Investing responsibly is an essential part of managing risk.

We can all name companies that have suffered due to environmental, social and governance (ESG) issues. For us at Insight, looking at such factors is part of considering all the relevant risks when making investment decisions.

This is not about putting specific ethical considerations ahead of other criteria when creating portfolios. Understanding all the underlying material risks helps us decide whether an investment is overpriced or underpriced, or fair value. For all our client portfolios we systematically consider ESG issues within our research process: this has helped us identify significant risks, as the evidence in this report demonstrates.

Doing this well means taking a proactive approach. When we identify material ESG risks in a company, we will engage with management in order to better understand the issues and exert influence on behalf of our clients to encourage improvements to its practices. In doing so, we can reduce risks and increase the potential value created over the long term. We have also worked to develop our tools where publicly available data is lacking. Our climate change and sovereign sustainability indices, and our ESG questionnaires, are examples of such tools to help our analysts better understand the most relevant risks.

Some issues are too big to tackle alone. Where it makes sense, we collaborate with other stakeholders to engage on major topics, such as climate change. We can do more together than we can apart.

Ultimately, I believe investing responsibly means considering the long-term impact on our clients, rather than simply focusing on the short term for our business. I hope this report demonstrates how we go about this in practice, and it builds confidence that your best interests lie at the heart of our approach.
INSIGHT AND RESPONSIBLE INVESTMENT

- 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.¹
- We have been supporters of the Institutional Investors Group on Climate Change (IIGCC) and CDP (formerly known as the Carbon Disclosure Project) initiatives since our founding in 2002.
- Insight has integrated ESG considerations into our decision-making processes for over a decade.
- In 2018, Insight was awarded an A+ rating by the PRI for our responsible investment approach to corporate debt, and an A rating for strategy and governance, and our approaches to sovereign and securitized debt.²
- In 2016, Insight was given Tier 1 status by the UK Financial Reporting Council, recognizing that we provide “a good quality and transparent description of [our] approach to stewardship and explanations of an alternative approach where necessary”.³
- Insight manages ESG strategies including those with best-in-class, climate, positive impact and exclusion objectives and criteria. As of December 31, 2018 we managed more than $15bn in ESG overlay strategies.⁴

¹ Principles for Responsible Investment (PRI) is the world’s leading advocate for responsible investment. The PRI encourages adopting ESG factors into investment and ownership decisions, and creating a sustainable financial system. The PRI is an independent organisation, funded and managed by its signatories, and backed by the United Nations Environment Programme Finance Initiative and United Nations Global Compact. For further information please visit: https://www.unpri.org/
² The PRI, launched in 2006, is an independent organization that works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. More details are available at www.unpri.org/. Signatories to the PRI pay an annual fee. They are required to report annually on their responsible investment activities and they receive ratings based on their reported data. Full details of PRI reporting and assessment methodology are available at www.unpri.org/signatories/signatory-accountability/about-pri-reporting. In 2018, Insight was awarded an A+ rating by the PRI for the integration of responsible investment-related issues across corporate bond portfolios and A-ratings for our approach to strategy and governance, sovereign, supranational and agency (SSA) and for the integration of responsible investment-related issues across securitized asset portfolios. Full details of Insight’s ratings are available at https://www.insightinvestment.com/na/responsible-investment/pri-rating/.
³ The Financial Reporting Council is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. Among other activities, the FRC sets the UK Stewardship Code. To improve the quality of reporting, encourage greater transparency, and maintain the Code’s credibility, the FRC assessed signatories based on the quality of their Code compliance statements. Full details are available at http://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements
⁴ Assets under management (AUM) are represented by the value of cash securities and other economic exposure managed for clients. As of December 31, 2018. Insight North America (INA) is part of ‘Insight’ or ‘Insight Investment’, the corporate brand for certain asset management companies operated by Insight Investment Management Limited including, among others, Insight Investment Management (Global) Limited and Insight Investment International Limited. Insight’s assets under management are represented by the value of cash securities and other economic exposures, and are calculated on a gross notional basis. Advisory services referenced herein are available in the US only through INA. Figures shown in USD. FX rates as per WM Reuters 4pm spot rates.
INTRODUCTION

RESPONSIBLE INVESTMENT IS A WIDELY ACCEPTED APPROACH TO INVESTING FOR INSTITUTIONAL INVESTORS. CONSIDERING ESG FACTORS IN YOUR INVESTMENT ANALYSIS AND COMPANY ENGAGEMENT SUPPORTS THE PURSUIT OF LONG-TERM FINANCIAL AND NON-FINANCIAL OBJECTIVES.

In this report, we outline how we aim to help investors at every stage of their investment journey.

For investors considering a responsible investment policy, we clarify what a responsible investment approach means in practice and offer steps to follow when developing a formal policy. We also ask a leading institutional investor about their approach. from page 08

For investors seeking to understand the practical implications of a responsible investment approach, we offer examples of how an investment manager’s approach actually makes a difference in practice. We ask our portfolio managers for clear examples of how our approach has driven investment decisions. from page 18

For investors looking to have a positive long-term impact through fixed income investment, we offer our take on the impact bond market today, and explain how we consider sustainability and impact targets in fixed income. from page 38

We hope this report helps you move forward in understanding and implementing a responsible investment approach that supports your objectives.
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ADOPTING A RESPONSIBLE APPROACH

IN THIS SECTION, WE SET OUT STEPS TO HELP INVESTORS SET OUT A TAILORED RESPONSIBLE INVESTMENT POLICY THAT SUPPORTS THEIR LONG-TERM OBJECTIVES.

THREE STEPS TO ESTABLISHING AN EFFECTIVE RESPONSIBLE INVESTMENT POLICY

STEP 1
Clarify

CLARIFY BELIEFS ABOUT RESPONSIBLE INVESTMENT
Define responsible investment and how it relates to your objectives

STEP 2
Establish

ESTABLISH YOUR RESPONSIBLE INVESTMENT POLICY
Based on your beliefs, write a policy that clarifies any practical implications for your investment decisions and guidelines

STEP 3
Implement

IMPLEMENT YOUR RESPONSIBLE INVESTMENT APPROACH
Align investments and asset allocations with policy and establish metrics to confirm effective implementation
“The most significant development since we established our responsible investment approach was probably to establish an ESG steering group of Trustees to ensure we spent enough time considering the issues.”

READ THE INTERVIEW ON PAGE 14

Mark Thompson, Chief Investment Officer, HSBC UK Pension Plan
DEVELOPING A RESPONSIBLE INVESTMENT APPROACH THAT HELPS YOU ACHIEVE YOUR GOALS

INVESTORS ARE INCREASINGLY IMPLEMENTING RESPONSIBLE INVESTMENT APPROACHES:

- **Allocations to responsible investment strategies are substantial**: Signatories to the PRI account for tens of trillions of dollars of assets under management, reflecting material growth over recent years.⁵
- **Interest from regulators and governments has risen materially**: Over half of all responsible investment-related policies date from 2013 to 2018.⁶
- **Many investors are seeking to develop a responsible investment policy**: Research suggests that many institutional investors have policies in place, and more are explicitly considering applying a responsible investment policy.⁷

These trends are confirmed by our interactions with our clients, our work on collaborative initiatives with other institutional investors, and in our engagement with policymakers.

In this section we set out some broad principles to help investors develop a tailored responsible investment policy that reflects their beliefs and effectively supports their long-term objectives.

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⁵ As of end April 2018. See [https://www.unpri.org/pri](https://www.unpri.org/pri)
⁶ See [https://www.unpri.org/sustainable-markets/regulation-map](https://www.unpri.org/sustainable-markets/regulation-map)
Investors will have a range of beliefs that inform and guide how they seek to achieve their long-term financial objectives. In our experience, there are misunderstandings around what responsible investment means. We believe differentiating between responsible, sustainable and impact approaches is helpful (see Figure 1).

Responsible investment is defined by the PRI as an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns. This sets it apart from approaches like sustainable or impact investment, which aim for non-financial, as well as financial, objectives.

To clarify your beliefs about responsible investment, questions to ask might include:

- What are our ultimate financial and non-financial objectives? How might we prioritize them?
- How might a responsible investment approach help us achieve our objectives?
- What relevance do environmental, social and governance risks have to investment management?
- How might climate change affect how we invest and how we pursue our objectives?
- Are there specific or systemic risks, like climate change, that we should take into account in our investment decisions?
- Should we seek to have a positive impact on society or the environment through our investment portfolio? If so, what impact are we seeking?
- Are there any minimum standards we should expect the companies in which we invest to meet?
- Are there any industry initiatives that reflect our priorities and that can be used to influence internal discussions?
- Should short-term, medium-term and long-term issues be identified more explicitly?

Figure 1: Differentiating responsible, sustainable and impact investing

See [https://www.unpri.org/pri/what-is-responsible-investment](https://www.unpri.org/pri/what-is-responsible-investment)
Establish your responsible investment policy

Translating investment beliefs into a policy is necessary to provide a clear guide for investment decision-makers.

It may be appropriate to incorporate your beliefs about responsible investment into your overarching investment policy, rather than a separate responsible investment policy.

Points within a responsible investment policy may include:

- A definition of the investor’s responsible investment approach and how it reflects the investor’s beliefs (as established in Step 1)
- How the responsible investment policy relates to other policies set out by the investor or the corporate sponsor
- Guidelines on investments – this may include:
  - Procedures for different asset classes
  - Minimum standards for investee companies
  - Metrics for performance and implementation
  - Attitudes to responsible investment strategies such as portfolio screening (positive or negative), norms-based investment, and impact approaches
- Expectations around engagement with investee companies, including shareholder voting
- The role of third-party investment managers
- Risks associated with the chosen approach
- Non-financial targets

Insight can advise clients further on developing and establishing an integrated policy that meets industry best practice.

QUESTIONS TO ASK YOUR INVESTMENT MANAGER ABOUT RESPONSIBLE INVESTMENT

Responsible investment capabilities and experience

- What is the investment manager’s responsible investment policy?
- How long has the investment manager followed a responsible investment approach? For example, when did the manager sign the PRI?
- How long has the investment manager managed money for clients with responsible investment objectives?
- What evidence can the manager provide that senior management is engaged in developing the company’s responsible investment capabilities?
- What is the evidence that the manager’s responsible investment approach makes a difference in practice?
- What are the PRI ratings for the manager’s relevant capabilities?
- What evidence can the manager provide of experience and expertise in responsible investment?
- How are investment teams incentivized to follow a responsible investment approach?
Implementing your responsible investment approach

A clear policy sets out an approach in principle, but depending on the detail of the policy for your existing portfolio, applying this in practice may require a different approach.

