ISS follows best corporate governance practice in each market, based on local norms, codes, and regulations. In the UK, ISS policy is rooted in the voting guidelines of the Pensions and Lifetime Savings Association (PLSA) and follows the guidance provided by the Financial Reporting Council (FRC) in the UK Corporate Governance Code. The PLSA and the UK Governance Code 2018 set a high standard globally on governance matters, along with reference to the ICGN Global Governance Principles, we use these standards as a benchmark on votes outside the UK, and where appropriate we will at times override local ISS policy for the higher standard. In 2024, ISS recommendations were based on the ISS Climate Voting Policy; prior to 2022 recommendations were based on the ISS benchmark Policy. The move reflected our own evolving views on governance and climate risk. As always, we reflect on ISS research and recommendations as an important input to our voting decisions. It supports our own internal research and our engagements on what voting position is in the best interests of our clients. We may also take differing voting positions on individual mandates, under client direction, or in the climate engagement strategies.

As part of an engagement escalation strategy, we communicate our voting decisions in various ways. Where we are a major shareholder and it represents a key issue for us or a very sensitive issue for the company, we communicate our voting intention to the company ahead of the shareholder meeting as part of relationship management. Where we may have less of an influential shareholding, but it is a key issue for us, we communicate ahead of the meeting to ensure the company's awareness of our position. When we feel progress is not being made or management is not engaging with us, we may decide to pre-declare our voting intention ahead of the AGM. We have done this on several occasions including when we publicly supported Shell's 'Follow This shareholder' proposal at the 2021 AGM, and when we voted against Barclays' transition plans in the 2022 AGM.



## Remuneration

Remuneration is an area of controversy, with management pay ratcheting higher, often without consequence for failure or poor performance. There is also the challenge in attracting talent to run global companies based in the UK, from a global pool in which outsized US compensation skews executive expectations.

In our view, compensation packages must be tied to long-term drivers of sustainable value, rather than a function of financial engineering. The timeframe for executive evaluations should be extended and we believe there should also be a downside risk management incentive requiring management to put significant 'skin in the game'. We have set out our views in our Remuneration Guidelines, which we may share with our investee companies. We contribute to the industry discussion on remuneration via the Investment Association, the Investor Forum, and other investors where we have common shareholdings. Please refer to the extended remuneration section in this report for a longer discussion on this topic.

## Conclusion

We see our role as stewards of our investors' capital as wholly consistent with investing responsibly and encouraging our investee companies to act sustainably. Sustainability and our long-term investment horizon go hand-in-hand. Furthermore, as value investors, we believe we can have an outsized impact on sustainability issues, as these are often of greater importance to older economy companies that typically fall into our value universe, particularly on environmental issues.

We believe in free market capitalism. However, we believe that the agency problem, short-termism, and a sole focus on shareholders, undermines the system in the long run. A fairer, more responsible free market is ultimately to the benefit of business and to the benefit of shareholders, as well as other stakeholders. We will lend our voice to raise concerns and push for change where we think necessary, and where we have influence.

We would encourage those thinking of investing with us to keep in mind our long-term focus. On both financial metrics and sustainability issues, companies need time to deliver on their sustainable value potential.

Our responsible investment (RI) approach is further documented in our Team ESG guidelines, and we encourage our investors to read that policy for a full description of our approach and framework. RI is a fast-developing area, we will endeavour to develop our policies in line with industry best practice and raise the bar where we can. We commit to keeping you, our clients, fully informed and work with you to achieve your objectives.

# A tough year for the transition

An increasingly common narrative that we hear is that the transition is slowing, that companies are pulling back from their sustainability commitments to Net Zero, as well as areas such as biodiversity, and slowing the transition of their businesses.

In February, Ørsted (not held) reduced its target for installed renewable electricity capacity from 50 gigawatts to 35-38 gigawatts. Unilever (not held) got headlines in April for watering down commitments on plastics. In June, Volvo (not held) dropped its commitment to go fully electric by selling only EVs by 2030, while other auto manufacturers cut EV production targets. Shell (held) paused construction on its Rotterdam biofuels facility in July.  BP (held) is the latest to be rumoured to be dropping targets, this time on oil production.

One interpretation of these moves is a very unkind one for the companies, that they are recklessly abandoning the transition and forsaking much needed climate action. They are doing so while we experience increasingly volatile weather patterns, as set out in the IPCC Sixth Assessment Report published in 2021, and in the more graphic images of droughts, flooding, and heatwaves we have seen in many regions over the past few years.

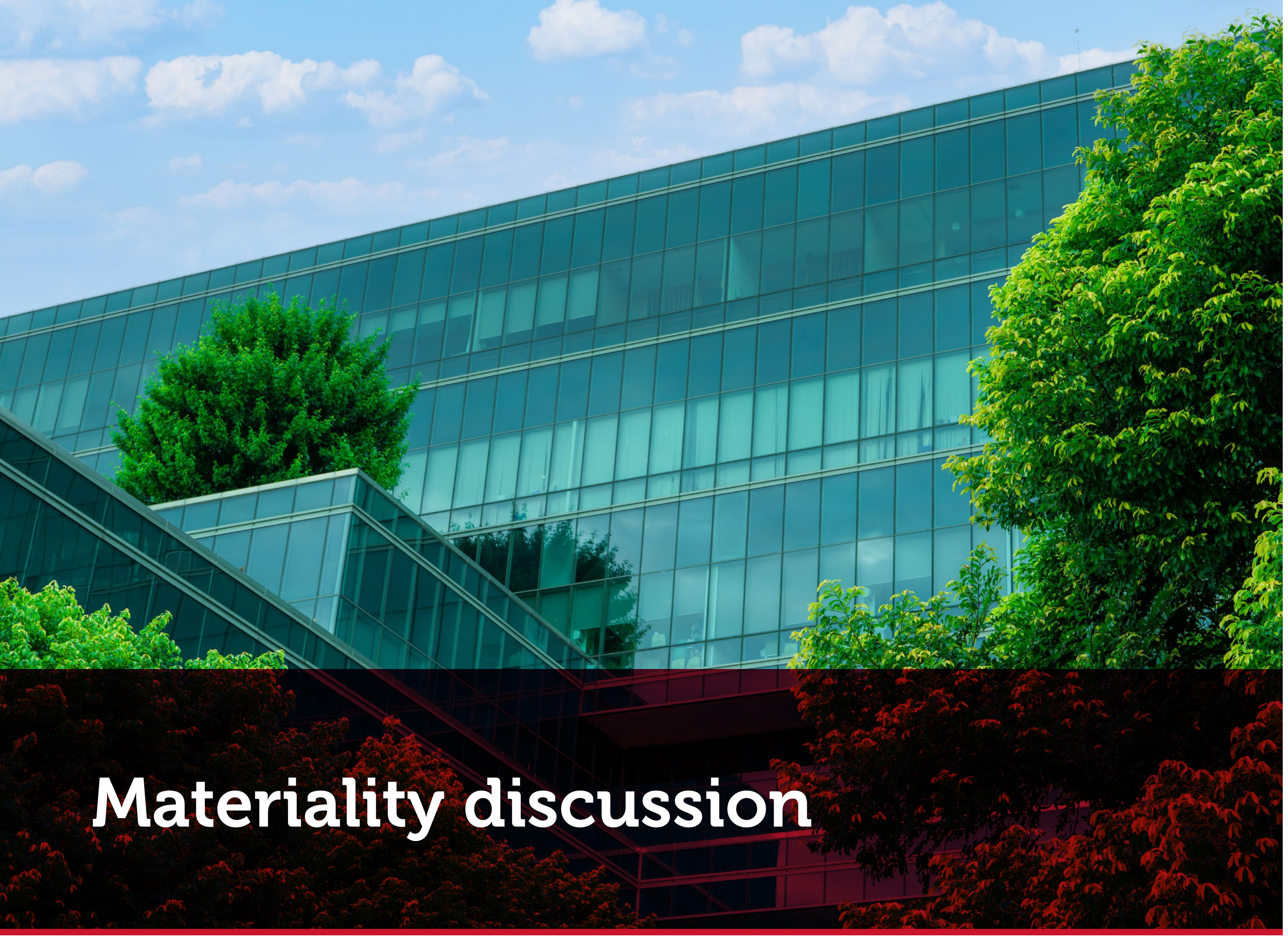
What we see from an investment point of view gives us a slightly different perspective in terms of attributing blame; it is a much more nuanced picture.

First, there is the issue of anchoring or reference points. Many stakeholders, including shareholders like us, have encouraged companies to set ambitious transition targets. Many companies did so and genuinely did try to get on track to achieve those targets. That is not to say there was no greenwashing, there was. However, many companies that genuinely tried to transition at a pace that might be considered on a 1.5°C pathway have hit really challenging barriers. Simply, the underlying demand has not emerged, green premia remain elevated, and governments have not provided the necessary regulatory and policy framework to correct for these issues, while consumers are not willing to pay the price. We continue to push companies to be ambitious in their target setting, but many are now shying away from doing so, afraid of the blowback if they fail to achieve those targets. We would prefer them to remain ambitious, but to set out the dependencies for their targets to be successful, lobby proactively for the required changes, and if they fail then the blame can be attributed more fairly.

When we look at the reasons for companies pulling back on climate targets, they are varied, but often relate to deteriorating returns for a low carbon business or changing market conditions. This is obvious in offshore wind; higher interest rates, higher inflation, and technology and supply chain problems have caused huge issues for Ørsted (share price -74% since end of 2020) and caused bp to pull back from its wind business. Lack of demand and both lack of and changing policy support has meant that biofuel markets have suffered, factors for Shell pausing construction in Rotterdam and for the decline in Neste's (not held) share price (-80% since end of 2020), the Finnish biofuel producer. Decreasing or phasing out incentive schemes for electric cars and delaying the ban on sales of internal combustion engine vehicles causes real difficulties for auto manufacturers as Stellantis (held) has explained. In a submission to the UK Parliament in 2023, the company made its position clear: "Stellantis is committed to achieve 100% zero emission new vehicle sales in the UK and Europe by 2030… Considering our planning and development cycles (5-7 years) we have been targeting 2030 to ensure compliance with legislation. If the date changes to 2035, Stellantis will be at a disadvantage potentially missing out on revenue from ICE vehicles sales and production in the UK". Further difficulties also arise in terms of meeting the challenge presented by having to compete on costs with EVs produced more cheaply in China.

Whether BP will remove the upstream production target decline of 25% by 2030 is unclear. The company will announce any changes in February of 2025. What is clear is the company is under pressure, the shares are the worst performers amongst European majors since the new CEO officially took over in January this year. It has not benefitted in share price performance from being a climate leader among peers since announcing upstream production cuts in February 2020, again bottom of the pack, and like Shell and TotalEnergies more than 50% of shareholders are now US based, where there is less of a focus on climate goals.

Having said all of that, the transition is moving apace. Electricity use has grown at twice the rate of overall energy demand over the last decade, with renewables now accounting for 30% of generation globally. EV sales are slowing, from 61% p.a. over 2020-23 to a forecasted 21% p.a. over the next four years, but note the base is now much larger, with 6.5m EV sales in 2021, growing to 13.9m in 2023, expected to reach 30.2m in 2027 (according to BNEF). At a corporate level, we see companies making meaningful progress in reducing emissions under their control (Scope 1 and 2), allocating significant capital to the transition and communicating on climate risks in a much more transparent and detailed manner. Unfortunately, in most cases while progress is impressive, it is just not in line with the reference point, of mitigating global warming to 1.5°C.



# Materiality discussion

Companies have reported on material ESG issues for a long time now. One of our largest holdings, Anglo American, have discussed material ESG issues separate from the annual report's 'Other Risk Factors' since the introduction of their Report to Society in 2004. In that report they said, "We believe that our key material risks and impacts are covered: those that measure our economic contribution; the effects our operations have on the natural environment and how these are managed and mitigated; the safety, health and development of our people; and the role we play in contributing to the long-term quality of life of society." BT Group, another holding, was one of the first companies to set a carbon reduction target back in 1992. They documented their annual improvement targets in an annual Environmental Performance Report and by 1996 reported that total energy consumption over the previous four years had reduced by over 13% (the Group annual report stating, "For a copy, call (0171) 356 5636", how quaint!).

