Cazenove Capital

ESG & Stewardship policy

Part of the Schroders Group

Definitions

Cazenove Capital is the wealth management business of Schroders plc in the UK and Channel Islands. We have been practicing Sustainable Investing since 2002 as part of our investment process and through our client offering. As part of the Schroders Group, we have been awarded the highest possible rating of A+ by the UN Principles of Responsible Investment (UNPRI) for our approach to responsible investment. We are a special adviser to the Carbon Disclosure Project; a founding member of the institutional investor group on climate change; a member of the UK Sustainable Investment and Finance Association; and a member of the European Sustainable Investment Forum. We are proud to be included in ShareAction's top 10 Global Asset Manager for Responsible Investment; and we are ranked in the top five of the AODP Global Climate Index for Asset Managers.

Environmental, Social and Governance (ESG) investing covers the range of investment activities which recognise the relationship between companies, governments and the societies and environments in which they operate. There are two broad approaches to ESG investing:

1 **Inform** ESG integration: considering ESG issues when building a portfolio	2 **Influence** Stewardship: improving investees' ESG performance	
ESG integration	**Engagement**	**Voting**
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns.	Discussing ESG issues with companies to improve their handling, including disclosure of such issues. This can be done individually, or in collaboration with other investors.	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues.

Source: UN Principles of Responsible Investment.

Philosophy

The world is changing rapidly. Demographic, climate and technological shifts are just a few ways in which global society – and the planet itself – is transforming. This backdrop of change cannot be ignored. So when we invest in search of long-term, sustainable returns, our processes are built to ensure we capture opportunities and minimise the risks of failing to adapt.

Inform: As long-term stewards of our clients' capital, we naturally focus on the long-term prospects of the assets in which we directly invest, or ensure the managers of collective investments we choose are doing so. We recognise that companies do not operate in a vacuum, and that 'non-financial' issues such as climate change, human rights, and corruption can have very real financial implications over the medium to long-term. Given our long-term horizon, we therefore believe it is our responsibility to protect the interests of our clients from the impacts of both financial and non-financial risks. As such, we use ESG integration across our investment analysis and when constructing portfolios, for the benefit of all clients.

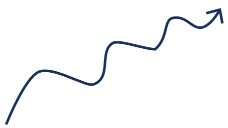
Influence: Additionally, we also believe in being active owners of our clients' capital and engaging with the companies and managers in which we invest to improve their ESG attributes. On a company-level, this means engaging with management to adopt a 'stakeholder' rather than a 'shareholder' mentality; we believe that companies who focus on creating long-term value for all stakeholders, being their employees, customers, suppliers, communities, regulators and the environment, rather than focusing on short term profits for shareholders, will outperform over the longer term. This is because relationships that are built to create value for all parties are more likely to thrive, resulting in more successful long term partnerships, less disruption for the business and a more positive business environment.

On a manager-level, this means working with our managers to increase the robustness of their own ESG integration and their active ownership practices. Where engagement targets are not met, we will vote against company management or challenge managers on their voting record, whilst continuing to engage to affect change.

Philosophy

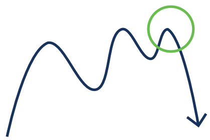
As such, we believe that incorporating both ESG integration and stewardship into our investment approach enhances our process by allowing us to:

1 Pick up sustainable growth



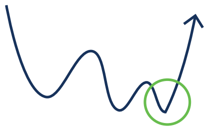
High quality companies tend to have less ESG issues and Management can execute business strategy to achieve sustainable growth

2 Avoid high risk companies



Corporate scandal and fraud can destruct corporate value severely and therefore we cannot ignore ESG issues of invested companies

3 Turnaround by engagement



Engagement can lead to resolution or improvement of ESG issues and that leads to turnaround of companies business as well as stock price

For illustration purposes only. Source Schroders.

Inform:
Our approach to ESG integration

In order to produce the best risk-adjusted returns for clients, we use ESG integration within our entire investment process from direct equity and fixed-income investing, to manager selection.

