

Cashflow team: Integration of Sustainability Risk

The management of sustainability risk forms part of the due diligence process implemented by the investment team which includes assessing the risk that the value of such underlying investments could be materially negatively impacted by an environmental, social or governance (“ESG”) event or condition (“ESG Event”).

Sustainability risk is identified, monitored and managed by the investment team by grading each of the potential investments identified using its bottom up investment process against sustainability risk and to identify whether it is vulnerable to such risk. The investment team may also incorporate exclusion policies for certain factors such as controversial weapons whereby potential investments are removed from the investment universe on the basis that they pose too great a sustainability risk to the fund.

The investment team relies on ESG information of third-party data providers to assist in understanding the sustainability risks of a proposed investment. The investment team may also conduct fundamental analysis on each potential investment to further assess the adequacy of ESG programmes and practices of a company or issuer to manage the sustainability risk it faces. Potential ESG issues associated with an investment are also monitored by the investment team to investigate and assess issues which may include the impact of company or issuer operations, governance practices, and/or products and services that allegedly violate national or international laws, regulations, and/or other commonly accepted global norms.

The information gathered from this analysis will be taken into account by the investment team in deciding which of the potential investments to acquire and the size of the position to ensure the fund invests in companies and issuers with strong cash flows that deploy cash prudently whilst minimising the potential impact of sustainability and other risks.

The process may, in certain circumstances, result in the investment team holding securities rated below average in respect of ESG criteria assessed by data providers where the investment team believes that the relevant existing ESG rating as categorised by the data provider does not fully reflect the position of the relevant issuer or company, or has not captured recent positive sustainability-related changes which have been implemented by the relevant issuer or company. Some companies or issuers may not be rated or covered by data providers and may publish little or no information on their ESG policies and sustainability risks, in these cases the investment team’s scope for analysis of sustainability risk may be more limited. Depending on the availability of data, the investment team may decide to exclude such companies or issuers from their investment universe.

In addition, the investment team will monitor sustainability risk on an ongoing basis through reviewing ESG data published by the company or issuer (where relevant) or selected data providers to determine whether the level of sustainability risk has changed since the initial assessment was conducted. Where there is an increase in sustainability risk, the exposure to the relevant security may be reduced taking into account the best interests of the Shareholders of the fund.

While no guarantee can be made, the investment team expects limited negative impact from the materialisation of sustainability risk on the returns of the fund due to the monitoring and management of sustainability risk as described above.