

### **Sustainable Investment team (equity): Integration of Sustainability Risk**

The management of sustainability risk and integration of sustainability objectives into investment selection forms a central part of the due diligence process implemented by the investment team. This includes assessing the risk that the value of such underlying investments could be materially negatively impacted by an ESG event or condition (“ESG Event”); while the prime focus is to identify sustainable investments as defined in the SFDR.

The investment team integrates sustainability risk into its investment decision making process by using a combination of screening, thematic analysis, and sustainability analysis using the investment team’s proprietary sustainability matrix. These are all binding aspects of the investment process developed by the investment team over the life of the strategy. Sustainability risk is identified, monitored and managed by the investment team in the following manner:

- (i) The investment team incorporates screening criteria (whereby potential investments are removed from the investment universe on the basis that they pose too great a sustainability risk to the Fund) to limit or avoid holding companies which are exposed to activities that could cause harm to society or the environment and are at greater risk of an ESG event. This screening process will consistently remove at least 20% of the investible universe.
- (ii) The investment team considers the reduced investment universe against a number of key sustainability themes and trends including better resource efficiency, improved health and greater safety and resilience. Companies must be positively exposed with a minimum of 25% of their revenues aligned with one or more of these sustainability themes to be considered for inclusion in the fund.
- (iii) Those companies which pass the screening and thematic analysis are then considered by the investment team against ESG factors via the investment team’s proprietary sustainability matrix. Every company held in the fund’s portfolio is given a sustainability matrix rating, which analyses the following aspects:
  - **Company sustainability** (rated from A to E): The sustainability matrix assesses the extent to which the investment team believes a company’s core business helps or harms society and/or the environment. An A rating indicates a company whose products or services make a significant contribution to the sustainability characteristics identified by the investment team; an E rating indicates a company whose core business is in conflict with achieving sustainable objectives in line with the sustainability characteristics (such as tobacco or activities that give rise to high levels of pollution such as coal fired electricity generation).
  - **Company management quality** (rated from 1 to 5): The sustainability matrix assesses whether a company has appropriate structures, policies and practices in place for managing its ESG risks. Sustainability management quality in relation to these ESG risks are graded from 1 (excellent) to 5 (very poor).

- Companies or issuers must score C3 or higher to be considered for inclusion in the Funds.

Where the fund makes investments in sovereign debt (i.e. debt securities issued by governments) a sustainability analysis is performed which is tailored to the specific sustainability considerations of sovereigns. Only those which achieve the minimum required rating are considered for inclusion within the portfolio. This sovereign sustainability analysis include the following ESG factors:

- **Environment** – fossil and nuclear usage, water usage, energy management and CO2 and greenhouse gas emissions
- **Social** – education and technology, provision of basic needs and the economic environment
- **Governance** – financial capital and management, political governance and democratic rights
- **Controversies** – general adverse or contentious national developments, involvement in armed conflicts and international sanctions.

The investment team monitors the sustainability and management quality ratings of the above-mentioned companies and issuers on an ongoing basis. Individual investments are also reviewed periodically. If an investment is identified as having fallen below the investment team's minimum required rating of C3 or is no longer consistent with the ESG factors outlined herein, it will be disposed of by the investment team in an orderly fashion.

The methodology described above is partially dependent on the availability and consistency of financial and sustainable data provided by the companies directly or third party data providers. Some companies 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 from their investment universe.

The fund's performance may at times be better or worse than the performance of comparable funds that do not use ESG or sustainability criteria. The fund's focus on ESG related companies and securities, as well as its screening processes, means that the universe of investable securities is more limited than would otherwise be the case and therefore the fund's universe of investments will be smaller than that of other funds without these or similar restrictions. The fund may therefore not be able to gain exposure to certain companies, issuers, industries, sectors or countries which go on to outperform the market and the fund may have to sell a security which no longer meets the ESG criteria when it might otherwise be disadvantageous to do so from a short term returns perspective.