Our stewardship report 2020

October 2021

Succeeding together

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Foreword

From David Attenborough's *Life on Our Planet* to the shock of Covid-19, we know the impact humanity is having on the world – as consumers, homeowners, travellers, firms and countries. It's time for us all to think responsibly, make responsible choices and take responsible action. Acting responsibly towards the world and its people is not just the right thing to do but will lead to better outcomes for everybody in the long run.

There's never been a more exciting time to be working in financial services. Now more than ever is the opportunity for our industry to lead from the front, to put culture, sustainability, responsibility and stewardship at its core.

We believe that financial services have a key role to play in a sustainable future. They should do this via good stewardship. Firms that focus on stewardship – that think of the needs of their staff and clients, that worry about business risks, that consider environmental, social and governance issues when they act – are the firms that investors want to work with. We believe 7IM is among them.

We, at 7IM, take stewardship seriously. Looking after client assets is a privilege for investment managers, and our stewardship activities guide our business, shape our investment process, are reflected in our risk management and help us to deliver real returns for our clients over the long term.

The UK Financial Reporting Council (FRC) defines stewardship as "the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." We support this view, as described at length in this document.

On pages 8-9, we explain how the sections of this report link to the 12 Principles of the FRC's 2020 Stewardship Code.

This is our most comprehensive Stewardship Report thus far, and we've used it to show what we focused on in 2020, and what we plan for later years. We illustrate our approach with examples and case studies that show how we put policies into action. We also discuss the two key challenges of 2020: dealing with Covid-19, and coping with the long run implications of climate change.

The UK Stewardship Code 2020

The Financial Reporting Council's Stewardship Code was first published in 2010. It was revised and upgraded in 2019-20, with more emphasis on recognising and implementing a range of stewardship and environmental, social and governmental (ESG) issues in investment and business decisions. Its scope was also broadened to cover all asset classes.

This document explains how 7IM complies with the revised Code. On the next two pages we list the 12 principles of the Code and summarise the sections of the document that support them, including principles, case studies and outcomes.

Dean Proctor, Chief Executive Officer

Executive summary

	Principles	Details
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.**	We explain 7IM's purpose on pp. 10-11. Our founders wanted to provide our clients with the service, expertise and technology that institutional investors expect. On p. 12 we describe our culture and values, and how we look after our people. From p. 13 on we describe our business model and strategy. Our investment approach and beliefs (pp. 25-29) have been designed with sound client outcomes in mind. We describe in detail how two key stewardship challenges – climate change (pp. 36-37) and Covid-19 (pp. 38-41) – informed our investment approach in 2020. We use Covid-19 and Brexit (pp. 42-43) to show how we prioritised the best interests of our clients.
2	**Signatories' governance, resources and incentives support stewardship.**	Our Culture & Sustainability Committee (pp. 16-17) oversees 7IM's corporate stewardship activities, and the ESG Investment Committee does the same for investment stewardship (pp. 18-19). Progress regarding stewardship has been incorporated into the objectives and quarterly reviews of the key people involved (p. 76). We summarise our ESG-related training drive on p. 19. On pp. 20-22 we outline our initiatives to support flexible working, staff training and development, and to improve diversity and inclusion. In 2020 we invested in systems ranging from improving applicant tracking (p. 20) to a new ESG dataset (p. 35). Our approach to performance management and incentivising our people to do 'the right thing' is outlined on p. 82. On pp. 76-77 we describe how our stewardship governance structures were improved in 2020 and show how effective they are.
3	**Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.**	On pp. 70-73 we outline our conflict of interests policy, explain how it relates to stewardship, and how we identify and manage conflicts. A good example is our Personal Account Dealing policy (p. 73), which helps to preserve the integrity of our investment process.
4	**Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.**	We use Covid-19 (pp. 38-41) and Brexit (pp. 42-43) to illustrate how we responded to systemic risks. On pp. 44-46 we discuss our work to improve the functioning of financial markets, including best execution, greenwashing and participating in asset management surveys. We provide asset managers with feedback on planned products, helping to dissuade weak products from reaching the market (p.46).
5	**Signatories review their policies, assure their processes and assess the effectiveness of their activities.**	Under 'Stewardship governance' (pp. 76-77) we outline how our evolving governance structure – led by the creation in 2020 of the Culture and Sustainability Committee and the ESG Investment Committee – supports 7IM's stewardship, and how we review the policy framework. On p. 77 we explain the 'three lines of defence' that help us to keep our stewardship reporting fair, and how we ensure that clients understand our communications.
6	**Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.**	On pp. 78-80 we describe our client and asset base. About half of our end-2020 AUM (£8.2bn) were in our discretionary portfolio management business, described on p. 81. The other half of our stated assets under management are 'under administration' on our platform and are not selected or managed by us (see p. 80). We endeavour to understand client needs, communicate with them often and respond to their feedback (p. 13). All our assets are managed in accordance with client stewardship and investment policies – either via full integration of ESG in the investment process (pp. 32ff) or via dedicated product offerings, e.g. our Sustainable Balance Fund and Responsible Choice Model Portfolio range (p.33). We share with clients our voting policy (pp. 64-65) and activity (pp. 66-67) and, as UN PRI signatory, reported on the PRI principles for the first time in 2021.

Principles		Details
7	**Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.**	This principle is addressed in our approach to investment management (p. 25), our investment beliefs (pp. 26-27), and how stewardship and ESG are integrated into our investment process via Strategic Asset Allocation, Tactical Asset Allocation, product selection and risk management (pp. 28-43). On pp. 48-49 we describe how stewardship integration differs between asset classes and products. On pp. 50-53 we discuss how we scrutinise external fund managers' approach to stewardship.
8	**Signatories monitor and hold to account managers and/or service providers.**	Our service providers are selected partly on their ability to help us integrate stewardship and ESG into our investment process, as illustrated by the ESG data provider due diligence example (p. 35). Using Berkshire Hathaway as an example (p. 35), we show how external ESG data can be flawed, so proprietary analysis can be required. On pp. 50-53 we illustrate how we hold third-party fund managers to account in terms of stewardship and ESG.
9	**Signatories engage with issuers to maintain or enhance the value of assets.**	On pp. 48-49 we describe how our engagement varies by asset class, region and type of investment, and our engagement section (pp. 54-59) covers our range of engagements. We engage with third party fund managers that we are invested with; we monitor how managers engage with their investee companies; and in some cases (typically closed-ended investment trusts) we engage directly with companies. We prioritise engagements that might lead to quick and/or material benefits for our clients, or help us to limit losses; a detailed example is our engagement with a UK investment trust (p. 62). Another area of focus is sectors like emerging markets (see RWC example on p.54), where ESG standards can be weak. These examples illustrate the range of methods that we employ when engaging: face-to-face meetings, video calls, email, and our fund-selection process. We aim to improve investor outcomes, manage ESG-related risks, and remain true to 7IM's vision and purpose (p. 10). Note that c. 50% of our AUM are in our platform business. We don't select or manage these investments, and cannot engage with their third party managers (see p. 80).
10	**Signatories, where necessary, participate in collaborative engagement to influence issuers.**	On pp. 60-61 we outline our approach to collaboration, directly with companies, or with third-party managers who invest on our behalf, often leading to material benefits for our clients.
11	**Signatories, where necessary, escalate stewardship activities to influence issuers.**	The escalation section (pp. 62-63) includes examples across asset classes, the underlying motivations to escalate, and differing channels to do so, whether directly with a fund manager, or where fund managers engage with companies. The case studies focus on equity investments, where our voting power can support our escalation strategy. The cases were motivated by the need to benefit clients or mitigate potential risks, in terms of performance, liquidity, the environment or other considerations.
12	**Signatories actively exercise their rights and responsibilities.**	On pp. 64-65 we show how 7IM votes across funds and geographies. We vote via the Broadridge Proxy Edge voting platform, and note that clients (via private OEICs) can override our house policy and vote directly. On pp. 66-67 we describe our 2020 voting record and the underlying motivations, including case studies. We have a modest number of direct votes because we invest mostly via third-party managers. Finally, on p. 67 we provide a link to our voting data on our website.

The 7IM purpose and strategy

Our vision and purpose

The '7' in 7IM refers to the seven original founders of the business. Back in 2002, they couldn't find a firm they trusted to manage their families' money properly – big banks seemed impersonal and greedy, while most boutiques lacked the necessary investment process and structure. They started the kind of organisation they'd like to invest with themselves.

Their aim was to deliver steady returns over the long term, while keeping an eye on risk, using the best technology. They wanted everyone to have access to the kind of service and expertise that institutional investors would expect.

Our team, our clients and our funds under management have grown steadily over the years. From our offices in London, Edinburgh and Jersey, more than 400 people now manage over £16bn (end-2020) for a wide range of clients, including individuals and families, financial advisers, corporates, charities and trustees. In 2015 Caledonia Investments joined us as a major shareholder.

As a firm, 7IM has a vision, purpose and set of values that drive everything we do. They are depicted on the right.

Our vision as a firm is to deliver an unrivalled experience. It is supported by our purpose statement, 'Succeeding Together,' which articulates the spirit of the long-term partnerships we foster with our clients, colleagues and suppliers. We want to continue growing, and to be known for offering the best-in-class investment management combined with the best client service in the UK.

We offer more than just investment management, although that is at the heart of our business. We make investing easy via the 7IM Platform service, which delivers a unique, personal and digital client experience. We help individuals with pensions and retirement income, partner with advisers who want to focus on their client relationships rather than administration, and provide an overall experience via the use of technology to make things simple and clear.

Everything we do is wrapped up with real, honest, human service – that's what sets us apart from everyone else. If you call us, we'll answer. If we don't know something, we'll say so. And we try to make sure every one of our clients' experiences leaves them satisfied.

To deliver an unrivalled experience	What we're aiming for	**Vision**
Succeeding together	Why we're here	**Purpose**
We value our people We do the right thing We succeed together We listen and respond We keep things simple We put our clients first We demand excellence	What we believe in	**Values**
Spirited **Enthusiastic** **Versatile** **Engaging** **No Nonsense** **Inclusive** **Modern**	How we approach things	**Personality**

The 7IM purpose and strategy
Continued

Our culture and values

We, at 7IM, want to build a great firm with a great culture. Over 2019-20 we began a comprehensive culture development programme, termed 'Succeeding Together,' designed to make all of our colleagues feel they're part of 7IM and connected to its future. We believe that looking after and listening to our colleagues makes us more effective in delivering an unrivalled client experience.

We began by creating and developing the 7IM Vision, Purpose and Values, described above. This was done through a series of small-group discussions attended by all staff, to identify what they thought was the essence of 7IM as a firm, and how it could be improved.

We revamped our People and Culture policies and structures, making sure that they were focussed on an individual's relationship with the business, whether new joiner or old hand. We updated our thinking on everything: recruitment, induction, ongoing career pathways, quarterly reviews, manager training, flexible working and colleague wellbeing.

Perhaps the most powerful tool for understanding people and culture is feedback. We run regular surveys to learn what our people are thinking and feeling and seek their views on specific issues.

Through the Covid-19 pandemic, the surveys became more important than ever. It was a huge source of pride for us that our colleagues felt well "looked after" by 7IM over one of the most challenging periods in modern history.

Our approach has worked. Feedback from clients in 2020 indicated that the client experience delivered by our colleagues during the pandemic was exceptional compared to our peers.

We launched a colleague-led environmental awareness campaign in 2021. Our colleagues who were the most passionate about sustainability shared their knowledge on a range of topics with the rest of us, from reducing one's carbon footprint to making sustainable consumer choices.

We are delighted that 7IM won **External Learning Solution of the Year** for its 'Succeeding Together' programme at the 25th Learning Awards (managed by the Learning and Performance Institute), alongside our longstanding partner ABSTRACT. This win reflects 7IM's commitment, collaboration and dedication to improving its culture through the difficult pandemic year of 2020.

Supporting our clients

7IM's business has been shaped in close collaboration with financial advisers, and more recently, with individual clients. Based on what they have told us, we have developed a suite of services, technology and products for clients across the UK, whatever their needs may be.

For individual clients, we complete a full analysis of personal and financial circumstances and an assessment of needs, and advise and make recommendations on appropriate solutions. When we work with professional advisers, they will complete this process on behalf of their clients and be responsible for suitable choices.

Communicating clearly with our clients is critical at 7IM. Our team of relationship managers meet their clients and advisers regularly to share performance and progress, review individual plans and answer questions. We also have a centralised Client Experience function that combines marketing, communication and content, press, social media and digital. This team ensures we communicate regularly and clearly through a variety of mediums to reach our base of clients and advisers – including regular emails, social media posts of key topics, hosted webinars with in-house and external experts.

Our website hosts an interactive digital 'Fund Centre' where all the key information (like marketing documents, key information documents, annual accounts) can easily be searched and accessed. In addition, all our clients and advisers can access their accounts 24/7 on a web portal or dedicated mobile phone app where they can review performance and drill into the specifics of their holdings at 7IM.

It's vital that we listen to our clients. Every day, our relationship teams meet clients and advisers and record and pass feedback to the Client Experience team. This team uses these insights to help decide what to focus on, what changes need to be made, and if something is not working as planned. We also commission two regular independent annual surveys (one for individual clients and one for advisers) to learn what our clients are thinking and where we can improve.

Through these processes and the insights gathered we overhauled our communication approach in 2020. We now communicate with clients more often, and have linked up our social media, press and email communications. We redeveloped our website to make it simpler and easier to use. We created a new digital Fund Centre. Finally, we introduced a new lower-cost Pathbuilder Fund range, introduced a new range of Responsible Choice Model Portfolios and cut the fees of our Sustainable Balance Fund.

CHOOSE
CLIENT
£ 257,799.26
Client Ref
Telephone
Unknown
Email
Date of Birth
24th Oct 1947
Margaret Abbott
Margaret Abbott is linked with Mr Josh Allen
Clients
A-Z
HELP
Client Name or Ref.
Prospects
Import
7iM

The 7IM Platform

We started our investment management business in 2002 with the aim of doing things differently. Our investment platform followed soon after because we wanted to build something that was efficient, effective and open architecture. Financial advisers choose our platform because it provides a wide range of investment solutions, accessed through an engaging adviser and client experience.

The 7IM Platform is more than a simple platform – it's a service. Two elements of this service set us apart and are at the core of our stewardship. First, it's digital-based, providing an engaging experience for both advisers and clients which reduces the need for paper. Second, it provides open architecture access to a wide range of products. We are constantly adding to our range and have a focus on widening the investment choices to meet the growing demand for environmental, social and governance (ESG) investing.

We designed the platform to be efficient and cost-effective. Its award-winning functionality, advanced financial planning tools and streamlined reporting processes help save time and, more importantly, engage with clients who value the advice of their financial planner.

Removing paper may be an end in itself, but crucially it is the result of the use of engaging digital technology. Clients can now engage with their portfolios via the experience depicted here, rather than via paper reports. We plan to continue developing our award-winning digital experience for advisers and their clients throughout 2021 and beyond.

Stewardship and responsible investing

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). Three members are from the investments area, and seven are from other parts of the business. The Culture and Sustainability Committee reports to ExCo.

Our Culture and Sustainability Committee

Chair: Verona Kenny

Managing Director, Intermediary, ExCo member

Kate Hughes

Chief People Officer, ExCo member

Anna Baker

Head of Strategy & Transformation

Camilla Ritchie

Senior Investment Manager: Responsible Investing

Andrew Cork

Compliance Director

Glen Steven

Head of Office Services and Facilities

Peter Crews

Propositions Manager

Martyn Surguy

Chief Investment Officer, ExCo member

Sanjay Damodar

Head of Infrastructure

Jack Turner

Investment Manager: Responsible Investing

The Culture and Sustainability Committee's responsibilities include: i) guardian of the 7IM Stewardship Code, 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, as required by the UK Stewardship Code. It was established in current form in mid-2020 and has been meeting every two weeks, as we build up our sustainability and responsible activities and monitoring.

Investment stewardship and ESG at 7IM are managed by the **ESG Investment Committee**, also set up in 2020. It reports to the Culture and Sustainability Committee and to the Investment Committee (IC), which is the senior decision-making body for all 7IM's investments and investment oversight, and is ultimately responsible for investment performance.

The ESG Investment Committee is based in the Investment Management team and has six members. It includes representatives from every stage of the investment process at 7IM: Strategic Asset Allocation, Tactical Asset Allocation, Portfolio Management and Investment Risk. Two members of the IC are on the ESG Investment Committee.