However, ESG materiality reporting has increased significantly over the last few years. TCFD and SASB have pushed companies to disclose more on climate-related materiality risk issues, while on the investment side, UN PRI encourages the integration of ESG factors, which incorporates a materiality assessment of ESG risks. This is reflected within corporate publications with sustainability reporting exploding in recent years.

We therefore feel it may be useful to share our thoughts on the issue and the ESG or non-financial materiality risks in our portfolios for the benefit of our investors. To start with, the development of ESG and broadening of the factors associated with it, along with the expectations on reporting, prompted us to develop a clearer, more detailed framework for our investment process. As mentioned elsewhere, we set out our thoughts in our 2016 letter to investors called 'Reforming Capitalism'. This was followed by our letter to each Chair of our investee companies, outlining our position. In 2017 and 2018 we developed an ESG scoring framework for our investee companies and wrote our first formal ESG investment policy in 2018. We published our first Team Stewardship Report for 2020. Our experience scoring companies on ESG factors highlighted for us the same problems faced by external rating agencies, like Sustainalytics, S&P Global and MSCI. What weight should you give to the E, the S and the G. Within each, what metrics should be employed and what weights to apply to each underlying metric, as several metrics were required to reflect a company's performance under each heading. We also struggled with the question of absolute scores versus sector neutral scores, the outcome of which could see an energy major going from a bottom rated company (due to the E) to a top rated company. After three years of agonising over the right methodology we switched to a focus on materiality focus. A paper called Aggregate Confusion: The Divergence of ESG Ratings, might as well have been written about our experience as it documented the divergence of scores from the ESG rating agencies. Our approach became one of materiality, focusing on what is material for each individual company, without having to make comparisons across the portfolio, we leave that to the external rating agencies.

In terms of assessing materiality, we rely on our long, combined experience as a team looking at companies to understand material risks. We also look at how companies rate their own material ESG risks, along with other independent sources such as the Sustainability Accounting Standards Board (SASB) Materiality Map. We are also horizon scanning, that means being on the constant lookout for risks that we may not have been previously aware of, and this exercise is largely unstructured (albeit news alerts from Sustainalytics is a structured part of the exercise). We are also aware that such risks have a dynamic characteristic. A paper by Harvard Business School, 'How ESG Issues Become Financially Material to Corporations and Their Investors', gives an interesting perspective on the dynamism of this subject. Companies and society may be misaligned, but either due to lack of awareness or lack of information, such misalignment is accepted. This may not persist if society becomes aware of the misalignment, or if a company pushes the misalignment further in the pursuit of greater profits, or if society itself moves in its own definition of acceptable practice. The paper cites the pharma industry and drug pricing as an example, and we believe the oil majors may have also suffered a similar experience to a certain degree following the signing of the Paris Agreement.

The SASB framework gives an alternative view of ESG materiality. SASB is an independent non-profit organization that sets standards to guide the disclosure of financially material sustainability information by companies to their investors. The SASB Materiality Map is a tool that identifies and compares disclosure topics across different industries and sectors. While the map is not a perfect fit for each company, for example companies will span across sub-industries and therefore across materiality risks, it does help to ensure individual issues are not totally overlooked and it gives a top-down view of the portfolio. These issues are unweighted, i.e. each issue is given equal importance and therefore the overall ranking reflects which ESG risks arise most often across all the holdings. For instance, it might be a surprise that Product Design & Lifecycle Management and Data Security rank so highly within our portfolio of value stocks. On Data Security whereas technology companies holding vast amounts of customer data, such as Meta Platforms (not held), or companies where intellectual rights underpin the value of the firm, such as Netflix, are well understood as being exposed to data security and cyber security threats, many companies now hold consumer data and of course have valuable intellectual property. Within the portfolio we saw cyber security breaches with IDS Group (owners of Royal Mail) and Capita in 2023. Global corporates that suffered massive security breaches in 2024 included UnitedHealth Group (not held) which compromised the private data of over 100 million individuals and AT&T (not held), again compromising the data of over 100 million customers.

## Product Design & Lifecycle Management

Product Design & Lifecycle Management is the most common material issue across the portfolio based on the SASB materiality map. The category addresses incorporation of environmental, social, and governance considerations in characteristics of products and services provided or sold by a company. The category captures a company's ability to address customer and societal demand for more sustainable products and services as well as to meet evolving environmental and social regulation.

For example, the auto industry is a large contributor to greenhouse gas emissions. Auto manufacturers need to have a well-developed plan in place to transition to electric vehicles and cleaner technologies to meet future stricter regulations, as well as customer demand. However, we must also recognise that regulation and government policy is a major transition challenge for a company such as Stellantis. Without government support electric take-up may not be as quick as anticipated, meaning poor returns on capital deployed.

## Data security

Data security is the second most common material issue across the portfolio based on the SASB materiality map. Banks, insurers, retailers and telecommunications all hold sensitive data that, were it lost, stolen or leaked, would cost the respective business in terms of reputation and regulatory fines. For example, GDPR fines range from 2% to 4% of annual revenue, which would represent the annual profit for a food retailer.

Banks are a much more serious target for cyber criminals. Were individual banks or the sector in general to suffer a large successful raid, trust in the banking sector would be badly damaged and the financial consequences likely severe. NatWest Group identifies cyber threats as one of the main external risks that the bank faces. Each year it invests in additional capability and controls to defend against evolving and more sophisticated threats. It also focuses on staff and customer education and runs cyber resilience exercises to simulate such attacks on the bank. The Bank of England also runs cyber stress tests and firms are invited to participate based on the significance of their contribution to the operations of the UK financial system's vital functions, some smaller firms are also invited to participate. Speaking with bank executives, it is impossible to make banks completely safe from such attacks, the threat is not solely from an external actor, they may be aided by a malicious insider. However, if banks make it exceedingly difficult, then cyber attackers will focus on less protected targets, with crypto hacks seeing a sharp rise in the number of attacks and total value stolen over the last five years.[1]

## Business ethics

Business ethics represents the third most common material issue based on the SASB analysis. Business ethics is important to all companies but for those in the extractive industries, such as mining and oil exploration and production, it is even more material due to the regions of their operations. Corruption increases reputational risks, political action, and regulatory fines. Business ethics is also high on the materiality list for banks. In 2021, NatWest Group received a criminal conviction and a fine of £264.8m by a London court. The bank pleaded guilty to failing to prevent a £365m money laundering scheme between 2012 and 2016.[2] While NatWest's controls had obviously failed, it had invested £700m in anti-money laundering systems between 2010 and 2015. Since 2016 it has invested a further £700m in financial crime compliance. The episode illustrates both the cost when systems fail in terms of fines, and the cost in terms of investment to ensure systems are sufficiently robust to mitigate the risks. Barclays received a £40 million fine in 2024 for its failure to disclose certain arrangements with Qatari entities in 2008, the FCA said "Barclays' failure to disclose these matters was reckless and lacked integrity and followed an earlier failure to disclose fees paid to Qatari investors in June 2008."[3] Barclays has also been in the spotlight over the relationship of their former CEO, Jes Staley, and Jeffery Epstein. The FCA said in 2023 that it would ban Staley and fine him £1.8m for misleading the Authority over the relationship. The ongoing media attention, driven by Staley lodging an appeal in November 2024, does nothing to enhance the bank's brand.

As portfolio managers, we must satisfy ourselves that companies are appropriately addressing historical weaknesses, that the additional cost of fixing those weaknesses will not have an undue impact on profitability, and that the valuation and risk/return profile remains attractive. It also raises a question of trust in the board and management and the culture they foster in their organisations. With NatWest Group and Barclays, we believe both companies have addressed historic weaknesses, and we do trust the current management and board to act appropriately.

**Figure 1: Unweighted risk prevalence matrix**

| Dimension | General Issue Category | Portfolio |
|---|---|---|
| Environment | GHG Emissions | |
| | Air Quality | |
| | Energy Management | |
| | Water & Wastewater Management | |
| | Waste & Hazardous Materials Management | |
| | Ecological Impacts | |
| Social Capital | Human Rights & Community Relations | |
| | Customer Privacy | |
| | Data Security | |
| | Access & Affordability | |
| | Product Quality & Safety | |
| | Customer Welfare | |
| | Selling Practices & Product Labeling | |
| Human Capital | Labor Practices | |
| | Employee Health & Safety | |
| | Employee Engagement, Diversity & Inclusion | |
| Business Model & Innovation | Product Design & Lifecycle Management | |
| | Business Model Resilience | |
| | Supply Chain Management | |
| | Materials Sourcing & Efficiency | |
| | Physical Impacts of Climate Change | |
| Leadership & Governance | Business Ethics | |
| | Competitive Behavior | |
| | Management of the Legal & Regulatory Environment | |
| | Critical Incident Risk Management | |
| | Systemic Risk Management | |

Source: Redwheel / SASB (December 2024)

The table represents the materiality of each category on an unweighted basis. The darker shaded categories represent risks that occur more frequently across holdings. Lighter shading represents less prevalent risks.

Our own assessment of material sustainability risks led us to give specific focus to carbon emissions and coal exposure in 2020, we therefore deal with these risks in greater detail in the following sections.

1 Chainalysis, $2.2 Billion Stolen from Crypto Platforms in 2024, but Hacked Volumes Stagnate Toward Year-End as DPRK Slows Activity Post-July (December 2024)

2 Agreed Statement of Facts, The Financial Conusct Authority V National Westminster Bank PLC (December 2021)

3 Financial Conduct Authority, FCA fines Barclays £40 million (November 2024)

## Carbon footprint and climate risks

Carbon emissions and climate change are material risks for the portfolio. The two are very much interrelated, carbon emissions driving planetary warming and thus climate change, but the risks arising from the two are both linked and somewhat independent. The risks include transition risks, physical risks, and the risk that society will turn against individual companies and sectors, forcing heavy regulation and forcing investor divestment. All these risks have the potential for material financial consequences for shareholders. The risks remain real whether society makes a successful transition to a low carbon economy or if it fails to do so.

Can our investee companies make a successful transition to a low carbon world, whilst keeping their profitability and balance sheets intact? This is a transition risk. This risk is particularly important for our integrated oil companies and energy intensive companies in the mining sector. What will oil companies look like in the future as they move from being integrated oil companies to integrated energy companies? Will they generate attractive returns for shareholders, or will cash flows be consumed by the transition to low carbon businesses, will their equity be severely impaired due to stranded assets? Will they remain aligned with all stakeholders and thus retain the support of the wider society? How will the transition impact the demand for iron ore as recycling increases, or the demand for coking coal as steel making decarbonises?

There are physical risks associated with climate change. Changing weather patterns and rising sea levels brings the risk of damage to property and plant, or curtailed production. Seventy-five percent of Anglo American sites currently fall within water-stressed areas based on World Resources Institute's Aqueduct tool. Water availability is a particular issue for Anglo American in Chile, in 2022 the company secured a desalinated water supply for its Los Bronces copper mine, by 2025 desalinated water will be pumped from the sea to the mine, c. 150kms away and 4,000 metres above sea level. This is climate adaptation in motion and illustrates the challenges and costs that companies face now and will increasingly face in the future. It also illustrates why we believe that being climate resilient and ready to adapt to physical risks is very much about financial resilience, having the financial capacity to take measures like Anglo American have done to protect their assets from becoming stranded assets. It also illustrates how such measures protects their licence to operate, contributing locally by reducing freshwater abstraction in water scarce regions.

We track both carbon intensity and absolute carbon emissions for the portfolio. By doing so we can see how carbon intensive our individual companies are and how exposed they are to carbon risks, such as carbon pricing or carbon tax. Interestingly, on an absolute basis oil companies exhibit the highest level of emissions, because of their size, while on an intensity basis mining companies score worst. We also measure our portfolio versus the benchmark and include the comparison in this report.

