# Sustainable Model Portfolios

Investment Management Service

mazars


Contents

# Introduction

**Societal views on the importance of sustainability issues have evolved substantially in recent years. Our everyday decisions have more power now than ever before to change the world we live in – whether it's small decisions like the food we eat, to bigger decisions like the cars we drive. In addition to adjusting our lifestyles, how we manage our wealth can also have a powerful influence on the way we invest so that it is consistent with our values.**

As investment managers, we know our investment decisions make a difference. Through our Sustainable Model Portfolios, we are committed to providing a solution for those who wish to invest with Environmental, Social and Governance (ESG) factors in mind. We want to be a part of the solution and help shape a better future. A better world for future generations is everyone's responsibility and we believe investing sustainably can play a big role in this.

Many of our clients want to know that we're investing responsibly and in line with their vision of making the world a better place. While everyone's view of a better world will look slightly different, by investing in carefully screened sustainable funds which invest in responsible business, our clients can be assured that their portfolios are contributing to a more sustainable and resilient world.

**David Baker**
Partner
Chief Investment Officer



# Our approach to sustainable investing

**Everyone's interpretation of sustainability is slightly different. This diversity of opinion has found its way into investment management, where a host of different strategies are employed to construct sustainable portfolios.**

We believe there are several methods one can use to construct sustainable portfolios. By using a number of different investing strategies such as negative and positive screened, impact and responsible investing funds, we benefit from a diversity of approaches. Used together, these approaches aim to generate sustainable wealth creation for clients, encompassing both investment returns and their environmental, social, and governance impact.

The market for sustainable investing solutions has grown and developed over the last few years, and we anticipate further evolution of approaches and ideas. We do not subscribe to one particular approach, rather, we choose to blend these approaches within our Sustainable Model Portfolios to maximise impact whilst managing investment risk.

**In our view, there are presently four major approaches to sustainable investing:**

| | |
|---|---|
| **ESG / SRI / sustainable funds** | ESG (Environmental, Social and Governance) investing and SRI (Socially Responsible Investing) are loosely interchangeable umbrella terms for funds that seek positive returns and long-term impact on society, environment and the performance of the business. Funds following this approach invest in companies that respect the environment, treat their employees and suppliers fairly, and promote ethical policies. |
| **Negatively screened funds** | Negative screening was one of the earliest methods used by socially responsible investors. Using this approach, as investors choose securities, they will exclude companies or industries they consider morally unsuitable for their goals. In practice, fund managers negatively screen by reference to a list of issues that they don't want their money associated with – such as weapons, tobacco, alcohol, gambling or animal cruelty, and avoid investing in companies that have activities in those areas. |
| **Positively screened funds** | Positive screening means that rather than excluding companies, investors select companies that set positive examples of environmentally friendly products and socially responsible business practices. Unlike negative screens, which are generally more black and white, positive screens require an analysis of complex issues such as pollution, workplace practices, diversity and product safety. |
| **Impact / solutions focussed funds** | Impact investing is a way to invest your money with the intent to bring about some socially desirable outcome with the expectation of a financial return. There are three key components to impact investing: investment with the intention to do good; the expectation of financial return; all while creating measurable impact. Measuring the impact of one's investment is a central tenet of impact investing. Impact investing is considered the most advanced of the four kinds of sustainable investing. |

