

## **SVM Environmental, Social and Governance (ESG) Policy**

### **February 2022**

#### **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. SVM began managing Socially Responsible Investment (SRI) products in 2006. Since then, our engagement principles have evolved to include ESG issues across our range.

SVM's management of ESG issues is active and engaged. We adopt an approach to investing which integrates environmental, social and governance (ESG) analysis into our day-to-day investment activities. This is combined with an active engagement approach which seeks to influence change and better practices from the companies in which we invest.

SVM recognises the important role that the environmental, societal and governance (ESG) factors play in fundamental company analysis, as well as portfolio construction and maintenance. Not only do these factors provide an invaluable further insight for our fund managers over and above more traditional financial metrics, but also there is increasing evidence that those companies demonstrating best practice toward ESG matters can benefit from enhanced business prospects as well as potentially better equity market returns compared to those that are unable or unwilling to recognise ESG as an important contributor to future success.

Our approach can be split into three stages; the Materiality Process, the ESG Research Template and the Engagement and Stewardship Process which we describe in further detail below.

#### **Materiality Process**

In its entirety SVM's Research process aims to cover every aspect of a company's ESG exposure, collate this data and allocate a risk rating to reflect the conclusions of the research undertaken. We recognise, however, that not all data points, as well as company processes and procedures, have the potential to influence company valuations in a significant way. In addition, the degree of significance of environmental, social or governance issues will vary considerably depending on the industry involved. For example, CO<sub>2</sub> emissions can play a significant role in the profitability of a utility while for a firm of solicitors, although still important, such a metric is unlikely to materially impact share price performance. It is for this reason we have built a materiality database which allows fund managers to assess the material factors that are likely to impact any given investment. The data is broken down into 10 industrial sectors and 48 sub-sectors and contains the following;

- Brief ESG synopsis by sector
- Identification of material factors for environment, society and governance
- Most appropriate indicators to assess the material factors
- Links to informative research
- The UN Sustainable Development Goal most negatively impacted by the material factor

The database can be accessed by all fund managers allowing material factors to be identified prior to investment and incorporated where appropriate into forecasts and valuations.

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## ESG Research Template

The ESG Research Template encompasses a number of functions including attributing a risk rating and ESG score to our investments. The document also serves as a record for our engagement activities and is accessible to all fund managers through our centralised Bloomberg note system.

Data can be uploaded from this document allowing portfolio managers to see such information at a company level as well as an aggregated portfolio level. With 13 high level factors and 25 points of reference the issues we cover are listed below. As these areas in turn become the focus for our engagement activities, where we strive to seek better practices and policies from the companies in which we invest, we in turn believe this contributes to the aims and ethos of the UN Sustainable Development Goals, the most relevant to each high-level factor are also listed below;

### Environmental Factors

Climate & Emissions				
			<ul style="list-style-type: none"> <li>Green House Gas CO<sub>2e</sub> intensity</li> <li>Comparison sector average</li> <li>Trends and targets</li> </ul>	
Energy				
			<ul style="list-style-type: none"> <li>MwH intensity</li> <li>Comparison sector average</li> <li>% Renewable Energy</li> <li>Trends and targets</li> </ul>	
Water				
			<ul style="list-style-type: none"> <li>M<sup>3</sup> intensity</li> <li>Trends and targets</li> <li>Comparison sector average</li> </ul>	
Waste				
			<ul style="list-style-type: none"> <li>Tonnes intensity</li> <li>% Recycled</li> <li>Comparison sector average</li> <li>Trends and targets</li> </ul>	
Ecological Impact				
				<ul style="list-style-type: none"> <li>Reporting and commitments</li> <li>UN SDG alignment/GRI Reporting</li> </ul>

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### Social Factors

<b>Health &amp; Safety</b>				
		<ul style="list-style-type: none"> <li>Statistics and trends</li> <li>Comparison sector average</li> </ul>		
<b>Human Rights</b>				
			<ul style="list-style-type: none"> <li>Human rights policy assessment</li> </ul>	
<b>Supply Chain</b>				
				
<ul style="list-style-type: none"> <li>Supplier adoption of company ESG policies</li> <li>Supplier audit / risk assessment</li> </ul>				
<b>Human Capital</b>				
				
<ul style="list-style-type: none"> <li>Diversity record</li> <li>Compensation disclosure</li> <li>Employee training, development and engagement</li> <li>Employee loyalty</li> <li>Comparisons sector averages</li> </ul>				
<b>Compensation</b>				
	<ul style="list-style-type: none"> <li>ESG remuneration</li> </ul>			
<b>Product Liability and Life Cycle Management</b>				
				
				
	<ul style="list-style-type: none"> <li>Product service nature and alignment to UN SDG's</li> </ul>			
<b>Corporate Citizenship</b>				
				
<ul style="list-style-type: none"> <li>Philanthropy</li> <li>Code of Conduct</li> </ul>				

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#### **Governance**

An adjustment is made to the calculated score where a company is in breach of corporate governance best practice. Due to the work intensive nature of this area we employ proxy advisors ISS to conduct the research on our behalf to ensure all meetings receive the appropriate coverage. ISS base their research on 4 key tenets;

- Accountability
- Stewardship
- Independence
- Transparency

Best practice is derived from a number of sources including, but not limited to, the following;

- The UK Corporate Governance Code
- The AIC Code of Corporate Governance
- Pensions and Lifetime Savings Association Corporate Governance Policy and Voting Guidelines

SVM votes at all AGM's and EGM's and, where acceptable governance standards are not applied, we will vote against the appropriate item on the agenda. Company management are informed where we vote against their recommendations.