Our ESG Investment Committee

Chair: Jack Turner
Investment Manager, Responsible Investing

Jack has been a member of the 7IM Investment Management team since 2016 and has been instrumental in driving forward ESG integration across the investment process. He is lead portfolio manager on the Responsible Choice Model Portfolios.

Christopher Cowell
Quantitative Investment Strategist

Following an academic career, Chris joined 7IM five years ago, to build systematic investment strategies and provide quantitative portfolio analysis. He also works on constructing the Strategic Asset Allocation and provides input into Tactical Asset Allocation.

Uwe Ketelsen
Head of Portfolio Management, IC member

Uwe joined 7IM as Head of Portfolio Management in February 2021. He has 22 years of investment experience and was most recently Head of Fund Research at Coutts, where he helped to shape the approach to ESG integration in investment portfolios.

Alex Mitsialis
Performance and Risk Analyst

Alex works on the Investment Risk team and is responsible for incorporating ESG analysis into the risk oversight process. He specialises in asset modelling and climate stress testing.

Terence Moll
Head of Investment Strategy and ESG, IC member

Terence has 30 years of investment experience, mostly in multi-asset roles. With a research background in economics, he has long been interested in the environment and development and is responsible for ensuring that stewardship and ESG issues are entrenched in the investment process.

Camilla Ritchie
Senior Investment Manager, Responsible Investing

Camilla has more than 30 years' experience of managing investments. She has run the 7IM Sustainable Balance Fund since inception in 2007 and been a leader in driving the Investment Management team's thoughts and processes around stewardship and responsible investing.

Case study: ESG training

At 7IM we want to develop the knowledge and understanding of stewardship and ESG investing across the whole business. This is becoming increasingly important as we integrate ESG factors into the investment process.

In 2020 we set a 40-hour Continuing Professional Development (CPD) requirement per year for every member of the Investment Management 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 Investment Management 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 do presentations and seminars to the Investment Management team and the broader business on ESG-related issues.

The 7IM purpose and strategy
Continued

Corporate social responsibility

Our people

At the end of 2020, 7IM had 353 staff, 67% male and 33% female. This gender imbalance is a concern, and our Gender Equality Network will review how it can be improved in 2021 and later.

7IM have been reporting on the gender pay gap since April 2018. At the time of the first report, women earned 19% less per hour than men, on average, their bonus was 22% lower than men's, and they occupied 56% of the lowest-paid jobs in the business. By April 2020 the average difference in hourly pay had fallen to 13.4% (below the national median of 15.5%) and in bonuses to just 4.5%, and women held 39% of the lowest-paid jobs in the firm.

7IM introduced a Smarter Working Policy in 2019, with 'Core Hours' and 'Working from Home' components. It was updated in July 2020 to improve flexibility and collaboration across the business. The policy empowers staff and teams to decide how to combine the best elements of working remotely and in the office, and meant we were prepared when the pandemic struck in March 2020.

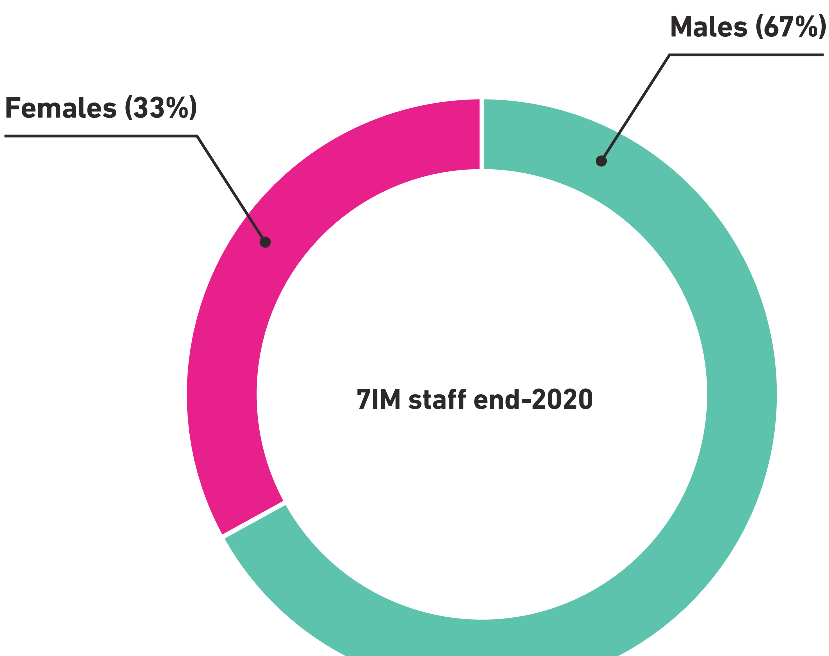
Unlike many sectors and firms that were hit directly by Covid-19, we were able to adapt quickly to working from home in March 2020, as described in a later section.

Through the year, with staff working remotely, we aimed to have support mechanisms in place to help our people cope with the pandemic, both during and outside of work. We set up sessions to allow staff to talk to colleagues, share their experiences and reassure one another when faced in similar circumstances. A men's mental health session was especially popular.

We recruited 85 members of staff in 2020. More than half of them were additional hires, i.e. increased headcount due to growth and business needs.

We adapted our recruitment practices to carry out our recruitment and selections virtually and moved to a paperless onboarding process with contracts and paperwork being sent to new joiners electronically.

At the end of 2020, we began implementing an Applicant Tracking System that allows us to benefit from more direct recruitment, manage the candidate experience better and introduce anonymised shortlisting, since we know it's easy to let subconscious bias influence recruitment decisions.



Training and development

7IM is a learning organisation and encourages all its people to study, participate in courses and learn – to improve their skills and capabilities and develop them as human beings. This approach makes our people happier and more productive at work, and more committed to the corporate vision. 7IM generally pays for external courses and gives staff members time off to study.

Some of the training and development achievements of 2020 were:

You as a Manager

57 attendees went through a managerial training programme, to equip them with tools and techniques to be better managers.

Extended Leadership Forum

About 50 senior 7IM staff have been drawn into various training, coaching and collaboration initiatives, to help them support ExCo in embedding the 7IM culture and driving the business forward.

Courses

7IM paid for 61 staff members across the business to do training courses leading to industry-recognised qualifications. These included courses with the Chartered Institute for Securities and Investment (23), the Chartered Insurance Institute (14), and others.

The 7IM purpose and strategy
Continued

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. Our Diversity and Inclusion Strategy was launched in 2020 and sets out our commitment and objectives in this area.

Diversity and Inclusion (D&I) is a key element in 7IM's cultural development. Our D&I Working Group aims to champion initiatives that will make 7IM a more inclusive employer and deal with practices that exacerbate inequality and disparity amongst the workforce. It's chaired by an ExCo member but driven by volunteers from within the firm from a range of backgrounds.

We published our D&I strategy and made it available to all colleagues, so they can hold the firm to account should it not achieve its objectives. The strategy focuses on two key areas: representation, and an inclusive culture.

To increase representation from different ethnic backgrounds, initiatives like anonymised recruitment are being implemented, to remove conscious or unconscious barriers in recruitment and selection.

We've also introduced outreach programmes with schools, encouraging students from all backgrounds to explore careers in financial services.

To foster a more inclusive culture, we've had companywide training on 'Diversity of Thought', which has been embedded in the induction programme for new starters. A monthly newsletter has been launched to educate staff on other cultures, as well as regular blogs from colleagues about their personal experiences of prejudice and discrimination.

7IM is a signatory of the Race at Work and Women in Finance Charters – further commitments to improving diversity and inclusion within the firm.

Case study: Sponsors for Educational Opportunity

Sponsors for Educational Opportunity (SEO) is a UK charity that helps talented young people from disadvantaged ethnic and socioeconomic backgrounds to access and connect with organisations where they can build lasting networks to launch successful careers in the future. 7IM is associated with SEO Schools, which focuses on academically strong students from disadvantaged backgrounds in Years 11 to 13. They work with over a thousand students across 40 schools in London.

In 2020 we hosted an 'Insight into 7IM' evening over Zoom, attended by over 50 students who were interested in a career in financial services. The evening consisted of networking sessions for students with both senior and junior members at 7IM across Investment Management, Private Clients, People and Culture, Technology, Compliance, Legal and Client Experience. The event was hugely popular and for students that missed out or are looking to access and understand more specialised areas, we will host more focussed sessions in 2021.

Charity programme

7IM'ers have been committed to supporting charities and communities for a long time. During 2020, despite the challenges faced by so many people, the 7IM community donated over £25,500 to a range of charitable causes, through donations, fundraising and coming together as a team. By putting the decision of who and what to support in the hands of the team, rather than driving these decisions at management level, we are building the 7IM community spirit, and encouraging everyone to get involved in fundraising in a way that suits them.

From national charities across the UK to smaller local community projects, the 7IM Charity Programme is committed to supporting causes that can make a difference to those in need. In 2021 we plan to continue this support, with a dedicated committee and a pledge from 7IM to match funding of £17,500 to any fundraising carried out by our people.

£25,500

2020

7IM FUNDRAISING

The 7IM purpose and strategy
Continued

Environmental footprint

In addition to environmental concerns around waste and recycling, we have been monitoring the big-impact areas of utilities consumption and greenhouse gas emissions. In line with the EU energy efficiency directive, we filed an Energy Savings Opportunity Scheme (ESOS) report in 2019 (for reporting period 1/1/2018-31/12/2018), which gave rise to several ideas for improvement. We are preparing to report under the Streamlined Energy and Carbon Reporting (SECR) framework in 2021, which we expect will identify further areas for improvement.

As part of the sustainability review underway at time of writing, we have been looking for further positive changes we can make. For example, in 2019, about three quarters of our travel-related carbon dioxide (CO_2) emissions came from air travel.

We have identified opportunities to reduce our carbon footprint by reducing air travel, utility consumption and streamlining our supply chain. Where we cannot eliminate all carbon emitting activity, we will look to offset carbon emissions created by 7IM, e.g. by tree-planting.

Finally, we consider sustainability in our procurement processes and project delivery channels.

Over time we will review our downstream impacts (Scope 3 emissions) and try to lower emissions further. Where possible we will seize 'quick wins' – e.g. switching to biodegradable pens and notepads, and using paper from well-managed forests or recycled sources.

Our vision is to deliver an unrivalled experience. Our clients are increasingly concerned about sustainability and ESG, and we understand that their interest includes and extends beyond investments. We are reviewing the experience we offer our clients through this lens, creating carbon-light options with continued digital meetings and interaction and paperless communications where possible.

How we approach investment management

People don't retire for a quarter, or a year, or even a decade. Generally, they retire forever. No matter how good or bad short-term investment returns are, it's the long term that matters in the end. We want our clients' portfolios to be around for the next generation, and beyond.

That means two things: we protect our clients' assets in the short term through diversification and aim to grow them in the long term through a range of smart, well-researched investments across different asset classes. We aim to blend structure and flexibility. Our portfolios have a long-term framework that gives us confidence in their longevity and consistency, and allow us to make active decisions to take advantage of opportunities we see in the markets.

We believe that all investors deserve the same approach to investing that institutions enjoy. We use the techniques, tools and knowledge employed by large institutional investors for the benefit of our clients.

For example, our Investment Risk team employs the same tools that are used by the largest institutional investment houses in the world. And our ambition is to set the industry standard when it comes to integrating ESG issues into our investment approach – strategically, tactically, and in terms of product selection.

We don't believe in 'star managers'. There's a reason why few individuals get into the history books as truly great investors – we are all human, and we all make mistakes. While the stars are lauded by the media, wishing on that single star often ends badly. Instead, we prefer a structured, disciplined and institutional approach from a team of experienced investment professionals.

The 7IM purpose and strategy
Continued

Our seven investment beliefs

There are many ways to invest, often driven by different beliefs about human behaviour and how the investment world works. We have developed a set of seven beliefs that summarise how we invest for our clients, and what we do and don't do as a firm. These influence our investment decisions, and our stewardship of client assets.

01

Invest for the long term – Strategic Asset Allocation is key

Most of our investors have long time 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. We complement this with our long-term focus on environmental, social and governmental (ESG) issues.

02

Markets are not always efficient – 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.

03

No perfect foresight – Diversification is essential

We don't believe in making predictions. Forecasting the future is a great way to be exactly wrong. We prefer to focus on holding a diversified spread of investments in portfolios. We don't want every part of a portfolio to be doing the same thing – we want to have parts ready to react in case the world changes.

04

Emotional responses damage wealth – Composure and patience help

It is always tempting to act in response to events. We believe that doing nothing is often preferable. We have built data-driven models and use ways of thinking and making decisions that dampen our emotional reactions and help us to take a sensible look at the world in wild periods. We encourage our clients to do the same.

05

Independence and openness – High challenge, high support teams prosper

We believe that cognitive diversity is undervalued in asset management. A great team should always beat a great individual. We have worked to build an investment culture that encourages challenge and independent thinking from every member of the team. When we communicate honestly, we end up seeing the bigger picture, and making better decisions.

06

Learn lessons – Constant review and evolution

We won't always get things right. That's the nature of investing, and of the world. But getting them wrong twice in a row is unacceptable. We try to review all aspects of our decision-making and portfolios, to make sure we learn from both the failures and the successes and build a stronger and more robust investment process.

07

Control costs – Flexible implementation, based on value, not price

Controlling costs is crucial to achieving investment goals. But it can be worth looking beyond the cheapest offerings, especially if you are seeking a specific exposure or theme. We are flexible when implementing ideas, blending active and passive approaches where we think it makes sense.

The 7IM purpose and strategy
Continued

Our cornerstone: The Strategic Asset Allocation

At 7IM, the Strategic Asset Allocation (SAA) is our long-term investment plan. It is based on weights for different asset classes that our research finds to be appropriate over a long period of time.

There are different types of investors, who require different blends of assets, depending on their return goals and risk appetite – we want to make sure that the long-term shape of each risk profile matches the type of investor. We've been developing SAA plans since we began investing our clients' money, and our approach has worked consistently over the years. We update data and refine our SAA models every year, to ensure portfolios are constructed robustly and that they incorporate the latest academic thinking.

Many SAA processes focus on the volatility and correlation characteristics of individual asset classes. Starting in 2019, we extended our approach to include analysis of the growth drivers that underlie each asset class. There are a number of broad growth drivers – or risk factors – in the financial world, and different asset classes have different exposures to them.

Looking at the common drivers behind asset classes gives us a better idea of the diversification that a portfolio can deliver in the long run. The SAA portfolios through 2020 remained broadly exposed to these common drivers of returns.

The process we follow leads to several key themes in our SAA versus other managers.

01

High yield, corporate bonds and emerging market bonds

Our SAA portfolios have higher allocations to high yield bonds, corporate bonds and emerging market bonds than more traditional multi-asset portfolios. This leads to a more diversified exposure to risk factors, entailing a reduction in the exposure to economic growth and an increase in exposure to other risk factors, such as credit and inflation.

02

Real estate investment trusts (REITs)

As an asset class, real estate is exposed to interest rates, inflation and economic growth. This complex mixture of risk factors mean that real estate is itself a well-diversified asset class when viewed through a risk factor lens. You will see an allocation to this asset class in 7IM SAAs from Moderately Cautious up to Adventurous as a consequence.

03

Alternatives

The days when investors could rely on government bonds as safe, income-producing securities that hedge equity risk and deliver returns that keep pace with inflation seem to be over. The starting yield for bonds is a strong predictor of future returns and with yields having fallen globally, we cannot expect bonds to contribute as much to portfolio returns as they once did. We make use of various alternative strategies, which we believe have favourable risk characteristics and higher expected returns than government bonds.

We rebalance our portfolios back to the SAA regularly, ensuring our clients and investors remain on the investment path they expect. In addition, our clients benefit from a strong investment risk management function which oversees our processes and ensures our risk-rated funds and models are delivering as originally designed.

We reviewed our policy on rebalancing portfolios in 2020. After we'd completed and discussed a major research project on rebalancing approaches, frequencies and triggers, the Investment Committee finalised a revised rebalancing policy that was incorporated into the Investment Procedures Manual.

One key issue concerns the extent to which ESG-related risks and opportunities should be reflected in the long-term mix of asset classes in the SAA. In 2020 we commenced work on the decarbonisation of our SAAs and expect to implement this framework in mid-2021, as discussed in a later section.

