

Pyrford



Part of



Sustainability Risk Policy

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1 Introduction

The purpose of this document is to set out how sustainability issues are incorporated into the investment process at Pymford International (Pymford). This policy applies to all investment strategies managed by Pymford though, as outlined, our approach varies between asset classes.

The policy was developed by Pymford's ESG Forum and approved by its Chief Executive Officer.

The policy was first published in January 2021 and will be reviewed annually.

2 Background

Pymford has been operating as an investment management business for over 30 years. Whilst our approach to corporate governance and ethical investing issues has evolved over this period, Pymford's investment process has always focused on quality, value, and the long-term sustainability of earnings and dividends. Our belief is that sustainable earnings can only be achieved through responsible environmental and social practices and that shareholders only fully benefit from these at well-governed companies. Consequently, consideration of ESG factors and issues of sustainability are an integral part of the Pymford investment process.

3 Investment process

Screening

We do not apply negative screens to exclude entire sectors, nor do we set minimum weightings for sectors deemed to have positive sustainability credentials. Our approach is to consider both positive and negative ESG factors within the totality of our investment research alongside our customary regard for competitive advantage, balance sheet risk and valuation.

Integration

We believe the best approach to ESG research is a combination of internal analysis and specialist external independent research. However, responsibility for assessing these issues lies with the portfolio managers considering a stock for inclusion in a portfolio. These are then reviewed by the full investment team before investment can take place. We do not have a separate ESG team involved in research. However, representatives of all areas of the business form an ESG "Forum" to analyse broad ESG themes and to coordinate responses to client and regulatory priorities.

Equities

Internal research

The first step in Pymford's ESG research is background reading on the ESG factors that are relevant to each of the companies we look at. The sources of this information include specialist ESG research from MSCI (see below under external research), company Sustainability reports, and publications from bodies like UNPRI, Carbon Tracker and the CFA Institute, as well as sell-side brokers.

Distillation of this material enables our investment professionals to identify the key questions to ask management during the face-to-face interviews, which have always been a fundamental part of our investment process. Once these meetings have taken place, the next stage is to complete an internal ESG rating template.

At Pymfords our portfolio managers assign an ESG rating to every stock we research. This rating ranges from '1' where we feel a company faces no material ESG risks over the next 5 years to '5' where a company faces moderate to high ESG risks over the same period and is not adequately addressing them.

The rating is derived by examining the 15 factors we concluded were the most relevant to our investment philosophy and process. The factors are split broadly evenly between Environmental, Social and Governance concerns and are shown below. These ratings will be reviewed at least annually and must now be presented for any new stock proposed for inclusion in a portfolio.

| Environmental | |
|---|---|
| Environmental | Does the company measure and report on its GHG footprint? Does it have credible initiatives to reduce this? |
| Climate change | To what extent might climate change negatively impact the operations of the company? |
| Depletion of resources | Does the company rely on the use of natural resources (including water) which are becoming scarce in its area of operations? |
| Toxic chemical use and disposal | Does the company use chemicals, the accidental release of which into the environment would be damaging? |
| Business opportunities | Does the adaptation to climate change or other environmental issues present new business opportunities? |
| Social | |
| Health & safety | If aspects of the company's operations are hazardous does it have clear policies, accountability and disclosure of Health and Safety metrics? |
| Discrimination | Does the company have public policies against workplace discrimination? |
| Diversity | Does the company have a public commitment to increase the diversity of its workplace against which it is reporting progress? |
| Political risk from involvement in troubled markets | Does the company have material operations in parts of the world where politics is volatile? |
| Living wage | Has the company made a commitment to pay all employees the local living wage? |
| Governance | |
| Executive compensation | Are the interests of shareholders and executives aligned? |
| Separation of Chairman/CEO | Are the CEO and Chairman different? |
| Dual or single share class | Do all shareholders have equivalent voting rights? |
| Board independence | Is the majority of the board independent? |

The potential impacts on company earnings of ESG related risks or opportunities are captured in the financial forecasts for a company through our forecasts of Return on Equity over the 5-year investment horizon. Where investment is proposed in a stock where we have identified material ESG risks the Portfolio Manager concerned must explain how these risks are captured in their forecasts.

