



# FUTURE LEADERS SUSTAINABILITY REPORT 2024



# An introduction to the Future Leaders Portfolios

Four years ago, we launched a sustainable portfolio strategy with a difference.

Our idea was simple – to construct a low-cost passive solution that could deliver long-term returns whilst contributing to the UN Sustainable Development Goals (SDGs).

At that time, sustainably minded investors were mainly limited to actively managed funds but an increasing focus on fees and the use of passive led to us developing the concept behind the EQ Future Leaders Portfolios. This solution further democratises sustainable investing, an ambition that is deep rooted in EQ’s DNA.

We have been evolving it with best practices ever since and have worked with some of the leading asset managers to create and fine tune their passive

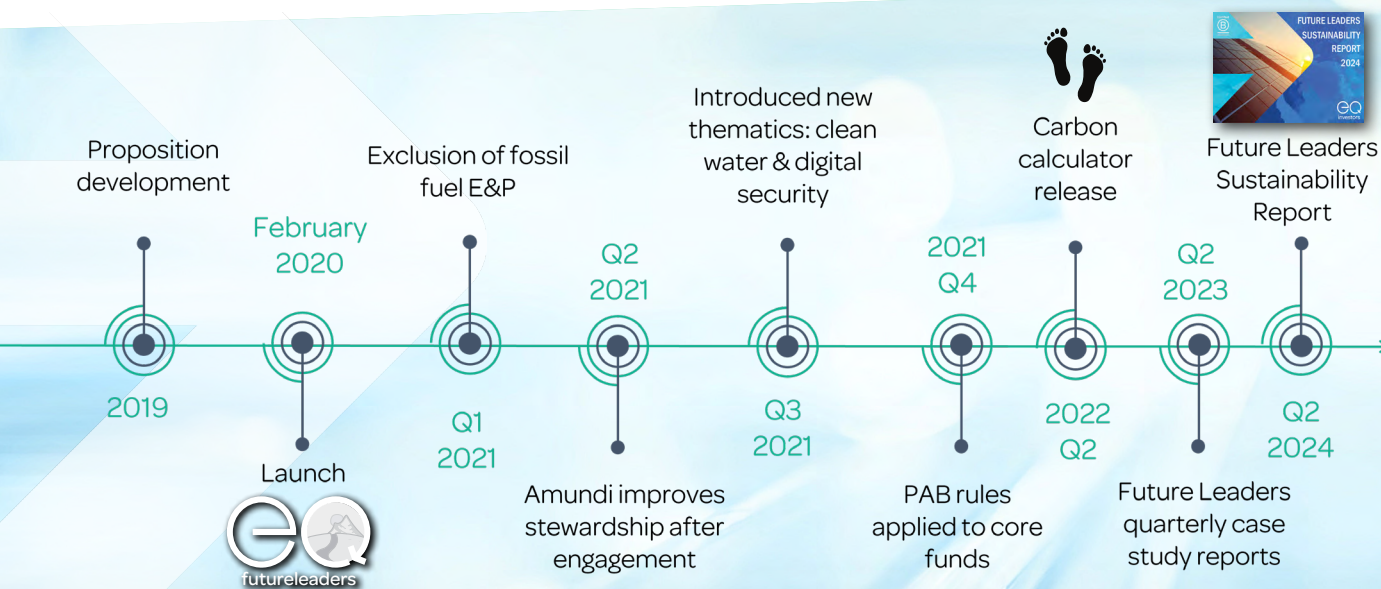
offering to ensure that we can meet our clients’ needs.

The portfolios’ objective is to achieve long term capital appreciation through investing in the most responsibly run businesses and avoiding the most controversial activities. The core of the portfolios invests in businesses that are strong performers when measured on environmental, social and governance (ESG) criteria. This is complemented by satellite investments in sustainable themes, such as clean energy, healthcare, and green bonds.

There is a common misconception that stewardship in passive funds is less important or effective. We disagree, and believe that passive investors have a

critical role to play in driving systemic change. EQ’s stewardship strategy encompasses both our active and passive funds and their underlying holdings. In fact, just like active managers, passive asset managers hold voting rights too, and their decision can enable or prevent change.

In this first annual report, we are excited to showcase the ambition of the EQ Future Leaders Portfolios, its unique characteristics vs peers as well as company examples held in the Portfolios. Finally, we are delighted to highlight our commitment to active stewardship over the past year, showing the way in which investors in sustainable passive funds can play a part in shaping the behaviour and practices of companies.