For investors who manage their own portfolios, third-party data providers and advisers can help you adapt your portfolio to reflect your responsible investment policy.

For investors using third-party investment managers, your policy can establish clear guidelines for investments. Pooled funds’ objectives and investment guidelines can be tested against your policy to ensure the minimum expectations are met. For segregated mandates, an asset manager with long experience and demonstrable expertise in responsible investment may be able to partner with you to reflect your objectives and concerns in a tailored approach.

A key consideration is how to gain confidence that an investment manager has the capabilities to implement a responsible investment approach in practice. We offer some key questions to ask investment managers below.

## Research and engagement

- How does the investment manager assess the quality and relevance of ESG research provided by independent or third-party data providers?
- To what extent does the investment manager conduct its own proprietary ESG research rather than depend on third-party research and data?
- What value-added work is provided by the fund manager to supplement third-party research and data?
- How do the manager’s ESG specialists work alongside analysts and portfolio managers?
- What examples can the investment manager provide of decisions driven by a responsible investment approach (that are not a result of pure rules-based exclusions)?
- Can the investment manager provide examples of both investments avoided and held as a result of ESG research?
- Can the investment manager provide examples of direct engagement with companies on ESG issues that have resulted in either a greater understanding of the relevant ESG risks, or in an improvement on the part of the company?
- What are the differences and similarities between the manager’s responsible investment approaches across asset classes?

## Sustainability and impact

- What experience can the investment manager demonstrate of investing in line with sustainability or impact objectives?
- How does the manager measure performance relative to sustainability and impact objectives?
- In portfolios with sustainability and impact targets, how do the holdings differ to equivalent strategies run by the manager without those targets? Can the manager clearly explain how the investment process led to those differences?
GLOBAL PERSPECTIVE: MARK THOMPSON, CHIEF INVESTMENT OFFICER HSBC UK PENSION PLAN

(Conducted in January 2019)

MARK THOMPSON, CHIEF INVESTMENT OFFICER AT THE HSBC UK PENSION PLAN, HELPS TO OVERSEE OVER $38BN OF ASSETS UNDER MANAGEMENT⁹ IN BOTH DEFINED-BENEFIT AND DEFINED-CONTRIBUTION PLANS. AN EARLY PROPONENT OF A RESPONSIBLE INVESTMENT APPROACH, MARK EXPLAINED TO INSIGHT THE RATIONALE BEHIND THE APPROACH ADOPTED BY THE HSBC UK PLANS AND WHAT THIS HAS MEANT IN PRACTICE.

Q How would you describe your approach to responsible investment?

The term responsible investment can be misunderstood. I like to describe our approach as being about the management of ESG risks – it’s about value, not values. This means it is all about the effect ESG risks could have on the value of our members’ investments.

Q How did you establish your approach?

Eight years ago, I worked with the pension scheme’s trustees to decide on our investment beliefs. These were not very long, and one of them states that ESG risks, including climate change, are a material factor in investment decision-making.

Having settled on our beliefs, we developed our policy, and this included a statement on corporate governance and socially responsible investing. This says the trustees expect investment managers to ensure ESG factors are incorporated within investment processes.

Q Your approach has been in place for a long time. How have you refined it?

When we began discussing this with investment managers, most fund managers were not taking these risks explicitly into account. A big part of our efforts over the years has been pushing our fund managers to consider these risks more, and to communicate how they are doing that.

The most significant development since we established our responsible investment approach was probably to establish an ESG steering group of Trustees to ensure we spent enough time considering the issues. This committee was set up to answer three questions: how to get better evidence from our fund managers that they were in fact acting on their promises; whether we should adopt a climate change policy; and how we might incorporate ESG risk management into our investments more.

Q How does climate change feature in your thinking?

On climate change, our approach has changed somewhat over time. We did analysis on our portfolios to assess how we might alter our asset allocations in response to different climate scenarios. This highlighted just how bad things could get – not least for our members. This led the trustees to decide that lobbying on broader climate change policy was consistent with their fiduciary duty.

We also decided to establish our own climate change policy, which we adopted in 2015. We then wrote to each of our fund managers and asked them what they were doing. When the TCFD (Task Force on Climate-related Financial Disclosures) issued its recommendations in 2017, we again wrote to our fund managers to understand how they are incorporating the TCFD framework.

Our approach is about the management of ESG risks – it’s about value, not values

MARK THOMPS0N
It is all about the effect ESG risks could have on the value of our members’ investments

MARK THOMPSON
Q Can you explain some of the practical results of your approach?

We worked with an investment manager to create an equity fund based on a customized index that has tilts away from companies with higher carbon emissions and reserves, and towards companies with greener revenues. The manager committed to a proactive engagement policy on ESG issues including climate change.

This included writing to 84 companies across the six sectors most susceptible to climate change and asking what they were doing about it. If there was no progress after a year, the manager would vote against the re-election of the chairmen at the next annual general meeting and divest the stock from our fund. In June last year, we divested from eight companies as a result of this – and all eight are putting the work in to improve their processes as a result.

Q How about for fixed income strategies?

In fixed income markets, the credit rating is a big factor. The big credit ratings agencies are getting better at incorporating ESG factors into their research. As in equity markets, engagement is relevant, but the approach is necessarily different. Equity investors can vote and have a direct say in matters that affect long-term performance. That said, companies need finance, which means they will listen to bond investors.

Q What challenges have you faced in adopting and implementing a responsible approach?

It helped that the trustees were in the right mindset from the beginning. I think the biggest problem around responsible investing can be a lack of clarity, so we have always been clear it’s about risk management.

It is necessary to actively question and challenge how the approach is implemented. When appointing new managers, we ask a lot of questions around what they do in this area. We expect them to be able to articulate their approach and to show how they’re responding to major new initiatives like the TCFD. I’ve questioned why our investment managers voted on their shareholdings in a particular way. My questions led the managers to change their voting policy.

Q What role does ESG data play?

I believe a company that governs itself well and manages ESG risks effectively will do well over time. But judging this purely on ESG data is questionable. You can’t be sure how accurate or up-to-date the data is.

A lot of companies can improve their ESG ratings simply through better communication of what they are doing. One of our smaller equity managers invested in an Asian online gambling company, for which an ESG data provider had two red flags over labor and energy. The flags were driven by assumptions about labor rights in the company’s home country and typical energy usage by the online gambling sector. It turned out the company’s workforce was mostly well-paid accountants and the company had taken extensive measures to minimize the impact of its energy use, so the ESG red flags were simply a result of lack of communication with the ESG data provider.

This shows why transparency is crucial: more disclosures can only result in more accurate analysis. I asked an index provider to analyze the carbon emissions of our equity portfolio relative to the index, and the provider was only able to find real data for about half of the companies: the remainder had to be modelled. This is why we support the broader push, in line with the TCFD, to get more companies to disclose information like this.

Q What progress would you like to see in how investors and investment managers approach responsible investment?

Ultimately, there needs to be more engagement at both the policy level and through investment managers. Asset owners can be more assertive and ask their managers exactly what they have done, and how. I want to see that our investment managers do more than incorporate ESG ratings – I want to see that they have the right mindset when it comes to investment.
RESPONSIBLE INVESTMENT IN PRACTICE

A RESPONSIBLE INVESTMENT POLICY WILL HELP TO SET GUIDELINES FOR INVESTMENTS, BUT DEMONSTRATING THE IMPACT OF THAT POLICY IS CRUCIAL. GAUGING THE DIFFERENCE A RESPONSIBLE INVESTMENT APPROACH MAKES TO INVESTMENT DECISION-MAKING, RETURN POTENTIAL AND RISK MANAGEMENT CAN BE COMPLEX.

In this section we offer practical examples of ESG analysis in action. Examples include:

- Divestment from longer-dated tobacco bonds due to long-term risks // 22
- Proprietary ESG research to complete our risk analysis in a Middle Eastern bank, leading us to invest // 25
- Rejection of an opportunity to lend to a finance provider, partly due to ESG concerns // 26
We demonstrate how stewardship and engagement can support long-term objectives. Examples include:

- Engagement with an Indonesian telecoms company to help it better communicate its approach to ESG risks // 25
- Dialogue with a Danish utility provider to better understand their new green bond linked to biomass energy // 35
- Collaborative engagements on climate change and cyber risks // 36

KEY POINTS ON INSIGHT’S ENGAGEMENTS IN 2018

- Over half our direct company engagements included discussions of ESG issues
- Climate change and cyber risks were key areas for our collaborative engagements
- We continued to engage with policymakers on new regulations and responsible investment initiatives
INSIGHT’S RESPONSIBLE INVESTMENT POLICY

WE BELIEVE STRONG GOVERNANCE PRACTICES AND MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ARE IMPORTANT DRIVERS OF INVESTMENT VALUE OVER THE SHORT AND THE LONG TERM. WE ALSO BELIEVE THAT DELIVERING SUSTAINABLE INVESTMENT RETURNS IS DEPENDENT ON EFFICIENT AND WELL-MANAGED FINANCIAL MARKETS, AND STABLE AND TRANSPARENT SOCIAL, ENVIRONMENTAL AND ECONOMIC SYSTEMS.

Our objective is to achieve superior investment returns over clients' expected time horizons. We consider responsible investment to contribute towards this goal through providing investment solutions that deliver quality and excellence; managing financial and non-financial risks for our clients; and operating to high ethical and professional standards.

We consider responsible investment as central to our investment activities, to our culture, to our relationship with clients and to our interaction with stakeholders.

To deliver on our objectives, we:

1. **Take account of financially material short and long-term risk factors in our investment research and decision-making processes.** These risk factors may include ESG issues.

2. **Exercise our stewardship role in the companies and other entities in which we invest.** We believe that good stewardship can create investment opportunities and reduce investment risk. We therefore engage with management to discuss issues such as strategy, deployment of capital, performance, remuneration, risk management and ESG factors. We also vote our shareholdings.

