



## HIGHCLERE INTERNATIONAL INVESTORS

### **Responsible Investing Policy**

**Last updated: June 2022**

**We are signatories to the UNPRI, which requires policies for ESG, Stewardship and Engagement and Climate Change. These have been incorporated into our Responsible Investing policy.** We have been UNPRI signatories since 2012 and have integrated ESG themes into our investment process for many years. Initially we focused mostly on governance factors and in more recent years have expanded to include social and environmental issues in more detail. We have a range of ESG reports and an ESG presentation available on request, please contact us directly for more information.

### **Responsible Investment Philosophy**

Our Responsible Investment process is principles rather than rules based. We believe that the analysis of Environmental, Social and Governance (ESG) factors positively contribute to the identification and characterization of quality companies. These ESG factors are not always captured through the quantitative analysis of reported accounts, but do have the potential to materially impact a company's long term viability and valuation. Therefore, we integrate ESG analysis into our investment and decision making process. Assessing the materiality of an ESG issue on a company can be challenging but, where possible, we attempt to quantify the risks. Qualitative ESG factors are included alongside all other factors during the research and investment decision making process.

The size of the companies we invest in means that publicly available, and standardised, ESG information may be more limited than that of larger companies. This lack of data means that screening is not a viable option, we have also found that third party ESG data providers tend to have low coverage of our investible universe. Instead we see close engagement with management as an important part of the investment process. Our investment team and dedicated ESG analyst are responsible for the research and integration of ESG analysis into our bottom up investment process. We engage directly with companies and promote good and improving ESG practices across our investments. We believe that this adds more value when considering the financial impact of ESG issues than running large screens using poorly populated datasets. Our ESG analyst has the sole responsibility for enhancing our principles based approach and to ensure that ESG analysis is more rigorously and consistently incorporated into the investment process. The analyst was a full time member of our investment team for many years, so brings practical investment experience directly into the ESG process.

Our investment philosophy focusses first on the quality of a company, and second on its valuation and growth characteristics, this is key to reducing unforced errors. The quality of a company is a matter of opinion. We believe that high quality companies are those which apply the highest standards to all aspects of their business.

Each of our analysts specialise in a different sector. This means that they understand the specific environmental and social risks and opportunities faced by companies in that sector, and are well positioned to make decisions on whether a management team is handling those risks and opportunities effectively. Corporate governance standards are analysed consistently across all sectors, but vary widely by country of domicile.

The UNPRI recommend that we include details of guidelines provided to the investment team to support their analysis of governance, social and environmental factors. We have described these briefly in the following paragraphs.



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### **Guidelines on Governance Factors**

The analysis of governance factors is a core part of our investment process, included in written reports and peer review. We have an extensive list of governance questions and an accounting and governance red flags spreadsheet, which are readily available for our investment team.

### **Guidelines on Social and Environmental Factors**

We have developed a sector based question bank for our investment team to access which address social and environmental factors. Our investment team has decades of investment experience and our peer review process helps to share this experience between all members of the team. This facilitates a high degree of intellectual honesty and rapid learning across the team.

### **Stewardship and Engagement Policy**

- The size of companies we invest in means that, although corporate disclosure is improving, the information provided publicly can be incomplete and therefore we see company meetings as a key part of our investment process and an important opportunity to engage with management on ESG issues.
- We always talk to management and/or investor relations at least once (usually more often) before making an investment decision to gain a greater understanding of how well the business is managed and whether we have confidence in management to deliver sustainable growth and profitability of the business.
- Once invested, we routinely monitor for any changes that may affect our conviction level. The goal of our engagement is to promote sound governance so that the long term value of our investments is enhanced.
- Key criteria include the materiality of ESG factors on financial and operational performance, the adequacy of public disclosure and specific ESG issues with systemic influence e.g. climate change or human rights abuses.

### **Proxy Voting**

- Any concerns or questions about ESG issues will be raised in meetings with management and documented. If they are not resolved satisfactorily, we will vote accordingly in the company Annual or Extraordinary General Meetings.
- We will vote against company management if we consider it to be in the best interest of our clients.
- Progress is measured by monitoring improvements to a company's ESG profile and continuing a dialogue. If progress is deemed to be insufficient, we may reduce our exposure and in extreme cases exit the position completely.
- Internal resources provide guidance on proxy voting considerations,
- A quarterly summary of proxies voted is available on request.

### **Collaboration and Activism**

- We typically do not take part in collaborative engagements as we prefer to engage independently and directly with our companies, rather than adopting a public pressure group approach.
- However, we recognise the potential benefit of collaboration and will participate in these engagements when we believe that acting in such a way would serve the best interests of our clients.
- Although we are not activist investors, we are active in our investments, we vote on all management issues and engage with our portfolio companies.



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### **Management of Conflict of Interest**

- Highclere recognises that it has a fiduciary and regulatory duty to identify possible conflicts of interest and to take all reasonable steps to mitigate them. To this end, Highclere maintains a conflicts register and a Conflicts Policy. This identifies a range of conflicts, including those related to stewardship and engagement and sets out the internal measures in place to manage or prevent occurrence.

### **Approach to Exclusions**

- We do not exclude entire subsectors, instead making decisions on a company specific basis. This is because blanket exclusions can create contradictions when evaluating entire supply chains. For example, excluding oil and gas but then investing in their primary suppliers.
- That said, we have historically not directly invested in tobacco or firearms and do not anticipate doing so in future.

### **Management and Review**

- This Responsible Investing Policy has been developed by the senior management team, our dedicated ESG analyst and through consultation with the investment team.
- The objective was to determine the best methods of integrating ESG into our investment process.
- Our process and policies are routinely reviewed and updated.
- Responsibility for the implementation and oversight of our ESG efforts lie with our Chief Operating officer, Director of Research, ESG team and investment team.
- We have been signatories to the UNPRI since 2012 and, their framework is a valuable tool which helps us to improve our ESG transparency and methodology.
- While we are not a signatory of the UK's Stewardship Code, we apply the principles that sit behind it to our investment process. More information is available in our 'Stewardship Code Statement'.

### **Climate Change Policy**

- Our approach to climate issues is to focus our efforts on sectors and companies where climate change poses the greatest material risk to our client's investments.
- We consider how companies are exposed to direct and indirect physical climate risk and the potential financial and operational impacts these may have.
- Any material issues, including regulatory changes, are identified by the investment team and our ESG analyst, and will be assessed and documented within the investment decision.
- The financial impact of climate issues are considered over our investment time horizon of 3-5 years, although we also factor in the longer term impact for both social and environmental issues which may be harder to quantify but should still be factored into our analysis.
- We aim to focus our engagement on the issues most pressing to each company and encourage them to set and work towards meaningful targets.
- Our investment team and ESG analyst are responsible for assessing climate related risk at the company level and any material issues will be communicated to and discussed by the investment team.
- We are a supporter of the Task Force on Climate Related Financial Disclosures (TCFD) and are committed to encouraging companies to improve transparency in all aspects of their business.



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- To measure progress on sustainability outcomes we look for tangible improvements in metrics including carbon emissions, deforestations, biodiversity loss, human rights improvements, diversity, anti-corruption measure and progress towards the UNPRI Sustainable Development Goals.
- We believe that these issues constitute material ESG risks and opportunities that may impact financial performance of portfolio companies. To promote better sustainability we engage with companies when we believe that doing so is in the best interests of stakeholders.
- We aim to report more on our work with companies across all ESG factors which will include a focus on climate change issues.
- We have taken practical steps to reduce our carbon footprint as a firm and have offset the emissions produced from our business operations through the World Land Trust's Carbon Offset program.