



# SCREENING POLICY

**ETHICAL MPS** (ACTIVE)

**BRIGHTER WORLD MPS** (PASSIVE)

**KING & SHAXSON**  
Asset Management | Rewarding your Values

# ETHICS & VALUES

*Abiding by the mandate we operate to*

At King & Shaxson Asset Management, ethical & ESG screening is as important to us as the financial investment process. We ensure that each investment meets clients' expectations, as we look beyond data gimmicks and simple 'tick box' practices.

Having managed ethical portfolios since 2002, we understand the need for a good understanding and sound application of a **negative** and **positive screen**. For bespoke portfolios, the screen is supplied by the client, whereas for model portfolios, it is clearly laid out in the documentation.

This combination of filtering out the harmful and including the investments with a positive impact on society or the environment, has served our clients well for over 22 years.

The method we use to screen investments includes both a process driven **quantitative** and values-based **qualitative** approach (more of which is covered below).

It is important to note that quantitative **ESG data** serves the process but does not drive it. Recent examples where a company has received a high third party ESG score, but has subsequently been affected by ESG flags, shows the importance of our internal research to avoid these pitfalls.

**Greenwashing** is also a prominent threat when investing ethically: where a company or fund markets itself as environmentally friendly, when in fact it is not.

Our twin approach as well as the under-the-bonnet screening of funds underlying holdings, ensures our investments don't fall victim to greenwashing, and allows us to confidently uphold clients' values.

From time-to-time, value judgements will have to be made. In these cases, we will err on the side of caution.



Applying a **financial screen** is necessary to assess if an investment meets our financial criteria of expected performance and returns

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Applying a **negative screen** makes sure we avoid any company or fund that has significant exposure to, or involvement in, certain negative practices

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Applying a **positive screen** allows us to seek out investments that are having a positive impact on people and the planet



# SCREENING METHOD

*ESG Ratings are opinions, most of the value comes from the underlying discussion*

## **Quantitative**

We will examine investments from an Environmental, Social and Governance perspective by using ESG data provided by third party screeners (such as MSCI).

The detailed reports provide a great deal of information for our screening process. This includes non-financial data that is material to each company or sector on environmental, social and governance factors (e.g. toxic emissions, data security, board diversity, business ethics etc).

This also includes any ESG controversies that have arisen, and whether these issues are addressed in a manner we would expect from a company we would seek to invest in.

A key element is the business involvement reports, which highlight if any of the investments' activity is contrary to the negative screens we have in place, such as animal testing, alcohol products or armaments, to name but a few.

At this stage, a consideration and assessment of an investment's overall ESG score will happen, which will not be definitive and may be overruled.

It is important to note: **Quantitative ESG data serves the process but does not drive it.**

## **Qualitative**

Our in house qualitative research is based on various sources including company disclosures, industry reports, reliable news sources, pressure groups, management meetings etc.

Put simply, this will be where we truly understand a company's operations or a fund's investment approach.

By identifying environmental or social issues related to various mega-trends, such as an aging demographic or the circular economy, we can then establish companies who are truly addressing a problem and having a positive impact on the world around us.

Our approach ensures we have a sound understanding of each investment's mission, avoiding those that have a detrimental impact by operating in a manner that promotes profits at all cost.

Other important considerations are good corporate citizenship; aggressive tax practices, for example, can be legal, but does that mean it's right?

We know investing is more than just an electronic process, it is something that requires 'a more human approach', so our qualitative approach is an important part of our screening method.

# ETHICAL MPS SCREENING (Active MPS)

For our ethical model portfolios, we have implemented a stringent **negative** and **positive** screen to meet the vast majority of investor's concerns (where ethics are more specific, a bespoke portfolio may be required).

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.

Whilst all funds have a specific label, we look beyond this to understand each funds approach.

This includes conducting ongoing screening of funds where we look 'under the bonnet' at the underlying holdings to ensure they still align with the screen in place.

We regularly communicate with fund managers for justifications on holdings, before investing in new funds, and during the time they are held.

