

# SVM Responsible Investment Policy

Issue Date: March 2019

## Introduction

Responsible investment is an investment approach that integrates environmental, social and governance (ESG) factors into investment analysis and decisions. It is an important aspect of the service we offer our clients and a key point of differentiation with passive investment strategies and many other active managers. SVM began managing Socially Responsible Investment (SRI) products in 2006. Since then, our engagement principles have evolved to include ESG issues across our range.

Our top priority is to do our best for our clients, by maximising their portfolio returns and protecting their interests, whilst also driving benefit for society. To select investments we employ a consistent and disciplined approach that focuses on intensive bottom up research. As part of our investment process we assess many factors including ESG considerations for their potential to materially affect a company's performance.

As a boutique investment firm we recognise that, because in most cases we will not hold significant positions in investee companies, it can be difficult to encourage changes in management attitudes and behaviour purely by exercising client voting powers alone. Instead, we have adopted a more flexible approach and we engage with company management and boards as and when we believe it will be of most benefit.

Consistent with our investment philosophy and our commitment to be a responsible investor, SVM has been a signatory to the UK Stewardship Code since 2012 and the UN Principles for Responsible Investment since 2018. As part of our stewardship responsibilities we adhere to good governance principles and instruct our custodians to vote at all general meetings.

## Due Diligence

Rigorous research and due diligence are the foundation of our investment process, enabling us to develop a thorough understanding of each individual company under consideration. ESG related issues may be material to the long-term sustainability of a company's competitive advantage. As part of our due diligence process, we consider various ESG factors.

### Environmental

Certain investee companies face significant environmental risks. We consider how those businesses manage environmental risks to reduce the impact of their activities over time. Environmental risks can lead to possible financial liabilities, including fines, litigation and remediation costs, or loss of customers due to damage to the brand.

Environmental factors can include:

- Management of environmental risks
- Raw material sourcing
- Supply chain management
- Climate change (see more details below)
- Greenhouse gas (GHG) emissions
- Resource depletion, including water
- Waste and pollution
- Deforestation

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## Social

We believe that investee companies should treat all their employees and contractors, as well as those in the community in which they operate, fairly and to respect their dignity, well-being and diversity.

Social factors can include:

- Working conditions, including slavery and child labour
- Community relations
- Conflict
- Health and safety
- Employee relations and diversity
- Customer satisfaction

## Governance

We believe the systems of oversight, practices and processes through which a company is controlled are material for every company.

Governance factors can include:

- Executive pay and incentives
- Capital Allocation
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy
- Shareholder and bondholder rights

## **Guidelines**

The principles and actions recommended by the UN Global Compact, Sustainable Development Goals and UN GRI Standards are adopted as the foundation for SVM's ESG guidelines. The result is an in-house research template that is used to analyse company policies or procedures.

## **Scoring Process**

In order to ensure ESG factors are integrated within the SVM investment process the in-house ESG template allows for a score to be attributed to all investments, The score reflects the ESG risk of an investee company which in turn is used to adjust discount factors, valuation multiples or portfolio weightings.

## **Climate Change**

SVM supports the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Climate change is assessed through the analysis of company products as well as all associated processes used to produce finished goods and services. The data collected is assessed both on an absolute and relative basis for the industry concerned. This is then embedded into the climate element of the risk factor allocated to each investment from an overall ESG perspective.

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## Engagement Process

When analysing all investee companies we look at ESG reporting and policies, not just financials. We believe ESG analysis is additive to our investment process. If necessary, our investment team will enter into dialogue with company management to raise knowledge of ESG issues and uncover information not mentioned in reporting. As active owners we seek to build constructive long-term relationships with boards and management teams whenever possible.

If we encounter areas of concern, we will address these with the company to understand the steps they are taking to mitigate any potential impact. We are prepared to utilise the influence we have at fund manager level, often through direct access to CEO's and CFO's.

Typically, we would seek to meet or engage with investee companies' senior management at least once a year. If we have concerns that we believe have not been addressed adequately we may choose to sell our position or express our views through proxy votes on management proposals.

The process detailed above allows us to make a positive, real impact on a company's social and environmental behaviour whilst generating superior investment returns through our thorough stock selection process.

## Asset Classes

SVM primarily invest in listed equities. From time to time portfolios may include private equity holdings. SVM manages a mixed asset portfolio which combine equities and fixed income, in the form of UK government debt. We engage with all companies where we have identified ESG issues or concerns and we vote on all securities that we are entitled to do so.

## Voting

We use the services of Institutional Shareholder Services ("ISS") which provides analysis and recommendations on voting, while determining ourselves the way in which we will vote on behalf of our clients. Our votes, therefore, may differ from the ISS recommendation. SVM publish online all voting and reasons for differences with board recommendations.

SVM's voting instructions are processed electronically via our proxy voting agent, ISS.

## Screening and Exclusions

With the exception of the SVM All Europe SRI Fund, which employs negative screening in accordance with its Socially Responsible Investment Statement, our approach to responsible investment involves ESG integration, rather than screening. By employing a minimal level of negative screening, we are giving ourselves the potential to influence more companies than a broader exclusionary policy would allow.

## Transparency

In order to be fully transparent we record and report on all our ESG activities. Records of our voting activity is published on our website 30 days after meetings. We publish a quarterly ESG report on our website which includes total number of engagements, the companies engaged with and the topic of engagement.

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## Associations

### Principles for Responsible Investment (PRI)

SVM became a signatory to the UN supported PRI in April 2018. In signing we committed to adopt and implement the six Principles for Responsible Investment developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The principles are:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

### UK Stewardship Code

The FCA's Conduct of Business Sourcebook requires SVM to make a public disclosure regarding our broad support of the UK Stewardship Code principles. SVM has produced a disclosure statement detailing how SVM applies the seven principles of the stewardship code. The principles are:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

## Review and Oversight

Hugh Cuthbert, co-manager of SVM All Europe SRI Fund, is responsible for the implementation of ESG research and engagement at SVM. Prior to joining SVM, he was responsible for the management of a socially responsible vehicle at Kempen Capital Management. Earlier in his career he worked for Henderson as a manager on their ethical investment product, the Global Care range of Funds.

The firm's engagement policy, voting policy and broader responsible investment objectives will be reviewed annually and approved by SVM's board. The investment team will report to SVM's board in relation to the Responsible Investment Policy.

## Summary

Some ESG factors may be more salient than others in certain situations for specific companies or industries. Our task as active owners is to identify whether the company is addressing the issues we deem material and use our position as a shareholder in the most constructive way possible.

## **SVM Responsible Investment Policy**

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