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PUTTING PRINCIPLES — INTO PRACTICE

RESPONSIBLE INVESTMENT ANNUAL REPORT 2021



PLEASE CONSIDER THE ENVIRONMENT BEFORE PRINTING.

➤ BNY MELLON | INVESTMENT MANAGEMENT

FOREWORD



Abdallah Nauphal
Chief Executive Officer

Since I wrote the foreword for the 2020 report, all of us have continued to be severely affected by the ongoing coronavirus pandemic. We have collectively suffered from the economic and societal impacts of this crisis and the longer-term implications are also likely to be significant.

The speed and scale of the pandemic has reinforced my conviction that environmental, social and governance (ESG) risks must be analysed and taken into account when designing investment strategies. Insight's mission is to prioritise the certainty of meeting clients' objectives. To achieve this, we seek to establish an accurate fair value for every investment that incorporates a broad range of risk factors.

Although the relevance of ESG factors for fixed income investments is today more widely acknowledged than it has ever been, I believe more progress is still needed. The dominant role of fixed income in financial markets and in portfolios, coupled with the centrality of default risk for valuations, means that an ESG approach should be a core component of any fixed income investment process.

We have continued to improve the methodology underpinning our proprietary ESG and climate risk ratings. In 2020, 90% of our engagements with debt issuers included discussions on ESG topics (up from 82% in 2019). We have also enhanced our ESG approach to liability-driven investment (LDI), secured finance and multi-asset investment.

In the wake of new regulations, of initiatives focused on sustainability, and the rapid growth of the impact bond market, we have helped our clients fulfil enhanced reporting requirements and take advantage of new opportunities. We have also gone from partnering with clients to tailor strategies reflecting customised ESG criteria, to launching dedicated investment strategies with sustainability objectives under our Responsible Horizons brand.

More broadly, as responsible stewards of society's savings, we view the communities in which we operate as stakeholders in our business. We continue to engage with relevant official and regulatory bodies to represent client interests and seek solutions which benefit both our clients and society at large, actively engaging on issues such as the transition away from IBOR benchmarks, EU derivative clearing regulations, and RPI reform.

I hope that this report provides you with answers to your questions and demonstrates our commitment to continuous improvement in this field. Please do not hesitate to get in touch with us if you would like more information or to share your thoughts with us more broadly.

09

DRIVING RESPONSIBLE INVESTMENT ACROSS ALL FINANCIAL MARKETS

Responsible investment is no longer a niche pursuit, and in many ways is perfectly suited for fixed income investment



17

DEVELOPING DATA TO SUPPORT ANALYSIS AND ENGAGEMENT

Insight's Prime ratings aim to highlight ESG and climate risks to support better research and stewardship, and to help build portfolios tailored to our clients' interests



22

PROACTIVE ENGAGEMENT ON ESG ISSUES

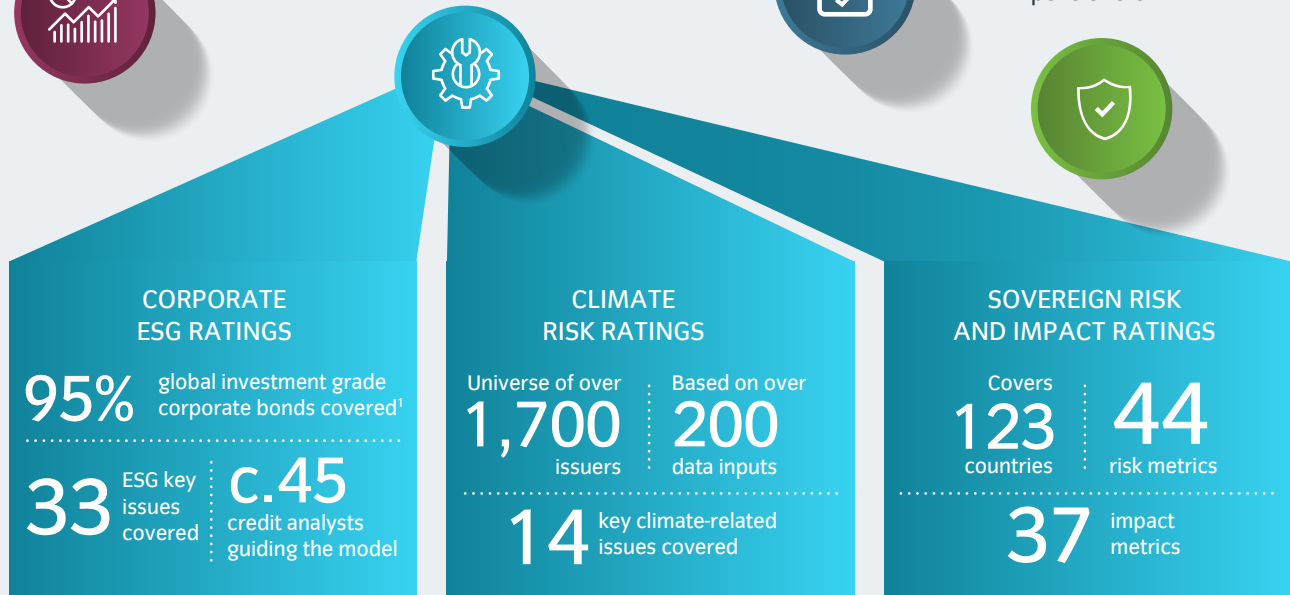
In 2020, 90% of 1,210 engagements included ESG issues



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SAFEGUARDING OUR CLIENTS' INTERESTS

We continued to engage on industry and regulatory issues in seeking to reduce risks and costs for our clients and millions of pensioners



46

INVESTING FOR IMPACT

Insight added over \$2bn of impact bonds to client accounts in 2020. 187 client accounts at Insight now have exposure to impact bonds



47

SEEING THROUGH IMPACT-WASHING

Only 40% of the impact bonds we analysed fully met our sustainability expectations in 2020



50

FOCUSED STRATEGIES FOR RESPONSIBLE INVESTORS

The Responsible Horizons range of investment strategies aim to help investors achieve a financial return alongside other environmental or social objectives



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A RESPONSIBLE PARTNER

Insight is offering greater transparency around our operations, with new diversity targets for our workforce



¹ As measured using the Bloomberg Barclays Global Aggregate Credit Index, excluding non-corporate and non-debt constituents, using the total weight of the remaining benchmark instruments. This index consists mostly of investment grade corporate bonds.



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INTRODUCTION

WE BELIEVE A RESPONSIBLE INVESTMENT APPROACH CAN HELP EVERY INVESTOR AS THEY SEEK TO PURSUE THEIR LONG-TERM FINANCIAL AND NON-FINANCIAL OBJECTIVES. IN THIS REPORT WE AIM TO HELP INVESTORS CONSIDERING A RANGE OF ISSUES.



KNOWLEDGE: For investors seeking to understand what responsible investment means across their portfolios, we explain why a responsible approach is crucial for fixed income, and outline how we are helping our clients to adopt a responsible approach.

09



EVIDENCE: For investors seeking evidence of the difference a responsible investment approach can make, we offer recent examples from our own portfolio managers across LDI, fixed income and other areas.

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IMPLEMENTATION: For investors seeking a positive long-term impact with their portfolio, we provide an update on the surging impact bond market and outline our new range of strategies focused on helping investors achieve a financial return alongside other environmental or social targets.

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We hope you find this report useful as you put a responsible investment approach into practice.

Figure 1: Insight is a responsible investment leader – recent highlights



Insight's responsible investment credentials

- Insight was a founding signatory to the UN-supported Principles for Responsible Investment (PRI) in 2006, the world's leading proponent of responsible investment. Signatories to the PRI include investment managers and asset owners with trillions of dollars of assets under management.
- In 2020, we were awarded A+ ratings across the relevant categories in the PRI survey, including corporate and sovereign debt.²
- We have been supporters of the Institutional Investors Group on Climate Change (IIGCC) and CDP (formerly the Carbon Disclosure Project) initiatives for over 15 years.
- Insight manages ESG strategies including those with best-in-class, climate, positive impact and exclusion objectives and criteria. We manage more than £11.7bn in ESG strategies.²

Table 1: Insight's 2019 PRI ratings³

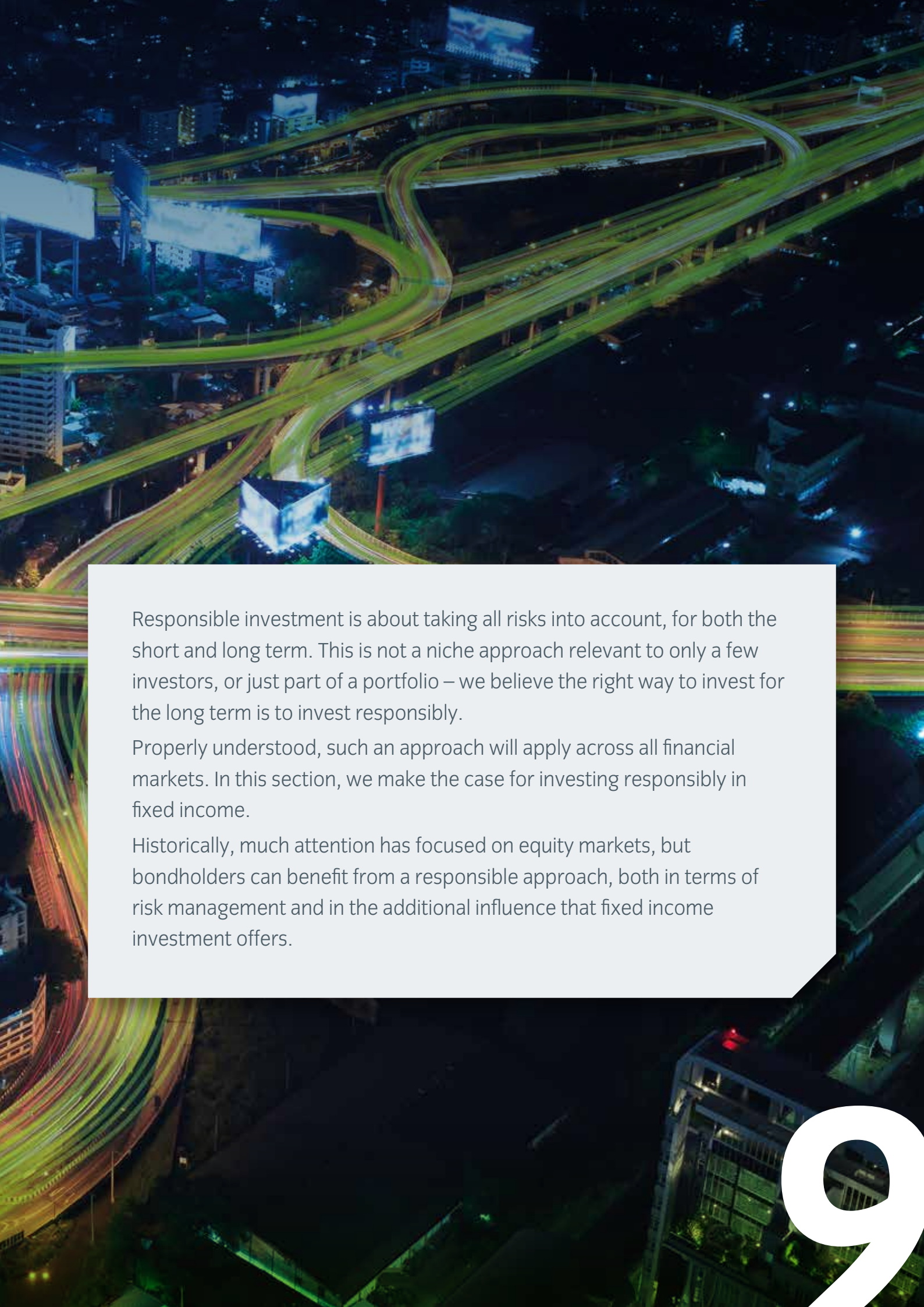
	Insight PRI rating	Industry median
Firm strategy and governance	A+	A
Investment grade	A+	B
High yield	A+	B
Emerging market	A+	B
Money market	A+	B
Rates	A+	B
Collateralised loan obligations (CLOs)	A+	B
Asset-backed securities (ABS)	A+	B
Loans	A+	B

PRI scores are graded from the highest rating (A+) through to the lowest (E). PRI rating for securitised finance is applied to CLOs and ABS. Corporate PRI rating applied to money markets and loans. PRI ratings are not available for other strategies, including LDI, multi-asset and currency.

² As at 31 December 2020. Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients. ³ PRI Annual Assessment Report, 2020. For more information, please visit <https://www.insightinvestment.com/responsible-horizons/pri-ratings/>

An aerial night photograph of a city, likely Tokyo, showing a complex network of elevated highways with vibrant light trails from traffic. The city is densely packed with buildings, some of which are brightly lit, and the overall scene is illuminated by the city's lights and the long-exposure light trails.

INVESTING RESPONSIBLY ACROSS MARKETS



Responsible investment is about taking all risks into account, for both the short and long term. This is not a niche approach relevant to only a few investors, or just part of a portfolio – we believe the right way to invest for the long term is to invest responsibly.

Properly understood, such an approach will apply across all financial markets. In this section, we make the case for investing responsibly in fixed income.

Historically, much attention has focused on equity markets, but bondholders can benefit from a responsible approach, both in terms of risk management and in the additional influence that fixed income investment offers.

THE CASE FOR A RESPONSIBLE INVESTMENT APPROACH ACROSS FINANCIAL MARKETS

RESPONSIBLE INVESTMENT HAS TRADITIONALLY FOCUSED ON SHAREHOLDERS AND THEIR INFLUENCE OVER MANAGEMENT DECISIONS, BUT FIXED INCOME ASSETS ARE THE FOUNDATION OF MANY INVESTORS' PORTFOLIOS AND DOMINATE GLOBAL FINANCIAL MARKETS.

SUMMARY

We believe investing responsibly in fixed income can be crucial for investors looking to achieve either financial or sustainability objectives.

- Responsible investors cannot ignore fixed income assets, with annual issuance c.40 times that of equity markets
- Assessing debt issuers' sustainability is vital for investors, given the centrality of default risk
- Bondholders' influence can reach much further than that of equity investors
- Bondholders can pursue precise sustainability targets
- The scope of responsible investment activities in fixed income is set to expand further

RESPONSIBLE INVESTORS CANNOT IGNORE FIXED INCOME ASSETS

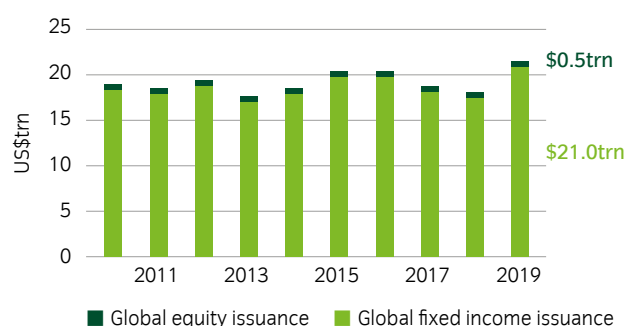
Fixed income assets are a core allocation within many, if not most, investors' portfolios.

Individuals value the relative certainty that fixed income can bring compared with equities, especially as they approach retirement.

Institutional asset owners with substantial liabilities, like pension funds and insurers, value the asset class for its ability to help hedge interest rate and inflation risks, and for the contractually defined returns that fixed income instruments offer. A focus on contractually defined returns has become a growing trend for maturing pension schemes: as they approach their endgame, schemes pay out more in pension income than they receive from investment returns and sponsor contributions, making the contractual income from fixed income a key component of their strategy.

The centrality of fixed income is illustrated by the amount of global issuance, which is many times larger than the equity market (see Figure 2). The role of these assets in investor portfolios, and their dominance across global markets, mean these assets cannot be ignored as investors seek to invest responsibly in pursuit of their goals.

Figure 2: Fixed income issuance dwarfs equity issuance⁴



ASSESSING DEBT ISSUERS' SUSTAINABILITY IS VITAL FOR INVESTORS

- ESG risks can define whether a debt issuer defaults – making them significant for investors
- There are many examples of ESG risks having a significant financial impact
- The relevance of ESG risks is widely acknowledged by investor groups and credit rating agencies

The core focus for fixed income investors is the risk of an impairment to their coupons or return of principal. Any material risk that could affect whether an issuer fulfils these obligations – including ESG risks – will be relevant to investors' analysis.

⁴ Source: 2020 Capital Markets Fact Book, published by the Securities Industry and Financial Markets Association (SIFMA).

This is a central pillar of a responsible investment approach, and reflects a fixed income investors' natural focus on the sustainability of an issuer's operations and its ability to afford financial obligations.

For example, for investors seeking to achieve a specific outcome, such as pension schemes with defined pension obligations, maximising the certainty of achieving this specific outcome is key. Investing with precision, including analysis of ESG risks to help ensure accurate valuations and effective risk management, is crucial.

The potential materiality of ESG risks is widely acknowledged. There are many examples of such risks having a material impact on the pricing of a bond, or leading issuers to default.

The PRI has established the ESG in Credit Risk and Ratings Initiative to "enhance the transparent and systematic integration of ESG factors in credit risk analysis"⁵, of which Insight is a founding Advisory Council member, and global credit ratings agencies now incorporate ESG evaluation within their analysis⁶.

BONDHOLDERS CAN HAVE FAR-REACHING INFLUENCE OVER GOVERNMENTS AND COMPANIES

- Fixed income investors can access markets and sectors that are inaccessible to other investors
- Regular debt issuance provides opportunities for frequent engagement
- Collaborative initiatives can have a major impact

Fixed income investors may seek to engage with debt issuers to better understand the ESG risks they face, how they manage them, and in order to encourage them to improve their practices.

When it comes to engagement, headlines typically focus on the power of shareholders who have voting powers that enable them to influence, and if necessary replace, company executives. The reality, however, is that fixed income investors' influence can far outstrip that of equity investors; primarily due to a range of institutions dependent on debt capital markets for financing.

Debt markets provide finance to a wide range of entities, including sovereigns, supranationals and agencies, as well as many companies, some of which prefer to raise finance using

the debt rather than equity markets. This means that fixed income investors can have influence on entities and market sectors that are inaccessible to other investors.

Opportunities for dialogue are often regular. For many institutions access to finance from the bond market is an ongoing necessity, either to fund new projects or roll over existing debt. This stands in contrast to the equity market, where issuance is comparatively rare.

While for major debt issuers, a single investor or asset manager can sometimes have little effect, collaborative initiatives – where investors work together to achieve a common goal – can have a meaningful impact.

Famously, when describing the power and influence of debt markets on the global financial system, Clinton-era Democratic adviser James Carville said: "I used to think if there was reincarnation, I wanted to come back as the president or the pope or a .400 baseball hitter. But now I want to come back as the bond market. You can intimidate everybody."

This power means fixed income markets can play a central role for investors seeking to influence governments and corporates, whether that is to achieve their financial or sustainability objectives.

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Fixed income investors' influence can far outstrip that of equity investors; primarily due to a range of institutions dependent on debt capital markets for financing

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⁵ <https://www.unpri.org/investment-tools/fixed-income/credit-risk-and-ratings>

⁶ For example, credit ratings agencies Moody's (<https://esg.moody's.io/>), Standard & Poor's (<https://www.spglobal.com/ratings/en/products-benefits/products/esg-in-credit-ratings>) and Fitch Ratings (<https://www.fitchsolutions.com/products/fitch-ratings-esg-relevance-scores-data>) offer ESG-specific analysis.