How we view stewardship and responsible investing

Why responsible investing matters

Covid-19 was a reminder that companies cannot ignore the broader context within which they operate. Investing and behaving responsibly is becoming a precondition for doing investment business in society, and responsible regulations and guidance will help to shape the 21st century investment world. In a few years' time, we expect that almost all investing will be responsible and ESG-focused.

The biggest existential challenge for all of us is the environment. The world is facing dangerous long-term environmental problems, and investors have a role in helping humanity to deal with them.

Governments in many countries are stepping up to the challenge. In 2019, the UK adopted a net emissions target of zero by 2050. The EU began revamping its many ESG policies with the European Green Deal of January 2020, which aims to make Europe the first climate-neutral continent by 2050. The USA's Green New Deal entails similar commitments. Last year China announced that it would be carbon-neutral by 2060.

Fortunately for investors, responsible investing makes business sense. There is evidence that incorporating ESG information in the investment process can improve the quality of decision-making and risk management. Most notably, good companies with high ESG ratings tend to be managed better, plan better for the future, make better use of technology and suffer from fewer nasty surprises than their competitors.

We view ESG issues as an important factor in evaluating the expected risk and return from investments, particularly equity investments. It can be as important as the well-known academic factors like growth, quality, or value in determining how investments perform in the long run.

Taking ESG into account may also help investors to understand the long-term risk and downside of portfolios. For example, many energy companies are likely to be left with swathes of stranded fossil fuel assets if the world's governments take the Paris carbon emissions goals seriously, but this likelihood seems not to be fully incorporated into market prices. Incorporating ESG when looking at companies, as required by the UK Stewardship Code and the UN Principles for Responsible Investment, is simply a sensible broadening of the investment process.

We note, of course, that ESG ratings are not static. A company or country that is genuinely trying to improve its ESG behaviour can be of great benefit to the world and can be a fine investment. We question our active managers about their holdings of stocks with poor ESG ratings and expect them to engage with companies and encourage them to improve their stewardship and ESG performance.

In 2019 7IM signed up to the UN Principles for Responsible Investment (PRI), which influences how we view and manage our investment process and products, and how we deal with ESG, sustainability and stewardship inside the firm. For us as investors, the crucial PRI principles are the first two:

Principle 1:
We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2:
We will be active owners and incorporate ESG issues into our ownership policies and practices.

As UNPRI signatories we are required to report on the PRI principles, which we did for the first time in 2021. They will form part of our assessment of progress and success in incorporating ESG into our investment process. We view the PRI requirements as complementing the UK Stewardship Code.

Case study: ESG for the long term

7IM works with Sarasin & Partners LLP to manage the direct equity holdings in the 7IM Sustainable Balance Fund. Sarasin and 7IM both aim to invest for the long term on behalf of the holders in the fund. The long-term focus is particularly relevant for this fund as it invests in sustainable investment solutions and some potential equity holdings might not be yet fully sustainable but be moving that way.

For example, Orsted was purchased in June 2018 while it still had a number of unsustainable coal-based energy generation assets. The management was committed to the transition to renewable energy and Sarasin bought the company based on its direction of travel, while realising that the journey would take years. Through 2020, Orsted was still held in Sustainable Balance.

We have taken a similar approach in the Responsible Choice Model Portfolios. They incorporate exposure to companies that we label 'ESG Improvers', which we believe are committed to moving in sustainable directions. Such holdings reflect the long-term goal of improving the world in ways that are profitable and will benefit our clients.

How we view stewardship and responsible investing
Continued

Our ESG integration approach

What is the best way to ensure that the Investment Management team takes ESG and stewardship seriously when they make decisions? We believe ESG is best handled *within* investment teams, as part of their regular activities, rather than by having a separate ESG or Stewardship team.

ESG issues are considered at each stage of the 7IM investment process: Strategic Asset Allocation, Tactical Asset Allocation, Portfolio Implementation and Investment Risk. One person in each area is designated the ESG champion and makes sure that ESG issues are addressed appropriately when decisions are made. They report back to the ESG Investment Committee where progress is discussed a nd monitored.

Our tactical views can be a powerful tool to position the 7IM portfolios to navigate a world impacted by climate change. We review ESG metrics when we consider tactical asset allocation views and changes across portfolios. We also consider TAA views that have explicit ESG characteristics, such as US Healthcare, a position we have held since 2019.

Our Investment Risk team is a cornerstone of our investment process and ESG metrics are increasingly being incorporated into the risk oversight of the funds. In 2020, for example, the Investment Risk team incorporated climate change stress tests into their oversight. One stress test simulates a 50% drop in the price of oil and is used to judge the potential impact on portfolios from stranded assets.

7IM has been running a successful Sustainable Balance Fund since 2007. It's a globally diversified, multi-asset portfolio investing in equities, bonds and alternatives that is managed to a sustainable mandate. A wide range of ESG factors is considered in the investment process, e.g. carbon emissions, water use, board composition, executive remuneration, labour relations, monopolistic behaviour, and data privacy.

The Sustainable Balance Fund is our flagship ESG product, and we had a drive to apply lessons learned from it across all our portfolios and investment processes in 2020. The Sustainable Balance strategy allocation combining ethical, ESG, thematic and impact investments was used as the template for our range of Responsible Choice Model Portfolios, designed in 2020 and launched early in 2021.

Case study: Client feedback and the Responsible Choice Model Portfolios

During 2020 we decided to broaden 7IM's sustainable investment offering. We'd been running the Sustainable Balance Fund for 13 years, but clients indicated that they wanted a selection of model portfolios across more risk profiles. The starting point was to clarify what our clients wanted from a sustainable model portfolio solution. In September 2020 we held an Investor Roundtable that was attended by seven IFAs and several members of 7IM's Investment Management team. We also sent out a survey that was completed by 78 IFAs from across the UK.

This research pointed to three conclusions. First, IFAs wanted a blended approach using both active and passive products. This was initially surprising as sustainable investing has been dominated by active management but reflects the development of passive products in this space.

Second, there was no consensus about which ESG themes were most important, with survey responses ranging from impact to low carbon and ethical investing. We realised that it was preferable to provide access to a range of responsible investments rather than pigeonholing the model portfolios into one area.

Third, nearly three quarters of respondents were seeking performance in line with a similar non-ESG model. This implied that the benchmark for the portfolios should be the broader Investment Association (IA) benchmarks rather than sustainable benchmarks. It also meant that we didn't want portfolios to move too far from the underling SAAs as they are designed to give diversified exposure with returns that are comparable to the IA sectors.

Based on this feedback, we designed our Responsible Choice Model Portfolios to appeal to a broad range of clients who are concerned about the future of society and the environment. Post Covid-19, we expect this segment of the market to grow rapidly.

How we view stewardship and responsible investing
Continued

Data providers and external suppliers

We use a range of stewardship and ESG data providers:

Stewardship and ESG providers, tools & technology

ESG research providers

- MSCI ESG research
- Bloomberg NEF
- Sustainalytics
- S&P Global Trucost

Business involvement screening

- Sustainalytics
- MSCI ESG Fund research
- Morningstar Style Screen

Proxy voting analysis

- Broadridge

Trade associations

- CFA
- UN PRI
- Investment Association
- ARC

We prefer to have a small number of data suppliers that we understand well and can rely on in the long run. To help analyse the ESG characteristics of portfolios and markets we signed up to MSCI's ESG data service in 2020, concluding that it was most appropriate for our requirements (see case study). We are also researching country and issuer sustainability in fixed income.

Through late 2020 and early 2021, we incorporated metrics around the ESG rating and carbon footprint of our portfolios into the standard reporting platform that we use in our portfolio and risk management. We can now summarise and analyse the ESG characteristics of most equity portfolios and indices at the click of a button. This capability will support the decarbonisation of our Strategic Asset Allocations, discussed on p. 37, enables the ESG implications of Tactical Asset Allocation views to be analysed, and helps to identify potential ESG risks in portfolios.

Case study: ESG data provider due diligence

Early in 2020 we began the search for a data provider to help us incorporate ESG factors more systematically across our investment process. Following initial research and contact with third-party managers on data sources, we held in-depth meetings with three providers who we saw as representing "best in class" offerings. After several meetings we decided to sign up with MSCI for their ESG ratings and carbon emissions data.

We selected MSCI for three reasons:

1. MSCI ESG ratings are comprehensive, covering 500,000 equity and fixed income securities issued by 13,000 equity and fixed income issuers.
2. We favoured MSCI's risk exposure approach, which gives a higher weighting to the relevant sector risks.
3. We already have a process for integrating data from MSCI's Barra (risk analysis) system into our databases for analysis (for beta, duration etc).

We recognise that data providers sometimes differ in their approaches to ESG, and there can be gaps in reporting and information. Where necessary, we supplement MSCI data with other info sources (see Berkshire Hathaway case study alongside).

We will undertake a biannual review to ensure that we are getting best service possible from MSCI. This includes evaluating their data coverage of our investment universe, how their data methodologies are developing, and whether their prices are competitive.

ESG ratings case study: Berkshire Hathaway and ESG

Warren Buffett isn't normally at the bottom of many financial league tables. But on many ESG scoring systems, Berkshire Hathaway doesn't score well. Using MSCI data, Berkshire Hathaway is in the bottom 10% of S&P 500 companies for "Governance" and the bottom 5% for "Social". Even for "Environmental" impact, Berkshire is firmly in the lower half of US companies.

This is an example of why we believe ESG ratings should be considered a guide, rather than an absolute standard of truth. When building our investment case for Berkshire Hathaway in the summer of 2020, we looked closely at both the ESG scores and how Berkshire is run, to decide whether there really was a stewardship issue to address.

On the environmental side, Berkshire's score is dragged down by the structurally carbon-heavy nature of many of its businesses (utilities, railroads, auto dealerships, manufacturers). That doesn't worry us, and the direction of travel is positive. For example, Berkshire Hathaway Energy generates over 40% of its electricity from renewables and is phasing coal out.

On the social and governance side, the key negatives from the ESG rating organisations include the lack of diversity on the Berkshire board and the age of some of its members. While these metrics are normally sound proxies for good stewardship of capital, we believe that Berkshire is a clear and obvious exception.

Through his 56 years at Berkshire Hathaway, Warren Buffett (supported by vice-chairman Charlie Munger) has demonstrated a care and interest in stewarding his clients' capital that goes above and beyond that shown by most officers at public companies. The comprehensive yearly reports, exemplary accounting, tiny head office, inclusive annual meetings and strong long-term returns all point to a superbly run company with possibly the lowest agency risk – likelihood of senior management defrauding shareholders – of any company in the S&P 500. But Berkshire doesn't fit neatly into the ratings checkboxes.

We relied on our own ESG analysis of Berkshire Hathaway and made an initial investment in July 2020. In March 2021, we voted with management against two ESG-related shareholder proposals: the first to require an annual climate change disclosure report for all its subsidiaries, and the second to require an annual diversity and inclusion report. While we normally favour these kinds of standardised disclosures, we believe that Warren Buffett and the Berkshire Board are correct in asserting that their decentralised business model would suffer rather than benefit from them.

How we view stewardship and responsible investing
Continued

Climate change

Climate change is the key threat to human society and hence to all investors in the long run. It's increasingly being recognised as a global threat and is a fundamental issue that's facing asset managers everywhere.

Scientists agree that the Earth is warming all too fast. And modern civilisation has done it, largely by producing 2400 billion tons of carbon dioxide since 1850. Carbon dioxide and other greenhouse gases trap heat in the atmosphere like the glass roof of a greenhouse. The more we burn fossil fuels in power stations, cars and factories, the more carbon spews into the air and the hotter our world becomes. This is a particular concern for countries like India and Indonesia, which will become intolerably hot for parts of the year if current global warming trends continue.

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. To achieve the Paris goals, humanity will have to slash its emissions, requiring many trillions of dollars of investments in clean energy, power grids, electric cars and buses, the electrification of industry, more efficient buildings, and so on.

Investors will have to play their part in the transition to a low-carbon economy. As noted by Nikhil Rathi, CEO of the Financial Conduct Authority, in November 2020, "We want green and sustainable finance to be at the heart of the continued growth of London as a global financial centre."

The Covid-19 pandemic has reminded investors and ordinary people that human life is short and frail, and that we need to think about the planet we will be leaving to our grandchildren. This has already led to a surge in ESG investing, which we expect to continue for many years. Likewise, Covid-19 was a reminder that global action may be required to deal with global problems. Governments and regulatory authorities look set to take action on the global climate even more seriously than before.

Climate change will entail risks and opportunities for investors. Many of the physical risks are obvious, like extreme weather, rising ocean levels and political disruption. Measures to deal with climate change will raise carbon prices and may lead to the gradual demise of emission-intensive firms and activities.

Some energy companies, for example, will be left with near-worthless stranded assets if the world takes the Paris carbon emissions goals seriously. Dirty industries, companies and markets are likely to be poor investments.

On the positive side, buying decarbonising firms and underweighting dirty activities may be a winning long-term strategy, and is closely linked to 7IM's environmental commitments.

Through 2020, we began a research programme aimed at decarbonising the 7IM Strategic Asset Allocations and reducing the emissions-intensity of all portfolios (see case study opposite). We are also exploring ways of overweighting global warming solutions in portfolios, including areas like clean energy (solar, wind), electrification (led by transport) and using resources more efficiently (heating/cooling, recycling).

Case study: Decarbonising Strategic Asset Allocations

The UK has set a net-zero emissions target by 2050, and businesses will be encouraged to support the transition to a low-carbon economy. We support the decarbonisation drive as part of our stewardship commitment, and in 2020, 7IM's Executive Committee agreed to a programme by which the carbon emissions of the Strategic Asset Allocations of all portfolios will be reduced by 30% at the SAA level between 2021 and 2026.

The SAA is the long-term mix of assets that is the cornerstone of our portfolios and is the most consistently performing and longest-horizon element in our investment process. The SAA process is run and reviewed every year to ensure that it remains sound. Integrating ESG into our SAA research was one of our crucial projects in 2020-21. We have developed a framework that shows the ESG exposures and risk our SAAs are exposed to, particularly carbon risk.

When measuring carbon in the SAA, we focus on Scope 1 and 2 emissions, as recommended by the Task Force on Climate-related Financial Disclosures (TCFD). While Scope 3 emissions are broader, covering all indirect emissions in a company's value chain, measuring them is still in its infancy and there remain issues regarding disclosure, incomplete reporting and data quality.

We use Weighted Average Carbon Intensity to measure carbon emissions. This is the most effective metric for comparing different multi-asset portfolios and, again, comes recommended by the TCFD. In 2020, the carbon intensity of our Balanced SAA was 162 tons per million dollars of sales (tCO2E/$M Sales), which was broadly in line with those competitors for which carbon intensity data is available.

We began by gathering and storing in our quant infrastructure the key ESG metrics of interest for all asset classes in our SAAs, focusing on carbon emissions in 2020. We could then combine these with our quantitative-based SAA processes to explore how we could adjust portfolios to reflect our views on carbon reduction and broader ESG factors. Extensive quant simulations indicated that the emissions-intensity of our SAAs could be significantly reduced without final portfolios diverging too much from starting portfolios.

ESG-screened and low carbon products and derivatives are becoming available in many markets. Thus far, though, they tend to be illiquid and expensive to trade. As these products develop and costs fall, we expect to use them more, and they will assist in our drive to decarbonise the SAAs further in years to come. We are researching ways of decarbonising our SAAs to and beyond 2026 and will report on them in future stewardship reports.

We want green and sustainable finance to be at the heart of the continued growth of London as a global financial centre."

Nikhil Rathi, CEO of the Financial Conduct Authority

How we view stewardship and responsible investing

Continued

The Covid-19 challenge

As with most firms, Covid-19 was a huge shock to 7IM. It has changed how we work, how we support our people, how we communicate with clients, how we manage portfolios and how we view risk. The business environment will normalise in due course but will be different from the pre-pandemic era.

How 7IM coped with the pandemic

On 16 March 2020, as the impact of the virus was becoming evident in the UK, 7IM moved to a work-from-home operating model. For weeks beforehand, we had been preparing for this via our Business Continuity Planning framework. We were able to manage this move for about 350 staff within days, with no loss of service to clients, in large part due to the strength of the 7IM culture and team.

Working from home required a huge communications effort from all client-facing people, as well as a drive by the operations and technology teams to assess staff needs and adjust processes accordingly. One rapid business shift was a drive to reduce post. Across 7IM, teams worked together to review processes and switch to scanned documents and telephone confirmations without compromising on the necessary controls.

