Ethical Screening Policy Document

Ethical screening is as important to us as the investment process. It matters to our clients that we get this right and abide by the mandate we operate to. In the case of model portfolios this is in the documentation, in the case of discretionary portfolios, this is taken from the values based questionnaire.

We acknowledge that ethics are not just quantitative but also qualitative and therefore value judgements will have to be made from time to time. Where this is the case, we will err on the side of caution.

In both models and tailored discretionary portfolios, we use both a negative and positive screen, therefore not only avoiding the bad, but also seeking to make investments that have a positive impact on people and the environment.

Our method has two parts: a process driven quantitative screen and a more values based qualitative screen. What really matters is what the company or fund actually does. We are aware that a good SRI/ESG profile is important to any company, and that green washing is a major issue (we wrote about this as early as 2006).

It is important to us that the company or fund meets the clients' ethical expectations and does not just tick the boxes. We seek to avoid "data gimmicks" and look beyond the glossy marketing material by using a wide variety of sources to give us a full understanding of a company's practices. It is important to note, that quantitative data serves the process but does not drive it. Recent examples where a company has received a high third party quantitative ESG scores, but has subsequently been affected by ESG flags, shows the importance of our internal research to avoid these pitfalls.

The quantitative ESG screen

We will examine the investment from an Environmental, Social and Governance perspective, with data provided by third party screeners (currently MSCI). This will include a consideration and assessment of their ESG score, which alone will not be definitive and may be overruled. However the detailed report will provide a great deal of information for our process.

For direct equities, a key element of this information is the business involvement report; this will highlight if any of the investments activity is contrary to any negative screens in place, such as whether they conduct animal testing, provide defence or alcohol products etc.

The second area covers any issues or controversies that have arisen and whether these issues are addressed in a manner we would expect from a company we would seek to co-own.

Via MSCI, we are also able to gain various statistics including emissions data (where available), as well as revenue from what we would consider detrimental activities such as fossil fuel extraction, nuclear energy etc.

With regards to emissions data, we are pragmatic when we conduct our analysis. For example, a public transport company providing bus services may have high carbon emissions relative to another company, but their services inevitably remove cars from our roads, making our travel greener by displacing single passenger journeys.

In this instance, we would look to the company's direction of travel to ensure they are heading towards new greener vehicles, which leads onto our in house qualitative screen.

The qualitative screen

Put simply, this will cover what a company actually does, and is in house research based on various sources, including company disclosures, industry reports, reliable news sources etc. The main focus is to identify whether a company's products or services are having a benefit to society and or the environment, but also to ensure they are not having a detrimental effect that outweighs any of the good they are doing.

The qualitative screen will also aim to identify a number of positive impact sectors. *In property for example (aside from collective model portfolios where these investments are not available) we are not invested in conventional property funds that invest in office and retail. Our focus is medical, affordable and modern rental homes, social housing and infrastructure (with a focus on renewable energy infrastructure, rail and hospitals etc.)*

Many of the positive sectors we aim to identify are associated with a number of the mega-trends we are seeing, for example, an ageing demographic, digitalised economy, access to healthcare & healthier lifestyles, clean mobility (both public and private), the circular economy, meat free alternatives, to name but a few.

In some sectors, we would seek to invest in best of class companies, who demonstrate leading ESG criteria within their sector.

For example in banking and finance, a sector that has experienced a great deal of controversy in recent years. We begin with the view, that without banking and finance we would be a lot poorer (you only need to look at the unbanked nations and the need for microfinance for example). Therefore depending on the ethical screen we may seek best of class investments and positive investments in this sector.

Therefore if best of class is permitted, in addition to the ESG score we will prioritise banks and insurance companies that have the more ethical business models. Currently we favour Svenska Handelsbanken in Sweden, where local banks and employee ownership are key factors, and the Nationwide Building Society where we hold floating rate notes. Meanwhile Aviva is preferred for insurance as a leading lender into renewable energy and affordable housing.

However our focus will remain with positive finance, therefore microfinance funds and investments that play a key role in addressing poverty in the developing world are favoured. We have seen issues where microfinance has been abused and therefore we would only consider investments where the social mission is front and centre along with a solid investment process. We would seek to include investments in farming equipment leasing to small and mid-sized African farmers, enabling them to use their land and time more efficiently and therefore move from subsistence farming to meeting needs with global food demand and *poverty. We are also invested in the IFFIM US $ floating rate note which finances immunisation programs around the world, literally saving young lives.*

Other important considerations are good corporate citizenship, therefore in addition to the ESG factors (board composition and employment records would be covered here) we would assess whether an investment's tax practices meet our ethical expectations.

Two of the corporate values that apply across all of the King and Shaxson Group are; to be more human and "does it pass the smell test". In other words, we know investing is more than just an electronic process, it is something we take human responsibility for, and even if something maybe be legally correct, is it right? When it comes to ethical investing these values remain front and centre too.

Screening specifically for our ethical Model Portfolios

The ethical model portfolios are designed to meet the majority of ethical investor's concerns, but as the portfolios include a number of collective funds, and also aim to spread the risk of investing in a tightly defined area, there needs to be some pragmatism. However we pride ourselves on ensuring that each portfolio is constructed to be as 'ethical' as possible within the investment constraints of each portfolio and platform.

We conduct monthly screening of ethical funds in a process we call 'under the bonnet'. This ensures the fund's holdings truly align with our client's values. Part of this processing involves regular communication with fund managers for justifications on holdings, and if we feel the justification is not sufficient, we will act to reduce exposure or potentially remove the fund from our offering.

The portfolios avoid significant involvement in:

- Adult Entertainment
- Aggressive Tax Practices
- Alcohol
- Animal Testing (non-healthcare)
- Armaments
- Fossil Fuels
- Gambling
- Human rights abuse
- Illegal Deforestation
- Intensive farming
- Nuclear
- Poor environmental management
- Tobacco

The portfolios are distinguished by a tilt towards thematic investments which finance solutions to social and environmental challenges such as:

- Education & Learning
- Environmental Efficiency
- Healthcare
- Sustainable Infrastructure
- Microfinance
- Public Transport
- Renewable Energy
- Resource Management
- Social & Medical Property
- Sustainable forestry
- Water & Sanitation

Funds are preferred if they demonstrate a rigorous ethical screen and research policy and employ comprehensive and rigorously applied exclusion criteria. Many of the fund houses who appear in the model portfolios will have explicit policies on climate change, GHG emissions, and Responsible ownership/stewardship policies.

Documentation

All investment documentation will include an ethical profile for each holding, from single equities, to funds and unlisted assets. On top of this, yearly (bespoke) and half yearly (models) reports are produced to highlight example companies to which clients would be invested in. This ensures the client truly understands where their money is invested, and also assists advisers in documenting the process.

Monthly factsheets provide market commentary alongside ethical updates. They will also include rational for any rebalances, as and when they happen.

We have also classified each stock to help our investors understand the ethical make-up of the portfolio:

Acceptable: companies/funds that meet the exclusion criteria but whose products or services are not of direct social or environmental benefit, and which are no more than 'ethically neutral'.

Avoidance: companies/funds whose ethical policy is primarily based on avoiding ethically unacceptable companies.

Best of Sector: companies/funds that demonstrate environmental or social leadership in their industry, but whose products or services provide no direct social or environmental benefit.

Impact: companies/funds providing a service/product where impact of the invested capital is identifiable, additional and measurable.

Solutions Based: companies/funds whose products or services are of direct social or environmental benefit.

Standard setter: Companies that are seen as a benchmark for their ethical practices.

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