BONDHOLDERS CAN PURSUE PRECISE SUSTAINABILITY TARGETS

- Fixed income investors can demand changes to the structure and terms of debt issuance
- Bonds targeting specific environmental and social outcomes are now widely available
- Tailored portfolios with specific sustainability objectives are possible using fixed income assets

When debt is issued, fixed income investors can influence the structure and terms of the issuance. A bond with unattractive terms could lead to financing on less favourable terms for an issuer. In rare cases, an issuer may withdraw an issue if there is not enough demand and sometimes change terms or documentation language to comply with investors' requirements.

The regularity of debt issuance, combined with investors' ability to influence the terms and structure, mean fixed income assets offer the potential for meaningful influence.

Investors can target sustainability outcomes in a way that other asset classes – such as equities – cannot offer.

In the now mainstream 'use-of-proceeds' bond market, issuance can be linked directly to specific projects with a positive environmental and/or social impact (the most common are 'green bonds', where bond proceeds are used to support environmental projects), or wider goals – such as the UN Sustainable Development Goals (SDGs). Some bonds also build in targets at the broader institutional level, such that if sustainability targets are met, the issuer benefits from more attractive financing terms; and similarly, if targets are missed, the investor receives compensation for this failure.

The growth of the so-called 'impact bond' market means that debt issuers across a wide range of markets and sectors, including sovereigns and private companies, are being encouraged to pursue explicit sustainability objectives.

It also means that, through fixed income markets, investors are able to tailor their portfolios and objectives to reflect both financial and sustainability targets in new, innovative ways – more than other financial instruments.

NEW OPPORTUNITIES ARE YET TO EMERGE

- ESG risks are widely analysed for corporate debt, but less so for sovereign and other types of debt issuance
- More work is needed to develop ESG and sustainability data and research across fixed income markets

A responsible approach to fixed income, taking ESG risks and factors into account, can support an investor's financial and sustainability objectives. This is now widely appreciated by

investors, but there is still work to be done to refine what this means in practice.

Fixed income markets encompass a wide range of issuers and instrument types. While the basic principles of a responsible investment approach will remain consistent across them, the practical implications will be different. For example, most analysis of ESG and sustainability risks has focused on corporate debt, with research into their impact on sovereign debt still in a developmental phase. Much of this is down to the availability of good-quality data which is still more accessible at a corporate level. Similarly, in secured finance, managing the impact of ESG risks on a residential mortgage-backed security will be very different to a commercial real estate loan, for example.

Overall, investors are at the beginning rather than end of their journey with respect to integrating a responsible investment approach into their fixed income portfolios. However, as investor practices evolve, the focus on ESG risks and sustainability factors could provide investors with further opportunities to build portfolios that can target both financial and sustainability targets with greater precision, creating better outcomes for all stakeholders.

HOW INSIGHT IS DRIVING RESPONSIBLE INVESTMENT FORWARD

Investing responsibly across global markets is a multi-faceted endeavour. At Insight, we have continued to enhance our approach as we seek to implement and push forward best practice in responsible investment management. We believe we have done so in several ways.

- **Develop in-depth data models to support effective analysis and engagement:** There is an overwhelming array of data on ESG factors, including climate change. However, the data available also has inconsistencies and gaps. For many years Insight has sought to harness the available data to support our investment decisions and our engagements with the entities in which we invest.
To find out more about our Prime ESG and climate risk ratings, see [page 17](#).
- **Conduct qualitative research and proactive engagement to understand risks and encourage improvement:** We use data to highlight and help us identify potential risks, but we believe qualitative judgement is required to help ensure we are assessing risks appropriately. Where we identify potential material risks, or we believe improvement is possible, we may engage proactively with an entity to find out more or encourage change.
To find out more about how we consider risks and engage proactively across our different strategies, see [page 26](#).

- **Offer transparency on risks and engagement:** Investors require more information on the risks in their portfolios – both as a result of greater awareness around some risks, such as climate change, but also because new regulations and initiatives are encouraging greater transparency with regard to ESG and sustainability issues. We seek to offer detailed reports to our clients outlining ESG risks and details of engagements, both to support their decisions and help them comply with local regulations.

To see an example of the data we might offer, see our breakdown of engagements made across our business in 2020 – which reflects the information we offer to our clients – see [page 22](#).

- **Participate in collaborative initiatives:** Many of the most pressing ESG issues we face require a collective response from the investment community and from wider society. We therefore work with our clients, other investors, governments, companies and civil society organisations to build knowledge and awareness, to share expertise and to create a common voice on these issues when engaging with stakeholders in relations to our clients' investments. To read more about some of the collaborative initiatives in which we participate, see [page 23](#).

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Overall, investors are at the beginning rather than end of their journey with respect to integrating a responsible investment approach into their fixed income portfolios. However, as investor practices evolve, the focus on ESG risks and sustainability factors could provide investors with further opportunities to build portfolios that can target both financial and sustainability targets with greater precision, creating better outcomes for all stakeholders.


JOSHUA KENDALL, HEAD OF RESPONSIBLE INVESTMENT
RESEARCH AND STEWARDSHIP

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RESPONSIBLE INVESTMENT IN PRACTICE





Responsible investment in practice takes many forms. Understanding how a responsible investment approach makes a difference to investment decision-making, return potential and risk management can be complex. In this section we:

- Show how clients can demonstrate a responsible approach (see [page 16](#))
- Explain our proprietary ESG and climate risk ratings, which inform our analysis, engagements and tailored portfolios (see [page 17](#))
- Demonstrate the extent of stewardship and engagement activities we pursue (see [page 22](#))
- Outline major initiatives we have undertaken to safeguard investor interests (see [page 24](#))
- Offer practical examples of ESG analysis in action (see [page 26](#))

HELPING OUR CLIENTS DEMONSTRATE A RESPONSIBLE INVESTMENT APPROACH

THE GROWTH AND DEVELOPMENT OF INDUSTRY-WIDE INITIATIVES AND NEW REGULATIONS ARE ENCOURAGING INVESTORS TO PURSUE A RESPONSIBLE INVESTMENT APPROACH.



Develop a responsible investment policy: Investors continue to develop responsible investment approaches for a variety of reasons.

We have offered guidance to our clients to help them clarify their beliefs about responsible investment, establish a responsible investment policy, and implement a responsible approach.



Comply with disclosure requirements: New regulations are obliging investors to disclose their attitude to responsible investment and to report on how they are implementing their approach.

We are working with our clients and their advisers to develop in-depth reports that provide the risk and engagement data they need to fulfil all requirements that apply to them.

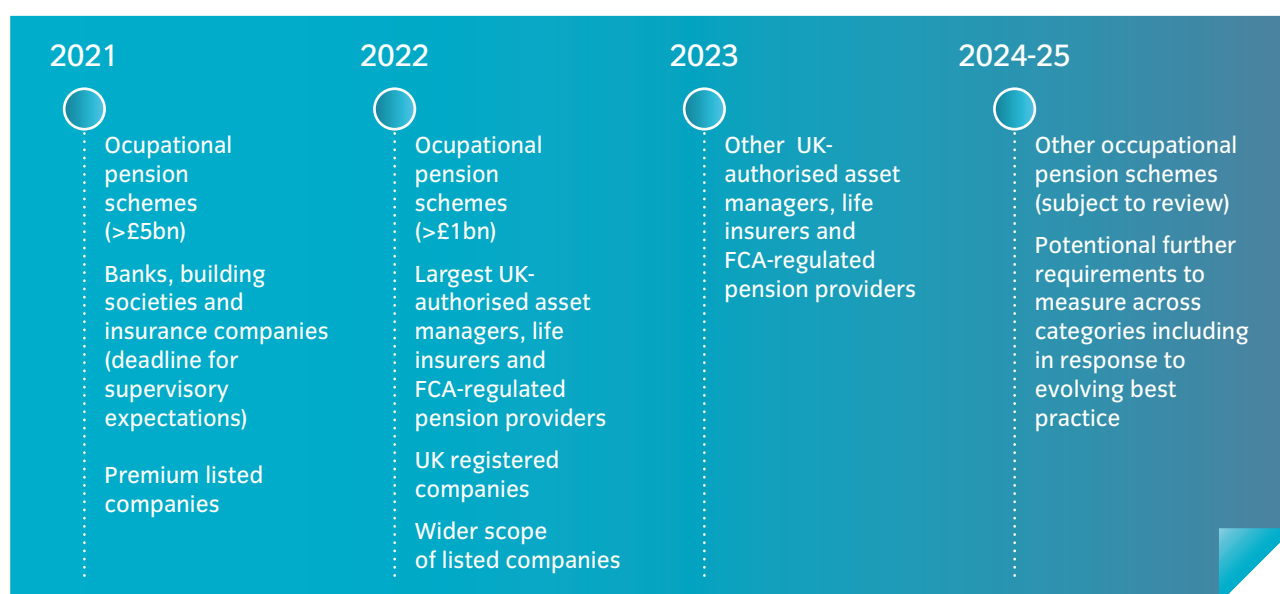
Examples include the requirement for UK pension schemes to report on how they implement responsible investment policies; the mandatory TCFD reporting regime in the UK, announced in late 2020 (see Figure 3); and ESG disclosure requirements in the European Union, such as the Sustainable Finance Disclosure Regulation (known as SFDR).



Anticipate new developments: More regulations and initiatives are being announced over time.

We are seeking to proactively help our clients as new obligations emerge. We note the ongoing discussions in the US concerning ESG disclosures. We actively engage on wider issues: see [page 24](#) for more information.

Figure 3: Roadmap towards mandatory TCFD-aligned disclosures in the UK⁷



⁷ Source: HM Treasury. For more information please see <https://www.gov.uk/government/publications/uk-joint-regulator-and-government-tcf-taskforce-interim-report-and-roadmap>

DATA IS CRUCIAL TO INFORM RESEARCH AND ENGAGEMENT INTO ESG ISSUES

ESG RISKS CAN HAVE A CLEAR IMPACT ON THE FINANCIAL PERFORMANCE OF AN INVESTMENT.

Insight is focused on precision investment and risk management to help our clients achieve their goals. Information on material ESG risks can be crucial for effective investment decisions, but ESG data providers often disagree, and there are gaps in available information.

We decided to apply our years of experience in analysing ESG risks in taking data from multiple inputs, adjusted using our in-house expertise, to generate ESG ratings that we believe more accurately and reliably reflect material risks.

This led us to create Prime: Insight's proprietary ESG ratings, with ESG and climate risk ratings focused on corporate issuers, and ESG risk and impact ratings for sovereign issuers.



More information on our Prime ratings is available at www.insightprime.com.



Powered by Insight Investment



We are very aware of the importance of sustainability information when it comes to achieving financial outcomes. This led us to ask how we could apply our expertise and knowledge to develop a fixed income solution. The result is Prime – a solid foundation that we believe helps our portfolio managers and analysts make better decisions, and helps our clients understand more about their portfolios and the risks they are exposed to.

ADRIAN GREY, GLOBAL CHIEF INVESTMENT OFFICER



PRIME CORPORATE ESG RATINGS

Prime corporate ESG ratings are based on separate environmental, social and governance ratings, which in turn rest on 33 separate scores for a wide range of key ESG issues.

The ratings are generated using inputs from numerous ESG data providers, adjusted for quality and relevance by Insight's credit and data experts, who also weight them according to their significance for different sectors.

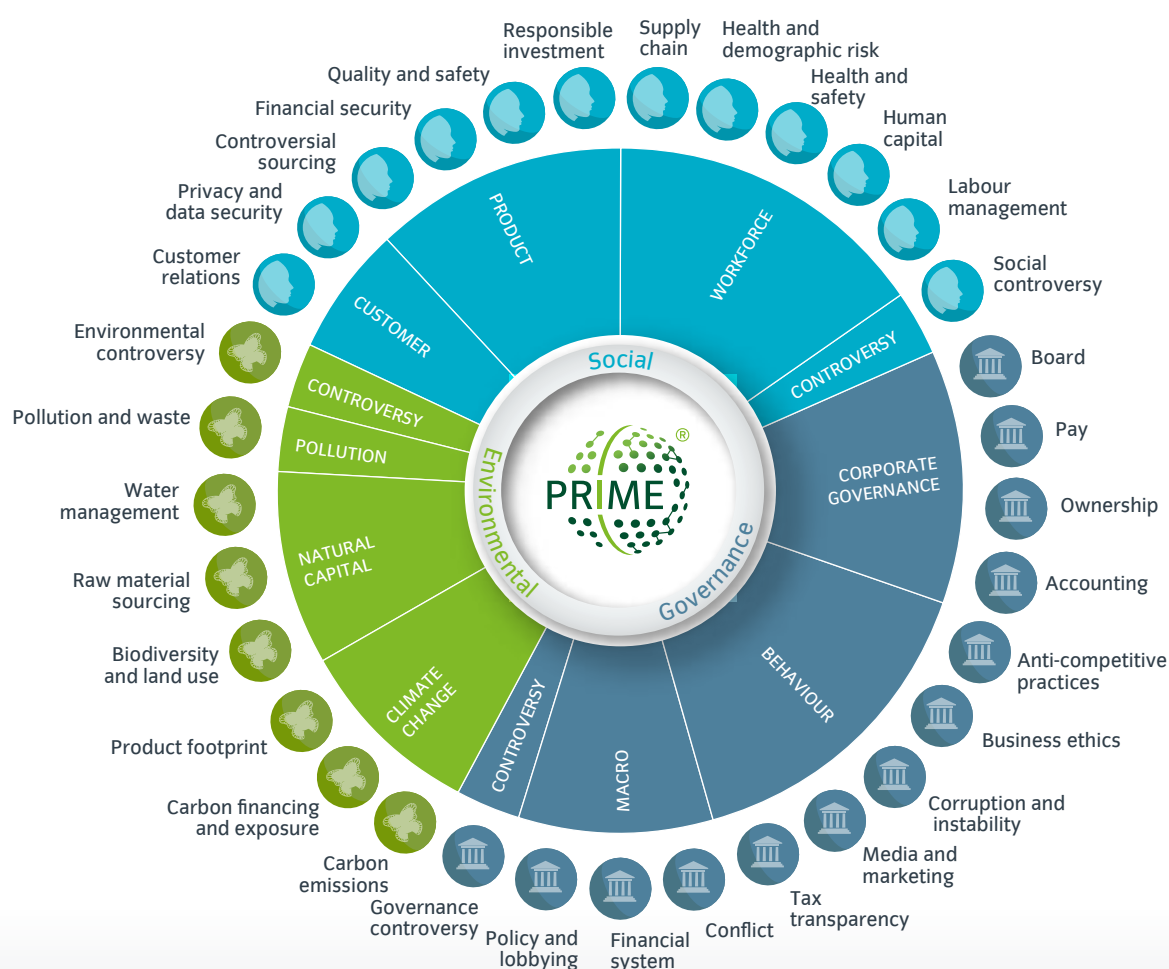
Prime corporate ESG ratings were created to generate ESG ratings that we believe more accurately and reliably reflect the risks that corporates face.

They aim to help our analysts and portfolio managers consider material ESG risks, informing their decision-making and engagement, and to enable portfolios for clients requesting specific sustainability criteria.



Read more about the Prime corporate ESG ratings at www.insightprime.com.

Figure 4: The Prime corporate ESG model



CASE STUDY: WIRECARD – PRIME CORPORATE ESG RATINGS IN ACTION

Wirecard, the German payments company, filed for insolvency on 25 June 2020 after the group revealed over-indebtedness and reported incidences of fraud.⁸

Having issued an investment grade bond in September 2019 at a yield of around 0.5%, in less than 12 months holders of this bond had lost c.80% of their investment value.

Figure 5: Wirecard's debut bond has recorded a material loss⁹



It is another in a long line of examples of how ESG risks can have a material impact on the creditworthiness of a company. We believe this justifies our integration of ESG analysis in our credit research process, which has been in place since Insight's launch.

- Wirecard was third percentile according to its Prime corporate ESG rating (ESG rating 5; governance rating 5), whereas third-party data providers offered very different assessments.
- Insight met with Wirecard management in early 2019 ahead of its debut bond issue. Primarily as a result of its ESG profile, Insight had no exposure to Wirecard in any of its fixed income portfolios.

No risk assessment can be 100% certain and fraud is notoriously difficult to identify. However, with Wirecard receiving the worst possible Prime corporate ESG rating versus its peer group in Q4 2019 (when the ratings were introduced), we believe it is worth considering how best to identify companies like this that have poor management practices and weak sustainability profiles.

We believe there are three lessons that we can take away from this event when assessing ESG risks:

- 1 Do not rely on a single data provider
- 2 There's more value in analysing the underlying inputs than the headline scores
- 3 Apply qualitative judgement to overweight the bigger risks

⁸ <https://www.ft.com/content/ac949729-6167-4b6c-ac3f-f0aa71aca193>

⁹ Source: Bloomberg. As at 30 June 2020. Bond issued in September 2019, denominated in euros, maturity date 11 September 2024. For illustrative purposes only.

¹⁰ <https://www.insightinvestment.com/investing-responsibly/perspectives/wirecard-three-lessons-for-investors-on-esg-risks/>

PRIME CLIMATE RISK RATINGS

Climate change is one of the greatest challenges of our time. Governments and businesses are grappling with the implications, and responsible investors will be seeking to discern how climate change might affect the entities in which they invest.

In 2017, Insight Investment introduced our climate risk ratings, which we believe to be the investment industry's first comprehensive ranking of fixed income corporate credit issuers focusing on climate change-related risks and opportunities. The ratings are aligned with the framework developed by the Financial Stability Board's TCFD, and we have enhanced our framework over time to incorporate more data and detail.

