

Tabula Group

# Stewardship report

2023

# Our approach to stewardship

*Added additional business exclusions to new and existing Paris-aligned indices, resulting in the divestment of 147 issuers*

*Allocated new Climate Action 100+ target after exiting multi-year engagement with US energy company*

*Joined Nature Action 100 at inception - engagement with major mining company starting in early 2024*

## Tabula's approach is the result of careful consideration of how to maximise our impact given the nature of our products.

Our ETFs are typically passive bond funds holding bonds from hundreds of issuers. It is simply not possible or effective to engage with large numbers of issuers where we do not have significant holdings or the leverage of voting rights. More importantly, our ESG ETFs typically track indices designed to meet specific sustainability objectives through the application of index rules. This means that direct corporate engagement is typically an additional activity, where we see opportunities to have genuine impact.

Our approach is therefore three-pronged:

- 1. Responsible index construction:** we typically use custom indices, where we can control methodologies and ensure that indices meet their objectives on an ongoing basis.
- 2. Ongoing engagement with index providers:** we lobby for ESG-related improvements to standard market benchmarks and ESG data.
- 3. Collaborative engagements:** we have direct access to board members of a small number of companies, allowing us to engage on broader issues consistent with the objectives of our funds and broader business.

Stewardship is part of a wider focus on sustainability, detailed in our [Sustainable Investing Policy](#).



## 2023 update: index construction

We hold regular meetings with our ESG index providers (S&P Global, Bloomberg and Solactive) and ESG data providers (MSCI ESG and ISS ESG) to discuss new indices and enhancements to existing indices, including formal annual reviews with index providers.

As a result of our 2022 and 2023 index reviews, and following shareholder consultation, we implemented or are due to implement a range of additional exclusions (see table) bringing greater consistency across our product range. These changes are alongside other enhancements to index methodologies such as improvements to emissions data.

Based on index composition and AUM as of December 2023, we estimate that our ETFs are excluding 591 issuers (out of 831).

### Current exclusions from Tabula ESG-focused ETFs<sup>1</sup>

	Tabula EUR IG Bond Paris-aligned Climate UCITS ETF	Tabula EUR Ultrashort IG Bond Paris-aligned Climate UCITS ETF	Tabula EUR HY Bond Paris-Aligned Climate UCITS ETF	Tabula Global High Yield Fallen Angels Paris-aligned Climate UCITS ETF	Tabula Haitong Asia ex-Japan High Yield Corp USD Bond ESG UCITS ETF
International norms <sup>2</sup>	X	X	X	X	X
Serious environmental harm	X	X	X	X	
Adult entertainment	X	X	X	X	X
Alcohol	X	X	X	X	X
Cannabis (recreational)	X	X	X	X	X
Civilian firearms	X	X	X	X	
Controversial weapons	X	X	X	X	X
Conventional weapons	X	X	X	X	X
Fossil fuels	X	X	X	X	
Gambling	X	X	X	X	X
GMO	X	X	X	X	X
Nuclear power			X		X
Nuclear weapons	X	X	X	X	X
Thermal coal	X	X	X	X	X
Tobacco	X	X	X	X	X

X Added to exclusion list in 2023      X Scheduled for the January 2024 rebalance

<sup>1</sup> As of January 2024. Revenue thresholds may apply. Please see the relevant index rules at [tabulagroup.com](http://tabulagroup.com) for more information.

<sup>2</sup> e.g. UN Global Compact, OECD Guidelines for Multinational Enterprises & UN Guiding Principles for Business and Human Rights.

## 2023 update: engagement with index providers

While Tabula has the flexibility to use custom indices for its ETFs, we believe that index providers could have significant positive impact by applying basic ESG filters (such as UN Global Compact compliance) to standard market benchmarks. We sit on advisory committees for major fixed income benchmarks and have raised this issue on multiple occasions since 2020.

While progress on this issue is slow, we did see encouraging signs in Q4, with some larger asset managers supporting our view with regard to credit indices. We will continue to press this issue in 2024.

### Tabula representation on index committees

S&P Global iTraxx Europe Advisory Committee	Michael John Lytle, CEO
S&P Global iBoxx Index Committee	Jason Smith, CIO
Bloomberg Index Advisory Council	Jason Smith, CIO

### Benefits of custom indices

*For passive managers, index construction is the key tool to achieve sustainability-related objectives. In particular, robust ESG exclusions allow consistent and timely divestment of issuers who are not consistent with those objectives. While there are arguments for and against divestment, there is a growing view that divestment can have greater impact in fixed income markets ("engage equity, deny debt") on the basis that bond issuers must refinance frequently.*

*Instead of using standard benchmarks, Tabula typically works with index providers to develop custom indices. This gives us greater control over index methodologies and allows us to ensure that they continue to meet sustainability objectives over time.*

## 2023 update: corporate engagement

### Climate Action 100+

Climate Action 100+ is an investor-led initiative to ensure that the world's largest corporate greenhouse gas emitters take necessary action on climate change. Tabula has been a signatory since 2020 and part of the engagement team for a US-based energy company. Tabula CEO Michael John Lytle actively participated in multiple meetings with the company President and other board members, asking questions around emissions targets and stressing the importance of climate disclosures and Paris-aligned targets for European investors.

In early 2023, Climate Action 100+ reviewed its mission and target list. Tabula's engagement target was removed and Tabula's interaction therefore ended without achieving its objectives. Although disappointing, the engagement gave useful insights into the gap between corporate strategy and investor expectations in some sectors, and reinforced the need for divestment in some cases. This company is not included in any of Tabula's Paris-aligned ETFs and would not be due to its fossil fuel revenues. While transitioning to a new engagement target, Tabula's CEO has continued to participate in regular meetings of the US Midstream working group (five meetings in 2023).