We contacted our clients to tell them about revised business processes e.g. asking them not to send documents by post. We challenged the requests from industry peers for paper, posted cheques and ‘wet signatures’, and have pushed for industry-wide reform on the nostalgia for paper in this digital age (see case study on p. 45).

We also kept clients updated about our business, our views on markets and the world, and what was happening in their portfolios. We were delighted to receive abundant feedback about our helpful and open communications in the early stages of the pandemic, and since.

Investing in 2020

For investors, 2020 was unprecedented, extraordinary, unmatched. Oil prices went negative, US unemployment spiked to +20% within weeks and parts of the global economy ground to a literal halt. In response, equity markets plunged then recovered much faster than anyone thought possible. The rally in credit was even more breathtaking. With yields at close to rock bottom before the Covid-19 recession, government bonds failed to provide the protection that multi-asset investors look for. The year was a challenge for all investors and we’ve reviewed and refined our investment process in response.

Strategic Asset Allocations

Our SAAs ended up outperforming their benchmarks through 2020. Our approach to SAA construction – with its focus on factor exposures – meant our portfolios were more diversified than the benchmarks, and were helped by a combination of higher credit and foreign currency exposures, particularly emerging markets. We noted the lack of protection from government bonds during Covid-19 and decided to lower our exposures to interest rate duration in the mid-year SAA rebalance, allocating the proceeds into more defensive and higher-returning alternative strategies.

Tactical Asset Allocation

The market gyrations in February-April 2020 were a stress test of our tactical process. Our performance was fair but we wanted to learn as much from this period as possible and ran a thorough post-mortem once the recovery took hold. We reviewed how we adjust equity risk, duration risk and our process for thematic investments, and have improved aspects of what we do. For example, we've introduced the use of checklists for most investment decisions. Every decision has multiple factors driving it, and checklists stop us from being biased by one or two pieces of information.

Portfolio Management

We saw sharp moves in equities, credit and in 7IM's alternative strategies portfolio in spring 2020. Our alternative holdings, for example, were up double digits, in absolute terms, in March/April. By contrast, risk assets within portfolios like equities and credit fell sharply. We took the decision to be disciplined and rebalance portfolios back to target weights just before equities and credit bounced back in April, rather than 'letting them run', which boosted returns across the board. We then did a major research project on rebalancing and have now implemented a formal rebalancing policy that will be triggered if portfolio weights move too far from targets.

Case study: Learning from Covid-19 – improving investment processes

A key input to the Investment Management team's decision-making is a quantitative model that combines market prices and economic data to assess the prevailing macro-economic environment in an unbiased manner. This analysis was useful as a dispassionate basis for discussion during the turmoil of 2020, but the crisis also highlighted how the computation and storage of the model could be improved.

Going into 2020, the model was stored in spreadsheets with links to external data sources, which were easy enough to refresh and discuss in a co-located office environment. The pandemic highlighted the importance of more structured data processing, storage and reporting – with the team working virtually, a more systematic approach was needed. Through summer 2020, our quantitative team transferred the model inputs and calculations to a centrally stored and operated database, and redesigned and automated the output. By late 2020 we had a robust model that's refreshable at the touch of a button, with standardised outputs in a user-friendly format.

How we view stewardship and responsible investing
Continued

Risk

The unusual nature of the Covid-19 crisis led to a plunge in economic activity, a 'dash for cash' in markets and a liquidity squeeze in the small and complex asset classes we own, such as mortgage-backed bonds. We also saw some unusual behaviour in the world's most liquid asset class – US treasuries. This short, sharp episode prompted the Investment Risk team to review the liquidity profile of our portfolios. We concluded that liquidity can have important impacts on drawdowns and now assess the liquidity of asset classes before we invest, to judge the marginal liquidity impact and possible marginal drawdown impact of each additional position.

The world after Covid-19

Through the course of 2020 our understanding of the Covid-19 science improved and we began researching the difficult but crucial question of when the virus would come under control and the economic world would begin to normalise. Last summer we produced a White Paper on this, in which we reached three conclusions: i) in severely afflicted parts of the world, SARS-CoV-2 infections were far more widespread than initially reported, ii) treatments for ill people were improving fast, and iii) effective vaccines were looming.

We informed our clients about these relatively optimistic views and positioned portfolios for a global economic recovery. Through the ups and downs since we have remained optimistic about the rollout of vaccines and the end of lockdowns, and at the time of writing we expect the economic world to largely normalise by the end of 2021. By contrast, the social, educational, mental health and fiscal effects of the pandemic will be with us for many years to come.

Learnings

For the Investment Management team, 2020 provided confirmation that our investment process was solid and robust, and encouraged us to integrate ESG considerations further in our investment process. For 7IM as a firm, 2020 was a reminder about the importance of putting clients and communication at the heart of what we are doing, and of the value that each and every employee brings to the table.

How we view stewardship and responsible investing
Continued

Brexit, risk and stewardship

The UK's departure from the European Union posed many challenges to 7IM's investment and risk teams through 2020. To begin with, there was uncertainty about the timing. While the decision to leave was confirmed by the UK parliament in December 2016, the end agreement was up in the air until multiple '11th hour' negotiations – in March 2019, April 2019, October 2019, January 2020 and finally December 2020.

This affected the performance of UK-related assets, with GBP and government bond yields hovering around all-time lows. Would the UK end up in a semi-permanent transition period meaning a 'Brexit in name only' or would there be a more serious 'No Deal'? UK risk assets like corporate bonds and equities underperformed their global counterparts. Given 7IM's large exposures to UK-related assets, we regularly reviewed the outlook for these and considered what could go wrong.

Operational risks were also important. How might regulations, dealing counterparties and trade clearing be affected?

There are three elements to 7IM's investment-related stewardship on Brexit. First, we had to consider the investment implications of Brexit. We judged these to be through two primary channels: sterling exposure and UK equities. We discussed these on many occasions through 2020, and modified our portfolio positions along the way in response to perceived opportunities and risks.

Despite the repeated extensions to deadlines and public rhetoric around a 'No Deal', the Investment Management team's view was that a deal would materialise in due course, with minimal financial disruption. This turned out to be the case. We took a conservative approach, though, by putting in place a series of contingencies and reviews to help manage our portfolios and business.

Second, portfolio risk management is integral to 7IM, and risk analysis is run daily to flag any areas of concern within the portfolios. One of the most important exercises is stress tests – running the portfolios through examples of historical and hypothetical stresses, to ensure that the worst potential losses are tolerable.

In 2016 we began running Brexit stress tests and we continued them through 2020, concluding that client portfolios should be able to survive the worst that the political system could throw at them.

Third, on the portfolio management and implementation side we had multiple issues to consider. Consider three examples:

- For commercial reasons, unrelated to Brexit, 7IM decided to close a set of 7IM Dublin-domiciled funds (see p. 80). Brexit was highlighted as the key risk early in the project, and we decided to complete the closure of these funds two months before the Brexit transition period ended, in case something went wrong.
- We also provided for the risk that the project might not be completed in time. There was the prospect that after Brexit, UK-domiciled funds would not be UCITs (EU investment directives) compliant, in which case the maximum the 7IM Dublin-domiciled funds could hold in underlying UK-domiciled funds would be 30%. We lowered the holdings of the Dublin-domiciled funds in UK-domiciled underlying funds to 28%, while minimising trading costs, to offer 2% of breathing space.
- Finally, we reviewed the dealing implications around clearing and trading several times through the year, but concluded that our current trading and counterparty arrangements would suffice.

Like the pandemic, Brexit and its investment repercussions confirmed that our core investment beliefs and principles provide a sound basis to protect clients' investments amidst market uncertainty.

Brexit's regulatory repercussions were also a reminder of how a sound product architecture and governance help managers to be good stewards of client money.

How we view stewardship and responsible investing
Continued

Improving market functioning

Regulators, industry organisations and the financial services industry

Regulators and industry organisations sometimes request information and views about topics that are important to the future of financial services in the UK. We participate in debates and provide feedback where we can, to help improve the functioning of the finance industry and the lives of tens of millions of people that rely on it for their financial futures. Recent examples of activities we took part in are shown below.

Case studies:

Personal Injury investigation

In December 2018 the UK government announced a Call for Evidence on the setting of the Personal Injury Discount Rate. It's used to calculate the value of damages awarded to personal injury claimants, taking into consideration likely future financial loss due to their injuries. Working with a major client, we produced a submission covering certain technical aspects of the questions. We were gratified to note that some of the points we made appeared in the Ministry of Justice response from July 2019, e.g. the need for claimants to invest in diversified lower-risk portfolios rather than index-linked gilts.

Dealing issues in London's financial markets

Our internal Best Execution committee reviews all internal trades across both retail and institutional books of business, to ensure these trades are within 7IM's Best Execution rules. The data helps to formulate dealing strategies that aid well-functioning markets, liaising with counterparties, third-party vendors and exchanges/venues to ensure 7IM clients have access to and are providing liquidity to the underlying markets.

One example of how this use of data leads to better outcomes for clients is the use of technology to compare the current bid/offer spread within the Retail Service Provider network vs mid-priced venues and executing in the venue that has the best price for the client. The technology allows retail clients access to venues that are historically not available to them, and 7IM have been asked to share this technology and collaborate with industry peers at a roundtable event hosted by the London Stock Exchange.

Asset management survey

For several years we have contributed to an industry survey that incorporates ideas on how Europe's asset management industry can be improved. These views are published in a report that is distributed to senior management teams at the big global asset managers. It helps them to crosscheck their perceptions and ideas and adapt their product development and marketing to create better products and services for clients.

We were early to identify the potential for more sustainable products and scope for more engagement with portfolio companies and are pleased that the industry is moving in this direction. In 2019-20 we provided feedback on levels of transparency in the investment market and highlighted issues around fee structures.

Case study: Industry paper use and electronic confirmations during the pandemic

Early in the Covid-19 pandemic we reviewed our business operating model to reduce the need to use paper documents. We reconsidered our requirements for receiving wet signatures from clients and adapted our controls to ensure that we remained structured and controlled in our approach. We informed all our clients about the changes.

We also approached key players in the market to challenge processes that lead to too much paper being used. For example, contract notes are received for trades executed, chasing letters for payment and confirmation of settlement, which are generally not used and simply recycled. Electronic confirmations also speed processes up and are more reliable than paper, improving client experiences and outcomes.

We contacted various fund managers, raised the issue at industry steering groups and rallied other platforms for support. It transpired that there was a lack of appetite to change, and inability to change due to systems issues. We noticed some improvements from other parties in due course, though, and remain committed to minimising the unnecessary use of paper and using electronic confirmations where possible.

How we view stewardship and responsible investing
Continued

Industry structure and products

External managers and industry organisations sometimes request views and feedback on the structure of retail or other investment products. We encourage such interaction, in the hope that our experience can direct them to provide more appropriate products for our clients and other buyers and help to develop more robust and tailored investment markets.

Case studies:

European ETF market

In 2020 we were approached by a potential entrant to the European ETF market regarding the nature of the marketplace, our experience with market makers and the profile of our suppliers. We provided them with our views and information on several topics. The firm eventually decided not to launch ETFs in Europe. We regard this as a positive outcome, since the market has a great many sub-scale ETFs already.

Carbon products

Through the course of 2020 we were approached separately by two investment managers who were keen to know our views about carbon funds they were working on. Such funds trade carbon credits in the EU and elsewhere, which are a way for firms to hedge their emissions exposure. Charging users for their emissions is an important part of helping to reduce global warming.

We suggested how the products could be designed, implemented and charged for, designed to raise investor participation and help to make the carbon markets larger and more liquid. One of the planned products was launched in August 2021 and has raised substantial assets already.

Greenwashing

We believe that 'greenwashing' – conveying false impressions about how environmentally sound investments products are – is pervasive in the investment world. In October 2020, Terence Moll, our Head of Investment Strategy and ESG, took part in an ESG Pathway webinar hosted by Square Mile and ESG Clarity, and presented to investment advisers on how to identify genuinely green vs greenwashed funds and products. We had several follow-ups from advisers wanting to learn more about greenwashing, and plan to raise the issue in industry forums in 2021.

Stewardship and engagement at 7IM

How we prioritise our engagements

We believe good stewardship practice is a basic obligation when we perform our fiduciary duties for our clients. Engaging with companies and voting at company meetings are part of being a responsible asset owner and we have prioritised them for a long time.

We focus our engagements on material issues that we think represent specific risks to the long-term value of our clients' shareholdings. We also pay attention to the size of holdings, the scale of the problem and how much influence we may have.

Our core investment services provide multi-asset class portfolios, usually via collective investment vehicles. Externally managed products total around 95% 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 ESG issues into account in their investment processes.

In some cases, we engage with fund managers directly, where we have concerns about their investment strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters. We regularly question them about their holdings, to ensure that they are implementing full stewardship in their portfolios – via voting, engaging with companies where necessary, and encouraging the companies they hold to follow sound ESG policies.

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 around 90% of active equity exposure and 15% of assets under management. 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 ETFs and diversified quantitative products. We expect managers to engage with the companies in their portfolios but recognise that because of the large number of holdings and lack of discretion they are unlikely to engage as much. We check, of course, that they are using the weight of their assets under management to vote on important issues and are taking 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. As a holder of credit, it is possible to engage but without the use of a vote to make the point some companies may choose to ignore bond holders. Votes on bonds tend to be narrow, with little impact on the firm's operations. Occasional opportunities may arise for managers to engage. Emerging market debt managers, for example, can engage with the governments of some countries.

Alternative strategies with direct equity exposure, like event or equity long-short. For these products we follow the same approach to stewardship as for active equities. We note, though, that stock holding-periods are often shorter than for fundamental equity strategies, allowing 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 are looking after the best interests of their clients.

Where 7IM holds assets directly (5% of assets under management), 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 focus our engagements on the top 20 or so direct holdings, representing about 80% of direct assets under management. The largest of these by far is Berkshire Hathaway, discussed on p. 35.

Stewardship and engagement at 7IM
Continued

External manager stewardship and ESG monitoring

7IM is largely a fund of funds business and about 95% of its assets are managed by third-party managers in equities, bonds and alternative investments. We rely on external managers to implement the UK Stewardship Code and expect them to report on how they exercise the rights and responsibilities of assets held on behalf of 7IM.

When meeting and monitoring funds we research a wide range of due diligence questions. In 2020 we upgraded the 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 interact with them, we ensure they are applying their ESG principles and processes, and that they're engaging with their companies where necessary.

When a sustainable solution is required this due diligence extends to exclusion policies. The 7IM Sustainable Balance Fund has a number of specific sector exclusions that are not necessarily applied in funds that describe themselves as sustainable. We have encouraged ETF managers looking to launch funds in fixed income asset classes, for example, to add exclusion policies to make them suitable for the 7IM fund.

Below, we describe what we look for in our ESG and stewardship research and note two cases from 2020 where it made a difference.

Stewardship and ESG

What is the manager's approach to stewardship and ESG? 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?

How are the manager's stewardship commitments reflected in the governance structure and 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 other similar standards.

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 and 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 influenced decision-making? Does the fund have explicit climate change objectives such as emissions reduction targets?

Voting and engagement

We ask about the manager's voting and engagement policy for the fund, and whether it has clear environmental and social voting guidelines. We investigate how much of the decision-making on voting lies with the portfolio manager and how much is outsourced.

We request details about voting, particularly votes against company managements, and on what grounds, e.g. company strategy, board structure, remuneration or audit and accounts.

We ask how often managers have engaged and escalated with companies and what the outcomes were, and whether this informed investment decision-making.

Case study: Robeco Global Credits Fund

We searched for a global credit manager in 2020. We knew that Robeco had incorporated ESG factors into their main investment process and had a firm-wide belief that this was beneficial for future returns. We liked how stewardship and ESG are integrated across their investment teams, rather than placed in a separate silo. This was the differentiating factor that separated the Robeco fund from the competitors that we'd been looking at.

Following the due diligence process, we used the fund across our core active fund range. We will make sure we include ESG-integrated entrants where possible in all future manager searches in credit and equities.

Case study: Merger Arbitrage fund

In 2020 we went through a search for a merger arbitrage and event-driven strategy. We asked all 14 managers on our long list for details of their ESG approach. Four were systematic and did not incorporate ESG factors at all. We were disconcerted to find that of the remaining ten, only three could provide adequate replies.

We selected one of the better managers in ESG terms, although we informed them of our findings that ESG incorporation across all was considered relatively early stage. We have used sections of follow-up meetings to explore how ESG integration for the strategy has developed. We will develop the framework further in future searches in the alternatives space.