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# Our approach

EQ Future Leaders invests in low-cost passive funds that invest in well-run businesses, showing leadership within their sector in managing relevant environmental, social and governance (ESG) risks, whilst avoiding the most controversial sectors. This is complemented by investing in sustainable themes.



## What is an ESG Leader?

Companies that prioritise all stakeholders, typically exceeding regulatory sustainability requirements and regarded as role models in their sectors. They typically demonstrate leadership across social and environmental impacts, such as carbon emissions and workforce inclusion, while also being transparently governed.

The EQ Future Leaders Portfolios **excludes** ESG laggards and controversies, as well as:

- ✗ Armaments,
- ✗ Alcohol,
- ✗ Fossil Fuel extraction
- ✗ Tobacco
- ✗ Gambling,
- ✗ Adult entertainment,
- ✗ Thermal coal generation.

## DUAL MANDATE:

- 1 To achieve long-term capital growth.
- 2 By investing in the most responsibly run businesses and avoiding the most controversial activities.

Our investment process focuses on long-term returns, driven by changes in the fundamental value of assets, whilst retaining a flexible approach that can adapt to evolving economic and market circumstances.

## APPROACH TO STEWARDSHIP:

We actively engage for change, acknowledging the fact that there is no perfect company or asset manager. We recognise that shareholders have power, and we put this to work in our stewardship strategy, which aims to drive change in the real world.

Taking an active approach to stewardship is a core part of our service to our clients and complements how we manage investments.

You can read more about our five levels of influence and 2024 plan [here](#), as well as on pages 10 & 11.

# A focus on the core allocation

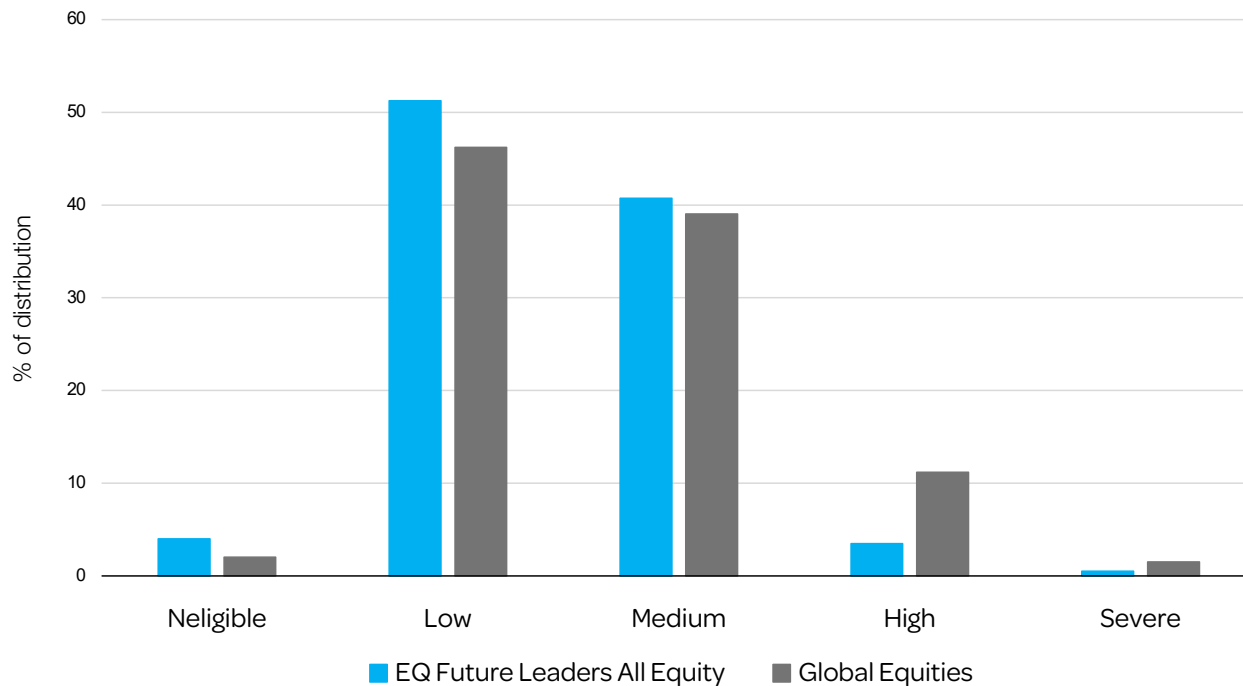
How a company treats its stakeholders across its operations has a material impact on its financial performance.