3. **Support efforts that seek to improve the operation, resilience and stability of financial markets.** This includes sustainable economic development and health of the natural environment.
PRACTICAL EXAMPLES OF ESG ANALYSIS IN ACTION

OUR APPROACH TO RESPONSIBLE INVESTMENT IS UNDERPINNED BY THE BELIEF THAT ESG ISSUES ARE IMPORTANT DRIVERS OF INVESTMENT VALUE. THIS MEANS WE INCORPORATE ESG ANALYSIS ACROSS OUR INVESTMENT STRATEGIES AND PORTFOLIOS, AND ENGAGE ON ESG ISSUES TO BETTER UNDERSTAND THE ESG RISKS COMPANIES FACE AND HOW THEY INTEND TO MANAGE THEM.

We asked our portfolio managers two questions:

Q1 How have you applied our responsible investment approach in your portfolios?
Q2 What specific examples can you provide of decisions made in light of your ESG analysis?

CREDIT

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

KEY INSIGHT

Our credit analysts are expected to consider ESG research in their analysis across every issuer in our investment universe. Our research contributed to our decision to divest from longer-dated tobacco bonds across our credit portfolios on investment grounds.

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

For credit, alongside financial metrics, we pay particular attention to key business risks using a checklist that identifies important sources of risk that can lead to a sudden deterioration in credit quality. ESG risks are a key element of this checklist, and this means our credit analyst notes include an assessment of each issuer’s ESG risks and whether they may be material for performance. In 2018, over 50% of meetings with corporate debt issuers (709 out of 1,311 meetings) included discussions of ESG factors.10

We make sure our credit analysts have clear incentives to maintain their focus on ESG, and for several years we have linked their annual performance appraisals to analysis of relevant ESG risks in their research. A specific ESG objective accounted for 10% of credit analysts’ total objectives in 2018, up from the previous 5%. The outcome of the performance appraisal is linked closely to any discretionary compensation element.

10 Insight makes no assurances of similar results in future years.
Q: What specific examples from 2018 can you provide of decisions made in light of your ESG analysis?

I would highlight two examples of our responsible investment approach having a demonstrable impact.

**We divested from a high-risk mining company.** ESG risks are often material in our buy-and-maintain portfolios, which are long-term in nature. In 2018, a client’s buy-and-maintain portfolio transitioned to us from another investment manager. It included an issue from a mining company. Our analysts’ review of the company’s fundamentals looked reasonable, but it scored badly on ESG risks, even within the mining sector – which is more exposed than others to some material ESG risks. The company did not respond to requests to engage on these issues. Given historical examples of mines failing due to environmental issues, and their owners struggling to repay their debt, we decided to sell the holding.

**We excluded longer-dated tobacco bonds from our active and buy-and-maintain portfolios due to long-term risks.** The large tobacco companies are generally investment grade issuers, with strong near-term cash flow profiles and stable ratings. However, in 2018, we changed our position towards tobacco issuers.

We believe **regulatory risks** have increased in developed markets as a result of more healthcare focused legislation, such as marketing restrictions. These actions are likely to have led to reduced demand, which is evident across developed markets. **Regulations in emerging markets** also appear to be catching up with developed markets faster than expected. Also, **alternative technologies** such as vaping are attracting a greater customer base and are replacing demand from traditional cigarettes.

Meanwhile, more investors are excluding tobacco investments from their portfolios, pushing up funding costs. These weaker long-term fundamentals are not reflected in market valuations, with spreads moving in line with broader credit markets.

As a result of these trends, we decided to rotate out of longer-dated tobacco exposures into attractive alternative sectors in both our active and buy-and-maintain funds. Some individual positions within the sector may still be appropriate in some situations, dependent upon an individual issuer’s credit quality, pricing and maturity factors. We continue to monitor the impact for client portfolios but do not expect the move to have negative investment impacts.

For more information on Insight’s credit investment process, see page 50.

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**APPLYING ESG OVERLAYS TO CREDIT PORTFOLIOS**

Insight can apply a wide variety of ESG overlays to corporate bond portfolios. Typical overlays include:

1. **Exclusion screens**: Using criteria provided by clients to prevent investments in certain business activities, such as tobacco, weapons and alcohol.

2. **Norms screens**: Managing (reducing or eliminating) exposure to companies with past high-profile events that suggest they do not meet globally respected standards such as the UN Global Compact and those set out by the International Labor Organization.

3. **‘Best in class’**: Using ESG ratings to rank companies on their ESG performance, which can be used to identify leaders and tilt portfolios away from companies with the worst ESG performance and/or the highest ESG risks, and towards companies with the best ESG performance/the lowest ESG risks.

4. **Low carbon**: Identifying companies with poor carbon emissions performance or those demonstrating greater environmental risk, and using this information to reduce the carbon footprint of portfolios.

5. **Positive impact**: Tilting portfolios in favor of either individual bonds or corporate issuers that have a sustainability element. This includes impact bonds and the UN Sustainable Development Goals. See page 41 for more information on our investments in impact bonds.
KEY INSIGHT

High yield debt issuers generally have worse ESG risks and ratings, meaning constant ESG analysis and engagement are a high priority for our high-yield managers.

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

In high-yield debt markets, ESG risks can be more significant than for investment grade debt due to the prevalence of some sectors – such as energy – which have higher short and long-term ESG risks. ESG scores from independent data providers generally assign worse ESG ratings to high-yield debt issuers.

The acceptable margin for error in making bad high-yield bond investments is less than for investment grade credit. We therefore demand more legal restrictions on what a high-yield borrower can do, and we require greater disclosure as a starting point. We use our research tools and regular meetings with borrowers to constantly assess their exposure to and management of ESG risks. As creditors, our interests are very closely aligned with the management of ESG factors.

For example, for a car-seat manufacturer we would regularly and repeatedly ask management if they are investing in the manufacturing plant. Adequate investment would mean the car seats are made to a high standard required, without product concerns, and the customer would come back to buy more; and the plant is more likely to be safe for employees. A plant supported by adequate investment is more likely to operate without disruption, generating cashflows for the bond investor. We would also examine the bond documentation, ensuring the relevant cash would not be paid to shareholders as a dividend and that any potential conflicts of interest are mitigated through legal documentation.

What specific examples from 2018 can you provide of decisions made in light of your ESG analysis?

We would highlight our avoidance of issues from two companies in particular, partly due to our concerns over ESG issues. These are companies with joint ventures operating in numerous jurisdictions. We could not understand the companies’ cashflows or whether cash would be given away as dividends to the shareholders and away from the business.

We believe these decisions are clear examples of integrated risk analysis and reflect clearly how the analysis of ESG risks is aligned with our clients’ interests as creditors.
EMERGING MARKET DEBT

Colm McDonagh
Head of Emerging Market Fixed Income
Insight Investment

KEY INSIGHT

Gaps in ESG data for emerging market debt issuers mean active engagement and proprietary analysis are crucial. Information from our proprietary ESG questionnaire covers 20% of our emerging market corporate debt portfolio.

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

Industry awareness of ESG factors, and how they relate to emerging market debt investing, has increased significantly. This is particularly true for corporate debt. The creation of dedicated emerging market debt ESG indices in 2018 has helped drive the increased awareness, and reflects the growing support among investors for data-led ESG investing in the asset class.

In our view, investors should now move beyond relying on third-party data alone for ESG analysis. We believe the real benefit comes when you engage with issuers and perform your own work as part of the overall credit process.

Of particular relevance at present are the gaps in ESG data provided by third parties. Roughly 80% of emerging market corporate indices on a weighted basis are covered by the major data providers. Concerningly, this coverage deteriorates as credit risk increases: 90% of investment grade issuers are covered, compared to 50% to 60% of single-B and unrated issuers.11

Yet as credit risk increases, ESG can have a much more material impact on bond performance. Since 2015 there have been 12 emerging market corporate defaults in excess of $1bn. Seven of them suffered from significant ESG issues, but only one was covered by the major ESG data providers.12 Where ESG factors are most significant, we observe that coverage by the data providers is weakest.

Investors need to work hard to fill the gaps, and over the past year we have worked with issuers to complete several Insight-designed ESG questionnaires. Coverage from our proprietary questionnaire now exceeds 20% of our emerging market corporate debt portfolio.13

This is just the start. Our credit analysts actively assess and engage with issuers where appropriate to understand how they manage ESG risks in practice. As seen below, supplementing the initial data from ESG data providers with our own analysis and/or Insight’s proprietary questionnaire has been key to extracting the full benefit from ESG analysis.

Q What specific examples from 2018 can you provide of decisions made in light of your ESG analysis?

There are several ways in which our responsible investment approach has had a clear impact on our investment decisions. Examples include the following.

We avoided an issue due to ESG concerns. We avoided issues from a special purpose vehicle (SPV) linked to a major airline that provided financing to other airlines. The issues were structured as a collateralized debt obligation with the major airline responsible for only a minority of the debt, and the remainder covered by five other, much weaker, airlines. In 2017, two of them defaulted; in 2018, another encountered significant financial difficulties. Attempts to auction claims on the defaulted debt failed, forcing the SPV to begin restructuring talks.

13 As of December 31, 2018. Subject to change without notice.
Notably, the SPV is not covered by the ESG data providers. We avoided the issues throughout. There were no investor contacts available at the SPV or the major airline, with extremely limited and poor quality financial disclosure. The deal was complex and poorly structured, portrayed as a bond of the major airline, yet without recourse to it. The lead bookrunner on the deal had filed for bankruptcy twice and its owner had been sued repeatedly for fraud.

**We engaged with an issuer to help it demonstrate better ESG performance.** An Indonesian company that develops and maintains telecom towers has annuity-like long-term contracts with major mobile network operators, with all its debt fully hedged back to the Indonesian rupee. ESG data provider MSCI ESG Research lowered its governance score to the worst possible as the company had not signed up to the UN Global Compact nor publicly disclosed key policies and procedures.

We disagreed with this assessment and informed management so they could counter the low ratings. Our research confirmed that the company has adopted ISO 26000, which incorporates all UN Global Compact Principles; all standard operating procedures are in place; and following our engagement, the one shortcoming identified – the lack of a whistle-blower policy – is being addressed. We believe the company remains one of the most defensive Indonesian corporates with strong ESG risk management. We bought an issue in July 2018.

**We used proprietary ESG analysis to drive a positive decision.** A Middle Eastern bank is not covered by any major third-party ESG research provider and we engaged with the bank to complete our proprietary ESG risk assessment. It scored strongly across the board. We purchased its perpetual bond at new issue, given our positive view of fundamentals and ESG risk management which we felt were not reflected in pricing.
KEY INSIGHT

Loans are a key source of ESG risks. We reject any loan application that does not provide sufficient information on these risks.