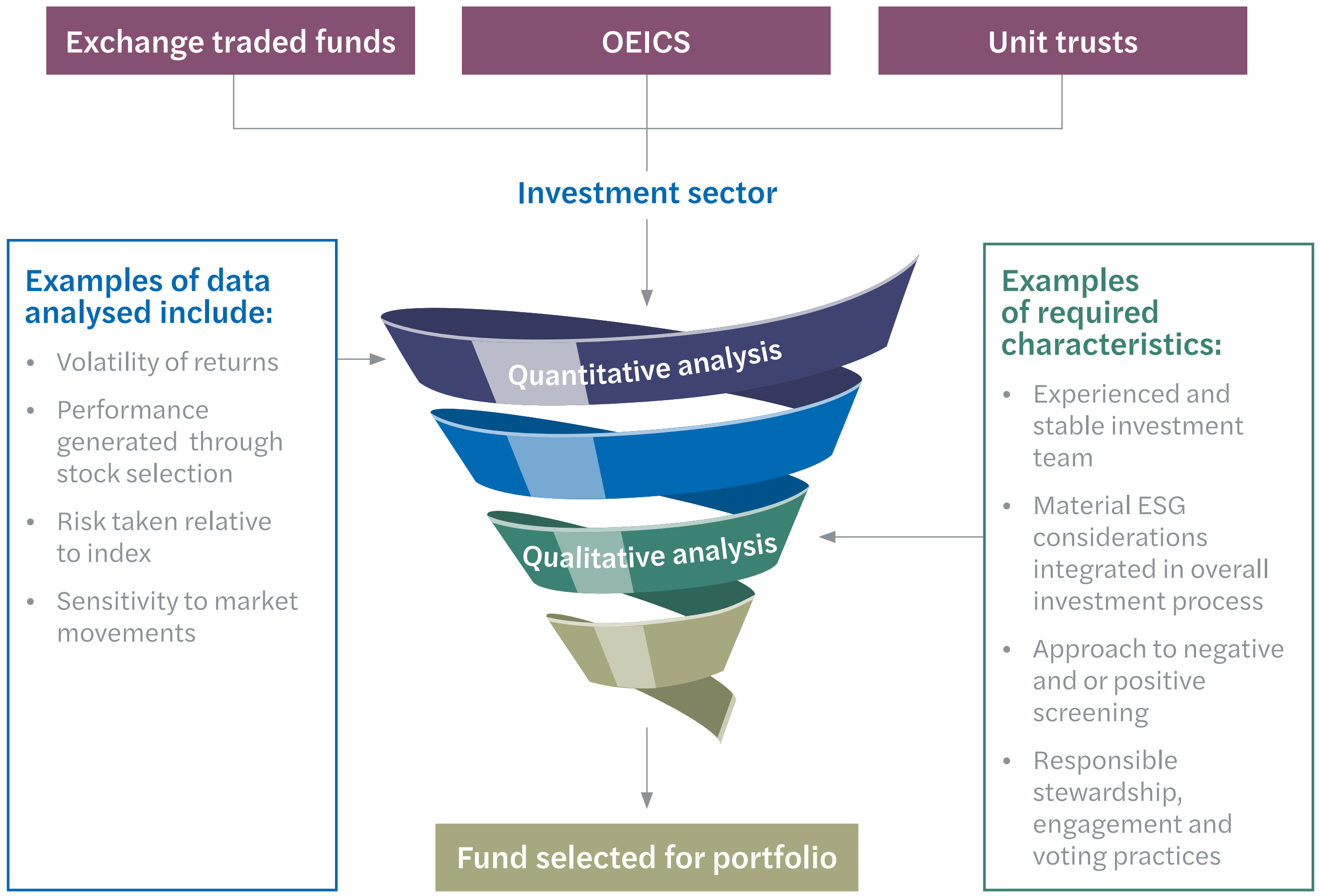
## Our independent status means that we are always working in the interest of our clients.

- We are completely unrestricted in our choice of investment funds allowing us to employ the best investment managers in each asset class
- We do not run our own in-house funds so have no conflicts of interest
- We do not believe that any one manager can provide outperformance in all markets

Our portfolios are constructed using a combination of actively managed sustainable investment funds, which seek to combine shareholder engagement with companies with the integration of ESG factors into their investment decisions, and passive investment funds, which enable us to invest within chosen markets at low cost. To be selected for inclusion in the portfolio, an investment fund must pass a stringent combination of quantitative and qualitative selection processes.

