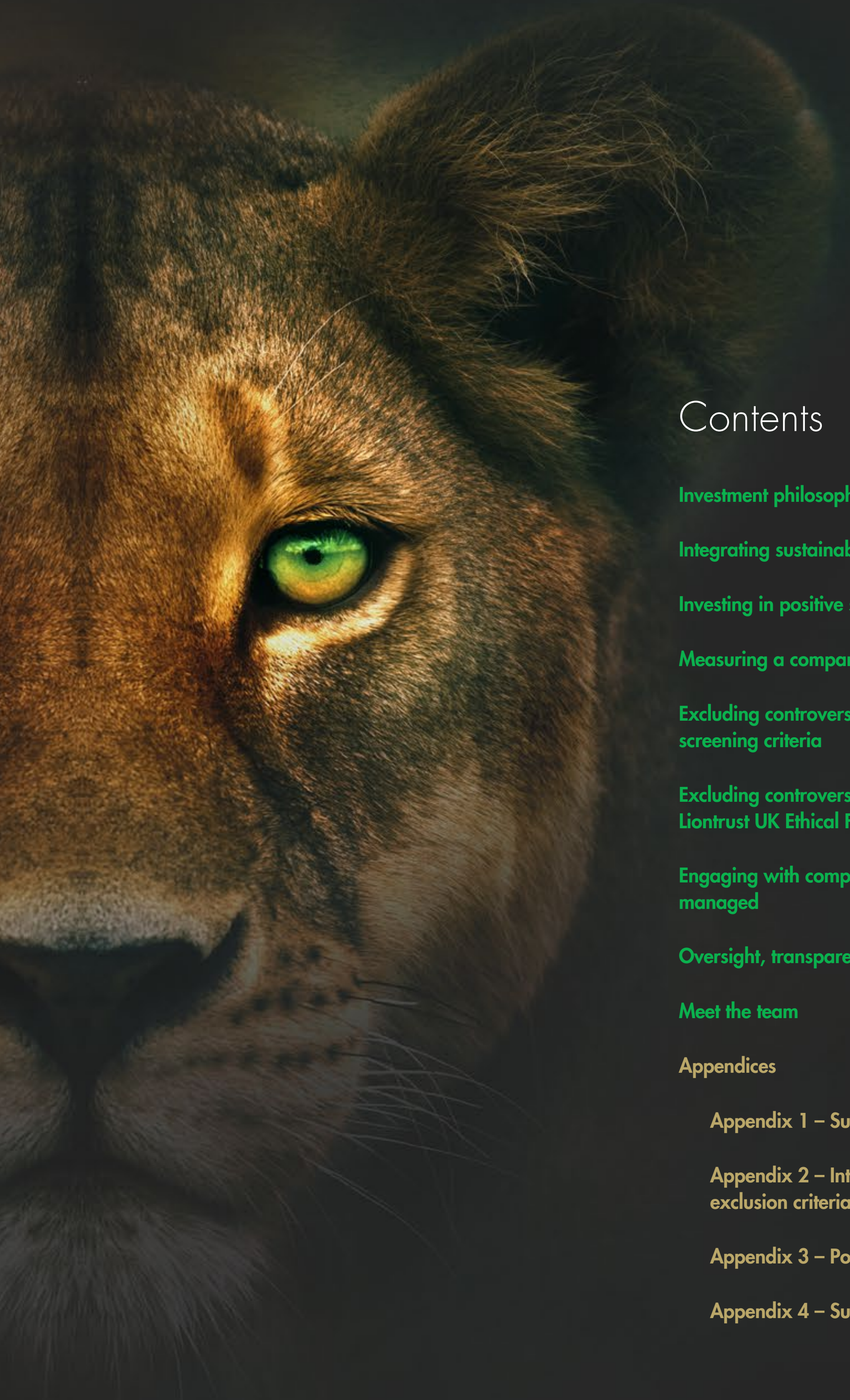
Liontrust Sustainable Investment

HOW WE INVEST

For professional investors in Europe

LIONTRUST
COURAGE · POWER · PRIDE



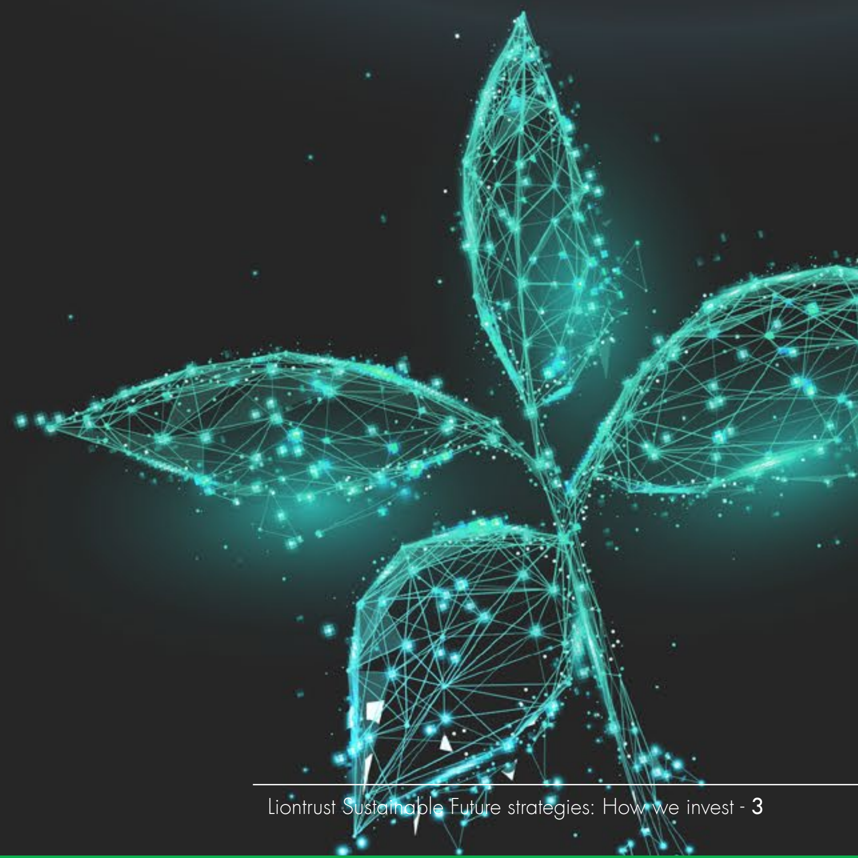
Contents

Investment philosophy

We believe:

- The way our economy is developing is not optimal and can be vastly improved by reducing the negative impacts on the environment and inequality in society. We believe that development should be sustainable in that it 'meets the needs of the present generation without compromising the needs of future generations' (as per the Rio Earth Summit's Gro Brundtland).
- Companies that help solve problems, in trying to develop more sustainably and whose products and services we really need, will be more successful than those fighting against these positive trends.
- The market underestimates the quantum of the shift needed to develop more sustainably and the rate of change needed to achieve this.
- By analysing and better understanding these positive trends, we can identify which companies will experience structural demand for their services as well as identifying those that could experience structural decline.
- Sustainable development issues are very relevant to investors and will have a material impact on returns.

We have built our process to reflect our philosophy and include these important sustainability aspects of businesses to help us make the best investment decisions.



Integrating sustainability into investment decisions

The Sustainable Future (SF) strategies launched in 2001. From the outset, our aim was to outperform conventional benchmarks by investing in sustainable companies and to use our influence as investors to improve how businesses are managed and ensure their interaction with the environment and people is more positive.

We invest in companies whose products and services are needed for our economy to develop in a more sustainable way, while avoiding those whose products and services have negative externalities (or impacts).

We believe that by analysing and better understanding the big sustainability trends, as well as how well management teams are managing the material challenges facing their business, we are better placed to make investment decisions and allocate capital to businesses that are driving positive change and will outperform the market.

Our investment process is applied to the SF Funds across equities, bonds and multi-asset.

We view a sustainable investment as being positively positioned in the following four aspects:

01

Thematic analysis

Identifies companies with strong and dependable growth prospects due to alignment with our themes

02

Sustainability analysis

Focuses on those companies with excellent management and core products or services that contribute to society or the environment

03

Analysis of business fundamentals

Selects only those companies positioned to deliver good investment returns

04

Valuation analysis

Determining that the shares of the company should be worth significantly more in the future

We focus on the first two aspects, which include the sustainability analysis, in this document. This is what differentiates this investment style as sustainable, and it is on these topics where we get the most questions from investors.

The investment team: all four of these aspects are done by members of the investment team. This means the sustainability aspects are part of the work done in coming to an investment decision by the analyst or portfolio manager making the investment recommendation. All four aspects are discussed and challenged where necessary in our weekly investment meeting – ensuring sustainability is at the heart of all the investment decisions we make.

Investing in positive sustainable themes

We have identified 22 positive sustainability trends, which help make our economy cleaner, healthier and safer. This helps us understand the shifts happening and identify potential areas of structural (long-term) growth, as well as areas of secular decline to avoid.

Better resource efficiency

- Improving the efficiency of energy use
- Improving the management of water
- Increasing electricity generation from renewable sources
- Improving the resource efficiency of industrial and agricultural processes
- Delivering a circular materials economy
- Making transportation more efficient or safer

Improved health

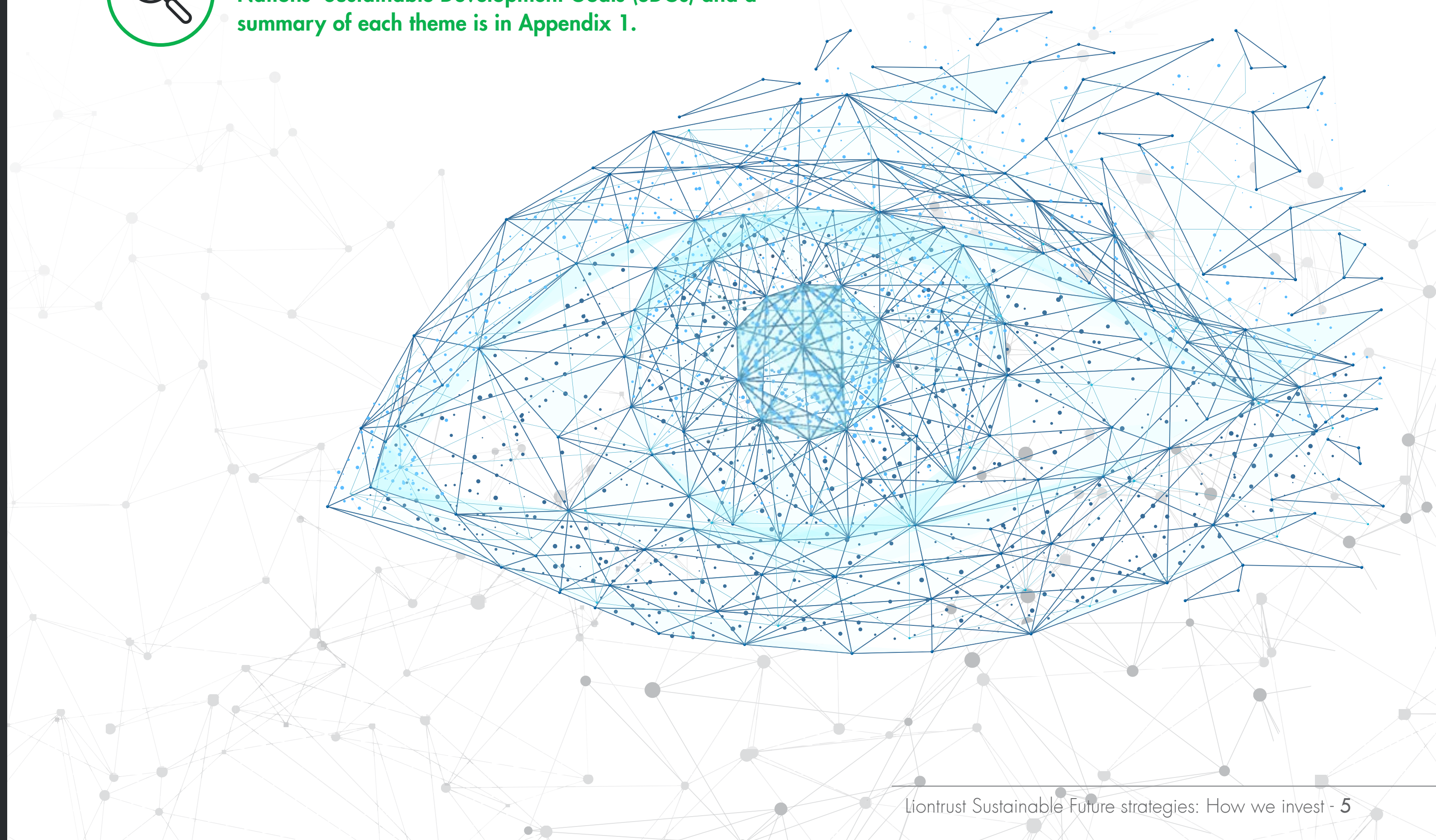
- Enabling innovation in healthcare
- Building better cities
- Connecting people
- Providing affordable healthcare
- Providing education
- Enabling healthier lifestyles
- Delivering healthier foods
- Encouraging sustainable leisure

