IW&I

Equity ESG Policy

Environmental, social, and governance (**ESG**) investing considers the investment merits of a business from the perspective of how it acts and behaves on a broad range of measures, from how it affects the environment and treats its employees to the efficacy of the board of directors. This analysis is used to complement conventional financial analysis with the starting assumption that businesses that are demonstrably better (than average) at identifying and managing their key ESG issues will, over time, create more value for shareholders.

Perhaps more intuitively, putting this another way, those with loose internal controls and oversight will be more likely to destroy value.

Our Process

Screening

We will, on a biannual basis, screen all of our centrally-researched equities from an ESG perspective. Any proposed additions to coverage will be reviewed on an ad-hoc basis, as will any existing covered name that suffers a material notifiable event. We will also exclude any business or industry that conflicts with the wider Investec Group environmental policy, a copy of which can be found here;

https://www.investec.com/en_gb/welcome-to-investec/corporate-responsibility/our-environment.html

We use the services of Sustainalytics to provide a quantitative analysis of a company's ESG attributes. Informed by this data we will consider a company's ESG credentials both in absolute terms and within a sub industry context, excluding from research any that pose a significant risk of destroying value through inadequate management of their specific ESG risks.

Portfolio analysis

Beyond screening out the worst performing names, we will provide the means for our Investment Managers to appraise the overall ESG score of a direct equity portfolio (where those equities are centrally researched) against the overall score for the MSCI UK IMI Index. This will reveal whether or not an equity-portfolio's overall ESG metrics are better or worse than our domestic index, and will highlight those names which are having the greatest deleterious impact on the overall score.

Engaging with management

Whilst bottom up screening and scoring is a passive approach to ESG investing, we have the opportunity to be more active and use interaction with investee company management teams, (both the executive and non-executive) to engage on ESG matters. As well as soliciting more information about the significance of and priorities for ESG within a business, we can also communicate our own agenda.

IW&I

Collectives ESG Policy

ESG Philosophy

1. Incorporating ESG considerations into a non-judgemental, objective investment framework is consistent with maximising risk-adjusted returns by reducing risk and increasing the potential value creation over the long term.
2. We do not put specific ethical requirements ahead of other criteria or incorporate moral judgements into the financial analysis of investable instruments.
3. ESG approaches should be appropriate for the asset class and strategy. They should only include those ESG considerations that may have a material financial impact on an investable instrument's future return given the investment strategy being employed.
4. Assessing the efficacy of an ESG approach should focus on 'inputs' rather than 'outputs'. It is necessarily qualitative and as such we do not use, nor do we seek to ascribe to funds, quantitative ESG 'scores'.
5. Our ESG philosophy and its practical implementation is underpinned by evidence and logic.

Some clients will have specific ethical requirements or other requirements that are inconsistent with our ESG philosophy. *In practice, this means negative screening*. Therefore distinct from the incorporation of ESG considerations into our collectives research process – and in line with business needs – we continue to support an ethical collectives research offering.

ESG Approach

Our ESG approach assesses funds to ensure their ESG approach is consistent with our ESG philosophy and meets our qualitative APPROVED criteria. (See below.)

Consistent with our philosophy and our current collectives research approach we do not use any current *output* (i.e. portfolio) based third party quantitative ESG scoring systems. These systems suffer from a lack of data, are backwards looking and differences in the interpretation of ESG information and its materiality. Furthermore, some of the best "good" (both for society and for client financial outcomes) can be done by owning companies with *low but improving* ESG scores. This makes such scoring systems a poor way to measure whether a fund's ESG approach is consistent with our ESG philosophy and meets our qualitative APPROVED criteria.

Requirement	Rationale	
Assets manageable	Scale of assets managed must be compatible with investment objective	Inappropriate scale of assets is a key driver of underperformance
Philosophy resonates	Intuitively appealing and able to deliver our required investment outcome	Investment team must articulate and demonstrate efficacy of investment philosophy
Process disciplined	Philosophy rigorously implemented with a consistent approach	Disciplined application of process to minimise risk of style drift
Risk managed	Investment process embeds appropriate risk management.	Risk taken must be consistently commensurate with the returns delivered
Organisationally sound	All relevant aspects of the company organisation and infrastructure must be sound	Investment excellence is best supported by an organisation that exhibits all round excellence
Value for money	All costs are reasonable given value of investment objective	A large portion of active managers lose outperformance due to excessive costs
ESG approach	Clear evidence of a robust, dispassionate and suitable integrated ESG approach	Appropriate ESG approach will maximise risk-adjusted returns
Demonstrable talent	All investment individuals should demonstrate peer-leading investment skill	This is the first pre-requisite of achieving an investment objective

ESG Framework

Consistent with the existing qualitative APPROVE framework our ESG assessment will be driven by evidence and logic. Asset managers will be expected to clearly articulate their ESG approach and demonstrate its efficacy and its conformity to our ESG philosophy.

Our current approach focus on the following - including, but not limited to:

Expectation	Rationale
Consideration of ESG factors is fully integrated into the decision making process	ESG factors considered should be material to risk or return and thus fundamental to asset analysis and therefore fully integrated into the investment process
ESG approach should be well established	Many ESG considerations are relatively new, but many are not; investors will benefit from approaches that are well thought out and well established
ESG approach is non-judgemental and evidence based	Only financially material ESG factors should be taken into account; don't get "carried away" or take into account non financially material risks, even if controversial
Full commitment to ESG	Memberships of bodies, adherence to codes, level of management buy in all serve to underpin ESG commitment and likely success
Resources	Full consideration of ESG risks will have resource implications; resources must be appropriate to the task at hand
Suitable for and consistent with strategy and asset class	Different strategies and asset classes will require different ESG approaches as ESG factor materiality will vary depending on investment type
ESG approach efficacy	ESG approach must be based on logic and evidence and its likelihood to improve client outcomes must be demonstrable
No over-reliance on external scoring to assess ESG risk of investment instruments	Low correlation of ESG scores between third party providers reflects differing value sets; asset managers can outsource data provision, but not their values
ESG approach at the asset management company level	Best ESG approaches will be undertaken by asset managers who themselves have strong ESG approaches at the corporate level
Engagement	If there is one "must have", it is likely that fund managers fully engage and be active in voting
Passion for ESG and belief in it	Given evidence supporting need to consider ESG factors investment team must show suitable level of passion and engagement with ESG matters
Measuring ESG for both potential return and risk	Team can demonstrate effective process to analyse and measure ESG considerations both for potential return and also potential risk