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

Long-term investors are increasingly filling the space left by banks who continue to rebuild their balance sheets and scale back their lending activities. We believe attractive returns are available to investors that can access private direct lending and related opportunities. These typically involve lending that is secured against a portfolio of physical assets providing investors with tangible security.

These ‘secured finance’ assets encompass a wide range of opportunities, including public and private debt, focused on residential and consumer borrowing; commercial real estate; and secured corporate assets.

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.

Another example of a secured finance asset is CLOs. As with our broader credit analysis, we incorporate ESG research within our CLO analysis. CLOs are typically managed portfolios of 100 or more obligors, but our analysts and portfolio managers review CLO portfolios line-by-line. Corporate governance is a fundamental part of the review: if the CLO manager scores badly on governance it would be unlikely to be recommended for investment or with such recommendation being restrictive, our due diligence checklist and scoring will discriminate against such managers.

Q What specific examples from 2018 can you provide of decisions made in light of your ESG analysis?

In 2018, we rejected an opportunity to lend to a company that provides finance to borrowers who have had credit events in the past, such as missed mortgage payments or lower credit scores due to past indebtedness.

Our decision was driven by a range of factors, such as concerns over data quality, but ESG concerns played a significant role. Notably, while the business had good processes in place for lending, we believed it needed to refine its policies to comply with Treating Customers Fairly principles and to deal appropriately with vulnerable customers. The company’s policies for both were out of date and not up to industry best standards. While this could be rectified, we believe it demonstrated a lack of focus on compliance – a must for this sector.
SOVEREIGN DEBT

Isobel Lee
Head of Global Fixed Income Bonds
Insight Investment

KEY INSIGHT

Gaps in ESG data for sovereign issuers led us to develop a proprietary model which provides a snapshot of ESG performance and progress for 186 countries.

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

We include ESG factors in our long-term risk assessment for sovereign debt. For clients that request it, we bias allocations towards better performers, or can exclude sovereign issuers from the relevant benchmark.

Traditionally, sovereign debt investors will look at the economic and political picture. ESG factors sit alongside these, and will typically reflect longer-term risks. We would acknowledge that the relevance of ESG factors for sovereign issuers is still at a developmental phase compared to other asset classes. Unlike corporates, there is very limited scope for engagement with sovereign issuers, but one area in which there may be scope for dialogue is green bonds where sovereign issuance is increasing. For example, we added Belgium’s inaugural green bond to some of our investment portfolios (see page 52).

Better frameworks for evaluating ESG risks and engaging with sovereigns on such issues are helping capital markets to price in such risks. Sovereigns are becoming increasingly aware of this and in some cases are reacting to these developments. To support our own analysis and engagement, we have developed a country sustainability risk model that generates two scores for each country: an overall ESG score, and an ESG momentum score that reflects whether its ESG performance has improved or deteriorated over the last six years.

The results show few surprises in terms of which countries perform well or badly overall, but there are some unexpected results among the momentum scores. For example, the model indicates that Ivory Coast has the highest ESG momentum score in the world. We believe that highlighting how a country’s ESG performance has changed over time can help to highlight potential opportunities or problems that could become material for debt investors.

Q What specific examples from 2018 can you provide of decisions made in light of your ESG analysis?

In 2018, our country sustainability risk model gave Turkey the worst possible governance rating, and showed its governance had deteriorated materially over recent years. Policymaking appeared to have become constrained and the quality of policymakers reduced as President Erdogan had sought to consolidate powers for some time. In 2017, Turkish citizens voted in favor of constitutional amendments that would shift the existing parliamentary system of government towards a presidential system, and after the 2018 election, which the president’s coalition won comfortably, he moved to further consolidate power. These developments had a clear impact on investor sentiment and contributed in part to our becoming more negative on Turkey over 2018. Since 2017 our risk assessment has classed Turkey as ‘deteriorating’.

We note that our model showed Turkey’s environmental score was in line with other emerging markets, though there was some negative momentum as renewable energy consumption was declining and carbon emissions were increasing. Social performance was surprisingly strong and showed meaningful positive momentum over recent years, with education and housing metrics on a par with developed nations.

For information on Insight’s country sustainability risk model, see page 32.
KEY INSIGHT

Governance is a key consideration for real-asset exposures, and the team actively engages on relevant issues.

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

Our flagship multi-asset approach, Insight's broad opportunities strategy, dynamically invests across a wide range of asset classes including equities, fixed income and real assets.

We make extensive use of derivatives and index instruments to gain market exposures. Where appropriate, we take ESG risks into account when making investment decisions. For direct investments we have an engagement program: we raise ESG issues and actively encourage management to improve practices, and we exercise our stewardship responsibilities by actively voting on our shareholdings.

Insight's broad opportunities strategy invests in listed closed-end investment companies within real assets. The structure of closed-end investment companies typically comprises of an independent board and an investment manager/adviser. The board is responsible for defining overall company strategy and ensuring that the underlying investments, on behalf of shareholders, are managed appropriately. In comparison to broader listed equities, the governance structure embedded in listed closed-end investment companies changes the scope of ESG considerations in investment decision making. As outlined above, we exercise our stewardship responsibilities by actively voting on our shareholdings, which generally includes voting on routine matters including reports and accounts, distributions, equity issuance and board member remuneration.

Where the strategy invests in Insight-managed pooled funds to access certain credit exposures, ESG issues are a fundamental part of the research process.

**Q** What specific examples from 2018 can you provide of decisions made in light of your ESG analysis?

At the end of 2017, a UK-based construction contractor and facilities management service provider to some of the infrastructure holdings held in the broad opportunities strategy had issued a profit warning. This was duly noted as concerns regarding this counterparty’s financial strength in the relevant portfolio holding reports. The company was subsequently placed in compulsory liquidation in early 2018.

During this time, we engaged extensively with the affected portfolio companies’ boards and/or investment advisers to discuss contingency plans that provided for continuity of service. We continued to review progress on the appointment of replacement service providers and associated costs over 2018. We also encouraged portfolio companies to identify and implement lessons learnt from this experience so that shareholder interests could be better protected in the event of similar situations in the future.

For details on our multi-asset team’s shareholder voting in 2018, please see page 37.
DERIVATIVE OVERLAY STRATEGIES

Jos Vermeulen
Head of Solution Design, Client Solutions Group
Insight Investment

KEY INSIGHT

A key focus is our proactive engagement with regulators over proposals to reform derivatives markets.

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

Our responsible investment approach applies to derivative strategies in several ways given the different strategies and assets employed. For derivatives, we seek to manage the risks associated with counterparty selection and daily collateralization, among other processes. Our assessment of counterparties will be a result of our credit research process, which includes ESG risk analysis.

What specific examples from 2018 can you provide of decisions made in light of your ESG analysis?

Engagement with counterparties, regulators and stakeholders on relevant issues is key. We have proactively engaged with regulators over proposals to reform derivatives markets, and have sought to educate our clients on the relevant market and industry issues to help them make informed decisions.

CRITICAL FACTORS FOR RESPONSIBLE MANAGEMENT OF DERIVATIVE OVERLAY STRATEGIES

<table>
<thead>
<tr>
<th>Counterparty risk mitigation</th>
<th>Regulatory engagement</th>
<th>Meeting client objectives of reducing risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Approval and monitoring of counterparty panel by Insight’s Counterparty Credit Committee, chaired by Insight’s Chief Risk Officer</td>
<td>• Pension fund exemption from central clearing (EMIR)</td>
<td>• Education</td>
</tr>
<tr>
<td>• Creditworthiness of counterparties assessed by Insight’s credit research team</td>
<td>• Better clearing solutions (EMIR)</td>
<td>• Controlling volatility of funding positions</td>
</tr>
<tr>
<td>• Assessment of ESG risk factors incorporated into credit research view</td>
<td>• Non-cleared margin rules (EMIR)</td>
<td></td>
</tr>
<tr>
<td>• Long-standing approach has been to collateralize daily using high quality assets</td>
<td>• Transition from LIBOR to other risk-free rates</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Indirect impact of bank capital rules</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Development of new sources of repo</td>
<td></td>
</tr>
</tbody>
</table>
Engagement with counterparties, regulators and stakeholders on relevant issues is key

JOS VERMEULEN
FILLING THE GAP: INSIGHT’S PROPRIETARY ESG TOOLS FOR FIXED INCOME

INFORMATION ON ESG FACTORS AND RELATED RISKS IS OFFERED BY A WIDE RANGE OF INSTITUTIONS AND PROVIDERS BUT THERE ARE SIGNIFICANT GAPS. WE SEEK TO DEEPEN OUR UNDERSTANDING OF SUCH ISSUES THROUGH OUR OWN ANALYSIS, ENGAGEMENT AND USING PROPRIETARY ESG TOOLS.

1. INSIGHT’S INTERNAL ESG RATINGS

For many smaller issuers, particularly emerging market or high-yield companies, the availability of relevant non-financial data lags behind information from larger issuers.

Since 2016 we have generated internal ESG ratings for such issuers by sending tailored ESG questionnaires to management. These inform our credit analysts’ assessment and help them identify issues to address through further engagement.

In 2019, we aim to develop an internal database of ESG ratings across our investment universe for corporate issuers. Our ratings will be based on independent data and proprietary research.

2. INSIGHT’S COUNTRY SUSTAINABILITY RISK MODEL

In 2018, we introduced a proprietary country sustainability risk index, which generates ESG ratings for 186 countries. This aims to help us better understand the ESG risks at the country level across our portfolios.

Fixed income investors are sharpening their focus on the sustainability risks of individual countries. We believe investing effectively in sovereign debt requires analysis of ESG matters. We complement our research with a proprietary index to help us better understand country ESG risks across our bond portfolios.

