PORTFOLIOMETRIX
Investment Management by Design

PortfolioMetrix

RESPONSIBLE INVESTMENT POLICY

Version 2

1 Our Beliefs

At PortfolioMetrix, we put our clients at the centre of all we do. Our investment goal is to achieve the best long-term, risk-adjusted, after-all-costs returns for clients subject to their unique needs, constraints, and preferences.

Maximising after-cost returns is essential because it is the key to helping our clients meet their financial goals. At the same time, considering individual client circumstances is essential for helping clients stay composed over time, enabling them to adhere to their financial plans during challenging market conditions.

Working for the benefit of our clients cannot, however, be viewed solely through the lens of financial returns. Client benefit must be considered in the context of the society in which clients live, and the world they inhabit. Social and environmental awareness[1] is thus not only an important component of risk management when it comes to choosing and blending investments, but is also aligned with properly serving our client base.

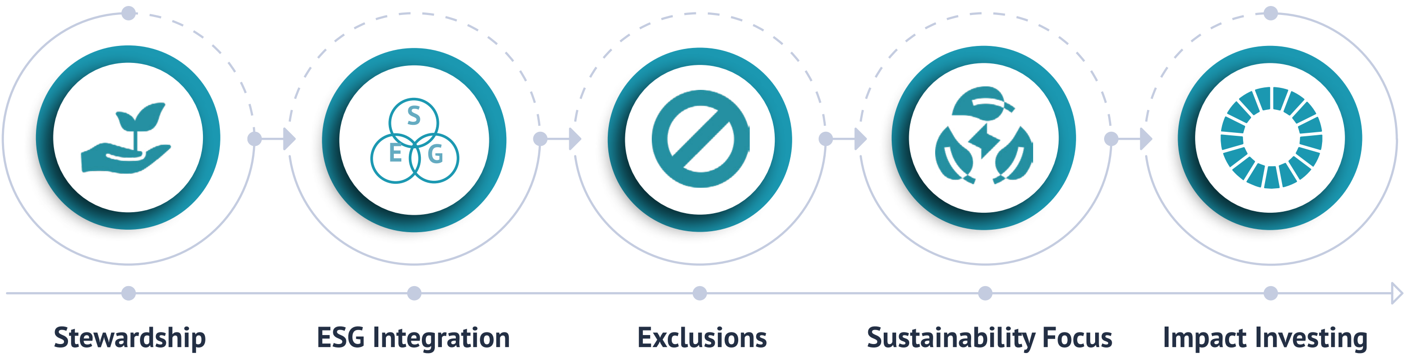
2 Our Responsible Investment Policy

At a firm-wide level, PortfolioMetrix believes in, and adheres to, the principles of Stewardship. And although we don't practice any firm-wide exclusions, we do integrate ESG (Environmental, Social and Governance) considerations into our overall investment process.

This Responsible Investment Policy has been approved by the boards of PortfolioMetrix Asset Management Ltd (authorised and regulated by the Financial Conduct Authority (FCA) in the United Kingdom) and PortfolioMetrix Asset Management SA (Pty) Ltd (an Authorised Financial Services Provider in South Africa, in terms of the Financial Sector Conduct Authority (FSCA)). PortfolioMetrix's Investment Committee has been delegated responsibility by the boards to implement this policy as well as regularly review and maintain it. The Investment Committee is also responsible for managing any conflicts of interest that might arise as a result of this policy, with the ability to escalate up to the boards if necessary.

3 Our Policy in More Detail

The UK's Investment Association (IA), in their "2019 IA Responsible Investment Framework Final Report"[2], uses the term Responsible Investment to encompass the following five components:



PortfolioMetrix has chosen to adopt both Stewardship and ESG Integration, and to use the same definitions the IA uses for these which are taken from two well known external bodies.