Greater safety and resilience

- Enhancing digital security
- Insuring a sustainable economy
- Saving for the future
- Enabling SMEs*
- Financing housing
- Transparency in financial markets
- Better monitoring of supply chains and quality control
- Leading ESG management

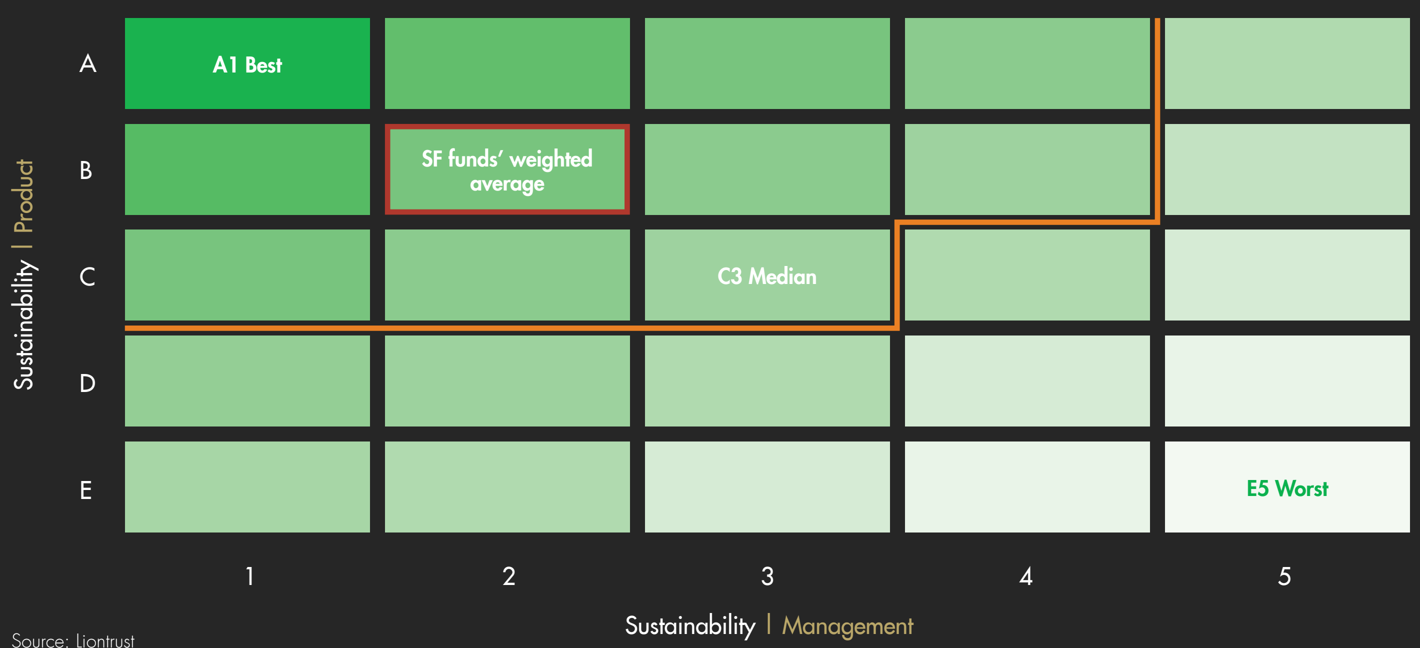
*SME = Small and medium enterprises.

Our sustainable themes are aligned with the United Nations' Sustainable Development Goals (SDGs) and a summary of each theme is in Appendix 1.



Measuring a company's sustainability

We measure how sustainable a company is and whether it is eligible for the SF funds using our proprietary Sustainability matrix.



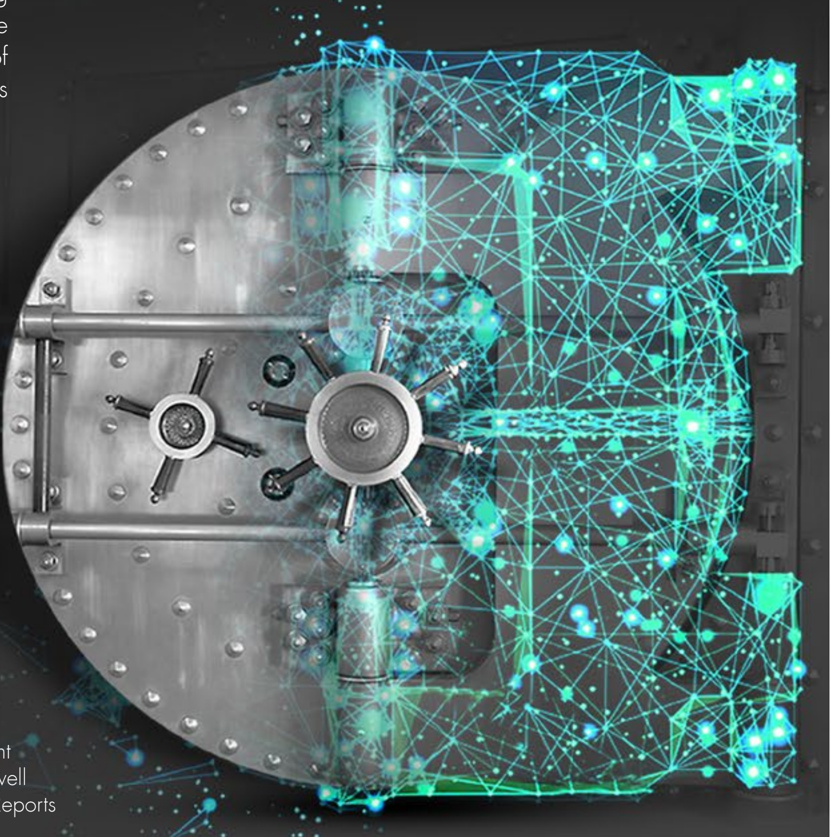
Source: Liontrust

This looks at the products and services a company provides and whether they contribute to a more sustainable economy or not; the most positive products and services are rated A while those fundamentally at odds with sustainable development are rated E. We also look at how well the management team are managing the most material environmental and social issues relevant to that business. A company whose management are proactive and using this as a competitive advantage to win business from less sustainable peers, going well beyond compliance, get a management rating of 1, while reactive teams not willing or able to manage these aspects of their business would be rated 5.

Selectivity on sustainable criteria

The Sustainability matrix enables us to measure how sustainable a business is and they must be rated above the orange line to be eligible for the SF funds. This means we concentrate on the best opportunity set of companies, which are most likely to outperform because their products and services, as well as their management, are more sustainable or proactive than the market median. The amount of the global market excluded as ineligible on our matrix is approximately 30%-50% by weight and approximately 25%-40% by number.

We run relatively focused portfolios, typically around 40-50 stocks in our equity funds and 60-100 issuers in our bond funds. We do not rate the whole universe using our Sustainability matrix, focusing on a relatively small number of potentially interesting businesses, usually identified by our thematic work. While we do use third-party data providers* to help us analyse businesses, we use our own discretion to decide on the matrix rating of a business based on what we believe is most material and important. Third-party ESG analysis is useful but we do not simply accept and use those ratings as final.



*We currently use EthicalScreening, which is a bespoke independent screening service to assess businesses against our exclusion criteria as well as MSCI ESG Manager for ESG data and analysis, MSCI Climate Risk Reports and MSCI Carbon Analytics for the carbon footprinting of our funds.

Excluding controversial activities: SF summary screening criteria

Alcohol

While alcohol is consumed and enjoyed by a large percentage of the population, excessive consumption, sale to underage drinkers and irresponsible marketing of products can have negative social and health impacts. Companies selling alcohol must take steps to mitigate these impacts through responsible policies and practices.

- Only invest in alcohol companies that have policies and practices to address responsible marketing, consumption and sale of their products

See *Appendix 2 – Interpretation and technical notes on exclusion criteria* for more detail

Animal welfare

Testing products on animals is clearly undesirable. However, it also forms an essential part of some necessary human and environmental safety testing and is sometimes required by law, in medical research and development for example, and the EU Directive on chemicals and their safe use (REACH). Recognising this, the general view of the Sustainable Future funds is that animal testing should only be used where alternatives do not exist. We also believe that companies directly or indirectly involved in animal testing have a responsibility to (i) reduce, refine and replace animal tests, (ii) provide a rationale for the use of animal testing and (iii) take an approach that ensures as far as possible that their welfare is maintained.

- Excludes companies that derive >5% of turnover from the provision of animal testing services
- Excludes companies that derive >5% of turnover from the:
  – manufacture of cosmetics or cosmetic intermediates that are tested on animals
  – retail sale of own-brand cosmetics that are tested on animals
  – manufacture of household products that are tested on animals unless the company policies and programmes to minimise testing are considered good practice

See *Appendix 2 – Interpretation and technical notes on exclusion criteria* for more detail

Climate change

We recognise the urgent need to reduce carbon emissions across the economy to limit the negative impacts stemming from the climate change emergency.

We believe:

- More aggressive, front-loaded, targets are needed to achieve an ultra-low carbon economy
- The cost of decarbonising, while large, is much lower than the severe cost to the economy of doing nothing and facing the increasing costs from the impacts of climate change
- This is a very material change and there will be proactive businesses that win and reactive businesses that lose from this shift

We do not believe the material financial impacts of the transition to an ultra-low carbon economy (or many other sustainable improvements to the economy) are fully discounted in current stock or bond prices. To the extent they are, they assume a very marginal and slow global response to reducing emissions.

Our thematic analysis helps ensure we are invested in companies on the right side of the energy transition and we aim to invest in companies with strategies that are aligned with the Paris Agreement to limit the global average temperature rise to 1.5 degrees centigrade. As part of the Paris Agreement, we support the Just Transition and see this as an opportunity to do things smarter as well as better, recognising the needs of people in the energy transition.