The Insight country sustainability risk index generates two sustainability ratings for each country: an overall ESG rating and an ESG momentum score. It is used in four principal ways:

- **To expand the scope of our existing risk models**: When making investment decisions regarding sovereign debt, and other related debt such as issues from state-owned enterprises where the sovereign is effectively the backing entity, identifying changes in economic conditions and the risk profile of the relevant country are key. ESG indicators can provide another angle on economic and other matters.
- **To guide the management of client-specific portfolios with ESG guidelines**: We manage strategies for clients specifying that the overall ESG rating of portfolio holdings must exceed (be better than) that of the relevant benchmark. The index enables us to exclude or focus on issuers according to their ESG performance.
- **To support reporting to clients on ESG-specific factors**: The index ratings enable us to demonstrate how sovereign debt portfolios perform from an ESG perspective, either on an absolute basis or relative to a benchmark.
- **To indicate issues for dialogue**: Dialogue with sovereign issuers can be challenging and politically sensitive, but there can be opportunities to open discussions with officials from relevant agencies. Our index presents a tool by which we might identify and prioritize matters to address with sovereign issuers. This is particularly relevant for emerging/developing markets.

Please see our white paper on the index for more details, including:

- how metrics are generated,
- initial results and insights, and
- details of underlying ESG datasets.
INSIGHT’S CLIMATE RISK INDEX

In 2017, we introduced what we believe to be the investment industry’s first climate risk index for corporate debt. It ranks ~1,900 issuers according to how they manage climate change-related risks, and is aligned with the framework developed by the TCFD.

Our climate risk index is what we believe to be the investment industry’s first comprehensive ranking of how fixed income corporate credit issuers manage their climate change-related risks and opportunities, and how they are positioning themselves for the transition to a low-carbon economy. The index is designed to be used to assess risks and opportunities related to climate change.

- It provides a wide-ranging assessment of how nearly 1,900 corporate fixed income issuers – investment grade and high yield – are managing the risks and opportunities presented by climate change.
- It aims to help manage risk, accounting for the risk characteristics of specific sectors and for the carbon impact of individual issuers. It aims to help investors identify the issuers most at risk from a transition to a low-carbon world. It also allows investors to identify issuers that are managing these risks effectively and those that are not.
- It helps users monitor risks in line with TCFD guidelines. The index framework and methodology are aligned with the requirements of the TCFD, with companies assessed against objectively assessable indicators across the four TCFD themes: governance, strategy, risk management, and metrics and targets.
- It is based on independent data sourced from the CDP, MSCI ESG Research and Bloomberg.

In 2018, we further developed the index to incorporate new metrics.

For more details about the index, including:
- how Insight uses the index,
- the methodology underlying it, and
- details of key findings,
please see our paper15 on the index.

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STEWARDSHIP AND ENGAGEMENT ACROSS OUR STRATEGIES

A KEY ELEMENT OF STEWARDSHIP IS PROACTIVE ENGAGEMENT WITH COMPANIES TO ENSURE ACCURATE ANALYSIS AND TO INFLUENCE THEM TO IMPROVE THEIR PRACTICES.

KEY POINTS ON INSIGHT’S ENGAGEMENTS IN 2018
- Over half our direct company engagements included discussions of ESG issues
- Climate change and cyber risks were key areas for our collaborative engagements
- We continued to engage with policymakers on new regulations and responsible investment initiatives

INSIGHT’S DIRECT ENGagements with companies in 2018

The total number of engagements undertaken by credit analysts reached 1,311 in 2018. More than 50% of engagements included some reference to ESG issues. This reflects the strength of ESG in the credit process and that ESG including engagement now makes up part of credit analyst compensation.

In 2019 Insight will roll out a new engagement platform to enable a more efficient process for recording, monitoring and reporting engagement activity. This new system will provide credit and ESG analysts a central resource in which to examine historical engagement activity.

Figure 2: Proportion of company meetings in 2018 that featured discussion of ESG issues

Figure 3: ESG issues raised at company meetings in 2018
Danish utility company

KEY INSIGHT

Our engagement led to a change in our assessment of the company’s green bond linked to biomass energy

Insight engaged with a Danish utility provider as a result of its green bond issuance. We broadly support green bonds that have a positive environment impact, and aim to add bonds that are high quality and fit the risk profile of client mandates to clients’ portfolios.

However, the company’s green bond led us to raise critical questions on the use of proceeds. The company’s strategy was to convert coal plants into biomass renewable energy generation. During our research, we identified a number of initial problems with the green credentials of the company’s strategy. We were concerned that the carbon emissions from biomass would be comparable to coal due to a combination of factors, including: importing wood, deforestation, absolute carbon emissions, inefficient incineration, loss of heat and transport carbon impact. While an engagement call with management was organized, we did not receive clarity on the risks identified or any transparency on the carbon emissions from biomass plants.

We therefore avoided participating in the green bond.

Insight revisited the potential investment opportunities after further engagements when the company provided disclosure on its biomass carbon emissions. After a meeting with management we became more confident that the biomass technology and the supply of wood for incineration are compatible with a reasonable definition of green energy: the wood is from cuttings mostly discarded by industry, the wood is sustainably sourced, and the emissions are significantly lower than coal overall.

As a result, our analysis suggested that the company’s green bonds would be compatible with a sustainable bond portfolio and the impact was positive overall. We continue to add its green bonds to our portfolios and believe the company is well positioned to further decarbonize its asset portfolio.

UK roadside assistance provider

KEY INSIGHT

Our engagement led to increased disclosures from the company, enabling analysis of its bonds’ suitability for our portfolios

A UK roadside assistance provider did not provide enough information for us to reach a confident assessment of its suitability for our fixed income portfolios. We explained to the company that offering no public reports or a calendar for investors weakened governance and accountability, and that it could explain the wider spreads on the company’s debt relative to its peers.

As a result of our engagement, the company announced it would add investor reports to its corporate website along with the dates for its half-year and full-year results, and the timing of its annual investor call. It also committed to providing disclosures quickly to the full market.

Insight took a positive view of the change and considered it would be a financial opportunity for select funds. The company’s year-end results were solid and revealed none of the high capital expenditure announced by its peers. It remained committed to steady deleverage by its private equity shareholders and is not subject to the same headline risk.

Our credit analyst issued a buy recommendation for the company’s bonds, driven by the improved governance, and we added the bonds to clients’ portfolios.
INSIGHT’S COLLABORATIVE ENGAGEMENTS IN 2018

Climate change
We believe climate change is a long-term systemic risk which could have significant implications for businesses and society as a whole. In light of this, we are a supporter of the Climate Action 100+ initiative, the TCFD, a signatory of the CDP, and a member of the IIGCC.

**Insight’s support for the Climate Action 100+ initiative** involves working alongside other investors engaging the largest corporate issuers on their low-carbon strategies. As part of this initiative we have targeted issuers from the utilities, consumer discretionary and materials sectors.

Following our meetings there is evidence of company awareness and willingness to have open dialogue on the issues confronting the businesses. As the engagements are ongoing we continue to learn more about the strategic direction of businesses and how well placed they are to reorient their businesses in a more climate-resilient fashion.

We will continue to engage with these companies throughout 2019.

**Insight’s commitment to the TCFD initiative** was most clearly demonstrated in the launch of our climate risk index, which seeks to evaluate corporate fixed income issuers and their climate change-related risks.

See page 33 for more information.

Going forward, we expect to undertake more research on our investments and the carbon risks in client portfolios. As part of that we are also rolling out carbon intensity disclosures for all credit portfolios. This information gives clients a footprint report on the carbon performance at an aggregate level.

Cyber risk
Cyber risk is one of the biggest challenges facing businesses. A number of high-profile data privacy events occurred in 2018, with victims including Facebook and British Airways.

For investors, the risks are many: financial risks from cost of corrective action, reputation impact and business disruption. While the average cost remains low from a data breach, preventative IT security is increasingly a large part of corporate strategy and risk management. We expect all companies to have an IT security plan in place.

As part of our work with the PRI collaborative cyber security group we engaged with a high-profile pharmaceutical company to understand its preparedness for IT security risks. Following the engagement we are confident the company has suitable governance in place but transparency is inadequate. The company outlined its commitment to improve and this is likely to be reflected in its upcoming annual report.

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**CYBER SECURITY – A GROWING CONCERN**

- Cost of the average data breach to companies worldwide: $3.86 million
- Cost of the average data breach to a U.S. company: $7.91 million
- Average time it takes to identify a data breach: 196 days

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16 See [https://costofadatabreach.mybluemix.net/#us-company](https://costofadatabreach.mybluemix.net/#us-company)
Involvement in advocacy on public policy focusing on responsible investment

A significant focus for Insight is supporting a sustainable financial system. In practice, our efforts include direct engagement with policymakers and stakeholders where necessary, and we will also seek to engage with relevant consultations and collaborate with others in communicating with regulators to develop effective and appropriate policy.

INSIGHT’S VOTING ACTIVITY IN 2018

Our multi-asset team exercises its stewardship responsibilities by actively voting on shareholdings on matters typically covering adoption of reports and accounts, appointment of auditors, election of members of the board and changes to capital base (see page 29 for more details on the team’s overall approach).

In 2018, the team voted on 127 proposals in 10 listed closed-end investment companies within the strategy’s real assets component. The team also engages with investee management and company boards to discuss governance, strategy and other relevant issues. As part of ongoing monitoring of investee companies, the team had 40 contacts with investee management and company boards over 2018.

For more details on our multi-asset team’s shareholder voting in 2018, please see the Appendix (page 54).
MAKING A LONGER-TERM IMPACT

MANY OF OUR CLIENTS SEEK TO ACHIEVE NON-FINANCIAL OBJECTIVES WITHIN THEIR PORTFOLIOS. THESE RANGE FROM BROAD SUSTAINABILITY OBJECTIVES, SUCH AS INVESTMENTS ALIGNED WITH THE UN SUSTAINABLE DEVELOPMENT GOALS, THROUGH TO TARGETS AIMING FOR A POSITIVE SOCIAL OR ENVIRONMENTAL IMPACT.

KEY POINTS FOR IMPACT BONDS IN 2018 // 40

► Growth in impact bonds slowed
► Governments, financials and utilities continued to dominate impact bond issuance
► Opportunities to invest in dedicated fixed income impact strategies remain limited
► Only a minority of sustainable issues fully met our minimum sustainability requirements
KEY INSIGHTS ON SUSTAINABLE AND IMPACT INVESTING IN FIXED INCOME // 44

- A sustainable approach to fixed income doesn’t mean giving up on your performance targets
- Impact objectives are compatible with a conventional outperformance target
FOCUS ON IMPACT BONDS

KEY POINTS FOR 2018

- Growth in impact bonds slowed in 2018, potentially due to weaker fixed income markets, uncertainty over the introduction of new European guidelines for sustainable finance, and a lack of new issuers coming to market.
- Governments, financials and utilities continued to dominate impact bond issuance in 2018 – with financials issuance increasing sharply as a proportion of total issuance.
- Opportunities to invest in dedicated fixed income impact strategies remain limited due to the limited issuance of bonds at a size suitable for inclusion in benchmarks – meaning clear parameters and skilled analysis are even more essential for impact bond portfolios.
- Only a minority of sustainable issues we analyzed in 2018 fully met our minimum sustainability requirements, with weaknesses in a majority of bonds with regard to sustainability.