1 And this certainly includes specific social issues such as a commitment to human rights and diversity, equity and inclusion; as well as specific environmental issues such as climate change and biodiversity

2 https://www.theia.org/sites/default/files/2019-11/20191118-iaresponsibleinvestmentframework.pdf

The definition of Stewardship comes from The Financial Reporting Council in The UK Stewardship Code 2020 [3]:

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society”

PortfolioMetrix would especially highlight the following key attributes of Stewardship:

- A long-term focus
- Being client-centric
- Engaging with all stakeholders

Stakeholder engagement is a crucial element of Stewardship. This absolutely includes engaging with clients (as part of being client-centric), but also engaging with the companies or funds invested in for clients. It will also include good corporate citizenship in terms of engaging with regulators and other public bodies around policy, or even other market participants as part of wider collaborative engagement initiatives.

As defined by the UN PRI, ESG Integration is[4]:

“The systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions”.

PortfolioMetrix would particularly highlight the following key attributes of ESG Integration:

- The identification of environmental, social and governance risks and opportunities
- The incorporation of these risks and opportunities into our investment decision making process

Environmental issues to be considered would include amongst others:

- **Climate change** - transition risks (uncertain business costs adapting to a changing climate or the need to reduce carbon emissions) and stranded asset risk (the risk that assets on a balance sheet lose value or turn into liabilities because of climate change such as a oil field becoming uneconomic due to carbon taxes/pricing) which could affect the current business activities of companies, but also opportunities around mitigation and adaption to climate change

- **Biodiversity** – whether the company’s business model contributes positively to biodiversity (circular economy/recycling) or negatively (pollution, use of inputs such as palm oil that can lead loss of animal habitat such as rainforests)

Social issues to be considered would include anything that affects a business’s social license to operate. Businesses that are viewed as being positive for society often experience tailwinds such as tax-breaks and other incentives. Those that are not, an example being a firm that engages in predatory lending, may experience censure in the form of fines and other penalties. Social issues would include basic human rights as well as more widely:

- Diversity, equity and inclusion
- Poverty and inequality
- Education and opportunity for all

Governance is the way that businesses and other bodies that issue the securities that we invest in are structured and run. Crucially, we need to evaluate here whether these structures are adequate to protect our investments from fraud/confiscation. We also need to ensure that the companies that our clients own shares in (or have stakes in via funds) are well managed so they can grow over time.

Note, however, that ESG Integration doesn’t prohibit any specific investments, as long as material ESG risks are identified and taken into account as part of the investment decision.

[3] https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Final2.pdf , p. 4.
[4] https://d8g8t13e9vf2o.cloudfront.net/Uploads/d/t/z/maindefinitionstoprireportingframework_127272.pdf p.5.

We include definitions for the three other components in Appendix 1. Whilst there is a certain amount of overlap in these 5 components, they can usefully be thought of as lying in a spectrum of increasing positive impact:

Figure 1: PortfolioMetrix Spectrum of Responsible Investment

Source: PortfolioMetrix, adapted from Bridges Fund Management's Spectrum of Capital and The IA's Responsible Investment Framework

4 What Does Our Policy Mean In Practice?

Below we cover off how our policy relates to our business lines at a firm-wide level. Some clients and products may then have additional responsible elements to their mandates (sustainability and or exclusions) which will further affect portfolio construction, depending on the specific circumstances.

4.1 Multi-Asset Business

The majority of the money we run consists of multi-asset portfolios and funds following a particular asset allocation, chosen to target a particular risk level. The asset allocation of each portfolio is then implemented through carefully selected external managers. Usually this comes in the form of investing into funds (collective investment schemes) run by these managers, although sometimes we hire the managers directly to run segregated mandates.

4.1.1 Asset Allocation Decisions

Usually, although we do consider them, ESG risks have little bearing on the asset allocation decisions we make for clients in general. Climate change, for example, is likely to have a profound impact on the world and our clients, but it is difficult to attribute how it will affect the long-run expected returns of the asset classes we use in portfolio (such as US Equities or Global Corporate Bonds) or indeed the correlations between them. The same is true for social issues such as diversity.