The core of the EQ Future Leaders Portfolios aims to invest in companies that are leaders when it comes to managing ESG risks.

The graph below shows the distribution of the EQ Future Leaders Portfolio companies across ESG risk rating categories (Sustainalytics), compared to global equities. The ratings are based on a third-party's assessment of how companies manage ESG risks that could materially impact their business. Each is given an overall score,

which investors can use as a proxy to identify how responsibly a business is run. While all portfolios carry some ESG risk, the EQ Future Leaders Portfolios have a lower exposure to companies with a higher ESG risk score.

EQ has a robust internal monitoring process to ensure that no laggards or controversial companies are held.



Source: Sustainalytics, April 2024

## CLIMATE LEADERSHIP

Climate leadership is built into the core funds in the portfolios. Carbon emissions are the best proxy for climate risk. The graph below shows how the carbon footprint of the EQ Future Leaders Portfolios has reduced over time while also being considerably lower than global equities. By having a lower carbon footprint, the portfolios' investments are more aligned to the low-carbon economy, and have reduced exposure to regulatory and market uncertainties that could have material financial impacts.



Source: MSCI, April 2024

The core funds of the portfolios align with Paris-Aligned Benchmark rules, which were developed by the EU to mainstream climate aligned investing. This method ensures our portfolio will decarbonise in line with the goals set out by the [Paris Agreement](#) in 2015.

**Disclaimer:** We use an industry standard methodology, which lets us associate the tonnes of CO2 equivalent emitted per £1m GBP invested. Scope 1,2 and 3 carbon emissions data is sourced by MSCI. For a full methodology, [click here](#).



# Using the satellite component to capture sustainable themes

Aligning to the UN SDGs through companies that provide solutions to global challenges.

EQ Future Leaders aims to have a high exposure to the [UN Sustainable Development Goals \(SDGs\)](#). The SDGs are a globally recognised framework that defines the most pressing social and environmental issues we face; each SDG has multiple underlying targets. EQ Future Leaders achieves high exposure to the SDGs compared to traditional benchmarks by investing in themed funds that positively align with particular UN SDG goals.



**Digital security:** We invest in companies that help fight cybercrime, including by safeguarding and the safe handling of sensitive data.



**Green bonds:** Fixed income securities where proceeds are only used to finance defined green projects, including renewable energy and low-carbon buildings.



**Sustainable development bank bonds:** These are fixed income securities, where proceeds help finance development needs of emerging markets, fully aligned to the UN Sustainable Development Goals.



**Decarbonisation:** We invest in companies offering products and services that enable CO2 avoidance and help the world transition to net zero.



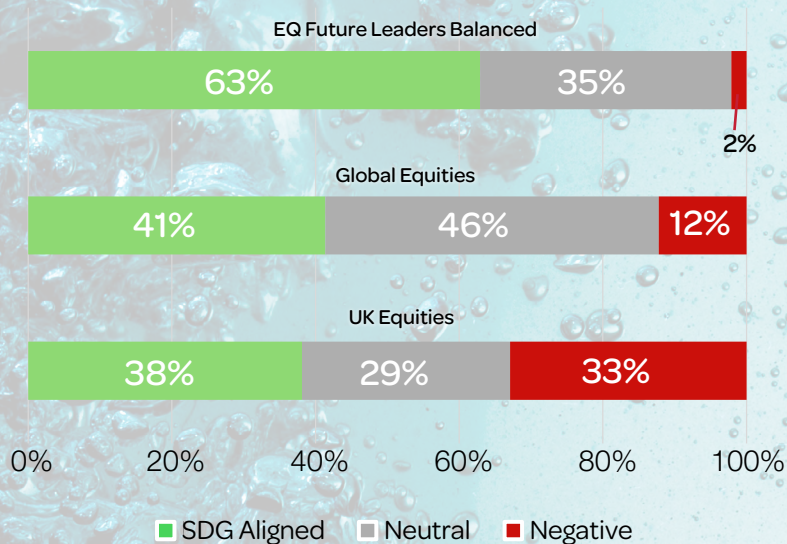
**Clean water:** We invest in companies that are actively engaged in the international clean water industry, including the provision of water-saving technologies and engineering solutions.