Growth in the impact bond market slowed in 2018. US dollar issuance of all impact bonds over the year totaled $166.3bn, only slightly up from issuance in 2017 of $166.1bn.

There are several possible reasons for the slowdown. General market weakness and cautious investor sentiment may have limited the issuance of impact bonds, as they did for conventional bonds. Uncertainty over the implications of the European Commission’s green taxonomy may have limited supply. Another factor is that many companies with leading sustainability programs have already issued impact bonds and are now putting the bond proceeds to work, so the pool of potential issuers has shrunk.

Financials were again the biggest issuer of impact bonds, accounting for 41% of impact bond issuance, up from 24% in 2017 (see Figure 4). Utility issuance over the year fell for the first time, to 13.7% of all impact bonds.

Figure 4: Growth of the impact bond market

Achieving the UN Sustainable Development Goals is expected to require $5tn to $7tn of total investment by 2030. Impact bonds – where bond proceeds are used for positive environment or social themes – are a key way to contribute towards such sustainability objectives.

For fixed income investors, it is possible to incorporate sustainability targets within their portfolios, but the opportunities to invest in dedicated impact strategies remain limited.

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17 Source: Bloomberg and Insight.
This is best illustrated by Figure 5, which shows the dollar value of bond issuance large enough to be incorporated within broad benchmarks (above $300m), denominated in euros, US dollars or pounds sterling. In total, 97 bonds of this size were issued in 2018, of which 89 were from issuers in the government or sovereign, financials or utilities sectors, accounting for $90bn of issuance.

Green bond issuance appears to have slowed, but steady growth remains in social and sustainability-labelled bonds that can achieve more of the UN Sustainable Development Goals aside from climate action and climate mitigation.

Figure 5: Green bond issuance appears to have slowed – issuance of impact bonds above $300m in size\(^{19}\)

**Insight’s activity in the impact bond market**

In 2018, Insight added 42 impact bonds to client portfolios.\(^{20}\) This included 37 green bonds, two social bonds and three sustainable bonds across a range of sectors (see Figure 6). Most of the bonds were issued by utilities and financials, and many have been repeat issuers of green bonds.

A full list of impact bonds added to client portfolios in 2018 is available on page 52.

Figure 6: Impact bonds added to client portfolios (by sector)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Green</th>
<th>Social</th>
<th>Sustainable</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Communications Equipment</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Diversified Banks</td>
<td>3</td>
<td>1</td>
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<td>4</td>
</tr>
<tr>
<td>Educational Services</td>
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<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Government Development Banks</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Government Local</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Power Generation</td>
<td>3</td>
<td></td>
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<td>3</td>
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<tr>
<td>Real Estate</td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Retail - Consumer Discretionary</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Sovereigns</td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Supranationals</td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Utilities</td>
<td>12</td>
<td>2</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>37</strong></td>
<td><strong>2</strong></td>
<td><strong>3</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>

\(^{19}\) Source: Bloomberg and Insight. \(^{20}\) Each portfolio is individually managed and may vary from the information shown.
INSIGHT’S SUSTAINABLE BOND ANALYSIS FRAMEWORK

Our framework to assess companies’ sustainable bond issuance is used by our credit analysts when considering bonds for all Insight’s investment portfolios.

Our credit and ESG analysts rate issuers on the following categories using our framework:

1. **ESG profile**: Analysts consider the ESG performance of the issuer, including corporate governance quality, its history of environmental and social activity and breaches of global norms.

2. **Structure of bond**: Analysts consider the strengths of the framework outlining the impact of the bond. The framework provides guidance for how the company will use bond proceeds.

3. **Bond impact**: Analysts focus on the tangible impact of the bond proceeds. This is a qualitative and quantitative assessment. Individual analysts have the flexibility to define the impact performance of the bond.

Analysts consider the three-point framework and allocate a yes/no score. Analysts will then use their judgement to allocate a traffic light score.

- **Red** indicates the sustainability bond does not meet Insight’s minimum sustainability requirements.
- **Amber** indicates there are weaknesses in the bond with regard to sustainability.
- **Green** indicates a company’s sustainability bond meets Insight’s minimum sustainability requirements.

Analysts are expected to give a brief summary of the bond and their reasons for assigning the traffic light score. A red score does not automatically exclude the bond from Insight’s portfolios. The rating will be used as an input into the overall fundamental review of a credit and its suitability for all credit portfolios.

Figure 7: Insight’s framework for assessing sustainable bonds
In 2018, we analyzed 39 issuers of impact bonds:

- 16 received a green score
- 22 received an amber score
- and one received a red score

**Figure 8: Examples of sustainable bond assessments in 2018**

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Bond type</th>
<th>ESG profile criteria met?</th>
<th>Bond structure criteria met?</th>
<th>Bond impact criteria met?</th>
<th>Framework score</th>
<th>Analyst assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>European government</td>
<td>Green</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Amber</td>
<td>In February a European government issued its inaugural green bond, which was added to various client accounts. The issuer has aspirational targets for renewable energy generation and energy efficiency. The bond proceeds are used to meet these objectives. The green bond’s framework outlines how tax credits will form a key role in allocating expenditure to related energy efficiency programs. However, the impact will depend on how much consumer interest there is and there are no targets or details on the programs that would qualify. Also, there are no defined targets or minimum standards from the use of green bond proceeds. These contributed to our amber score.</td>
</tr>
<tr>
<td>Global bank</td>
<td>Sustainable</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Green</td>
<td>A global bank issued a bond linked to the UN Sustainable Development Goals. The proceeds will be used for health and wellbeing, quality education, clean water and sanitation, affordable and clean energy, industry innovation and infrastructure, sustainable cities and communities and climate action. Eligible businesses or projects must derive 90% or more of revenues from these sectors. The bank follows best practice, with a green bond committee and sustainability representatives having oversight of projects with the power to veto. The bank’s 2018 report shows that 52% of proceeds went to new projects, while in terms of sectors 51% went to industry, innovation and infrastructure. These factors contributed to our green score for the bond.</td>
</tr>
<tr>
<td>Global food company</td>
<td>Social</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Amber</td>
<td>The issue from a global food company was a rare example of a consumer-focused impact bond. The proceeds cover a number of themes that serve a strong social purpose, such as responsible farming, natural farming methods, small and medium-sized enterprise financing and water access. The proceeds also include research and development and employee health benefits. We do not consider employee health benefits a good use of bond proceeds, but the commitment to health care nutrition products will drive business and consumer improvements. A commitment to spend the capital within two years and annual reporting on the proceeds with quantifiable metrics on the proceeds ensured that the social bond scored an amber rating in our sustainable bond analysis framework.</td>
</tr>
</tbody>
</table>
WE BELIEVE OUR APPROACH TO SUSTAINABLE AND IMPACT INVESTING IN FIXED INCOME, EXEMPLIFIED BY OUR SUSTAINABLE EURO CORPORATE BOND STRATEGY, BALANCES THE REQUIREMENTS OF MANY OF OUR CLIENTS FOR AN APPROACH THAT INCORPORATES BOTH SUSTAINABILITY AND IMPACT TARGETS, WHILE MAINTAINING A PERFORMANCE TARGET RELATIVE TO A CONVENTIONAL FIXED INCOME INDEX.

This builds on our responsible investment approach, which we apply across all of our strategies and portfolios.

**KEY INSIGHTS**

- A sustainable approach to fixed income doesn’t mean giving up on your performance targets. Our sustainable strategy’s outperformance target is set against a conventional bond index. When we introduced ESG and sustainability objectives to the strategy, we did not materially alter its performance objective.

- Impact objectives are compatible with a conventional outperformance target. Our strategy’s exposure to impact bonds over the year was well above the benchmark, even as it sought to outperform the benchmark.

**INSIGHT’S SUSTAINABLE EURO CORPORATE BOND STRATEGY**

Our sustainable euro corporate bond strategy has three distinguishing features:

1. It only invests where minimum standards for ESG factors are met,
2. It seeks to make a positive impact by favoring issuers with superior sustainability profiles, and
3. We actively engage with companies held to encourage better management of social and environmental issues.

The strategy invests on the basis of our long-established investment philosophy and process, and incorporates quantitative and qualitative inputs. Our sustainable approach builds on this investment process to augment the ESG focus of the strategy.

**IMPLEMENTING A SUSTAINABLE APPROACH**

The strategy invests on the basis of our long-established investment philosophy and process, and incorporates quantitative and qualitative inputs. Our sustainable approach builds on this investment process to augment the ESG focus of the strategy.

Figure 9: Insight’s sustainable euro corporate bond strategy – a sustainable approach
Better ESG performance than the benchmark\textsuperscript{21}

The strategy’s ESG score remained largely steady over 2018, with a better overall ESG rating than its benchmark. The portfolio reflects a best-in-class tilting strategy that aims to invest in better-performing ESG companies and avoid those with the lowest ESG ratings.

![ESG rating chart](chart.png)

Substantial exposure to impact bonds\textsuperscript{21}

The strategy’s exposure to positive impact bonds grew over the year. Some of that growth was down to new issuance of green bonds. On average, 16.7\% of the strategy had a strong link to positive impact opportunities over the year. The strategy aims to increase its allocation to positive impact opportunities and our aim is to see this grow over time.

![Impact bonds chart](chart.png)

Much lower carbon intensity than the benchmark\textsuperscript{21}

The carbon intensity of the strategy was, on average, 46\% lower than its benchmark over the year. This was achieved by removing the most carbon-intensive issuers from the portfolio.