Stewardship and engagement at 7IM
Continued

Stewardship and ESG upgrade in 2020-21

Through 2020 it became apparent that our process for selecting third-party funds did not scrutinise fund manager stewardship and ESG beliefs and processes enough, at both corporate and investment strategy levels, and did not rate and compare managers rigorously. The ESG Investment Committee began work on enhancing our product-selection process and concluded this project in Q1 2021, followed by the systematic roll-out of an ESG questionnaire to all investment managers that our funds and client portfolios are invested in.

We evaluated their responses with the help of a scoring tool designed in-house, assigned ESG ratings to each fund and communicated our findings back to the managers. We are encouraging good behaviours and processes where we have identified them. We are also engaging 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-investable by 7IM.

We will report on details and conclusions from this project in next year's Stewardship Report. We will review the questionnaire, evaluation tool and engagement approach every year, as we expect standards to evolve rapidly.

Third-party manager stewardship and ESG in practice

Understanding how managers incorporate ESG is an important part of our due diligence. We look for products where ESG is a core part of the investment process and are cautious of funds where ESG alignment is viewed as a tick box exercise.

Many fund managers claim to have ESG policies but seem not to apply them consistently. We examine their portfolios when we interact with them, to investigate whether they are following their ESG policies and implementing stewardship seriously. Some examples of our interactions with external managers concerning ESG issues and stewardship are shown below.

Manager stewardship and ESG case studies

Blackrock ESG Emerging Markets Blended Bond Fund

We asked about the emissions-intensity of some of the holdings in this fund, e.g. Petrobras, a Brazilian parastatal in the petroleum industry whose ESG performance is widely regarded as poor. The fund manager regards Petrobras as on an improving ESG trajectory, thanks in part to efforts to improve internal controls and reduce carbon emissions. We are sceptical and will continue to debate the matter.

Emerging market equity manager

With one emerging market manager, we questioned an investment in a Canadian mining company whose founder and executive chairman had a dubious environmental record. The company was making a large investment in a copper ore mine in the Democratic Republic of the Congo.

The response of the manager was that the copper is an essential commodity if the world is to decarbonise. The ore being extracted by the mine was the richest commercially available worldwide, and the relatively minor environmental impact of extracting this ore outweighed the historical record. In addition, the company was going out of its way to provide stability, opportunity, training and employment to one of the poorest areas of the world.

Emerging market equity manager

We queried an emerging market manager about their investments in Norilsk, a Russian mining company that is responsible for huge global sulphur dioxide emissions, plus other heavy metal and fuel pollution. The company also has significant governance issues. The manager's response was twofold, i) Norilsk had embarked on a major capex program to clean up its emissions under pressure from investors and the Russian government, and ii) the world needs nickel if it is to decarbonise, and resources at Norilsk are the most environmentally efficient way to obtain nickel, despite the poor record. We are not convinced and will monitor Norilsk's environmental performance and have further discussions with the manager in 2021.

The Tesla question

We have grilled a number of fund managers, including managers of ESG equity funds, about their holdings of Tesla, a large US stock that is widely regarded as environmentally aware but has significant corporate governance issues. They typically acknowledged the governance issues but reckon this is the cost of investing with a maverick as far-sighted as Elon Musk. One manager suggested that even the US regulators had backed down because they could see the greater good of his electric cars and other businesses.

Tesla is a problem case for ESG managers. We will continue to question them about their holdings of technology companies with great environmental promise but poor governance, shareholder protections and safety practices.

Stewardship and engagement at 7IM
Continued

Engagement

Engaging with fund managers

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 and suggest where they think companies can improve their stewardship and ESG practices. 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, as discussed later.

Manager investments case studies

Lightman European Fund

We reviewed the Lightman European Fund holdings late in 2020 and were uneasy about how carbon-intensive some of them were. With Europe at the forefront of ESG regulations, particularly from an environmental perspective, we wanted to be sure that the manager understood the ESG risks within the portfolio. After some interaction we concluded that the manager is aware of these environmental and emissions-related risks, favours companies whose ESG performance is improving, and recognises opportunities in the transition towards greener energy. We were pleased with this outcome because we'd been encouraging the manager to focus more on emissions and the environment.

RWC Global Emerging Markets Fund

In meetings with RWC through 2020, we discussed their approach to a takeover attempt at Kaz Minerals, a holding within their Global Emerging Markets Fund. RWC issued a public statement outlining its intention to vote against a proposed buyout from the company's chairman on the basis that it significantly undervalued the company. Following discussions, we were comfortable that RWC's objections were based on the desire to preserve shareholder value.

We questioned, however, whether they should have invested in the first place, since much of Kaz is owned by a party that has a poor reputation regarding minority shareholder rights. RWC responded that emerging market investors have to accept that minority protections may not be as comprehensive as those in the UK and that minority investors should attempt to meet with companies to educate and negotiate. Since the takeover bid in October 2020 the share price has risen considerably and the bid price was raised, suggesting that minority shareholders are not losing out.

Manager engagement case studies

Global convertible bond manager

In 2020 we held a position in convertible bonds which we accessed through an active fund we had held since 2018. The fund's performance was disappointing, and we met with the management of the fund on a number of occasions, including Portfolio Managers and the Team Head. We wanted to understand their underperformance and decide whether we still had confidence in their investment process.

We discovered through our due diligence that the fund had 20% sector holding limits. This had become an issue due to the growth of the Information Technology (IT) sector in the index to a weight of 33% at the time. The limit gave the fund a structural underweight to IT, despite its investment themes being aligned with this sector. We had queried this limit early in 2020 and raised it again as the issue became more pressing. At the end of May the policy was changed to reflect the higher weight of the IT sector. We saw this as an improvement to their investment process and a success from our engagement.

BMO Global Equity Market Neutral Fund

7IM was a seed and cornerstone investor in the BMO Global Equity Market Neutral Fund. In 2019-20 we engaged extensively with BMO, following a change of key personnel within the fund and subsequent proposed changes to the strategy.

After a routine review of the strategy in March 2019, we were informed the following month that the head of the team would be leaving the business. This triggered an engagement with BMO, leading to an in-person meeting with new team members in their London offices in late April. At this point we were satisfied the position should remain a hold.

In late August, we were informed of further changes to the underlying strategy. We were given extensive access as a major holder of the strategy, including contact with the full team and management from the USA through several review calls in September 2019. We objected to the proposed strategy changes to all levels of BMO on those calls.

On 2 October we were informed the strategy changes were to go ahead regardless and made the decision to sell our holdings. The final sales from 7IM models took place in March 2020. While our engagement with the manager was not effective, we now have a template for similar interactions with managers in the future.

Fee negotiations with external managers

We believe in keeping the investment fees we pay to a minimum. Lower fees can have a major impact on the total returns of our clients in the long run and is something we take very seriously at 7IM.

We use the weight of our total assets when negotiating fees and carry out extensive due diligence on what the 'fair price' is for different asset classes and investment strategies, whether active or passive. We have managed multi-asset portfolios since 2003 and have built up good relationships with most major asset managers in the industry. We believe this helps us when negotiating fees.

In 2020 we were able to negotiate rebates across a range of equity, fixed income and alternative products. Of our three largest negotiations in 2020, the average discount from the headline ongoing charges figure was 39%. We see this as evidence that we are acting in the best interests of our clients.

Using index futures vs ETFs

We sometimes use index futures as an inexpensive and liquid way to access asset classes. In the past we have reviewed the futures contracts we hold to check they are still cost-effective relative to the cheapest ETFs in the market. We found that there are marginal differences between the large cap equity index futures and the equivalent ETFs, with the S&P 500 future in particular being marginally more expensive than the equivalent ETF. We also found that mid-cap equity index futures were cheaper than the equivalent ETFs as the futures pricing on those indices benefitted from repo transactions on the underlying equities.

We took this research a stage further in 2020 when we considered possible replacements for our S&P 500 exposure. Our due diligence indicated that accessing the S&P 500 through a synthetic ETF could be preferable for our clients. The benefit comes from the swap providers being able to pass along the benefit of their exemption from withholding tax, which is levied at 30% on US dividends. At the time this represented a substantial benefit of 0.57% p.a. We engaged with four major synthetic ETF providers to ensure we keep costs as low as possible.

Stewardship and engagement at 7IM
Continued

Fund managers engaging on our behalf

7IM has had an investment mandate for a portion of the Sustainable Balance Funds equity assets with Sarasin & Partners for 14 years. Sarasin operates an integrated approach to ethics and stewardship, being an active owner to promote effective governance of the companies held in the fund on behalf of 7IM clients. This includes voting on the holdings in the fund in line with its investment objectives, e.g. voting for greater diversity in companies and in line with climate change objectives and the Paris Agreement.

We have confidence in Sarasin's commitment to stewardship, especially in their ability to convert engagement into successful outcomes. For example, they engaged with Orsted, Amazon and Carnival to get them to agree a Paris Commitment, with BlackRock to get a commitment to put climate change at heart of their process, with Shell, Total and BP on Net Zero ambitions, with Barclays on Net Zero ambitions, and many others.

SARASIN
& PARTNERS

Sarasin engagement case studies

EssilorLuxottica

The 7IM Sustainable Balance Fund has held EssilorLuxottica for several years. In 2020 it emerged that there had been a small fraud at the firm, which raised concerns about internal controls. Since the merger of Essilor and Luxottica in 2019 there had been issues around the senior leadership. Sarasin, on behalf of 7IM, asked the company for assurances on Board succession plans, appointment of the new CEO and a contact among the current directors with whom they could discuss concerns on these matters, and also directors' remuneration and the terms of the Combination Agreement.

The appointment of a new sole CEO Francesco Milleri at the end of 2020 was welcome. Sarasin continue to monitor developments and, if the key issues raised with the Board are not addressed before the 2021 AGM, further action might be taken.

DS Smith

Sarasin engaged with DM Smith, one of the holdings in the Sustainable Balance Fund, on our behalf. They wrote to DS Smith in March 2019 asking them to make a zero-carbon commitment which Sarasin saw as vital for a packaging company. DS Smith had pledged that 100% of its packaging will be recyclable or reusable by 2023 but was in Sarasin's view falling behind on its climate commitments. After follow-ups in 2020, DS Smith have now made this longer-term commitment to Science Based Targets for 2030 and Net Zero emissions by 2050, thus reinforcing their leadership as a sustainable provider of packaging. Our conviction in their outlook has been strengthened.

Compass Group

Sarasin has collaborated on our behalf in its challenge to the Compass Group on Modern Slavery. They had initial talks with Compass in 2019 about the company's actions in this area. Sarasin were largely reassured that it had made steps in the right direction over the years, particularly around its internal controls to prevent, detect and respond to the risk of modern slavery in its operations. However, they felt that there was room for improvement and greater transparency, particularly in higher risk areas such as some parts of the Middle East. Compass' new 2020 modern slavery statement mentioned it had undertaken a third-party audit and has reviewed and upgraded its recruitment processes. Sarasin expects to see further progress in 2021.

Stewardship and engagement at 7IM
Continued

7IM invests with a range of external managers, active and passive, and expect and encourage them to engage with their companies, when necessary, for the benefit of their investors like us. Three case studies of our active equity managers engaging with companies in their portfolios are shown below.

Active equity manager case studies

Alliance Bernstein and Regeneron

We hold Alliance Bernstein (AB) International Healthcare in our active portfolios. A focus of AB's engagement in 2020 was Regeneron Pharmaceuticals, a health care company. One aspect of this engagement concerned improvements to the company's sustainability program.

AB met with the new Regeneron head of ESG to discuss the overall programme and the company's corporate social responsibility report, which included inaugural goals. In AB's opinion, the report was more mission statement than commitments. Following continued engagement by investors like AB, Regeneron has targeted 2025 to source 50% and 2035 to source 100% of total energy consumption via renewable sources. Regeneron will also begin to report using carbon emission recommendations developed by the Task Force on Climate-Related Financial Disclosures, which is a step in the right direction.

On social matters, while AB considers Regeneron's first set of diversity and inclusion goals to be soft, AB are hopeful that better disclosure and targets will emerge and notes that the company is recruiting for its first Chief Diversity Officer.

Ninety One and Breedon

We hold the Ninety One UK Alpha Fund in our active portfolios. Ninety One engaged with the cement producer Breedon in 2020 because they saw environmental regulation becoming an increasing risk for the firm. Since then, Breedon has introduced a number of measures to help to alleviate their environmental risks, especially important in an industry that contributes 8% to greenhouse emissions. They have signed up to various cement / concrete associations committing to targeting net zero along the value chain by 2050 and plan to introduce Science Based Targets soon.

The appointment of a Head of Sustainability in 2021 further demonstrates their commitment to these issues and allocating resources to managing them. The Board seems very supportive of the process and improving their communication with stakeholders. Breedon are increasing their use of alternative fuels at their kilns and have environmental restoration plans for all their quarries.

BlueBay and Rabobank

We have BlueBay Financial Capital in many portfolios, which holds Rabobank debt. BlueBay had multiple engagements with Rabobank's management over the course of 2020, including a dedicated engagement in October to understand Rabobank's climate strategy and how they measure climate impact and targets. This was an interesting dynamic for Rabobank given the combination of their social purpose and exposure to the agricultural industry. BlueBay explored what they were doing in terms of transition management to help clients become greener and meet their own green targets.

BlueBay views Rabobank's ESG risk management in a positive light. Given their unique corporate structure they have the luxury to take a long-term approach, and it became clear that ESG was on their agenda and integrated into their activities. Going forward, BlueBay aims to understand how they plan to support their small and medium-sized agricultural clients in the context of climate change and impact on the environment.

Direct engagements

About 5% of 7IM assets under management are held in direct bonds and stocks, many of which are UK investment trusts, to get exposure to specialised investment themes or market segments. We monitor them closely and engage with them on ESG and stewardship issues.

Direct engagement case studies

Fossil fuel use at SDCL Energy Efficiency Investment Trust

One of the business areas of the SDCL Energy Efficiency Investment Trust is installing decentralised energy generation sources such as combined heat and power (CHP) generators feeding into a locally distributed network, which reduce generation losses compared to a national network by up to two thirds. While in ESG terms this investment scores highly, we questioned why CHP energy generation sometimes uses fossil fuels. Management reckons that in terms of carbon intensity the energy loss is small compared with nationally distributed energy, so the carbon saving from using CHP is large, even if it is derived from fossil fuels. We will continue to pursue this issue and seek supporting data from management.

Carbon emissions by Target Healthcare homes

Target Healthcare owns care homes with strong social and governance credentials. We queried how they were going to limit their carbon emissions, which can be high in real estate. Their view is that their care homes are largely newly built and energy efficient, with solar cells, ground source energy pumps and efficient insulation reducing emissions compared to care homes that are adapted from residential homes. We will monitor this question and request carbon emissions data from them regularly.

Stewardship and engagement at 7IM
Continued

Collaborative engagement

There are occasions when shareholders might collaborate to increase their influence on specific decisions, to ensure that outcomes benefit their clients. This might happen when they intend to vote against management and believe that other shareholders share their views and concerns. Small shareholders typically have little influence on companies, but when they band together, they can be far more effective. We take part in collaborative engagements when we think we can enhance the value or lower the risks of client assets, and expect our third-party managers to engage collaboratively on our behalf when necessary.

Company escalation and collaboration case study

UK private equity company board

We engaged with a private equity company in 2018-19 to encourage them to improve their corporate governance and respond more to shareholder interests. At the time the managers of the fund were also on the board and we thought this inappropriate. This had a bearing on the alignment of shareholder interests as the dividend was low and earnings per share growth was targeted instead, which benefitted the manager as their bonus was calculated on growth in earnings per share.

Working with other shareholders, we persuaded the company to improve board independence and raise its dividends. By 2021 the whole board was made up of independent directors, and we regard this engagement as a provisional success.

External manager collaborative engagement case studies

Sarasin and Air Liquide

Via Sarasin, 7IM's Sustainable Balance Fund invests in Air Liquide. In 2020 Sarasin signed a Climate Action 100+ letter, as part of a collaboration with other CA100+ signatories, to the Air Liquide board requesting further progress on net-zero and SBT targets. The "milestone" result is that the company has pledged to release updated emissions reductions targets in 2021, disclose more information on corporate lobbying exposure, and consider the request for Paris-aligned accounting.