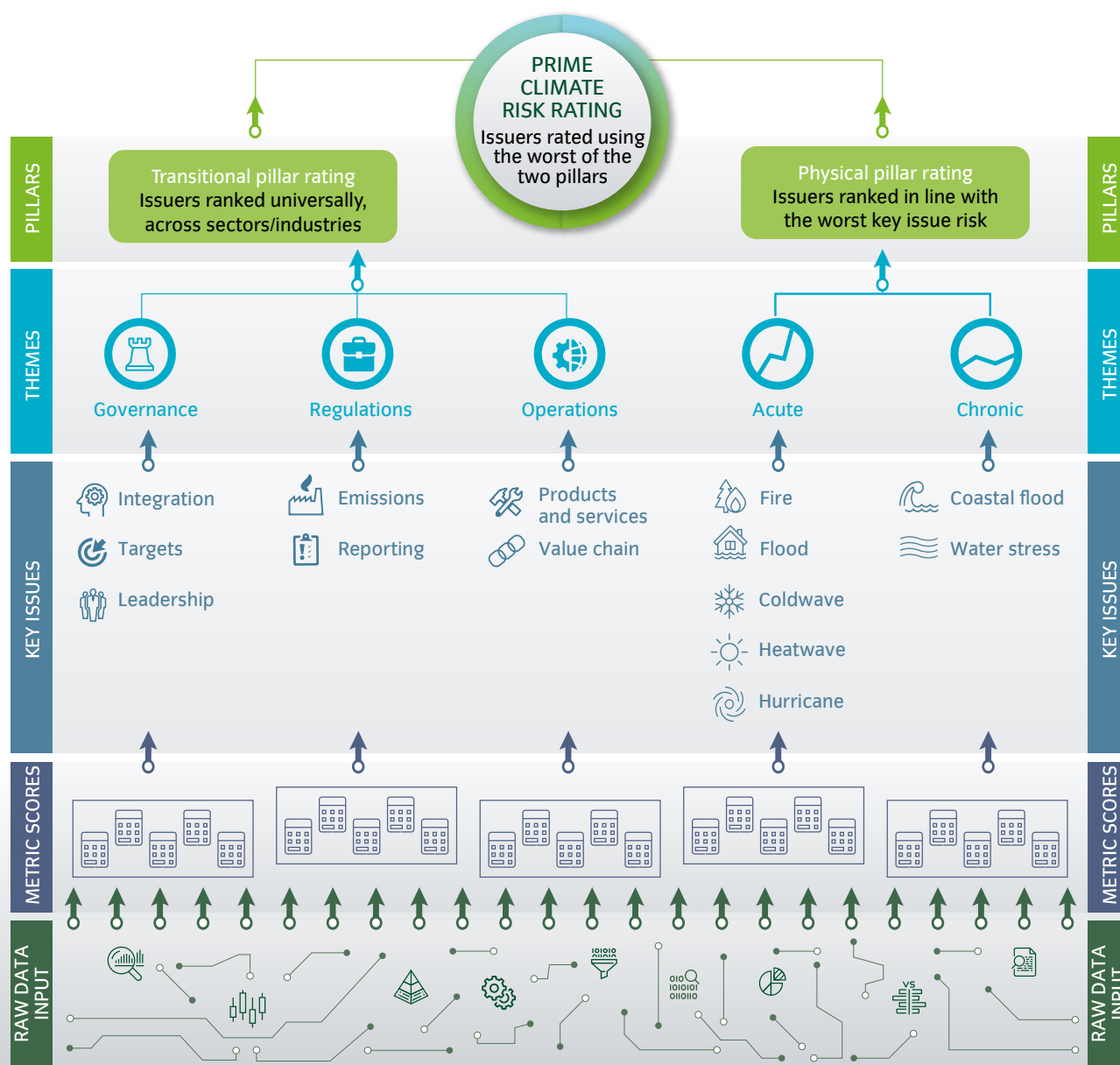
The Prime climate risk ratings aim to highlight the key climate risks companies face, including how corporate issuers are positioning themselves for the transition to the low carbon economy.



Read more about the Prime climate risk ratings at

<https://www.insightinvestment.com/investing-responsibly/perspectives/monitoring-corporate-climate-risks/>

Figure 6: The Prime climate risk model



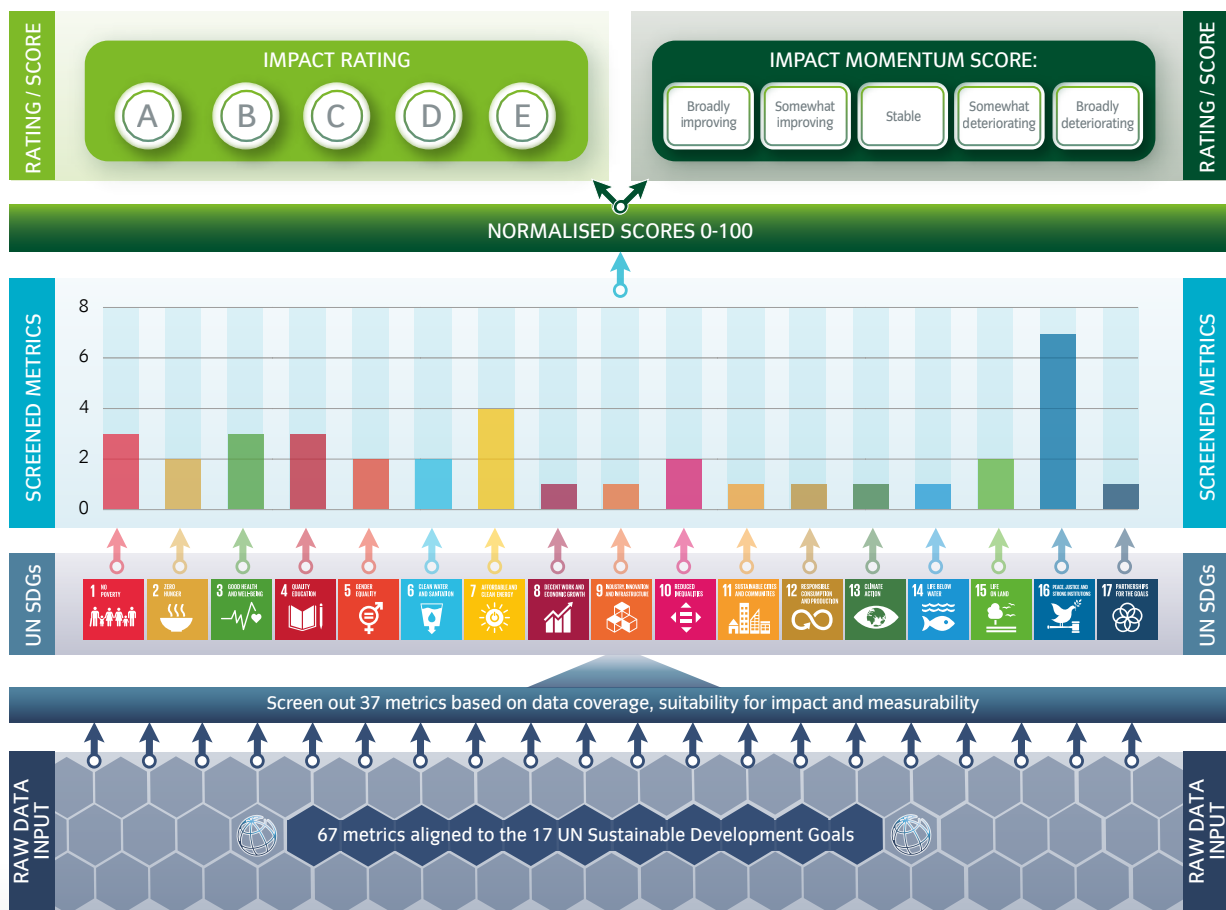
PRIME SOVEREIGN RISK AND IMPACT RATINGS

Almost six years since the Paris Agreement, and against a backdrop of unprecedented uncertainty, investors are sharpening their focus on the sustainability and impact risks of individual countries.

We first launched our proprietary sovereign ESG risk ratings in 2018 to facilitate in-depth analysis of ESG factors for sovereign debt. This year we are introducing the third generation of our sovereign ESG framework, which generates distinct ESG risk and positive impact ratings.

The sovereign ESG risk ratings focus on ESG factors that have relevance to debt repayment, while the impact ratings focus more on factors related to the UN Sustainable Development Goals (see Figure 7). While there is a certain degree of overlap between the indicators used in each model, they generally use different sets of metrics.

Figure 7: The Prime sovereign impact model



INSIGHT CONDUCTS EXTENSIVE RESEARCH AND ENGAGEMENT

- In 2020, Insight conducted 1,210 engagements, of which 90% incorporated discussions of ESG issues – up from 82% of 1,151 engagements in 2019
- Across every industry sector, most of our engagements with management incorporated ESG matters
- Insight is a proactive member of a range of industry associations and participates in collaborative initiatives to support engagements on material issues

Figure 8: Insight engaged proactively on ESG matters through 2020¹¹

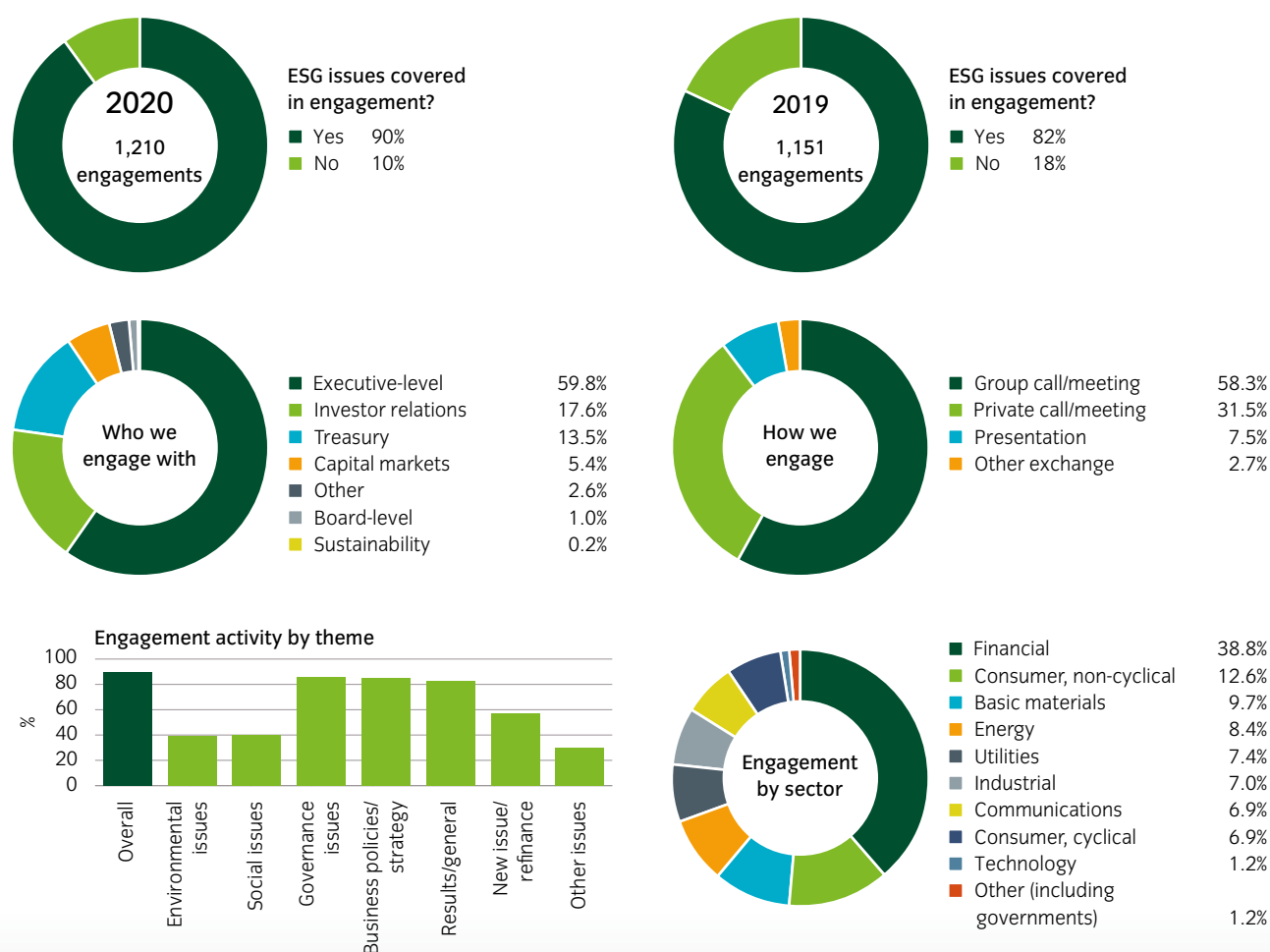
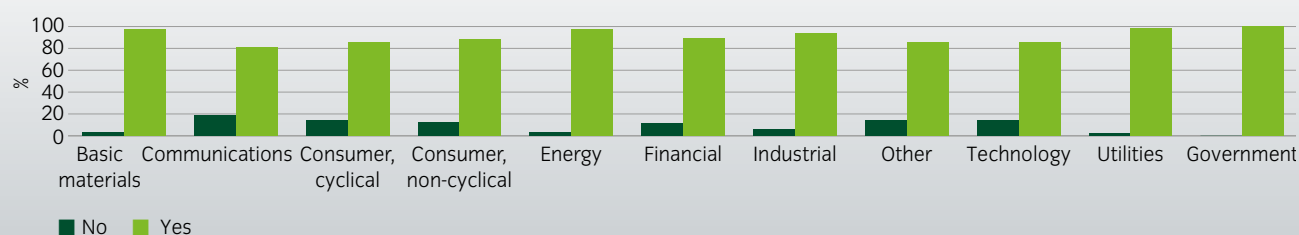


Figure 9: Across all sectors, most of our engagements address ESG issues (% of total)¹²



^{11, 12} Source: Insight. As at 31 December 2020.

INSIGHT PARTICIPATES IN A RANGE OF ASSOCIATIONS AND COLLABORATIVE INITIATIVES

Memberships

- UK Sustainable Investment and Finance Association (UK SIF), since 2002
- CDP (formerly known as Carbon Disclosure Project), since 2003
- Institutional Investors Group on Climate Change (IIGCC), since 2003
- UN-supported PRI initiative, since 2006
- International Capital Market Association (ICMA) – Green and Social Bond Principles, since 2019

Initiatives

- UK Stewardship Code (since 2012)
- Climate Action 100+ (since 2017)
- PRI Credit Risk and Ratings Advisory Council (since 2017)
- TCFD (since 2018)

Highlights from 2020

Supporting global sustainability reporting standards

The richness and variety of data available to inform investment decisions has grown significantly in recent years and this has enabled fixed income investors to take much more considered views on factors they consider relevant to performance.

Yet the increased complexity and unevenness of sustainability data presents a risk to investors and our clients who can find themselves bewildered by the lack of consistency and comparability. This has led us to develop proprietary models to support our research and engagement (see [page 17](#)).

We therefore welcomed the International Financial Reporting Standards Foundation (IFRS) Foundation's proposal to take leadership in developing globally consistent sustainability reporting standards, which we believe is a positive step in confronting sustainability disclosure problems for investors.¹³

Our response to the consultation is available upon request.

UK social housing sustainability reporting

Insight is part of a working group seeking to encourage investment in social housing by establishing standards for the sector's reporting on ESG criteria. Insight has invested in the housing association sector on behalf of its clients, and we believe it often underplays its best-in-class approach to ESG issues. The working group published a white paper on the topic, proposing reporting criteria and themes for adoption by the sector.¹⁴

This resulted in the development and launch of the Sustainability Reporting Standard for Social Housing.¹⁵ A significant number of housing associations have committed to adopting the standard, and we are proactively encouraging housing associations to adopt the standard or produce equivalent reporting.



UK Stewardship Code 2020

The UK Financial Reporting Council (FRC) introduced a revised Stewardship Code (the Code) last year, taking effect from 1 January 2020.

Insight is committed to fulfilling the reporting and transparency requirements of the updated Code, and we have published a full response.

We are pleased the FRC has broadened the Code to capture all asset classes, especially fixed income, in line with our recommendations during the consultation phase.¹⁶



¹³ More information on the IFRS initiative is available at <https://www.ifrs.org/projects/work-plan/sustainability-reporting/>

¹⁴ <https://thegoodeconomy.co.uk/resources/reports/UK-Social-Housing-Building-a-Sector-Standard-Approach-to-ESG-Reporting-May-2020.pdf> ¹⁵ <https://thegoodeconomy.co.uk/news/sustainability-reporting-standard-launched-with-tackle-the-uks-housing-crisis>

¹⁶ More information on the Code is available at www.frc.org.uk

ENGAGEMENTS ON MARKET AND INDUSTRY ISSUES

AS A RESPONSIBLE INVESTOR, WE TAKE A PROACTIVE ROLE IN ENSURING THE LONG-TERM SUSTAINABILITY AND RESILIENCE OF THE MARKETS IN WHICH WE OPERATE. THIS IS IN OUR CLIENTS' LONG-TERM INTERESTS, AS WELL AS THAT OF WIDER SOCIETY. IN THIS SECTION WE OFFER HIGHLIGHTS OF OUR EFFORTS TO ENGAGE ON SIGNIFICANT REGULATORY AND MARKET ISSUES.

RPI REFORM

Insight has driven the national conversation on proposed reforms to the UK's Retail Prices Index (RPI) – reforms which could have negative implications for millions of pensioners.

In September 2019, Her Majesty's Treasury published letters between the Chancellor of the Exchequer and the Chair of the UK Statistics Authority on proposed changes to RPI. These suggested the UK government was on a pathway to amend the underlying calculation of RPI to align the measure with the Consumer Prices Index including owner occupiers' housing costs (CPIH), the main measure of UK inflation from March 2017.

If RPI is simply aligned with CPIH then, all else being equal, we believe pension fund benefits received by millions of people would be reduced – and it could result in a transfer of wealth from index-linked gilt holders to the UK government of £90bn to £120bn. Pension schemes with CPI-linked benefits, hedged with index-linked gilts will be especially impacted by the proposed change.

Our aim has been to draw attention to the potential impact of the proposed change and to ensure everyone has an opportunity to make their voices heard. Our most significant actions include:

- In November 2019 we published a detailed white paper and open letter urging pension funds, insurers, advisers and asset managers to engage with policymakers about the future consultation.
- We launched a dedicated website, www.rpireform.com, to connect with a broader audience of stakeholders and collate news articles in a single resource.
- In March 2020 we wrote to the Chancellor and the Chair of the UK Statistics Authority urging that the consultation deadline, then set for 22 April 2020, be extended given the unprecedented backdrop caused by the coronavirus pandemic. The deadline was subsequently pushed back to 21 August 2020.¹⁷
- We made our response to the consultation available to clients and consultants to provide an additional information point to help others prepare their own responses.



KEY DEVELOPMENT: In November 2020, the government announced it would go ahead with planned reforms, with the RPI/CPIH alignment beginning from 2030. However, we believe our extensive engagement on behalf of our clients exemplifies how a responsible LDI manager should engage on wider issues affecting their clients, and believe there will be more opportunities to engage on this topic.

EMIR AND CENTRAL CLEARING

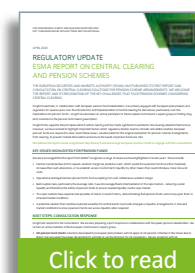
Insight is proactively engaging on key issues on behalf of pension schemes across Europe, responsible for the current and future income of millions of European pensioners.

In collaboration with European pension fund stakeholders, Insight has actively engaged with European policymakers and regulators for several years over the introduction and implementation of central clearing for derivatives, particularly over the implications for pension funds, under the European Market Infrastructure Regulation (EMIR).¹⁸ Insight has also been an active participant in the European Commission's expert group on finding long-term solutions to the pension fund clearing exemption.

¹⁷ <https://www.insightinvestment.com/rpi-reform/perspectives/letter-consultation-on-rpi-reform/> ¹⁸ For a range of past communications and policy responses from Insight, including on issues related to central clearing, please see <https://www.insightinvestment.com/investing-responsibly/perspectives/our-literature/>.

Insight firmly supports the principles behind central clearing and has made significant investments into clearing-related infrastructure. However, we have worked to highlight important factors which regulatory bodies need to consider and address before European pension funds are required to clear. Given these issues, we advocated for the original exemption for pension scheme arrangements from clearing, to prevent market dislocations and ensure the needs of pension funds are met.

