



RIVER AND MERCANTILE

RAMAM TIER 3 ESG POLICY

November 2021

Policy Owner	Gary Dowsett, Director of ESG	Effective date of current version	1 st November 2021
Oversight	RAMAM Executive Committee	Review frequency	Annual
Scope	This Policy mandates the consideration and, as appropriate, the application of Environmental, Social & Governance factors.		
Structure	This is a River and Mercantile Asset Management policy, specifically developed for, and applicable, to its investment activities.		

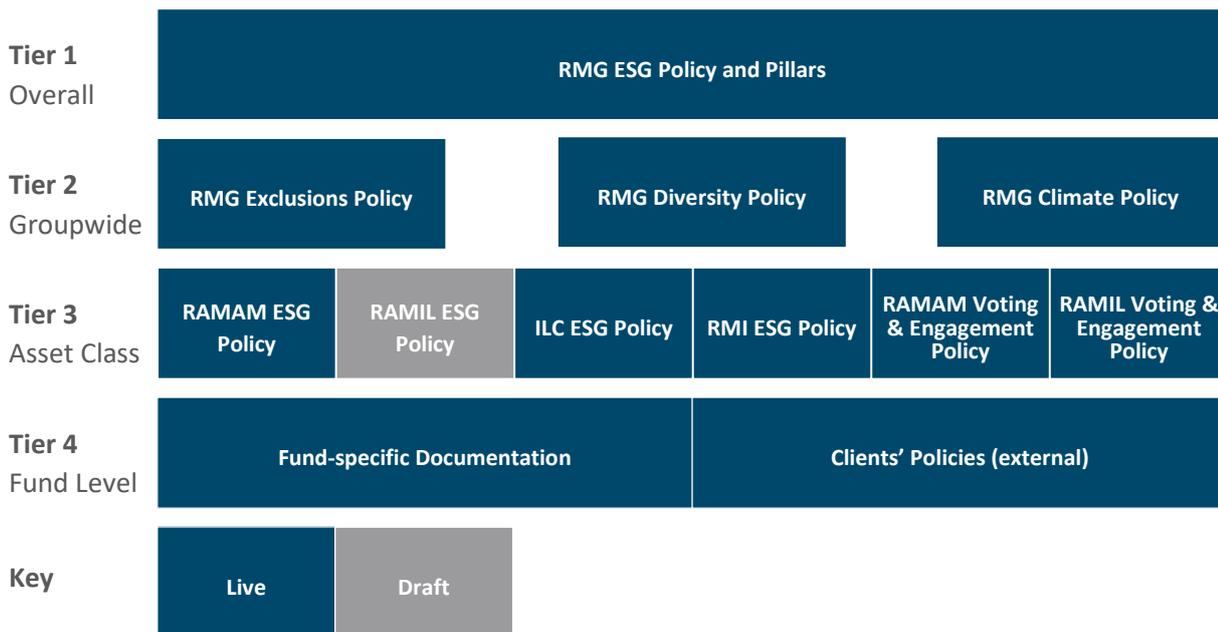
POLICY UPDATES

Amendment Number	Date of Change	Summary of Change
1		
2		
3		
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1. POLICY STATEMENT

- The purpose of this Policy is to formally outline the integration of Environmental, Social & Governance (“ESG”) at River and Mercantile Asset Management (“RAMAM”) and its impact to client outcomes
- It shows our position on ESG to stakeholders, guides fund managers and investment teams on how to handle ESG issues and demonstrates our overall responsible investment approach
- On the ESG Policy Architecture, this is a Tier 3 Policy, putting into practice the themes from Tiers 1 and 2. Its scope applies to all teams and funds within RAMAM

