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Introduction

We believe good stewardship practice is a basic obligation when we perform our fiduciary duties for our clients. We characterise engagement as a purposeful dialogue with a specific and targeted objective to achieve change. We distinguish this from investment monitoring, which is dialogue solely for investment purposes¹.

Our core investment services provide multi-asset class portfolios, usually via collective investment vehicles. Externally managed products make up the vast majority of 7IM assets under management, and our manager monitoring system is designed to inform us whether external managers are working to safeguard and maximise the value of their assets, with sound stewardship and taking Environmental, Social, and Governance (ESG) issues into account in their investment processes.

Process and Resources

Our engagement process starts with the initial due diligence carried out by the sector specialist and is supported where needed by a member of the ESG Investment Committee. This entails annually sending out a questionnaire, which also includes ESG questions, via Door² for completion for our existing managers as well as before we invest with a new fund manager.

The ESG section of the questionnaire looks at firm-level considerations (for example, how an asset manager promotes stewardship-related considerations within the industry and beyond, or what data systems are being used for the purpose of ESG integration), fund-specific aspects (say, how stewardship is integrated into a fund manager's investment process) and questions around voting and engagement (where we would ask for concrete examples to evidence claims in this regard).

The process for reviewing the ESG-related responses sits between members of the ESG Investment Committee and sector specialists to ensure we pick up any discrepancies between what the sector specialist has learnt through their interactions with the fund manager and what is in the ESG Questionnaire. We think this is an important element of the process as both the sector specialist and the ESG analyst will be better at highlighting potential greenwashing.

Members of the ESG Investment Committee have access to various data sources to help them analyse direct holdings and third-party holdings. This includes MSCI, Sustainalytics and Bloomberg. This allows us to do our own analysis of fund holdings, without relying on marketing materials. It also allows us to independently track how the ESG rating of a holding changes over time.

Engagement Principles

We base our engagement policy with third-party managers on five principles. These are based on The Investor Forum's guidance on good engagement.

Firstly, we are long-term investors, and our engagements are set on that basis. This recognises that change is a gradual process but should be pursued, nonetheless. Our engagements have a focus on long-term value creation for the end client.

Secondly, our engagements are framed by a close understanding of the fund manager and their investment style. This may mean adapting our approach depending on whether a fund manager is active or passive, or focused on small or large cap stocks.

Thirdly, that our engagements are based on setting clear objectives with a focus on effecting change. We want to be clear with the investment managers we invest with so that they understand our aims.

Fourth, that we employ consistent, direct and honest messages and dialogue.

Fifth, involves reflection so that lessons are learned and we can improve future engagement activity. This will ensure that engagement activity remains focused, appropriately resourced, and ultimately successful.

¹ Defining Stewardship and Engagement, Investor Forum

² <https://guidetodoor.com/>

Escalation

We define 'escalation' as situations where engagement has not worked successfully and a more proactive approach is required. With companies, we will escalate matters if we plan to vote against management at a company meeting. Before the meeting, we will engage with the management to explain our views and ensure we understand their views. The issues we escalate will depend on how material they are and on our capacity to influence outcomes.

Since the vast majority of our assets under management are held in third-party products, as part of our manager research and monitoring, we expect external managers to escalate with companies on our behalf, when appropriate.

Likewise, on occasion, we have found it necessary to escalate issues with investment managers, where we believed their management, product strategy or implementation was not appropriate and that our concerns were not being considered seriously. We will escalate with management companies at whatever level is required.

Engagement Themes

Our engagement themes promote consistency with how we interact with our investment managers and the companies we invest in. These themes are reviewed on an annual basis and are selected by the ESG Investment Committee.

Engagement Pillars

Environment

- Climate Change
- Biodiversity

Social

- Diversity & Inclusion
- Human Rights and Labour Rights

Governance

- Board Composition and Audit Independence
- Transparency (i.e. reporting and disclosure)

Climate Change

Climate change is the key threat to human society and hence to all the world's investors in the long run. It's increasingly being recognised as a global risk and is a fundamental issue that's facing asset managers everywhere. We expect our third-party managers to address climate-related risks and opportunities.

Biodiversity

Unfortunately, biodiversity is under threat from a range of human activities. By engaging in biodiversity, we can contribute to sustainable practices that protect and enhance natural resources and ecosystems for the benefit of current and future generations.

Diversity and Inclusion

7IM is committed to developing a culture that is positive, inclusive and supportive, to which all staff can contribute and within which all can reach their full potential. Therefore, as investors, Diversity and Inclusion is one of our priorities for engagement with direct holdings and third-party managers.

Human Labour Rights

In order to help transition to a sustainable labour market, we engage with holdings and third-party managers to increase human capital management performance and reduce labour risks in supply chains.

Board Composition and Audit Independence

Strong corporate governance is key to long-term value creation. We are strong advocacies for board and audit independence, board diversity, as well as the management and supervision of ESG issues at the board and audit level.

Transparency

Sound data supports the decisions we make as a business in the best interest of our clients. As long-term investors, we seek to promote and increase transparency across the industry.

Asset Class guidelines

For collective investments, we prioritise our engagements in the light of UN PRI guidance. This prioritisation differs across asset classes but is consistent across geographies.

Active equities and real estate. We focus our equity engagements on our top 30 or so active funds, which total over 90% of active equity exposure. We engage mostly with active managers since they have discretion over concentrated portfolios and often work closely with their companies. We will engage where we've identified material issues that represent specific risks or following a controversy that we consider material.

Passive equities. We define these to include index funds, index Exchange-traded funds and diversified quantitative products. We expect managers to engage where possible with the companies in their portfolios but recognise that because of the large number of holdings, their approach will differ from that performed by active managers. We check that they are using the weight of their assets under management to vote on important issues and take their stewardship obligations seriously.

Developed market bonds. Where the counterpart is a developed market government like the United States or Germany, the scope for engagement is small. Our assets under management here are low.

Credit. We engage with credit managers based on the size of our holdings and where we identify material ESG risks in portfolios where we can influence change. Holders of credit lack a vote, however, they can still influence companies, especially High Yield issuers or companies in Emerging Markets. In many cases, companies will be responsive to investors as they are important lenders of capital.

Alternative strategies with direct equity exposure, like event or equity long-short. We follow a similar approach to stewardship for these products as for active equities. However, we note, that stock holding periods are often shorter than for fundamental equity strategies, giving managers less scope to influence company behaviour.

Alternative trading funds, like trend-following, put-selling or commodity strategies. There is little or no scope to influence manager stewardship in such cases. Our role is limited to ensuring that managers look after their clients' best interests.

Where 7IM holds equities and bonds directly, which is a minority of holdings, we endeavour to ensure that companies are appropriately managed and meet our environmental, social and governmental requirements. We monitor, engage and are prepared to escalate issues that we consider to be material with companies and issuers. In practice, we potentially engage with all those companies that are directly held based on our central portfolio management process.