This overall research process is designed to ensure all significant ESG matters are covered in a systematic manner allowing areas of improvement to be identified and to form the basis of our company engagement.

To ensure standardisation and the quality of the data all research, with the exception of governance work by ISS, is undertaken in-house and the template is not used as simply a questionnaire for companies to complete themselves. With access to both this document and the materiality database investment managers can integrate ESG not only into their investment decisions, but also on-going portfolio maintenance. The intensive nature of the work involved means investments with a portfolio value of less than 1% are addressed through the materiality process as well as an ESG summary analysis which, making use of publicly available data, allows for an initial score to be made as well as measurement of relevant data such as greenhouse gas emissions. Where requested by the relevant fund manager this can be escalated to a full analysis as described above.

Research conclusions are represented by a risk rating based on the perceived ESG risk for the investment as well as a commentary outlining the most relevant matters for the investment case. The score attributed is not intended to be used in investment decisions as we believe this is too crude a method to address this complex subject. Instead the scoring system is used internally as a guide for prioritising research and engagement.

ESG data is made available to fund managers, wherever possible, in both an absolute and relative manner allowing comparisons to be made on issues such as water and energy consumption, lost time injury rates and staff turnover across sectors and peer groups.

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### **Engagement and Stewardship Process**

Engagement and stewardship play an important role in our investment process. Engagement not only allows us to check our research conclusions but also provides a valuable source of information not necessarily readily available in company documentation. It is through engagement that we can assess the potential for improvement in a poorly performing management or company, in both ESG and financial terms, which in turn should add value for our clients as such positive change is reflected in market valuations. It is a given that an investment with an unexpectedly market beating financial profile will outperform while there is growing evidence to suggest the same can be applied to those companies where environmental, social and governance factors show a similar positive trend. It is for this reason we use engagement to promote change and improvement where we have identified issues with the potential to be addressed. Both engagement and stewardship are viewed as long term practices with any change achieved in terms of company practice and procedure often happening over a multi-year period. Where no progress is made the manager's ultimate action would be to divest from the investment concerned where inaction is viewed as potentially impacting shareholder value. In practice this is a rare event as both parties are positioned to benefit from the engagement activities.

### **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 (see appendix), 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.

### **Asset Classes**

SVM primarily invests in listed equities and other equity-related investments. From time to time portfolios may include private equity holdings and other permitted transferrable securities. SVM manages a mixed asset portfolio which combine equities and fixed income, in the form of UK and European 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.

### **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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#### **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.

The Financial Reporting Council (FRC) revised the Code with the new version coming into effect on 1 January 2020. The new Code contains 12 principles for asset managers which are as follows:

1. Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
2. Signatories' governance resources and incentives support stewardship.
3. Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.
4. Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.
5. Signatories review their policies, assure their processes and assess the effectiveness of their activities.
6. Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

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8. Signatories monitor and hold to account managers and / or service providers.
9. Signatories engage with issuers to maintain or enhance the value of assets.
10. Signatories, where necessary, participate in collaborative engagement to influence issuers.
11. Signatories, where necessary, escalate stewardship activities to influence users.
12. Signatories actively exercise their rights and responsibilities.

The Code requires asset managers to produce a Stewardship Report explaining how the Code has been applied. In September 2021 the FRC confirmed SVM as a successful signatory to the UK Stewardship Code.

### **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.

### **Appendix – Socially Responsible Investment Statement**

The SVM All Europe SRI Fund not only incorporates environmental, social and governance (ESG) considerations into the investment process in the manner detailed above, but also utilises the influence of SVM's position as a shareholder in a constructive and active manner with regard to these issues. Dialog is entered into with every holding in the fund in order to positively influence the company concerned with regard to ESG reporting, strategy, and responsible conduct of business.

While negative screening is kept to a minimum, as all companies regardless of the nature of their corporate activities have the potential to improve their ESG profile, we do recognise that there are certain industries whose activities run contrary to the ideals of a socially responsible investor. Specifically, we will not invest in companies operating in any of the following three industries: Tobacco, Pornography and Armaments. Our 'Negative Criteria Statement' provides more detail on these industries and other industries of concern to investors and is available on request.

The process adopted by the fund should allow us to make a positive impact on a company's ESG profile which in turn should help achieve the targets detailed for each of the UN's Sustainable Development Goals.