River and Mercantile ESG Policy Architecture



2. OUR APPROACH TO ESG

2.1 STRATEGY

- We continue to expand and implement Sustainable Potential Valuation Timing (“S-PVT”) as our overall ESG strategy. This shall include our roadmap to net zero carbon as River & Mercantile Group progresses towards its commitment and interim targets
- We contribute to the Group ESG Strategy, and implement its outcomes where appropriate
- This Strategy will include specific sustainability commitments and targets for both ourselves, and to guide the way in which we research, invest and then hold these companies to account

2.2 GOVERNANCE

- Overall responsibility for implementation of Asset Class (Tier 3) ESG Policies lies with business level Executive Committees. 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
- Governance for ESG follows the same process as governance for RAMAM. Fund managers report to the Managing Director, PVT Equities, who reports to the Group Chief Investment Officer. ESG-specific metrics shall be used to inform this process
- All ESG Policies are reviewed annually and approved by the Group ESG Committee and relevant business level Executive Committees. 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
- Further detail on ESG integration across River & Mercantile is in the Tier 1 Group ESG policy

2.3 INVESTMENT INTEGRATION: RESEARCH

- RAMAM’s multi-factor PVT investment philosophy is bottom-up and based on company fundamentals
- We focus our sustainability analysis on issues that have a pathway to becoming financially material to companies. These issues shall be considered as part of our fundamental analysis, allowing us to deliver client requirements for investment returns with a wider positive impact
- We acknowledge that the materiality of each ESG factor varies across industries and companies. We shall take a flexible approach to incorporating ESG into our fundamental analysis to ensure we have appropriately assessed the relevant risks and opportunities on a company-specific basis
- Our approach is informed by several resources. This includes, but is not limited to: the Sustainability Accounting Standards Board Materiality Map; the Taskforce on Climate-Related Financial Disclosures transition and physical risks; third-party research to rate and compare a stock against its peers, also to highlight potential risks as a prompt for more detailed analysis (these scores are used in conjunction with our own bottom-up sustainability analysis); company meetings to verify sustainability-related risks and opportunities, and engage on material factors

2.4 INVESTMENT INTEGRATION: PORTFOLIO CONSTRUCTION AND INVESTMENT DECISIONS

- We commit to conducting detailed sustainability analysis where risks have been highlighted, using third party ESG data and fundamental research undertaken by analysts. Unless excluded by the Tier 2 Group Exclusions Policy, we do not exclude potential investments based on sector, business activity or third-party ESG rating
- Examples of analysis of sustainability factors impacting a company's long-term value creation and future earnings potential that shall be considered include, but are not limited to: affecting the growth rate of earnings, the sustainability of cash flow modelled or the stock-specific fade rate, risks of stranded assets, potential alignment with the UN Sustainable Development Goals, increasing or decreasing the discount rate. We acknowledge that understanding a company's absolute and relative sustainability credentials can help to inform the multiple at which we are willing to value its future earnings or cash flow
- We have identified several factors that impact a company regardless of its industry, business model or stage in its lifecycle. This evolved into our Sustainable Potential Valuation Timing ("S-PVT") framework, centred around the pillars of People, Innovation and the Environment. S-PVT is our dedicated approach to responsible investment within our existing, top-level PVT process
- We commit to using these pillars as a minimum to capture the most common sustainability factors in order to incorporate to our investment management activities. In addition, we will continue to conduct fundamental analysis to pick up other material issues on a company-by-company basis
- In conducting our due-diligence, considerations shall include, but are not limited to: information provided by the company in its annual report; sell-side and other third party research, such as professional industry bodies; public data resources such as Glassdoor or Trustpilot; sustainability issues highlighted by the media, among many other sources. We encourage greater disclosure of People, Innovation and Environment KPIs to enable better benchmarking of peers
- For cannabis specifically, we commit to enhanced due diligence. When an investment in a company with cannabis exposure is proposed or identified, the investment team will identify if the exposure is to CBD, the non-psychoactive component of cannabis, or THC, the psycho-active component of cannabis (see next section)