In April 2020, the European Securities and Markets Authority (ESMA) published its first report and consultation on central clearing solutions for pension scheme arrangements. We were encouraged that the report from ESMA¹⁹ recognised a range of issues we have highlighted in recent years.



KEY DEVELOPMENT: After Brexit, EMIR does not recognise UK pension funds for the purposes of the clearing exemption, though some national regulators are allowing their domestic banks to trade on that basis. We are encouraging a coordinated solution to this to enable UK pension funds to continue trading with EU banks while benefiting from the clearing exemption. In the UK, we have engaged with the UK Treasury to help ensure EMIR was adapted to ensure UK pension funds are correctly defined and continue to benefit from the clearing exemption. Also, the UK rules recognise some third-country pension schemes, including EU schemes after Brexit, ensuring that EU pension funds can trade with UK banks while remaining exempt from clearing.

LIBOR TRANSITION

Insight is playing an active role in the interest-rate benchmark reform process, which will have implications for financial markets worldwide.

In July 2017, Andrew Bailey, then Chief Executive of the Financial Conduct Authority, made a speech in which he declared that the FCA had persuaded LIBOR panel banks to agree to continue LIBOR submissions until the end of 2021, after which it could not guarantee that the rate would continue to exist. Firms were advised to transition away from the rate.

In 2017 we created an internal working group to bring together key personnel from across the business. The purpose of this group was to ensure that we were at the heart of the debate, protecting our clients' interests and minimising any disruption to their investments as the market transitions away from LIBOR. In 2018 we were invited to join the UK Working Group on Sterling Risk-Free Reference Rates (RFR) as it was expanded to include a broader group of participants, including investment management firms.

In addition, we have participated in the:

- RFR Tough Legacy Taskforce, which examines regulatory dependencies associated with LIBOR transition.
- RFR Buyside Forum, which was later replaced by the LIBOR transition working group, hosted by the Investment Management Association, with the aim of facilitating and encouraging benchmark transition amongst buy-side firms.
- ISDA Working Group on LIBOR and the SONIA Oversight Committee, set up to focus on fallback rates in derivative contracts.
- SONIA Oversight Committee, which reviews and challenges all aspects of the benchmark determination and administration process.
- Insight is a member of the Loan Market Association (LMA) and receives regular updates on the dialogue between the LMA and relevant parties. Insight has met with the CEO of the LMA regarding the transition.
- In addition, we have participated in various consultations, including the ISDA Benchmark Fallback Consultation, in which we recommended the 'compounded setting in arrears rate' for the adjusted risk-free rate and the 'historical mean/median approach' for spread adjustment. Both of these choices were chosen by the majority of respondents. We believe this approach will minimise uncertainty for clients.



KEY DEVELOPMENT: In March 2021, ICE Benchmark Administration (IBA), which administers LIBOR, announced it would cease publication of LIBOR across several currencies at the end of 2021, with some US dollar rates to cease publication in 2023. This marked a significant step in the transition away from LIBOR benchmarks.

¹⁹ <https://www.esma.europa.eu/press-news/esma-news/esma-consults-clearing-solutions-pension-scheme-arrangements-under-emir>

CASE STUDIES

RESPONSIBLE INVESTMENT TAKES MANY FORMS. WHILE WE APPLY THE SAME OVERARCHING PRINCIPLES IN EACH ASSET CLASS AND INVESTMENT STRATEGY, THE EMPHASIS WITHIN EACH WILL DIFFER. IN THIS SECTION, WE OUTLINE THE MAJOR INITIATIVES WE HAVE UNDERTAKEN ACROSS A RANGE OF DISCIPLINES IN 2020 TO SAFEGUARD INVESTOR INTERESTS.



Liability-driven investment

Jos Vermeulen, Head of Solution Design

"We continued to lead the national conversation on RPI reform, which will have major implications for UK pension schemes and other holders of index-linked gilts."

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Investment grade credit

Lucy Speake, Head of European Credit and Deputy Head of Fixed Income

"In 2020, we formally integrated quantitative analysis of climate risks within our strategic credit portfolios, alongside our new ESG ratings."

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High yield

Ulrich Gerhard, Senior Portfolio Manager

"Our proprietary ESG data model and questionnaires support our efforts to identify ESG risk factors to ensure that those we believe to be material can be reflected in our high yield credit process, despite ongoing significant gaps in third-party ESG data in the broader high yield debt market."

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Emerging market corporate debt

Simon Cooke, Portfolio Manager

"Against a backdrop of generally higher ESG risks across emerging markets, we take a forward-looking approach, seeking to anticipate improvements in how companies manage ESG and sustainability factors."

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Sovereign debt

Cynthia Mar, Sovereign Analyst

"We proactively engage with sovereign issuers on new conventional and sustainable issuance."

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Secured finance

Shaheer Guirguis, Head of Secured Finance

"We have instigated an engagement with other global asset managers to drive culture change and improve disclosures on ESG risks across secured finance assets."

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Loans

Lorraine Specketer, Portfolio Manager

"In 2020, we introduced proprietary ESG questionnaires for prospective borrowers."

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Cash

Chris Brown, Head of Money Markets

"We now monitor and analyse ESG ratings within our cash investment universe. We have also changed our approach to exclude investments in tobacco and fossil fuels."

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Multi-asset

Matthew Merritt, Head of Multi-Asset Strategy Group

"We pursued the market development of tradeable derivatives on ESG indices and expanded the range of instruments with specific ESG criteria in our flagship multi-asset strategy."

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Specialist equities

Andy Cawker, Head of Specialist Equities

"We use our proprietary ESG ratings to help us identify good-quality franchises, with solid management teams running their operations in the right way."

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LIABILITY-DRIVEN INVESTMENT



Jos Vermeulen
Head of Solution Design



KEY INSIGHT

We continued to lead the national conversation on RPI reform, which will have major implications for UK pension schemes and other holders of index-linked gilts.



Q How do you integrate responsible investment into your investment process?

We believe a responsible approach is crucial for all liability-driven investment (LDI) strategies.

Investing responsibly includes taking all relevant and material risks into account. With this in mind, ESG considerations are important factors in respect of the investment securities and instruments held, and the derivative counterparties used. Insight embeds ESG analysis in our LDI portfolio management process and we engage actively with bond issuers and counterparties.

A notable change in 2020 was **our decision to raise the profile of ESG risks borne by derivative counterparties within our Counterparty Credit Committee meetings**, as indicated by our Prime corporate ESG ratings (see [page 17](#) for more information). Our aim is to ensure that the ESG ratings of counterparties are fully incorporated into our discussions with those counterparties, focusing on those with the worst ratings (see Table 2). We are encouraged to see more engagement at a counterparty level.

Analysis and engagement with counterparties are important in helping mitigate investment risk for clients. Another area we consider key is supporting sustainable markets; Insight works with regulators and policymakers to help manage regulatory and legislative risks effectively for our clients.

In 2020, to further enhance our responsible investment governance structure, **we established an LDI Working Group with a specific remit to focus on responsible investment issues for the LDI strategies and mandates we manage.**

To help our clients understand the ESG risks borne by their counterparties and how they are managed, we provide our ESG ratings for derivative counterparties to our LDI clients. Our focus is on how these ratings may affect the creditworthiness of counterparties, and we seek to help our clients understand how these factors may be material for risk-management decisions.

We also provide engagement data, outlining specific engagements with counterparties as well as an overview of our broader work on wider issues relevant to LDI. As well as providing clients with this information, this activity has also served to help them comply with new regulatory requirements regarding ESG disclosures.

Table 2: A sample of the ESG ratings generated for Insight's derivative counterparties²⁰

Counterparty	ESG Overall	Environmental	Social	Governance
Counterparty A	3	2	3	4
Counterparty B	3	1	4	4
Counterparty C	2	2	2	3
Counterparty D	2	1	2	3
Counterparty E	3	1	4	4

²⁰ Source: Insight Investment. As at 31 December 2020. ESG ratings range from 1 (best) to 5 (worst). For more information on Insight's Prime corporate ESG ratings, please see [page 17](#).



What are good examples of engagements in 2020 in light of your ESG analysis?

In 2020 we **proactively engaged with clients, policymakers and key stakeholders on proposed changes to the RPI measure of inflation**, leading the national conversation on the proposals, which would have major implications for UK pension schemes. In November 2020, the government announced that it would go ahead with planned reforms, despite substantial concerns being raised during the 2020 consultation from a broad range of market participants. However, we believe our extensive engagement on the issue on behalf of our clients was a clear example of how a responsible LDI manager should engage on wider issues affecting their clients.

We also continued to engage on the transition away from LIBOR, and on issues around central clearing for European pension schemes. See [page 24](#) for more information on these initiatives.

Separately, we **worked with LDI clients to help them address ESG factors within their hedging portfolios**. For example, we are helping one large pension scheme understand the climate risk exposure within credit assets used for liability hedging, and another large scheme to map its portfolios against non-financial, such as environmental, goals.

Finally, a notable development in 2020 was the announcement by the UK government that it will issue its first green gilt in 2021, subject to market conditions. We expect issuance before the 2021 United Nations Climate Change Conference (also known as COP26) in November 2021. This is a welcome commitment and could enable pension schemes to achieve their broader environmental objectives while investing prudently to reach their financial targets. We engaged directly with the UK Debt Management Office on the proposed issuance. For more information on this proposal, please read our paper on the topic.



We provide our ESG ratings for derivative counterparties to our LDI clients. Our focus is on how these ratings may affect the creditworthiness of our counterparties, and we seek to help our clients understand how these factors may be material for risk-management decisions.

JOS VERMEULEN



INVESTMENT GRADE CREDIT



Lucy Speake
Head of European Credit and Deputy Head of Fixed Income



KEY INSIGHT

In 2020, we formally integrated quantitative analysis of climate risks within our strategic credit portfolios, alongside our new ESG ratings.



How do you integrate responsible investment into your investment process?

ESG continues to be integrated into everything we do. Our analysts look at all material risk factors, including ESG issues where relevant. We make sure our credit analysts have clear incentives to maintain their focus on ESG; they understand that integration of ESG factors into their research gives them a better understanding of the long-term risks which could materially impact the default risk of a company, while also helping them select the stocks that may perform better in the medium to long term. This is reflected in the performance appraisal process.

As part of our process, for companies where information provided by external providers is lacking, we send out questionnaires that include questions on ESG risks. Our impact bond framework is integrated into daily morning credit discussions around new issues, and we look to see how it meets our internal ratings framework and whether there are incremental impact benefits (see [page 47](#) for more on our impact bond framework) while also maintaining a financial focus on risk and reward.

In 2020, we amended one of our key tools, the 'landmine checklist', that aims to highlight key risks for all our credit analysts and portfolio managers, to include climate risk as a discrete risk alongside ESG and other credit-material factors (see Figure 10).

Figure 10: Insight's landmine checklist of material default risks for credit issuers

<input checked="" type="checkbox"/> Liquidity	Assuming no access to capital markets in the next 24 months, what is the impact on the issuer's liquidity?	<input type="radio"/>
<input checked="" type="checkbox"/> Regulatory risk	To what extent is the issuer's industry subject to regulation and changes in regulation?	<input type="radio"/>
<input checked="" type="checkbox"/> Environmental, social, governance (ESG)	Is the issuer properly managing environmental, social and governance risks?	<input type="radio"/>
<input checked="" type="checkbox"/> Climate risk	What is the issuer's exposure to transitional or physical climate risk?	<input type="radio"/>
<input checked="" type="checkbox"/> Leveraged buyout (LBO) risk	Is the business likely to be subject to an approach from or a bid by private equity?	<input type="radio"/>
<input checked="" type="checkbox"/> Event risk	Does the management have an appetite for debt financed M&A? Is the company's share price underperforming?	<input type="radio"/>
Each factor scored 1 (good) to 5 (bad)		



What are good examples of engagements in 2020 in light of your ESG analysis?

On a sector basis, we retain our stance against holding longer-dated tobacco companies in our strategic credit portfolios as we have seen a market shift away from the once lower-risk tobacco companies.

In 2020, we sold holdings in the freight transportation company Burlington Northern Santa Fe Railway Company within our strategic credit portfolios. Relative to its peers and standard market practice, the issuer's governance rating is weak. We sought to engage with the company to better understand its approach and encourage improvement, but given the lack of willingness to engage, coupled with our belief that the bonds were not trading in line with these risks, we decided to exit our position.

We also continued a range of long-term engagements with different companies. For example, we engaged again with Temasek, an influential investment holding company used by the government of Singapore, on ESG issues. Temasek became a supporter of the TCFD in 2020, two years after we encouraged them to do so in a previous dialogue. We believe the size and influence of Temasek will serve to drive more companies to increase their climate change and ESG disclosures.

FOCUS ON STRATEGIC CREDIT



Adam Mossakowski
Head of Strategic Credit, Fixed Income

ESG risks are particularly pertinent for strategic credit portfolios, which invest in assets on a long-term basis. Understanding the impact these risks can have on the companies in which we invest is a long-established part of our investment process. Those impacts might range from short-term risks to a company's creditworthiness or reputation, to longer-term concerns about commercial viability or the impacts of climate change.

To help us make those determinations we use our proprietary Prime corporate ESG ratings, which help us highlight the risks, but also assess and even rank companies relative to their peers. This gives us a quantitative framework that we can use to screen out worst-in-class offenders. Since 2020 this screening has been further supplemented by the integration of our Prime climate risk ratings. For more information on our Prime corporate ESG and climate risk ratings, see [pages 17 to 20](#).

Supplemented with traditional qualitative analysis, we now have a robust process to identify problematic companies and challenge their practices. And that engagement process itself can be telling. An inability or lack of desire to work with bondholders can be an indication of poor governance. Conversely, an open two-way dialogue channel can give us the information and confidence to understand where a company is heading in the long term and how it might react to changes in circumstance.

It is also important to note that our focus is not purely on default risk; many of the issues we highlight are 'tail risks' that may never materialise. However, they are risks nonetheless, and we believe investors should be compensated for them. As such, we see ESG and climate risks as key in making relative-value determinations. Viewed through this lens, we can use our ESG and climate risk ratings to build more efficient and resilient long-term strategic portfolios.

HIGH YIELD



Ulrich Gerhard
Senior Portfolio Manager



KEY INSIGHT

Our proprietary ESG data model and questionnaires support our efforts to identify ESG risk factors to ensure that those we believe to be material can be reflected in our high yield credit process, despite ongoing significant gaps in third-party ESG data in the broader high yield debt market.



Q How do you integrate responsible investment into your investment process?

For many years we have emphasised to our clients that ESG risks can be more significant in high yield markets than for investment grade debt. Given their capital structures, certain high yield issuers have a smaller cushion to cope with risks – including ESG – that may cause a sudden, unexpected deterioration in credit quality. Further, some sectors with more material ESG risks, such as energy, tend to account for a large proportion of the high yield debt market.

As a result, taking ESG risks into account has long been an essential part of our high yield debt analysis, with governance typically being the most important issue. We consider the materiality of ESG risks, any mitigants in place, and the direction of travel, before determining whether those risks are reflected in the trading price.

Despite this heightened potential impact from ESG factors, as credit risk increases, third-party ESG data coverage actually decreases. In 2020, we noted a clear increase in attention paid to ESG factors in high yield debt, and these risks have become part of the day-to-day dialogue across the market. We welcome the increased attention and transparency around these risks: high yield debt issuers are often private and thus not covered by ESG ratings providers, and even for those that are covered, the quality and quantity of data available is often poorer than that for investment grade. We use a proprietary ESG questionnaire to help fill information gaps, and we believe additional transparency will serve to support accurate research and analysis of issuers.



Q What are good examples of engagements in 2020 in light of your ESG analysis?

Our investment decisions across our high yield portfolios are based on close engagement with management teams to understand ESG risks, and encourage better management of those risks where appropriate. Governance issues are raised with high yield debt issuers as a matter of course.

In 2020, an energy company with which we have a long-standing relationship completed our proprietary ESG survey for the first time. On engaging with the company they highlighted the increased use of gas rather than diesel in their machinery, reducing emissions, and outlined how the move to digital working had resulted in a smaller impact from the COVID-19 pandemic than would otherwise have been the case. We were positive about this engagement and the increased transparency from the company; we also deemed it suitable for some portfolios with sustainability targets.

Separately, we engaged with a European car parts maker after our proprietary ESG rating was downgraded to 5 overall (the worst possible rating), driven by a fall in its social rating to 5. The risks identified were product quality and safety, with an issue regarding product reliability; supply chain management, where there was limited disclosure on the extent to which suppliers were certified; and labour management, with concerns around processes for restructuring and job losses. The company responded to our questions with additional information, and following a formal review by Insight's Responsible Investment Ratings Review Group, the social rating was adjusted to 4 based on the new information provided during the engagement.

EMERGING MARKET CORPORATE DEBT



Simon Cooke
Portfolio Manager



KEY INSIGHT

Against a backdrop of generally higher ESG risks across emerging markets, we take a forward-looking approach, seeking to anticipate improvements in how companies manage ESG and sustainability factors.



How do you integrate ESG/responsible investment into your investment process?

Much of emerging market corporate debt is at an earlier stage in its ESG journey relative to developed market investment grade debt. There is huge potential for positive change both in terms of a company's ESG risk profile and its support of the UN Sustainable Development Goals, so we take a forward-looking approach when analysing issuers and their ESG risks, rather than focussing purely on historical performance.

We analyse the ESG risks for each issuer, looking at how these risks are managed in practice, and the direction of travel. We avoid issuers where the ESG risks are material, there is no plan to adequately address them, and/or those risks are not reflected in trading levels. Conversely, we do lend to issuers that currently, or are taking steps to, mitigate material ESG risks. That includes those issuers who may not manage their ESG risks very well today, but have a credible and measurable plan to materially improve over the coming years. Such companies may have been subject to an ESG controversy, or suffered governance weaknesses, or face environmental concerns, and thus trade at a premium. Where those issuers exhibit a commitment to change, we will discuss with them how they might address their ESG problems. By partnering with the issuers, we are able to capture some of the structural credit and sustainability improvements that we believe are on offer in emerging markets.



What are good examples of engagements in 2020 in light of your ESG analysis?

We engaged with an Eastern European agribusiness that did not have a history of reporting or measuring water usage, a potentially material ESG risk factor for this company. We met with management to discuss risk materiality, need for measurement, disclosure and reduction plan. The company subsequently began disclosing water usage for oilseed processing, infrastructure and trading. This year, its management plans to improve the accounting methodology to provide farming data in 2021. Given the issuer's efforts to address measurement and disclosure, and commitment to continue improving, in combination with our positive fundamental outlook, we continue to hold the investment and discuss water usage.

An Asian battery maker came to the market with a debut issue in 2020. This company uses high-energy intensity production and incorporates raw materials such as cobalt, nickel, and lithium, without having clear knowledge of its supply chain. Financial and non-financial disclosures were limited. We engaged with senior management to discuss the credit and raise our concerns and followed up with further discussions with management and syndicate. The issuer provided lacklustre responses and was not willing to properly address the problems we raised. We therefore decided not to invest in the new issue.

SOVEREIGN DEBT



Cynthia Mar
Sovereign Analyst



KEY INSIGHT

We proactively engage with sovereign issuers on new conventional and sustainable issuance.



How do you integrate responsible investment into your investment process?