At the quantitative stage, we are not simply looking for a track record of out-performance, but will scrutinise the fund further to establish how and why the out performance was delivered and the amount of risk taken by the fund to deliver this performance. We look for the same independence of thought in fund managers as we value for ourselves.

Once a shortlist of suitable funds has been established, our fund analysts meet the managers and wider team to fully understand the investment processes and team responsibilities. Only once a fund has demonstrated the stability of management and rigour of process that would allow continued outperformance will it be included in our portfolio.





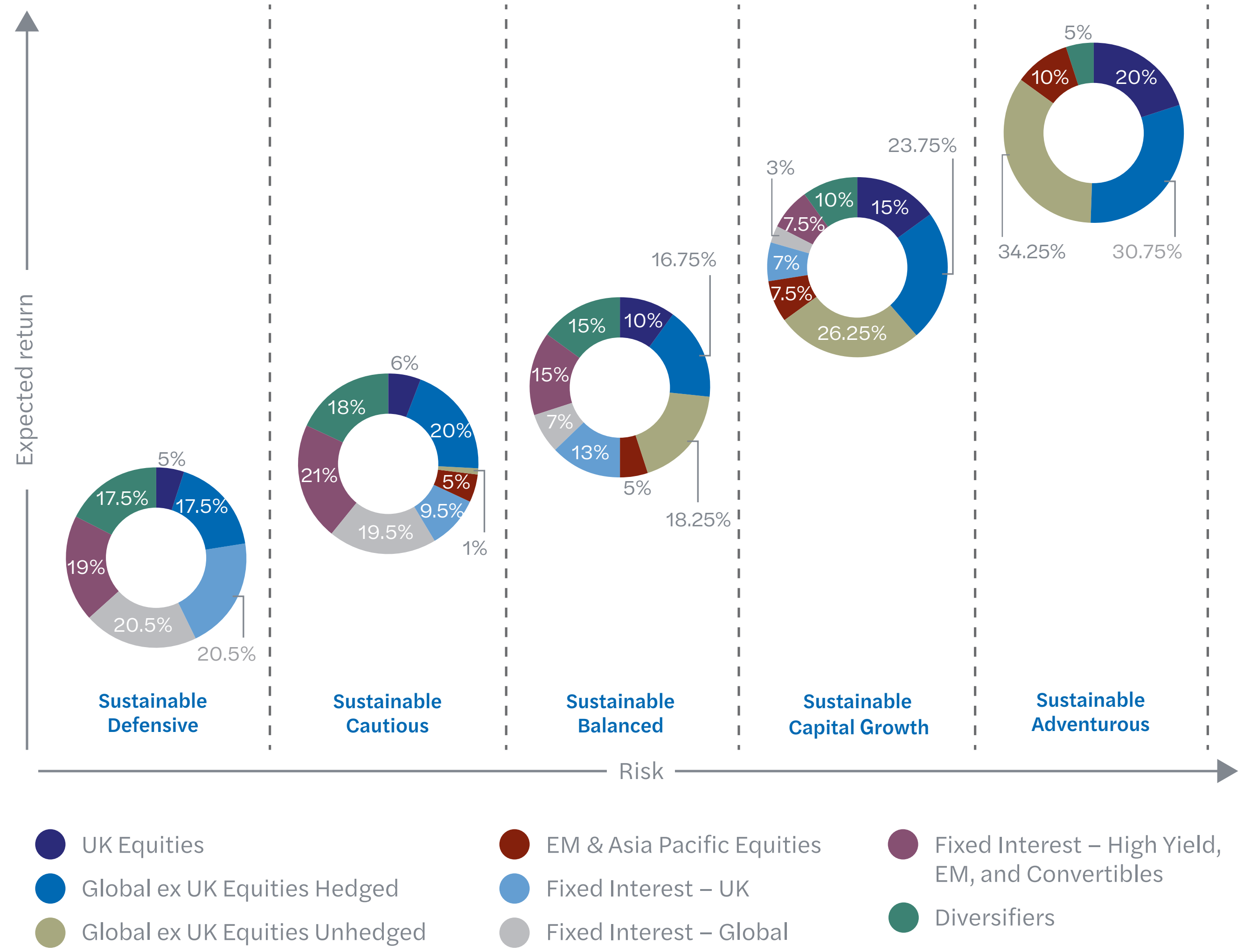



## Nowadays it is increasingly debatable if there is such a thing as a ‘risk-free’ asset. Even an investment in cash deposits is exposed to inflation risk, institutional risk and opportunity cost risk.