Threadneedle and the UK government

The Threadneedle UK Social Bond Fund has been held in the Sustainable Balance Fund since 2014. It focuses on allocating to sterling-denominated bonds in impactful sectors like social care, finance and housing.

Threadneedle seek to engage with issuers to suggest how they can leverage their capacity to improve social outcomes. For example, Threadneedle have encouraged many issuers to consider Green, Social or Sustainability bonds. In 2020 they took this a step further by collaborating with other fund managers to engage with the UK government.

The Investment Management team on the social bond fund took a leading role in a group of more than 30 asset owners and investors supporting the Green Gilt proposal that was presented to government in October 2020. The proposal was that the UK issue a sovereign bond to help finance plans to deliver a resilient, net-zero economy that would also aid the recovery from the pandemic.

The response from government was rapid. In November 2020, the Chancellor of the Exchequer announced that in 2021, the government would launch its first green sovereign bond. The proceeds will fund projects to tackle climate change, build infrastructure and create 'green jobs'.

Robeco and Enel

The Robeco Global Credits Fund is one of the core holdings in our active portfolios. Robeco is leading a collaborative engagement with Enel SpA under the Climate Action 100+ initiative and has engaged numerous times with company management. In 2020, Robeco were in contact with executives and the board of the company six times.

Enel has developed an ambitious strategy that is devoted to developing renewable energies and digitising distribution networks. As part of Robeco's efforts to strengthen the company's governance of climate issues, they and a group of institutional investors successfully nominated the former CEO of Wind Power at DONG Energy, to the board of Enel, as an independent director with expertise in the energy transition. This appointment also contributed to strengthening the executive remuneration plan with a metric on the percentage of renewables per total installed capacity, and improved disclosure of climate scenario analyses with estimated potential financial impacts.

Robeco's next steps for engagement with Enel include further disclosure around its roadmap to its net-zero target by 2050, based on the results of the CA100+ Net Zero Benchmark assessment.

Stewardship and engagement at 7IM
Continued

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 are planning to vote against management at a company meeting. Before the meeting we will engage with the management to explain our views and to ensure we understand their views. The issues we escalate will depend on how material they are and on our capacity to influence outcomes.

We might escalate matters via various means, e.g. engaging with the management ahead of General Meetings, attending ad hoc meetings with the company, or meeting with the Chairman or other Board members to discuss concerns. We might go to the lengths of making a public statement in advance of a General Meeting or submitting a resolution and speaking at a General Meeting, but such cases would be exceptional. We might collaborate with other investors in an escalation process, to raise our chances of securing a positive outcome.

Since 95% of our assets are held in third-party products, we expect external managers to escalate on our behalf, when necessary. Likewise, on occasion we have found it necessary to escalate issues with managers, where we believed 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.

Detailed company escalation case study

UK investment trust

We invested in a UK investment trust at IPO in 2015. It followed a relatively new and innovative strategy that we assessed as a potential source of attractive and diversified investment returns over the long term. We were aware there would be some execution risks since it was a new strategy, and that liquidity would be limited. We initiated a modest position with the intention to grow with the company as they raised more capital.

The strategy was materially impacted by the Brexit referendum, which exacerbated execution risks. This was compounded by poor decisions by the Board and the Fund Manager, mainly in respect of continuing to pay a large dividend from capital while also purchasing assets at a lower yield than anticipated.

Over the next couple of years there was a noticeable drop in liquidity and difficulties in attracting new investors become more acute. The investment trust traded at a material discount to NAV for prolonged periods. We raised this issue with the fund manager and the Board on many occasions through this period. Changes were made to improve the marketability of the fund, including a cut to the dividend in 2019 which we had repeatedly argued for.

In July 2020 a third party made a takeover approach to purchase the whole investment trust at a significant premium to the market price. Given the liquidity issues and our inability to scale our position as per the original investment case, we thought this could provide a satisfactory exit for investors. We met with the Board on a fact-finding call and were perturbed to find that they were unwilling to engage with the suitor on the bid.

We wrote to the Board the next day formally recommending that they actively pursue any opportunities for improved liquidity, including working with the potential suitor. We expressed concerns over the level of transparency during the process and suggested that they provide more disclosure to shareholders as soon as possible.

In August 2020 the potential buyer withdrew after the Board refused to engage or provide any access for due diligence. Within a week we again met with the Board to understand their motivations and expressed our disappointment that our views had been disregarded. The Board indicated that they recognised our desire for liquidity and would buy back stock in the market.

The share buyback programme was executed in September 2020 and by investors exiting at prices lower than that offered by the potential buyer, our view that the takeover should have been pursued was confirmed. We met with the Board within a week and made this point to them. They were completing a strategic review of the company and the two resulting options on which shareholders were offered a vote both contained routes to liquidity.

In December 2020 the Board recommended a reorientation of the strategy with liquidity events built in, and if rejected, the Board would put the company into a managed winddown. We decided to vote against the proposal, as we thought a winddown would be in the best interests of our clients since it offered a clearer path for the return of capital at a potentially higher price. The proposed repositioning vote was carried, though, and the company now has another two years to narrow the discount before a winddown.

Case studies: External manager escalation

Sarasin votes on ESG and stewardship

We view Sarasin's strong engagements with companies on behalf of the 7IM Sustainable Balance Fund as part of our own stewardship commitment. Sarasin registers more votes in favour of environmental and social resolutions at company Annual General Meetings than most asset managers, with an average of nearly 80% votes in favour of these resolutions.

As far as resolutions on audit, executive compensation and the structure of Boards, Sarasin votes against or abstains more often than any other major UK asset manager, with votes against executive remuneration of around 80% and votes against audit and board structure of around 50%. Their ESG and stewardship engagements were an influence on our decision to reappoint them to manage the Sustainable Balance Fund's equity mandate in 2020.

Threadneedle and BT

We hold the Threadneedle UK Extended Alpha Fund in several portfolios. Threadneedle are a long-term investor in BT Group, and engaged with the company in 2020 during its consultation on changes to its executive pay policy. BT proposed to pay its executives using restricted shares to align their interests with the company's long-term strategy. Threadneedle's view was that a significant amount of upfront investment is required as the company rolls out fibre optics across the UK to facilitate their 5G network, and that traditional methods of pay – with shares awarded based on three-year performance targets – are unhelpful, given the need to invest. Focusing on free cash flow, sales growth and total shareholder return has led to poor outcomes in the past.

Threadneedle's Responsible Investing analysts and members of the UK equity team met the BT remuneration committee chair and chairman on multiple occasions and queried the company's proposed award levels. Given the certainty of payout, Threadneedle requested that the company significantly reduce the number of shares awarded to better align with the experience of BT shareholders. The company reduced the award from 200% of salary to 160%. Threadneedle voted in support of the pay items at the company's general meeting in July, alongside a large majority of shareholders, and the UK Extended Alpha Fund continued to hold the stock through 2020.

Governance and voting

Voting policy

7IM is responsible for the effective stewardship of all companies in which we invest. We have a duty to vote on our shareholdings, which we use to encourage good business behaviour and sound corporate governance. We exercise our rights and responsibilities on all assets held in our funds.

7IM holds about 95% of its assets in externally managed products where the responsibility for voting on the assets, where relevant, remains with third-party managers. We engage with those managers on ESG and stewardship issues but ultimately the responsibility for voting lies with them.

As described in the previous section, we question our third-party fund managers about their voting and engagement policies, how this process is managed between the portfolio manager and the ESG specialists, whether there is a proxy voting adviser or not, voting records, engagement activity and how the success or otherwise of engagements or escalations are shared with investors.

7IM exercises its rights and responsibilities by voting on directly held assets, be they equities, bonds or alternative products like renewable energy infrastructure closed end funds.

Direct equities and investment trusts amount to about 5% of assets under management, and we vote via the Broadridge Proxy Edge voting platform. Voting activity records are held by 7IM and through the Broadridge website and are available on our website.

A member of the Investment Management team is designated to vote shares held directly in the funds through the Broadridge Proxy Voting service. Should that member of the team be unavailable there are other designated team members who are able to vote through this service.

Through 2020 we generally voted at developed market company AGMs in line with management. Most of the shares we voted on were held in systematic funds. We subsequently closed these systematic funds, leaving us with a small number of directly held stocks on which we vote.

While the Investment Management team does not subscribe to a proxy voting recommendations service, it can choose to override the automatic vote based on advice from other members of the team, publicly available voting decisions of other institutions and input 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.

In some cases, the shares held in the funds may not be available for voting. This is because some shares can only be voted on when a power of attorney is in place and an assessment is made whether the cost implications of putting such a power of attorney in place are merited. If it is considered this will not be in the best interests of the shareholders, the shares are not voted.

As a fund house, 7IM engages in stock lending, which provides extra income for the funds. However, the income gained is quite small and has to be measured against the rights that might be sacrificed by not owning the shares when voting is taking place. We are careful not to lend securities when an important vote is looming and check that the managers of funds we invest in have a similarly cautious approach.

If the Investment Management team wish to vote on proposals for shares that have been lent, it is necessary to get the shares back in time for the vote. There is a procedure in place whereby one share is retained by the Depository so that the Investment Management team is aware of forthcoming votes and can call back the shares in time to vote.

Voting activity is communicated to holders of the funds according to their wishes, indicating whether the votes were in favour of proposals or abstained or rejected.

While it would be possible to vote different funds in different ways, in practice the Investment Management team will vote all funds in the same way.

As a rule, 7IM votes directly-held assets in line with management unless otherwise agreed. There are occasions when this house rule is overridden, e.g. where holdings are held by clients who wish to vote the shares themselves, either in a private OEIC or in their own name.

It would therefore be possible for 7IM to vote one way in the main funds and another way for a client who holds the same shares in a private OEIC or directly. These directly-held client assets are held through a different nominee company and there is a policy in place whereby the nominee company arranges for the votes to be exercised in line with client requests.

When investing directly in fixed income securities, we study the terms and conditions of the issue before investing. There are rare occasions when the terms and conditions may change, and we will vote on them.

Governance and voting
Continued

How we voted in 2020

7IM uses a proxy voting service provided by Broadridge which supplies the proposals put forward at AGMs and at other times for all its holdings in companies, exchange traded funds, investment trusts and other securities. Broadridge does not offer advice on voting.

Team members monitor corporate actions and voting proposals on shares and securities held in client portfolios, to assess whether proposals are in the interests of the holders of 7IM funds. We monitor the Broadridge service by checking that proposals we want to engage with are available for us to vote on, and ensure the votes were placed as we instructed by running reports and making spot checks on voting activity.

One issue we monitor the service for is availability of shares for voting as sometimes these have been lent and we need to get them back in time to meet the voting deadline. We had a few issues with voting in 2020, mainly when we changed our minds about votes at too late a stage. This led us to revisit our internal processes and ensure we do not miss the opportunity to hold companies to account.

7IM voting record in 2020	
Voted shares	710,306,332
Shareholder meetings	182
Resolutions voted	2005
For	1979
Against	26
Abstained	0

During 2020 we voted on some 2000 resolutions and voted against management 26 times, which represents 1% of the direct votes cast. The proposals voted against tend to be around executive compensation, removal of pre-emption rights and reduction of notice periods of meetings. An example of our voting against management appears in the detailed company escalation case study on pp. 62-63.

Voting case studies

Intuit Inc

We voted against a shareholder proposal and in line with management at the Intuit Inc. AGM, since we agreed with the management that the shareholder proposal was without merit and was not in shareholders' interests. The proposal was to adopt a byelaw on mandatory arbitration which the management felt would expose the company to unnecessary litigation and expense. In addition, the company said it was committed to sound principles of corporate governance and had a track record of extensive stockholder engagement, with regular outreach to and dialogue with investors to understand their concerns and perspectives on a broad range of matters, so such a bylaw was not needed.

It was interesting to note that, although 7IM does not subscribe to a proxy advice service, this was also the conclusion of proxy advisor ISS which recommended voting against the resolution. The resolution failed. We regard this as appropriate, since in our view shareholder resolutions should prioritise poor ESG and stewardship practices in the worst firms.

TSB bond benchmark

In 2020 TSB asked bond holders, of which 7IM funds were one, about changing from a LIBOR (London Interbank Offer Rate) benchmark to SONIA (Sterling Overnight Interest Average). The reason for this proposed change was that LIBOR was being phased out and bonds linked to LIBOR would likely become less liquid. After some research and interaction, we decided it was in our clients' interests to switch to SONIA and voted accordingly.

The low level of votes against management reflects the fact that most of these votes were on closed end funds rather than operating companies, which are a small share of 7IM's assets under management. Far more voting is done by the third-party managers of funds 7IM invests in. Those resolutions cover many more areas such as shareholders challenging companies on their environmental, social and governance records, executive pay, board construction and audit. While we do not vote on these funds ourselves, our engagements with the managers mean we can seek to influence their votes.

Some managers operate split-voting functions which allow for different votes on the same resolution. This is not something we have explored up to now, but as our stewardship focus on Paris commitments, net zero, diversity and inclusion, modern slavery and good corporate governance increases, this may be an option if we want to highlight an issue within a fund and the structure of the fund allows it. We will consider this approach in 2021.

Our voting records can be found on our website.

Disclosure and reporting

7IM aims to be transparent and open about stewardship and responsible investment. We disclose our voting policy and voting activities and our annual PRI submissions on the **7IM website**. We intend to develop ESG and carbon reporting on all portfolios through 2021.

Monitoring, updating and reviewing policies

To ensure effective stewardship, 7IM, as an FCA regulated firm and in accordance with good business practice, maintains a comprehensive suite of policies and procedures. Some apply across the whole of 7IM, such as the policies covering Investment Risk, Conflicts of Interest, External Directorships & Outside Interests, Record Keeping, or our Compliance Manual (which covers Personal Account Dealing, for example). Other policies are relevant to specific areas, such as the 7IM Funds and 7IM's responsibilities as Authorised Corporate Director (ACD) and Authorised Fund Manager (AFM). Examples of the latter include policies covering best execution, regulatory breaches, dilution levy, fund suspensions, and pricing.

Specialist teams also maintain a range of procedures to maintain robustness in workflows. Examples from the Investment Management team include procedures describing portfolio management, model management and fund research.

Compliance

Conflicts of Interest (see next section), Execution Policy (reviewed in April 2020), Gifts and Hospitality (October 2019), Market Soundings Policy (reviewed in 2020, see next page), and Personal Account Dealing (February 2021). These appear on the 7IM website or are available on request.

Portfolio Management

We have a comprehensive Investment Procedures Manual, covering aspects such as portfolio dealing, investment and borrowing powers, the use of derivatives, our management of counterparty risk, or our approach to fair value and stale pricing. This document is typically reviewed twice a year.

Oversight of all 7IM policies is ultimately the responsibility of the Board and external assurance is also provided by the 7IM auditors to the fund accountants who may query how well the policies have been implemented.

7IM reviews its policies no less frequently than annually. Additionally, when changes in regulatory or other requirements are identified, the relevant policies are reassessed to ensure they are up to date. We believe that a combination of internal checks and balances and periodic reviews by an external party can ensure that our policies and procedures remain fit for purpose and reflect the current requirements of various stakeholders in an ever-changing environment.

As an ACD, 7IM is subject to a thorough and comprehensive annual review by the Depositary for its funds, Northern Trust. In addition, periodical internal and external audits cover a review of various processes, procedures and policies. We also conduct ad hoc reviews of policies, triggered by new requirements or insights, as the Market Soundings policy review indicates.

Case study: Market Soundings policy review

In 2020, a phone call to a member of the Investment Management team actually turned out to be a market sounding. As soon as the team member realised this, they terminated the call and reported it to Compliance in line with the policy. This was relatively easy as the caller had identified themselves as someone who wanted to take a market sounding. It's trickier when a conversation turns into a market sounding without the team member realising it.

We decided to review our Market Soundings policy to ensure our Investment Management team understands what to watch for. A market soundings caller should immediately announce they are looking to take a market sounding. If this is not clear the team member should ask them directly, so they are not compromised into becoming an insider. All such interactions should be reported to Compliance immediately.

The purpose of the policy review was to ensure that all members of the Investment Management team knew what a market sounding was, and how to know they were being asked to participate in one. This does not happen often at 7IM, which is largely a fund of funds manager, so if a market sounding was being requested it might not be picked up in time and the person spoken to might end up becoming an insider inadvertently.

The Investment Management team was advised of the policy and all members attended a session when the policy was discussed or read it themselves and confirmed that they'd read it.