We fundamentally believe that those companies which poorly manage their relationships with stakeholders are more likely to suffer risk events that could lead to price falls or credit defaults. Over the long term, such companies which produce negative externalities to society are likely to be charged back those costs in some form. These potential risk events will differ across the investment universe; for example, corporate governance issues are considerations across all industries, whilst environmental risks may be more significant for mining and fossil fuel companies. In all cases, however, ESG risks are likely to add to the volatility, potential drawdown or credit rating of a direct investment.

1) Within manager selection:

To integrate ESG into our manager selection process, we look at both the firm-level and the strategy-level. At the firm-level, we aim to understand if sustainability is a central part of the firms' ethos, culture and DNA. At the strategy-level, we assess the extent to which the investment manager integrates ESG considerations into their analysis of investments.

Firm-level ESG integration

Every year, a questionnaire is sent to the 150 investment managers on our approved 'buy' list. We aim to understand how long and to what extent a firm has been implementing ESG; how it is aiming to improve its own ESG performance (such as carbon footprint or board diversity); how much resource it has dedicated to ESG and how robust as a consequence its policies are; and finally, how strongly it has embraced active ownership through engagement and voting. Accordingly, the questionnaire is broken down into 5 categories:

Credentials 10%

Culture 20%

Capabilities 20%

Engagement 25%

Voting 25%

The responses are scored and normalised to ensure a fair comparison can be made between respondents. Given we send this questionnaire out every year, we are able to track and monitor progress year-on-year.

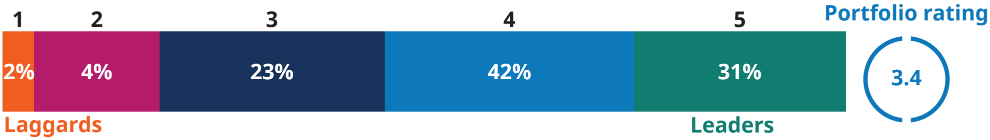
We do not have an exclusionary policy, i.e. where we won't hold a fund if the manager scored less than a stated minimum score. This is because we believe engagement is a more effective tool for change than exclusion. Therefore, we engage with those managers who score poorly, to encourage them to adopt best practice and increase their ESG capabilities. We have been pleased with the responses to our engagements and have already seen managers make marked improvements.

We also use the survey data to monitor the ESG 'performance' of models on a quarterly basis (see below example from June 2021):

Using this informed approach, we are able to analyse ESG considerations alongside other factors such as valuations and risk contribution before trading within our model portfolios. However, there is no explicit requirement to prioritise these considerations over other investment considerations, as this approach would only apply to our sustainable portfolios.

Strategy-level ESG integration

At the strategy level, we do not score the funds or collective investments in the same way as managers at the firm level. This is because we believe standardisation is neither possible nor desired: investment objectives, styles and asset classes vary too much. Instead, we monitor ESG integration at the strategy level as part of our fundamental research and ongoing due diligence.



To do this, we ask investment managers to evidence how they integrate ESG within their own investment analysis and selection across the full spectrum of their investment process. We do this by using an ESG strategy questionnaire and analysing them in our fund notes.

We then use a key matrix to understand how well they integrate ESG across these different stages, and a final rating is given to the fund on the following scale: N/A, Weak, Basic, Leading, Progressive. The ESG strategy level analysis is carried out on an annual basis, and the analysis is reviewed internally by the Sustainable Investment Lead to ensure consistency of the approach across the firm.

2) Within direct equity stock selection:

We also integrate ESG within our direct equity investment process. We believe that those companies which offer the best risk-adjusted returns, are those whose management establishes strong relationships with all of its stakeholders.

In order to analyse this, we use a proprietary data-driven tool called CONTEXT which draws on about 150 metrics from over 50 sources such as company reports and third-party review sites like Glassdoor to assess a company's relationships with its stakeholders. The tool allows us to understand a company's position vs. peers on specific ESG issues by attributing a quartile ranking to the company. It also helps us to identify any shortfalls which could be of material risk to share value. The strength of the CONTEXT score influences our conviction level in the stock, and is reflected in the weighting in the portfolio. As with the manager scores above, there is no exclusionary threshold and all companies despite their ranking are investable, but we must be comfortable with the reasons why lower quartile businesses have not scored higher prior to investing.