ESG integration is a fundamental part of our sovereign debt investment process. We have developed a sovereign ESG framework with distinct sovereign risk and sovereign impact models that feed directly into the process. The risk model focuses on ESG factors relevant to debt repayment, and the impact model focuses more on factors related to country development and all-round good governance aligned to the UN's SDGs. By splitting our sovereign ESG rating into risk and impact scores, we can tailor portfolios even better to client preferences, allowing for greater focus on impact and sustainability as required. See [page 21](#) for more information on our sovereign ESG models.

The current ratings showcase the differences in approach. For example, while India has a relatively low rating in the impact model (116 out of 123 sovereigns), it ranks higher in the risk model (78 out of 123). This makes sense considering the different focus of the two models: India's impact rating is worsened in particular by high air pollution (measured by particulate matter, or PM2.5) as well as the country's low proportion of environmentally protected land or marine areas. In contrast, its risk rating is supported by lower risk in social factors such as India's favourable age dependency ratio, but higher risk from governance factors such as the difficulty in enforcing contracts.



What are good examples of engagements in 2020 in light of your ESG analysis?

The relevance of ESG factors for sovereign issuers continues to remain at the developmental phase, without the level of approach consensus that is found at the corporate bond level. However, we continue to see strong growth in sovereign issuance in specialist areas such as green and social bonds, which should provide an even greater platform for sovereign engagement.

We have participated in green and social bond new issuances from emerging markets including Hungary, Chile and Guatemala. We use bond roadshows as a forum to actively engage with issuers. For example, Mexico is looking to issue a green bond and is in the process of building up its green bond programme. We have been engaging with representatives of Mexico during this process.

We have also actively engaged with Benin, another emerging market issuer, as they have clear issuance plans in international debt markets. In recent dialogue, we provided feedback that some of the data transparency is not where it should be. As investors, we need to see improved data transparency which ultimately feeds into governance ratings in our ESG framework.

SECURED FINANCE



Shaheer Guirguis
Head of Secured Finance



KEY INSIGHT

We have instigated an engagement with other global asset managers to drive culture change and improve disclosures on ESG risks across secured finance assets.



How do you integrate responsible investment into your investment process?

Awareness of ESG issues across secured finance assets continues to grow, and we believe Insight is leading efforts to encourage issuers to consider and disclose ESG risks.

We consider ESG factors as part of the rigorous fundamental analysis undertaken on originators, which is vitally important to the decision-making process. This includes detailed due diligence on the originators both prior to making an investment, as well as on an ongoing basis.

We also seek to understand the ESG risks to which secured finance assets themselves may be exposed. Determining ESG ratings for secured finance securities can be complex. There can be many stakeholders in the supply chain, and special purpose vehicles (SPVs) are often not discrete: for example, the mortgages within a SPV can change and so the ESG rating for the security can vary as the environmental quality of the houses might change over time.

However, we have identified a range of ESG characteristics relevant across secured finance assets (see Figure 11 overleaf).

To support our research, we have developed questionnaires for a range of sectors, and are developing more (see overleaf for more details). Of the questionnaires we issued in 2020, c.75% have elicited responses from liquid ABS issuers, and 100% for illiquid ABS (direct lending).

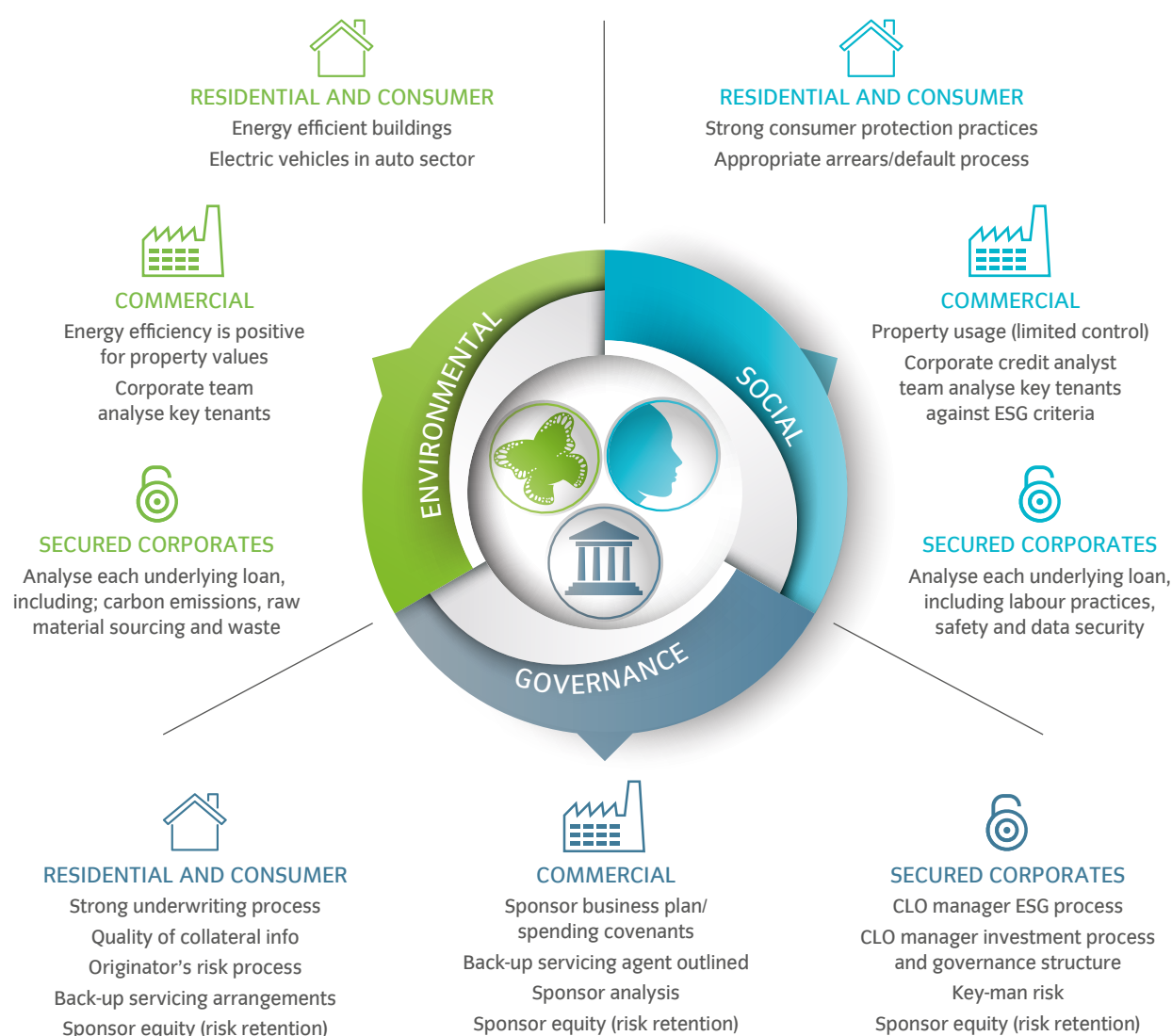


We have proposed a joint initiative
with other major global asset
managers to urge the development
of key performance indicators on
ESG issues, and engagement with
local regulators on these topics

SHAHEER GUIRGUIS



Figure 11: ESG considerations with secured finance market segments



Given the different challenges across secured finance assets, how we respond to them varies depending on the type of asset.

- **Consumer loans/mortgages:** For securities based on underlying pools of consumer loans (such as credit card debt or auto finance) and residential mortgages, originators vary in their ability and willingness to provide ESG data on the underlying assets.

INSIGHT ACTIVITY: We issue questionnaires focusing on ESG risks to all originators of securities based on consumer loans or mortgages (see Figure 12). We may invest without a completed questionnaire, depending on our overall analysis of a relevant issue.

- **Commercial real estate loans/mortgages:** Commercial real estate (CRE) loans are typically issued on a single commercial property. This means it is relatively straightforward to ascertain relevant ESG risks. For example, environmental audits on large buildings are typically available for review.

Commercial mortgage-backed securities (CMBS) derive returns from an underlying pool of commercial mortgages, and so face similar challenges to residential mortgage-backed securities, with limited ESG data available on the underlying pools. There are exceptions, with 'green' CMBS coming to market and offering environmental data on the underlying assets.

INSIGHT ACTIVITY: ESG disclosures on the underlying assets for CRE loans are typically extensive and we take these into account as part of our investment analysis.

We have developed new questionnaires for CMBS originators and are sending these out as new issues come to market.

- **Collateralised loan obligations (CLOs):** CLOs purchase a pool of senior secured bank loans, made to sub-investment grade businesses. They issue debt in tranches, with differing risk/return profiles derived from the seniority of the claim on the cashflows generated by the underlying loans.

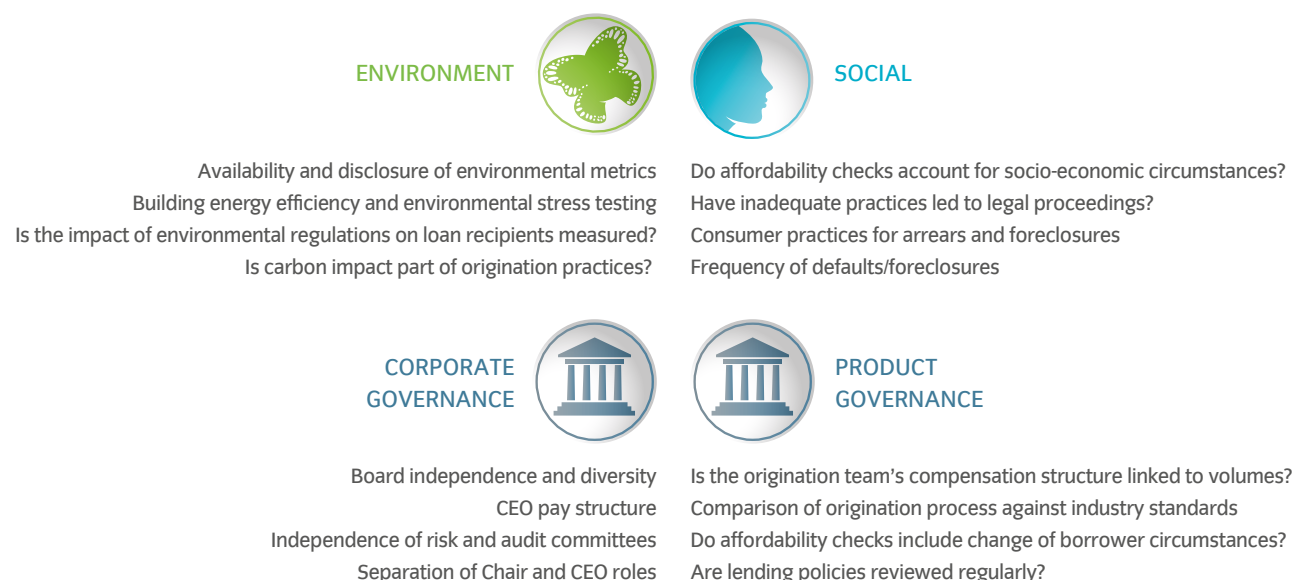
The structure of CLOs means investors usually depend on the originator to provide data on underlying loans, and ESG data is typically limited.

INSIGHT ACTIVITY: Given the structure of CLOs our focus is typically on governance for the CLO manager. We intend to encourage greater ESG disclosures across CLO issuance in 2021, following the progress we have made on consumer and commercial loans in 2020. When we review CLO managers, we ask specifically about ESG factors, and whether they have a relevant policy integrated within their credit process. We also aim to discuss examples of loans they have rejected due to ESG concerns. For credit-sensitive tranches we conduct a loan-by-loan review, and analysis by our loans team incorporates ESG considerations where possible.

- **Direct lending:** Many companies seek to borrow money from non-bank lenders. Such loans are typically illiquid and therefore offer higher yields than more liquid assets, all else being equal.

INSIGHT ACTIVITY: For any direct lending, we ask borrowers to provide information on ESG risks to which they are exposed, and how they manage them. If a borrower does not provide this information we decline the loan. Credit analysts and portfolio managers therefore have clear incentives to ensure that borrowers provide the necessary information on ESG factors.

Figure 12: Areas covered by our proprietary ESG questionnaire for consumer loans



Q

What are good examples of engagements in 2020 in light of your ESG analysis?

In 2020, we engaged with selected issuers to explore the potential for improved ESG disclosures for securities based on consumer loans and mortgages. We sought to consider how we might encourage the wider industry to move forward on these issues.

These engagements highlighted a lack of willingness and ability on the part of some issuers to make progress. One major European auto manufacturer, despite emphasising its ESG credentials at the corporate level, said the lack of demand from investors meant it would not consider incorporating ESG disclosures in its asset-backed securities issuance in the short term. Other issuers were more positive but faced technical challenges. Some bank issuers are seeking to take advantage of demand for 'green' issuance, but relevant data has proved difficult to source for institutions that have gone through historical mergers and acquisitions, resulting in information being spread across legacy systems.

These challenges ultimately led us to raise the issue with the Asset Management and Investors Council (AMIC) at the International Capital Market Association (ICMA). We have proposed a joint initiative with other major global asset managers to urge the development of key performance indicators on ESG issues, and engagement with local regulators on these topics. An initiative focusing on this issue was announced in March 2021.²¹

²¹ For more information, please see <https://www.icmagroup.org/News/news-in-brief/icma-amic-statement-on-esg-transparency-of-asset-backed-securities/>.

LOANS



Lorraine Specketer
Portfolio Manager



KEY INSIGHT

In 2020, we introduced proprietary ESG questionnaires for prospective borrowers.



How do you integrate responsible investment into your investment process?

Our analysis of syndicated loans has integrated ESG concerns much like our corporate bond investment process, with ESG and climate risks identified as key factors that could lead to a sharp deterioration in a borrower's credit quality.

In 2020, we developed a proprietary loan ESG survey with our Responsible Investment Team. We now send this survey to borrowers to help us analyse new deals brought to the market and have had constructive engagement to date.

We have noted a wider drive among lenders for more disclosures of ESG risks, and more loans have come to market that include terms focusing ESG-specific targets, such as commitments to adjust margins if specified targets are met.



What are good examples of engagements in 2020 in light of your ESG analysis?

Our proprietary loan ESG surveys directly support our active engagements with company management.

In 2020, a private higher education provider issued a €1bn loan. We decided not to participate. Our research uncovered several serious concerns, including serious complaints from former students on the quality of service and value of credentials provided, and removal of some institutions from eligibility for government student loan programmes in key markets. There has also been a high level of personnel turnover in key financial roles and the company would not commit to providing audited financials for fiscal year 2020. The highly acquisitive nature of the business also made like-for-like comparisons difficult over time given poor disclosures.

Separately, we have long invested in a European nursing home provider. Upon the outbreak of the COVID-19 pandemic, we held one-to-one meetings with management. We believed the disclosure of COVID-19-related information to assess their handling of the pandemic was insufficient. As a result, we sold our holding and moved our exposure to a close peer within the sector with excellent disclosure of their COVID-19 policies and mortality/infection figures, so that we could have greater confidence in their performance during the ongoing health crisis. As a result, we are now invested in a company providing detailed plans and figures for their vaccination programme while the previous borrower continues to keep this information private.

CASH



Chris Brown
Head of Money Markets



KEY INSIGHT

We now monitor and analyse ESG ratings within our cash investment universe. We have also changed our approach to exclude investments in tobacco and fossil fuels.



How have you applied a responsible investment approach in your portfolios?

Our clients increasingly expect ESG criteria to be incorporated into their investments, and we reflect this in our cash portfolios – both in terms of ensuring material ESG risks are analysed, and to encourage better practice with regard to high-profile ESG issues.

We monitor and analyse ESG ratings and risks within our cash investment universe on a monthly basis. We exclude the worst performers, and if there are possible investments with similar financial details, we will opt for the better performer in ESG terms. If an issuer has no ESG rating, we will engage with the company to understand the risks it faces; if the issuer does not engage, we will consider removing our holding.



What specific investment decisions have you made in 2020 in light of your ESG analysis?

We have changed our approach to exclude investments in tobacco and fossil fuels. We continue to exclude defence. The cash instruments in which we invest are typically A1/A1+ rated, so ESG risks typically have less material impact relative to lower-rated fixed income investments. There has been no material impact on our liquidity portfolios' performance since implementing these principles.



MULTI-ASSET



Matthew Merritt
Head of Multi-Asset Strategy Group



KEY INSIGHT

We pursued the market development of tradeable derivatives on ESG indices and expanded the range of instruments with specific ESG criteria in our flagship multi-asset strategy.



How have you applied a responsible investment approach in your portfolios?

Our flagship multi-asset approach, Insight's broad opportunities strategy, seeks to generate long-term capital growth through dynamic allocation across a variety of asset classes. The strategy adopts a global macro approach and uses derivatives, market index-based securities, listed closed-end investment companies (direct holdings) and pooled funds to gain the team's desired exposure to each of the underlying asset classes.

A responsible investment approach is integrated across all aspects of our investment process, and our strategy is aligned with each of the six PRI principles. Figure 13 highlights how we aim to take a responsible investment approach when making investment decisions and fulfil our stewardship role in the case of direct investments.

Figure 13: How Insight's flagship multi-asset strategy seeks to embed the six PRI principles

Principle
1

We will incorporate ESG issues into investment analysis and decision-making processes

- Actively seek ESG screened instruments for market exposures which we believe can deliver superior returns
- Evaluate ESG issues when assessing direct investments
- Investments in Insight pooled funds have embedded ESG considerations

Principle
2

We will be active owners and incorporate ESG issues into our ownership policies and practices

- Vote on all direct holdings
- Actively engage with all direct holdings, pursuing a responsible investment agenda

Principle
3

We will seek appropriate disclosure on ESG issues by the entities in which we invest

- Proprietary ESG questionnaire developed for direct holdings (infrastructure investments)
- Identifies potential areas for engagement
- Feeds through to Insight's ESG ratings reflected in our transparency reporting

Principle
4

We will promote acceptance and implementation of the Principles within the investment industry

- Actively support development of ESG screened index instruments through early adoption, thereby encouraging broader take-up across industry. Active engagement with providers on issues such as exclusion criteria
- Engagement with direct holdings pursuing responsible investment agenda benefits all holders and encourages best practice

Principle
5

We will work together to enhance our effectiveness in implementing the Principles

- Leverage Insight's full range of responsible investment analysis and resources
- Engage with other areas of the business in areas such as design of responsible investment questionnaires within research process and determining / overseeing Insight's voting policy

Principle
6

We will each report on our activities and progress towards implementing the Principles

- Provide transparent reporting of portfolio using Insight's proprietary ESG ratings of underlying exposures, as well as climate change factors
- Reports on voting and engagement can be provided

Asset classes accessed in the strategy offer different ways to adopt a responsible investment approach.

- We use **derivative instruments** extensively, and we have long been proponents of developing these markets to support responsible investors. Following an extensive review of recently launched instruments, we started to use ESG-screened equity derivatives early in 2020 (see below for more information).
- In **fixed income**, to access certain exposures our strategy can invest in Insight-managed pooled vehicles. For such capabilities, ESG considerations have long been a fundamental part of our corporate and sovereign research and engagement processes.
- The strategy's **direct holdings in listed closed-end infrastructure companies** provide a different scope for engagement than market-based exposures. In 2020 we collaborated with an external entity to develop a proprietary ESG questionnaire for our strategy's infrastructure holdings. The questionnaire helps to assess ESG credentials across different sectors and to identify areas for future engagement.