External Research

To provide independent external research, we have also engaged the services of a specialist ESG provider, MSCI ESG Research. MSCI provide us with detailed research reports examining the ESG impacts on investee companies and the wider universe. They have a team of over 180 experienced research analysts assessing thousands of data points across 37 ESG Key Issues, focusing on the intersection between a company's core business and the industry issues that can create significant risks and opportunities for the company.

MSCI assign ratings to all companies we look at on an AAA-CCC scale relative to the standards and performance of their industry peers.

If a company's MSCI rating falls, an alert is sent to the relevant portfolio manager or analyst and the reasons for the downgrade are discussed in detail by the Pырford investment team. If the rating falls to B or CCC an 'out-of-cycle' engagement takes place with the company to identify why.

In addition to stock level reports, MSCI ESG Research also provides us with portfolio level ESG analysis reports which help us to identify any potential risks to the portfolio as a result of underlying ESG issues.

Fixed Income

We monitor the government level ESG rating assigned by MSCI to the countries in our fixed income universe. However, this universe is limited to sovereign bonds from governments who achieve a AA or above credit rating. We do not believe there is yet a reliable way of differentiating between these sovereign issuers on ESG grounds.

4 Engagement procedures

It is Pырford's belief that engagement through direct discussions with not only management of investee companies, but also with all companies we meet, is the most effective way for us to do this. At Pырford, we use a range of engagement methods. However, typically our engagement is one-to-one with companies as we believe this method yields the best results. Our Portfolio Managers must visit every company we invest in prior to first investment and we aim to meet with the company at least annually thereafter. Any companies that are rated 4 or 5 as part of our internal ESG research process will be engaged at an appropriate time by a portfolio manager.

Where issues arise outside of that meeting cycle we have put in place a clear framework for escalating issues until we are satisfied that they have been resolved.

- Level 1: Investor Relations contacts through email, call or meeting
- Level 2: Divisional or executive management via call, meeting or in writing
- Level 3: Vote against relevant resolutions if presented to shareholder meetings
- Level 4: Board member – in writing or by call or meeting if available
- Level 5: Collaborative engagement with other shareholders
- Level 6: Sponsoring or co-sponsoring resolutions at company meetings

5 Proxy voting

We vote proxies at all meetings involving the companies in our portfolio. We offer our clients with segregated mandates the option of providing us with their own voting guidelines. Where they do not take that up we vote according to our own policy which we make publicly available on our website (www.pyrford.co.uk) or at the following [link](#).

We engage ISS to manage the logistics of vote submission and also to analyse the vote proposals with reference to the policies we have provided them, but it remains the responsibility of our portfolio managers to review and approve these recommendations.

ESG related proposals are thoroughly considered. We have regularly voted against directors whose background, independence or commitment are unsatisfactory. We also support shareholder proposals for improved ESG performance, targets or reporting where they are in the interests of all shareholders.

The way in which we have voted our standard policy at each meeting is made publicly available (see next section).

6 Reporting

An annual review of our sustainability related activity has been published since 2016. The latest edition is available on our website (www.pyrford.co.uk) or at the following [link](#).

In addition, since 2014 we have been signatories to the UN PRI and our annual verification reports are available on the PRI website.

The records of our proxy voting activity are also publicly available on our website and at the following [online voting portal](#).

7 Governance & monitoring

ESG priorities and process is governed by our ESG Forum.

The Forum meets quarterly and is chaired by Paul Simons, a Senior Portfolio Manager at Pyrford and a member of our Investment Strategy Committee. Membership of the forum comprises of our CEO & CIO, a representative from each of our main regional investment areas (Europe, Asia and Americas), Client Relationship Management, Operations and Compliance.

The ESG Forum looks to promote awareness and communication between different areas of the business on ESG issues. It provides an opportunity for our Relationship Management team to feedback our clients' comments and any concerns they may have on areas of ESG and the companies we hold on their behalf. The group discuss wider industry ESG issues and assess how they can impact our business and the companies we invest in. Finally the group also report on the recent quarter's company engagement and proxy voting activity.

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