7IM

Fund Screening Policy

Responsible Choice Models Portfolios

APRIL 2025

This document applies to the 7IM Responsible Choice range of model portfolios. Launched in December 2020, they aim to get exposure to environmental, social and governance (ESG) leaders, environmental and social themes and impact stocks. To that end, we adopt a rigorous, multi-step process when it comes to selecting third-party funds and products to ensure that only appropriate investments make it into the Responsible Choice Portfolios.

Active funds

When selecting collective investment schemes managed by third-parties, we try and identify managers that have the following characteristics:

- Systematically integrate ESG factors into investment decisions
- Analyse ESG materiality before and after investment decisions
- Act as good stewards and implement responsible investment and engagement practices
- Address positive and negative outcomes caused by their investment

The purpose of the fund selection process from an ESG perspective is to identify an investment that has the people, process and expertise in place to invest sustainably. We explain this below and use Morningstar, Bloomberg and ESG Manager to validate this due diligence.

- We screen the asset class universe for funds which follow a sustainable benchmark or systematically integrate ESG factors into investment decisions
- We screen these investments based on size, date of launch and key performance metrics
- We meet with managers to discuss how they integrate ESG into their investment process, firm culture and how they engage with companies that they are invested in
- We then do a deep dive into their investment process, how they generate value and how they manage risks

When a new fund is proposed, we follow a rigorous review process whereby the investment manager and the sector specialist with responsibility for the asset class at 7IM meet the fund managers of the fund. At that point, we explore the fund investment process and philosophy, strength of the team managing the fund, years of experience, research resources, risk analysis and performance attribution. All this is captured in an extensive due diligence document which highlights potential issues to pay particular attention to.

Post investment, the performance is monitored using style-adjusted benchmarks on a fortnightly basis at our Portfolio Management Committee. We meet with the managers at least once a year, or on an ad-hoc basis if there is an issue which needs to be explored.

We also review a fund manager’s and the strategy’s progress in ESG terms.

Passive funds

Passive funds, which include exchange-traded funds and open-ended funds, are selected on the basis that they track recognised ethical or socially responsible indices. These passive funds typically use both negative and positive screening to filter the best companies in the broader index.

In some cases, we need to use a passive fund to access a particular sustainable theme in the portfolio. In the cases where the fund doesn't track an ethical or socially responsible index, we must judge whether the index meets certain ESG characteristics. To do this, we ensure it has at least an 'A' ESG rating on MSCI's fund rating tool and has a very low potential for exposure to controversial weapons, tobacco or other controversial activities.

- We screen the asset class universe for passive funds which follow a sustainable benchmark
- We screen these investments based on size, date of launch, cost and key performance metrics
- Preferably we select managers that score highly on our ESG Convictions Framework

If the product is following a sustainable benchmark, we meet with the manager to find out how the benchmark is constructed, focusing on the negative and positive screens that are in place. We also speak with the manager to see how the index rules have changed over time and how they may develop in the future.

We also review a passive fund manager's and the strategy's progress in ESG terms.

Exclusions

The intention when looking for collective investment schemes managed by third-parties is to keep exposure to controversial activities to a minimum. These controversial activities are outlined below. During the due diligence process, we ask what exclusions the manager has and at what thresholds these are enforced. We also try to understand how these have changed over time and what activities they are planning to exclude in the future. Using a third-party data provider, we screen the underlying fund holdings for the following activities using the thresholds below on a monthly basis.

Taking alcohol as an example and referring to the table below, if a company has an estimated revenue from the manufacture of alcoholic drinks of over 10% it will flag on our monitoring system.

Activity	Description	Maximum Revenue Threshold of underlying company
Tobacco	• Direct Involvement: The company manufactures tobacco products, including cigarettes, cigars, tobacco for pipes and snuff, and smokeless tobacco products. • Indirect Involvement: The company derives 10% or more of its revenues from the distribution and/or retail sales of tobacco products/services	Manufacturing: 10% Related & Revenues: 10%
Thermal Coal	• The company extracts thermal coal for coal mining and exploration.	10%
Controversial Weapons	• Controversial weapons consist of anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium ammunition and white phosphorus weapons. • The company is involved in core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	Binary — yes/no
Alcohol	• Direct Involvement: The company manufactures alcoholic beverages. • Indirect Involvement: The company derives revenues from the distribution and/or retail sale of alcoholic beverages.	Manufacturing: 10% Distribution: 25%

Activity	Description	Maximum Revenue Threshold of underlying company
Gambling	• Direct Involvement: The company owns and/or operates a gambling establishment, such as a casino, racetrack, or online gambling. • Direct Involvement: The company manufactures specialized equipment used exclusively for gambling, including slot machines, roulette wheels, and lottery terminals. • Indirect Involvement: The company provides supporting products/services to gambling operations, such as gambling technology or credit lines to casinos.	10%
Fur & Specialty Leather	• Direct Involvement: The company manufactures products made from fur or speciality leather, including products made from animals solely hunted or bred for their skin and fur. • Indirect Involvement: The company derives 10% or more of its revenue from the distribution and/or retail sale of products made from fur or speciality leather.	Production: 50% Revenues: 25%
Small Arms	• Direct Involvement: The company manufactures and sells small arms to civilian customers or military/law enforcement. • Direct Involvement: The company manufactures and sells key components of small arms. • Indirect Involvement: The company is involved in retail and/or distribution of small arms and/or key components.	Manufacturing: 10% Retail: 10%

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Adult Entertainment	• Direct Involvement: The company is involved in the production of adult entertainment and/or owns/operates adult entertainment establishments, including adult entertainment movies and television programs, magazines, and adult websites. • Indirect Involvement: The company is involved in the distribution of adult entertainment materials	50%

The underlying exclusion policy for each third-party fund can differ, meaning there may be residual exposure that breaches the thresholds above. We ensure that these residual exposures do not add up to more than 1% of the model but anticipate that the actual amounts at any given moment should be way below this limit.

Through our monitoring activities, if we find that a fund has a holding that leads us to breach that 1% limit, we will firstly engage with the fund manager to understand whether our information is correct and whether there is justification for the holding. If we do not deem the reason to be satisfactory, we will set the manager a 3-month deadline to remove the controversial holding and if the deadline is not met, we make plans to exit the fund.

Review process for selection process

This process is accurate as at its date. It is reviewed on an annual basis by the ESG Investment Committee. Any ad-hoc changes must be approved by the ESG Investment Committee.

If you would like to hear more about our fund selection process within our responsible investment range please contact: bdmsupportteam@7im.co.uk