7IM

The 7IM Responsible Investment Policy

2021

Introduction

Over the past two years, 7IM has been on a journey to put culture, sustainability, responsibility and stewardship at our core. These issues guide our business, shape our investment process, are reflected in our risk management and help to create long-term value for our clients and beneficiaries.

We have gone through a transformation programme to ensure our culture is positive, inclusive and supportive of all colleagues. Some of the initiatives were family focussed, such as changes to the maternity policy and to flexible working. We introduced anonymised recruitment to remove conscious or unconscious barriers during the selection process.

We have also spent the last year taking a deeper look at our credentials in the environmental, social and governance (ESG) space, both as an investor and a business.

Part of good stewardship means understanding how a business acts as a corporate citizen. Good governance means that a firm should aim to minimise its negative impact, inside and outside of the office. We have identified opportunities to reduce our carbon footprint by reducing air travel, the consumption of utilities and streamlining our supply chain.

Good stewardship is also about making a positive impact in the community and doing things like supporting community activities and ongoing local charity work.

Responsible investing

We believe that behaving responsibly is good for our people and culture, for our investors, and for the future of the society we all live in. In adhering to this Responsible Investment Policy, where consistent with our fiduciary responsibilities, we have aligned our investment process with the United Nation's Principles for Responsible Investment:

Principle 1: Incorporate ESG factors into investment analysis and decision-making processes.

Principle 2: Incorporate ESG factors into our ownership policies and practices.

Principle 3: Seek appropriate disclosure on ESG factors by the entities in which we invest.

Principle 4: Promote acceptance and implementation of the Principles within the investment industry.

Principle 5: Work together to enhance our effectiveness in implementing the Principles.

Principle 6: Report on our activities and progress towards implementing the Principles.

Full details of our responsible investment policy and activities are provided in the *2020 Stewardship Report* which can be found on our website.

Purpose of the Responsible Investment Policy

Responsible investing can be defined in many ways, ranging from ethical screens to engagement to impact investing but at its heart is the integration of environmental, social and governance (ESG) factors into investment management processes and ownership practices.

We view ESG as an important element in evaluating the expected risk and return from investments. It can be as important as traditional financial factors like growth, quality or value in determining long-term portfolio returns.

There is some evidence, for example, that investing in stocks that score highly in terms of ESG helps to reduce portfolio risk and enhance returns. Good companies with high ESG ratings tend to be managed better, plan better for the future, and are less subject to nasty surprises than their bad competitors. Much the same can be argued of governments, though the evidence here is more selective and less clear.

Taking ESG issues into account may also help investors to understand the long-term risk and potential downside of portfolios. For example, many energy companies are likely to be left with swathes of stranded fossil fuel assets if the world takes the Paris Agreement carbon emissions goals seriously, but this likelihood is not fully incorporated into market prices.

We realise, of course, that ESG considerations are not static. A company or country that has a poor ESG score but is genuinely trying to improve can be of great benefit to the world and a great potential investment.

When we refer to ESG factors we use the following guidelines:

Environmental factors – These are factors that are linked to the conservation of the natural world, either companies that harm nature in some form or investing in companies that are at the forefront of developing new technology to help the environment. While climate change is the most pressing issue in this area, we also look at the impact of investments on biodiversity, deforestation, waste management and water scarcity.

Social factors – These are factors that consider the wellbeing of people and the communities they live in. Social factors are becoming increasingly important to investors as the world becomes more interconnected and technology changes how we interact with one another. Social factors can have very real impacts on how economies operate. For example, in recent years rising inequality has led to more extreme political outcomes. When we consider social factors, we look at labour standards, human rights, community relations and gender and diversity regulation. And as the world becomes more digitalised, we also look at access to digital infrastructure and data protection.

Governance factors – Out of E, S and G, Governance is the most entrenched within traditional financial analysis. In many ways it is still the most important of the three as without good governance it is unlikely that a country or company will take social and environmental factors seriously. At a country level, good governance entails factors like the rule of law, freedom of the press and an independent central bank. At the company level it relates to board composition, lobbying, executive compensation, political contributions etc.