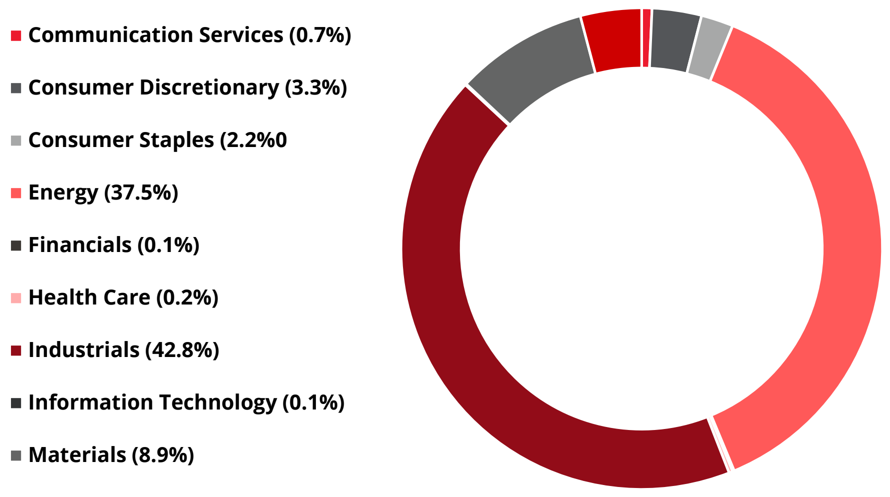
### Carbon Footprint

A portfolio's carbon footprint is the sum of a proportional amount of each portfolio company's emissions (proportional to the amount of stock held in the portfolio) (UN PRI, 2022).

Figure 2 and 3 show the sector contributions to emissions and the emissions exposure of the portfolio. Energy is the largest sector contributor to emissions, with Scope 3 emissions (emissions that are generated from value-chain activities) making up the bulk of emissions exposure.

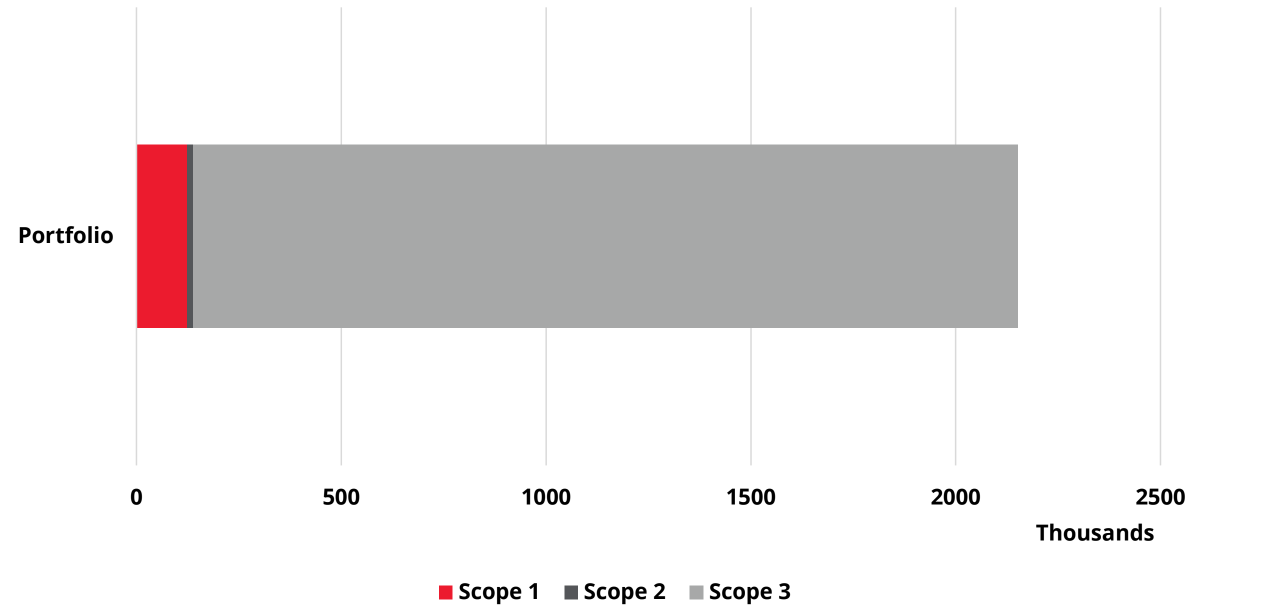


**Figure 2: Sector Contributions to greenhouse gas emissions (scope 1 & scope 2)**




Source: ISS ESG (December 2024)

**Figure 3: Greenhouse Gas Emissions Exposure (tCO2e)**




Source: ISS ESG (December 2024)

*The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.*

All companies within the portfolio have set a net zero emissions target by 2050 or sooner. Publicly announced targets by companies vary in their trustworthiness. A company may make promises for 2050, but if it leaves the heavy lifting for future management, then those commitments may be suspect. A way of getting assurance on targets and ambitions is where a company engages with and gets approval from the Science Based Target initiative (SBTi). The SBTi provides technical assistance and expert resources to companies who set science-based targets in line with the latest climate science. It also provides independent assessment and validation of targets. Companies are slowly engaging with SBTi. Having initially got net zero commitments from companies, shareholders can ratchet up the pressure for a credible pathway by pushing their companies to join the SBTi initiative. This is a strategy we endorse and 19 of our portfolio companies have a SBTi validated near-term targets.[1] SBTi is in the guidance development phase for certain sectors, such as oil and gas. This guidance will need

1 SBTi (December 2024)

to be finalised before the European majors in our portfolio can get validated by the organisation. We do recognise that some companies may struggle to meet SBTi criteria, often due to data quality issues and there we look for the individual company to set and validate targets in other credible ways.

While a SBTi approved target is a useful signal of a company's commitment to tackle their emissions, it does not provide any guarantee of success given the uncertainty around how companies evolve and how the science and modelling evolves. SBTi does not monitor if companies are meeting their targets, so this is something that we as investors need to do. It is therefore important for us to continue engaging with all companies and applying pressure to keep to the targets they have set.

42%
No target set

58%
Target set

Source: SBTi (December 2024)

We hope we have demonstrated from the work in this section and our engagement work elsewhere in our report, that we take these issues with the utmost seriousness. We believe our companies can navigate these risks because 1) the vast majority accept the issues and are working towards solutions that will align them with global climate targets; 2) they have the financial wherewithal to make the transition in terms of balance sheet strength and cash flows; 3) their current valuations reflect an incredible pessimism about their ability to make the transition, this affords us the opportunity to invest in these companies, act as cheerleaders for their moves to a low carbon economy and make an attractive return for our investors. We are not for one moment complacent on these issues, and we continue to closely monitor our holdings. We monitor their financial strength, watching the risk/reward as indicated by their respective valuations.

**Figure 4: Top 10 contributors to portfolio emissions (scope 1 & scope 2)**

| Company | Contribution to portfolio exposure | Portfolio weight | Emissions | Carbon Risk Rating |
|---|---|---|---|---|
| International Consolidated Airlines Group SA | 31.3% | 3.4% | Strong | Medium performer |
| Shell Plc | 15.8% | 5.3% | Moderate | Medium performer |
| BP Plc | 13.7% | 4.9% | Strong | Medium performer |
| TotalEnergies SE | 8.0% | 3.2% | Strong | Medium performer |
| Anglo American plc | 7.5% | 3.3% | Strong | Medium performer |
| easyJEt Plc | 6.0% | 0.6% | Strong | Medium performer |
| Centrica plc | 4.1% | 3.2% | Strong | Medium performer |
| CK Hutchinson Holdings Limited | 4.0% | 1.4% | Moderate | Medium performer |
| Marks & Spencer GRoup Plc | 1.8% | 6.0% | Strong | Outperformer |
| Stellantis NV | 1.4% | 2.6% | Strong | Medium performer |
| **Total for top 10** | **93.6%** | **33.9%** | | |

**Figure 5: Top 10 emission intense companies ($tCO_2e$ scope 1 & scope 2 / revenue mil)**

| Company | Emission Intensity | Peer Group Average Intensity |
|---|---|---|
| International Consolidated Airlines Group SA | 1,002.9 | 1,150.3 |
| easyJet Plc | 921.1 | 1,150.3 |
| Barrick Gold Corporation | 694.7 | 437.0 |
| Anglo American plc | 506.9 | 736.5 |
| Shell Plc | 366.6 | 735.6 |
| CK Hutchison Holdings Limited | 321.9 | 480.8 |
| TotalEnergies SE | 278.2 | 735.6 |
| BP Plc | 197.6 | 735.6 |
| Molson Coors Beverage Company | 92.3 | 86.0 |
| Centrica plc | 63.6 | 4,130.3 |

Source: ISS ESG (December 2024)

*The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.*



# Human rights

Last year we spoke about the development in our approach to human rights risks within our investment process. This development was underpinned by Redwheel hiring Jeccica Wan to be the Social Lead within Greenwheel. Greenwheel, our internal sustainability research team, has since developed a Responsible Mining Framework for Investors. The Framework captures the key actions for businesses to adopt across the mining lifecycle, from exploration to closure and reclamation. It identifies practical actions and objectives on what "good" looks like and to inform engagements.

Greenwheel developed the Framework for investors by incorporating insights from the OECD Guidelines, IFC Performance Standards, International Council for Mining and Metals, the Initiative for Responsible Mining Assurance, and other voluntary guidelines. This framework outlines essential actions for companies to responsibly address 17 operational, social, and environmental issues:

Operational issues: revenue and payments transparency, operating in high-risk or conflict contexts, emergency preparedness and response, planning and financing reclamation and closure

Social issues: labour rights, community rights, community benefits, resettlement, security arrangements, artisanal and small-scale mining, cultural heritage

Environmental issues: waste and materials management, water management, air quality, noise and vibration, greenhouse gas emissions, and biodiversity

Having such a tool, allows us to more effectively assess the mining companies in which we invest, it also supports a richer, better structured engagement with company management. It is particularly useful where companies operate in challenging jurisdiction, for example Barrick Gold, which we write about later in this report.

We believe that the mining sector can offer investors attractive returns. Continued global economic growth, driven mainly by emerging economies, creates the demand for metals and minerals, which are fundamental to modern life. While recycling of metals is increasing and scarcity drives substitution for some materials, neither will be enough to satisfy expected demand growth. There is also the demand for specific metals as we transition to a low carbon economy; copper being the most obvious but there are many more metals and minerals need to support the transition. Meanwhile. The rise in AI is driving demand for the six raw materials needed in semiconductors (arsenic, boron, gallium, germanium, phosphate, and silicon) and well as power requirements (copper). AI drives both demand and the potential to enhance mining operations themselves.

While the sector offers attractive investment opportunities, it comes with elevated risks and as we said last year, it is a sector that requires elevated trust in management and continual dialogue as the assessment of any of the material issues may change with time, events or with more information.

# Remuneration

Governance within UK companies is generally of a very high standard. This reflects the UK Corporate Governance Code and a long history of efforts to raise standards.

Remuneration is an area of extreme importance and active engagement for the team. In 2024 it ranked second as the most common topic for engagement with investee companies.

The engagements are more of a 'pull' than a 'push', with companies driving the number of engagements rather than shareholders. Company remuneration committee chairs are eager to engage and thus ensure that voting outcomes on remuneration policies and reports at the AGM are favourable. The remuneration policy is a binding vote, with policies typically renewed every three years. The resolution on the remuneration report is non-binding and happens annually.

Remuneration is not a simple topic. The challenge for both shareholders and company boards is to ensure companies can attract the best talent to run the respective business, while limiting unnecessary rent extraction. Unjustifiably high levels of pay leak value for shareholders, may cause disquiet among lesser paid employees, and even cause reputational problems among customers (where are the customers yachts!), while badly designed incentives schemes may encourage inappropriate risk-taking among executives. More broadly, increasing levels of pay ratchet up pay levels across industries.

A justification from remuneration committee chairs for higher levels of pay is often the difficulty they face in attracting talent in a global pool that is dominated by the US and the extremely generous pay packages available to US-based executives. We do have sympathy for this problem, but we are also wary of remuneration chairs being 'captured' by management and the notion that their job is to keep management happy.

Remuneration has also been mentioned as a factor in making the UK a less attractive location for companies to list. The Capital Markets Industry Taskforce (CMIT) was one such body to raise the challenge of remuneration. In response to the industry conversation, the revised Principles of Remuneration were published by the Investment Association (IA) in late 2024. The revised Principles signal a move towards greater flexibility in executive remuneration structuring, encouraging nuance and creativity in designing management incentive schemes. They emphasise greater engagement between Remuneration Committees and shareholders, highlighting the importance of considering proposals on a case-by-case basis and explaining any deviations from the guidance.