## *Included Activity*

- ✓ Affordable, Social & Medical property
- ✓ Connectivity
- ✓ Education & Learning
- ✓ Environmental Efficiency
- ✓ Food & Nutrition
- ✓ Healthcare
- ✓ Microfinance
- ✓ Public Transport
- ✓ Renewable Energy
- ✓ Resource Management
- ✓ Sustainable Agriculture & Forestry
- ✓ Sustainable Infrastructure
- ✓ Water & Sanitation

## *Excluded Activity*

- ✗ Adult Entertainment
- ✗ Aggressive Tax Practices
- ✗ Alcohol Production
- ✗ Armaments
- ✗ Fossil Fuels
- ✗ Gambling
- ✗ Human Rights Abuse
- ✗ Illegal Deforestation
- ✗ Intensive Farming
- ✗ Nuclear Generation
- ✗ Poor Environmental Management
- ✗ Tobacco Production

Our aim is to achieve zero exposure to the above. Where companies have credible and substantial plans to transition away from excluded activities, and where these plans are already evidently well underway, they may be included in portfolios. E.g. Orsted

At times we may exit holdings if we feel the justification from a fund manager is not sufficient, or a company conducts activity that is against the negative screen in place.

Funds are preferred if they demonstrate that a rigorous screen is in place. Our ongoing due diligence ensures this is monitored.

On top of the negative screen, we favour funds which also have a positive investment focus.

Many of the fund houses which appear in our model portfolios will have explicit policies on issues such as climate change, greenhouse gas emissions, and responsible ownership/stewardship.

## *Specific Company Exclusions*

On top of the screens above, we currently have specific exclusions for a number of companies. Facebook (Meta), Apple, Amazon & Google (Alphabet), Alibaba & Tencent - we would seek to avoid these large tech companies due to concerns over social and governance practices. This includes aggressive tax practices, labour issues, supply chain concerns, gaming addiction and data abuse.

# BRIGHTER WORLD MPS SCREENING (lower cost MPS)

## Avoidance

Whilst adhering to a robust negative screen, there is a slight variance to our ethical model portfolios, predominantly through the use of company revenue limits, whilst Nuclear Energy generation is permitted in the Brighter World MPS.

The investment universe is broader for the Brighter World MPS. This does mean inclusion of companies or sectors which the more stringent ethical investor may seek to avoid. For the vast majority of clients, these nuances will be tolerated or be a pragmatic trade-off.

## ESG Screen

On top of the above exclusions, a best of class ESG screen is applied to the core equity allocation based on a company's overall Environmental, Social and Governance scores, with those scoring poorly being removed from the universe. This is based on MSCI's ESG screening methodology, where ratings are based on material ESG factors specific to a company's sector.

### *Targeted Activity*

- ✓ **Climate Change**  
(Alternative Energy / Green Building / Energy Efficiency)
- ✓ **Natural Capital**  
(Sustainable Waste / Sustainable Agriculture / Pollution Prevention & Control)
- ✓ **Basic Needs**  
(Nutrition / Sanitation / Major Disease Treatment / Affordable Housing)
- ✓ **Empowerment**  
(Education / Connectivity / SME Finance)

## Highlighting the nuances in the screen

Given the broader exposure through the core equity allocation, and based on our historical understanding of client demand, there will be exposure to companies, sectors and regions that some clients may have ethical concerns with, predominantly for environmental or social reasons. This may be due to historical controversies that have led some of the more stringent investors to seek avoidance. This includes exposure to large miners, retail companies selling sugary drinks or cosmetics, or greater exposure to regions such as China. Where this isn't a pragmatic trade-off, clients may be better suited to our existing ethical MPS.

### *Excluded Activity*

- ✗ Tobacco Production >0% Revenue
- ✗ Controversial/Nuclear Weapons >0% Revenue
- ✗ Civilian Firearms Production >0% Revenue
- ✗ Alcohol Production >5% Revenue
- ✗ Adult Entertainment Production >5% Revenue
- ✗ Gambling >10% Revenue
- ✗ Oil & Gas Extraction/Production >10% Revenue

## Positive Inclusion

Companies targeting positive environmental or social outcomes will be sought, predominantly through the core Sustainable Development Goal index and thematic exposure.

We will report to investors on portfolios alignment to MSCI's sustainable taxonomy, which aligns with many of the United Nation's Sustainable Development Goals. This allows investors to understand the positive outcomes their capital is aligned to.

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