

## **Product Disclosure for Financial Products that Promote Environmental or Social Characteristics**

**1st January 2023**

**Product name:** Stonehage Fleming Global Responsible Investment Fund (“The Fund” “Financial Product”)

**The Fund Manager:** Stonehage Fleming Investment Management (“The Fund Manager”)

**Legal entity identifier:** 2 54900ZPSRJGEOMPR551

For financial products that promote environmental or social characteristics, financial market participants shall publish the information referred to in Article 10(1) of Regulation (EU) EN 32 EN 2019/2088 and Articles 25 to 36 of this Regulation. This summary discloses those requirements.

### **A. Summary**

The Stonehage Fleming Global Responsible Fund is categorised as an Article 8 fund under the Sustainable Finance Disclosure Regulation (“SFDR”). This document provides detail around sustainability related disclosures regarding the fund.

### **B. No sustainable investment objective**

The Fund promotes environmental or social characteristics, but does not have as its objective sustainable investment. The Fund will not make any sustainable investments. Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective; provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

### **C. Environmental or social characteristics of the financial product**

The environmental and social characteristics that the Fund promotes are responsible business practices in accordance with the UN Sustainable Development Goals (“SDGs”) as defined in the Supplement for the Fund.

The SDGs are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere. The 17 Goals were adopted by all UN Member States in 2015, as part of the 2030 Agenda for Sustainable Development, which set out a 15-year plan to achieve the Goals.

Details of the SDGs can be found here: <https://sdgs.un.org/goals>

### **D. Investment strategy**

The Fund intends to gain exposure, through underlying Collective Investment Schemes (“CIS”) managed by Third Party Fund Managers, to companies on a journey towards greater sustainability, with clear strategies to improve on environmental, social and governance factors (“ESG”) as compared to their peer group. The strategy is focused on the improvement potential of a CIS rather than its current ranking versus the peer group data versus its relative peers, for example Morningstar.

The investment objective, investment policy, investment process and investment strategy of the Fund is detailed in the Supplement for this Fund and should be read in conjunction with this disclosure.

Good governance is prioritised by the Fund Manager through the checking of voting records and at bi-annual meetings with the Third Party Fund Managers where direct engagement occurs. In these

meetings, underlying holdings in the CIS with the greatest scope for improvement across ESG and good governance factors are prioritised, including but not limited to:

- companies that publish scope 1,2,3 emissions;
- companies that demonstrate gender and racial equity especially at board level;
- companies with a separate role for each of CEO and chairperson;
- companies that pay a living wage;
- companies with a robust environmental policy; and
- companies with a robust and continually improving health and safety policy.

#### **E. Proportion of investments**

The proportion of the Fund's investments used to attain the environmental and/or social characteristics promoted by the Fund shall be at least 90%.

The remaining proportion of up to 10% of the Fund's investments will be used for liquidity and/or efficient portfolio management purposes and will not incorporate any of the environmental and/or social characteristics promoted by the Fund. While the Fund may use financial derivative instruments, such as listed stock index futures, forward foreign exchange contracts, listed warrants or listed index and currency options, for efficient portfolio management and hedging, they are not currently used to attain the environmental characteristics promoted by the Fund.

While the Fund promotes environmental and/or social characteristics, as at the date of this document, it is expected that the minimum proportion of investments of the Fund in environmentally sustainable economic activities aligned with the "EU Taxonomy" (being Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investments) (including in transitional and enabling activities) shall be 0% of the net assets of the Fund.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria. The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities. Any other sustainable investments must also not significantly harm any environmental or social objectives.

#### **F. Monitoring of environmental or social characteristics**

The Fund portfolio will be reviewed against the 17 SDGs and 12 ESG metrics to confirm the Fund is making progress in its promotion of environmental and social characteristics.

The data provided is used to measure and monitor the impact it will have on, for example, social, environmental and non-financial aspects by virtue of the Fund's investments in order to ratify the investment process of allocating capital to companies that are becoming more sustainable.

The Investment Manager implements this strategy on a continuous basis but is led by the six month reporting cycle for the impact mapping against the 17 SDGs and measurement against the 12 ESG Metrics. The review process is used to ensure the Fund's attainment of the environmental and social characteristics it promotes.

