RIVER AND MERCANTILE

RIVER AND MERCANTILE GROUP CLIMATE POLICY

October 2021

Policy Owner	Roger Lewis, Head of ESG	**Effective date of current version**	1st October 2021
Oversight	ESG and Stewardship Committee	**Review frequency**	Annual
Scope	This Policy mandates the application of climate considerations to investment activity		
Structure	This is a River and Mercantile Group Policy, specifically developed for and applicable to the activities of all River and Mercantile entities		

Policy updates

Amendment Number	Date of Change	Summary of Change
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

1. Background: A ‘once-in-a-lifetime’ shift

- With the UN’s 17 Sustainable Development Goals increasing in awareness and importance in investment strategies, one in particular is rapidly becoming one of the most pressing issues of our time: # 13 Climate Action
- Almost 60bn tonnes of carbon are emitted into the atmosphere worldwide per annum (source: UNEP, 2019). This amount that has been steadily rising since 1990, leading to increasingly visible effects of climate change, such as extreme weather
- River & Mercantile Group (“RMG”) recognises this, and this Policy formally outlines our response and contributions to whether the climate change battle will be won or lost by 2050. Its objectives are:
    - Managing risks: transition (policy & legal, technology, market and reputation) and physical (acute and chronic)
    - Capitalising on investment opportunities, including investee companies’ resource efficiency, energy sources, products / services, markets and resilience
    - Integrating climate considerations to activities across the Group
- For the purpose of this Policy, we define climate impacts as human activity releasing heat-trapping greenhouse gases (“GHG”) in to the atmosphere. Specifically, principles this Policy is based on are:
    - Carbon dioxide (CO2) is the predominant GHG, but we recognise the impact of others as defined by the Kyoto Protocol 1997, including methane (CH4) and nitrous oxide (N2O)
    - Of all human caused CO2, the majority comes from burning fossil fuels (for power, transport) and certain manufacturing sectors (including cement, steel, fertilisers & aluminium)

2. Our Approach to Climate

2.1 Climate Exclusions

- Through the Tier 2 Exclusions Policy, River and Mercantile Group will exclude from its investments companies whose operations we believe both can create excessive climate change impacts and these are not being well managed
- Please refer to the Exclusions Policy for full detail on climate exclusions: https://riverandmercantile.com/wp-content/uploads/2021/07/Tier-2-RMG-Exclusions-PolicyJune-2021.pdf. This includes the definition we use for excessive climate impacts (greater than 30% revenue from certain mining or power generation activities, e.g. coal)

2.2 Climate in Investment Consulting

- For clients where we act as investment adviser, we commit to:
  - Helping clients assess and identity climate related risks and opportunities within their investment strategy, and where relevant support them in developing their own climate policies. This includes providing a range of hypothetical outcomes for our clients' assets under various future scenarios of climate change
  - Seeking to understand our client needs and views on climate change, and where relevant educate clients on climate-related risks to their investments or update existing documentation (such as Statements of Investment Principles) to incorporate climate
  - Integrate advice on net zero carbon alignment into our investment consulting services where possible
  - Assess and monitor third-party asset managers used by our clients on the integration of climate risks and opportunities in their investment decisions and stewardship and reflect this evaluation in our client recommendations
  - Support clients in meeting regulatory requirements. Specifically, providing outputs from scenario analysis using the Ortec Finance Climate MAPS tool to enable clients' own reporting under the recommendations of the Task-force on Climate-related Financial Disclosures
- In supporting delivery of the above, we also commit to:
  - Creating a climate 'centre of expertise' to ensure we remain at the forefront of industry best practice and climate change knowledge
  - Ensuring all investment consultants receive regular and appropriate climate-specific training by both internal and external experts
  - Helping our clients as far as possible with access to the data and metrics required to assess and manage the climate-related risks and opportunities they face

2.3 Climate in Investment Management

- We believe that sustainability factors that affect a company's operating performance or financial condition are a core part of our fundamental research checklist, as they are linked to its sustainable earnings power
- For fundamental analysis, quantitative modelling and bottom-up stock selection, as part of our company research process we assess climate risks and opportunities and carbon reduction strategies. This utilises third-party MSCI ESG Research alongside our own bottom-up sustainability analysis, and can lead to increasing or reducing exposure to certain sectors
- This assessment drives then investment and engagement decisions
- For ongoing asset management, we use the Paris Agreement Capital Transition Assessment ("PACTA") Climate Change Scenario analysis tool to monitor the impact of climate change and transition risk on our portfolios
- For Investment Consulting clients where we act as fiduciary manager, the commitments in Section 2.2 shall also be applied
- Other resources pre-investment and for ongoing monitoring used include, but are not limited to: non-public CDP data made available to signatories, the SASB (Sustainability Accounting Standards Board) materiality map, the EU Taxonomy for Sustainable Finance, the Transitions Pathway Initiative tool and indicators under the Sustainable Development Goals (in particular #13 Climate Action). Specific resources like the annual Global Coal Exit List ("GCEL", a source of coal data: www.coalexit.org), the Powering Past Coal Alliance (www.poweringpastcoal.org) and guidance from the UK Committee on Climate Change will be referred to as needed
- For infrastructure assets acquired by River & Mercantile Infrastructure, climate risks, impacts and mitigating actions are assessed within a dedicated section in the ESG Asset Due Diligence tool (under development at the date of this Policy). This shall be performed during the detailed investment evaluation stage (and then annually as part of ongoing asset management) and impacts the overall ESG score, which in turn is considered by the Investment Committee

