Responsible Investment (RI) /Environmental Social Governance (ESG) Summary

Backdrop

There are multiple providers of ESG/RI market data competing to become the system of choice, all with slightly different approaches and applying different weightings to E, S and G criteria.

This gives rise to providers assessing and rating companies differently - and inevitably results in individual companies being rated differently by providers. Exclusions are not part of the standard screening product offered, tending to be an add on if required. Exclusion lists themselves are not consistent between ESG providers either and hence can vary between index providers.

All data, and ratings, are backward-looking and tend to be reviewed on an annual basis. This means that sometimes ratings can still reflect issues from previous years and are not necessarily reflective of current or changing behaviours.

Broad categorisations may sometimes not make allowance for cultural differences or local political and regulatory conditions.

Further, it is worth noting that RI/ESG investing comes with a potential performance benefit or cost.

Exclusion-based Indices (Passive approach) vs Active ESG/RI Process

As exclusion-based indices are typically determined by one provider, they may be somewhat narrowly focused. As noted earlier, these are backward-looking and not reflective of changing behaviour. They are also often subject to higher turnover, as these changing behaviours feed through to ratings over time.

Conversely, active approaches can be informed by a number of different sources - and further refined through fundamental analysis and assessment of current behaviour. Judgement calls can be layered into the process to reflect current/future direction of behaviour.

Active approaches with moderate risk budgets (such as Border to Coast's internally-managed equity funds) assess companies based on their behaviour/impact relative to sector peers.

An active approach allows for engagement with a company to try to drive improvement in behaviour and practices.

Border to Coast's approach.

Our approach is to incorporate ESG factors into our investment analysis and decision making, enabling long-term sustainable investment performance. We employ both top-down screening and fundamental analysis in our approach to ESG, and we consider portfolio exposures in aggregate as well as individual company positions.

We use a number of different ESG focused information sources - including Morgan Stanley Capital International (MSCI), RepRisk, Sustainability Accounting Standards Board (SASB), Bloomberg, Transition Pathway Initiative (TPI) – as well as external research providers who incorporate ESG issues into their fundamental investment research. As such we ensure that we have a more rounded set of inputs to inform and direct our own fundamental analysis of a company and its ESG profile. This allows us to assess the ESG risks and opportunities for a company and industry. We consider ESG issues from the point of view of opportunities as well as risks.

There may be apparent conflict between some of the positions we hold and those that appear on exclusion lists from certain providers. When conducting research and analysis we will assess whether a company has either already changed behaviours, or is in the process of changing, and if those changes will be reflected in improved ESG outcomes and ratings in due course. We also consider how a company compares to its peer group and how over time industry practices will improve. (For instance, the Transition Pathway Initiative on carbon issues, or the Tailings Dam Initiative within the mining industry).

We consider engagement to be an effective tool in improving ESG behaviour at target companies but are also conscious that engagement will not always be successful e.g. Exxon.

Where we cannot see these changes taking place, we will consider selling a holding. **Kepco**, which appears on the State Street exclusion list, is one such company. We made the decision to sell our position as, in our opinion and based on our analysis, there was no visible pathway or commitment to improving the ESG outcome. **Exxon** is another example of a company which was sold on ESG grounds.

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