The revised Principles do not condemn excessive pay as clearly as the guidelines set in 2022. Instead, they emphasise analysing remuneration levels on a case-by-case basis to balance shareholder and executive expectations while attracting, retaining, and motivating talent to implement corporate strategy.



The basis for our approach is our 2016 investor letter, Reforming Capitalism, where we set out some of the issues we wished to focus on with regards to remuneration, in the context of capitalism working for all stakeholders in society. Our key objectives are to increase long-term thinking and encourage greater alignment of management to shareholder interests. These objectives also include a greater emphasis on other stakeholders.

The basis of a good corporate remuneration policy is a well constituted remuneration committee. This requires both the independence of the committee members and relevant experience in the field of remuneration. We are somewhat circumspect on remuneration consultants; the committee must retain control and ownership of the policy. The committee must guard against the ratcheting upward of compensation awards, balancing this with attracting and retaining talent. We are also highly sensitive to cross boarding, and how this may lead to increasing remuneration levels.

Where a policy has been adopted, we take a very dim view of subsequent 'exceptions' or alterations to fit circumstances. We may reflect such displeasure on subsequent votes regarding the remuneration report, remuneration policy or committee member re-election.

We encourage companies to set metrics that align with the overall strategy, reflecting appropriate financial metrics, in combination with non-financial metrics issues, specifically environment and social issues. The environmental objectives should be set to meet specific challenges within the industry of operation, while on social issues, relations with employees, customers, suppliers, and the community should be reflected as appropriate. A concern we have with the drive to incorporate ESG within remuneration plans, is the lack of stretching metrics and the often qualitative nature of the assessments, which allows for higher compensation without substantial progress on underlying sustainability issues.

Performance metrics should be stretching for executives and payouts for meeting threshold or target performance should be restrained. For illustration, a 20% payout of a 275% LTIP scheme for threshold performance, as is typical, is an award of 55% of salary, while a 50% payout for target performance is a payout of 138% of salary. Is this warranted for threshold or target performance? A remuneration committee should retain and employ discretion to ensure payouts are matched by the quality and sustainability of the underlying performance. Malus and clawback should have a wide interpretation and be formally accepted by management.

Executives should have significant 'skin in the game' and this should include purchasing shares from their own resources.

Remuneration is a complex area and challenging to get the right balance between the various objectives and agendas. Shareholders will invariably give conflicting feedback to remuneration committees. Where we have significant influence, we will engage with companies in the construction of the remuneration policy. Where we feel our shareholding is not as significant then we will share our own remuneration guidelines to make clear to companies what we expect.

We expect companies to supply us with a clear link between the remuneration policy and the long-term strategic objectives of the business. We also expect them to provide us with clear links between remuneration and sustainability issues that are relevant for their company. Should we fail to have a satisfactory response from the company, we may escalate via collaboration with other shareholders and voting against the remuneration policy. We may vote against the election of the remuneration chair and individual board directors where we do not support the remuneration report for a second consecutive year or there is a significant breach of the remuneration policy. We will also use our votes to display our displeasure where there is a failure to employ discretion, when appropriate.

We continue to develop our own policy, reflecting the industry conversation, along with the new IA Remuneration guidelines. Our central objective remains, however, ensuring that we protect shareholder interests and promoting long-termism, set in the context of sustainability for all stakeholders.

# Voting record

## Figure 6: Voting record history

| | | | | All proposals | | Management proposals | | Shareholder proposals | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Votable meetings | % Meetings voted | % Meetings with one of more votes against management | % of proposals voted with | %of proposals voted against/ abstentations | % of proposals voted with | %of proposals voted against/ abstentations | % of proposals voted with | %of proposals voted against/ abstentations | % Proposals voted against ISS policy | % significant votes |
| 2013 | 35 | 91.4% | 22.9% | 92.5% | 3.4% | 94.0% | 1.8% | 37.5% | 62.5% | 0.0% | 0.0% |
| 2014 | 42 | 95.2% | 28.6% | 92.7% | 3.8% | 94.4% | 2.0% | 45.8% | 54.2% | 0.0% | 0.0% |
| 2015 | 50 | 92.0% | 28.0% | 85.9% | 3.6% | 88.1% | 1.0% | 27.6% | 72.4% | 0.0% | 0.0% |
| 2016 | 46 | 93.5% | 47.8% | 81.6% | 8.6% | 83.0% | 6.7% | 48.5% | 51.5% | 4.7% | 4.7% |
| 2017 | 60 | 90.0% | 33.3% | 82.0% | 3.2% | 82.9% | 2.1% | 64.7% | 25.5% | 0.0% | 0.0% |
| 2018 | 67 | 97.0% | 32.8% | 94.9% | 2.9% | 95.9% | 1.8% | 42.9% | 57.1% | 0.0% | 0.0% |
| 2019 | 56 | 96.4% | 28.6% | 92.8% | 2.8% | 94.0% | 1.6% | 44.0% | 52.0% | 0.2% | 0.1% |
| 2020 | 64 | 93.8% | 40.6% | 90.5% | 3.6% | 91.7% | 2.8% | 57.9% | 26.3% | 0.2% | 0.2% |
| 2021 | 46 | 97.8% | 15.2% | 94.7% | 2.0% | 95.5% | 1.2% | 50.0% | 50.0% | 0.9% | 0.9% |
| 2022 | 41 | 100.0% | 61.0% | 93.0% | 7.0% | 93.5% | 6.5% | 55.6% | 44.4% | 7.2% | 3.9% |
| 2023 | 37 | 100.0% | 40.5% | 96.2% | 3.8% | 96.5% | 3.5% | 81.3% | 18.8% | 5.1% | 3.0% |
| 2024 | 68 | 94.1% | 42.6% | 89.9% | 6.0% | 90.8% | 5.5% | 56.3% | 28.1% | 5.0% | 2.5% |

Source: Redwheel (December 2024)

In 2024, we had 68 votable meetings and voted on 94% of those meetings. Of the 1,227 management proposals, we voted with management 91% of the time, and against 6% of the time.

Of the 27 shareholder proposals, we voted for 41% of proposals, against 52% of proposals, and abstained 7%. The abstentions were mainly related to Petrobras and were for tactical reasons. The company employs cumulative voting for directors. In 2024, ten candidates vied for eight board seats, eight of which were management candidates. By abstaining, we could concentrate our votes on the two minority shareholder candidates. Another abstention related to where a company withdrew a board candidate.

We did not support a shareholder resolution regarding climate change targets for bp, nor a shareholder resolution for Shell to align its 2030 target for reducing scope 3 GHG emissions (i.e. those arising from use of its energy products) with



the goal of the Paris Climate Agreement. While for our UK Climate Engagement Strategy we did vote against Shell's climate transition plan, for lack of ambition, which we felt was more likely to be consistent with the expectations of the investors in the strategy.

We do not feel obliged, nor do we believe it would be appropriate, to have a policy of blanket support for shareholder proposals. Some proposals may be poorly formulated, have unintended consequences or impede engagements.

A decision as to which way to vote on a resolution may rely on an engagement with a company, which helps supplement our own analysis. For example, we engaged with both BP and Shell on their respective remuneration reports. In this case, we voted against the BP Remuneration Report as we felt there had been insufficient adjustment to account for the windfall gain to executives. We also voted against the Shell Remuneration Report due a lack of meaningful adjustment to the new CEO's salary and the full marks received for safety despite there being two fatalities.

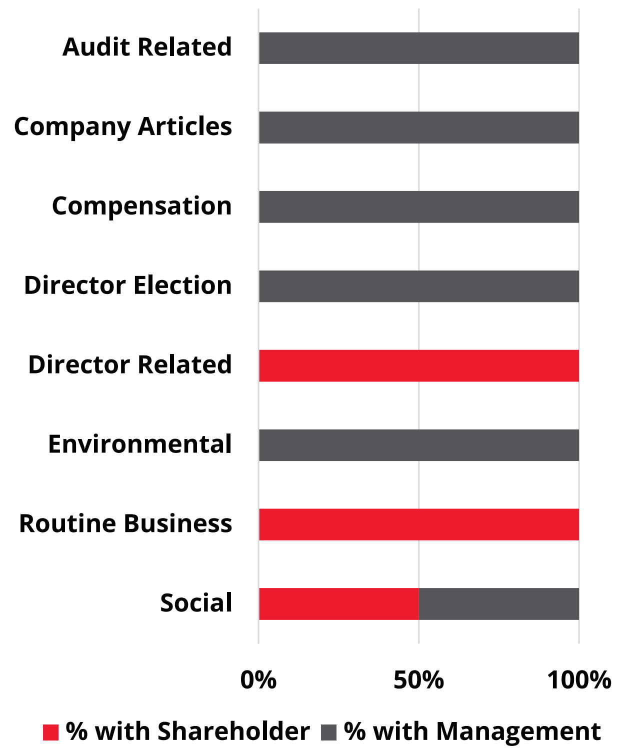
Where we vote against management recommendation, we will generally communicate our position to company, and where asked, we will provide feedback to the company. For example, ahead of Serco's AGM in 2024 we wrote to the Remuneration Committee Chair explaining that we would be unable to support the refreshed Remuneration Policy as the post-shareholding requirement was not in-line with The Investment Association recommendation of 100% of the in-employment guideline for two years.

Engagements with a company can also help us improve our decision making. For example, in 2022 we voted against HP's chair due to concerns of overboarding. However, following an engagement with HP's chair we changed our assessment and voted 'for' in 2023. We assessed that he is doing a good job and is a sensible influence on strategy and management, and the relationship gives us a means of communicating with the board, which we might jeopardise with a new chairman.

## Figure 7: % of votes cast on management proposals by category


Source: Redwheel / ISS (December 2024)

## Figure 8: % of votes cast on shareholder proposals by category




Source: Redwheel / ISS (December 2024)

# Engagement

## Engagement record

Engagement is of great importance in understanding and communicating with our investee companies. With a long-term investment horizon and a concentrated portfolio, we can build meaningful engagements. The engagement process is led and carried out by the portfolio managers. Engagements are an extension of monitoring, and it is important to add that we feel management time should be protected from excessive demands from shareholders, so we will typically focus on annual meetings with senior management where a company is operating as expected.

Engagements will be determined by the size of the exposure within the portfolio and the materiality of the identified risk, including ESG risks. We will draw from experience in assessing materiality risks, plus we draw from both the company's own materiality assessment and independent assessments on a sector basis, such as the SASB Materiality Map. Please refer to our Team ESG Policy for more detail on how we prioritise engagements.

The number of engagements we have with companies continues to increase. The trend is driven by our desire to understand sustainability risks better, and companies wishing to explain their sustainability plans to us. It is also driven by the launch of our climate engagement strategies, UK Climate Engagement (launched February 2023) and Global Climate Engagement (launched April 2024). In 2024 had 42 separate engagements, with 32 separate entities.

We engaged with management 86% of the time, and 14% of the time at the board level. We will engage with the board when there are question marks over strategy, when there are issues around governance and remuneration, or on succession. Additionally, we may engage with the board on sustainability issues where we perceive the management team is not engaging sufficiently on the matter, or we wish to apply greater pressure on specific topics such as emission reduction targets.

The climate engagement strategies have benefitted all strategies in terms of enhancing the familiarity and understanding of climate issues in general, and in terms of engaging with individual companies.