We have positioned our portfolios for an aggressive shift towards an ultra-low carbon economy (as we believe the companies we invest in will gain a competitive advantage by adopting a progressive strategy and will be more successful as a result).

- Excludes companies that derive >5% of turnover from the extraction and production of coal, oil and natural gas
- Excludes companies that derive >5% of turnover from airlines and the manufacture of cars (unless they are specialised in making components that improve the efficiency or safety of cars) and trucks
- Excludes companies that derive >5% of turnover from the production of energy-intensive materials unless they are making significant efforts and investment to make their processes more efficient and less carbon intensive
- Excludes companies that derive >5% of turnover from electricity generation from coal or lignite fired power stations

Deforestation

According to the United Nations Food and Agriculture Organization (FAO), although deforestation has been slowing since the 1990s, globally we have still lost an estimated 10 million hectares of forest per year, between 2015 and 2020, though thanks to afforestation and reforestation in some regions, the net rate of deforestation was about half this [1]. Deforestation and poor forestry management have significant impacts on the environment and biodiversity and must be managed effectively by companies.

[1] Public Consultation on OECD-FAO Handbook on Deforestation, Forest Degradation and Due Diligence in Agricultural Supply Chains. July 2022. Accessed 4 April 2024, page 8. https://mneguidelines.oecd.org/draft-oecd-fao-handbook-on-deforestation-forest-degradation-and-due-diligence-in-agricultural-supply-chains.pdf

- Excludes forestry and paper companies that do not have policies and practices in place to ensure that forests are managed in a sustainable way
- Excludes companies that are involved in the deforestation of primary or virgin forest or illegal logging practices

Gambling
There are concerns regarding the negative social impact of gambling addiction, especially on vulnerable groups such as children. The SF funds expect companies involved in the gambling industry to be aware of the potential negative effects of gambling on individuals and communities and to recognise their responsibilities in this regard.

- Excludes companies that derive >5% of turnover from the management or ownership of gambling facilities

Genetic engineering
A decade or so after the introduction and widespread commercial adoption of GE technology, the scientific debate on the benefits and risks associated with the technology continues. We have fundamental concerns regarding the lack of clear protection of both the environment and consumers. Corporate behaviour has also generated alarm regarding disturbing commercial practices such as the use of terminator and traitor technology, threatening farmer independence and food security and further distancing GM technology from application as a sustainability solution. However, given extended use of the technology outside Europe without materialisation of the earlier primary safety concerns, and given considerations of world food security and climate change, we do not feel it appropriate to completely discount the potential that this technology may in due course bring. For example, it may have the potential to improve agricultural productivity and mitigate environmental damage associated with more conventional forms of intensive farming. Consequently, we take a precautionary approach and expect careful management of the risks surrounding this technology such as threats to biodiversity and ecosystem disruption. We will approach GE on a case-by-case basis, applying core sustainability principles of precaution, environmental protection and future global food security. At the time of writing, we were not aware of any cases that pass this test.

- Assess companies on a case-by-case basis and exclude companies involved in the uncontrolled release of genetically engineered organisms into the environment unless the benefits clearly outweigh the risks

Human rights
The term 'human rights' encompasses a number of issues ranging from civil and political rights, labour rights (see also labour standards criteria) and economic and social rights such as to housing or education. The challenges in connection with human rights will therefore vary from company to company, sector to sector, and country to country. This diversity of human rights challenges is most acute when companies operate in countries with weak governance, in other words, where governments are unable or unwilling to assume their responsibilities. If human rights issues are poorly managed by companies, this can lead to litigation, extortion, sabotage, lost production, higher security costs and increased insurance premiums. In our view, companies operating in countries of concern have a responsibility to put in place appropriate human rights policies, systems and reporting.

- Assess companies on a case-by-case basis and encourage those that are operating in weak governance zones to demonstrate their commitment to the integration of human rights standards into business practices and to put in place appropriate human rights policies, systems and reporting
- Exclude companies judged not to be addressing serious allegation of violations of international human rights laws and standards including the OECD Guidelines for Multi-National Enterprises (2000) and the UN Global Compact (2000), among others

Infrastructure projects
Airport, road and dam building can play an important role in meeting people's needs through provision of essential infrastructure, job creation, and regional development. But these large-scale infrastructure projects can also be environmentally damaging and disruptive to local communities. Companies involved in large-scale infrastructure projects should adapt project designs to suit local environmental and community needs and undertake extensive stakeholder consultation to ensure that those adversely affected are properly compensated.

- Excludes companies that are directly involved in the construction of large dam projects in developing countries if those projects have not met best practice standards.
- Will only invest in companies involved in the building of large scale infrastructure projects such as roads, airports or dams if they are viewed as leaders within their sector with respect to stakeholder dialogue, environmental management and social and environmental impact assessment

Intensive farming
Intensive farming practices raise serious animal welfare, health and hygiene concerns. Intensification of crop production has resulted in use of large quantities of pesticides and artificial fertilisers some of which can contain hazardous substances and impurities that adversely affect health and the environment.

- Excludes companies that derive >5% of turnover from intensive meat and fish farming
- Excludes companies that derive >5% of turnover from the manufacture of chemical pesticides
- Excludes companies that derive >5% of turnover from the fur trade

Labour standards
Individuals have a fundamental right to expect certain standards in their place of work. These labour standards are enshrined within international benchmarks such as the Universal Declaration of Human Rights (see also the human rights criteria) and the International Labour Office (ILO) Core Labour Standards.

- Assess companies on a case-by-case basis, and encourage those that are operating in weak governance zones to demonstrate their commitment to the integration of international labour standards into business practices by putting in place appropriate labour standards policies, systems and reporting.
- Exclude companies judged not to be addressing serious allegations of breaches of labour standards such as those on child labour, forced labour, discrimination, union rights, working hours and health and safety.
- The international laws and standards, which we refer to when making this assessment, include the conventions which are regarded and promoted by the ILO as "core" conventions. In summary these are:
  – Child labour – Equal opportunities – Forced labour
  – Freedom of association/Collective bargaining

Nuclear
The team takes the view that despite the benefits of nuclear power as a low carbon source of energy, it is not a viable alternative to other forms of energy generation because of the significant environmental risks and liabilities related to waste and decommissioning. Accidents or terrorist attacks on nuclear power stations also pose a serious risk.

- Excludes companies that derive >5% of turnover from owning or operating nuclear power stations
- Excludes companies that derive >5% of turnover from uranium mining or reprocessing of nuclear fuel
- Excludes companies that derive >5% turnover from the development or manufacture of non-safety related products for nuclear power plants

Ozone-depleting substances
The depletion of the ozone layer continues to be a critical environmental issue with significant human health and biodiversity implications.

- Excludes companies that derive >5% of turnover from the manufacture or sale of ozone depleting substances

Pornography
The abusive and degrading portrayal of individuals in pornography contributes to sexual discrimination and exploitation of the vulnerable and can be a contributor to violence.

- Excludes companies that derive >5% of turnover from the production or distribution of pornographic material
- Excludes companies that derive >5% of turnover from owning or operating adult establishments

Tobacco
The team takes the view that tobacco is fundamentally in conflict with the concept of sustainable development because of the health impacts of smoking, the cost of treating individuals, and the effects of passive smoking.

- Excludes companies that derive >5% of turnover from the manufacture or sale of tobacco products

Weapons systems
The manufacture of armaments is in conflict with sustainable development. Arms can inflict death and injury and cause damage to natural and manmade capital. While we recognise and accept the need for armaments for defence and peacekeeping, their ability to be used for aggression and oppression renders them socially unacceptable.

- Excludes companies that are major producers of full weapons systems or critical components of weapon systems. Major producers are defined as having >5% of turnover and/or
- >£100m revenue from offensive weapons systems
- Excludes companies with any confirmed involvement in "controversial weapons", which are defined as anti-personnel mines, cluster munitions, biological weapons or nuclear weapons. This includes manufacturing or supplying key components used in or the selling of controversial weapons. [2]

See *Appendix 2 – Interpretation and technical notes on exclusion criteria* for more detail

Additional exclusions for Liontrust UK Ethical Fund

In addition to all the exclusion criteria for the SF range, the Liontrust UK Ethical Fund has two additional exclusions:

Animal testing
UK Ethical Fund: Excludes companies that have any of their products tested on animals, even if legally required.

Alcohol
UK Ethical Fund : Excludes companies which derive >5% of turnover from the sale of alcohol.

[2] This ensures investors in countries where it is illegal to invest in companies involved with controversial weapons comply with the law. Involvement includes companies using depleted uranium to manufacture nuclear weapons.

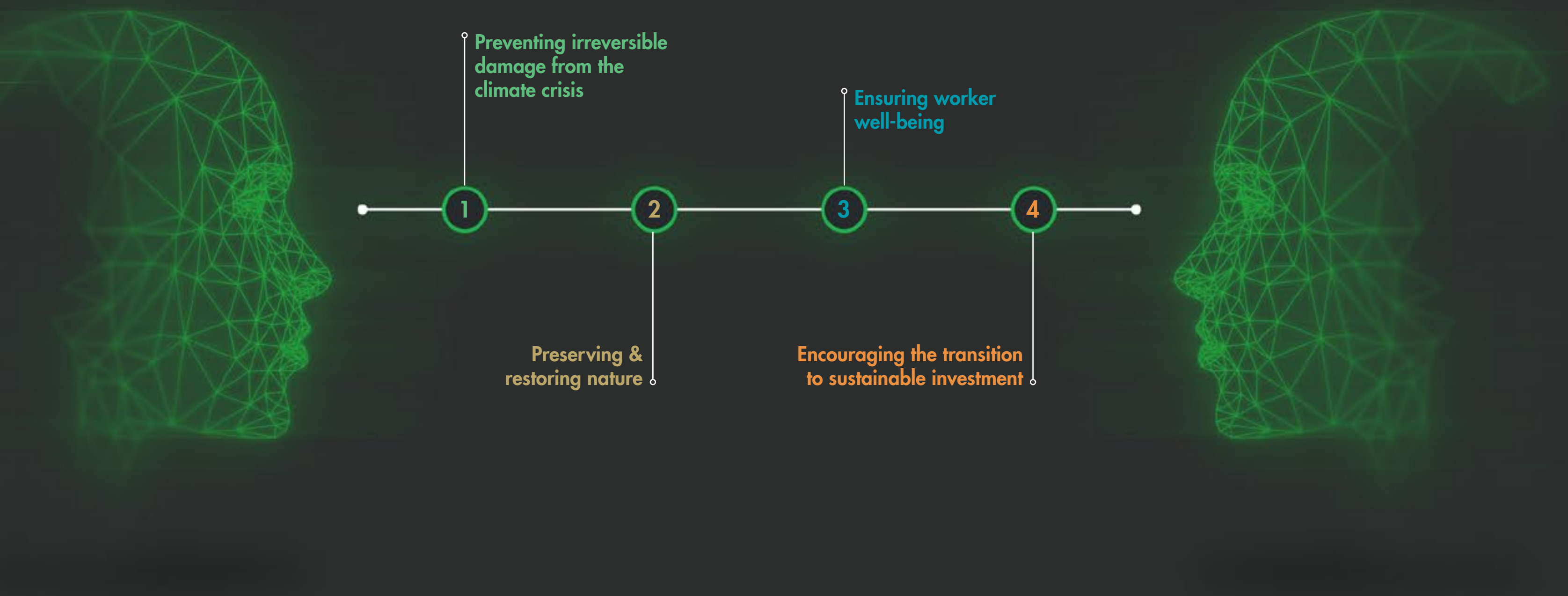
Engaging with companies to improve how they are managed

We use our influence as investors to challenge companies to improve how they manage what we believe are important, material risks or opportunities facing each business.