**Healthcare innovation:** We invest in companies that help prevent, treat, and cure disease.



The overweight to these themes results in a higher proportion of the portfolio invested in companies that contribute to solutions, which we report on through our SDG mapping shown below.



Source: EQ Investors analysis, April 2024



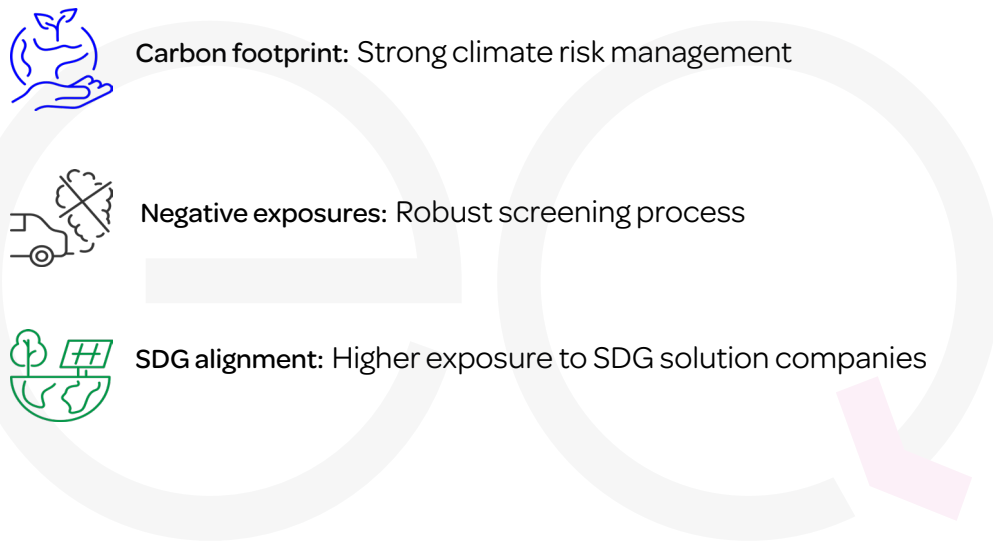
# Leading the way

## A blueprint for sustainable passive investing.

Sustainability is a spectrum and can be integrated into investments at varying degrees. Currently, the lack of regulation coupled with the lack of reporting from many sustainable passive Model Portfolio Service (MPS) providers means that it's difficult to clarify the ambition of sustainable passive portfolios.

Providing a strong level of transparency and accountability through reporting is an important component of sustainable passive investing. Regular reporting allows clients to verify that the portfolio remains consistent with their sustainable values.

The following section presents the findings of a comparative sustainability analysis we have conducted, against a peer group. Here we aim to demonstrate some of the differentiating characteristics of EQ Future Leaders strategy.