We understand that each of our clients will be unique in their objectives, their tolerance for investment volatility and the timescale for investment. We work individually with all of our clients to establish the correct risk profile for their portfolio to ensure the optimum balance between risk and return and that all appetites for risk are catered for.

Our portfolios are independently risk profiled by a third party. We use a consistent methodology to translate your own views on risk to the portfolio most appropriate for you.

Our range of model portfolios is designed to cater for all risk appetites.



## We have developed a proprietary Sustainability Scoring Scale in order to synthesize all material sustainability related information to further assess the funds we use in our portfolios. It is also the starting point to assess the overall ESG quality of our Sustainable Model Portfolios.

### The seven metrics we judge a fund on are:

#### 1 ESG integration in strategy

The UN's Principles of Responsible Investing (PRI) defines ESG integration as "the explicit and systematic inclusion of ESG issues in investment analysis and investment decisions to better manage risks and improve returns." Put another way, we are looking to make sure that our fund managers are not only looking at the financial information of a company but also analysing its ESG information and impact when they are conducting investment research and making investment decisions. ESG integration contributes to 10% of the total Sustainability Score.

#### 2 Impact of the fund

When we assess the impact of a fund, it is done with an aim to determine how the fund is investing in companies with the intention of generating a positive, measurable social and environmental impact, alongside a financial return. Impact investments span a number of industries including healthcare, education, energy (especially clean and renewable energy) and agriculture. Impact of the fund contributes to 20% of the total Sustainability Score.

#### 3 Stewardship and engagement

Both stewardship and engagement are very important factors that help us ascertain that our fund managers are active owners of their securities. Stewardship implies a two-way dialogue with companies that helps provide an opportunity for our fund managers to explain their expectations of corporate management in general and in relation to managing ESG risks. Stewardship also allows companies to provide clarifications on their strategy and the relationship between ESG factors, their business model and financial performance as well as receive early warnings on emerging risks and best practices. In our experience, our fund managers have been able to engage with companies they invest in and have brought about change in the attitudes towards ESG. Most of our sustainable fund managers actively vote in AGMs of companies and will vote against management on issues relating to sustainability if they see fit. Stewardship and engagement contribute to 15% of the total Sustainability Score.

#### 4 UN PRI signatory

In early 2005, the then United Nations Secretary-General Kofi Annan invited a group of the world's largest institutional investors to join a process to develop the 'Principles for Responsible Investment'. The Principles were launched in April 2006 at the New York Stock Exchange. Since then, the number of signatories has grown from 100 to over 3,000. The six Principles are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. Every asset management firm we invest with across our portfolios is a UN PRI signatory. The signatory status of the asset management firm contributes to 10% of the total Sustainability Score.



#### 5 Screening

Screening uses a set of filters to determine which companies, sectors or activities are eligible or ineligible to be included in a specific portfolio. These criteria might be based on the fund's preferences, values and ethics. For example, a screen might be used to exclude weapons manufacturers (negative screening) or to target only the lowest emitters of greenhouse gasses (positive screening). Our funds use a mix of negative and positive screening and in general exclude investments in sectors such as tobacco, oil & gas, mining, alcohol, gambling, armaments, pornography and nuclear power. Screening contributes to 10% of the total Sustainability Score.