Engagement is integral to how we ensure we invest in high-quality companies. Engaging on key ESG issues gives us greater insight, helps to identify leading companies and is used as a lever to encourage better business practices.

Our team has been engaging in this way for over two decades and we have found this approach challenges and encourages companies to proactively manage the wider aspects of their business, which, in turn, protects their longer-term prospects. Engagement is a resource-intensive process and our team conducts sustainability research alongside traditional financial and business fundamental analysis. This approach enables us to better target engagement on material issues and integrate this into our financial assessment of a company, maximising the information advantage that engagement can bring to analysis.

We prioritise proactive engagement initiatives, in collaboration with our Advisory Committee, at the beginning of each year. We assess how our holdings are positioned on these issues and, where appropriate, define target companies with whom we will engage. As well as continuing our efforts to increase corporate disclosure of ESG impacts, impact metrics, mitigation efforts and performance, our team is focusing on delivering improvements through the following four priority initiatives.



Preventing irreversible damage from the climate crisis

According to the Intergovernmental Panel on Climate Change (IPCC)'s AR6 report published in March, the world is highly likely to surpass the target of keeping global temperature rises at 1.5C as early as the 2030s. Furthermore, a widespread lack of progress on implementing greenhouse gas (GHG) reduction policies means even meeting a 2C limit looks much harder now.

The IPCC report makes it clear that deep and immediate reduction in GHG emissions is required across all sectors; the report also emphasises the need to invest in adaptation to counter the impacts of climate change.

There is a rapidly narrowing window of opportunity to enable climate resilient development and the report makes it clear that finance, technology and cooperation are critical enablers for accelerated climate action.

We recognise the urgent need to reduce carbon emissions across the economy to limit the negative impacts stemming from the climate change emergency. The message could not be starker, nor more urgent in its call for action.

Objective: To encourage companies to adopt strategies to reduce absolute carbon emissions at a rate consistent with limiting global warming to 1.5 degrees. We want to ensure companies can change in a timely, just and profitable way and have robust strategies and targets in place to achieve this.

We will:

- Continue to speak to investee companies about decarbonisation strategies and monitoring performance on near-term absolute emissions reduction targets, ensuring that we have engaged with the remaining companies that contribute towards 80% of fund emissions and asking for split gas accounting for methane where appropriate.
- Reduce the direct emissions (scope 1 and 2) of all SF funds to emit 25% less by 2025 and 50% less by 2030 as compared to the fund benchmarks as at the end of 2019, as part of our Net Zero Asset Manager Initiative (NZAMI) commitment
- Monitor and disclose data and progress on NZAMI
- Increase the number of investee companies that are aligned with the Paris Accord
- Continue to challenge banks on financing the transition

Preserving and restoring nature

'More than half of the world's economic output – $44 trillion of economic value generation – is moderately or highly dependent on nature. Nature loss therefore represents significant risk to corporate and financial stability.' – Taskforce for Nature-related Financial Disclosures (TNFD)

Objective: We will engage with investee companies to encourage better information and reporting of natural capital impacts from their activities, products and services, as well as policies and programmes that preserve and restore nature and promote biodiversity. We will also engage to understand better companies' dependencies on natural capital and how this might impact financial returns.

We will:

- Explore and decide on collaborative initiatives related to nature and biodiversity
- Use external tools and data to better assess nature-related risks within our portfolios
- Target engagement with the highest impact companies within our portfolios

Ensuring worker well-being

How companies manage and look after their workforce through direct operations, and workers further down their supply chains, can directly affect overall business performance and corporate reputation.

Objective: We will engage to encourage companies to offer decent work and pay living wages and to ensure they mitigate risks, protect workers' rights and maximise the opportunities to support employees. We will also encourage companies to use their influence to drive forward best practice further down their supply chains. When it comes to encourage greater corporate diversity, we look at gender and ethnic balance at a board level, senior positions and within the workforce, as well as looking at efforts to increase transparency and reduce pay gaps.

We will:

- Look for data gaps and promote best practice on workforce disclosure
- Continue to encourage a target list of investee companies to disclose data for the annual Workforce Disclosure Initiative (WDI)
- Continue to engage and/or use voting rights to encourage greater board diversity where it is lacking

Encouraging the transition to sustainable investment

To date, savings and investments have typically been geared towards traditional investments that do not necessarily incorporate ESG. However, as demand for sustainable and ESG-integrated investments grows, and regulations to better classify what constitutes 'sustainable' investment follow suit, companies should play their part to promote it to further accelerate the transition needed for a more sustainable economy. Insurance companies have large investment portfolios and as such their responsible investment policies can have a large impact on the world from an environmental and social perspective. So too can their responsible underwriting practices, especially for more controversial areas of the economy.

Objective: We will focus on determining which companies are leading the way and which need to do more.

We will:

- Encourage further adoption of sustainable funds on financial platforms
- Continue to push for comprehensive responsible investment policies for insurance holdings
- Engage with insurance holdings on their underwriting policies and practices for controversial areas of the economy and how these are likely to evolve

Oversight, transparency and disclosure

Advisory Committee

Our sustainable investment team employs the services of an Advisory Committee which provides guidance and expertise in key areas of social and environmental impact.

Tony Greenham is the ESG Director at the British Business Bank, the UK's economic development bank providing finance for start-ups, scale-ups and small and medium sized businesses to transition to a net zero economy. He was previously Director of Economy, Enterprise and Manufacturing at the RSA (Royal Society of Arts, Manufactures and Commerce), where he led a programme of policy research into the future of work, social impacts of technology, green industrial strategy and economic democracy. He is a former corporate stockbroker and has written extensively on financial sector reform including the undergraduate economics textbook '*Where Does Money Come From?*'

Tim Jackson is Professor of Sustainable Development at the University of Surrey and Director of the Centre for the Understanding of Sustainable Prosperity (CUSP). Tim has provided consultancy and advice on sustainable finance to numerous governments, intergovernmental organisations, businesses and NGOs. From 2004 to 2011, he was Economics Commissioner on the UK Sustainable Development Commission, where his work culminated in the publication of the controversial bestseller Prosperity without Growth, which has been translated into 18 foreign languages. His latest book Post Growth – life after capitalism won the 2022 Eric Zencey prize for ecological economics.

Ivana Gazibara is a futures and systems change expert with more than 15 years of experience in sustainability strategy and innovation. She is currently working with the TransCap Initiative to build the field of systemic impact investing. Ivana has previously led Forum for the Future's futures practice, overseeing thought leadership projects, strategic foresight work with partners, and internal and external horizon scanning networks. She has also incubated and led The Futures Centre, the only open, participatory futures platform focused on tracking and making sense of change with the purpose of advancing a sustainable future. Prior to that, Ivana was part of SustainAbility's emerging economies team, working to build the organisation's practice in India and Brazil. Ivana has an MSc in Development Management from the London School of Economics and a BA in Peace and Conflict Studies from the University of Toronto.

Mark Stevenson is a strategic advisor to governments, investors, NGOs and corporates, and co-founder of Carbon Removals company CUR8. He helps organisations change the way they feel, think, invest, and operate in order to answer the intertwined questions the future is asking us – on climate change, inequality, the retreat of democracy and the failures of the markets to price risk properly. He is Global Ambassador for environmental law firm Client Earth and former strategic advisor on peace, national security, and climate change to the UK Ministry of Defence. He has written two best-selling books and has a hit podcast with comedian Jon Richardson and fellow systems change advocate Ed Gillespie (Jon Richardson and the Futurenauts).

Independent scrutiny of holdings and suitability

In addition, companies held in the funds are scrutinised independently. The Liontrust Risk team ensures we are not holding any companies that do not meet our sustainability criteria. Our external ESG research provider, EthicalScreening, checks all companies meet our publicly stated screening criteria before investment (as a part of our Sustainability Matrix Rating analysis) and review our funds quarterly to ensure no companies have changed to become ineligible.

Transparent

As well as being transparent about how we implement our investment process and apply our philosophy, we have made a commitment to disclose all holdings (not limited to the top 10) in our Sustainability reports, which are publicly available on our website http://www.liontrust.co.uk/sustainable

In the event an investor queries a holding or its suitability for the funds, we have committed to respond in a specific, timely, honest and clear way as to why we like the company and how it contributes to a more sustainable economy.

Increasing disclosure on sustainability and impacts

We have also made a commitment to be transparent and respond to requests for additional sustainability related data (where available) in our individual fund Sustainability reports, which are updated every six months and publicly available here: http://www.liontrust.co.uk/sustainable

Meet the team

We have a 17-strong team that has been managing the Sustainable Future (SF) funds for 23 years, with a mix of experience and youth. This includes four graduates who joined in 2021.

A key differentiator is the fact all the sustainable elements are fully integrated within a single team. We do not have separate fund management and ESG divisions, for example. Instead, every member is responsible for all aspects of financial and ESG analysis relating to an investment decision. Because of this approach, our team engages with companies across a broad range of issues relating to different stages in our investment process, including screening criteria, sustainable themes and company-specific ESG issues.

The team, headed by Peter Michaelis, has over 200 years of industry experience. We also have a four-strong external Advisory Committee to provide another layer of expertise in key areas of social and environmental impact: Tony Greenham, Tim Jackson, Ivana Gazibara and Mark Stevenson.

Equities

Peter Michaelis
Head of Sustainable Investment team

- MA in Physics from Oxford University
- MSc in Energy & Environmental Engineering from Sussex University
- PhD in Environmental Economics from the University of Surrey

- 24 years / 23 years

Simon Clements
Investment Manager

- BSc in Economics from the University of Newcastle, Australia
- Graduate Diploma in Applied Finance & Investment from Securities Institute of Australia
- CFA Charterholder

- 28 years / 15 years

Martyn Jones
Investment Manager

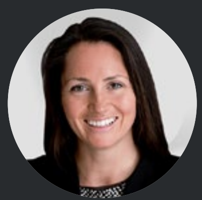
- MA in Management from the University of Glasgow
- CFA Charterholder
- MSt in Sustainability from the University of Cambridge

- 12 years / 10 years

Chris Foster
Investment Manager

- MA in Economics and Mathematics from the University of Edinburgh
- CFA Charterholder

- 11 years / 9 years



Harriet Parker
Investment Manager

- BSc in Economics & Management from the University of Bristol

- 20 years / 20 years

Mike Appleby
Investment Manager

- BSc (Hons) in Biological Sciences from the University of Edinburgh
- MSc in Environmental Management from Imperial College London

- 24 years / 20 years

Academic background | Industry tenure / Team tenure

Equities (continued)

Mingming Huang
Portfolio Manager Assistant

- BSc Mathematics with Business Management from Queen Mary University of London

- 5 years / 5 years

Sarah Nottle
Investment Analyst

- BCom in Finance and Commercial Law and BA in International Relations from University of Sydney
- IMC
- CFA Charterholder

- 6 years / 3 years

Ed Phelps
Investment Analyst

- BSc (Hons) Economics from University of Nottingham
- IMC
- CFA Charterholder

- 3 years / 3 years

Linnea Bengtsson
Investment Analyst

- BA (Hons) in Chinese from University of Durham

- 5 years / <1 year

Fixed Income

Kenny Watson
Investment Manager

- BA in Accounting and Economics from the University of Strathclyde
- Chartered Accountant

- 27 years / 10 years

Aitken Ross
Investment Manager

- BSc in Accountancy and Finance from Dundee University
- MA in International Financial Analysis from Newcastle University
- CFA Charterholder

- 14 years / 12 years

Jack Willis
Investment Manager

- BSc in Mathematics with Finance from the University of Leeds
- MSc in Finance and Investment from the University of Leeds
- CFA Charterholder

- 10 years / 8 years

Connor Godsell
Investment Manager

- MA (Hons) Economics & Finance from Heriot-Watt University
- CFA Charterholder

- 7 years / <1 year

Hannah Muir
Portfolio Manager Assistant

- Studying for the IMC

- 9 years / 7 years

Nancy Kondelidou
Investment Analyst

- Bachelor of Laws (Hons) / MSc Law & Finance from Queen Mary University
- IMC
- CFA Level II

- 3 years / 3 years

Deepesh Marwaha
Investment Analyst

- BA (Hons) Economics & Human Resources from University of Strathclyde
- IMC
- CFA Level I

- 3 years / 3 years

Academic background   Industry tenure / Team tenure

Appendices

Appendix 1 – Sustainable investment theme descriptions

BETTER RESOURCE EFFICIENCY

Improving the efficiency of energy use
We see many ways of making energy cheaper by reducing wasted energy while also reducing emissions through more efficient use of energy. This cuts across many areas of the economy and includes building insulation, efficient lighting, energy efficient climate control, travel and industrial processes.