**Figure 9: Company engagements by category**

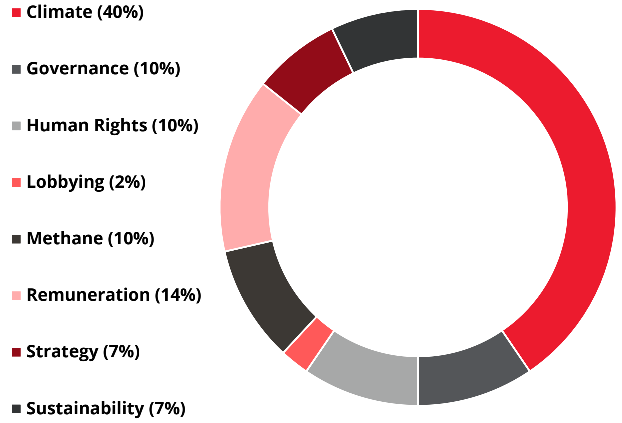
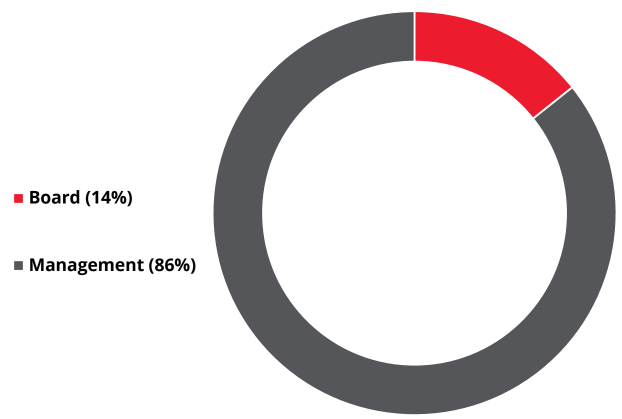



**Figure 10: Company engagements by stakeholder type**




Source: Redwheel (December 2024)



# Engagement examples

## Climate – Anglo American

**Reason for engagement**

Anglo American is a multi-national mining company and is a major producer of platinum, diamonds, copper, nickel, iron-ore and steelmaking coal. Due to the nature of their business, Anglo American has been identified as one of the world's largest GHG emitters by the Climate Action 100+ (CA100+) investor coalition. Anglo American are targeting net zero in Scope 1 and Scope 2 emissions by 2040, and a 50% reduction in Scope 3 emissions by 2040 (against a 2020 baseline).

**Outcome**

In 2023 we held an extensive engagement with Anglo American where we presented our assessment of their transition plan, the detail of an external assessment of Anglo American's transition plan we commissioned, and why these issues matter in the context of current investment industry trends. In 2024, Redwheel were invited to become co-leads on the CA100+ Anglo American Collaboration, joining the Church of England and Robeco, the existing co-leads. Redwheel accepted the invitation.

A focus for the CA100+ Collaboration was the company's methane emissions, arising from its steelmaking coal assets. Following the takeover approach from BHP, and the company's subsequent announcement that they had sold the assets to Peabody Energy, the methane engagement ceased. We met with the other co-leads to discuss how best to proceed with engagements over the coming year. Considerations included thoughts on whether the company will hold a climate vote in 2025 and how to remain in communication with the firm to help shape the company's updated climate transition plan, post the restructure.

While progress will be slow this year, as the company's divestment process (PGMs, nickel and diamonds) will take time, we intend to remain in close contact with the company.

## Governance - Barclays

**Reason for engagement**

Following our extensive engagement with Barclays between 2021 and 2023 on their climate transition plan, we now have regular meetings with the chairman, management and the sustainability team.

**Outcome**

Ahead of the 2024 Barclays AGM, we held a meeting with Barclays Chairman to discuss corporate governance and strategy. On governance we discussed board members who have a long tenure. Typically, we would see nine years as the limit for independence of a board member, however, we will still vote for directors with a tenure longer than nine years where a company are able to provide a sufficient explanation as to why they still see the board member as independent or important. It was noted one board member, who has served on Barclays board for 11 years, continued to bring significant value to Board discussions, particularly given their breadth of financial services sector experience and deep knowledge of risk and regulatory issues, and that it remains appropriate for them to continue to serve on the Board in the short-term.

Separately, we spoke about strategy, the developing climate transition plan, board performance, and external commitments of board members.

## Human Rights – Barrick Gold

**Reason for engagement**

Barrick Gold is a Canadian based mining company. The company has a troubled history. When it merged with Randgold in early 2019, several of Barrick's mines were not operating due to controversy. Two particularly troubled mines included Porgera in Papua New Guinea and North Mara in Tanzania. Randgold had a much better operational reputation and their management team, led by CEO Mark Bristow and CFO Graham Shuttleworth, took control at the merged company, Barrick's John Thornton remained as Executive Chairman. In 2023 we held an in-depth engagement with Barrick Gold on their legacy human rights issues including meeting with the Barrick Gold's Head of Sustainability, their CEO, and introducing one of our investors to Barrick Gold so that they could have their own engagement on the issue. This engagement continued in 2024.

### Outcome

We wrote two letters to Barrick Gold. One was to the CEO, highlighting their engagement on human rights, and the second, co-signed by Redwheel's investor, contained specific recommendations for consideration by the Barrick board and management regarding two troubled mines and their legacy human rights issues. This was followed by a call with Barrick to go through these recommendations.

Later in the year, Barrick Gold released an updated Sustainability Report and with the help of Greenwheel, Redwheel's in-house sustainability research team, we reviewed this document in detail to see how the company had responded in its disclosures, building on the conversations that had taken place with them them over the last year. We were impressed with the amount of work Barrick Gold had done, with much of it surpassing our expectations. Barrick Gold commented back to us that they have "never seen this type of research into their reports and really appreciate the feedback".

Through our in-depth work and engagements with Barrick Gold, we concluded that the company is a good actor and that these troubled assets are better under their management, rather than another probable owner. While no company in the sector will ever be free of human rights risk exposure, we believe it is worth supporting good mining companies, but it is of utmost importance that these companies have the proper processes and procedures in place to mitigate the inherent risks. By demonstrating their strong processes to human rights, by addressing legacy issues, we believe the company can build better local relations with host communities and host governments, reducing the risks of fines, shutdowns, expropriation or increased taxes. It can also enhance its reputation with investors and other stakeholders and this, too, is supportive of value creation.

## Climate – BP

### Reason for engagement

Bp is a global energy company. It has been identified as one of the largest greenhouse gas emitters by the Climate Action 100+ investor coalition. Bp have set out five aims to get to net zero alongside five aims to help the world to get to net zero. In the interim, they have a target to reduce scope 1 & 2 emissions by 50% by 30%, and scope 3 emissions by 20-30% by 2030.

The team attended a bp hosted presentation and discussion on the energy outlook. This led to an email exchange with bp's investor relations team regarding a Reuters article claiming that BP had abandoned their goal to cut oil output and reset their strategy. Bp noted that the article in question represented speculation only, and at that time they had not made any external statement on the article. On the back of the email exchange, we were offered the chance to take part in a meeting with bp's Chairman and Senior Independent Director (SID).

### Outcome

The meeting with the Chairman covered company strategy, the energy transition and governance. It was noted by the Chairman that the energy transition is playing out in a different way than they had expected, driven by conflicts shifting energy security up the priority list and the changing cost of capital.

Post the meeting we followed up with the Chairman and SID on email to reiterate the points we had made including where we saw weaknesses in bp's current positioning and the need to give investors clear messaging on strategy especially heading into bp's strategy update in February 2025.

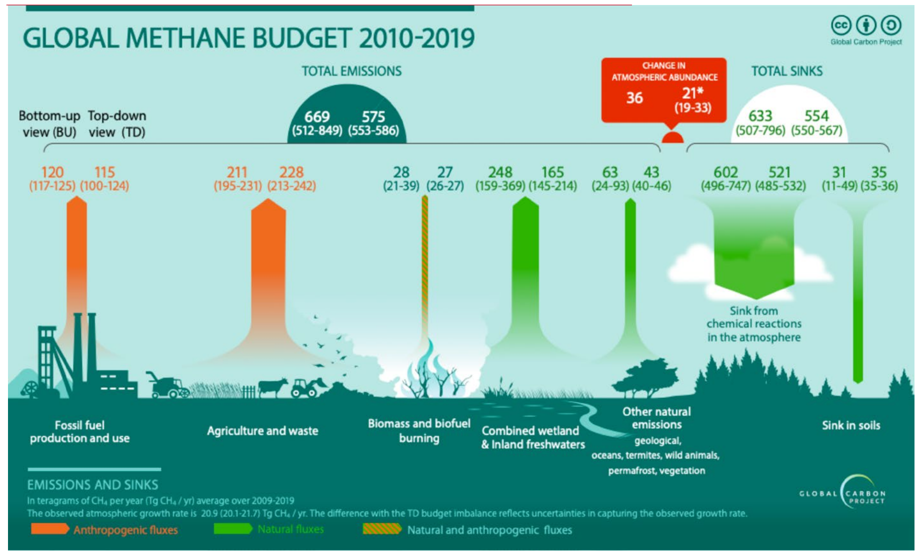


## Methane - BP, Shell, TotalEnergies

### Facts about methane:

- Methane is the main constituent of natural gas (typically making up 70% to 90%), it is odorless and colorless and virtually invisible to naked eye
- The smell we get when we turn on the cooker, the one of rotten eggs, is usually a chemical called mercaptan added by gas companies for safety reasons
- Emissions arising from human activity account for 60% of emissions, the rest come from nature.
- Agriculture is the largest source of human generated methane emissions (40%), followed by the energy sector (37%) and waste (20%)
- Biogenic methane emissions arise naturally (wetlands, permafrost soils and wild animals) and anthropogenically from agriculture (rice paddies and ruminants) and waste (landfills and sewage)
- Methane in agriculture primarily comes from enteric fermentation in livestock and manure management, which are biological processes that are harder to control compared to industrial emissions, such as in oil and gas
- Methane can leak at various points in the oil & gas supply chain. The main sources include faulty equipment, or equipment designed to release natural gas to regulate temperature or pressure (pneumatic devices represent the largest source of emissions). There is often so little gas produced from oil wells, called associated gas, that it is not economically feasible to use the gas, by selling it or using in operations, so instead it is vented or flared.
- Coal mining is second to oil in contributing methane emissions. Open-cut mining presents the greatest challenge in reducing emissions, as compared to underground mines.
- Methane emissions in US could be underestimated by oil & gas companies by 60%
- Satellite data helps improve measurement (they use backscattering which is a technique used to measure methane by analyzing sunlight that is reflected back from the Earth's surface into a spectrometer, the gases leave a distinctive fingerprint on the light, this is in turn is adjusted for the amount of methane). Cloud cover and offshore are reasons why the satellites sometimes struggle. Companies are working to fix these problems. But a big improvement on the previous way methane was calculated.
- Flaring and venting are controlled processes to dispose of gas, essential for emergency and safety purposes and in situations where it may not be feasible for the gas to be used, exported or re-injected. Flaring is the ignition of gas, and venting is the release of unignited gas. Flaring rather than venting is considered better as it converts methane into the less potent CO2.
- The Oil & Gas Methane Partnership 2.0 (OGMP 2.0) is a framework for reporting and measuring methane emissions from the oil and gas industry. Members account for up 42% of the world's oil and gas production, but important names missing from list of companies.

**Figure 11: Global Carbon Project**




Global Methane Budget,
Global Carbon Project (September 2024)

**Reason for engagement**

Methane is the second-largest contributor to global warming after carbon dioxide, responsible for c. 0.6 °C of warming versus 1750, This is c. 30% of all warming contributions. The global warming potential (GWP) for methane in the IPCC Fifth Assessment Report (AR5) was 28 for a 100-year time horizon, and 84 for a 20-year time horizon, illustrating how impactful methane is to global warming, especially in the short-term.

Methane emissions have received considerable attention of late, the Global Methane Pledge launched at COP26 has 159 counties committed to reduce global methane emissions by at least 30% from 2020 levels by 2030, while the IEA has call for a 75% reduction in methane emissions specifically from fossil fuel operations by 2030.

While our engagement on methane emissions with Anglo American, via CA100+, was discontinued due to the sale of the company's steelmaking coal assets, we continued to focus on the issues with our oil & gas sector holdings.

**Outcome**

We undertook thematic research in methane in the second half of 2024, engaged in depth with the energy companies and Dr Sam Cornish of Institutional Investors Group on Climate Change (IIGCC), who co-authored a report on methane. We found that these companies are making real progress in measuring their methane emissions accurately and reducing those emissions.

Bp has a target to reduce methane intensity by 50% and an intensity level of its marketed gas to less than 0.2% by 2025; their 2023 performance was an intensity of 0.05%. Bp completed a deployment of their methane measurement approach across their operated upstream oil and gas assets, this will give them access to higher quality data helping them meet their targets. Bp displayed significant absolute methane declines and intensity declines between 2020 and 2022 with the main drivers being divestment and abatement activity.