Likewise, stewardship tends to be more applicable to individual assets, rather than asset classes (we can engage at the level of individual funds/bonds and shares but do not engage at an asset class level) which is why our responsible investing framework is more focused at the individual assets level.

4.1.2 Fund/Manager Selection

Within our multi-asset portfolios we commit to:

- Evaluate the responsible investment policies and processes of the funds and managers we use in client portfolios and those we are thinking of using
- Use only those funds/managers who demonstrate adequate levels of Stewardship
- All else equal, prefer funds/managers who demonstrate better levels of ESG integration in their investment processes

4.1.3 Passive Funds

One risk we have identified is that we do use passive (index) funds in client portfolios. This is particularly the case for clients who have, in conjunction with their adviser, mandated us to tilt towards more passive exposure in their portfolios.

Passive funds are not intrinsically 'irresponsible'. But whilst passive funds can demonstrate a good level of stewardship (for example by speaking to the index constituents they passively invest in and by voting on their shares responsibly at company meetings), it is harder for them to demonstrate truly outstanding stewardship characteristics than for active managers. Amongst other reasons, this is because indices usually contain a lot of companies, too many for passive managers to monitor closely. Active managers, on the other hand, invest in a smaller number of companies and so have the potential to invest a lot more time in engaging with them.

Likewise, passive managers tracking broad indices clearly cannot incorporate ESG into their investment process, because they need to track their benchmark regardless of the ESG characteristics of the companies in the index.

In future, as they become available, we may be able to include passive funds that track ESG indices, although these do tend to be higher cost alternatives. For now, PortfolioMetrix will continue to use regular index funds where we cannot find an appropriate active fund or where instructed by clients to tilt to more passive in their portfolios. Any tilt towards passives is likely to decrease the level of stewardship and ESG integration in our portfolios.

The above comments are also true for most systematic factor/smart beta funds that target value, small-caps, momentum, quality and minimum volatility. Like with passive funds, including factor funds in a portfolio (like in PortfolioMetrix's Factor Based Approach) will likely decrease its level of stewardship and ESG integration.

For clients who want to move in the other direction and increase the positive social and environmental impact of their investments, in certain jurisdictions we offer our Sustainable World approach (see Sustainable World Section below).

4.2 Fixed-Income and Equity Businesses

PortfolioMetrix also manages portfolios and funds of direct securities. The majority of directly managed assets are bonds, with a much smaller subset of South African client portfolios in direct equities.

For these portfolios we will continue to integrate ESG considerations into our investment process and will practice stewardship with regards to these individual holdings.

With regards to stewardship, whilst client engagement and being committed to the long-term will remain consistent, we would note that our relative size as holders of securities will affect how we approach engagement in practice. It is far easier to engage directly with an issuer (company/organisation or government) when one holds a big position in a particular security, whether equity or debt. Our ability to, for example, engage directly with the UK or South African government when investing in UK gilts or South African bonds is limited, although will seek to engage in other ways, in this example indirectly as individual and corporate citizens. Please also see our Proxy Voting Policy in the Appendix.

5 Reporting

As part of this policy, we commit to report on our ESG and stewardship activities on an annual basis.
This reporting will take place through the PRI[5] (Principles for Responsible Investment), a global organisation of which PortfolioMetrix is a signatory. Our responses to their detailed reporting framework will be public.