ESG stratey-level integration process in manager selection

3) Within Fixed Income investments

A portion of our assets are invested directly into fixed income investments including both corporate and sovereign issuances. We believe that companies demonstrating positive sustainability characteristics are better placed to maintain sustainable cash-flows and service their debt over the long term. These characteristics include factors such as managing the business for the long term, recognising its responsibilities to its customers, employees and suppliers, and respecting the environment. For the analysis of these ESG factors our fixed income analysts use the same proprietary CONTEXT tool as the Direct Equity team to analyse how companies interact with their various stakeholders. Each company has been scored on their E, S and G competencies and our analysts use this data alongside financial data in their credit analysis of a specific issuance.

Any low scoring issuer that analysts are interested in undergoes a deeper dive into the ESG performance of the company. Where shortfalls are identified, these are examined more rigorously and assessed alongside the issuance terms offered to ensure that the ESG risk has been accounted for during pricing. Companies that have lower ESG ratings are often engaged with, in an effort to reduce ESG risks and this is often done alongside our Direct Equity engagements.

For Sovereigns we use a propriety tool called the Country Risk Dashboard to establish the ESG performance of countries as determined by 95 key metrics. We believe a country's regulatory effectiveness, the strength of its institutions and corruption levels are helpful in determining willingness and ability to service debt levels. Social factors such as demographic change, education and unemployment are also important given human capital is a key determinant in economic growth which can have an impact on sovereign debt performance. Environmental factors are increasingly important as governments acknowledge the economic impacts climate change can have if not properly addressed, such as increasing inflation from food shortages due to drought or flooding.

Influence: Our approach to stewardship

Engagement

Active ownership through engagement and voting has long been a key part of our ESG investment approach. We understand that engaging with companies and managers can be invaluable to promoting more sustainable business practices and improving our assessment of the issues they face and their approaches to managing them.

We believe the aim of engagement is threefold:

1) To seek improvement in performance and processes in order to enhance and protect the value of our investments;
2) To enhance our analysis of a company's risk and opportunities;
3) To monitor developments in, and encourage ESG best practices.

Our team of analysts meet with companies and managers regularly as part of our investment approach and ongoing due diligence, and we use these meetings to bring up specific ESG topics. Alternatively, we also undertake specific ESG engagements with companies or managers where laggards have been identified.

As a significant investor in third-party funds we have ability to push for change within the wider investment industry. By putting pressure on our managers, we believe that they in turn will ask more of their underlying companies such as disclosing better ESG metrics, and implementing strategies which aim to tackle ESG issues.

Using the responses from our firm-level questionnaire which is sent to the fund managers on our buy list, we are able to identify managers that are deemed laggards i.e. those that score a 1 or 2. We relay back the areas they scored worst on in the firm-level questionnaire and provide insight into what is 'best-in-class' within the wider industry.

Responses are stored and analysed in our in house ESG Manager Dashboard, which is used to highlight strength and weaknesses across the fund managers we invest in. Our key conclusion from the 2021 questionnaire results was that our managers do well on the 'Credentials', 'Capabilities' and 'Engagement' pillars. For example, by joining the UN Principles for Responsible Investment (UNPRI), building out resource and implementing ESG policies or putting in place follow-up processes if engagement targets aren't met. Our survey highlighted weakness across the 'Culture' and 'Voting' pillar, where only just over a third have made a net zero commitment and less than half have put in place a 'comply or explain' policy for voting on ESG shareholder resolutions.

Using the information gathered through our ESG Manager Firm level questionnaire, we can identify key areas for thematic engagements, and areas of weakness.

Our aim this year will be to engage with managers to raise standards across the board, and we hope to show positive progress as we use our influence to push for change.

If we fail to see improvements in strategies where ESG factors are material or believe the ESG risks are too much of a headwind to the investment, this will reduce our conviction in the strategy and we can downgrade and sell funds – see case study below.

As part of the Schroders Group we use our collective influence to push for change, benefitting from our global presence. This is particularly important for broader thematic engagements such as cclimate change, modern slavery and single-use plastics. We are transparent and report both our engagement activity and our success track record within our quarterly and annual sustainability reports (link).