[At the date of this Policy, dedicated bottom-up tools to score a company / fund for its carbon and climate impacts and temperature alignment with the Paris agreement from providers MSCI or Bloomberg are under review].

2.4 Climate in Voting and Engagement

- We commit to incorporating climate into Tier 3 Voting and Engagement Policies
- For direct equities investment:
    - We strongly believe that the best means to improve management attitudes on climate change is through engagement, both with Board members and executive management
    - We shall consider companies' performance, attitudes and disclosures towards climate to inform whether we vote for / against / abstain
    - We acknowledge that where we are amongst the largest shareholders in a company, we can exert more influence; otherwise voting at annual (and extraordinary) general meetings is our most effective way of encouraging change
    - When appropriate (for example following on from pre-investment fundamental analysis), we will engage with greenhouse gas intensive companies to ensure their reduction targets are meaningful and progressed, and that they are aligned with the 2015 Paris Agreement under the United Nations Framework Convention on Climate Change
    - We have a clear escalation process in place for all engagement with investees (refer to Tier 3 Engagement policies for detail), and shall apply this to climate as well
- For fiduciary management and macro investment, climate shall be included in scoring assessments within 3rd party fund manager research and follow-on engagement
- We advocate and support the TCFD for climate disclosures and approved Science Based Targets for net zero strategies. Where appropriate, this shall inform our engagement dialogue and approach
- Training shall be provided as needed for internal teams on climate factors
- For all engagement activities, progress shall be monitored by Group ESG in order to evidence progress against targets and improvement

2.5 Disclosures, Reporting and Participation

- The Task Force on Climate-related Disclosures ("TFCD") means four things to RMG:

  1. An investment opportunity to capitalise on, and investment risk to manage, around climate impacts to individual companies, measured in a scorecard. *See Section 2.3*

  2. Engagement to encourage our investees to manage their own climate impacts and complete the disclosures. *See Section 2.4*

  3. Impacts to clients' asset allocations of various climate scenarios. *See Section 2.2*

  4. Creating our own corporate disclosure in the annual report, including the supplemental guidance for asset managers. Through this Policy, we hereby commit to transparency and disclosing the climate impacts of our activities as a corporate entity using the TCFD framework

- In addition, we are publicly listed as supporters of TCFD and TPI (Transitions Pathway Initiative)
- We are active members of the Institutional Investor Group on Climate Change, and seek to contribute to its working groups wherever possible. At the date of this Policy, we are involved in three of the IIGCC's working groups for net zero: stewardship, derivatives and infrastructure
- We commit to joining Climate Action 100+ collaborative engagements to help transition some of the worst polluters away from fossil fuels. This is subject to a significant RMG holding in the company and acceptance of RMG by the Lead Investor and Co-ordinating Network
- We acknowledge that active policy consultations forms part of good ESG. We will therefore seek to contribute to these when appropriate to do so. This includes, but is not limited to, climate consultations run by TCFD, the FCA, the Pensions Regulator, UNPRI and others
- We advocate adding our voice alongside other investors and shall sign letters or statements calling for common goals of positive climate impacts and carbon reductions, for instance the 2021 Global Investor Statement to Governments on the Climate Crisis

2.6 Risk

Identifying and assessing climate related risks

- We commit to conducting an annual climate related risk assessment exercise, to identify the specific material climate related risks that are inherent in our business activities. The assessment focus will be on the potential harm that climate related risks pose to the firm and to our overall goals
- During the risk identification process, consideration shall be given to both internal factors (such as the Group's structure, the nature of the Group's activities) and external factors (such as changes in the environment, industry and technological advances) that could adversely affect the achievement of relevant business objectives

Processes for managing climate-related risks

- Responses to any material climate related risk must be commensurate to its severity, subject to commercial considerations, timely within the relevant context, owned by a responsible person and result in an acceptable residual risk level
- Risk assessment conclusions will be shared with relevant governance forums and risk owners across the Group and its subsidiaries. This will enable stakeholder engagement and ensure awareness exists for consideration in existing risk self-assessment and management decision making processes

Integration of risk identification, assessment and mitigation into the Group risk management framework