ESG in the investment process

We believe ESG issues are best handled within investment teams, rather than having a separate ESG or stewardship team to focus on ESG issues, and should be incorporated into our regular tasks, plans and responsibilities as investment managers.

Our investment process can be viewed as having four stages: Strategic Asset Allocation, Tactical Asset Allocation, Portfolio Management and Risk Management. One person in each of these areas is designated the ESG champion and works to ensure that ESG issues are addressed comprehensively in the investment process, and when particular decisions have to be made. They report back to the 7IM ESG Investment Committee, where progress and performance are discussed and monitored.

Let’s look at each of these four areas in turn.

Strategic Asset Allocation

Most of our clients have long term investment horizons, often 20 – 50 years, which require long-term preparation and planning. Our Strategic Asset Allocation (SAA) process is designed to provide the long-term framework for all portfolios. Since it’s the engine that powers all our investing strategies, we rigorously review and test it every year.

From 2021, we have included full consideration of global warming in the SAA review process.

The biggest existential challenge for humanity is the environment. Our Earth is warming all too fast, largely due to human emissions of greenhouse gases.

The Paris Agreement of 2015 was designed to govern the world's greenhouse gas emissions from 2020 on, with a view to lowering future warming to well below 2°C, and preferably to below 1.5°C. The UK has set a net-zero target by 2050, and businesses like 7IM are encouraged to support the transition to a low-carbon economy.

In 2020, 7IM's Executive Committee agreed to a programme by which the carbon emissions of the SAAs of all portfolios will be steered down over time. We aim to reduce emissions by 30% at the SAA level over the next five years (by mid-2026), and are working on a programme to lower them further after that.

Tactical Asset Allocation

One of our core beliefs is that markets are not always efficient and that tactical tilts can add value. Financial markets regularly go through phases of fear and greed. At these times, tactical opportunities of various kinds can arise, for us to enhance portfolio returns or avoid potential risks. There are also structural changes in the world that aren't captured by our SAA process, which can be explored tactically.

Climate change will entail risks and opportunities for investors. Some energy companies, for example, will be left with near-worthless stranded assets if the world takes the Paris Agreement's carbon emissions goals seriously. Dirty industries, companies and markets are likely to be poor investments in the long run.

We believe that our Tactical Asset Allocation (TAA) can be a powerful tool to position the 7IM portfolios so they are placed to navigate a world impacted by climate change. We review ESG metrics when we consider tactical changes across portfolios. We also implement TAA changes that have explicit ESG characteristics, such as healthcare.

We are investigating global warming solutions for portfolios, including areas like clean energy (solar and wind), electrification (led by transport) and ways of using resources more efficiently (heating/cooling and recycling).

Portfolio Management

7IM is largely a fund of funds business and most of its assets are managed by third-party managers in equities, bonds and alternative investments. When meeting fund managers we cover a wide range of due diligence issues.

In 2020 we upgraded our ESG-related due diligence process for external managers. We believe that ESG can be an important factor in assessing a manager's ability to produce strong and sustainable investment returns, particularly for active qualitative managers, and when we analyse and review managers, we ensure they are applying their ESG principles and processes, and that they're engaging with the managements of their underlying holdings where necessary.

In 2021 we went a step further and circulated an ESG questionnaire to all our third-party fund managers. We will evaluate their responses with the help of a scoring tool designed in house, assign ESG ratings to each fund and communicate our findings back to the managers. We will encourage good behaviours and processes where we have identified them. We will also engage with fund managers we have identified as 'laggards' within their sectors.

We will set minimum stewardship-related standards which, if not met within a certain period, will make funds non-investible by 7IM. Our goals and targets here will be finalised by the end of June 2021.