Improving the management of water
Water is essential for life. Companies that can manage, or produce products or services that can improve the efficiency of water distribution, waste water treatment are vital and in demand. Sanitation is a first line of defence from disease, much of which comes from contaminated water. We like companies that improve sanitation and give affordable access to clean water.

Increasing electricity generation from renewable sources
Electricity generation from burning fossil fuels is a major emitter of carbon dioxide. Substituting carbon intensive fossil fuel electricity generation (especially coal) with renewable power sources reduces carbon emissions as well as providing a cost effective means to connect people to cleaner power sources. We like wind and solar and some biomass (using waste streams as opposed to feedstock grown on agricultural land).

Improving the resource efficiency of industrial and agricultural processes
We like companies providing products or services that help make industrial processes more resource efficient, as well as safer for workers and users. We see investment opportunities in software and systems that help implement life-cycle design (including disposal of products), help manage supply chains as well as opportunities in automation of factory processes to remove repetitive or dangerous mechanical tasks as well as reducing waste from process errors as they help modernise and improve industry.

Delivering a circular materials economy
Resources are finite and the UN Environment Programme (UNEP) estimate we recycle as little as 25% of global waste. We need to increase the amount of waste recycled and design products with end of life in mind (made easy to break down and reuse / recycle). Companies that can process and recycle waste are generally set to benefit from this trend.

Making transportation more efficient or safer
We look for companies whose products and services improve our transport system or make travel safer. We look for:

- **Modal shift** away from private car usage to **public transport systems** such as bus and rail. Urban transport systems are improved by reducing congestion as well as transport emissions (which make the local air quality toxic) as the mode of transport shifts from self-driven cars to public transport systems such as trains, tubes and buses as well as **active transport**.
- **Reducing negative impacts of travel:** Companies that produce equipment that reduces pollution from cars, or that improve safety, are set to benefit from structural growth (higher than that of the autos industry) by helping meet tightening global regulations to reduce emissions from travel. To respond to tightening global regulation to reduce emissions from cars, we see rapid electric vehicle adoption as an area with many potentially interesting investments in this area.
- **Asset sharing:** We like systems that facilitate sharing of transport (bicycles or cars) as this can increase utilisation and reduce materials intensity in transport. For example, rental of efficient vehicles and technology that facilitates journey sharing.

IMPROVED HEALTH

Enabling innovation in healthcare
Companies whose products or services help promote innovation within healthcare are helping achieve this goal. They do this by either coming up with new, more effective ways to treat diseases (creating a significant step change in the mechanism used to treat a given disease), or by providing essential equipment or services for biotechnology research (such as specialist measuring equipment, genetic sequencing equipment or high quality consumables for research) or software to help make treatments more effective.

Building better cities
Shelter is a basic human requirement and companies that build quality affordable homes are helping to provide this. We like well designed and built homes that are energy efficient and safe.

Connecting people
We believe access to easy communication tools and the ability to access information, increasing amounts of which are online, is a positive requisite in a more sustainable economy.

Providing affordable healthcare
Currently the costs of healthcare are very high and we need more effective ways of delivering better patient outcomes. Companies that help deliver affordable, positive patient outcomes in managing disease help achieve this goal.

Providing education
Education brings massive benefits including longer life expectancy, increased job opportunities, stimulates economic growth as well as leads to overall higher satisfaction in life. Companies providing education services provide vital knowledge and skills which help educate and improve people's lives.

Enabling healthier lifestyles
Companies that promote healthier lifestyles, principally through increasing activity, taking exercise and sport help improve health. These include positive leisure activities such as gym operators and companies providing sports clothing and equipment.

Delivering healthier foods
There is a trend in the food industry where consumers are changing their preferences and demanding healthier foods. We have identified companies that provide reformulation services to change the recipe of foods to make them healthier (less fat, sugars and salts) while maintaining the taste. These companies are a beneficiary of this demand for healthier food as their customers (many of which are the big incumbent food producers) respond to changing consumer preferences and use their reformulation services. This improved diet has positive health impacts. For example, it can help reduce non-communicable diseases such as obesity and cardio-vascular disease.

Encouraging sustainable leisure
Our sustainable themes focus enabling a cleaner, healthier and safer world, but beyond these fundamental issues a natural progression is to spend more time on leisure time and activities – as Aristotle puts it 'the end of labour is leisure'. Or as Tim Jackson puts it in Prosperity without Growth;

"…in the advanced economies…material needs are broadly met and disposable incomes are increasingly dedicated to different ends: leisure, social interaction, experience… what really matters to us: family, friendship, sense of belonging, community, identity, social status, meaning and purpose in life"

Leisure time and social activities enable many of these human desires, for example picture going to a music concert with a friend, going on a date to the cinema, having dinner with family at a restaurant or playing a video game with an online community of friends. The social experience of these is positive and should be a growing part of the economy as we develop. Nevertheless, there can be negative aspect to some leisure activities – gambling addiction or excessive alcohol consumption – so we focus on those companies where the positive experience far outweighs any negatives. Examples include music events, and films.

GREATER SAFETY & RESILIENCE

Enhancing digital security
As more and more of our lives and critical services are carried out online, we need to trust these systems and to protect the data from theft. Digital security helps make this growing area of the economy secure.

Insuring a sustainable economy
Insurance can spread the risk faced by an individual or a corporation amongst many other actors. The benefits of good insurance are:

- Provides a safety net (at a small cost) to mitigate: death in family; medical emergencies; material loss from natural disasters
- Supplements state social protection for individuals
- Mitigates financial impact of catastrophes corporations
- Lowers the capital a firm needs to operate
- Increases investment by reducing uncertainty
- Provides a price for risk

But with poor oversight the insurance industry is prone to mis-selling, (PPI, with profits), miscalculation of its own exposure, taking on excessive investment risk, and rewarding shareholders at the expense of their customers. We look for well-managed companies providing good insurance products which effectively mitigate and manage their customer's risk.

Saving for the future
Retirement funding has stemmed from three sources: government programmes, employer-based programmes, and individual savings. Diminishing tax revenues and budget pressures have led to reductions in public pensions through increased retirement age, less generous inflation indexing and possible increases in taxes. At the same time, companies have been retreating from a Defined Benefit (DB) framework and shifting towards a Defined Contribution (DC) one. Both of these mechanisms shift the responsibility of retirement funding and risk to the individual. For the eight largest economies in the world the World Economic Forum, using Mercer data, predict the retirement savings gap will increase to $400trn by 2050 (5% growth from 2015) if measures are not taken to increase overall savings rates. This theme identifies businesses that make it easier for individuals to access and manage their financial futures.

Enabling SMEs
This theme seeks to find companies enabling the foundation, scaling, and improved efficiency of innovative new businesses. Small to medium sized enterprises (SMEs) are the anchor of a resilient and sustainable economy, accounting for 44% of US GDP and creating two thirds of jobs in the US. According to the OECD, SMEs facilitate innovation, reduce inequality in society, and increase economic resilience within society. There are key barriers to SME success as they struggle to overcome complexity and reach scale. Within this theme, we look for companies enabling his journey from idea formation to value creation, helping increase SME productivity and efficiency, and ideally growing with the SMEs they support.

Financing housing
Housing is a basic human requirement that is central to human wellbeing. A lack of housing also has detrimental effects to the wider economy; for instance rental and mortgage costs in many developed countries have outpaced wage growth, leading to declining disposable income for households and increasing inequality. In this theme we are looking to find companies that are allocating capital towards residential housing or making the market more efficient.

Transparency in Financial Markets
We believe that companies increasing the transparency of financial markets are set to benefit from increasing regulatory compliance measures and the increasing availability of data that can provide valuable insights for financial market participants to manage risk. In effect if there is equal information on both sides of a market then markets are likely to function better, risk is likely to be more accurately assessed, and the financial system will be more resilient.

Better monitoring of supply chains and quality control
We look for companies who are good at managing the complexities and potential risks in their supply chains as we believe this is not only the right thing to do but gives them a competitive advantage. We are also interested in finding companies whose products and services can help their customers manage their supply chains and ensure their products are of a consistent high quality.

Leading ESG management
How the business is managed operationally, in particular how they managed the Environmental Social and Governance challenges, can give them a competitive advantage over their peers if they can manage these challenges and opportunities more proactively. We believe this is a good proxy for the quality of management and the likelihood they will deliver on their strategy.

Appendix 2 – Interpretation and technical notes on exclusion criteria

Table A.2 Additional detail on the scope and how we interpret our criteria on the avoidance of controversial business activities or those we believe are inconsistent with sustainable development.

Issue	Context	Eligibility	Scope in value chain	Investment intention
Weapons	We avoid companies with significant exposure to weapons manufacturing or the manufacture of critical components used in weapons. We make a distinction between **unconventional weapons**, which include cluster munitions, land mines, nuclear weapons, or biological weapons, and **conventional weapons**; which include vehicles of war such as tanks, fighter aircraft and battleships, artillery, missile systems or personal weapons (such as rifles and pistols) used by military or civilians.	**Unconventional weapons** is 0% of turnover **Conventional weapons** is <5% of turnover	We exclude critical components whose primary purpose is within a weapons system.	We do not invest in companies that have significant exposure to weapons manufacturing.
Fossil fuels	Coal We avoid companies with significant exposure to the exploration, extraction (mining), or processing of coal or lignite.	Coal or lignite extraction is <5% of turnover (or oil & natural gas, from both conventional and unconventional sources)	We take into account a company's involvement in the broader coal value chain including specialist equipment used in coal mining or processing or in the combustion of coal or transport of coal and reflect this in our assessment of how sustainable the company is and it's eligibility for investment. We will avoid companies which are investing to materially increase parts of their business which we wish to avoid.	We do not invest in companies we believe are the wrong side of the energy transition and have a material exposure to carbon intensive fossil fuels such as coal. Instead, we are looking to invest in businesses which will benefit from or will accelerate the transition to an ultra-low carbon economy.
Fossil fuels	Oil & natural gas We avoid companies with significant exposure to the exploration, production of any kind of oil and natural gas, both conventional and unconventional types.	Oil and natural gas is <5% of turnover from either conventional or unconventional sources (or from the extraction and production of coal or lignite)	We take into account a company's involvement in the broader value chain of oil & natural gas production including specialist equipment or dedicated services (oil services), primary transport (from well to refinery) and refining of oil. This is reflected in our assessment of how sustainable the company is and its eligibility for investment. We will avoid companies that are investing to materially increase parts of their business we wish to avoid.	We do not invest in companies we believe are the wrong side of the energy transition and have a material exposure to carbon intensive fossil fuels such as oil or natural gas exploration or production. Instead, we are looking to invest in businesses which will benefit from or will accelerate the transition to an ultra-low carbon economy.