As active owners of our direct holdings we exercise our stewardship role through regular engagement with investee management and company boards to discuss a range of relevant issues including governance, strategy and implementation of a responsible investment approach. In 2020, we had 36 engagements including 13 with company boards and 14 where ESG factors were a topic of discussion. Over the same period, we voted on 151 proposals across 12 companies.

We are committed to providing transparency on ESG outcomes in our strategy and now provide detailed ESG metrics to our clients. We offer a summary in Table 3.

Table 3: ESG ratings for Insight's flagship multi-asset strategy²²

	ESG rating ²³	Environmental rating ²³	Social rating ²³	Governance rating ²⁴	Carbon intensity ²⁴
Portfolio	2.8	2.5	2.9	3.2	184.3
Cash	2.8	2.5	2.9	3.2	191.0
Fixed income	1.7	2.3	1.8	2.0	N/A
Equities	2.9	2.5	2.8	3.4	315.1
Real assets²⁵	3.3	2.8	3.3	3.8	160.8
Total return strategies	2.7	3.1	3.1	2.1	1.2



What specific investment decisions have you made in 2020 in light of your ESG analysis?

ESG-screened exposures

Recent developments in ESG-screened exchange-traded derivatives and funds have provided opportunities for us to encourage their use within the wider industry.

Following extensive reviews of recently launched instruments, we started to incorporate ESG-screened equity derivatives in the strategy in early 2020 including futures on the S&P 500 ESG index, and as they became available, the EuroStoxx 50 ESG Index and MSCI Emerging Market ESG Screened Index. Our commitment to encourage the development and adoption of ESG screened exposures has meant that our strategy, as at 2020 year-end, accounts for a meaningful proportion of aggregate open interest in these relatively newly available derivatives.

We also introduced ESG-screened exposures in other parts of the portfolio including US and European investment grade credit, US and European high yield and emerging market debt.

The strategy's ESG-screened holdings exclude exposures to certain industries while maintaining broadly similar characteristics to the parent asset classes. Excluded exposures are generally replaced by companies with a higher ESG scores in the same sector.

²² As at 31 December 2020. ESG ratings range from 1 (best possible) to 5 (worst possible). Notes: ²³ ESG ratings reflect Insight's assessment of corporate and sovereign issuers, or where appropriate, pooled funds. Cash rating relates to Insight's GBP liquidity strategy. Real assets rating excludes commodities. ²⁴ Carbon intensity calculations take each underlying corporate issuer's (or where appropriate pooled fund) total Scope 1 and Scope 2 emissions, which are then normalised by revenue (US\$). Data sourced from a third-party provider without modifications. Cash, government bonds, currencies and commodities are not assigned a carbon intensity score and are excluded from calculations. Carbon intensity scores do not contribute to overall ESG ratings. ²⁵ Real assets ESG ratings taken as at 30 June 2020. Data is given for a representative portfolio which adheres to the same investment approach as Insight's broad opportunities strategy.

Our commitment to foster development and early adoption of ESG screened exposures provided us with engagement opportunities with providers on issues such as exclusion criteria. In Q2 2020, we participated in a consultation which contributed to the exclusion of companies that derive more than 5% revenue from thermal coal in the S&P 500 ESG index. This change came into effect from Q3 2020.

Climate change

Long-term public and political commitments in most major economies towards creating a cleaner, more secure and sustainable energy mix has contributed to growth in renewable sources of energy, and in turn has resulted in attractive investment opportunities within renewable energy.

Renewable energy exposures we hold provide an important source of potential returns. An increasing focus on renewable energy by global policymakers, including in the US, should incrementally benefit other portfolio holdings which capture such opportunities in other regions.

The importance of renewable energy has increased over time and our strategy's target exposure, as a proportion of overall infrastructure exposure, has increased over time, up from 11% at the end of 2015 to 28% in 2019 and 33% in 2020.

Pandemic impact

Over the year, a focus of our engagement in portfolio holdings has been assessing the impact of the pandemic on expected returns. The discussions have covered a range of issues including continuity of services to public sector counterparts, availability of facilities and assurance of cashflows, impact of lower power price forecasts on expected cash flows and overall impact on demand-based assets due to the restriction of movement of people and goods. We remain comfortable that in the majority of portfolio exposures, drivers to expected returns remain broadly unchanged.



SPECIALIST EQUITIES



Andy Cawker
Head of Specialist Equities



KEY INSIGHT

We use our proprietary ESG ratings to help us identify good-quality franchises, with solid management teams running their operations in the right way.



How do you integrate responsible investment into your investment process?

We have continued to reflect all material risks, including ESG risks, within our equity portfolios. This is a fundamental part of our stock-picking process: we use our proprietary ESG ratings to help us identify good-quality franchises, with solid management teams running their operations in the right way.

Through our qualitative research, we have sought to reflect material ESG factors within our portfolios, and we believe our quantitative data demonstrates this. In 2020, around 80% of the capital invested in our equity income portfolios received a rating of 1 to 3.

The results from our ESG models are continually monitored to see if any company's rating starts to deteriorate. If we observe a poor rating, we will research further and engage if necessary before we decide whether to adjust our allocation. However, we would note that a bad ESG rating does not necessarily reflect a material risk.



What are good examples of engagements in 2020 in light of your ESG analysis?

To support our analysis we regularly engage with companies on ESG risks and issues.

For example, a European chemicals company in which we held a long position was flagged after an incident in which it appeared the company was responsible for pollution near one of its chemical plants. We were concerned that this posed an underappreciated risk to the equity of the company, in terms of an under-accrued financial liability and possible reputational damage. We discussed the matter with management but we believed it was possible that regulatory agencies might blame the company for the incident, and so we sold the position.


A positive example of ESG factors playing a clear role in our investment process is our long position in a packaging and paper company. We expect the shift away from plastic towards paper packaging, which is more environmentally friendly, will favour the company relative to some of its peers.



For details on Insight's shareholder voting in 2020, please see [page 63](#).

An aerial photograph of a dense urban landscape, likely New York City, featuring numerous skyscrapers and buildings. Overlaid on the image is a complex network of bright green lines connecting various points, resembling a digital or data network. The lines radiate from several central points, creating a star-like pattern across the city. The overall color palette is dominated by the blues and greys of the city buildings, contrasted with the vibrant green of the network lines.

IMPACT AND SUSTAINABILITY

- 
- Investors are increasingly seeking to make a positive impact with their portfolios, either through impact bonds or through other means, including proactive engagement
 - The supply of impact bonds has boomed to over \$1 trillion, with bonds to support the COVID-19 response a notable proportion of 2020 issuance – though 'impact washing' remains prevalent
 - Insight has introduced Responsible Horizons, a new range of strategies to help investors achieve sustainability objectives while pursuing a financial return

FOR INVESTORS SEEKING A POSITIVE IMPACT

ENVIRONMENTAL OR SOCIAL IMPACT CAN BE ACHIEVED THROUGH LABELLED IMPACT BONDS, THE IDENTIFICATION OF SUSTAINABLE ISSUERS, AND CORPORATE ENGAGEMENT. THE GROWTH OF THE IMPACT BOND MARKET HAS DRAWN THE ATTENTION OF INVESTORS SEEKING A POSITIVE IMPACT.

Once seen as a niche, seed-stage asset class, impact bonds have matured to an undeniably viable addition to portfolios in their own right. Issuance surged in 2020, driven in part by the need to finance efforts in response to the COVID-19 pandemic. We believe this increase could easily be repeated in 2021, taking the overall market close to \$2trn by the end of the year.



OPPORTUNITY IN IMPACT

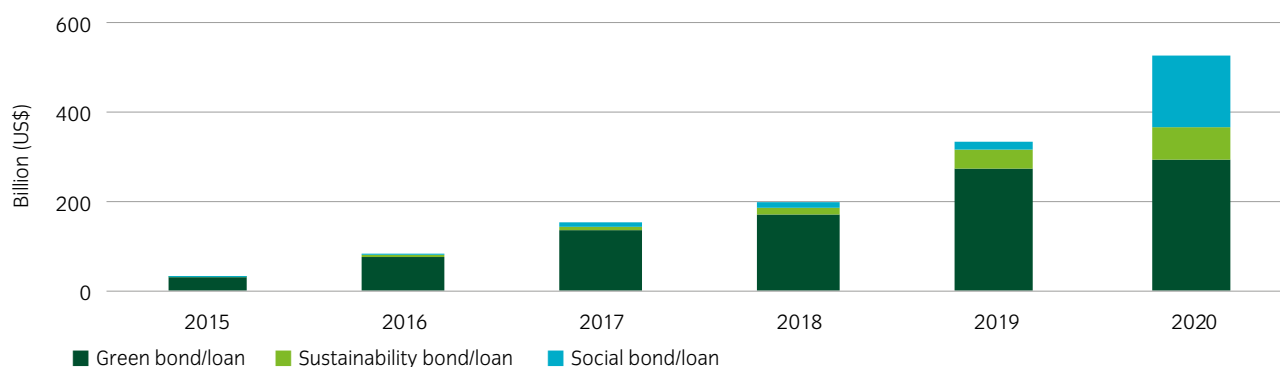
The surge in impact bond issuance was driven by investor demand, leading governments and corporates alike to deliver on the premise of impactful investing. Fixed income investors might consider the extent to which they are acting to influence the structure of new issuance: corporates can be receptive to direct engagement and feedback, as we illustrate in this report (see [page 26 onwards](#)).

Also, for asset owners such as pension funds, the nature of fixed income investing requires the long-term management of sustainability issues. This creates a significant opportunity to incorporate impact objectives within fixed income mandates.

THE SOCIAL CLUB

Green bonds continue to dominate impact bond issuance at 53% in 2020. However, the rise of social bonds was striking, marking an almost nine-fold increase to \$161bn in issuance (from \$18bn in 2019), propelled by the global response to COVID-19 (see Figure 14).

Figure 14: Social bond issuance surged in 2020²⁸



²⁶ Source Bloomberg. ²⁷ As at 31 December 2020. ²⁸ Bloomberg, as at 31 December 2020.

In March 2020, the ICMA highlighted the relevance of social bonds in addressing the coronavirus pandemic and provided additional guidance for eligible social projects, which now include coronavirus-related health care and medical research, vaccine development, and medical equipment investments.

The increased scope of eligible projects is likely to encourage issuers to become more active in the space. The diversification of issuers is likely to evolve in a similar manner to the green bond market, with supranationals leading in the market's early years and other investor types following as more issuers look to demonstrate support for social issues while delivering investment returns.

NOT ALL IMPACT BONDS ARE CREATED EQUAL

Impact bonds can help the investors align with their non-financial objectives, but rigorous due diligence is vital to avoid the risk of 'greenwashing'.

Approximately 10% of impact bonds evaluated by Insight in 2020 received a 'red' rating and 40% a 'green' rating

In large parts of the impact bond market there are lower levels of disclosure, which is a significant enabler of 'impact washing' – an issuer falsely claiming to be impact-focused, with little intention of demonstrating any positive impact achieved. This, in turn, creates challenges around comparability in the issuance of, and reporting on, so-called impact bonds.

While there are some commonly used frameworks and standards, such as the International Capital Market Association's (ICMA) Green Bond Principles, these are not a prerequisite for issuance – and only cover a portion of the universe. Likewise, a lack of consistent reporting renders it difficult for investors to identify whether bond proceeds are used as initially marketed or are simply impact in name only.

HELP FOR INVESTORS: IMPACT BOND ASSESSMENTS

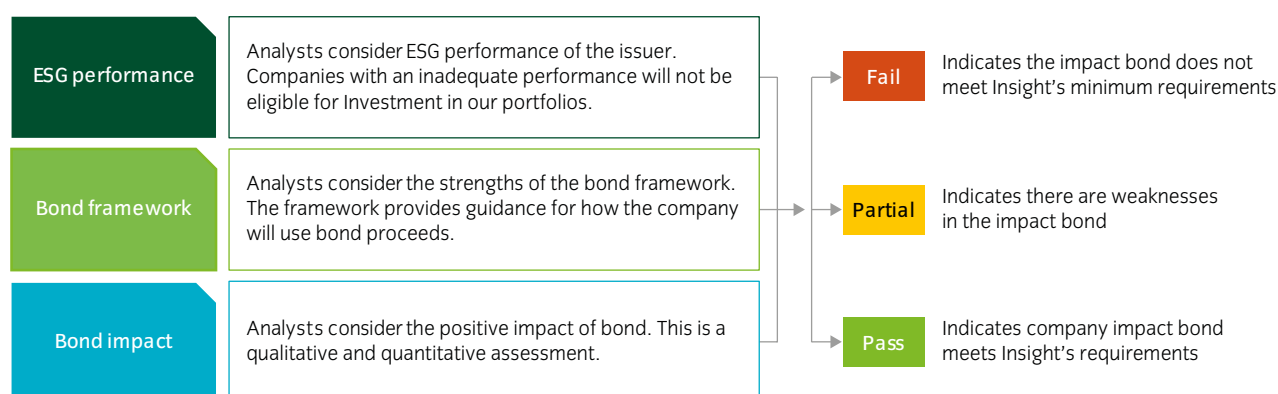
To manage sustainability objectives for our clients, Insight analyses impact bonds using our proprietary framework (see Figure 15). We have found some misalignment in how these instruments are defined, posing issues of integrity in measuring objectives for investors. As the universe expands, these issues are likely to only be further compounded.

Out of the 285 impact bonds we have rated since 2017, it has been disappointing to see that only 34% have met all our requirements to receive a green rating under our impact bond assessment framework. Conversely, 16% received a red rating meaning they did not pass our minimum criteria, with the remaining 50% rated amber, indicating there are some weaknesses in their approach.²⁹

The new EU green bond standards and the EU taxonomy should introduce more market standardisation and give access to more complete information that will be relevant to investors. For issuers, alignment with the ICMA Green Bonds Principles, along with external verification, will prevent them from giving any unintentional impression of impact washing.








Until more formal frameworks are enforced, it will be vital for investors to exercise appropriate due diligence to avoid falling victim to the rising risk of impact washing.

Figure 15: Insight's impact bond evaluation process

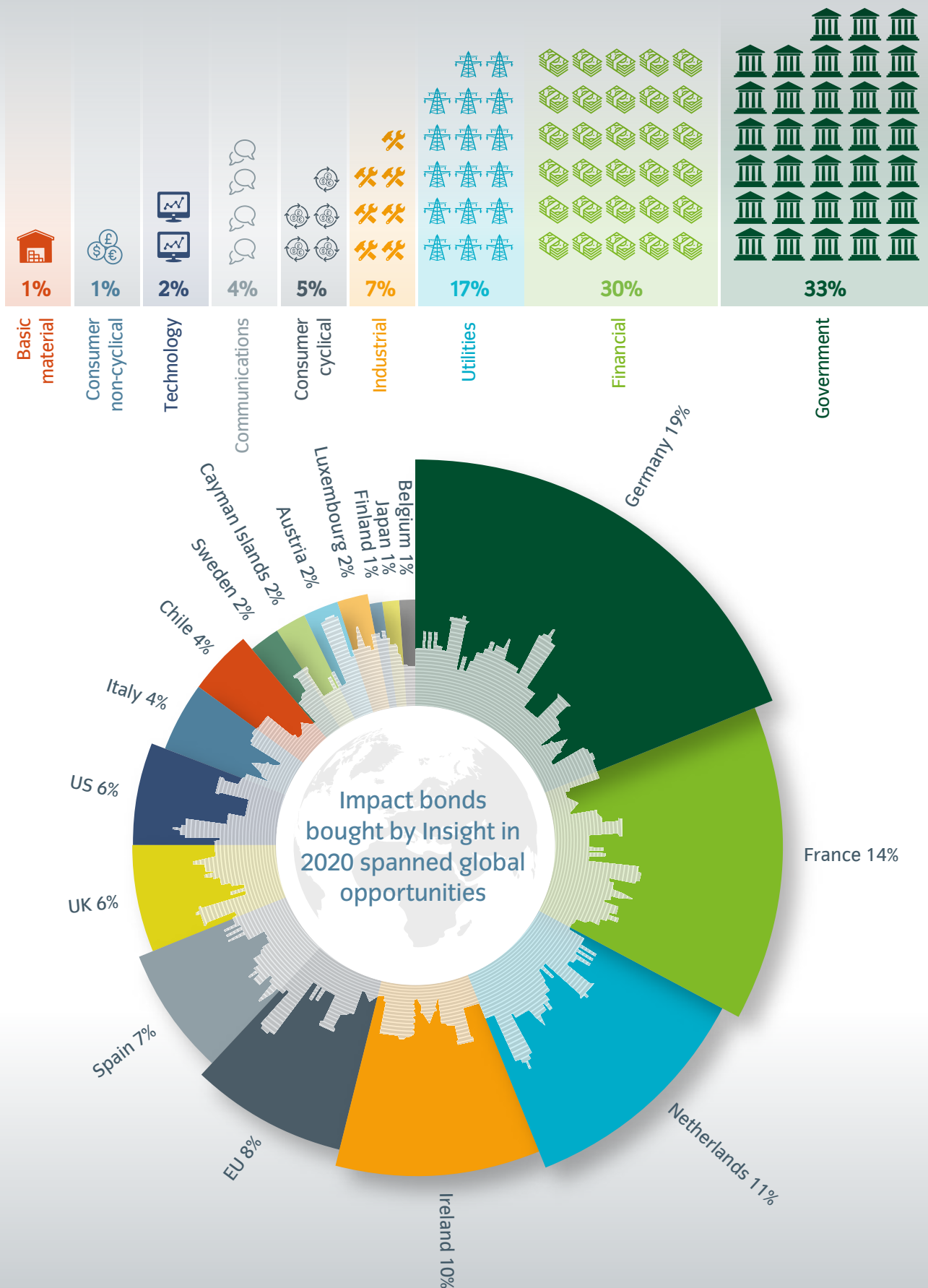


²⁹ As at 31 December 2020.