[5] https://www.unpri.org/

6 The Portfoliometrix Sustainable World Portfolios

The Sustainable World portfolios aim to meet client financial goals whilst also explicitly helping drive positive social and environment change. Very simply, it expands on the responsible investment strengths of our Core portfolios by incorporating where possible funds that:

- Focus on companies that deliver a clear positive net benefit to society and the environment
- Focus on sustainability of product, service and operations when selecting companies to invest in
- Seek to improve the behaviour of the companies they invest in
- Exclude industries and specific companies with negative social or environmental impacts

The relationship between the PortfolioMetrix approaches can be viewed through the PortfolioMetrix Spectrum of Responsible Investing as follows:

Figure 2: The PortfolioMetrix Approaches

* PMX Factor Based would also fit here, **PMX Income Oriented would also fit here

Source: PortfolioMetrix, adapted from Bridges Fund Management's Spectrum of Capital and The IA's Responsible Investment Framework

7 Appendix 1: Definitions

Stewardship and ESG Integration are defined above. Below we define Exclusions, Sustainability Focus and Impact Investing.

Exclusions[6]:

"Exclusions prohibit certain investments from a firm, fund or portfolio. Exclusions may be applied on a variety of issues, including to align with client expectations."

They may be applied at the level of:

- Sector
- Business activity, products or revenue stream
- A company; or
- Jurisdictions/countries

(AKA: Negative Screening)

Examples: Ethical/values-based/religious (e.g. alcohol, pork, tobacco etc), norms-based (e.g. controversial weapons), sustainability (e.g. fossil fuels), ESG assessment (e.g. any company with an ESG rating lower than a certain value)

Sustainability Focus[7]:

"Investment approaches that select and include investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome(s). Investments are chosen on the basis of their economic activities (what they produce/what services they deliver) and on their business conduct (how they deliver their products and services)."

Examples: Sustainability themed (e.g. clean water), positive tilt (e.g. reduced carbon emissions), best in class (e.g. most sustainable company in sector)

Impact Investing[8]:

"Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

Key Elements: Intentionality, Financial Returns (range from below market rate to risk-adjusted market rate), Range of Asset Classes, Impact Measurement

Adopted from: Global Impact Investing Network (GIIN)

Examples: Social Bond Funds, private impact investing, Sustainable Development Goal (SDG) Funds

[6] Adapted by IA from GSIA definitions (Global Sustainable Investment Alliance) https://www.theia.org/sites/default/files/2019-11/20191118-iaresponsibleinvestmentframework.pdf
[7] Adapted by IA from GSIA definitions (Global Sustainable Investment Alliance) https://www.theia.org/sites/default/files/2019-11/20191118-iaresponsibleinvestmentframework.pdf
[8] Global Impact Investing Network (GIIN), "What you need to know about impact investing" https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

8 Proxy Voting Policy

Voting shares is an important part of being an active owner, and hence of proper stewardship. However, at present, our current business mix does not allow use to engage in much proxy voting. This policy covers off the reasons for this, but also notes how we remain active owners in other ways to compensate. We will continue to monitor this policy on a regular basis to make sure it remains appropriate for our business.

Multi-Asset Business

Most of our equity holdings are indirect, held in third-party funds in which we invest or managed via segregated mandates. Proxy voting will thus be done by the managers of those funds and mandates. We do, however, as part of our stewardship take their policies into account in terms of manager selection, as well as monitor their proxy voting policies on an ongoing basis.

Fixed Income Business

We manage significant direct bond holdings, but bonds do not carry voting rights so it is not possible to vote on these holdings. Instead, bonds mature and bondholders such as us have the ability to be active owners by deciding to re-invest in newly issued bonds, or not, something we do take advantage of.

Direct Equity Business

We do manage a small number of portfolios of equities for South African clients on a discretionary basis. Here we are able to vote on companies held, but given the relative small size of these portfolios in the context of our business, and the extremely small size of our holdings relative to the market-caps of the companies held, our current policy is only to vote on corporate actions (mergers, spin-offs etc) that we judge to be material to the short to medium term value of our client holdings. We are, however, actively monitoring this business line and should it increase in size we will extend the scope of this voting to issues that are longer-term in nature (but also more difficult to evaluate), which often includes votes touching on social and environmental issues.

portfoliometrix.com