Issue	Context	Eligibility	Scope in value chain	Investment intention
Power generation	Nuclear We avoid companies with significant exposure to nuclear powered electricity generation	Nuclear powered electricity generation is <5% of turnover	We take into account the direction of travel of installed sources for electricity generation and look for businesses that are spending more on alternative ultra-low carbon power generation (excluding nuclear new build). We will not invest in companies that have committed to expand new-build nuclear powered electricity generation, ensuring this proportion of the business is very small and is falling	We do not invest in companies that have a material exposure to generating assets from nuclear. We feel nuclear is economically uncompetitive as compared to ultra-low carbon renewable technologies such as wind and solar.
Power generation	Coal We avoid companies with significant exposure to coal or lignite-fired electricity generation	Coal or lignite-fired electricity generation is <5% of turnover	We take into account the direction of travel of installed sources for electricity generation and look for businesses which are spending more on alternative ultra-low carbon power generation (excluding nuclear new build). We will not invest in companies that have committed to expand new build coal or lignite powered electricity generation, ensuring this proportion of the business is very small and is falling	We do not invest in companies we believe are the wrong side of the energy transition and have a material exposure to generating assets from coal or lignite which is the most carbon intensive of all fossil fuels. Instead, we are looking to invest in businesses which will benefit from or will accelerate the transition to an ultra-low carbon economy.
Power generation	Natural gas We only invest in businesses with significant natural gas-fired electricity generation where they are investing heavily (the majority) of their investments into ultra-low carbon electricity from renewable sources such as wind, solar or sympathetically managed micro-hydro power.		We take into account the direction of travel of installed sources for electricity generation and look for businesses who are spending more on alternative ultra-low carbon power generation (excluding nuclear new build) than natural gas fired electricity generation, ensuring the proportion of natural gas fired electricity generation is falling	We do not invest in companies that we believe are on the wrong side of the energy transition to an ultra-low carbon economy. We believe natural gas fired electricity generation does have a place in businesses if they are investing heavily in ultra-low carbon renewable technologies such as wind and solar.

Carbon intensity of electricity generated

The carbon intensity of the companies in which we invest that generate significant electricity is much lower than the market as a whole. This is a result of our analysis and criteria we apply, which ensure we invest in companies we believe are the right side of the energy transition and are investing to accelerate the shift to ultra-low carbon electricity. The weighted average of the electricity generated by the companies in which our bond funds invest has been low compared to this sector. We generally have very little exposure to power generation in our equity portfolios and the carbon intensity of the exposure we do have is even lower.

Natural gas distribution

We make a distinction between the transport of fossil fuels (coal, oil and natural gas) from primary source (where they are mined or extracted) to refining and the distribution of natural gas through the natural gas grid to industry, businesses and domestic users. We will invest in companies that own or operate natural gas distribution assets (gas grids) as we believe they are a useful asset that has the potential to be used in future as the grid for lower-carbon fossil fuel alternatives such as biogas from waste sources or potentially green hydrogen.

Appendix 3 – Policies on other ESG issues

Table A.3 outlines our policies and approach on other ESG issues not already covered.

Issue	Approach	Policy
Biodiversity	We take into account a company's impact on biodiversity when assessing how sustainable the company is and its eligibility for investment. We avoid the majority of companies with the most obvious and immediate direct adverse impacts on biodiversity due to land use change or extraction of resources from sensitive areas. Where companies are involved in activities that do have adverse impacts on biodiversity, such as tropical commodities, we use third-party assessments of biodiversity management (such as SPOTT developed by ZSL) to help inform our assessment of whether the business is adequately managing these impacts. Preserving and restoring nature is one of our key engagement priorities for businesses where this is most material to their business.	We include an assessment of whether a company is contributing to this issue in a material adverse way. For companies in which we invest that do have a material negative impact, we will challenge them on better managing this aspect of their business, either through our proactive engagement initiatives or in the course of engaging with the business as investors. We will not invest in companies we believe are not adequately managing this issue and where it is a potentially material risk to the business.
Water use	We take into account how much water is used directly in their operations in making their products and services.	We include an assessment of whether a company is contributing to this issue in a material adverse way. For companies in which we invest that do have a material negative impact, we will challenge them on better managing this aspect of their business, either through our proactive engagement initiatives or in the course of engaging with the business as investors. We will not invest in companies we believe are not adequately managing water consumption and where it is a potentially material risk to the business.
Pollution and waste		We include an assessment of whether a company is contributing to this issue in a material adverse way. For companies in which we invest that do have a material negative impact, we will challenge them on better managing this aspect of their business, either through our proactive engagement initiatives or in the course of engaging with the business as investors. We will not invest in companies we believe are not adequately mitigating and managing pollution and waste impacts and where it is a potentially material risk to the business.
Diversity & inclusion	We encourage companies to proactively manage their staff and suppliers to build a culture that reflects the diversity of the customers they serve in areas such as gender and ethnic diversity. We believe companies with diverse staff and inclusive cultures make better investments than those that are less so.	We include gender and diversity in our voting policies to encourage more proactive management leading to more diverse staff. We also support and engage with companies to participate in the Workplace Disclosure Initiative, which provides standardised information on staff and how they are managed and helps us understand, analyse and challenge companies on this issue.
Taxation	We believe businesses should pay their fair share of tax. We have identified companies in our portfolios where there appears to be a tax gap between the country's tax rates and the effective tax rate they pay. In the past, we have been very active in engaging on this issue, with Harriet Parker, part of the investment team, involved in the UNPRI Task Force on tax.	

Issue	Approach	Policy
Death penalty	We understand many investors do not want to be associated with the death penalty. Capital punishment is not something we are looking to promote and we do not want to invest in companies profiting from this controversial form of justice.	The companies in which we invest neither make lethal injections nor administer capital punishment. We do not exclude companies or sovereign bonds (where relevant for our bond or multi-asset funds) from countries that have capital punishment (such as the US). Our bond portfolios only invest in a small number of G7 countries including the UK, Europe and potentially the US.
Cannabis	Cannabis, when the active ingredient TCHD is removed, can form the basis of a useful treatment of disease. We believe companies should be able to develop treatments for specific diseases using regulatory processes in place (such as FDA- approved clinical trials), which include cannabinoids. This is not to be confused with general application of cannabis-derived drugs for a broad range of unspecific uses or recreational purposes.	We will only invest in companies developing specific treatments that will be fully regulated (as with any other drug), whether derived from cannabis or not.
Sovereign/ Government bonds	While we do assess government bonds, in practice we only invest in governments which are part of the G7. And of those we currently only hold UK, German and US government bonds in the relevant corporate bond or muti-asset portfolios. We rate these government bonds as a C3 on our sustainability matrix and do not associate any sustainable investment themes to them.	We include an assessment of all sovereign issuers to ensure we are not investing in government bonds issued by countries with weak governance or associated with reactive regimes. This includes numerous criteria such as commitments to global treaties, human rights and perceived corruption.[1]

[1]This complies with any relevant country specific labelling requirements for Sovereign Bonds in Europe which the SF funds are accredited to; such as Towards Sustainability in Belgium.

Appendix 4 – Supplementary transparency information

General information about the SRI fund(s)

What is (are) the fund(s) aiming to achieve by integrating ESG factors?

Our Sustainable Future investment philosophy contends that investors underestimate the value of sustainable and responsible businesses. We seek to identify these companies and exploit this market inefficiency. ESG factors do affect the value of investments and analysing these aspects of companies is an important part of making investment decisions. By identifying attractively valued companies that are more sustainable than the market we believe we can deliver investment returns that benefit from sustainable trends and outperform mainstream benchmarks.

What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

Given the integrated team approach, all members of the Sustainable Future team produce proprietary research, including input into the top-down strategy, and both an annual sustainability assessment and credit analysis report on each of the companies within their specialist sectors.

The Sustainable Future investment team conduct their own proprietary research using the following:

Advisory Committee: guides on themes and new challenges and opportunities facing companies.

Academic Institutions: for example; Cambridge Institute for Sustainability Leadership to develop longer term thinking and to refine the set of themes or Government agencies and audit reports.

ESG Research Providers: currently we use MSCI ESG Manager and Ethical Screening to provide initial analysis of sustainability factors.

For independent validation, we commission MSCI to perform analysis on our portfolios to assess the carbon intensity relative to relevant benchmarks. These reports consistently demonstrate that all of our funds have significantly higher quality ESG and lower carbon intensity (circa 60% less) than benchmark.

Meetings with company management and site visits: we aim to meet with investee company management at least twice a year to discuss longer term strategy, this involves travelling to the region the company is headquartered in and conducts additional research and analysis from NGO reports and websites.

Expert networks: We use Guidepoint to arrange calls with independent experts in a particular sector (e.g. cyber-security purchasers to develop a view on Palo Alto)

Independent research providers: We pay for research from selected research providers who are unconnected with corporate finance or broking.

Sell-side research: Selected research is purchased to develop a broader understanding of industry sectors and to provide financial models of companies under analysis.

It must be emphasised though that these research inputs provide a foundation to the assessment by each analyst. The analysis and recommendation itself is always formed by the relevant team member.

What ESG criteria are taken into account by the fund(s)?

We believe sustainability (and ESG) is potentially a very material driver of investment returns and so we look at the businesses we invest in from two important aspects:

1) What business or service the company is providing our economy – and whether in a more sustainable economy we need more or less of these products and services.

2) How well the company is managing the relevant ESG related aspects of their business as we are looking to invest in companies that are proactively managing their business as we believe they will be more successful. Where we believe a company is not adequately managing their business we will not invest in that business; where a company is adequately managed but has aspects we believe that need to be improved, we could potentially invest and engage with that business.

Both of these criteria: the sustainability of the company's products or how well they are managing the ESG aspects of their business affect how we assess the sustainability and therefore suitability of every company for the Sustainable Future funds or not. This enables us to avoid poorly managed companies with sustainable products and also avoid well managed companies with unsustainable products.

We look at sustainability trends in our economy to help us analyse and understand the direction of travel, which industries will be affected and ultimately whether a given company we are looking to invest in will a winner from this positive change (by contributing in a positive way) or whether they are the wrong side of sustainability trends and will potentially lose out as society and or regulation acts against them (we call this Thematic analysis).

This approach enables us to analyse and make an assessment of each company on an individual basis and make sure we are investing in the most sustainable businesses both in terms of having more sustainable products as well as better managing the environmental and social aspects of their business as compared to the market as a whole.

This sustainability assessment is captured in our own proprietary Sustainability Matrix rating and is informed by our Thematic analysis. Both are described in more detail on pages 5 and 6.

What principles and criteria linked to climate change are taken into account in the fund(s)?