Shell noted they place a high priority on combatting methane emissions, with a target to maintain methane emissions intensity below 0.2% for operated oil and gas assets (including liquefied natural gas) and to reach near-zero methane emissions by 2030; in 2023 they achieved this with methane emissions intensity at 0.05%. Shell highlighted that improvements to reduce emissions from combustion, venting, flaring, and processes, as well as fugitive leaks, have all played their part in the methane reduction achieved thus far, while some reductions were also achieved through implementing more accurate methods for calculating emissions, or from divestments and operations that reached end-of-life. By the end of 2023, all material Shell operated oil, gas and liquified natural gas production facilities are using robust leak detection and repair programmes to tackle leaks and monitor equipment.

TotalEnergies has already reduced its operated methane emissions by more than 60% since 2015 and has a target for near-zero methane operated emissions by 2030. TotalEnergies highlighted this performance has been driven by flaring and venting reduction, alongside real-time methane emissions detection equipment on all its operated upstream assets.

BP, Shell and TotalEnergies have all endorsed the World Bank's Zero Routine Flaring by 2030 initiative, which seeks to end a practice that emits more than 300 million metric tons of CO2 a year. The key priority now, is for the Majors to use their influence to drive methane reductions in their non-operated assets, specifically those joint venture assets operated by national oil companies where the emissions performance is very poor.

## Climate – Centrica

**Reason for engagement**

Centrica's current transition plan (published in 2022) was a big development on its previous position. However, there is further work to do to ensure the company is managing the transition risk, to reduce its large carbon footprint and be recognised for this by the market.

We have been involved in a multi-year engagement with Centrica which started in 2022, when we shared with Centrica our in-depth analysis of where we see the company has come from and where they are now. The engagement continued in 2023 and 2024. In addition, Redwheel act as a co-lead on the Climate Action 100+ Centrica collaboration.



**Outcome**

In 2024, as part of the Climate Action 100+ Centrica collaboration, we took part in three workshops with Centrica's Environment Strategy Team where they took a deep dive into assessing emission disclosures, alignment benchmarks and decarbonisation strategies.

We met with Centrica's Chairman where his succession, political developments in the UK and the company's strategy were discussed. In addition, we highlighted the very positive and constructive collaboration with Centrica's management team over the last two years. This was followed by a letter to the Chairman written on behalf of Climate Action 100+ which identified opportunities for Centrica to address areas of weakness in their next climate transition plan.

Later in the year, we met with Centrica's new in-coming Chairman, the Chair of the Safety, Environment and Sustainability Committee and Head of Environment, as part of our position as a co-lead on the Climate Action 100+ Centrica Collaboration. Separately, a call was held with the new Chairman for a wider discussion on company strategy.

Through our long running engagement with Centrica, we believe we have been a force for the company to engage more deeply in the transition, through building internal resource and improving both board and management knowledge on the energy transition. This means they are better equipped to deal with the challenges of the transition and can deliver a clearer message to shareholders. This is supportive of value creation for shareholders. The engagement and collaboration will continue in 2025.

## Honda

**Reason for engagement**

Honda is a manufacturer of automobiles, motorcycles, and power equipment. It is the world's seventh largest automaker based on revenue. The transport sector is a major polluter, in 2022 it produced more than 7bn metric tons of carbon dioxide. Passenger cars were the biggest source of those emissions. Therefore, a company like Honda has a large transition risk with the shift to electric vehicles.

We engaged with the company at the end of 2023 and had a very useful conversation with the head of IR. During that engagement, we encouraged the company host an ESG presentation/webinar to better convey their plans and ambitions to investors as we felt communication was a weakness versus other global companies.

**Outcome**

This suggestion was taken seriously, and in March 2024, we took part in Honda's maiden ESG webinar. Post the webinar we were thanked by Honda's head of investor relations for serving as the catalyst for Honda hosting an ESG webinar.

One new request made was for Honda to clearly describe and illustrate the levers of decarbonisation to meet their -46% GHG emissions by 2030 target. This was well received, and examples were shared with Honda of how other corporates present this data. We also raised the issue of lobbying and advocacy and their weak score on LobbyMap.

By conveying their plans to the market, we believe it will enhance Honda's brand and reputation; it will help them improve on various sustainability rankings as their work is more widely recognised; and it allows them to get feedback from investors to further improve disclosures or the way they present the data.

The engagement also led to an invitation for a face-to-face meeting with Honda's President and CEO along with several other members of Honda's executive team at our offices in London and shows how we can contribute to positive change on a global level.

## Climate/Governance – HP Inc

**Reason for engagement**

We were approached by HP to speak directly with members of their Board of Directors, including the Chairman of the Board, on governance and sustainability matters. This is the second year in a row we have done this. While HP are a tech company, they are still classified as carbon intensive due to scope 3 emissions coming from manufacturing and use of their hardware products.

**Outcome**

The engagement with HP was wide ranging, from refreshing board members to the impact of artificial intelligence on human rights. HP's previous CFO stepped down in December 2023 which had not been expected; we took time to understand the reasons behind the move and what succession plans HP have in place.

Separately, we met with HP's CEO and other senior management. The meeting was an update on company's strategy, however, during the meeting we also began an engagement on HP's scope 3 emissions, and particularly the reasoning behind the restatement of HP's Scope 3 emissions baseline.

We picked up on this issue through comparing HP's 2023 Sustainable Impact Report to the 2022 where we saw a restatement of the baseline data. We often see restatements, particularly for Scope 3 data, however, given the change was a 17% reduction, it was the magnitude of the change that caught our eye.

HP noted that the restatement of their FY19-22 baseline is the result of improvements in the methodology used for carbon footprint assessments. Updates were made across all categories to improve the accuracy of their greenhouse gas emissions (GHG) reporting.

HP also noted that in terms of independent verification, they have engaged Ernst & Young for the past ten years to perform an independent review of selected key performance indicators in their Sustainable Impact Report, including Scope 1 – 3 emissions data. We were able to sense check the changes by discussing the issue with the Greenwheel team.

## Climate – Shell

Reason for engagement

Shell is a global energy company. It has been identified as one of the largest greenhouse gas emitters by the Climate Action 100+ investor coalition. Shell is committed to reducing their Scope 1 and Scope 2 emissions by 50% by 2030 and 100% by 2050. They also have targets to reduce net carbon intensity by 20% by 2030 and 100% by 2050.

**Outcome**

We held a meeting with Shell's Downstream, Renewables and Energy Solutions Director, who is responsible for Shell's marketing, biofuels, refining & chemicals, crude/ product trading and renewables activities.

The discussion was wide ranging, covering topics including biofuel molecules, refinery overcapacity in Europe and the US and LNG. On LNG, Shell noted that they believe demand for LNG from China will be significant, and it will allow the Chinese economy to balance renewables and move away from the heavily polluting coal. The narrative of LNG replacing coal is one that has been adopted by many companies with LNG portfolios. The switch from coal to LNG can be very impactful in terms of reducing emissions, particularly where the ability for emerging countries to develop enough renewable generation to meet increasing electricity demand and replace coal, is most challenging. However, LNG must not become a hindrance to the switch from fossil fuels to renewables. With this in mind, we seek clearer links to the underlying switch out of coal and we have spoken to companies about lobbying activity in emerging markets, lobbying for LNG must not be at the expense of renewable development.

Separately, we met with Australasian Centre for Corporate Responsibility (ACCR), a shareholder advocacy and research organisation, who shared with us their transition analysis for bp and Shell. Discussion and collaboration with other interested parties is a useful exercise for helping us to further our knowledge in the area and improve our own engagements.



## Safety – Shell

**Reason for engagement**

In 2023, we had engaged with Shell regarding remuneration and how safety is integrated into remuneration outcomes. We communicated to Shell our concerns regarding their deteriorating safety record and questioned why no adjustment had been made due to fatalities. At the 2023 AGM, we voted against the Shell Remuneration Report due to full marks being received for safety despite there being two fatalities.

Ahead of the 2024 AGM, we were approached by Shell to review their latest Remuneration Report and take part in a group meeting with the Chair of their Remuneration Committee.

**Outcome**

In the meeting, it was noted that Shell Remuneration Committee reviewed its approach to considering fatalities and has now adopted a discretionary framework which takes account of multiple reflection points including the circumstances, systemic issue, wider safety context and safety events outside the reporting framework. In 2023, sadly four Shell contractors lost their lives. In Shell's latest Remuneration Report, it was noted that the company had utilised the new framework to apply a downward adjustment to the final 2023 pay outcome.

We welcomed the development in their framework, but we also continue to make the point to the company that various safety metrics are trending in the wrong direction, and these are not captured in the remuneration safety metric.

## Climate – Multiple Companies

**Reason for engagement**

The transition to a low carbon economy, necessitated by global warming, is one of the most important non-financial company risks faced by companies held in the Fund. Following publication of annual sustainability, climate and ESG reports, we reviewed emission disclosures, targets and performance of portfolio companies. This review reveals whether companies are on track with their stated targets and highlights any changes to those targets or emission discrepancies. We believe this is an important task that is overlooked by many investors. For example, while many companies have SBTi validated targets, SBTi do not track performance against targets. Furthermore, aggregators of emissions data do so with a large lag, data produced in early 2024 pertaining to emissions in 2022. This lag makes performance assessment and subsequent engagements with the companies more challenging, hence we clean the data on desk to the most recently available company published emissions. This process throws up discrepancies and areas where we can engage with companies in order for them to improve disclosures, clarify targets or correct any errors.

**Outcome**

Based on the review outlined above, we held less-intensive engagements with many portfolio companies through video calls or email communication with their respective sustainability teams. In each case we looked to engage with these companies to clarify data or targets and ambitions.

As long-term holders, it is useful to have continued dialogue on climate targets. It helps us encourage companies to take advantage of the opportunities that could emerge from the climate transition.

## Remuneration – Multiple Companies

**Reason for engagement**

In the UK, a company's remuneration policy is subject to a binding vote at least every three years, while annually there is advisory vote on a remuneration report for the financial year being reported on.

**Outcome**

We have engaged with several of our investee companies on remuneration policy refreshes and remuneration policy implementation ahead of their respective AGMs in 2025. Companies will often approach large shareholders during a consultation phase to get investor feedback and opinion while developing new policies.

One issue that we have frequently seen is companies wanting to increase the maximum remuneration level available to executives. A justification from remuneration committee chairs for higher levels of pay is often the difficulty they face in attracting talent in a global pool that is dominated by the US and the extremely generous pay packages available to US based executives. We do have sympathy for this problem, but we are also wary of remuneration chairs being 'captured' by management and the notion that their job is to keep management happy.

We have developed our own remuneration guidance which we will share with our investee companies as we see the subject as one of the key areas to get right within corporate governance. It is vital in ensuring alignment of interests between shareholders and management and countering the agency problem, incentivising management well, while minimising extraction of rents, and ultimately ensuring we fulfil our role as stewards of our clients' capital. We align our remuneration policy to best practice, following the guidelines of the Investment Association. However, we wish to emphasise certain aspects, and, in some areas, we seek to push for greater alignment with shareholders and higher standards.

## Overboarding – Currys, Direct Line, Marks & Spencer, and NatWest

**Reason for engagement**

Over boarding is one of the key aspects we look at in determining our position on the re-election of directors. Whilst we reflect on the recommendations from ISS, we ultimately make our own judgement. Unlike ISS, we will consider commitments to private companies and non-profit organisations, this framework has been built on our experience and how we see directors distracted or having limited capacity to engage fully in strategic thinking or to commit greater time when a company experiences more challenging periods.

**Outcome**

Ahead of their respective AGMs, we engaged with Currys, Direct Line, Marks & Spencer, and NatWest to raise a concern of potential overboarding against specific directors, confirm their external appointments, and check if there was any expected change in in external appointments.

In each case, our communication with the company helped to clarify our view as to the appropriate way to vote at their respective AGMs.



# Voting policy

We recognise our responsibility to actively exercise our voting rights. It is therefore our policy to vote all shares at all meetings, except where there are onerous restrictions, such as share-blocking (where we must surrender our right to dispose of the shares for a period). We do not lend stock.

