Cazenove Capital

ESG & Stewardship Policy

Part of the Schroders Group

Definitions

Cazenove Capital is the wealth management business of Schroders plc in the UK and Channel Islands. We have been practicing Sustainable Investing since 2002 as part of our investment process and through our client offering. As part of the Schroders Group, we have been awarded A+ by the UN Principles of Responsible Investment (UNPRI), are Tier 1 signatories to the UK Stewardship Code, and were voted one of the top 10 Global Responsible Asset Managers by Share Action in 2020.

Environmental, Social and Governance (ESG) investing covers the range of investment activities which recognise the relationship between companies, governments and the societies and environments in which they operate. There are two broad approaches to ESG investing:

Inform 1) ESG integration: considering ESG issues when building a portfolio	**Influence** 2) Stewardship: improving investees ESG performance	
ESG integration	**Engagement**	**Voting**
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Discussing ESG issues with companies to improve their handling, including disclosure of such issues. Can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

Source: UN Principles of Responsible Investment.

Philosophy

The world is changing rapidly. Demographic, climate and technological shifts are just a few ways in which global society – and the planet itself –is transforming. This backdrop of change cannot be ignored. So when we invest in search of long-term, sustainable returns, our processes are built to ensure we capture opportunities and minimise the risks of failing to adapt.

Inform: As long-term stewards of our clients' capital, we naturally focus on the long-term prospects of the assets in which we directly invest, or ensure the managers of collective investments we choose are doing so. We recognise that companies do not operate in a vacuum, and that 'non-financial' issues such as climate change, human rights, and corruption can have very real financial implications over the medium to long-term. Given our long-term horizon, we therefore believe it is our responsibility to protect the interests of our clients from the impacts of both financial and non-financial risks. As such, we use ESG integration across our investment analysis and when constructing portfolios, for the benefit of all clients.

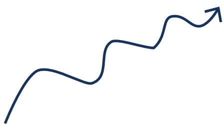
Influence: Additionally, we also believe in being active owners of our clients' capital and engaging with the companies and managers in which we invest to improve their ESG attributes. On a company-level, this means engaging with management to adopt a 'stakeholder' rather than a 'shareholder' mentality; we believe that companies who focus on creating long-term value for all stakeholders, being their employees, customers, suppliers, communities, regulators and the environment, rather than focusing on short term profits for shareholders, will outperform over the longer term. This is because relationships that are built to create value for all parties are more likely to thrive, resulting in more successful long term partnerships, less disruption for the business and a more positive business environment.

On a manager-level, this means working with our managers to increase the robustness of their own ESG integration and their active ownership practices. Where engagement targets are not met, we will vote against company management or challenge managers on their voting record, whilst continuing to engage to affect change.

Philosophy

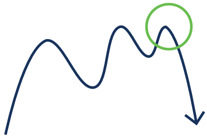
As such, we believe that incorporating both ESG integration and stewardship into our investment approach enhances our process by allowing us to:

1 Pick up sustainable growth



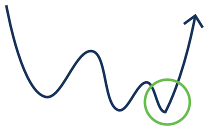
High quality companies tend to have less ESG issues and Management can execute business strategy to achieve sustainable growth

2 Avoid high risk companies



Corporate scandal and fraud can destruct corporate value severely and therefore we cannot ignore ESG issues of invested companies

3 Turnaround by engagement



Engagement can lead to resolution or improvement of ESG issues and that leads to turnaround of companies business as well as stock price

For illustration purposes only. Source Schroders.

Inform:
Our approach to ESG integration

In order to produce the best risk-adjusted returns for clients, we use ESG integration within our entire investment process from direct equity and fixed-income investing, to manager selection.

We fundamentally believe that those companies which poorly manage their relationships with stakeholders are more likely to suffer risk events that could lead to price falls or credit defaults. Over the long term, such companies which produce negative externalities to society are likely to be charged back those costs in some form. These potential risk events will differ across the investment universe; for example, corporate governance issues are considerations across all industries, whilst environmental risks may be more significant for mining and fossil fuel companies. In all cases, however, ESG risks are likely to add to the volatility, potential drawdown or credit rating of a direct investment.

1) Within manager selection:

To integrate ESG into our manager selection process, we first examine the manager at the firm-level, where we aim to understand if sustainability is a central part of the firms' ethos, culture and DNA; and secondly, at the strategy level, where we assess the extent to which the investment manager integrates ESG considerations when analysing investments.

Firm-level ESG integration

Every year, a questionnaire is sent to the 140+ investment managers on our approved 'buy' list. We aim to understand how long and to what extent a firm has been implementing ESG; how it is aiming to improve its own ESG performance (such as carbon footprint or board diversity); how much resource it has dedicated to ESG and how robust as a consequence its policies are; and finally, how strongly it has embraced active ownership through engagement and voting. Accordingly, the questionnaire is broken down into 4 categories:

Credentials 15%

Culture 20%

Capabilities 30%

Stewardship 35%

Inform:
Our approach to ESG integration

The responses are scored and normalised to ensure a fair comparison can be made between respondents. Given we send this questionnaire out every year, we are able to track and monitor progress year-on-year.