Some areas we cover when researching external managers are the following:

ESG and stewardship

What is the manager's approach to ESG and stewardship? How are they resourced? Is staff training in ESG provided? Does the manager subscribe to external ESG data and do they have additional proprietary data in-house? In terms of stewardship, how is this commitment reflected in the manager's governance structure and how is it communicated to staff, clients and other stakeholders? We ask whether managers are signatories to the UK Stewardship Code, the UN Principles for Responsible Investing, the UK Task Force for Climate Related Disclosures, and any other similar benchmarks. Does the manager have any specific exclusions that are routinely applied such as fossil fuel exclusions, tobacco or armaments or any others? We ask about the company's diversity and inclusion policies and outcomes.

Strategy & investment process

We ask how policies and statements like the manager's approach to stewardship and responsible investing informs their investment beliefs and the approach to systemic risk. How are ESG risks and opportunities incorporated into the investment process? How have ESG commitments impacted decision-making? Does the fund have explicit climate change objectives such as emissions reduction targets?

Voting & engagement

We ask what the manager's voting and engagement policy for the fund is, and whether it has clear environmental and social voting guidelines. We try to find out how much the decision-making on voting lies with the portfolio manager and how much of it is outsourced. We ask for details about voting, and how this related to board structure, remuneration or audit and accounts. We ask how often managers have engaged with companies and what the outcomes were, and whether this informed investment decision-making.

Risk management

Our Risk Management Team is a cornerstone of our investment process and ESG metrics are increasingly being incorporated into the daily risk oversight of the funds. We include climate-related stress tests in our daily risk reports and plan to improve these further over time.

Scope

We view this policy as applying to all 7IM's investments and portfolios. Some products are run with explicit sustainable or responsible mandates, and we apply the same overall investment process to them, with additional exclusions or ways of planning and implementing views.

Engagement

The 7IM stewardship philosophy has an ownership mindset. A crucial element of this is active engagement with the third-party fund managers that manage the products in which we invest. We engage with them on environmental, social and governance issues in the companies and governments whose equity and debt they hold.

We base our engagement policy with third party managers on five principles. *First*, we expect managers to focus on the long-term prosperity of companies and not look for short-term fixes that may be achieved at the expense of longer-term performance.

Second, we want managers to engage with companies and suggest where they think companies can improve their ESG behaviour. If companies fail to take the best interests of shareholders into account, then we would expect managers to take appropriate action.

Third, our conversations with managers are confidential and we would not make public any confidential correspondence about or from a company, unless this has been agreed with the parties concerned.

Fourth, we will speak out publicly on any matters of concern where we believe this is necessary or helpful to protect or enhance our clients' capital.

Finally, we operate in public markets and all our interactions are governed by local laws and regulations that seek to ensure level playing fields for all investors. As a rule, we do not wish to receive any material non-public information. In those rare cases where we do receive 'inside' information, our policies ensure we prevent the spread of this information and don't trade on the basis of it.

A number of ESG-related engagement examples we've had with external managers in the last year are listed in our 2020 Stewardship Report. For example:

Robeco Global Credit Fund

We searched for a global credit manager in 2020. We knew Robeco had incorporated ESG factors into their main investment process and liked how they integrate stewardship and ESG across their investment teams. This factor differentiated the Robeco fund from the competitors we'd been looking at, and we included it in many of our portfolios.

Lightman European Fund

We reviewed the Lightman European Fund holdings in late 2020 and were uneasy about how carbon-intensive some of them were. After some interaction we concluded that the manager is aware of these risks, favours companies whose ESG performance is improving, and recognises the opportunities available in the transition towards greener energy.

Voting policy

We seek to votes all shares held actively and passively where voting rights are held. A member of the Investment Team is designated to votes shares held in the funds through the Broadridge proxy voting service.

Company proposals have a default to automatically vote in line with management. Should the Investment Team wish to make a vote against any of the proposals this can be done by overriding the automatic vote before the deadline for voting.

We can choose to override management recommendations based on factors such as advice from members of the Investment Team, publicly available voting decisions of other institutions and advice from other sources. The main proposals where proposals are voted against tend to be around executive compensation, removal of pre-emption rights and reduction of notice periods of meetings.

If the Investment Team chooses to override the management recommendation, then the action is noted in the notes function within Broadridge proxy voting application.

Voting activity records are held by 7IM and through the Broadridge website and are available for clients who request them.