- Climate-related risk is seen as a transverse risk: not a new, separate category in its own right, but rather as an integrated risk, covered by existing risk channels and therefore captured by the Group's risk management framework, it's different component parts and associated tools
- Climate related risks and how they are mitigated will be documented where relevant within the risk management framework to support various disclosure requirements (e.g. TCFD) or information requests
- Entity-level governing bodies retain ownership of all risks and opportunities, including climate

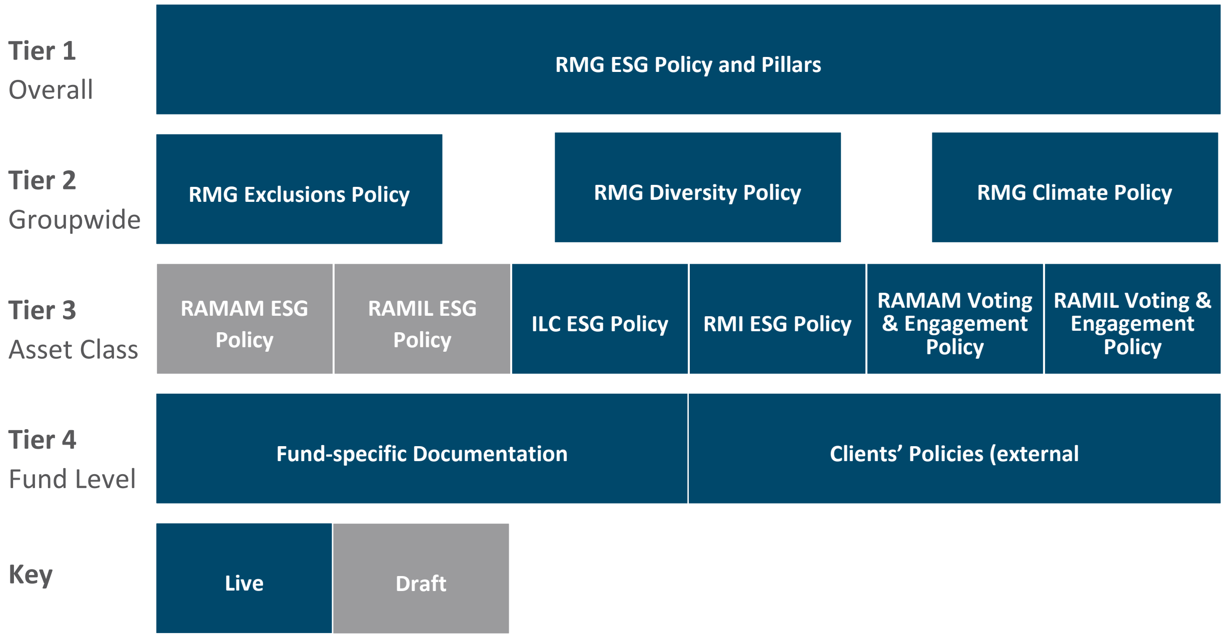
2.7 Targets

- We have made the Net Zero Asset Mangers commitment. This is comprised of responses to achieve the three commitments and ten pledges under the commitment, as well as our own organisational goals and Targets Disclosure Template. We commit to publish by July 2022 our target percentage of AUM for reducing emissions by 50% by December 2030, and then managing assets accordingly
- Under this commitment, our business model aligns with the Paris Agreement of limiting global warming to below 2°C, while actively aiming for 1.5°C. We shall monitor regulatory developments including the UK Committee Climate Change’s carbon budgets and countries’ own nationally determined contributions for future investment impacts
- We publicly support the Net Zero Investment Consultants Initiative. Ahead of formally joining, we shall commence considering and implementing the nine commitments into consulting activities with pension fund clients
- We commit to climate being a core part of the ESG Strategy. This will include exploring climate product or fund offerings, and specific sustainability commitments and targets for ourselves, also to guide the way in which we research and hold the companies that we invest in accountable

2.8 Governance

- On the ESG Policy Architecture, this is a Tier 2 Policy. Its scope applies to all investment teams, all asset classes and all regions. Specific application is then achieved via Tier 3 Policies:

River and Mercantile ESG Policy Architecture



- As a Tier 2 Policy, Group ESG has overall accountability for achieving this Policy's requirements. This accountability is supported by the ESG Committee and Investment & Client ESG Working Groups
- Overall responsibility for implementation of Asset Class (Tier 3) ESG Policies lies with business entity governing bodies. This oversight and monitoring responsibility can be delegated to investment team heads, to ensure policies are followed by each of their respective teams. Support is provided as required from Group ESG
- All ESG Policies are reviewed annually and approved by the Group ESG Committee and relevant business level Board or Executive Committee. Once approved, they are made publicly available on the RMG website. Updates are made during the review process to measure success and continuing alignment with beliefs
- We are monitoring regulatory developments of climate responsibility amongst senior managers and will adhere to these in future certification processes

RIVER AND MERCANTILE