

Ethical screening is as important to us as the investment process. It matters to our clients that we get this right and abide by the mandate we operate to. In the case of model portfolios this is in the documentation, in the case of discretionary this is taken from the values based questionnaire.

We acknowledge that ethics are not just quantitative but also qualitative and therefore value judgements will have to be made from time to time. Where this is the case, we will err on the side of caution.

In both models and tailored discretionary portfolios we use both a negative and positive screen, therefore not only avoiding bad, but also seeking to make investments that have a positive impact on people and the environment.

Our method has two parts: a process driven quantitative screen and a more values based qualitative screen. What really matters is what the company actually does. We are aware that a good SRI profile is important to any company, and that green washing is a major issue (we wrote about this as early as 2006). It is important to us that the company meets the clients' ethical expectations and does not just tick the boxes.

### The quantitative ESG screen

We will examine the investment from an Environmental, Social and Governance perspective provided by screeners (currently MSCI). This will include a consideration and assessment of their ESG score, which alone will not be definitive and may be overruled. However the detailed report will provide a great deal of information for our process.

A key element of this information is the business involvement report; this will highlight if any of the investments activity is contrary to any negative screens in place.

The second area covers any issues or controversies that have arisen and whether these issues are addressed in a manner we would expect from a company we would seek to co-own.

### The qualitative screen

This will cover what a company actually does. In some sectors we would seek to invest in best of class companies.

*For example in banking and finance, a sector that has experienced a great deal of controversy in recent years. We begin with the view, that without banking and finance we would be a lot poorer (you only need to look at the unbanked nations and the need for microfinance for example). Therefore depending on the ethical screen we may seek best of class investments and positive investments in this sector.*

*Therefore if best of class is permitted, in addition to the ESG score we will prioritise banks and insurance companies that have the more ethical business models. Currently we favour Svenska Handelsbanken in Sweden, where local banks and employee ownership are key*

factors, and the Nationwide Building Society where we hold floating rate notes. Meanwhile Aviva is preferred for insurance as a leading lender into renewable energy and affordable housing.

However our focus will remain with positive finance, therefore microfinance funds and investments that play a key role in addressing poverty in the developing world are favoured. We have seen issues where microfinance has been abused and therefore we would only consider investments where the social mission is front and centre along with a solid investment process. We would seek to include investments in farming equipment leasing to small and mid-sized African farmers, enabling them to use their land and time more efficiently and therefore move from subsistence farming to meeting needs with global food demand and poverty. We are also invested in the IFFIM US \$ floating rate note which finances immunisation programs around the world and literally saves young lives.

The qualitative screen will also aim to identify a number of positive impact sectors. *In property for example (aside from fund of fund model portfolios where these investments are not available) we are not invested in conventional property funds that invest in office and retail. Our focus is medical, affordable and modern rental homes, social housing and infrastructure (with a focus on renewable energy infrastructure, rail and hospitals etc.)*

Other important considerations are good corporate citizenship, therefore in addition to the ESG factors (board composition and employment records would be covered here) we would assess whether an investment's tax practices meet our ethical expectations.

Two of the corporate values that apply across all of the King and Shaxson Group are; to be more human and "does it pass the smell test". In other words, we know investing is more than just an electronic process, it is something we take human responsibility for, and even if something maybe be legally correct, is it right? When it comes to ethical investing these values remain front and centre too.

### **Screening specifically for our ethical Model Portfolios**

The ethical model portfolios are designed to meet the majority of ethical investor's concerns, but as the portfolios include a number of collective funds, and also aim to spread the risk of investing in a tightly defined area, there are some ethical compromises. However we pride ourselves on ensuring that each portfolio is constructed to be as 'ethical' as possible within the investment constraints of each portfolio and platform.

We conduct monthly screening of ethical funds in a process we call 'under the bonnet'. This ensures the fund's holdings truly align with our client's values. Part of this processing involves regular communication with fund managers for justifications on holdings, and if we feel the justification is not sufficient, we will act to reduce exposure or potentially remove the fund from our offering.

The portfolios avoid significant involvement in:

- Armaments
- Tobacco
- Human rights abuses
- Alcohol
- Poor environmental management
- Intensive farming

The portfolios are distinguished by a tilt towards thematic investments which finance solutions to social and environmental challenges such as:

- Renewable energy
- Social property
- Environmental efficiency
- Resource management
- Public transport
- Healthcare
- Water
- Microfinance
- Sustainable forestry

Funds are preferred if they demonstrate a rigorous ethical screen and research policy and employ comprehensive and rigorously applied exclusion criteria.

### Documentation

All investment documentation will include an ethical profile for each holding, from single equities, to funds and unlisted assets. This ensures the client truly understands where their money is invested, and also assists advisers in documenting the process.

Monthly factsheets provide market commentary alongside ethical updates. They will also include rationale for any rebalances, as and when they happen.

We have also classified each stock to help our investors understand the ethical make-up of the portfolio:

**Acceptable:** Companies that meet the exclusion criteria but whose products or services are not of direct social or environmental benefit, and which might be considered as no more than 'ethically neutral'

**Best of sector:** Companies that demonstrate environmental or social leadership in their industry, but whose products or services are of no direct social or environmental benefit.

**Solutions-based:** Companies whose products or services are of direct social or environmental benefit.

**Socially directed:** Companies which fulfil a particularly important social or environmental function and where the risk/reward ratio may be unattractive were it not for the social return.

**Standard setter:** Companies that are seen as a benchmark for their ethical practices.

### Disclaimer

The information contained in this document is for general information purposes only should not be considered a personal recommendation or specific investment advice. Please remember that the value of investments and the income arising from them may fall as well as rise and is not guaranteed. You may not get back the amount invested, especially in the early years.

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