![Carbon intensity chart](chart.png)

\textsuperscript{21} Source: Insight and Bloomberg. The quoted benchmark does not reflect deductions for fees, expenses or taxes. The benchmark is unmanaged and does not reflect actual trading. There could be material factors relevant to any such comparison such as differences in the volatility, and regulatory and legal restrictions between the index shown and the strategy. 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. Please refer to the important disclosures and index descriptions at the back of this presentation.
CASE STUDY

German pharmaceutical company

KEY INSIGHT

We engaged with the company after a major acquisition led its ESG rating to fall

In 2018, we engaged with a German pharmaceutical company after its acquisition of another company was approved by regulators. The acquisition led the pharmaceutical’s ESG rating to fall to the worst possible rating.

The Insight sustainable bond strategy requires that if an issuer deteriorates to ‘worst in class’ status we engage with the company with an aim to highlight and improve the issues that caused the deterioration. If a company is not compliant after a 12-month period, we would sell the bonds in the sustainable bond strategy.

We were concerned about the reputational risk to the company and our clients from exposure to the acquired firm. For several decades, the latter has been subject to popular attention over its agricultural chemicals products.

Insight’s credit analyst and ESG analyst organized a meeting with the pharmaceutical company’s management to focus on ESG issues. In August 2018, a US jury ordered the newly acquired firm to pay substantial compensation to an individual over health-related issues. The pharmaceutical company’s share price fell over 10% and bond spreads widened.

We discussed with senior management a range of critical issues surrounding the company including product concerns, class-action lawsuits, and its strategy to manage the ESG risks. As a result of this engagement, we were confident there is no current definitive scientific basis for the product concerns and that the litigation events and potential costs would be manageable for the company, at the time of our engagement in late 2018. We also concluded the headline risks will stay with the company for some time.

We recommended that due to the high-profile event, the company should consider developing an improved investor communication approach to respond to fast-moving issues. The company has provided further information in its 2018 annual report, published in 2019.

We determined that the company’s ESG risks are being managed and that, over time, the pharmaceutical company’s culture and business practices – including sensitivity to sustainability issues – will be positive for the acquired business. Ultimately, while we are confident the company is managing these risks and investors are suitably compensated for the elevated ESG risks at current spreads, we sold holdings in the sustainable corporate bond strategy due to the controversies that we did not see as being aligned with the non-financial objectives of the strategy.
Insight’s sustainable bond strategy requires that if an issuer deteriorates to ‘worst in class’ status we engage with the company. If it is not compliant after 12 months, the strategy sells the bonds.
IN 2019 WE INTRODUCED ENHANCEMENTS TO OUR OVERSIGHT AND STRUCTURE ON ESG INVESTMENT ISSUES.

We have replaced the ESG Working Group with an ESG Business Group, and introduced two formal meetings focusing on ESG in corporate and sovereign fixed income. All meetings are quarterly and contain key investment and business staff.

<table>
<thead>
<tr>
<th></th>
<th>ESG Fixed Income Group (Corporate)</th>
<th>ESG Fixed Income Group (Sovereign)</th>
<th>ESG Business Group (formerly ESG Working Group)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mandate</strong></td>
<td>To effectively apply the</td>
<td>To effectively apply the</td>
<td>To review business risks and</td>
</tr>
<tr>
<td></td>
<td>responsible investment strategy</td>
<td>responsible investment strategy</td>
<td>opportunities from an ESG</td>
</tr>
<tr>
<td></td>
<td>across corporate fixed income, in</td>
<td>across sovereign fixed income, in</td>
<td>perspective:</td>
</tr>
<tr>
<td></td>
<td>particular:</td>
<td>particular:</td>
<td>• RFP and account developments</td>
</tr>
<tr>
<td></td>
<td>• High ESG risk issuers</td>
<td>• High ESG risk issuers</td>
<td>• Communications and marketing</td>
</tr>
<tr>
<td></td>
<td>• Significant ESG changes</td>
<td>• Significant ESG changes</td>
<td>• Product development</td>
</tr>
<tr>
<td></td>
<td>• Thematic issues</td>
<td>• Thematic issues</td>
<td>• Industry and regulatory</td>
</tr>
<tr>
<td></td>
<td>• Research requirements</td>
<td>• Research requirements</td>
<td>developments</td>
</tr>
<tr>
<td></td>
<td>• Engagement outcomes</td>
<td>• Engagement outcomes</td>
<td>• Client and stakeholder</td>
</tr>
<tr>
<td></td>
<td>• Process enhancements</td>
<td>• Process enhancements</td>
<td>investment communication</td>
</tr>
<tr>
<td><strong>Meeting frequency</strong></td>
<td>Quarterly</td>
<td>Quarterly</td>
<td>Quarterly</td>
</tr>
<tr>
<td><strong>Chair</strong></td>
<td>Rob Sawbridge, Portfolio Manager,</td>
<td>Colm McDonagh, Head of Emerging</td>
<td>Lucy Speake, Head of European Credit, Deputy</td>
</tr>
<tr>
<td></td>
<td>Fixed Income</td>
<td>Market Fixed Income</td>
<td>Head of Fixed Income</td>
</tr>
<tr>
<td><strong>Vice Chair</strong></td>
<td>Joshua Kendall, Senior ESG Analyst</td>
<td>Joshua Kendall, Senior ESG Analyst</td>
<td>David Averre, Head of Credit Analysis</td>
</tr>
</tbody>
</table>
APPENDIX II. INSIGHT’S 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 anti-personnel 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 III. INSIGHT’S CREDIT INVESTMENT PROCESS

IN DISCUSSION WITH PORTFOLIO MANAGERS, WE APPLY FILTERS TO OUR CREDIT UNIVERSE TO ARRIVE AT A SMALLER GROUP OF INVESTABLE ISSUERS. THIS SHORTER LIST IS THEN SUBJECT TO RIGOROUS FUNDAMENTAL ANALYSIS BY OUR CREDIT ANALYSIS TEAMS IN LONDON AND NEW YORK. WE TEND TO SCREEN OUT INVESTMENTS IN ISSUERS THAT OFFER INSUFFICIENT ACCESS TO FINANCIAL DATA AND COMPANY MANAGEMENT, AND ISSUES WHICH ARE INSUFFICIENTLY LIQUID (SEE FIGURE 11).

Figure 11: ESG risks are integrated within Insight’s credit analysis

<table>
<thead>
<tr>
<th>Coverage model</th>
<th>Fundamental credit research</th>
<th>Includes ESG factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial screen</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>979 IG</td>
<td>411 HY</td>
<td>734 IG</td>
</tr>
</tbody>
</table>

Our analysts conduct a fundamental review of a company’s financial risk, in particular its cash flow, revenue and profitability. We pay particular attention to the scoring of key business risks using a checklist that identifies important sources of risk that can lead to a sudden deterioration in credit quality and that identifies sources of risk that may not be readily apparent from an examination of a company’s financial performance (see Figure 12).

Figure 12: Insight’s risk checklist

<table>
<thead>
<tr>
<th>ESG risk assessment – internal and external analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity</strong></td>
</tr>
<tr>
<td><strong>Contingent liabilities</strong></td>
</tr>
<tr>
<td><strong>Regulatory risk</strong></td>
</tr>
<tr>
<td><strong>Environmental, social, governance (ESG)</strong></td>
</tr>
<tr>
<td><strong>Event risk</strong></td>
</tr>
<tr>
<td><strong>LBO/Activist risk</strong></td>
</tr>
</tbody>
</table>

22 As of December 31, 2018. For illustrative purposes only.
Default risk is the prism through which our analysts consider every issue. A full investment analysis is required to inform an investment decision and ESG risk scores are a necessary element in assigning a credit rating that indicates the relative risk of default loss. Insight’s Credit Analyst Team is charged with determining the materiality of issues on the checklist, defined as the contribution these make to the default likelihood of a potential investment.

It is through the combination of ESG risk screening and financial analysis that Insight’s extended credit risk appraisal process brings together an assessment of the financial risks associated with a company’s performance with a clearly defined set of key business risks, including ESG considerations, as a part of the mainstream investment process. Insight believes that its approach exemplifies Principle 1 of the PRI.

IDENTIFYING ESG RISKS

We transpose third-party ESG ratings into the five-point risk scale that we use to assess the significance of non-financial risk factors. Our ESG assessment focuses on the material risks in each sector or business. For example, we consider health and safety, and carbon emissions, as important risks for companies operating in the mining sector, but we see these as generally of lower importance for financial services companies. The exception is with corporate governance, where we consider the risks an important part of our evaluation for every type of issuer and credit quality. The range of ESG risk issues and the scores used are illustrated in the graphic below.

Figure 13: ESG ratings framework

FILLING THE GAP

Data from third-party providers is important, but not enough. For many smaller issuers, especially emerging market and high yield companies, the availability of relevant non-financial data often lags behind that available for larger issuers. For issuers in our investment portfolios it is important that, wherever possible, we have data that enables us to make a robust assessment of companies’ risk exposure and risk management. We are particularly aware that assuming that a lack of disclosure means that a company is not effectively managing an issue could lead to us significantly mispricing the risks associated with these issues.

Insight follows a process to generate ESG ratings if we cannot source independent ESG analysis from our market data providers:

1. Credit analysts identify companies with no ESG ratings but are, or may be, issuing bonds suitable for Insight’s credit portfolios
2. Credit analysts work with the ESG Analyst to develop a custom ESG self-assessment tool that reflects the sector-specific risk issues relevant to the issuer
3. Company management is contacted to complete the self-assessment
4. Insight generates an ESG scorecard based on the self-assessment response
5. Insight credit analysts follow up with any risk issues identified

Source: Insight and MSCI. For illustrative purposes only. Based on MSCI ESG ratings framework. Assessed for all issuers.
### APPENDIX IV. IMPACT BONDS ADDED TO CLIENT PORTFOLIOS IN 2018