As an independent investment team within Redwheel we set our own voting policy, however, we draw on the support of the central Redwheel Sustainability team in developing the policy. Our policy is to vote in the best interests of our clients and in line with the high standards of corporate governance as set out in the UK Corporate Governance Code 2018. Our voting is shaped by our fundamental research, by our engagements with our investee companies and by Institutional Shareholder Services (ISS), the proxy voting service. ISS follows best corporate governance practice in each market, based on local norms, codes, and regulations. In the UK, ISS policy is rooted in the voting guidelines of the Pensions and Lifetime Savings Association (PLSA) and follows the guidance provided by the Financial Reporting Council (FRC) in the UK Corporate Governance Code. The PLSA and the UK Governance Code 2018 set a high standard globally on governance matters, along with reference to the ICGN Global Governance Principles, we use these standards as a benchmark on votes outside the UK, and where appropriate we will override local ISS policy for the higher standard.

In 2022, the proxy recommendation the team moved to the ISS Climate Voting Policy. The move reflected our own evolving views on governance and climate risk. We will, however, diverge from the recommendations when our own research or engagements leads us to an alternative view on what is in the best interests of our clients.

**Focus areas**

We will continue to develop our voting policy to ensure we lever this very important and influential shareholder tool to improve outcomes. We will use our position to cast votes on behalf of our investors to support policies that we believe improve corporate social responsibility and support value creation for the firm, many which were set out in our investor letter, Reforming Capitalism, in 2016. These include; 1) improving professionalism of non-executive directors, 2) including employees on company boards, 3) reforming pay and promoting greater 'skin in the game' for management, 4) ending quarterly reporting, 5) encouraging more responsible ownership. Some are more immediately attainable than others.

On remuneration we have set out a clear guidance as described in the Remuneration section of this report.

We subscribe to the UK Governance Code on board composition (principle 3) "appointments… should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths."

Diversity offers a defence against 'group think' and improves a board's ability to manage the many opportunities and challenges it will face through a range of experiences, skill sets and backgrounds. We believe the board should be regularly refreshed to benefit from new skills and views. Diversity is also an increasingly important subject for customers and employees, which company management needs to consider, while companies are also facing criticism and outright opposition on DEI issues in several US states.

In addition to composition, we review the election of directors in the context of external commitments, we wish to avoid non-executive directors being overextended with such commitments. While in the normal course of events a portfolio of directorships is perfectly manageable, in a crisis the demands placed on NEDs may increase substantially and we need to see this reflected in board members' obligations. ISS recommends no more than five public company board directorships for an individual, a Chair position counting as two mandates and an executive director counting as three. However, this recommendation fails to account for non-public board memberships or other commitments, nor does it account for how demanding individual company situations may be. As value managers, many of our companies are going through intensive transitions and require a deeper level of commitment than normal. Therefore, we take a more hard-line stance on over boarding by directors. Should a board member be over committed we may communicate this via the Chair or Senior Independent Director and vote accordingly at the AGM.

**Shareholder proposals**

We may support shareholder proposals (a proposal put forth at the AGM, sponsored by one of the company's shareholders or a group of shareholders) linked to our focus areas, or which aim to raise the standards of corporate governance in other ways. We will also support proposals where we are aligned and where management is not engaging on the specific issue. Where management is responding to shareholder pressure in a constructive manner, we will allow them the flexibility to find the best and most appropriate resolution of an issue, rather than tying their hands through shareholder proposals.

We typically support proposals that seek greater disclosure. For example, we dislike companies making political donations and with both political donations and lobbying we will support disclosure proposals from other shareholders. We accept some lobbying is necessary to educate and represent industry to those making laws and regulations pertaining to the industry. However, we monitor companies' memberships of trade associations and non-profit organisations for alignment to the stated principles and policies of a company.

We caution investors seeking blanket support for shareholder proposals. Some proposals may be poorly formulated and have unintended consequences. There are also examples of shareholder proposals countering the spirit of greater diversity and inclusion. An example was a shareholder proposal at Walt Disney Co (Workplace Non-Discrimination Audit link), which worked against efforts to foster a diverse and inclusive workforce.



# Redwheel Climate Engagement Strategies

We launched two climate engagement strategies in the last two years, the **Redwheel UK Climate Engagement Strategy** launched in 2023, and the **Redwheel Global Climate Engagement Strategy** launched in 2024. The launch of these strategies was a natural evolution from the climate engagement work we were doing within our existing funds. The traditional mandate, focusing on risk and return, limited what might be pursued on decarbonisation. The new strategies include a climate engagement aim as follows:

> "The climate aim, pursued through deep analysis, engagement, and collaboration, seeks to influence companies to improve on their transition plans and to accelerate those plans where appropriate."

This allows investors in these engagement strategies to further express their desire to pursue climate aims and with the experience of investing in and engaging with carbon intensive companies built up over many years, supported by the Greenwheel team, we believe we have a very compelling proposition for allocators.

We see three main opportunities offered through these strategies:

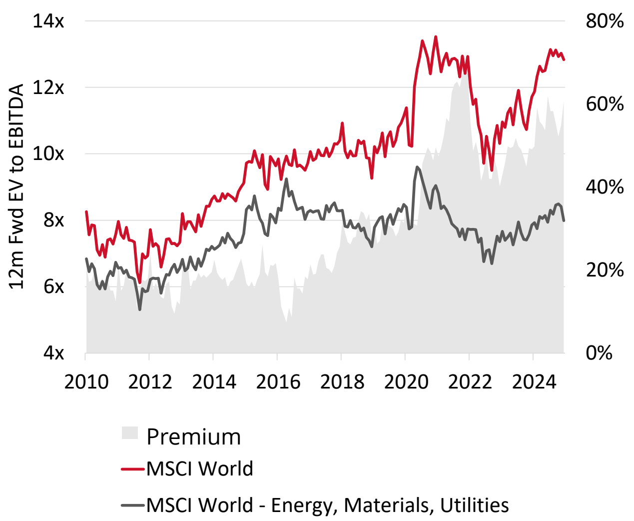
- The potential for attractive returns.
- An opportunity for diversification.
- A decarbonisation opportunity.

*No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.*

## The Return Opportunity

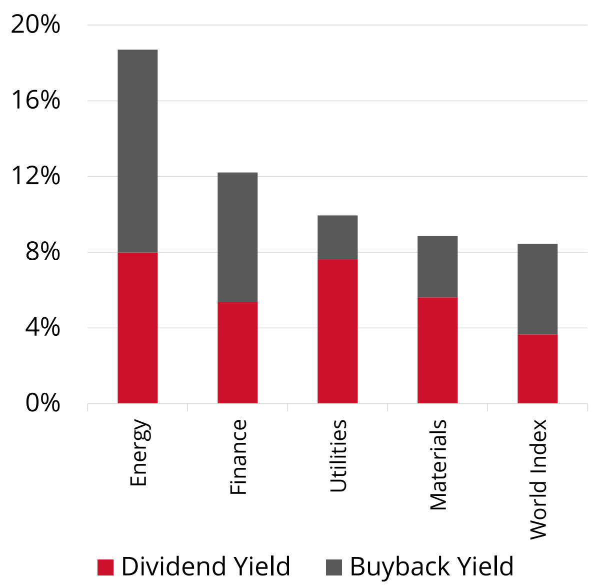
Valuations for carbon intensive sectors are depressed, with many stocks trading at significant discounts relative to their own history and relative to the broader market. This offers a very attractive entry point for investors.

**Figure 12: Carbon Intensive Sectors are Trading at Significant Discounts to the Wider Market**




Source: Bloomberg, 31 January 2010 to 31 December 2024

**Figure 13: Capital returns to Shareholder (2023-2024)**

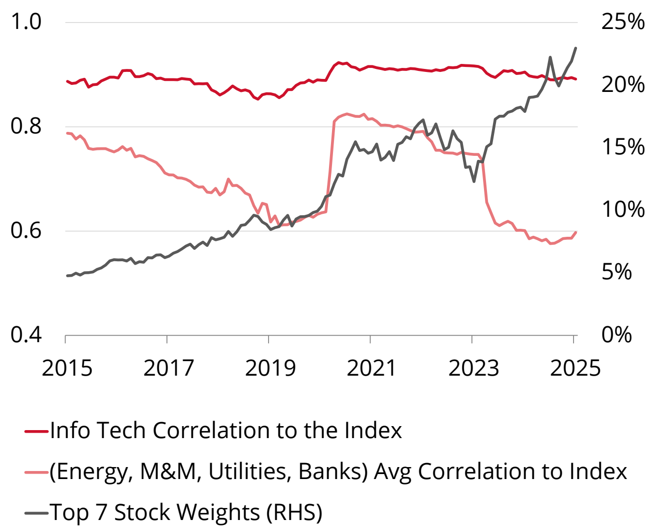



Source: Bloomberg, 01 January 2023 to 31 December 2024

## The Diversification Opportunity

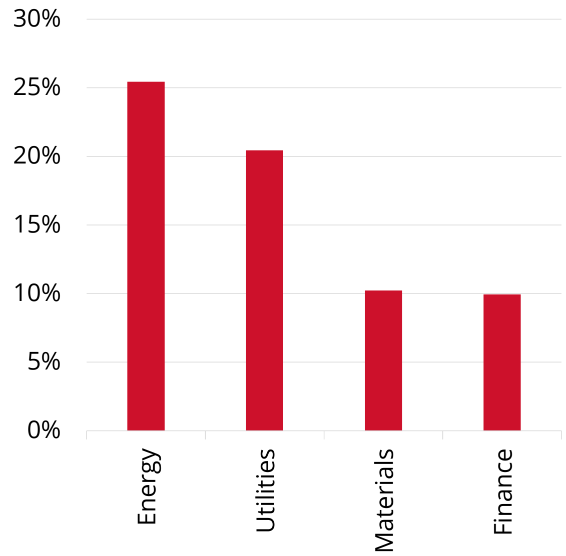
Meanwhile, the global equity markets are becoming more concentrated than ever, as illustrated by the increasing dominance of technology and internet related companies, with the top seven stocks alone accounting for more than 20% of the MSCI World Index. Portfolio diversification is becoming more challenging and at the same time, more important.

**Figure 14: Industry Correlations to MSCI World and Weight of Top 7 Stocks**




Source: Bloomberg, 31 December 2014 to 31 December 2024

**Figure 15: Energy, Utilities, Materials and Financials Outperformance on Tech Down Years (1994-2024)**




Source: Bloomberg, 01 January 2023 to 31 December 2024

*The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice. Past performance is not a guide to the future. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.*



## The Decarbonisation Opportunity

Corporations account for c.40% of total global GHG emissions.[1] Divesting these companies from an investment portfolio does not decarbonise the real world. Real world decarbonisation is achieved when the carbon intensive companies change their processes, products and supply chains in a manner that reduces GHG emissions. Climate concerned investors can have an influence on these companies by remaining invested and engaging for change.

The Team has deep experience of engagement with companies on climate, human rights, governance, and general business strategies. Notable company engagements include Anglo American, Barrick Gold, Barclays, BP, Centrica, TotalEnergies and Shell. John Teahan was recognised in 2023 by the Investor Forum for his engagement work with UK banks on climate issues and was recognised by the National Resource Forum in 2022, for his contribution to sustainability across the industry.

Greenwheel provides in-depth support for engagements, deepening the Team's understanding of sector decarbonisation pathways, providing a sounding board for developing ways to unlock decarbonisation roadblocks, while levelling the playing field and enhancing the quality of discussions with executives and directors who have deep industry knowledge.

To enhance the chances of successful engagements, the Team maintains a dialogue with fellow investors both informally and formally through investor networks. The Team are co-leads on two ClimateAction100+ Collaborations. They also maintain close contact with numerous non-profit organisations, sharing knowledge and ideas to support change.

We have much more supporting material, so please get in touch with our sales team should you be interested in further information.

1 Generation IM, 11 October 2021

# Commitment to our community and industry

In 2020, Redwheel reinitiated programmes on social, environment, and diversity which together are referred to as SEED. A SEED Steering Committee now has formal oversight of activities, with work in each area being driven by employee volunteers from right across the business.