We recognise the urgent need to reduce carbon emissions across the economy to limit the negative impacts stemming from the climate change emergency and believe this shift will have very material impacts on investment returns. Consequently we have positioned our portfolios for an aggressive shift towards an ultra-low carbon economy (as we believe the companies we invest in will gain a competitive advantage by adopting a progressive strategy and will be more successful as a result).

Climate change is taken into consideration throughout the Sustainable Future investment process and is included in our investment decisions in the following ways:

Firstly we avoid investing in carbon intensive industries that we believe are the wrong side of the energy transition through our climate change exclusion criteria outlined on pages 7 to 9.

Secondly our thematic analysis helps ensure we are invested in companies on the right side of the energy transition. We believe companies helping to reduce emissions will experience significant growth across industries as diverse as power and heat generation, transport and heating and cooling buildings. The relevant sustainable investment themes which help combat climate change include:

Increasing electricity generation from renewable sources

Electricity generation is a major emitter of carbon dioxide. Substituting carbon-intensive fossil fuel electricity generation (especially coal) with renewable power sources reduces carbon emissions as well as providing a cost-effective means to connect people to cleaner power sources. We like wind and solar and some biomass (using waste streams as opposed to feedstock grown on agricultural land).

Improving the efficiency of energy use

We see many ways of making energy cheaper by reducing waste, as well as emissions, through more efficient usage. This cuts across many areas of the economy and includes building insulation, efficient lighting, energy efficient climate control, travel and industrial processes.

Improving the management of water

Water is essential for life. And changes to the availability of water are expected as a direct result of climate change with increased frequency of extreme weather events (involving floods and droughts). Companies that can manage waste water treatment, or produce products or services that improve the efficiency of water distribution, are vital and in demand in helping us cope with climate change.

Improving the resource efficiency of industrial and agricultural processes

We like companies providing products or services that help to make industrial processes more resource efficient, as well as safer for workers and users. We see investment opportunities in software and systems that help implement life-cycle design (including disposal of products) and manage supply chains, as they modernise and improve industry. We are looking for companies driving real improvements in energy and material use.

Delivering a circular materials economy

With finite resources on earth, recycling remains a huge part of the shift to a more sustainable world. But to make better use of materials, we need to consider the whole life cycle rather than just the 'waste' stage, moving beyond the current take-make-waste model towards a more circular economy. This is based on three core principles – designing out waste and pollution, keeping products and materials in use, and regenerating natural systems – and we believe companies built on these lines should benefit from this trend

Making transportation more efficient or safer

Urban transport systems are improved by reducing congestion as well as emissions (which also make the local air quality toxic), as the mode of transport shifts from self-driven cars to public systems such as trains, tubes and buses.

Thirdly, we want to ensure the companies we own understand the magnitude of the energy transition and are managing their businesses in a proactive way that protects them from inevitable tightening regulations. We engage with companies to encourage them to manage this (and other key) material impacts on their business. In 2020, we started our key engagement on the One and a Half Degree Transition Challenge: To challenge companies the SF funds are invested in to ensure they have strategies to reduce absolute carbon emissions at a rate consistent with limiting global warming to 1.5 degrees.

Finally, we believe that external validation of portfolios is important. To achieve this for climate change, MSCI are commissioned to produce a carbon analytics report which we have been disclosing since we first committed to the Montreal Carbon Pledge (to publicly disclose carbon information for our funds) over five years ago. Over time these reports have consistently demonstrated that our portfolios have significantly lower carbon (typically 50-70% lower) than each fund's conventional benchmark. This information on carbon is publicly available in our Fund Sustainability report.

What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

Our investment process is a high-conviction, bottom-up approach whereby sustainability is explicitly integrated throughout. The process is designed to capture long term investment opportunities from transformative changes in the global economy, tied to the idea that over time economies become more sustainable.

For idea generation whereby new opportunities are identified, this is based on four key filters any investment needs to satisfy to be eligible for investment. These four filters are;

1. Theme: Our 22 investment themes are reviewed annually (see individual themes on page 5).

2. Sustainability: our proprietary Sustainability Matrix assesses the whole company in two dimensions – the set of products or services offered; and the management of ESG exposures relevant to that industry sub-sector, only investing in companies with a C3 rating or higher as depicted in the picture earlier on page 6.

How we use third party ESG data: we initially look at the conclusions from our third party ESG data provider (MSCI ESG) to understand how well the company manages the aspects the provider have determined are most important as well as understanding any controversies surrounding the business. We use the ESG data they provide to understand how the business ranks relative to their peers. This is the start of our sustainability assessment.

How we quantitively score the sustainability matrix: we further augment the research from the third party ESG data provider by using our own proprietary model which identifies what we have identified as the most material ESG aspects that need to be managed and we measure how well the company is managing these to form our own view on how well the material ESG aspects are being managed by the company. There is significant overlap with the third party data provider but also important differences which can generate a different conclusion, using our discretion, based on our experience and proprietary research (refer page 6).

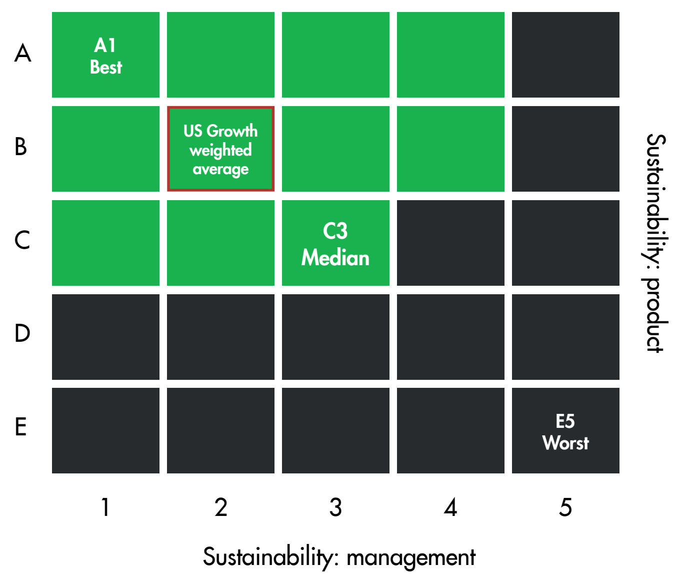
Exclusion of controversial or unsustainable businesses: we have identified a number of controversial business activities or those we believe to be inconsistent with sustainable development. We exclude companies with more that 5% of group sales from these controversial industries. Exposure to these industries is analysed and reflected into the Sustainability Matrix Rating.

A detailed explanation of what businesses activities we exclude, why and how we measure them is laid out in our Sustainable Future screening criteria (pages 7 to 9).

Ultimately, we measure how sustainable a business is and therefore whether it is eligible for investment using this proprietary Sustainability Matrix which is an output of our sustainability research. The companies with the most sustainable products or services and the best sustainability management get a rating of A1; the worst E5; the market median is C3.

To be eligible for the Sustainable Future funds the company must fall in the area marked green and is rendered ineligible for the fund (and excluded) if it falls in the grey part of this matrix.

Sustainable Future: Sustainability matrix rating



3&4. Business fundamentals and valuation analysis: Companies in which we invest have robust business fundamentals with a proven ability to deliver high returns on equity (RoE) through sustaining margins and asset turnover. Typically, these companies have a maintainable competitive advantage through scale, technology or business model. We then predict the likely sales, earnings and other financial returns we expect to see from these companies over the next three to five years, integrating our view of their quality into these. Applying the relevant valuation multiple allows us to derive a price target achievable in the next three years. When this shows significant upside (we typically look for greater than 10% per annum), the investment is recommended as a buy and available to be included in our funds.

How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

A formal ESG rating is required for all holdings prior to investing and all ratings are required to be updated on an annual basis. Third party providers, namely MSCI and Ethical Screening, provide ongoing monitoring of any controversies on all holdings. Within the team the relevant sector specialist is required to respond on any controversies and comments on the: impact; relevance; and any action is required i.e. engagement or sale. All controversies and comments are recorded in a central database that is maintained by the team.

How we ensure we adhere to our negative screening criteria: eligibility of a business is checked by the analyst as well as our independent third party (Ethical Screening) provider prior to investment. This ensures we meet our publicly stated criteria. Our portfolios are reviewed quarterly by our independent third party (EthicalScreening) provider to ensure continued compliance. Any stocks that have changed and fail these criteria are flagged, their sustainability matrix rating downgraded and divested within a 6 month grace period in which to find an eligible replacement.

Investment process

How are the results of the ESG research integrated into portfolio construction?

From the available buy recommendations identified in first stage of the investment process the team constructs a concentrated portfolio to maximise returns while diversifying systematic risks.

The team monitors risks to ensure that stock specific risks dominates. Typically the funds have a high active share yet a predicted volatility close to that of the benchmark.

Stock selection is based on high scoring Sustainability profiles, robust business fundamentals and attractive stock valuations.

Strong business fundamentals: we target companies that exhibit growth above both their industry average and the economy as a whole. We also explicitly target companies which can illustrate recurring revenue streams, and can consistently convert earnings to free cash flow.

Valuation: this filter ensures that all the companies we invest in are undervalued. We model 5 years of future revenue, margin and expected earnings and free cash flow.

How are criteria specific to climate change integrated into portfolio construction?

Climate change is integrated into portfolio construction as follows:

- Stock selection that incorporates a rigorous ESG assessment
- Investment themes focusing on better resource efficiency
- Formal screening criteria
- All our portfolios are deemed to be fossil free*
- Portfolios aim to have at least 50% less direct emissions as compared to the benchmarks. Our funds are in scope for our NZAMi commitment to have 25% lower carbon emissions by 2025 and 50% lower carbon emissions by 2030 from the funds as compared to mainstream benchmark references in 2019

We report in line with the Taskforce on Climate-Related Financial Disclosure ("TCFD") for Liontrust Plc which is available on our website.

How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?

All sustainable elements are integrated into the heart of the investment process. All issuers present in the portfolio are subject to ESG analysis.

Has the ESG evaluation or investment process changed in the last 12 months?

No. The Sustainable investment team has been using the same philosophy and process, encompassing its Sustainability Criteria, investment themes, engagement policy and proprietary Sustainability Matrix Ratings since its inception in 2001.

Over the past 23 years, the team has modified the tools it uses and improved its approach to data collection in order to better use its resources and be more productive in its work.

Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

Measuring impact is a challenging and evolving area but we are committed to developing this and to meeting the increasing demand from clients who want to know what impact their investments are having in the real world.

We currently disclose information on environmental and social impacts such as:

- Independent analysis on carbon and how the SF funds compare to the markets in which they are invested, in terms of carbon emitted, and investments in solution providers as well as information on exposure to fossil fuels (which is zero).
- The investment ideas in our equity portfolios are driven by finding companies exposed to our 22 themes. We will continue to engage with companies to disclose the impacts of these positive themes and share these as we progress. Overall fund exposure to these themes is available on request or on our website.
- We will continue to disclose how we are engaging with companies and where we are affecting positive change in how companies are managed.
- We also demonstrate the alignment of our funds with the UN Sustainable Development Goals

Does (do) the fund(s) engage in securities lending activities?

No – The SF funds do not engage in securities lending.

Does (do) the fund(s) use derivative instruments?

The SF funds may invest in derivatives, including forwards, for both Efficient Portfolio Management (including hedging) and investment purposes. Derivatives are not currently used for the SF Equity funds. However, derivatives are used to manage risk in the fixed income portfolios of the SF funds.