The control mechanism is that if the aggregate Fund portfolio maps as negative to any one of those UN SDGs, the source of negative impact will be identified and divested to bring the Fund back to at least neutral. However, the goal is to be net positive in all of the UN SDGs.

## **G. Methodologies**

The philosophy behind the fund is to prioritise engagement and transformative outcomes over and above ESG scores and exclusions. It would be too easy for the Fund Manager to exclude fossil fuels in favour of consumer and technology names and those with diverse CEOs. This would lead to high ESG scores and superior results from the UN SDG mapping and our own ESG metrics that measure impact. Instead, the Fund Managers philosophy equally embraces companies that are impact driven problem solvers and lower scoring or less obvious companies, driven to improve their ESG status materially. Those companies are also often low scoring, initially. This means there may be times when the Fund portfolio looks less attractive than global equities on particular impact metrics. However, the Fund Manager's approach means the rate of improvement should be greater. In future, as the Fund Manager's track record lengthens, it will be able to calculate and publish this rate of change.

The ESG metrics are a snapshot in time to show what would be achieved if One Million Pounds (£1m) was invested in the Fund. That £1m can be broken down to £200,000 in the healthcare sector and £40,000 in the company Moderna, for example. Data sets have advanced such that the Fund Manager can capture how many high risk patients are treated by a particular healthcare company over an annual period. If a company with a One Billion Pound (£1bn) market cap treats 1000 patients, each £1m investment in the company relates to treating 1 patient and this can be translated this ratio to the position size of the company in the Fund portfolio such that clients can capture their impact. For aggregate stats like 26% women on boards, this means of all the companies in the Fund portfolio only 26% have gender diversity. Whilst it can be easy to challenge each metric based upon whether it is "good" or "bad" the Fund Manager encourages clients to consider the progress made over a 5 year period rather than anchoring to a particular point.

## **H. Data sources and processing**

*(a) the data sources used to attain each of the environmental or social characteristics promoted by the financial product.*

Mainstreet Partners is employed by the Investment Manager to provide more granular data on 12 specific ESG metrics identified by the Investment Manager, which are recalculated every six months (the "ESG Metrics").

*(b) the measures taken to ensure data quality and (c) how data are processed*

The Fund Manager chose Mainstreet Partners following an extensive review of the available offerings. Many providers generate quantitative scores, which it was felt missed more critical qualitative detail. This provider was not afraid of doing the time-consuming and detailed work required to identify each data point and interrogate them.

Behind each of the 17 Sustainable Development Goals (SDG's) is several bullet points with specific criteria. For example, if the Fund considers SDG 8 – Decent Work and Economic Growth, 29 underlying data points relate to this goal. Companies will not necessarily report on all 29, and in addition, companies that do report on these may do so in a way that flatters the metrics. Therefore, to measure the outcomes on this goal, the Fund relies on the following:

1. A model that selects a smaller number of data points but most meaningfully captures the overall objective.
2. Independent external analysis of the company, using data points that are not produced by the company themselves.
3. Companies, where data is not applicable, are given a 'neutral' score to not penalise them.

Therefore, the Fund can review a Third Party Fund Managers CIS portfolio and identify contributors and detractors from specific goals. The Fund Manager can then consolidate this information to measure directly how our entire Fund contributes to these Sustainability Goals. The Fund manager can then have certainty that the Fund is rewarding the underlying companies exhibiting good behaviour.

*(d) the proportion of data that are estimated*

There is no estimated data.

#### **I. Limitations to methodologies and data**

If there is no data, the methodology fails. The model does not rely on company data vis-à-vis the SDGs they report on; rather the model relies on company data, which is allocated to SDGs. Moreover, that data needs to be valid and meaningful to provide a signal/evidence.

To calculate an overall "SDG Score" it would be complex given that there are a multitude of positive and negative feedback loops among SDGs. In addition, an overall score would result in general mediocrity for most companies, sweeping areas of particular strength and weakness because of weighted averages. In summary, the Fund is not swayed by the number of data points or sample size for each UN SDG.