We do not have an exclusionary policy, i.e. where we won't hold a fund if the manager scored less than a stated minimum score. This is because we believe engagement is a more effective tool for change than exclusion. Therefore, we engage with those managers who score poorly, to encourage them to adopt best practice and increase their ESG capabilities. We have been pleased with the responses to our engagements and have already seen managers make marked improvements.

Strategy Level ESG Integration

At the strategy level, we do not score the funds or collective investments in the same way as managers at the firm-level. This is because we believe standardisation is neither possible nor desired: investment objectives, styles and asset classes vary too much. Instead, we monitor ESG integration at the strategy level as part of our fundamental research and ongoing due diligence.

To do this, we ask investment managers to evidence how they integrate ESG within their own investment analysis and selection.

2) Within direct equity stock selection:

We also integrate ESG within our direct equity investment process. We believe that those companies which offer the best risk-adjusted returns, are those whose management establishes strong relationships with all of its stakeholders.

In order to analyse this, we use a proprietary data-driven tool called CONTEXT which draws in about 150 metrics from over 50 sources such as company reports and third-party review sites like Glassdoor to assess a company's relationships with its stakeholders. The tool allows us to understand a company's position vs peers on specific ESG issues by attributing a quartile ranking and helps us to identify any shortfalls which could be of material risk to share value. The strength of the CONTEXT score influences our conviction level in the stock, and is reflected in the weighting in the portfolio. As with the manager scores above, there is no exclusionary threshold and all companies despite their ranking are investable, but we must be comfortable with the reasons why lower quartile businesses have not scored higher prior to investing.

3) Within Fixed Income investments

A portion of our assets are invested directly into fixed income investments including both corporate and sovereign issuances. We believe that companies demonstrating positive sustainability characteristics are better placed to maintain sustainable cash-flows and service their debt over the long term. These characteristics include factors such as managing the business for the long term, recognising its responsibilities to its customers, employees and suppliers, and respecting the environment. For the analysis of these ESG factors our fixed income analysts use the same proprietary CONTEXT tool as the Direct Equity team to analyse how companies interact with their various stakeholders. Each company has been scored on their E, S and G competencies and our analysts use this data alongside financial data in their credit analysis of a specific issuance.

Any low scoring issuer that analysts are interested in undergoes a deeper dive into the ESG performance of the company. Where shortfalls are identified, these are examined more rigorously and assessed alongside the issuance terms offered to ensure that the ESG risk has been accounted for during pricing. Companies that have lower ESG ratings are often engaged with, in an effort to reduce ESG risks and this is often done alongside our Direct Equity engagements.

Influence: Our approach to stewardship

Engagement

Active ownership through engagement and voting has long been a key part of our ESG investment approach. We understand that engaging with companies and managers can be invaluable to promoting more sustainable business practices and improving our assessment of the issues they face and their approaches to managing them.

We believe the aim of engagement is threefold:

1. To seek improvement in performance and processes in order to enhance and protect the value of our investments;
2. To enhance our analysis of a company's risks and opportunities
3. To monitor developments in, and encourage ESG best practices

Our team of analysts meet with companies and managers regularly as part of our investment approach and ongoing due diligence, and we use these meetings to bring up specific ESG topics. Alternatively, we also undertake specific ESG engagements with companies or managers where laggards have been identified.

CASE STUDIES

Encouraging 'laggard' managers to integrate ESG analysis

After scoring poorly, our sustainability specialists engaged with a manager we felt was a laggard in terms of ESG integration.

We alerted them to our concerns and highlighted our belief that ESG integration can identify key investment risks and opportunities and could lead to more informed investment decisions. The manager acknowledged that their current process was behind best-practice industry standards.

Our engagement contributed to the establishment of a new Responsible Investment policy and a new firm wide ESG scoring platform. They came in to our offices to present the platform to our sustainability specialists and received our feedback.

Three months later they launched the ESG platform for their analysts to use and all analysts are now required to pull data from the tool and include the output in their stock and credit assessment sheets. They have also launched a sustainable version of their flagship product.

Engaging directly with a company to improve environmental practices

Mowi is a Norwegian salmon farmer. The UN estimate that total demand for protein will grow by 70% by 2050 due to rising populations and rising incomes. Currently, only 5% of total protein consumed comes from fish, yet 70% of the world's surface is ocean.

With capacity for production of protein on land becoming increasingly scarce there will be increasing pressure to expand production of fish to meet the expected growth in demand. Given ESG factors are an important part of our overall investment case, we examined these more closely for Mowi.