Figure 16: Examples of Insight Investment's impact bond analysis

Sector	Bond type	ESG performance met?	Bond framework criteria met?	Impact criteria met?	Traffic light rating
 Media	 Social				
This education bond has clear criteria for projects that could create a positive social impact and is aligned with the social bond principles. The issuer could have provided more information on exactly which category the proceeds would be used for and the extent of financing versus refinancing. However, this is a best-in class issuer and there is a strong process for evaluating eligible projects, justifying a green rating.					
 Automotive	 Green				
The bond's proceeds may be used for clean transportation (primarily funding electric vehicles and related charging infrastructure). The issuer remains a UN Global Compact violator and has a worst-in-class ESG rating, and therefore does not meet our criteria to be rated green. However, the framework is clear and in line with the market standard.					
 Financial	 Social				
There is a lack of information on how much of the proceeds will refinance existing debt rather than finance new projects. It is unclear whether the framework has been verified by the ICMA, how often the issuer would provide reporting, and whether they will provide reporting including specified key performance indicators (KPIs). Compared to other COVID-19 social bond issuances, we believe the framework lacks detail and ambiguity around impact reporting is not sufficient to measure the overall impact of the bond. On the positive side, how proceeds will be used are more specific compared to other issues.					
 Telecommunications	 Green				
The bond's proceeds may be used for renewable energy, energy efficiency and green buildings. The company has committed to providing allocation and impact reporting and has stated relevant KPIs. A green bond committee comprised of representatives from the company's treasury, strategy, technology and sustainability teams will be responsible for selecting and evaluating eligible projects. The company has committed to providing independently verified allocation and impact reporting. The company has a clear framework and has set business-level targets for carbon emissions, waste management and 100% action among employees to be achieved by 2030. There is a clear commitment from the company to implement a sustainable strategy.					
 Real estate	 Social				
The bond's proceeds may be used for accessing essential services through investment in hospital and elderly care real estate in France. We rated this bond amber. This could have been a green rating as it ticks the boxes in terms of the key pillars of a framework and the company has an opportunity to create clear social impact. However, it appears to be refinancing a larger proportion of the proceeds, which in our view is less impactful.					
 Utilities	 Green				
The bond's proceeds can be used for general corporate purposes, including loan funding. The allocation of proceeds will be reported annually with attestation from an external third-party verifier, but there is no information on whether there would be any impact reporting. Various departments will be involved in selecting relevant projects to receive funding, but there is no information on this process nor for management of the proceeds. Given these facts we rated the bond red.					

Impact bonds bought by Insight in 2020, weighted by value



For full details of impact bonds bought across Insight portfolios in 2020, see [page 55](#).

RESPONSIBLE HORIZONS: A NEW RANGE FOR INVESTORS SEEKING A RESPONSIBLE APPROACH

MANY INVESTORS ARE LOOKING TO ACHIEVE A POSITIVE ENVIRONMENTAL OR SOCIAL IMPACT, AND TO INVEST IN SUSTAINABLE BUSINESSES THAT WILL STAND THE TEST OF TIME. FOR THIS REASON, WE HAVE CREATED A CLEAR SET OF QUALIFICATION CRITERIA FOR INSIGHT STRATEGIES WHICH HAVE BEEN SPECIFICALLY DESIGNED FOR INVESTORS SEEKING RESPONSIBLE INVESTMENT OUTCOMES.

To qualify as a Responsible Horizons strategy, each investment portfolio will reflect the following blend of responsible investment criteria:

- **Emphasise the best and avoid the worst performers on ESG issues**, based on research powered by Insight Prime
- **Reflect long-term themes**, such as climate change and social inequality
- **Avoid investments with a negative impact**, including tobacco producers
- **Apply a higher hurdle for environmentally sensitive industries**, like energy companies
- **Provide transparency** on the application of Insight proprietary ratings and key ESG performance indicators through customised reporting

In addition to these criteria, specific strategies may also reflect additional guidelines which we believe reflect best practice in responsible investment for the investment category and financial and non-financial outcomes targeted in each case. We also support a range of segregated responsible investment solutions that reflect individually customised responsible investment objectives.

We expect Responsible Horizons strategies to reflect best practice in responsible investment and as a firm we continuously develop data quality, research and engagement and the range of solutions for clients. We are committed to continuous improvement, innovation, and collaboration with asset owners and the asset management industry to ensure the most effective approach to investment and sustainability.

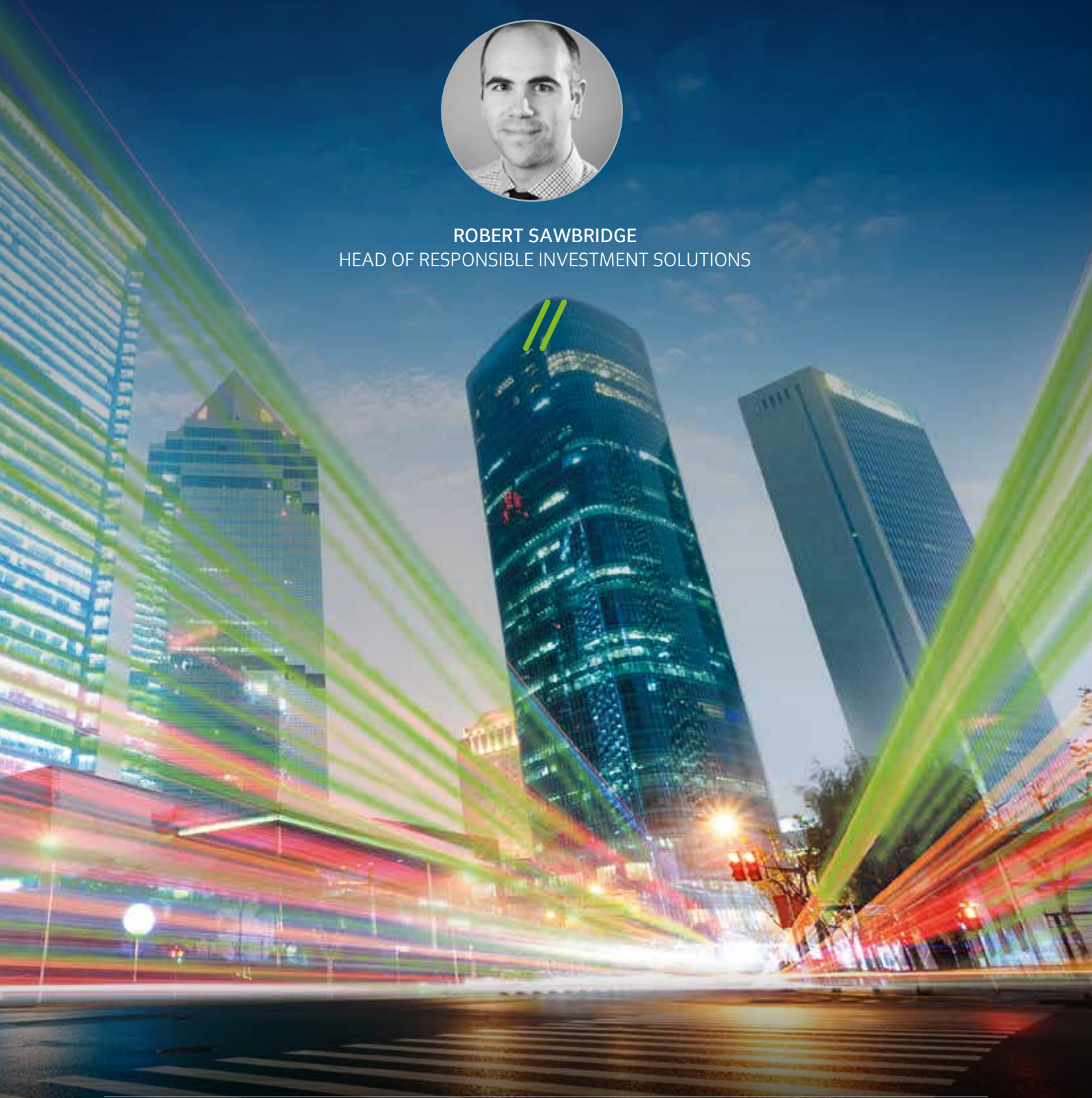




Underpinned by Insight's precise and evidence-based approach, Responsible Horizons emphasises both in-depth investment research and active engagement to understand risks and improve behaviour.



ROBERT SAWBRIDGE
HEAD OF RESPONSIBLE INVESTMENT SOLUTIONS



INSIGHT: A RESPONSIBLE PARTNER

AT INSIGHT, THERE ARE THREE KEY PILLARS TO OUR CORPORATE RESPONSIBILITIES:



Our markets: we seek to protect client interests and operate our business with integrity and resilience



Our people: we seek to encourage effective leadership, well-being, diversity and inclusion for our staff



Our world: we seek to invest and act responsibly to protect the wider world and, locally, to support the community, including through the sponsorship of the arts and sciences and charitable partnerships

This means ensuring that Insight is doing the right thing for our clients, our colleagues and the environment.



For more detail on our CSR initiatives, please visit our web page at <https://www.insightinvestment.com>

FOCUS: DIVERSITY AND INCLUSION

At Insight, we recognise the importance of diversity and inclusion. We believe the success of our business has been built upon the principles of inclusion, equal opportunity and meritocracy. We know that diverse teams make more balanced and informed decisions and that the answers to some of our challenges can come from anyone in our business.

Involvement in the Diversity Project

We have in place a number of initiatives seeking to promote greater diversity and inclusion. The Diversity Project is a cross-company initiative championing a more inclusive culture within our industry³⁰. The Project aims to achieve the vision through a concerted, collaborative and cohesive action plan. It aims to share best practice, and where there are gaps, establish new practices to help create a more diverse industry at all levels from intake to senior leadership and the board.

Insight has representatives on the Advisory Council and Steering Committee of the Project. We are engaged in various areas including workstreams focusing on ethnicity, supporting those early in their career, and LGBT+ inclusion. An example of an initiative Insight is involved with is a collaboration with the upReach mentoring programme, which focuses on mentoring university students from disadvantaged backgrounds to enable their entry into the investment industry.³¹

A 10-year goal for our diversity profile

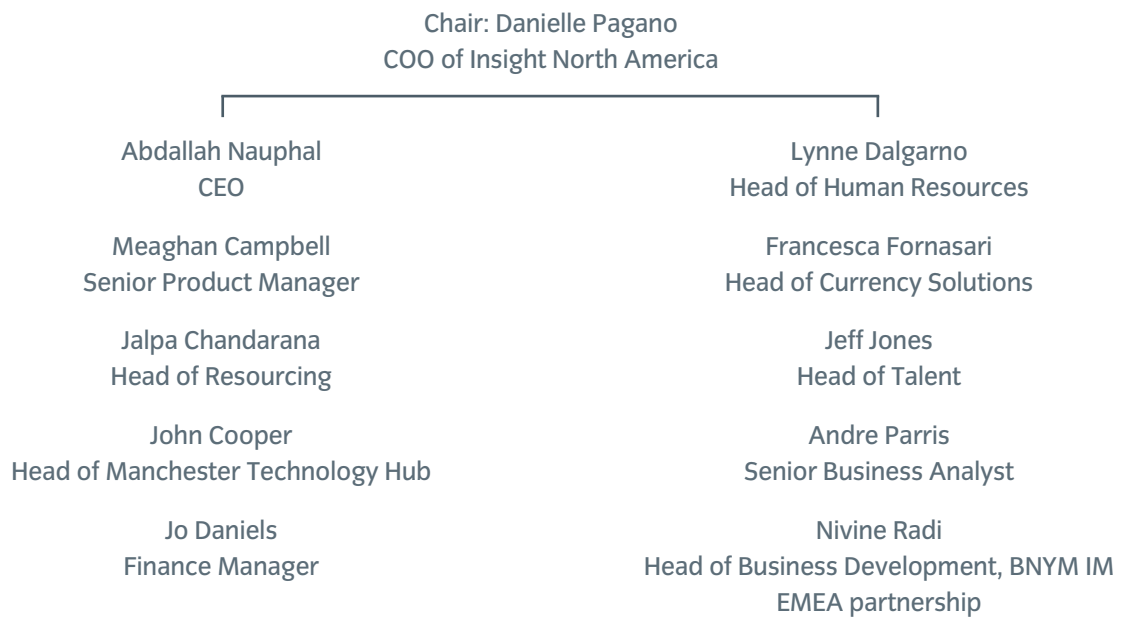
In 2020, we set out a new goal for our business: **In 10 years, we hope the demographics of the regions in which we operate is mirrored in our respective local workforce.** We plan to be transparent about our progress and share regular updates as we work towards achieving our diversity goals.

³⁰ <https://diversityproject.com/>. ³¹ More information on upReach is available at www.upreach.org.uk.

A new Diversity and Inclusion Committee

However, we know there is still much more work to do in order to create an environment in which everyone can flourish and develop at Insight. **We have therefore introduced a new Diversity and Inclusion Committee.** This Committee reports directly to Insight's Executive Management Committee, and has a broad mandate to ensure that, over time, the diversity of the Insight team reflects more closely the diversity of the societies in which we operate and that our culture continues to allow all colleagues to contribute to their full potential.

INSIGHT'S NEW DIVERSITY AND INCLUSION COMMITTEE



We believe the success of our business has been built upon the principles of inclusion, equal opportunity and meritocracy



APPENDIX I. LEADING OUR RESPONSIBLE INVESTMENT PROGRAMME

IN 2020 WE ENHANCED OUR OVERSIGHT AND STRUCTURE ON ESG ISSUES. THE INSIGHT RESPONSIBILITY OVERSIGHT COMMITTEE (IROC), CHAIRED BY INSIGHT'S CEO ABDALLAH NAUPHAL, OVERSEES A RANGE OF GROUPS FOCUSED ON DIFFERENT ASPECTS OF OUR COMMITMENT TO RESPONSIBLE INVESTMENT ON BEHALF OF OUR CLIENTS.

Our responsible investment governance groups include representation from investment, client, commercial, operations, product, legal, risk and marketing divisions. Joshua Kendall, Head of Responsible Investment Research and Stewardship, has responsibility along with our Corporate Risk Team for managing the scope, procedures and documentation for each group, which is described in full within the terms of reference documentation reviewed and approved by IROC.

Figure 17: An overview of Insight's responsible investment governance arrangements



³² The Insight Responsibility Oversight Committee (IROC), chaired by Abdallah Nauphal, CEO, includes representatives from our Executive Management Committee in addition to members of the Investment, Commercial, Communications and CSR groups reporting to IROC. Membership of IROC includes: Adrian Grey, Global Chief Investment Officer; Serkan Bektas, Head of Client Solutions Group; Jonathan Eliot, Chief Risk Officer; Lynne Dalgarno, Head of Human Resources; Jon Eilbeck, Chief Operating Officer; Jane Iverson, General Counsel; Angus Woolhouse, Global Head of Distribution; and Mark Stancombe, CEO, North America. These individuals and representatives of their respective divisions participate in committees throughout our responsible investment governance structure.

APPENDIX II. IMPACT BOND PURCHASES 2020

Table 4: Impact bonds added to Insight portfolios in 2020³³

Issuer	Sector	Impact theme	Issue date	Maturity
Abn Amro Bank Nv	Financial	Green	18/04/2018	22/04/2025
Adidas Ag	Consumer, Cyclical	Sustainability	05/10/2020	05/10/2028
Aes Corp/The	Utilities	Green	04/12/2020	15/01/2031
Aes Gener Sa	Utilities	Green	07/10/2019	07/10/2079
Aib Group Plc	Financial	Green	30/09/2020	30/05/2031
Ald Sa	Consumer, Non-cyclical	Green	11/10/2018	11/10/2022
Alliander Nv	Utilities	Green	10/06/2020	10/06/2030
Alphabet Inc	Communications	Sustainability	05/08/2020	15/08/2050
Anglian Water Serv Fin	Utilities	Green	26/10/2018	26/10/2029
Anglian Water Serv Fin	Utilities	Green	10/08/2017	10/08/2025
Apple Inc	Technology	Green	23/02/2016	23/02/2023
Apple Inc	Technology	Green	15/11/2019	15/11/2031
Arkema	Basic Materials	Green	14/10/2020	14/10/2026
Assicurazioni Generali	Financial	Green	14/07/2020	14/07/2031
Assura Fin Plc	Financial	Social	15/09/2020	15/09/2030
Audax Renovables Sa	Utilities	Green	30/11/2020	30/11/2025
Aust & Nz Banking Group	Financial	Sustainability	21/11/2019	21/11/2029
Aust & Nz Banking Group	Financial	Sustainability	21/02/2018	21/02/2023
Avangrid Inc	Utilities	Green	16/05/2019	01/06/2029
Banco Bilbao Vizcaya Arg	Financial	Green	14/05/2018	14/05/2025
Banco Bilbao Vizcaya Arg	Financial	Social	04/06/2020	04/06/2025
Banco Bilbao Vizcaya Arg	Financial	Green	15/07/2020	Perpetual
Banco De Sabadell Sa	Financial	Green	11/09/2020	11/03/2027
Banco Santander Sa	Financial	Green	04/10/2019	04/10/2026
Bankinter Sa	Financial	Green	06/02/2020	06/10/2027
Banque Fed Cred Mutuel	Financial	Green	08/10/2020	08/10/2027
Basf Se	Basic Materials	Green	05/06/2020	05/06/2027
Belgium Kingdom	Government	Green	05/03/2018	22/04/2033
Bloom Energy Corp	Industrial	Green	11/08/2020	15/08/2025
Bnp Paribas	Financial	Green	28/02/2019	28/08/2024
Bnp Paribas	Financial	Green	17/04/2018	17/04/2024
Bpce Sfh – Societe De Fi	Financial	Green	27/05/2020	27/05/2030
Bundesrepub. Deutschland	Government	Green	09/09/2020	15/08/2030
Caisse D'Amort Dette Soc	Government	Social	02/12/2020	25/02/2026
Caixabank Sa	Financial	Social	10/07/2020	10/07/2026
Caixabank Sa	Financial	Green	18/11/2020	18/11/2026
Cifi Holdings Group	Financial	Green	20/07/2020	20/10/2025

³³ For illustrative purposes only. The specific securities identified and described are subject to change, for information only. No assumptions should be made that the securities identified and discussed were or will be profitable.