Voting

As active owners, we recognise our responsibility to make considered use of voting rights. As part of the Schroders Group, we vote on resolutions at all AGMs/EGMs globally unless we are restricted from doing so (e.g. as a result of share blocking).

We always act in the best interests of our clients. Where proposals are not consistent with the interests of shareholders and our clients, we are not afraid to vote against resolutions. We may abstain where mitigating circumstances apply, for example, where a company has taken steps to address shareholder issues.

CASE STUDIES

Encouraging 'laggard' managers to integrate ESG analysis

After scoring poorly, our sustainability specialists engaged with a manager we felt was a laggard in terms of ESG integration. We alerted them to our concerns and highlighted our belief that ESG integration can identify key investment risks and opportunities and could lead to more informed investment decisions. The manager acknowledged that their current process was behind best-practice industry standards. Our engagement contributed to the establishment of a new Responsible Investment Policy and a new firm wide ESG scoring platform. They came in to our offices to present the platform to our sustainability specialists and received our feedback. Three months later they launched their ESG platform for their analysts to use. All analysts are now required to pull data from the tool and include the output in their stock and credit assessment sheets. They have also launched a sustainable version of their flagship product.

Divestment when we do deem the ESG risk to be too high to continue holding the investment

We have removed a manager from our core buy list over concerns linked to climate risk, ultimately resulting in divestment from the investment for our clients. The fund in question was an energy infrastructure fund that had exposure to midstream infrastructure – for example, pipelines to transport oil and gas. The fund primarily owned oil pipelines which are much harder and costlier to convert to transport hydrogen than gas pipelines are – natural gas is also expected to be a transition fuel for a time. As a result, we felt the risk of stranded assets within the fund was too high and in January 2020 removed the fund from our buy list.

We are fully transparent on our voting record which can be found online (link).

It is important to mention that should a Cazenove Capital client want to cast a specific vote on the shares held within their portfolio, this can be facilitated.

Net zero commitment

In 2015, national governments from 196 countries committed to limit global warming to well below 2°C, preferably to 1.5°C by 2050 as part of the Paris Agreement. The next 10 years will be a decade for delivery as regulatory transition and physical climate risks increasingly become investment risk. There are many topics that need to be discussed. For example, should governments agree to implement a global carbon price on all sectors? This is a key topic for the 26th UN Climate Change Conference of the Parties (COP 26). We believe that investing in companies that do not make this transition and do not act to reduce these risks could have material negative financial implications for our clients, and conversely, investing in companies transitioning and innovating are likely to provide significant investment upside over the longer term.

At the end of 2020 Schroders made a public commitment to support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C.

As a significant investor in third party funds, we have committed to transitioning our assets under discretionary management to achieve emissions reductions by 2030 consistent with a fair share of 50% global reduction in CO_2. We will work in partnership with our underlying asset managers on decarbonisation goals consistent with an ambition to reach net zero emissions by 2050 or sooner, engaging with them on these goals at both a corporate level and with the individual managers of the strategies we hold. We commit to assessing the scope 1 and 2 emissions of our underlying funds, and to working with managers to increase transparency and data quality around scope 3 emissions, and engaging with managers to align themselves with a 1.5°C scenario.

As part of this commitment we have written to all 150 of our managers to ask if they have or intend to make a net zero commitment. The initial findings are encouraging and we will continue to use our influence to push for change.

Impact: Reporting

We believe that clear and ongoing communication to clients on the ESG characteristics of our investments, their impact on people & planet as well as our active ownership activities is important. As such, all our Cazenove funds and model factsheets include:

- A 'Sustainability Dashboard' demonstrating key ESG metrics for the equity portion of our portfolios. These include carbon emissions and SustainEx scores
- Full transparency on controversial equity sector exposure such as tobacco, gambling, alcohol, armaments, high interest lending and fossil fuels
- A breakdown of the firm-level ESG scores for the model, with the overall average weighted score

We include impact measurement metrics in client valuations using Schroder's award winning impact measurement tool, SustainEx. This quantifies the costs that companies would face if their negative impacts were priced, or the boost if the benefits were recognised financially. This includes carbon emissions relating to the portfolio and a total social impact score with both compared to a global equity index. This enables all of our clients to see important metrics such as the carbon emissions relating to their portfolio.