In late 2023, our application to join the engagement team of a major issuer in the European industrial goods and services sector for Phase 2 of Climate Action 100+ was successful, and we look forward to resuming direct engagement activities in 2024.

As a broad initiative, Climate Action 100+ has been making progress while acknowledging that more needs to be done. According to its most recent progress report (for 2022):

- **75%** of target companies now have a **net zero commitment**, up from 50% in March 2021
- **91%** have **aligned with TCFD recommendations**, up from 72% in March 2021

The most recent progress report is available [here](#).

### Nature Action 100

Nature Action 100 is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. It was announced at COP15 and launched in 2023 with more than 200 signatories, including Tabula, representing over \$27 trillion in assets.

Tabula was allocated to the engagement team of a major global mining corporation in November 2023 and will begin its engagement in 2024.

More information on Nature Action 100 is available [here](#).

### **Why Tabula supports collaborative engagements**

*Although robust index rules ensure that our ESG ETFs meet their specific objectives, collaborative engagements provide a unique opportunity for smaller asset managers, or those without voting rights, to engage directly with board members of major companies. We use these opportunities to press issues (such as climate) that are consistent with the objectives of our ETFs.*

## 2024 roadmap

**1. Continue our focus on climate**, consistent with the objectives of our Paris-aligned ETFs, but broaden our strategy to incorporate any service providers where we may have leverage.

**2. Add biodiversity as a priority**. This is an increasingly important issue for many investors and one of the EU environmental objectives that underpins our Paris-aligned ETFs.

**3. Continue to lobby for Norms screens in standard benchmarks.**

**4. Initiate a strategy to further reduce negative social impacts**. Our Paris-aligned ETFs and other ESG-focused ETFs already have strong exclusions covering global norms, controversial weapons and tobacco. However, as required by the SFDR Principal Adverse Impacts regime, we also monitor Board Gender Diversity and Gender Pay Gap – these are not currently incorporated in index methodologies but we are considering how best to mitigate them.

	Issue	Objective	Strategy	2024 actions
ENVIRONMENTAL	Climate	<b>1. Push large corporate GHG emitters to take necessary action</b>	Collaborative engagement via Climate Action 100+	See next page
		<b>2. Deny debt to non-Paris-aligned issuers</b>	Index exclusion	Evaluate options for issuer-level screening in Paris-aligned ETFs and indices and implement where viable
			Leveraging service provider relationships	Request primary issuance and corporate lending policies from partner banks and review relationships
		<b>3. Lobby for greater policy response on climate</b>	Collaborative action via investor groups (PRI, IIGCC, the Investor Agenda)	Sign all relevant investor letters and highlight with digital campaigns
	Biodiversity	<b>4. Drive greater corporate action</b>	Collaborative engagement via Nature Action 100	See next page
		<b>5. Deny debt to companies involved with biodiversity controversies</b>	Index exclusion	Review data availability and potential to strengthen screens in existing ETFs/indices
<b>6. Lobby for greater policy response on biodiversity</b>			Collaborative action via investor groups (PRI, IIGCC, the Investor Agenda)	Sign all relevant investor letters and highlight with digital campaigns
SOCIAL	Global norms	<b>7. Deny debt to companies violating global norms</b>	Index exclusion	Lobby index providers to implement minimum standards, focusing primarily on iTraxx Europe and CDX
	Board diversity	<b>8. Deny debt to companies with poor record</b>	Index exclusion	Identify outliers across current holdings and review options to adjust index rules or optimise ETF portfolio
	Gender pay gap	<b>9. Improve disclosure on gender pay gap</b>	Leveraging data provider relationships	Ask data providers for timelines on estimates where corporates do not disclose
Collaborative engagement			Research, identify and join the most effective organisations	

● Not started yet ● In progress

## 2024 roadmap: collaborative corporate engagements

	Climate Action 100+ / IIGCC	Nature Action 100 / Ceres
<b>Objective</b>	Ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change	Drive greater corporate ambition and action to reverse nature and biodiversity loss.
<b>Target</b>	<b>Major European shipping company</b>	<b>Major North American mining company</b>
<b>Start date</b>	Ongoing since 2017. Tabula joining engagement team of current target in Q1 2024	Q1 2024
<b>Current status</b>	Target has net zero goal and long- / medium-term targets, but does not meet other CA100+ asks	New initiative launched in Q4 2023 with engagement teams forming in Q1 2024
<b>2024 priorities*</b>	<ol style="list-style-type: none"> <li>1. Establish working relationship with new engagement team</li> <li>2. Confirm investor expectations and strategy. Expected priorities as follows: <ul style="list-style-type: none"> <li>• Commitment to short-term GHG reduction targets</li> <li>• More detail on decarbonisation strategy and related capex</li> <li>• Named Board member responsible for climate</li> <li>• Assessment of Board competence regarding climate risk</li> <li>• Publication of a Just Transition plan</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Establish relationship with target and chase for response to initial letter on investor expectations sent by Nature Action 100 in Sep 2023</li> <li>2. Identify priorities with Team, based on a) target response b) research by engagement team and communicate to target</li> <li>3. Update priorities based on Nature Action 100 Benchmark – an independent assessment based on publicly available data, expected Q4 2024</li> <li>4. Raise human rights issues (particularly those arising from environmental issues like toxic waste and water pollution)</li> </ol>

\* All to be confirmed with the relevant engagement teams.

● Not started yet ● In progress

# Important information

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