Figure 14: Impact bonds added to Insight's fixed income portfolios in 2018

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Sector</th>
<th>Impact theme</th>
<th>Year Issued</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALD SA</td>
<td>Retail - Consumer Discretionary</td>
<td>Green</td>
<td>2018</td>
<td>11/10/2022</td>
</tr>
<tr>
<td>ANGLIAN WATER SERV FIN</td>
<td>Utilities</td>
<td>Green</td>
<td>2017</td>
<td>10/08/2025</td>
</tr>
<tr>
<td>ANGLIAN WATER SERV FIN</td>
<td>Utilities</td>
<td>Green</td>
<td>2018</td>
<td>26/10/2029</td>
</tr>
<tr>
<td>APPLE INC</td>
<td>Communications Equipment</td>
<td>Green</td>
<td>2017</td>
<td>20/06/2027</td>
</tr>
<tr>
<td>AUST &amp; NZ BANKING GROUP</td>
<td>Banks</td>
<td>Sustainable</td>
<td>2018</td>
<td>21/02/2023</td>
</tr>
<tr>
<td>BELGIUM KINGDOM</td>
<td>Sovereigns</td>
<td>Green</td>
<td>2018</td>
<td>22/04/2033</td>
</tr>
<tr>
<td>BNP PARIBAS</td>
<td>Diversified Banks</td>
<td>Green</td>
<td>2016</td>
<td>01/06/2022</td>
</tr>
<tr>
<td>BNP PARIBAS</td>
<td>Diversified Banks</td>
<td>Green</td>
<td>2018</td>
<td>17/04/2024</td>
</tr>
<tr>
<td>BPCE SA</td>
<td>Banks</td>
<td>Social</td>
<td>2018</td>
<td>26/09/2023</td>
</tr>
<tr>
<td>BPCE SA</td>
<td>Banks</td>
<td>Green</td>
<td>2015</td>
<td>14/12/2022</td>
</tr>
<tr>
<td>DANONE SA</td>
<td>Food &amp; Beverage</td>
<td>Social</td>
<td>2018</td>
<td>26/03/2025</td>
</tr>
<tr>
<td>DEVELOPMENT BK OF JAPAN</td>
<td>Government Development Banks</td>
<td>Sustainable</td>
<td>2015</td>
<td>21/10/2019</td>
</tr>
<tr>
<td>DNB BOLIKREDITT AS</td>
<td>Banks</td>
<td>Green</td>
<td>2018</td>
<td>19/06/2025</td>
</tr>
<tr>
<td>DTE ELECTRIC CO</td>
<td>Utilities</td>
<td>Green</td>
<td>2018</td>
<td>15/05/2048</td>
</tr>
<tr>
<td>DUKE ENERGY CAROLINAS</td>
<td>Utilities</td>
<td>Green</td>
<td>2018</td>
<td>15/05/2022</td>
</tr>
<tr>
<td>DUKE ENERGY CAROLINAS</td>
<td>Utilities</td>
<td>Green</td>
<td>2018</td>
<td>15/11/2028</td>
</tr>
<tr>
<td>ELECTRICITE DE FRANCE SA</td>
<td>Power Generation</td>
<td>Green</td>
<td>2013</td>
<td>27/04/2021</td>
</tr>
<tr>
<td>ELECTRICITE DE FRANCE SA</td>
<td>Power Generation</td>
<td>Green</td>
<td>2016</td>
<td>13/10/2026</td>
</tr>
<tr>
<td>EUROPEAN INVESTMENT BANK</td>
<td>Supranationals</td>
<td>Green</td>
<td>2015</td>
<td>15/11/2023</td>
</tr>
<tr>
<td>EUROPEAN INVESTMENT BANK</td>
<td>Supranationals</td>
<td>Green</td>
<td>2017</td>
<td>15/11/2047</td>
</tr>
<tr>
<td>FONCIERE DES REGIONS</td>
<td>Real Estate</td>
<td>Green</td>
<td>2016</td>
<td>20/05/2026</td>
</tr>
<tr>
<td>FRANCE (GOVT OF)</td>
<td>Sovereigns</td>
<td>Green</td>
<td>2017</td>
<td>25/06/2039</td>
</tr>
<tr>
<td>HSBC HOLDINGS PLC</td>
<td>Diversified Banks</td>
<td>Sustainable</td>
<td>2017</td>
<td>22/11/2023</td>
</tr>
<tr>
<td>IBERDROLA FINANZAS SAU</td>
<td>Utilities</td>
<td>Green</td>
<td>2016</td>
<td>07/03/2024</td>
</tr>
<tr>
<td>IBERDROLA FINANZAS SAU</td>
<td>Utilities</td>
<td>Green</td>
<td>2017</td>
<td>07/03/2025</td>
</tr>
<tr>
<td>IBERDROLA FINANZAS SAU</td>
<td>Utilities</td>
<td>Green</td>
<td>2018</td>
<td>28/10/2026</td>
</tr>
<tr>
<td>IBERDROLA INTL BV</td>
<td>Utilities</td>
<td>Green</td>
<td>2014</td>
<td>24/10/2022</td>
</tr>
<tr>
<td>ING BANK NV</td>
<td>Banks</td>
<td>Green</td>
<td>2015</td>
<td>24/11/2020</td>
</tr>
<tr>
<td>KOREA HYDRO &amp; NUCLEAR PO</td>
<td>Power Generation</td>
<td>Green</td>
<td>2018</td>
<td>25/07/2023</td>
</tr>
<tr>
<td>MASS INSTITUTE OF TECH</td>
<td>Educational Services</td>
<td>Green</td>
<td>2014</td>
<td>01/07/2038</td>
</tr>
<tr>
<td>MIDAMERICAN ENERGY CO</td>
<td>Utilities</td>
<td>Green</td>
<td>2018</td>
<td>01/08/2048</td>
</tr>
<tr>
<td>MITSUBISHI UFJ FIN GRP</td>
<td>Diversified Banks</td>
<td>Green</td>
<td>2018</td>
<td>26/01/2023</td>
</tr>
<tr>
<td>NATIONAL AUSTRALIA BANK</td>
<td>Banks</td>
<td>Green</td>
<td>2017</td>
<td>07/09/2022</td>
</tr>
<tr>
<td>NATIONAL AUSTRALIA BANK</td>
<td>Banks</td>
<td>Green</td>
<td>2018</td>
<td>30/08/2023</td>
</tr>
<tr>
<td>NATIONAL AUSTRALIA BK/NY</td>
<td>Banks</td>
<td>Green</td>
<td>2018</td>
<td>20/06/2023</td>
</tr>
<tr>
<td>SKANDINAVSKA ENSKILDA</td>
<td>Banks</td>
<td>Green</td>
<td>2017</td>
<td>17/02/2022</td>
</tr>
<tr>
<td>SOUTHERN POWER CO</td>
<td>Utilities</td>
<td>Green</td>
<td>2016</td>
<td>20/06/2026</td>
</tr>
<tr>
<td>TENNET HOLDING BV</td>
<td>Utilities</td>
<td>Green</td>
<td>2018</td>
<td>05/06/2028</td>
</tr>
<tr>
<td>TORONTO-DOMINION BANK</td>
<td>Banks</td>
<td>Green</td>
<td>2017</td>
<td>11/09/2020</td>
</tr>
<tr>
<td>TRANSPORT FOR LONDON</td>
<td>Government Local</td>
<td>Green</td>
<td>2015</td>
<td>24/04/2025</td>
</tr>
<tr>
<td>UNIBAIL-RODAMCO SE</td>
<td>Real Estate</td>
<td>Green</td>
<td>2014</td>
<td>26/02/2024</td>
</tr>
<tr>
<td>WESTPAC BANKING CORP</td>
<td>Banks</td>
<td>Green</td>
<td>2017</td>
<td>22/11/2024</td>
</tr>
</tbody>
</table>

25 The securities identified herein are for illustrative purposes only and were selected to show all of the impact bonds added to fixed income portfolios in 2018. Impact bonds are bonds where the proceeds are used for positive environmental or social themes. The mention of specific securities is not a recommendation to buy or sell such securities. The securities identified and described do not represent all of the securities purchased, sold or recommend for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. Actual holdings will vary for each client and there is no guarantee that a particular client’s account will hold any or all of the securities listed.
APPENDIX V. VOTING COMMITMENT

WITH RESPECT TO SHARE OWNERSHIP, IN THE MAJORITY OF THE CURRENT EQUITY INVESTMENT STRATEGIES INSIGHT DOES NOT HAVE MATERIAL INVESTMENTS IN PHYSICAL HOLDINGS. WHERE INSIGHT DOES HOLD PHYSICAL EQUITY POSITIONS WE ROUTINELY VOTE ON BEHALF OF OUR CLIENTS WITH REGARD TO THE UK COMPANIES IN WHICH THEY HAVE A SHAREHOLDING.

Insight retains the services of a third party for proxy voting services and votes at all meetings where it is deemed appropriate and responsible to do so. The third party provider offers research expertise and voting tools through sophisticated proprietary IT systems allowing Insight to take and demonstrate responsibility for voting decisions. Independent governance analysis is drawn from thousands of market, national, and international legal and best practice provisions from jurisdictions around the world.

Independent and impartial research provides advance notice of voting events and rules based analysis to ensure contentious issues are identified. The third party provider analyses any resolution against Insight-specific voting policy templates which will determine the direction of the vote. Where contentious issues are identified these are escalated to Insight for further review and direction. Insight will undertake a review of the voting policy templates on an annual basis.
### APPENDIX VI. SHAREHOLDER VOTES IN 2018

Figure 15: Multi-asset holdings – voting on management resolutions in 2018

<table>
<thead>
<tr>
<th>Category</th>
<th>Insight’s vote</th>
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<th></th>
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<tbody>
<tr>
<td></td>
<td>Abstain</td>
<td>For</td>
<td>Total</td>
</tr>
<tr>
<td>Auditor – Election</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Auditor – Remuneration</td>
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<td>9</td>
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<tr>
<td>Board Size &amp; Structure</td>
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<td>1</td>
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<tr>
<td>Capital Structure</td>
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<tr>
<td>Directors – Discharge</td>
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<tr>
<td>Directors – Elect</td>
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<tr>
<td>Dividends</td>
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<tr>
<td>Issue of Shares &amp; Pre-emption Rights</td>
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<td>Meeting Formalities</td>
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<tr>
<td>Other Articles of Association</td>
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<td>4</td>
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<tr>
<td>Other Corporate Action</td>
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<tr>
<td>Remuneration – Non-executive</td>
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<tr>
<td>Remuneration – Policy (Overall)</td>
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<td>1</td>
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<tr>
<td>Remuneration – Report</td>
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<tr>
<td>Report &amp; Accounts</td>
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<td>13</td>
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<tr>
<td>Share Buybacks &amp; Return of Capital</td>
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<td>9</td>
<td>9</td>
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<tr>
<td>Transactions – Related Party</td>
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<td>1</td>
<td>1</td>
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<tr>
<td>Transactions – Significant</td>
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</tr>
<tr>
<td>Treasury Shares</td>
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<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
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<td>144</td>
<td>144</td>
</tr>
</tbody>
</table>
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