Where stocks are held in funds the fund manager is responsible for voting the shares; but, if there is an issue about a company proposal that 7IM believes contravenes the code, 7IM would communicate this to the portfolio manager. When 7IM outsources stock selection to an external manager it has policies and procedures in place governing what is expected from the external manager in terms of voting and governance activity. The manager reports to 7IM with regular updates on governance activity.

Responsibilities and oversight

Culture and Sustainability Committee

Stewardship and responsible investing at 7IM are ultimately managed by the Culture and Sustainability Committee, which was set up in 2020 and has ten members (including three from 7IM's Executive Committee, ExCo). Four members are from the investments area, and six are from other parts of the business. The Culture and Sustainability Committee reports to ExCo.

The Culture and Sustainability Committee's responsibilities include: i) guardian of the 7IM Stewardship Code and Responsible Investment Policy, ii) review and recommend changes to 7IM's sustainability strategy and policy, to ensure that standards of business behaviour are up to date and reflect best practice, iii) introduce to 7IM best practice thinking and ongoing awareness of global developments in sustainability and corporate social responsibility, iv) make sure the 7IM culture is being respected and upgraded across the firm.

The Culture and Sustainability Committee is increasingly focusing on the outcomes of our stewardship and ESG activities.

ESG Investment Committee

We believe that every member of the Investment Team has a duty to consider ESG factors when performing their role. To ensure this is done we have an ESG Investment Committee ('ESG IC') to monitor progress. It reports to both the 7IM Culture and Sustainability Committee and the 7IM Investment Committee, which is ultimately responsible for the firm's investments and performance.

The ESG IC provides centralised ownership of how ESG factors are incorporated or considered in 7IM's investment process. Its members are drawn from the four investment teams: Strategic Asset Allocation (SAA), Tactical Asset Allocation (TAA), Portfolio Management and Risk Management.

The ESG IC engages with each of these teams to ensure that ESG developments are tracked and progress is measured. This process leads to different work streams being managed by each standing member and the Chair. The breadth of oversight means that the ESG IC actively interacts with the Investment Risk Committee, the SAA Group, the Strategy Committee and the Selection Committee.

ESG training

We want to develop the knowledge and understanding of stewardship and ESG investing across the whole 7IM business. This is becoming increasingly important as we integrate ESG factors into the investment process and inform our clients about what we are doing.

In 2020 we set a 40-hour Continuing Professional Development (CPD) requirement per year for every member of the Investment Team, to make sure that our people are learning and developing. This CPD must be recorded and logged. The Investment Committee decided that one quarter of it should be devoted to ESG-related topics, amounting to 10 hours per year for every team member. The intention is for a similar programme to be extended across the whole firm in 2021.

The ESG Investment Committee suggests a range of ESG-related topics and research to the Investments Team each quarter. These topics cover regulation, best practice, scientific findings, and research findings in ESG investing and stewardship. In addition, members of the ESG Investment Committee host presentations and seminars to the Investment Team and the broader business on ESG-related issues.

Review

The 7IM Responsible Investment Policy is reviewed in the first quarter of every year. It is finalised by the ESG Investment Committee, approved by the Investment Committee and the Culture and Sustainability Committee, and submitted to the Executive Committee for final approval.

The progress of the Responsible Investment Policy and 7IM's responsible investing activities are reported in the *7IM Stewardship Report*, produced at the end of the first quarter every year.

Monitoring & Reporting

As signatories of the UNPRI we are required to report on the PRI principles and this will form part of our assessment of progress and success in incorporating ESG into our investment process. Submissions to the UN PRI and the 7IM Stewardship Code are owned and reviewed by the Culture and Sustainability Committee.

At 7IM we know that if you can't measure it is very difficult to change it. To that end we use a variety of ESG data providers to help us analyse the portfolios. We prefer to have a small number of data suppliers that we understand well and can rely on in the long run. We are working to incorporate metrics around the ESG rating and carbon footprint of our portfolios into the standard reporting platform that we use as part of portfolio and risk management. We expect this reporting to be put in place in 2021.

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