The Market Soundings policy was initially proposed by the Compliance team to ensure 7IM was applying best practice in this area. It was agreed with the Investment Management team and taken to the Authorised Corporate Director (ACD) committee to be endorsed by the Operations, Legal and other teams at 7IM, at which point it was adopted as a 7IM policy. We regard this Market Soundings review process as a model for how policies should be reviewed, upgraded and implemented.

Disclosure and reporting
Continued

Conflicts of interest

7IM maintains a Conflict of Interest (COI) Policy that is publicly available on our website[1]. It forms part of 7IM corporate governance and is intended to show that we follow the Financial Conduct Authority Principles and Rules and that there's a positive compliance culture within the organisation.

The COI Policy explains how we identify and manage COIs and potential COIs. Key elements of the policy that support good stewardship include Executive team accountability for identifying and managing COI, and oversight of the process by the senior Compliance team. Training on the COI and Personal Account Dealing policies is delivered by our Compliance team, with the next round delivered in H1 2021.

The 7IM Conflicts of Interest policy

The 7IM internal COI policy was revised and updated in 2020 and was approved by the Executive Committee in Q1 2021. The external COI policy was also reviewed and approved in 2020. The policy explains how we would manage any identified conflicts, based around the three strategic steps of i) identification (and escalation), ii) assessment and evaluation and iii) appropriate management action/response.

While we are pleased to report that there were no COI incidents in 2020, the 7IM team remain ready and alert to manage any that might materialise, and to mitigate the risk, where possible, of such an event.

As part of the policy reviews during 2020, the register of potential conflicts was updated and a summary of the registered potential COIs plus the mitigating actions we take, is given below.

[1] See www.7im.co.uk/media/syxlv2cj/conflicts-of-interest.pdf.

01

Firmwide, people-related conflicts of interest

Risks of COIs around external interests, gifts, hospitality and personal account dealing exist regardless of role or department at 7IM. The whole Executive Committee is responsible for managing risks within their individual departments. In our client-facing departments where hospitality is more of a feature of the job roles than in centralized functions like Finance, emphasis is placed on managing this more frequent risk of COIs. Colleagues are reminded of the 7IM policy on accepting gifts, for example at Christmas, as well as hospitality that could be viewed as excessive or designed to influence 7IM decisions. Through our remuneration policy, governed through the remuneration committee, we ensure that people's pay (salary, bonus and benefits) rewards good stewardship.

02

Compliance with the regulatory environment

As a business within the financial services sector, it's vital that we prevent COIs that would breach the rules, guidelines and regulations governing our industry. In the front office and client facing teams, our suitability checking process is one of the measures in place to ensure that COIs do not impact the suitability of investment solutions recommended.

On every business day at 7IM we are trusted to execute trades in financial markets on behalf of our clients. We consider it a privilege to do so, and the checks and controls around this part of our business are extensive. We actively manage potential risks of COIs that could lead to failure to report, correct, or record regulatory breaches, and any risks to best execution of trades and fund pricing accuracy.

Within our complaints process, we actively manage COI risks, for example the risk of a 7IM colleague failing to report a complaint because of a personal COI.

Case study

Inadvertent breach of internal limits

At 7IM, our internal processes ensure that the Portfolio Managers stay within internal and regulatory limits. However, there are times when these are inadvertently breached.

One example of this was an investment in the Robeco Quant High Yield Fund. It had been held in our AAP fund range since 2015 and had performed particularly well during the Covid-19 market drawdown. In late March 2020 the fund suffered two large redemptions, meaning that our holding breached our internal concentration limits. The issue was initially picked up our monitoring software, Fund Axis. This is a third-party post trade monitoring system that employs the collective investment scheme rules, used by our Compliance team to monitor all the 7IM funds. Our holdings, though, were still inside the regulatory limit.

The Investment Management team reviewed the situation and decided that it was in the interest of clients to loosen the internal limits temporarily since the fund was still our preferred holding in this asset class. A further concern was the transaction costs that would have been incurred if we had moved to an alternative fund. In late March and early April 2020, the bid-ask spreads in the high yield market were at their widest since the Financial Crisis in 2008. We did not want to trade at that time unless it was absolutely necessary.

We asked the ACD Committee to relax the internal limits, with the situation to be reviewed again in a month. This proposal was agreed by the ACD and in late April the Robeco Fund received inflows, bringing us back into compliance. We plan to follow a similar measured approach when internal limits are inadvertently breached in the future.

Disclosure and reporting

Continued

03

Investment management and product governance

Investment management is at the heart of our business and working to avoid COIs is central to our operating model. Our Chief Investment Officer is responsible for ensuring that COIs are managed appropriately.

Several policies address potential conflicts of interest in the Investment Management function. Let's consider four examples. First, there is a potential conflict around double-charging for 7IM funds when 7IM funds are held in a 7IM model. There is a policy in place to make sure that clients are not disadvantaged by holding a 7IM fund within their model portfolios.

Second, there could be a potential conflict of interest if a client or group of clients have a big holding in a 7IM fund and try to influence an investment decision. A fund must be managed in the best interests of all the fund holders, not just the large holders. When such a potential conflict is identified it is monitored by the authorised corporate director (ACD) of the fund which will receive reports from the Investment Management team on any issues that arise to ensure the fund continues to be managed in the best interests of all clients.

Third, there is a potential conflict of interest when buying or selling a holding that is in a number of 7IM funds. When we decide to buy or sell a product across multiple 7IM funds, there is a policy in place that requires the trades to be allocated proportionately across all funds, by value.

Fourth, conflicts of interest can arise when an individual on the Investment Management team is made an insider. This means they can no longer act as decision-maker on the subject of the inside knowledge and are not permitted to deal in any related shares. This can occur when there is a potential corporate action and may be the result of a broker taking a market sounding. 7IM has a policy that requires team members to report any conversation about being made an insider or that touches on market soundings to the Compliance Department, as discussed on pp. 68-69.

Personal account dealing

7IM maintains a Personal Account Dealing Policy (PA Dealing), last updated in February 2021. The policy is designed to prevent behaviour that may conflict with the firm's obligations to its clients or mislead other market users and prevent misuse of privileged information.

The policy is managed by the Compliance team. The last all-staff reminder on the policy and its key features was issued in December 2020 by our Compliance Director (and Money Laundering Reporting Officer). In the period covered by this report we did not record any material PA Dealing issues.

About 7IM

Corporate structure

Seven Investment Management LLP is a limited liability partnership within the 7IM group, the ultimate holding company of which is 97% owned by Caledonia Investments PLC. The remaining 3% is owned by members of the 7IM Management Team, and as of end-December 2020, about 60 staff members shared directly in the growth of 7IM over time.

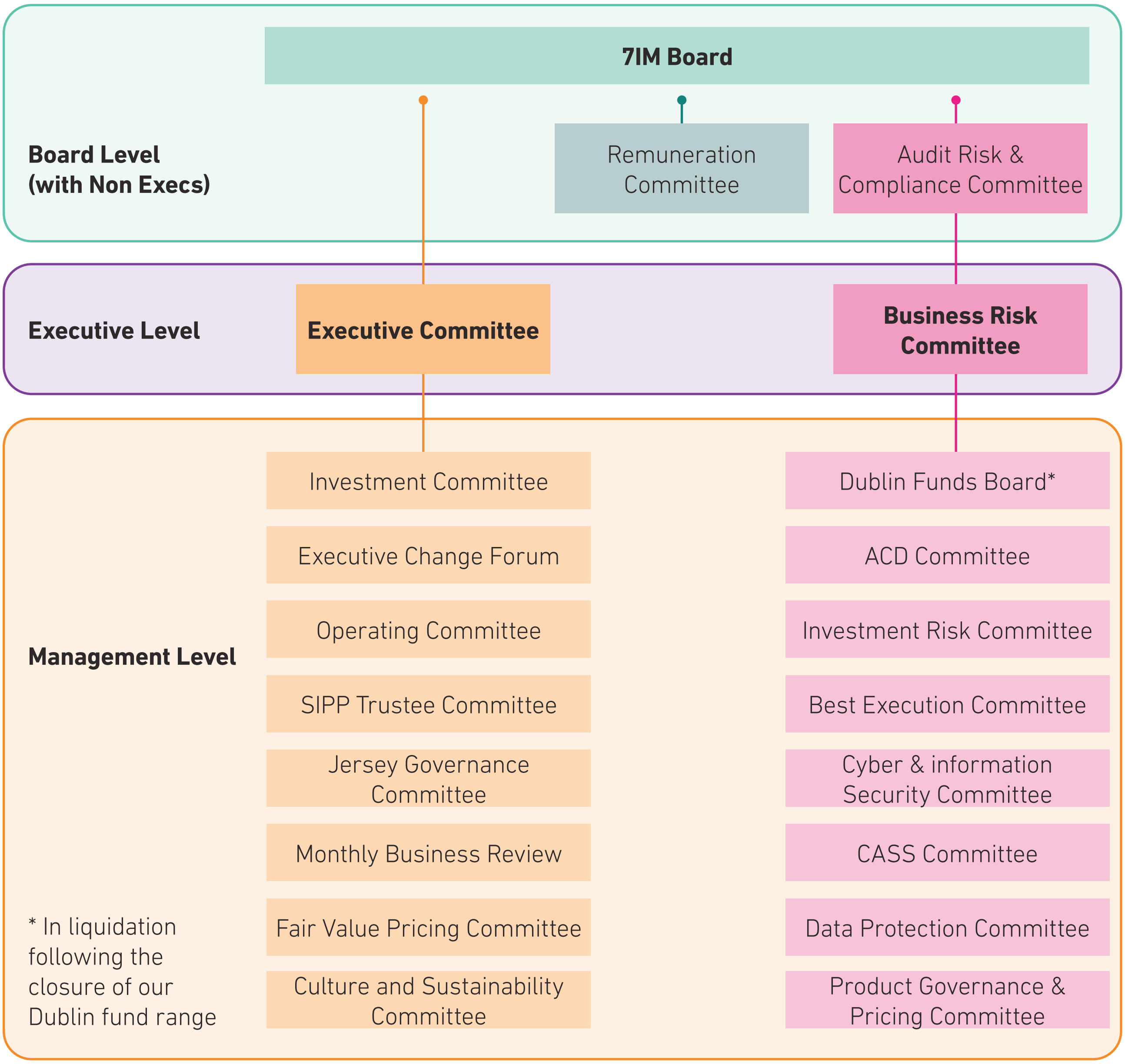
This structure has allowed 7IM to take a long-term approach to the development of the business, just as we recommend our clients do with their money.

Corporate governance

7IM has a comprehensive and agile corporate governance framework. Committees operate with clear areas of focus at the 'Management Level', then ladder up via two Executive-Level Committees to an overseeing Board which is the governing body of 7IM. The committees at management level undertake a breadth of work which added together assures the careful stewardship of the firm, when combined with the oversight and guidance of the Executive and Board levels above.

All committees include senior leaders from the Executive and extended leadership teams. At the end of 2020 the corporate governance framework was as follows:

7IM corporate governance framework



About 7IM
Continued

Stewardship governance

We reviewed and upgraded our stewardship governance framework in 2020 to support 7IM's stewardship more effectively and explicitly.

At the corporate level, we established the Culture and Sustainability (C&S) Committee in mid-2020 to take responsibility for stewardship and related issues, as described in the 'Stewardship and Responsible Investing' section on pp. 15-16. Its mandate is to 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, to introduce to 7IM best practice thinking and ongoing awareness of global developments in sustainability and corporate social responsibility, and to make sure the 7IM culture is being respected and upgraded across the firm.

Its function had previously been served by a cross-business group with ExCo members attending, but we decided it should be formalised as a Committee with full business representation and thorough documentation, reporting to ExCo. To stress how important these issues are to the firm, the C&S Committee has three members from ExCo.

At the investment level, we created the ESG Investment Committee in 2020. It functions as a subcommittee to i) the Culture and Sustainability Committee, to ensure our approach to stewardship within investments matches our broader corporate approach, and ii) the Investment Committee (IC), to enforce full integration of stewardship through our investment processes, which are overseen by the IC. The ESG Investment Committee includes two members of the IC, which helps to ensure the Investment Management team will prioritise its recommendations.

Much thought went into the design of the current governance structure and the underlying processes. We believe they support our targets and ambitions with regard to stewardship, in two ways. First, the roles and responsibilities of these two committees have been formalised. Second, stewardship metrics have been incorporated into the objectives and quarterly reviews of the key people involved. While 7IM has always taken stewardship seriously, formal responsibility and regular review of progress are another step forward.

We note that the new stewardship governance structure has been far more active and effective than its predecessor. The C&S Committee launched a range of initiatives in 2020-21, some of which are listed under 'Corporate social responsibility' earlier. Likewise, the ESG Investment Committee was busy from the start. It commissioned and oversaw the 2020-21 project to decarbonise our Strategic Asset Allocations, described on p. 37. It also initiated work late in 2020 to integrate stewardship principles more thoroughly into the third-party fund selection process, resulting in the ESG questionnaire that was circulated to all third-party managers in early 2021, described on p. 52.

However, just as we regularly review our policies (discussed earlier), we will also monitor the effectiveness and appropriateness of this committee structure. Through the course of 2021, we plan to review the following governance questions at the above two committees:

Does our governance and process architecture enable us to be close to, and cater for, our clients' evolving requirements and views?

Do our investment and risk management processes factor in all risks and opportunities we should be staying on top of, to ensure best-possible client outcomes?

Are we capturing all opportunities to improve our stewardship approach with regard to our assets under administration?

Are we integrating stewardship into our fund selection process well enough? Is our questioning concise enough, does it enable a robust audit trail? And could we help establish higher standards in fund selection processes across the industry?

All of the above reflect, in our view, an ongoing improvement of our stewardship policies and processes.

Internal assurances

7IM's policies and implementation regarding stewardship and ESG have developed a great deal in the last few years. How can we make our stewardship and associated reporting as fair and non-misleading as possible?

We rely on three lines of defence. First, we have a comprehensive trail of evidence. This report has been compiled and reviewed by the Head of Investment Strategy and ESG, the Chair of the Culture and Sustainability Committee and the Chair of the ESG Investment Committee. They, in turn, rely on reports and input from various committees and processes whose outcomes are all documented, e.g. regarding engagements with external managers, or company voting.

Second, we have drawn on a network of collaborators across the business who have contributed towards or reviewed sections of this document. They have assured us that its content is fair, balanced and clear.

Third, our Investment Risk, Operational Risk and Compliance teams have reviewed the document and checked that our business activities as reported here comply with the Stewardship Code.

All our external communications, with clients or otherwise, are written or reviewed by the relevant subject matter experts; say, a piece on our investment strategy, asset allocation changes or ESG integration will be drafted by the Investment Management team. Corporate Communications will review, to ensure that the language used is fair, balanced and understandable. Should circumstances require this, colleagues from Compliance or Legal provide additional input.

About 7IM
Continued

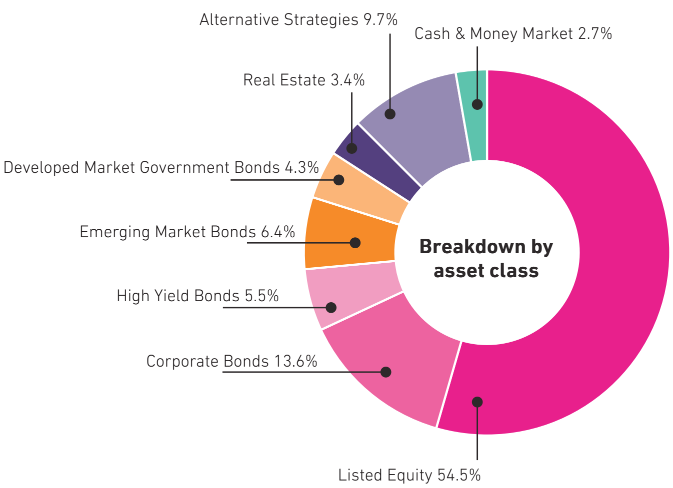
Assets under management

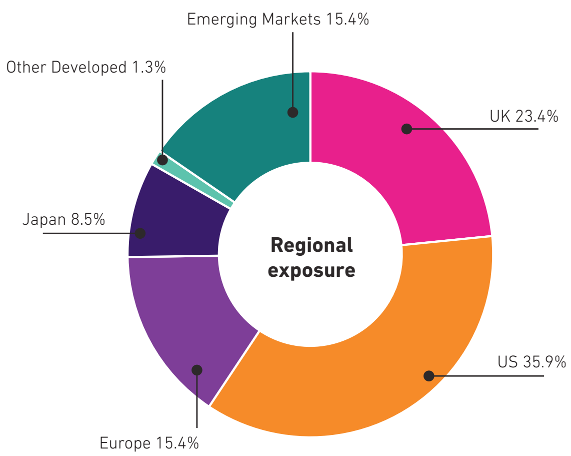
At the end of 2020, 7IM held about £16 bn of assets on behalf of its customers. Of this total, about £8.2 bn was in discretionary funds and portfolios managed by 7IM. The remaining £7.8 bn – referred to below as 'assets under administration' – was held on our platform and we didn't manage these assets ourselves.