Issuer	Sector	Impact theme	Issue date	Maturity
Citigroup Inc	Financial	Green	29/01/2019	29/01/2022
Clarion Funding Plc	Financial	Social	22/01/2020	22/01/2035
Clarion Funding Plc	Financial	Sustainability	13/11/2020	13/11/2032
Cnp Assurances	Financial	Green	27/11/2019	27/07/2050
Commerzbank Ag	Financial	Green	23/09/2020	24/03/2026
Con Edison Co Of Ny Inc	Utilities	Green	31/03/2020	01/04/2050
Con Edison Co Of Ny Inc	Utilities	Green	31/03/2020	01/04/2030
Cpi Property Group Sa	Financial	Green	22/01/2020	22/01/2028
Cpi Property Group Sa	Financial	Green	28/10/2019	23/04/2027
Credit Agricole Sa	Financial	Social	09/12/2020	09/12/2027
Credit Mutuel Arkea	Financial	Social	11/06/2020	11/06/2029
Daimler Ag	Consumer, Cyclical	Green	10/09/2020	10/09/2030
Danone Sa	Consumer, Non-cyclical	Social	26/03/2018	26/03/2025
De Volksbank Nv	Financial	Green	16/09/2019	16/09/2024
De Volksbank Nv	Financial	Green	22/07/2020	22/10/2030
Deutsche Bank Ag	Financial	Green	10/06/2020	10/06/2026
Development Bk Of Japan	Financial	Sustainability	15/10/2020	15/10/2024
Dte Electric Co	Utilities	Green	15/02/2019	01/03/2049
E.On Se	Utilities	Green	28/08/2019	28/08/2024
E.On Se	Utilities	Green	20/05/2020	20/08/2031
Electricite De France Sa	Utilities	Green	13/10/2015	13/10/2025
Electricite De France Sa	Utilities	Green	14/09/2020	14/09/2024
Electricite De France Sa	Utilities	Green	13/10/2016	13/10/2026
Energias De Portugal Sa	Utilities	Green	20/01/2020	20/07/2080
Enexis Holding Nv	Utilities	Green	17/06/2020	17/06/2032
Engie Sa	Utilities	Green	27/03/2020	27/03/2028
Engie Sa	Utilities	Green	27/03/2020	30/03/2032
Engie Sa	Utilities	Green	24/10/2019	24/10/2030
Engie Sa	Utilities	Green	27/03/2017	27/03/2024
Engie Sa	Utilities	Green	30/11/2020	Perpetual
Engie Sa	Utilities	Green	21/06/2019	21/06/2027
Esb Finance Dac	Utilities	Green	11/06/2019	11/06/2030
Eurogrid Gmbh	Utilities	Green	15/05/2020	15/05/2032
European Bk Recon & Dev	Government	Green	10/01/2019	10/01/2024
European Investment Bank	Government	Sustainability	15/04/2020	15/05/2028
European Investment Bank	Government	Green	27/08/2015	15/11/2023
European Investment Bank	Government	Green	09/04/2019	14/11/2042
European Investment Bank	Government	Green	29/06/2020	15/11/2035
European Union	Government	Social	27/10/2020	04/10/2040
European Union	Government	Social	17/11/2020	04/11/2025
European Union	Government	Social	17/11/2020	04/11/2050
Falck Renewables Spa	Energy	Green	23/09/2020	23/09/2025
Fluvius System Op	Utilities	Green	02/12/2020	02/12/2030
France (Govt Of)	Government	Green	31/01/2017	25/06/2039
Fs Luxembourg Sarl	Energy	Green	15/12/2020	15/12/2025
Hannon Armstrong Sustain	Financial	Green	21/08/2020	15/08/2023
Hungary	Government	Green	05/06/2020	05/06/2035

Issuer	Sector	Impact theme	Issue date	Maturity
Iberdrola Finanzas Sau	Utilities	Green	14/04/2020	16/06/2025
Iberdrola Intl Bv	Utilities	Green	22/11/2017	Perpetual
Iberdrola Intl Bv	Utilities	Green	26/03/2018	Perpetual
Iberdrola Intl Bv	Utilities	Green	12/02/2019	Perpetual
Iberdrola Intl Bv	Utilities	Green	22/11/2017	Perpetual
Icade Sante Sas	Financial	Social	17/09/2020	17/09/2030
Ing Groep Nv	Financial	Green	15/11/2018	15/11/2030
Intesa Sanpaolo Spa	Financial	Green	04/12/2019	04/12/2024
Irish Tsy	Government	Green	17/10/2018	18/03/2031
Kfw	Financial	Green	22/05/2019	05/05/2027
Kingdom Of Sweden	Government	Green	09/09/2020	09/09/2030
Land Nordrhein-Westfalen	Government	Sustainability	12/10/2020	12/10/2035
Leaseplan Corporation Nv	Financial	Green	09/04/2020	09/04/2025
Leaseplan Corporation Nv	Financial	Green	07/03/2019	07/03/2024
Livent Corp	Basic Materials	Green	25/06/2020	15/07/2025
Mediobanca Di Cred Fin	Financial	Green	08/09/2020	08/09/2027
Munich Re	Financial	Green	23/09/2020	26/05/2041
Natl Grid Elect Trans	Utilities	Green	20/01/2020	20/01/2025
Nbm Us Holdings Inc	Consumer, Non-cyclical	Sustainability	06/08/2019	06/08/2029
Neoen Sas	Energy	Green	02/06/2020	02/06/2025
Netherlands Government	Government	Green	23/05/2019	15/01/2040
Northern States Pwr-Minn	Utilities	Green	15/06/2020	01/06/2051
Nxp Bv/Nxp Fdg/Nxp Usa	Technology	Green	01/05/2020	01/05/2030
Op Corporate Bank Plc	Financial	Green	26/02/2019	26/02/2024
Pearson Funding Plc	Communications	Social	04/06/2020	04/06/2030
Pfizer Inc	Consumer, Non-cyclical	Sustainability	27/03/2020	01/04/2030
Raiffeisen Bank Intl	Financial	Green	25/09/2019	25/09/2026
Red Electrica Fin Sa Uni	Utilities	Green	24/01/2020	24/07/2028
Republic Of Chile	Government	Green	29/01/2020	29/01/2040
Republic Of Chile	Government	Green	02/07/2019	02/07/2031
Republic Of Chile	Government	Green	25/06/2019	25/01/2050
Republic Of Chile	Government	Green	27/01/2020	27/01/2032
Republic Of Guatemala	Government	Social	24/04/2020	24/04/2032
Royal Bank Of Canada	Financial	Green	02/05/2019	02/05/2024
Rumo Luxembourg Sarl	Industrial	Green	10/07/2020	10/01/2028
Russian Rail(Rzd Cap)	Industrial	Social	10/12/2020	02/03/2028
Sbb Treasury Oyj	Financial	Social	14/12/2020	14/12/2028
Scottish Hydro Electric	Utilities	Green	27/09/2019	27/09/2035
Severn Trent Water Util	Utilities	Sustainability	02/06/2020	02/06/2040
Shinhan Bank	Financial	Sustainability	23/04/2019	23/04/2029
Societe Generale	Financial	Green	22/09/2020	22/09/2028
Societe Generale Sfh	Financial	Green	11/02/2020	11/02/2030
Societe Nationale Sncl	Industrial	Green	17/04/2020	17/04/2030
Southern Water Services	Utilities	Sustainability	28/05/2020	28/05/2037
Southern Water Services	Utilities	Sustainability	28/05/2020	28/05/2028
Star Energy Co Issue	Utilities	Green	14/10/2020	14/10/2038
Starbucks Corp	Consumer, Cyclical	Sustainability	13/05/2019	15/08/2049

Issuer	Sector	Impact theme	Issue date	Maturity
Suzano Austria GmbH	Basic Materials	Green	14/07/2016	14/07/2026
Swisscom Finance	Communications	Green	14/05/2020	14/11/2028
Telefonica Emisiones Sau	Communications	Green	05/02/2019	05/02/2024
Telefonica Europe Bv	Communications	Green	05/02/2020	Perpetual
Telia Co Ab	Communications	Green	11/02/2020	11/05/2081
Tennet Holding Bv	Utilities	Green	22/07/2020	Perpetual
Tennet Holding Bv	Utilities	Green	30/11/2020	30/11/2032
Tennet Holding Bv	Utilities	Green	30/11/2020	30/11/2040
Tennet Holding Bv	Utilities	Green	05/06/2018	05/06/2028
Tennet Holding Bv	Utilities	Green	04/06/2015	04/06/2027
Terna Spa	Utilities	Green	23/07/2018	23/07/2023
Terna Spa	Utilities	Green	24/07/2020	24/07/2032
Terna Spa	Utilities	Green	10/04/2019	10/04/2026
Transmantaro	Utilities	Green	16/04/2019	16/04/2034
Transmantaro	Utilities	Green	14/09/2020	16/04/2034
Turkiye Sinai Kalkinma B	Financial	Sustainability	28/03/2017	29/03/2027
Turkiye Vakiflar Bankasi	Financial	Sustainability	08/12/2020	08/01/2026
Unedic	Government	Social	17/06/2020	25/11/2029
Unipol Gruppo Spa	Financial	Green	23/09/2020	23/09/2030
Usaa Capital Corp	Financial	Sustainability	21/04/2020	01/05/2030
Vf Corp	Consumer, Cyclical	Green	25/02/2020	25/02/2028
Volkswagen Intl Fin Nv	Consumer, Cyclical	Green	23/09/2020	22/09/2028
Volkswagen Intl Fin Nv	Consumer, Cyclical	Green	23/09/2020	23/09/2032
Volvo Car Ab	Consumer, Cyclical	Green	07/10/2020	07/10/2027
Yorkshire Water Finance	Utilities	Sustainability	26/11/2019	26/11/2026
Yorkshire Water Finance	Utilities	Sustainability	18/04/2019	18/04/2041
Yuzhou Group	Financial	Green	12/08/2020	12/08/2026
Zhenro Properties Group	Financial	Green	11/09/2020	05/02/2025
Zhenro Properties Group	Financial	Green	20/11/2020	18/11/2021

APPENDIX III. WEAPONS POLICY

INSIGHT DOES NOT INVEST IN COMPANIES INVOLVED WITH THE PRODUCTION, SALE OR MAINTENANCE OF CLUSTER MUNITIONS OR LANDMINES.

There are two major international conventions that address cluster munitions and landmines specifically:

- **The Convention on Cluster Munitions (2008):** This Convention restricts the manufacture, use, and stockpiling of cluster munitions and the components of these weapons.
- **The Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction (1997):** This Convention, often referred to as the Anti-Personnel Landmines Convention, aims to eliminate antipersonnel landmines around the world.

In line with these international conventions and following their ratification into domestic law by a number of countries, Insight has adopted a global policy which commits it to avoiding direct investments in companies that:

- Design, produce, sell or maintain cluster munitions and/or landmines.
- Undertake research and development to develop cluster munitions and/or landmines.
- Breach the requirements of the Convention on Cluster Munitions or the Anti-Personnel Landmines Convention.

This policy:

- Applies across all asset classes.
- Excludes affiliated companies: that is, companies with affiliations or commercial relationships with screened companies will not be excluded from investments.
- Does not apply to passive holdings in index-tracking instruments.

APPENDIX IV. VOTING POLICY

PROXY VOTING IS AN ESSENTIAL PART OF CREATING SHAREHOLDER VALUE, ENSURING GOOD GOVERNANCE AND DELIVERING INVESTMENT PERFORMANCE TO CLIENTS. INSIGHT SEEKS TO ACTIVELY EXERCISE ITS RIGHTS AND RESPONSIBILITIES IN REGARDS TO PROXY VOTING ON BEHALF OF CLIENTS. THE INSIGHT VOTING POLICY (“POLICY”) EXPLAINS HOW OUR VOTING ACTIVITIES PROMOTE THE EFFICIENT AND SUSTAINABLE OPERATION OF INSIGHT HOLDINGS.

POLICY STATEMENT

Insight is committed to voting all proxies where it is deemed appropriate and responsible to do so. Insight takes its responsibility to vote very seriously and votes in the best interest of clients.

SCOPE

This Policy applies to all financial instruments with voting rights which clients and funds hold, that have delegated proxy voting to Insight.

VOTING POLICY

The Policy is designed around best-practice standards which we believe are essential to delivering long term value to shareholders.

LEADERSHIP

Every company should be led by an effective board

- **Strategy:** Company leadership should define a clear purpose and set long term objectives for delivering value to shareholders.
- **Culture:** The board should promote a culture which strongly aligns to the values of the company. It should seek to monitor this culture and regularly engage with its workforce.
- **Engagement with Shareholders:** The board and senior management should be transparent and engaged with existing shareholders. The board should have a clear understanding of the views of shareholders. It should seek to minimize unnecessary dilution of equity and preserve the rights of existing shareholders.
- **Sustainability:** The board should take account of the risks and opportunities from environmental and social factors when setting strategy and in their company monitoring role.

STRUCTURE

The board should have a clear division of responsibilities

- **The Chair:** The chair of the board should demonstrate objective judgment and promote transparency and facilitate constructive debate to promote overall effectiveness.
- **The Board:** There should be an appropriate balance of executive and non-executive directors. Non-executive directors should be evaluated for independence. No one individual should dominate the board’s decision-making. There should be a clear division, between the board and the executive leadership of the company.
- **Resources:** The board should ensure it has sufficient governance policies, influence and resources to function effectively. Non-executive directors should have sufficient time to fulfil their obligations to the company as directors.

EFFECTIVENESS

The board should seek to build strong institutional knowledge to ensure long-term efficient and sustainable operations

- **Appointment:** There should be a formal appointment process, which ensures that the most qualified individuals are selected for the board. This process should be irrespective of bias to ensure appropriate diversity on the board.

- **Knowledge:** The board should be comprised of those with the knowledge, skills and experience to effectively discharge their duties. The board should have sufficient independence to serve as an effective check on company management and ensure the best outcomes for shareholders.
- **Evaluation:** The board should be evaluated for effectiveness on a regular basis. Board members' contributions should be considered individually.

INDEPENDENCE

The board should present a fair and balanced view of the company's position and prospects

- **Integrity:** The board should ensure that all reports it produces accurately reflect the financial position, prospects and risks relevant to the company. The board should ensure the independence and effectiveness of internal and external audit functions.
- **Audit:** The board should ensure that clear, uncontentious accounts are produced. These should conform to the relevant best accountancy practices and accurately represent the financial position of the company. Deviations from standard accounting practices should be clearly documented with a corresponding rationale.
- **Risk:** The board should ensure the company has sound risk management and internal control systems. There should be a regular assessment and communication of the company's emerging and principal risks.

REMUNERATION

Levels of remuneration should be sufficient to attract, retain and motivate talent of the quality required to run the company successfully

- **Goal Based:** The board should base remuneration on goals-based, qualitative, discretionary cash incentives. Remuneration should consider underlying industry and macroeconomic conditions and not be structured in a tax-oriented manner.
- **Transparent:** Remuneration arrangements should be transparent and should avoid complexity.
- **Sustainable:** Remuneration should not be excessively share based and should be accurately represented and controlled as an operational cost. Remuneration of executives should promote a long-term focus and respect the interests of existing shareholders.

ENGAGEMENT

Voting is a component of Insight's engagement strategy. Insight seeks to vote on all holdings with associated voting rights in one of three ways; in support of, against, or in abstention. Insight monitors, evaluates and may support other shareholder campaigns and has the ability to promote its own resolution.

Where Insight has a significant holding and intends to vote against company management, it will generally seek to open a dialogue with management about its voting intention. Insight hopes that this collaboration can enhance the value of assets for the beneficial owners.

VOTING AGENT

Insight provides detailed voting guidelines to Minerva, a third-party proxy voting servicer. Minerva monitors company meeting agendas and items to be voted on. Minerva reviews each vote against Insight's specific criteria and provides a recommendation for each item.

Insight votes in line with the recommendations of the proxy voting agent and documents where it makes a voting decision against the recommendation. The rationale for , abstaining or voting against the voting recommendation is retained on the Minerva platform on a case-by-case basis.

Minerva identifies contentious issues that represent a significant monetary or strategic decision. Where there is no conflict identified, these proxies are voted by the Portfolio manager as an investment decision.

Where Insight has a significant holding and the proxy agent does not make a voting suggestion, the vote will undergo a conflict check. When a conflict or potential conflict is identified, the vote will be escalated to the Proxy Voting Group.

Voting decisions are communicated to Minerva. These votes are submitted to shareholder meetings through a specific proxy. Minerva provides reports on voting activity to Insight quarterly. Voting data is available to clients upon request. Insight's voting record is posted annually on its website.

CONFLICTS OF INTEREST

Insight votes in the best interest of clients without undue influence from any other consideration. There is a potential for conflicts of interest to arise when Insight invests in firms which are its clients or potential clients. There is also potential for conflict between investment teams with fixed income holdings in publicly listed firms. In situations where there is a conflict of interest or perceived conflict of interest, the issue will be raised to the Proxy Voting Group. All conflicts are handled in line with the Insight Conflicts of Interest Policy.

PROXY VOTING GROUP

The Proxy Voting Group ('PVG') or (the 'Group') is responsible for overseeing the implementation of voting decisions where Insight has voting authority on a security on behalf of clients.

The PVG is responsible for an annual review of the voting policy and guidelines. Any voting decision not resolved by the PVG will be escalated to the Investment Management Group (IMG). The PVG also reviews contentious votes which have been escalated by investment desks. The PVG is appointed by, is accountable to and provides biannual updates to the IMG.

DISCLOSURE

In certain foreign jurisdictions, the voting of proxies can result in additional restrictions that have an economic impact to the security, such as 'share-blocking'. If Insight votes on the proxy, share-blocking may prevent it from selling the shares of the security for a period of time. In determining whether to vote proxies subject to such restrictions, Insight, in consultation with the Proxy Voting Group, considers whether the vote, either in itself or together with the votes of other shareholders is expected to affect the value of the security that outweighs the cost of voting. If Insight votes on a proxy and during the 'share-blocking period' it would like to sell the affected security, then in consultation with the Proxy Voting Group it will attempt to recall the shares (as allowable within the market time-frame and practices).

APPENDIX V. SHAREHOLDER VOTES IN 2020

Table 5: Specialist equities and multi-asset strategies – voting on management resolutions in 2020

Category	Abstain	Against	For	Total
Auditor – Election			80	80
Auditor – Remuneration			76	76
Board Size and Structure			1	1
Bonds and Debt			3	3
Capital Structure			2	2
Change of Name			1	1
Directors – Discharge			3	3
Directors – Elect			696	696
Dividends			48	48
Environmental Practices		2	1	3
General Meeting Procedures			56	56
Human Rights and Workforce			1	1
Issue of Shares and Pre-emption Rights			223	223
Meeting Formalities			1	1
Other A&R related			1	1
Other Articles of Association	2		21	23
Political Activity			47	47
Remuneration – Non-executive			3	3
Remuneration – Policy (All-employee Share Plans)	1		12	13
Remuneration – Policy (Contracts)			1	1
Remuneration – Policy (Long-term Incentives)	23		8	31
Remuneration – Policy (Overall)	35	1	5	41
Remuneration – Report	62	1	13	76
Report and Accounts			78	78
Share Buybacks and Return of Capital			83	83
Sustainability Reporting			1	1
Takeover Governance			1	1
Transactions – Significant	3		10	13
Treasury Shares			1	1
Total	126	4	1477	1607

IMPORTANT INFORMATION

RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

ASSOCIATED INVESTMENT RISKS

Fixed income, liability-driven investment and multi-asset

Where the portfolio holds over 35% of its net asset value in securities of one governmental issuer, the value of the portfolio may be profoundly affected if one or more of these issuers fails to meet its obligations or suffers a ratings downgrade.

A credit default swap (CDS) provides a measure of protection against defaults of debt issuers but there is no assurance their use will be effective or will have the desired result.

The issuer of a debt security may not pay income or repay capital to the bondholder when due.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in emerging markets can be less liquid and riskier than more developed markets and difficulties in accounting, dealing, settlement and custody may arise.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

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<投資信託に係る費用について>

投資信託では、一般的に以下のような手数料がかかります。手数料率はファンドによって異なり、下記以外の手数料がかかることまたは、一部の手数料がかからない場合もあるため詳細は各ファンドの販売会社へお問い合わせいただき、各ファンドの投資信託説明書（交付目論見書）等をご覧ください。

■ 申込時に直接ご負担いただく費用………申込手数料 上限3.85%（税抜3.5%）

■ 換金時に直接ご負担いただく費用………信託財産留保額 上限0.70%

■ 投資信託の保有期間中に間接的にご負担いただく費用…信託報酬 上限 年率2.035%（税抜1.85%）

■ その他費用………上記以外に保有期間等に応じてご負担いただく費用があります。

※ 上記費用の総額につきましては投資家の皆様ที่ファンドを保有される期間等に応じて異なりますので表示することができません。

※ 上記に記載しているリスクや費用項目につきましては、一般的な投資信託を想定しております。費用の料率につきましては、BNY Mellon Investment Management・ジャパン株式会社が運用するすべての投資信託のうち徴収する夫々の費用における最高の料率を記載しております。投資信託に係るリスクや費用は夫々の投資信託により異なりますのでご投資をされる際には、事前に良く投資信託説明書（交付目論見書）や契約締結前交付書面をご覧ください。

BNY Mellon Investment Management・ジャパン株式会社

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