#### **J. Due diligence**

The Investment Manager's CIS selection due diligence process goes through a series of incrementally deeper reviews including the following stages:

##### **1. Initial review**

The initial review consists of assessing available material on the relevant assets within the scope of the Investment Policy. The Investment Manager will review each Third Party Fund Manager's sustainable investment philosophy and approach to applying this against the Investment Policy and consider whether it is sufficiently sustainable for the Investment Manager to proceed to the next stage of due diligence. In doing so, the Investment Manager will consider some or all of the following non-exhaustive list of factors:

- Whether sustainability is fully integrated into the process rather than just being an overlay or output at the end of the process;
- Whether the process has inbuilt checks to remove greenwashing;
- Whether there is sophisticated governance and stewardship process where 100% of proxy votes are acted upon and the rote guidance from an advisory service is not blindly followed;
- Whether appropriate procedures are in place to manage potential conflict between attractive risk/return characteristics of an investment but poor ESG; and
- Whether the different aspects of ESG are integrated in practice or if there is a strong bias towards one or the other.

The Third Party Fund Managers performance record over time is evaluated to gain an understanding of how it has performed during different market conditions and determining whether there is sufficient merit to proceed to the next stage of the due diligence process.

## 2. Third Party Fund Manager Meetings

Where the initial review is positive, the Third Party Fund Manager is asked to complete a proprietary questionnaire to establish ESG ratings, Proxy Voting, United Nations Principles of Responsible Investment, exclusions, methodology used to determine the impact of its sustainable investment philosophy and stewardship approach and a meeting is typically arranged with the Third Party Fund Manager. The Third Party Fund Manager's investment philosophy and approach are critically questioned. After the meeting, the underlying fund is evaluated by the Investment Manager and brief notes recorded in the meeting data base. If the underlying fund merits further research more detailed notes of the meeting will be recorded.

The Investment Manager's investment analyst will conduct a detailed evaluation of the offering, which will consist of assessing and measuring the Third Party Fund Manager against a number of predefined quantitative (e.g. quarterly performance reports) and qualitative measures (pedigree and tenure of the Third Party Fund Manager's investment team). In addition, the Third Party Fund Manager will be asked to provide full holdings of the underlying fund in order to (i) firstly, identify Third Party Fund Managers who have delivered performance with the successful consistent application of their stated sustainable investment process; (ii) secondly, to enrich the qualitative discussions the Investment Manager has with the Third Party Fund Manager; and (iii) thirdly, to provide full transparency on the underlying portfolio over time.

## 3. Product review and report.

Product review: Information gathered in the above stages is compiled into a report on the potential investment and this report is review by the relevant internal investment committees of the Third Party Fund Managers that are responsible for CIS portfolio construction and security selection. Based on their review the investment can be signed off for inclusion in the approved investments list.

The processes and controls in place are threefold:

- Potential investments are assessed as per the fund selection due diligence process set out above;
- Proposed investments are reviewed by the Investment Manager's Committee which determines whether an investment should be added to an approved investments list; and
- The Investment Manager is responsible for selecting the investments for the Fund from the approved investments list and ensuring changes to the Fund are consistent with the defined risk parameters of the Fund. All changes are discussed by and approved by the Investment Manager's Investment Committee.

## **K. Engagement policies**

The Fund Manager is a signatory to the UK Stewardship Code, and produces an annual report that sets out the Fund Managers approach to Engagement activities. The Code applies to all of the Fund Managers investment activities and a copy can be found here:

<https://cdn.io.stonehagefleming.com/craft-cms/legal/Stonehage-Fleming-Stewardship-Report-2022.pdf>

The Fund Manager Engages with the underlying Third Party Fund Managers to ensure that they are taking their engagement responsibilities seriously

In turn, the Fund Manager expects to see the Third Party Fund Managers engaging with the companies held in their portfolios. The Fund Manager expects a very high level of transparency and frequency of communication from the Third Party Fund Managers

The Fund Manager constantly engages with Third Party Fund Managers and question their activities and approach.

**L. Designated reference benchmark**

No reference benchmark has been designated for the purpose of attaining the environmental characteristics promoted by the Fund.