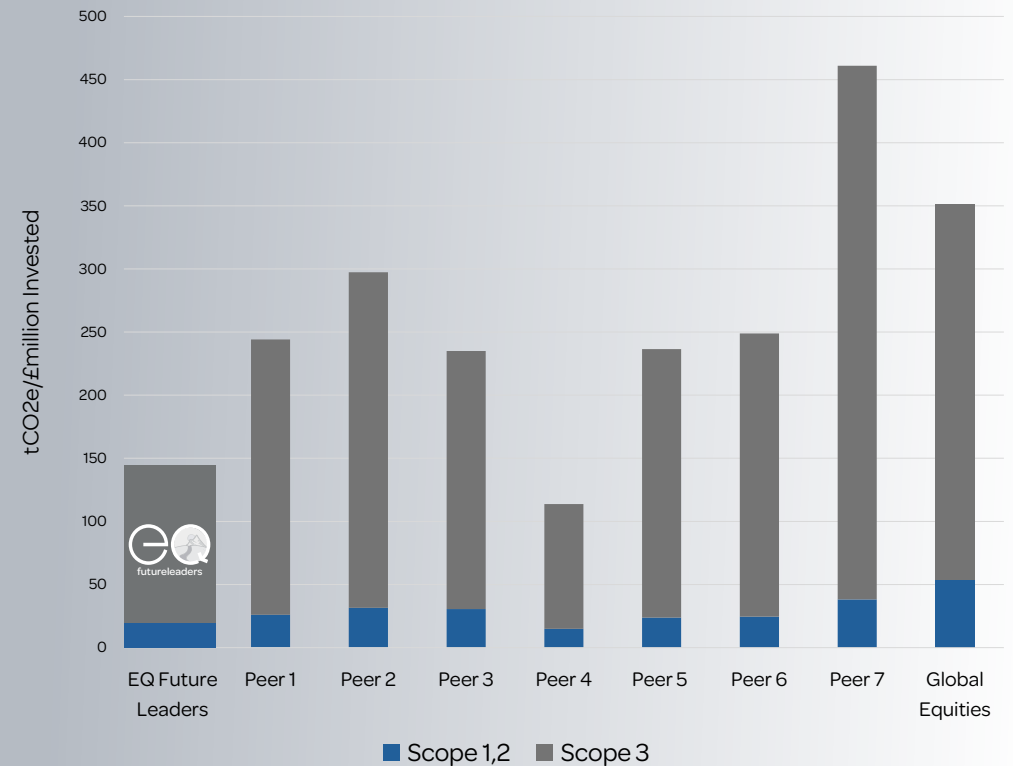


## CARBON FOOTPRINT

Most of the sustainable passive MPS peers have similar or higher carbon emission intensities. All currently, except peer 7, present lower emissions than the global benchmark. However, it is also important to assess how this pattern may change over time.

As EQ Future Leaders Portfolios are aligned to the 2015 Paris Climate Agreement in intention and process, we can expect low carbon leadership to continue over time.

The core of the portfolios follows a methodology that mandates a 7% reduction year-on-year in addition to a lower carbon footprint today. All but one of our peers lack this explicit integration of Paris-aligned methodologies to their investment product selection.



Source: MSCI, April 2024





## NEGATIVE EXPOSURES

A full look at the underlying holdings within the funds held in the sustainable passive MPS peers reveals a misalignment of screening methodologies. This means, while some funds apply a screen or sustainability threshold, another may not. This results in negative exposures that would **not** be passable by the EQ Future Leaders strategy.



7/7 peers have exposure to businesses involved in oil and gas extraction.



6/7 peers have exposure to businesses involved in gambling.



4/7 peers have exposure to businesses with thermal coal reserves.



5/7 peers have exposure to Meta and Amazon, both ESG laggards in their respective industries.

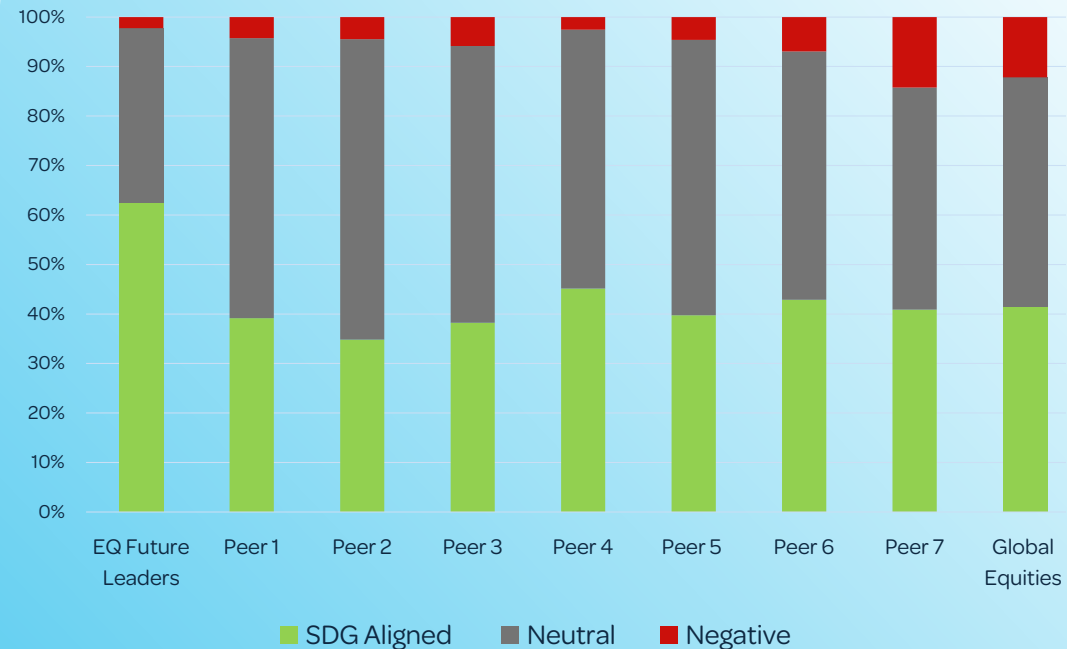


## SDG ALIGNMENT

The EQ Future Leaders Portfolios aim to have higher exposure to the UN SDGs than traditional investments.