2.5 STEWARDSHIP AND EXCLUSIONARY SCREENING

- We have exclusions in place and will not invest in controversial weapons or companies whose operations create excessive climate impacts. Further detail is in the Tier 2 R&M Group Exclusions Policy: <https://riverandmercantile.com/wp-content/uploads/2021/07/Tier-2-RMG-Exclusions-PolicyJune-2021.pdf>. RAMAM applies two further exclusions beyond Group-level
- First is conduct-related exclusions:
 - This is defined as companies where verified, sustained (beyond allegation) breaches of the ten principles of the UN Global Compact (covering Human Rights, Labour, Environment and Anti-Corruption) exist. We do not apply a revenue threshold and just identify a pass or fail
 - Companies that are flagged for potential UN Global Compact breaches are treated as high ESG risk. This informs our decision to exclude or to engage (with potential caps on investment amount and higher reporting thresholds / controls to manage the ESG risk). We note there may be investment upside potential for a company following a UNGC issue that we shall wish to consider
 - A controversy screening service from an external data provider is used in order to identify these potential breaches, and shall be verified by RAMAM to determine the action. This data also considers the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights to determine whether a company is sustainable
 - We acknowledge that at times there may be differences between data reported by the provider and the opinion of the company itself regarding the UNGC issue. In these instances, the data will be supplemented by our own research and engagement activities and a verdict reached, in particular for concentrated portfolios
- Second is cannabis-related exclusions:
 - Investments that only have exposure to CBD are allowed
 - Investments in products or activities that are licensed in the UK are allowed
 - Investments that are listed in the UK by the FCA are allowed
 - Investments where other cannabis revenue (not CBD, not licensed in the UK) is less than 0.1% of total revenues are allowed
 - Investments in products or activities that could be licensed in the UK (e.g. medicinal) and are licensed in the place they occur are allowed
 - All other cannabis related investments are not allowed
 - This is informed by business involvement screening research from an external data provider, and fed to a restricted list
- We utilise an internal scoring system, based on a qualitative assessment of risks and opportunities, to categorise companies into four tiers. This process is completed for all stocks in all mandates managed.
 - **S1:** a sustainable leader in its field and/or a clear beneficiary of sustainability trends.
 - **S2:** solid S-PVT credentials and no clear impediment to value creation or share price performance.
 - **S3:** S-PVT improvement required, but evidence this has started and / or engagement potential.
 - **S4:** S-PVT a clear barrier to value creation, no evidence of improvement and / or low likelihood of engagement success (including failed attempts).
- We shall handle companies in the two risky categories as follows: S4 stocks are candidates for divestment (or to avoid purchasing at all), even if the financial aspects look attractive. S3 companies need to be monitored to see that they are continuing to improve; this can be the source of a mispricing and creates

opportunities to unlock value that would be missed by exclusionary investors. We will also seek to selectively engage with S3s, with targeted efforts

- We are prepared to ultimately disinvest from companies which score badly and are not improving quickly enough in our opinion
- Bulk engagement campaigns with multiple companies, collaborations with other investors, monitoring progress of agreements reached with companies and linking our engagement discussions to the Sustainable Development Goals where applicable form part of our overall engagement approach with Group ESG
- Further detail on our engagement (including escalation) and voting is in the Tier 3 RAMAM Voting & Engagement Policy

2.6 CLIMATE

- Details of our approach to climate in investment management and stewardship are in the Tier 2 R&M Group Climate Policy
- As referenced in 2.4, Environment is a core pillar of S-PVT and this further informs our application of climate to investments. A sustainable company creates value for all stakeholders without causing significant harm to the environment. Acting in an environmentally responsible manner presents costs and opportunities. Our goal with investees is for management to deliver effective company strategy with proper consideration to natural capital and to manage their environment impact, including supporting the transition to a low carbon economy
- 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 for this specific percentage of AUM managing assets accordingly and reporting progress annually. We also commit to reviewing other AUM annually with a view to increasing the scope being managed in line with net zero emissions

RIVER AND MERCANTILE