#### 6 Contribution to UN SDGs

During the United Nations Sustainable Development Summit in 2015, the Sustainable Development Goals (SDGs) were established. The UN SDGs are a globally accepted set of 17 overarching goals for real-world outcomes in areas such water, health, poverty, gender equality and biodiversity. We have created a UN SDGs matrix that helps us estimate how many SDGs each of our funds contribute to via their investments. A fund's contribution to the UN SDGs make up 15% of the total Sustainability Score.

#### 7 Overall analyst score

We believe that analysing a fund and its sustainable strategy requires interrogation beyond marketing material. We have incorporated ESG into our existing fund research framework which includes talking to our fund managers directly to assess how their sustainable policies really stack up. As fund selectors, we try and understand the thinking behind the fund managers approach to ESG and how it is built into their portfolio. We also to look for data such as carbon emissions of the fund versus its benchmark. The overall analyst score contributes to 20% of the total Sustainability Score.

### The table below shows the high level scoring system for underlying funds

**Total Sustainability Score**

| | |
|---|---|
| 4 | The fund integrates ESG in its strategy and considers the positive, social and environmental impact of its investments as a critical part of its investment process. The Fund invests in companies providing solutions to sustainability challenges, is a UN PRI signatory, and contributes to the UN SDGs via all its investments. |
| 3 | The fund integrates ESG in its strategy and negatively screens out controversial companies operating in industries such as oil & gas, armaments, mining etc. and/or positively screens companies that set positive examples of environmentally friendly products and socially responsible business practices. |
| 2 | The fund does not explicitly follow a sustainable strategy or call itself a sustainable fund. However, ESG considerations are included within the process of the fund and it invests in quality businesses. |
| 1 | The fund is not a sustainable fund and can invest in any business it sees as a viable investment. Passive funds not tracking ESG indices also fall in this rating. |

## Signatories to the UN Principles of Responsible Investment

**The Principles for Responsible Investment (PRI) are the world's leading proponent of responsible investment. The PRI details the investment implications of environmental, social and governance factors. In addition the PRI supports an international network of investor signatories to incorporate ESG factors into their investment and ownership decisions.**

PRI Principles for Responsible Investment

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In implementing them, signatories contribute to developing a more sustainable global financial system. By becoming signatories to the UN PRI, signatories commit to the following:

### Principle 1
We will incorporate ESG issues into investment analysis and decision-making processes

### Principle 2
We will be active owners and incorporate ESG issues into our ownership policies and practices

### Principle 3
We will seek appropriate disclosure on ESG issues by the entities in which we invest

### Principle 4
We will promote acceptance and implementation of the Principles within the investment industry

### Principle 5
We will work together to enhance our effectiveness in implementing the Principles

### Principle 6
We will each report on our activities and progress towards implementing the Principles

We currently maintain a record of signatories to the UN's Principles of Responsible Investment and every fund / asset management firm we invest with, is a UN PRI signatory.

Source: https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment





## Impact on the UN Sustainable Development Goals

**Signed by all 193 member countries of the United Nations in September 2015, the ultimate objective of the UN Sustainable Development Goals (UN SDGs) is to achieve a more sustainable planet by 2030.**

Each of the SDGs has around 8-12 targets so there are more than 150 in total. They range from "enhancing the use of enabling technology... to promote the empowerment of all women and girls" to increasing "substantially the share of renewable energy in the global energy mix". These targets have specific indicators to measure progress, of which there are more than 200. For example, a target for SDG9 – Industry, Innovation and Infrastructure is to "upgrade infrastructure and retrofit industries to make them sustainable, with increased resource efficiency and greater adoption of clean and environmentally sound technologies", the development and impact of infrastructure investments and services supported is an indicator.