The graph below shows that the EQ Future Leaders Portfolios achieve a 60% alignment to the UN Goals, over 20% more than the sustainable peer-group average. This is achieved in part through the intentional inclusion of sustainable thematic satellite themes, including climate solutions, clean water, digital security, green bonds, and healthcare. The SDG alignment has increased by 10% since the launch of the Portfolios four years ago, reflecting our ambition to improve sustainability credentials over time.

In comparison, our peers only display between 35-45% exposure to the UN SDGs. Based on our assessments of their investment processes, the existing exposure to UN SDG solutions companies is a coincidental outcome, mirroring similar levels of exposure to the unscreened market (global equities).



Source: EQ Investors analysis, April 2024



# ESG Leaders showcase

EQ Future Leaders invests in 600 ESG-leading companies worldwide. Below are two case studies that showcase these companies' standout ESG performance.



[Texas Instruments \(TI\)](#) designs and manufactures semiconductor products, including integrated circuits and microchips. TI features in the Amundi MSCI USA SRI PAB Index Fund.



## Environment

The semiconductor industry faces environmental risks [due to chemical usage, energy consumption, and electronic waste generation, which contribute to pollution and resource depletion](#). The company has made great progress in conserving water and reducing energy consumption per chip produced.

Since 2010 the company has achieved [53% less greenhouse gas emissions per chip produced](#), and reduced the waste per chip by 62%.



## Social

The semiconductor industry often faces social risks across its supply chain. TI evaluates suppliers on an annual basis to make sure they are operating in a responsible manner. [In 2022, 98% of its suppliers](#) met their rigorous performance expectations with the remaining 2% required to take corrective actions, such as additional training and policy strengthening.



## Governance

[33% of TI's board is female and roughly 25% come from ethnic minorities](#). Instead of having a separate ESG Committee, ESG issues are integrated into all committees. For example, the audit committee will review company practices with respect to risk assessment and management, including ESG risks deemed material to the business.

# Brambles

[Brambles Ltd](#) is a global supply chain logistics company that specialises in pallet and container pooling services. Brambles features in the Amundi MSCI Pacific Ex Japan SRI PAB Index Fund.



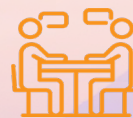
## Environment

Environmental sustainability is central to Brambles' business model. Its' pooling model promotes reuse and recycling of pallets and containers, minimising the environmental impact of transport and optimising supply chain efficiency. The company sources 100% of its timber from sustainable forestry operations, all certified by the [Forest Stewardship Council and the Programme for the Endorsement of Forest Certification](#).



## Social

Brambles has used its expertise in supply chain logistics to support food distribution initiatives to those in need. The company has set a target to collaborate with food banks to help serve rescued food to at least [10 million people a year](#). It has partnered with [CHEP](#) to move surplus food to those who are in need. [In 2023 alone, Brambles helped provide rescued food to 19.7 million people](#).



## Governance

[45% of the Brambles board are female](#), considerably higher than the [average Australian company \(35.6%\)](#). ESG risks are incorporated into the Group's risk management framework, which includes a Sustainability Risk Committee (SRC). The SRC reviews and approves a sustainability risk matrix for the Group on a bi-annual basis.



# Spotlight on Fixed Income

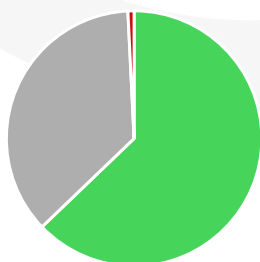
Part of EQ Future Leaders' UN SDG exposure is delivered through investing in fixed income issued by organisations tackling key issues around inequality and the environment.

The fixed income allocation of sustainable passive MPS is often where sustainability standards start to slip. Fixed income lags the equities market, with challenges including coverage gaps, complex debt instruments, varying methodologies, and varying quality between data providers.

However, for our portfolios, we retain our sustainability standards across all asset classes. The portfolios invest in two thematic bond funds that enhance the sustainability credentials of the portfolios.

Fixed income is a class of assets and securities that pay out a set level of cash flows to investors, typically in the form of fixed interest or dividends. Government and corporate bonds are the most common types of fixed-income products.