Discretionary assets

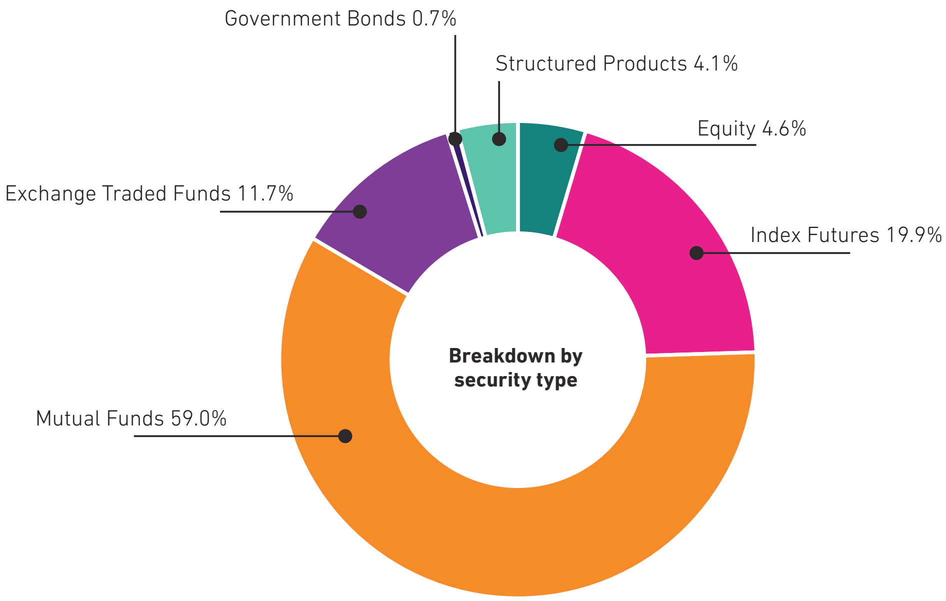
7IM managed about £8.2 bn of discretionary assets in funds and portfolios at the end of 2020. These assets were mainly invested via third-party products, with over 95% of the assets that we hold being accessed through actively managed, quantitative or index-tracking mandates. This clearly drives the types of engagement techniques that we follow, as described in the 'How we prioritise our engagements' section on pp. 48-49.

Looking through to the underlying holdings of third parties and our directly-held assets, the charts below show the approximate breakdown of this £8.2 bn, by asset class and by region, at the end of 2020:





These discretionary assets can also be broken down by security type, excluding cash and cash equivalents:



All our funds and portfolios follow the same investment process and risk oversight methods to ensure they stay within the investment limits of our underlying clients. This involves monitoring by the Portfolio Managers, Investment Risk team and Compliance, to ensure that client interests are kept front and central at all times.

These assets are spread across the range of investment products and services that we offer, from open-ended investment funds available to investors via their financial advisers on third-party platforms to discretionary portfolios that we provide through our private client service. Of the discretionary £8.2bn, £3.9bn sits in our custody where we have direct relationships with the underlying clients. About 43% of this £3.9bn was held via intermediaries, and 57% were private clients (including wealth management, family office and self-invest).

Geographically, our client base is almost entirely UK-based with a few clients in the Channel Islands. This has always been the sales focus of the business and allows to us to maintain solid interaction with clients from our London and Edinburgh offices.

About 7IM
Continued

Case study: Looking after client interests

Fund range closure

During 2020 7IM closed its Dublin fund range. An important decision like this which affected clients invested in the funds over many years required 7IM to ensure that this was the right decision for clients and that they would not be disadvantaged by the fund closures. We worked with all stakeholders to ensure they understood the reasons for the closures and that the process was handled in the best interests of clients in the Dublin funds and in the receiving funds.

The Dublin funds mirrored the existing London-listed Multi Manager and the Asset Allocated Passive ranges and were originally launched to allow clients to buy 7IM funds in an offshore wrapper. The fund range had not grown as much as 7IM had expected, reducing the economies of scale that help to limit fund costs. When Brexit became an issue with concerns about how UCITS funds domiciled in Dublin would were to be treated post the Brexit transition period, the question of the future of the funds became more urgent.

There was a risk that after Brexit the UK-domiciled funds that the 7IM Dublin fund ranges invested in would no longer be viewed as UCITS compliant. In that case, the maximum that could be held in UK-domiciled funds by each fund in the Dublin fund range would have been reduced to 30%. 7IM did not want to risk non-compliance and moved to a compliant position for all the funds in the Dublin range late in 2020. This was not ideal going forward as it could lead to the Dublin funds being unable to replicate the asset allocation of the UK funds if suitable products were not available.

7IM conducted a project to assess the outcome of the fund closures for clients and the effect of these fund closures on the receiving funds, e.g. regarding concentration limits on individual holdings. 7IM reported on this analysis to the fund manager and the Board, which agreed to the closures on the basis that this was in the best interests of the clients invested in the Dublin fund range.

Assets under administration

At the end of 2020, 7IM held about £7.8 bn on our platform in non-7IM products. We oversee the administration of these assets but do not make discretionary investment decisions on them. Despite not being able to engage on these assets we still have the duty to be good stewards in other forms.

The 7IM Platform service delivers a unique, personal and digital client experience. We help individuals with pensions and retirement income, partner with advisers who want to focus on their client relationships rather than administration, and provide an overall experience via the use of technology to make things simple and clear.

Financial advisers choose our platform because it provides a wide range of investment solutions, accessed through an engaging adviser and client experience, as described in the '7IM Platform' section. Its assets are administered by Pershing, our custodian and a market-leader in this area. We carry out oversight of Pershing across the whole investment life cycle including corporate actions, pricing and reconciliations, to ensure our client's assets are protected and are being managed in line with regulatory requirements.

Our business model means that we are in a unique position to offer services that other platforms are unable to provide. Lessons learned and services developed through our Funds and Models business are transferable to our platform. This includes developments due to the Markets in Financial Instruments Directive II and client reporting.

Our Platform has a long history of strong service and market-leading technology. During the Covid-19 lockdowns these aspects were tested comprehensively. Unlike some other platforms we were able to provide a full service over the whole of lockdown, meaning that IFAs who use it were able to service and reassure their clients.

Our range of products

Our **Multi Manager fund range** is designed to give clients exposure to our overall investment views, with active manager expertise within asset classes, where we think stock-picking can add further value. There are different funds for different profiles: **7IM Adventurous, 7IM Moderately Adventurous, 7IM Balanced** and **7IM Moderately Cautious.**

Our **AAP fund range (Asset Allocated Passive)** has all the benefits of our Investment Management team's active allocations but keeps costs down through the use of largely passive, low-cost instruments. **7IM AAP Adventurous, 7IM AAP Moderately Adventurous, 7IM AAP Balanced, 7IM AAP Moderately Cautious, 7IM AAP Cautious** and **7IM AAP Income.**

In 2020, we launched the **7IM Pathbuilder fund range**, a diversified suite of funds with a keen focus on costs. The funds use a more streamlined version of our Strategic Asset Allocation to help us to control costs.

We also have a selection of funds designed to meet specific needs, such as the **7IM Personal Injury Fund,** the **7IM Real Return Fund** and the **7IM Sustainable Balance Fund.**

The 7IM Model Portfolios are a range of risk-rated portfolios designed to meet the varying needs and goals of our clients.

Our **Active Model Portfolios** adopt the same investment process and active asset allocation process as our funds, with the asset allocation implemented using predominately active investments. **7IM Active Adventurous Plus Model Portfolio, 7IM Active Adventurous Model Portfolio, 7IM Active Moderately Adventurous Model Portfolio, 7IM Active Balanced Model Portfolio, 7IM Active Moderately Cautious Model Portfolio** and **7IM Active Cautious Model Portfolio.**

Our **Blended Model Portfolios**, like our Active range, follow the same active asset allocation process as our funds but the entire asset allocation is implemented using passive and smart passive investments. **7IM Adventurous Blended Model Portfolio, 7IM Moderately Adventurous Blended Model Portfolio, 7IM Balanced Blended Model Portfolio, 7IM Moderately Cautious Blended Model Portfolio, 7IM Cautious Blended Model Portfolio** and **7IM Income Blended Model Portfolio.**

We also offer the **7IM Select Funds** and **7IM Select Models.** These are a range of products that follow the tactical direction of the other ranges, but try to reduce the impact of falling markets via careful use of derivatives or negatively correlated assets (assets that may move in the opposite direction to the rest of portfolios).

In 2019, we launched **7IM Passive**, a diversified range of passive multi-asset model portfolios underpinned by our robust SAA process. They are built purely using a streamlined version of 7IM's robust SAAs. **7IM Adventurous Plus Passive Model Portfolio, 7IM Adventurous Passive Model Portfolio, 7IM Moderately Adventurous Passive Model Portfolio, 7IM Balanced Passive Model Portfolio, 7IM Moderately Cautious Passive Model Portfolio.**

At the beginning of 2021 we launched **7IM Responsible Choice**, a diversified range of multi-asset model portfolios that invest in ESG and responsible products only. The range includes: **7IM Responsible Choice Adventurous Model Portfolio, 7IM Responsible Choice Moderately Adventurous Model Portfolio, 7IM Responsible Choice Balanced Model Portfolio, 7IM Responsible Choice Moderately Cautious Model Portfolio, 7IM Responsible Choice Cautious Model Portfolio.**

The 7IM funds and Model Portfolios are available through the 7IM Discretionary and Platform, as well as through other third party platforms.

About 7IM
Continued

Incentives and remuneration

The 7IM remuneration strategy has been designed to assist the organisation in achieving its strategic goals and objectives through attracting and retaining talented staff within the business, while promoting and rewarding behaviours that drive a high performing culture.

When reviewing staff remuneration annually, thorough salary benchmarking exercises are conducted, providing an impartial and accurate picture of remuneration to help ensure that the business is making informed and effective remuneration decisions across departments.

We use Balanced Scorecards to ensure that 7IM avoids unweighted emphasis on short-term financial targets. Our model has three segments to represent and focus attention on our long-term strategy. Staff are reviewed on a quarterly basis against objectives aligned to goals in the areas of Financial, Strategic, and Compliance and Values & Behaviours, allowing consideration of both long-term and short-term factors.

Within Compliance and Values & Behaviours are objectives that are linked to Treating Customers Fairly, collaboration, monitoring and adhering to controls. This was included to ensure that members of staff were incentivised to ‘do the right thing’ for fellow members of staff and clients. We plan to develop this section of the Balanced Scorecard in 2021 and incorporate more stewardship and ESG factors to ensure that incentives are made more specific in the future.

Staff bonuses and members’ variable drawings remain discretionary across the business and depend on overall 7IM performance, individual performance on Balanced Scorecards and external market conditions. No management or staff reward is made on a transactional basis, no commission is paid unless in exceptional circumstances and 7IM targets are kept separate from reward. The Remuneration Committee has ultimate sign-off on compensation across the business and is underpinned by the remuneration policy, and ensures that these are applied and followed consistently.[2]

7IM’s culture shapes the remuneration processes to ensure that staff understand how their work impacts the firm, sets clear targets, and puts processes in place to support training behind achieving these. We run initiatives across the business to help colleagues to succeed and encourage collaboration across a matrix or outside individual silos. Personal Development Plans support Balanced Scorecards to bring out people’s potential and help develop the managers and leaders of the future.

[2] The 7IM remuneration policy is publicly available on our website, www.7im.co.uk

Glossary of terms

Active ownership

Investors using their voting rights alongside engagement to effect change and improve the long-term management and value of a company.

Authorised Corporate Director (ACD)

Deals with the day-to-day operations of open-ended investment companies, e.g. managing the investments, ensuring that shares are priced accurately at net asst value, and compliance.

Carbon footprint

The amount of carbon dioxide released into the atmosphere due to the activities of a household, company or country.

Clean energy

Energy produced by non-polluting generation sources such as solar, wind and hydro.

Climate change

The long-term change in the expected patterns of average weather of a region or the Earth, linked to global warming.

Corporate governance

The system of rules, practices and processes by which a company is directed and controlled. Boards of directors are responsible for the governance of companies. The shareholders' role includes appointing directors and auditors and making sure an appropriate governance structure is in place.

Corporate social responsibility (CSR)

The term under which companies report on their social, environmental and ethical performance, having recognised their responsibility to the community and environment in which they operate.

Energy Savings Opportunity Scheme (ESOS)

A mandatory energy assessment scheme introduced by the UK government in 2014 to make sure large enterprises in the UK are energy efficient.

Engagement

The practice of shareholders entering into dialogue with management of companies to change or influence corporate behaviour and decision-making.

ESG

ESG is the consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing whether an investment is sustainable in the long run.

ESG integration

The incorporation of environmental, social and governmental factors and analysis into investment decisions.

Ethical investing

An investment approach that uses ethical values and beliefs as a screen for selecting investments.

Financial Reporting Council (FRC)

The independent regulator that regulates auditors, accountants and actuaries in the UK, and draws up the UK's Corporate Governance and Stewardship Codes. The FRC seeks to promote transparency and integrity in business.

Impact investing

An investment philosophy that favours companies working to provide significant societal or environmental benefits, in addition to generating financial returns.

Low-carbon economy

An economy based on low-carbon power sources with minimal greenhouse gas emissions into the environment.

Negative screening

An investment approach that excludes some companies or sectors from the investment universe based on criteria relating to their policies, actions, products or services.

Paris Agreement

The Paris Agreement sits within the United Nations Framework Convention on Climate Change. It sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C compared to preindustrial times, and was signed by almost all of the world's countries in 2016.

Principles for Responsible Investment ('PRI')

The United Nations-supported Principles for Responsible Investment initiative was launched in 2006 and is the world's leading advocate for responsible investment. Signatories commit to supporting six principles for incorporating ESG issues into investment practice.

Proxy voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend AGMs. This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Responsible investment ('RI')

Responsible investment involves incorporating ESG considerations into investment decision-making while practising active ownership. RI is expected to help deliver sustainable, long-term returns for investors.

Scope 1, 2 and 3 emissions

Greenhouse gas emissions, led by carbon dioxide are a key metric of how an entity contributes to climate change. The TCFD recommends that organisations disclose their Scope 1 and 2 greenhouse gas emissions, and if possible, Scope 3 emissions too.

Scope 1 emissions comprise all greenhouse gas emissions generated directly at the company site. This includes, for example, emissions from on-site heating boilers or chemical processes.

Scope 2 covers all indirect greenhouse gas emissions linked to energy generation by energy suppliers, particularly electricity.

Scope 3 covers all other greenhouse gas emissions produced through the operations, products and services of a business.

Glossary of terms
Continued

Stranded assets

Typically refers to fossil fuel reserves that may become 'un-burnable' due to climate, regulatory, technological or market changes.

Strategic Asset Allocation (SAA)

A strategy by which investors set target allocations for a broad range of asset classes in a portfolio, and rebalance portfolios periodically back to the targets.

Streamlined Energy and Carbon Reporting (SECR)

A regulation from 2018 requiring large and medium-sized business in the UK to report on their carbon emissions and reduce the amount of energy they use.

Sustainable development

Meeting the present needs of humanity without compromising the needs of future generations.

Task Force on Climate-related Financial Disclosures (TCFD)

A group established by the Financial Stability Board of the G20 nations, to focus on reporting on climate-related risks. It reported in 2017.

UK Stewardship Code

A code of behaviour for asset managers and asset owners first published by the Financial Reporting Council in 2010. The Code was greatly revised and extended to all asset classes in January 2020.

Weighted Average Carbon Intensity

A measure of a portfolio's exposure to carbon-intensive companies, and hence to potential climate change-related risks. It is defined as the weighted average of [Scope 1 + 2 Emissions / $1M Sales] for each company in the portfolio.

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