Sustainability dashboard

Planet	People
Carbon emissions 4% lower than the benchmark	**Social Dividend** 3% vs. 0%

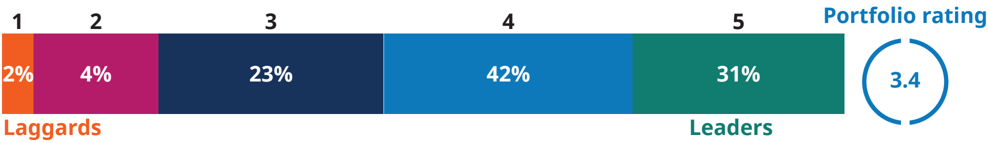
Carbon emissions includes an aggregate of the annual scope 1 & 2 carbon emissions attributed to the companies, based on £1m invested in the multi-asset strategy. Social dividend is measured using SustainEx which calculates the contribution of the companies expressed as a percentage of sales. For example, a score of +2% means that the portfolio adds $2 of benefits for society for every $100 of sales.

Equity Sector Exposures (% total portfolio)

Tobacco	0.5%	Alcohol	1.4%
Armaments	1.3%	High Interest Loans	0.0%
Gambling	0.6%	Fossil Fuels	2.5%

Equity sectors shown represent common exclusionary screens. Exposure based on MSCI revenue data, as at 30 June 2021.

Fund Manager Sustainability Ratings (% total portfolio)



Source: Cazenove Capital. The sustainability ratings are from 1 to 5 (1 being the worst and 5 the best) and are derived from the 2020 results of our proprietary annual ESG firm-level questionnaire.

Sustainability dashboard

Planet	People
Carbon footprint 654 tonnes of CO_2 **vs benchmark** 1,753 tonnes of CO_2	**Social Dividend** 4.9% p.a. **vs benchmark** 1.2% p.a.

To provide further insight into your portfolio, we include an overall assessment of the impact of clients equity investments on people and the planet, and a comparison against an appropriate benchmark. We provide two metrics:

Planet

Carbon emissions: an aggregate of the annual scope 1 and 2 carbon emissions (in tonnes) that can be attributed to your holdings of the companies in which you are invested. For comparison, an average passenger vehicle emits 5 tonnes of CO_2 each year, an average home emits 9 tonnes of CO_2 each year and a flight from London to New York is equivalent to 1 tonne of CO_2 emissions.

People

Social dividend: the overall social contribution of the companies in which you are invested, expressed as a percentage of sales. For example, a score of +2% means that the portfiolio adds $2 of benefits to society for every $100 of sales. The social contribution of business that we value as part of this score includes aspects such as fair work, tax, medicine provision, financial inclusion and access to water.

Source: Schroders SustainEx. Equivalency data sources: EPA, UK Government. Flight emissions are based on a single passenger flying economy class. We are reliant on external providers for the underlying data for these metrics. Whilst we make every effort to ensure the accuracy of this data, it cannot be guaranteed. There may be some holdings where we do not have the underlying data, therefore we will only present these metrics to you when we have access to them for 80% or greater of the total value of your equity portfolio. Please contact us should you require further detail relating to the impact metrics shown in your report.
Impact benchmark: MSCI AC WORLD (TRI) USD

Beyond informing and influencing: investing for people and planet

While ESG integration and stewardship are central to our approach across all our investments, many of our clients choose to go further and align their investments with their core values and invest for a better future. For those clients, we offer a range of investment solutions across sustainable investment strategies designed to meet financial objectives, whilst having a positive impact on people and the planet.

Please consult our Sustainability Brochure for further detail or get in touch with one of our Sustainability Specialists listed opposite.

Contact us

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Further information

Visit cazenovecapital.com to find out more about our sustainable wealth approach.

For more information on voting, reporting or engagement, and the Schroders Sustainable Investment Team, visit schroders.com.

Regulatory Information and Risk Warnings

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