EQ Future Leaders Balanced UN SDG alignment of fixed income allocation



■ SDG Aligned ■ Neutral ■ Negative

Source: EQ Investors analysis, April 2024



[The New Development Bank \(NDB\)](#) is a multilateral development bank established by the BRICS countries (Brazil, Russia, India, China, and South Africa) to mobilise resources for their infrastructure and sustainable development projects. The portfolios invest in the bank's green bond that finances sustainable infrastructure projects such as clean transportation, renewable energy and sustainable water management.



One of the largest is the [Guangdong Yudean Yangjiang Shaba Offshore Wind Power Project](#). 300 MW of offshore wind capacity (enough to power 137,000 homes annually) has been developed.

It is expected to save [247,200 tonnes of coal consumption annually](#) as it replaces coal-fired power plants being shut down in the region.



[The Inter-American Development Bank \(IDB\)](#) is a multilateral financial institution that supports economic and social development in Latin America and the Caribbean. The portfolios invest in the bank's social bond. In 2020, IDB Invest provided a 5-year USD loan to support a social equality initiative proposed by Jamaican bank [JMMB](#), aiming to enhance access to finance for Jamaican SMEs.



As part of the deal, IDB has helped JMMB implement an Environmental and Social Management System (ESMS) and formulate a human capital strategy for talent retention and attraction. So far, [the project has supported 372 SMEs](#), enhancing prosperity in the region.

# How EQ engages in a passive world

## Engaging on strategic themes across a range of environmental and social issues

This page shows three strategic engagement themes from EQ's broader 2024 Stewardship Plan that are particularly relevant to the EQ Future Leaders Portfolios.

Herein we reference investor collaborations, which are one lever EQ uses to engage with companies within the EQ Future Leaders Portfolios. These allow EQ direct access to the underlying companies.

### 1 Healthy Foods & Consumer Health

Food and beverage manufacturers and retailers have a strong influence on public health, including the obesity crisis. Many do not provide sufficient disclosure on the nutritional profile against scientific methodologies, nor do they develop strategies that align with public health responsibilities. We know that the likes of sugar taxes and mandated "traffic light" systems are beginning to highlight the related financially material risks.



EQ has developed a long-standing engagement relationship with the Access to Nutrition Initiative, and ShareAction on pushing companies like Coca Cola, Unilever or Nestle to embrace their responsibility to public health.

### 2 Climate Change

Climate change presents one of the biggest challenges and opportunity of humanity. The pathway to transition to a 1.5 degrees world will have significant impact across economies and create new ways of organising.



We are part of [Climate Action 100+](#), an investor led initiative to ensure the world's largest corporate emitters are taking ambitious action on climate change. We engage with two EQ Future Leaders holdings, Carrefour and Rio Tinto. To enhance our leverage, we attended the [Rio Tinto AGM to ask questions on the company's climate transition plan](#).

### 3 Human Rights

Labour standards and employee welfare are far from guaranteed in our globalised supply chains. A lack of transparency prevents modern slavery from being discovered and prevented, with an estimated 50 million modern slaves in the world today.



We have used the [Responsible Mining Index \(RMI\)](#) as a framework to understand which mining companies are lacking on Human Rights. This year we attended the Antofagasta AGM to ask a question, focusing on community wellbeing, a weak point identified by the RMI.



# The power of voting

Through voting, passive asset managers have a strong influence on companies' real-world impacts.

A common misconception is that stewardship in passive funds is less important or effective. This is not true as, just like active managers, passive asset managers hold voting rights too, and their decision can enable or prevent change.

The table below shows data based on the ['Voting Matters 2023'](#) research study from ShareAction. The study analysed how asset managers voted in 2023 on circa 300 important environmental and social AGM resolutions. The table shows a selection of passive asset managers and where they rank. Amundi is our current chosen asset

manager for the core of our EQ Future Leaders fund allocations. It is currently the most ambitious passive investment manager, supporting close to 100% of resolutions. This stands in stark contrast to some other passive fund providers, like BlackRock, Vanguard or Dimensional.

It is key to assess the stewardship activities of your passive sustainable managers, which we do, and always aim to select those with better practices. We also use our influence to hold them to account.

Rank	Asset manager	Overall Score
3	Amundi	98%
17	Legal & General	92%
30	UBS AM	82%
...	...	...
58	State street	23%
63	BlackRock	8%
68	Vanguard	3%
69	Dimensional	2%

Source: ShareAction, January 2024





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