S SOCIAL

E ENTERPRISE

E ENVIRONMENT

D DIVERSITY

At a team level we have sought to contribute to our local community. In 2019 we initiated an internship programme for secondary school students. The students are given two-week, paid internships and sit with the Value & Income Team, while also gaining exposure to other parts of the company. The students are selected from the Westminster Academy, a non-selective secondary school based in one of the most deprived areas of our borough.

Of the Academy's student population 77% do not have English as their first language (England secondary school average 17%), 58% are eligible for free school meals (England secondary school average 28%) and 23% of pupils receive SEN Support (England secondary school average 11%).

In July 2024, four students completed a two-week internship. This brings to 21 the total interns since the programme began, two-thirds have been female from ethnic backgrounds. While it is small in number, the feedback from the interns gives us a sense of the value of the programme to these students. We would love to share our experience and extend our support in helping set up similar internship programmes in other firms in the industry (please do contact us if interested).

As a team and as a firm we also support the Felix Project. This is a London-based food redistribution waste charity set up in 2016 to tackle the issue of food poverty in London and the waste generated by the food industry (restaurants, food retailers, food producers).

THE FELIX PROJECT

GOOD FOOD FOR GOOD CAUSES

Food retailers have set targets to reduce food waste as part of their sustainability commitments, for example Marks & Spencer (a portfolio holding) committing to "100% of edible surplus to be redistributed by 2025 and food waste reduced by 50% by 2030." Charities, like the Felix Project, have a huge role to play in helping to achieve a reduction in food waste, while alleviating food poverty on our doorstep. The charity redistributed almost 16,000 tonnes of food in 2024, 18% more than 2023, equating to 38 million meals. The Felix Project estimate that Redwheel's contributions over the last five years has enabled them to distribute at least half a million meals and meant that 210 tonnes of food has been saved from going to waste.

We endeavour to contribute to the betterment of the industry through participation in industry bodies. John Teahan volunteers for CFA UK, he is currently hosting the CFA UK Climate Change podcast series. He was recognised in 2023 by the Investor Forum for his engagement work with UK banks on climate issues and joined the board of the Investor Forum in 2024. John also Chairs the Redwheel SEED – Social Enterprise Group.



# Sustainalytics Data

We use Sustainalytics as our primary ESG ratings provider. In 2019 Sustainalytics transitioned to a new, risk-based, scoring system significantly improving their service and bolstering our internal research. The Sustainalytics ESG Risk Rating measures the degree to which a company's economic value is at risk driven by ESG factors.

3 companies are in the risk rating category Negligible, 13 are rated as Low Risk, 15 are rated as Medium Risk and 2 are rated as High Risk.

*This information is shown for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.*

**Figure 16: Sustainalytics ESG Risk Rating - Best and Worst Ranked**

| Company | Risk Score | Risk Category |
|---|---|---|
| Pearson PLC | 6.7 | Negligible |
| WP P PLC | 8.9 | Negligible |
| Kingfisher PLC | 9.6 | Negligible |
| ITV PLC | 10.2 | Low |
| HP Inc | 10.6 | Low |

| Company | Risk Score | Risk Category |
|---|---|---|
| Shell PLC | 38.1 | High |
| BP PLC | 33.2 | High |
| TotalEnergies SE | 29.9 | Medium |
| Barrick Gold Corp | 29.3 | Medium |
| CK Hutchison Holdings Ltd | 29.2 | Medium |

Source: Sustainalytics (December 2024)

## Sustainalytics ESG Risk Rating Methodology

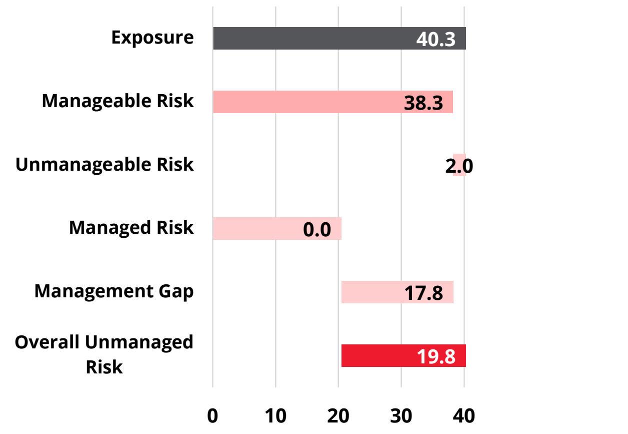
The ESG Risk Rating is a measure of a company's 'overall unmanaged risk' which is made up of unmanageable risks (risks that are inherent to a particular business model that cannot be managed by programmes or initiatives – such as product-related carbon risks for an oil company that arise from the burning of oil in the use phase), as well as risks that could be managed by a company through suitable initiatives, but which may not yet be managed (a management gap).

This ESG Risk Rating is made up of:

- Exposure. Reflects the degree to which a company's enterprise value is exposed to material ESG issues.
- Management. A measurement of a company's ability to manage it exposure to material ESG issues.

A lower ESG Risk Rating represents less unmanaged risk. Unmanaged risk is measured on an open-ended scale starting at zero (no risk) and, for 95% of cases, a maximum score below 50. Based on these quantitative scores, Sustainalytics can group companies into one of five risk categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all industries covered. This means that a bank, for example, can be directly compared with an oil company or any other type of company Sustainalytics cover. Figure 17 illustrates this process for NatWest Group, who have been determined to have a low ESG Risk Rating.

**Figure 17: Sustainalytics NatWest ESG Risk Rating[2]**




## Engagement with Data Vendors

Where we feel that a company is not being treated fairly from a scoring perspective, we will look to engage with both Sustainalytics (as Redwheel's ratings provider of choice) and the individual company. An ESG score is only one small input in our process, however, it does matter for many funds and thus a weak score indicating high ESG risk may preclude many funds from buying shares in the company and act as an impediment to a higher stock valuation.

We also engage with other data vendors. We had a very successful engagement with Bloomberg in 2024 where we highlighted data quality issues, to which they responded very positively and changed their processes to improve matters. Having accurate data is important both to us as investors and to the corporates, to ensure that they are assessed based on correct data.

## Comparison to MSCI ESG Ratings

To aid in our analysis, we cross check the Sustainalytics ESG Risk Ratings versus the publicly available MSCI ESG Ratings;[1] there are some differences between the two. For example, Pearson is the best ranked of our companies on Sustainalytics, while Aviva, Kingfisher and Molson Coors are the best ranked of our companies using MSCI (AAA – Leader - rating). BP and Shell rank as the lowest rated companies in the portfolio using Sustainalytics, while CK Hutchinson Holdings and Stellantis are the lowest using MSCI ratings (BB - Average - rating).

Of the MSCI ESG Ratings data publicly available, 3 companies attain the highest rating of 'AAA', and 12 companies achieve the second highest rating of 'AA'. 5 companies are rated A, 1 BBB, and 2 BB. There are 10 companies for which we do not have access to MSCI ratings.

1 MSCI ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).

2 Sustainalytics (December 2024)

*This information is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.*



## Sustainability Report: ESG Risk Overview

TM Redwheel UK Equity Income Fund

| | TMEI | FTSE All Share |
|---|---|---|
| Coverage | 100% | 94% |
| ESG Risk Score | 20.4 | 21.2 |

**Figure 18: ESG risk score distribution**

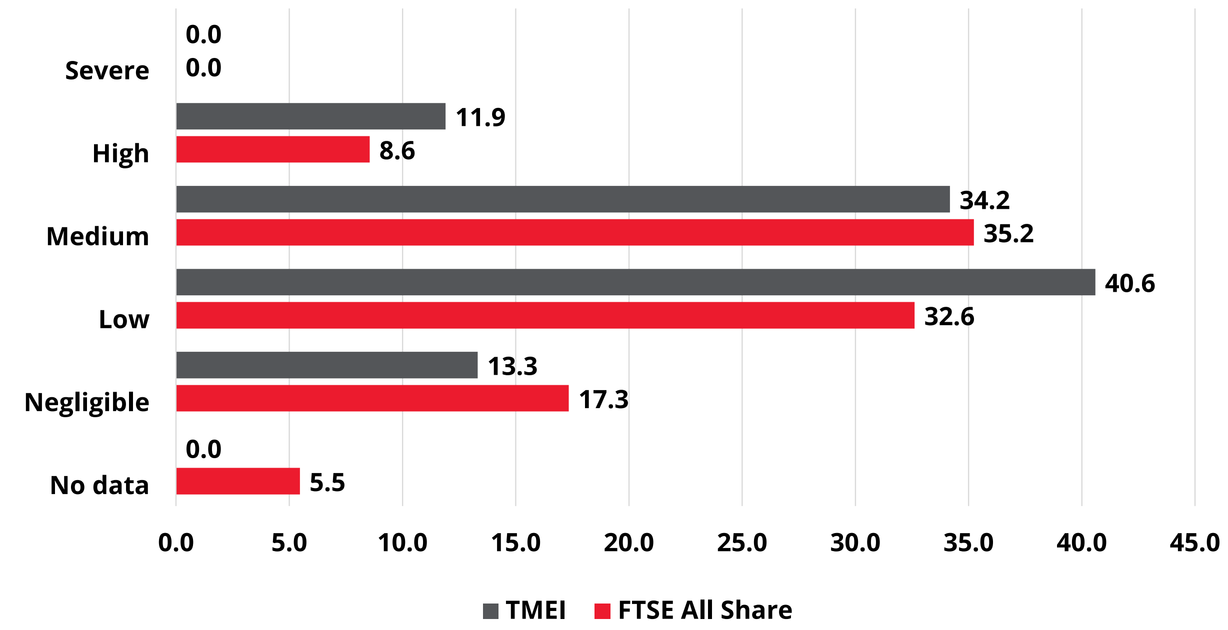
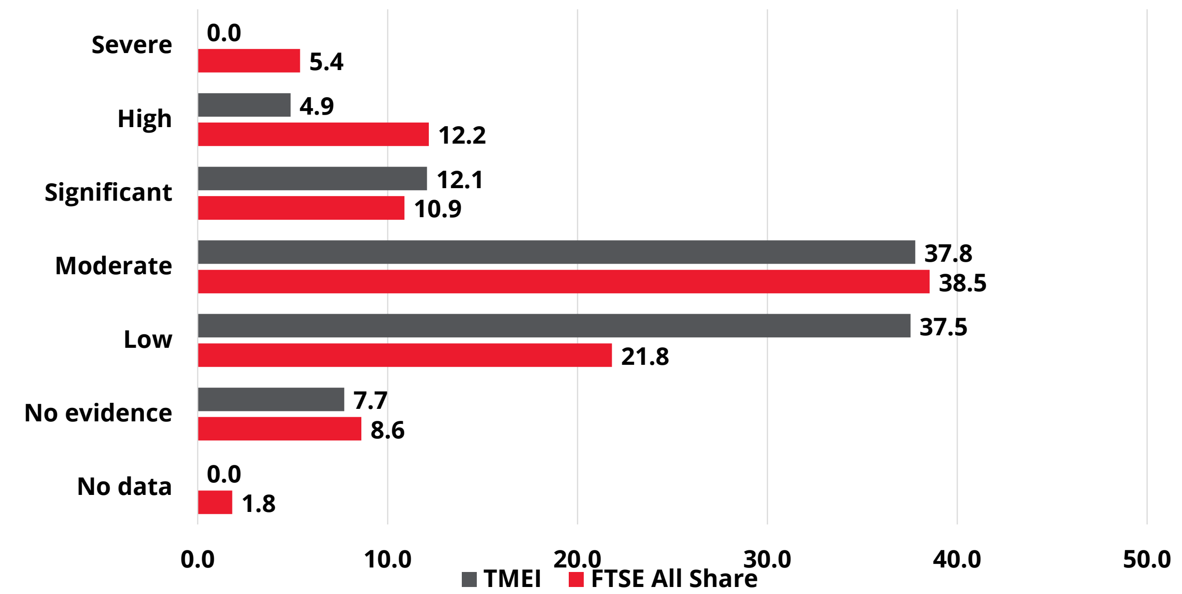



**Figure 19: Controversy distribution (% of AUM)**

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**Redwheel Value & Income Team**

2024 Stewardship Report

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Please contact us if you have any general questions or would like to discuss any of our strategies.


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