Salmon is associated with health and wellness trends. In addition farming salmon is more efficient than other sources of protein in how much of the animal can be consumed and how much feed is required. Consequently, salmon farming has a lower carbon footprint and lower water usage than other forms of protein (i.e. cattle).

Upon analysing ESG attributes of Mowi, we identified some environmental concerns. We engaged with the company and asked them about their chemical usage and weight licence practices. The company responded to us in a constructive manner, accepting that all farming practices come with environmental risks, and documenting where they have made, and continue to make, improvements.

Following these engagements and having witnessed progress our analysts and sustainability team felt that their concerns were appeased. Interestingly, in 2019, Coller FAIRR Protein Producer Index ranked Mowi as the most sustainable protein producer in the world. The index analyses the 60 largest listed producers of animal proteins (meat, diary and aquaculture) for human consumption globally by combining 9 ESG risk factors with the UN Sustainable Development Goals.

Influence: Our approach to stewardship

As part of the Schroders Group we use our collective influence to push for change, benefitting from our global presence. This is particularly important for broader thematic engagements such as climate change, modern slavery, single use plastics. We are transparent and report both our engagement activity and our success track record within our quarterly and annual sustainability reports (link).

Voting

As active owners, we recognise our responsibility to make considered use of voting rights. As part of the Schroders Group, we vote on resolutions at all AGMs/EGMs globally unless we are restricted from doing so (e.g. as a result of share blocking).

We always act in the best interests of our clients. Where proposals are not consistent with the interests of shareholders and our clients, we are not afraid to vote against resolutions. We may abstain where mitigating circumstances apply, for example, where a company has taken steps to address shareholder issues.

We are fully transparent on our voting record which can be found online (link).

It is important to mention that should a Cazenove Capital client want to cast a specific vote on the shares held within their portfolio, this can be facilitated.

Impact: Reporting

We believe that clear and ongoing communication to clients on the ESG characteristics of our investments, their impact on people & planet as well as our active ownership activities is important. As such, all our Cazenove funds and model factsheets include:

- A 'Sustainability Dashboard' demonstrating key ESG metrics for the equity portion of our portfolios. These include carbon intensity, water intensity, emission reduction policy, women on boards, human rights policy and volunteering programs in place.
- Full transparency on controversial equity sector exposure such as tobacco, gambling, alcohol, armaments, high interest lending and fossil fuels.
- A breakdown of the firm-level ESG scores for the model, with the overall average weighted score.

Sustainability dashboard

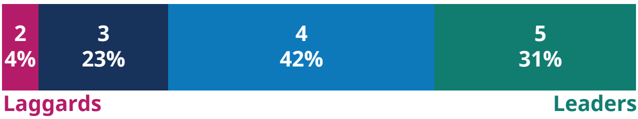
Planet	People
13 CLIMATE ACTION **Carbon intensity** **82** vs. 145 Mt CO2	5 GENDER EQUALITY **Women on Boards** **23%** vs. 23%
13 CLIMATE ACTION **Emission Reduction Policy** **84%** vs. 83%	10 REDUCED INEQUALITIES **Human Rights Policy** **65%** vs. 65%
6 CLEAN WATER AND SANITATION **Water intensity** **22** vs. 38m^3 H_2O	8 DECENT WORK AND ECONOMIC GROWTH **Volunteering Program** **74%** vs. 73%

Source: Refinitiv. Aligned to UN Sustainable Development Goals. Intensity is per $1m sales.
% companies with volunteering programs, emission reduction and human rights policies shown.

Equity Sector Exposures (% total portfolio)			
Tobacco	0.0%	Alcohol	0.1%
Armaments	0.0%	High Interest Loans	0.0%
Gambling	0.0%	Fossil Fuels	0.4%

Equity sectors shown represent common exclusionary screens. Exposure based on MSCI revenue data, as at 30 June 2020.

Fund Manager Sustainability Ratings (% total portfolio)



Portfolio rating

4.0

Source: Cazenove Capital. The sustainability ratings are from 1 to 5 (1 being the worst and 5 the best) and are derived from the 2020 results of our proprietary annual ESG firm-level questionnaire.

Beyond informing and influencing: investing for people and planet

While ESG integration and stewardship are central to our approach across all our investments, many of our clients choose to go further and align their investments with their core values and invest for a better future. For those clients, we offer a range of investment solutions across sustainable investment strategies designed to meet financial objectives, whilst having a positive impact on people and the planet.

Please consult our Sustainability Brochure for further detail or get in touch with one of our Sustainability Specialists listed opposite.

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Further information

Visit cazenovecapital.com to find out more about our sustainable wealth approach.

For more information on voting, reporting or engagement, and the Schroders Sustainable Investment Team, visit schroders.com.

Regulatory Information and Risk Warnings

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