Does (do) the fund(s) invest in mutual funds?

Occasionally.

*We exclude companies with >5% turnover derived from the exploration or production of fossil fuels, airlines and coal fired electricity generation.

ESG controls

What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s)?
To ensure portfolio compliance to ESG rules, the team have the following controls:

Portfolio Risk Committee
The oversight of portfolios and investment risk is performed by the Portfolio Risk Committee ("PRC"). The PRC is totally independent of the Front Office.

The PRC uses a Risk Management Process ("RMP"), enabling it to monitor and measure as frequently as appropriate the risk of a fund or portfolio's positions and their contribution to the overall risk profile. This oversight encompasses portfolio performance, establishing parameters for exception reporting and ensuring that appropriate client communications are prepared as necessary. Portfolios are reviewed daily, and in more detail monthly, as part of our internal risk meetings.

Adherence to screening criteria
To uncover ESG opportunities and risks we believe in thoroughly researching potential investments as well as continually monitoring investee companies. Our research includes primary research by the team as well as information from a wide range of sources such as external research providers, and experts from companies, NGOs and other organisations.

There are five elements to the assurance and oversight of the screens:

1. The sustainability analysis of each company is presented at team meetings where challenge from peers is invited.
2. The Advisory Committee are shown a list of all holdings and transactions and will request clarification on any positions they feel warrant greater scrutiny.
3. Ethical Screening conduct a formal audit of all holdings every quarter to ensure adherence with our stated screening criteria. We also have access to data from Sustainalytics and MSCI Governance Research as well.
4. All holdings are published quarterly so clients can see each position and challenge any holdings they feel do not meet with the spirit of the Sustainable Future approach.
5. Oversight through Portfolio Risk Committee including pre-trade barriers to ensure businesses we buy comply with our publicly stated sustainability criteria.

Sustainability measures and ESG reporting

How is the ESG quality of the fund(s) assessed?
As explained (page 6), we use our proprietary Sustainability Matrix framework to assess the sustainability and eligibility of every company we potentially wish to invest in. We review the average weighted matrix rating for the funds which is a measure of the ESG quality of the fund as a whole.

We actively engage with companies where we feel they need to be more proactive at managing a material ESG aspect of their business. Through this engagement process we aim to improve the ESG management quality of the companies we are invested in over time.

We are interested in the thematic exposure of the fund and monitor and disclose which sustainable investment themes we are exposed to. We are consciously looking to have high conviction in all our holdings on all four aspects we believe that make a good investment, two of these being focused on the sustainability: trends companies are exposed to (sustainability themes) as well as how sustainable the overall business is (measured using our Sustainability Matrix rating).

Additionally, we believe that external validation of portfolios is important. Our Advisory Committee, which the investment team meet with three times a year, review all the holdings in the Sustainable Future funds and will raise any concerns they have on the ESG quality of any holdings or sustainable investment themes we are exposed to. As a result of any concerns we do extra sustainability analysis to ensure we are not missing any negative aspects of a theme or company the fund is invested in.

We also use third party data providers such as MSCI to produce both an ESG report on our portfolios relative to benchmark and a separate carbon report.

What ESG indicators are used by the fund(s)?
The main sustainability, impact and ESG indicators used by the funds are:

- Sustainability of individual companies and the weighted fund average: Sustainability Matrix.
- Exposure to our positive sustainable investment themes is measured at the stock level and includes the proportion of the business exposed to a positive theme and this can be aggregated at the fund level.
- We have mapped our investment themes to the underlying KPIs in the United Nations Sustainable Development Goals. SDGs are increasingly being used by investors in our funds to understand how our themes are in alignment with an internationally agreed framework for sustainable development, such as the SDGs.
- Activity and progress in engaging for positive change in the way companies the funds invest in are managed.
- We include various third-party data on ESG metrics that help measure the environmental, social and governance aspects of the Sustainable Future funds and the companies they are invested in. This is evolving and is driven both by what we believe is important as well as client demand for extra ESG detail.

We report in line with the Taskforce on Climate-Related Financial Disclosure ("TCFD") for Liontrust Plc which is available on our website.

What communication resources are used to provide investors with information about the SRI management of the fund(s)?
We publish an extensive amount of information on the sustainability, impact, ESG and engagement of the Sustainable Future funds which include:

SF Annual Review is a detailed review of the Sustainable Future funds; who the investment team are and what they have been working on; as well as their observations on:
- Sustainable investment themes
- Climate change, how we are positioned as well as detailed third party carbon related data on the funds
- How our investment themes are aligned with the SDGs and which of these the funds have most and least exposure to
- Key engagement updates and which priority engagements have worked as well as any that have not
- Sustainability related data on the Sustainable Future fund range

The latest SF Annual Review is available here: liontrust.co.uk/sustainable

Six-monthly reports for individual funds showing data on exposure to investment themes as well as listing all companies held in the fund (not just the top ten as is industry practice).

The investment team engage with investors in the fund or their advisors to answer any specific questions on why the fund is invested in a particular stock or clarifying the investment team view on a particular sustainability issue.

Monthly fund updates and fund manager blogs which often highlight interesting sustainability related information for investors can be found on our website as follows:

www.liontrust.co.uk/fund-managers/sustainable-investment/sustainable-annual-review

We have committed to publicly disclose individual Fund Sustainability reports which detail all the sustainability data discussed in our SF Annual review at the fund level as well as including additional specific ESG metrics. These are available on our website at the link above. We fully expect this reporting to further evolve in response to increase client demand, as well as regulation and we are committed to providing additional disclosures for the Sustainable Future fund range to ensure stakeholders have all the information they need.

The Fund publishes monthly Factsheets, Annual & Semi-Annual Accounts, yearly KIIDs and ad-hoc Sales Aids on our website.

Does the fund management company publish the results of its voting and engagement policies?
Please visit liontrust.co.uk/sustainable to see the latest Sustainable Investment Team Annual Engagement Review.

Quarterly voting records showing how the Liontrust Sustainable Investment team voted at every Company AGM on every resolution for all companies we are invested in are also published on our website.

Sustainability indicators and fund objectives to outperform market (on these indicators)

There are seven aspects of sustainability of the companies invested in the funds:

Sustainability indicator	Fund objective	Target	Result
Sustainability matrix rating: measuring overall sustainability of a business through the products and services provided, as well as quality of ESG management.	Only invest in companies that have higher than market median matrix rating (C3 and above).	Weighted average matrix rating of the fund is disclosed and this is better than benchmark median (C3).	Disclosed in fund sustainability reports.
Exposure to sustainable investment themes	Vast majority (>50%) of companies/issuers have moderate (>25% of business exposed to theme). Excludes cash and government bonds. Alignment with SDGs is also disclosed.	Proportion of fund invested in companies associated by theme (>50%) and level of exposure, including weighted average exposure to primary sustainable investment theme (>50%).	Disclosed in fund sustainability reports.
Environment – climate emergency: as a result of our thematic work and avoidance of carbon-intensive industries, our funds are less carbon intensive than the markets in which they invest.	Direct emissions (scope1+2) from the fund to be much lower than the benchmark (metric used: tCO2e/$m invested).	At least 50% less carbon emitted from the fund compared to the benchmark (and the data coverage, which is detailed in the individual fund reports, is well in excess of the required >90%).	Disclosed in fund sustainability reports.
Social metrics: there is a lack of comparable data, currently we use staff turnover as an indicator*.	Where social metrics such as staff turnover are worse compared to the benchmark, we will engage with the businesses to improve management of social issues. This will be through though our regular engagement or priority engagements (such as the Workplace Disclosure Initiative).	Engage with companies to better disclose meaningful data to help assess social impacts of the business and where needed, engage to improve metrics.	Disclosed in fund sustainability report, and engagement reports.
Human rights: we avoid investing in companies that are not adequately managing their adverse impact on people's human rights.	The funds aim to be invested in less companies that have been classified as Watch or Fail in relation to the UN Global Compact (as determined by MSCI ESG Manager) as compared to the benchmark.	Lower proportion of watch and fail status in relation to UN Global Compact in the fund compared to the benchmark (and the data coverage, which is detailed in the individual fund reports, is well in excess of the required >70%).	Disclosed in fund sustainability reports.
Governance metrics: we include an assessment of governance in our sustainability matrix rating in determining the quality of management. We disclose a number of key governance metrics for the fund. We will use % of board identifying as women as the indicator for board diversity*.	Where a governance metric is worse than the market average, we will continue to engage with the business to improve it. This will be through our regular engagement or priority engagements (such as increasing diversity).	Engage with companies in the fund to improve the most important aspects of governance (and, over time, to be better than the benchmark).	Disclosed in fund sustainability report, and engagement reports.
Sustainability selectivity: to meet with the requirements of sustainability labels, we are required to disclose selectivity in terms of what proportion of the investment universe we do not invest in for sustainability reasons. We do not rate the entire investment universe, instead for this purpose, we have identified businesses we know either do not meet our screening criteria (due to their involvement in business activities we avoid) or that we believe have inadequate management of ESG issues relevant to that business. This selectivity figure should be treated as a conservative minimum estimate.	To exceed the selectivity targets required by the regulator and/or appropriate sustainability label. There is a requirement for over 90% coverage which we ensure we meet by including smaller cap benchmarks in an expanded investment universe where required for some equity funds. The % excluded by weight is worked out with 80% weighting towards the benchmark and 20% weighting towards the expanded small cap benchmark where this is required.	Satisfy the requirement to select out at least 20% of the investment universe (by number) based purely on sustainability criteria with over 90% coverage for the fund.	This is independently verified internally by the Liontrust Risk Team. This selectivity percentage will be disclosed by number and index weight in the fund sustainability reports.

*As availability and quality of metrics improve, we may change and expand our use of them. As our confidence in these metrics improves, we expect to make the targets more demanding.

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments

The Funds managed by the Sustainable Future Team:

Are expected to conform to our social and environmental criteria.

May hold overseas investments that may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of a Fund.

May hold Bonds. Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result; The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

May encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

May invest in companies listed on the Alternative Investment Market (AIM) which is primarily for emerging or smaller companies. The rules are less demanding than those of the official List of the London Stock Exchange and therefore companies listed on AIM may carry a greater risk than a company with a full listing.

May invest in smaller companies and may invest a small proportion (less than 10%) of the Fund in unlisted securities. There may be liquidity constraints in these securities from time to time, i.e. in certain circumstances, the fund may not be able to sell a position for full value or at all in the short term. This may affect performance and could cause the fund to defer or suspend redemptions of its shares.

May, under certain circumstances, invest in derivatives, but it is not intended that their use will materially affect volatility. Derivatives are used to protect against currencies, credit and interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions. The use of derivatives may create leverage or gearing resulting in potentially greater volatility or fluctuations in the net asset value of the Fund. A relatively small movement in the value of a derivative's underlying investment may have a larger impact, positive or negative, on the value of a fund than if the underlying investment was held instead. The use of derivative contracts may help us to control Fund volatility in both up and down markets by hedging against the general market.

The use of derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short-dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Outside of normal conditions, may hold higher levels of cash which may be deposited with several credit counterparties (e.g. international banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

May be exposed to Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.
Do not guarantee a level of income.

The risks detailed above are reflective of the full range of Funds managed by the Sustainable Future Team and not all of the risks listed are applicable to each individual Fund. For the risks associated with an individual Fund, please refer to its Key Investor Information Document (KIID)/PRIIP KID.

LIONTRUST
COURAGE · POWER · PRIDE