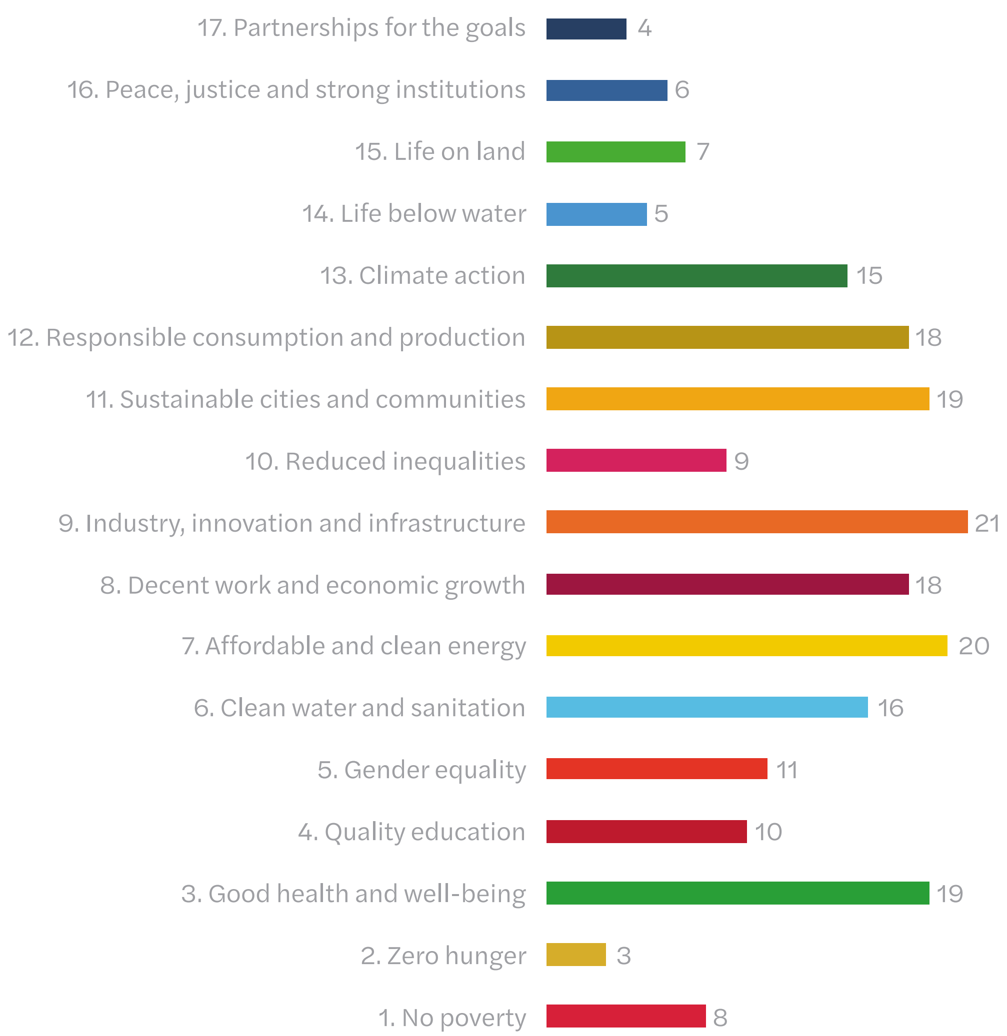
Investors can help progress the SDGs by investing in companies that are positively contributing to them. Also, as owners of companies, investors have a voice - a unique opportunity to hold companies accountable and encourage them to adopt more sustainable business practices.

# Impact on the UN Sustainable Development Goals

**Fund managers are increasingly reporting the impact of their investments with the 17 UN SDGs as a framework. In our Sustainable Model Portfolios, most of our actively managed sustainable funds report on their contribution to the UN SDGs.**

The chart below explains how many of our funds contribute to each corresponding SDG. For example, 20 funds in our sustainable portfolios contribute to SDG7 – Affordable and Clean Energy via their investments. At present the impact 'hit rate' for our Sustainable Models is as follows:

## Our Funds' Contribution to the UN SDGs




Source: Internal data, as at 31/01/2021





# Case study

## BMO Responsible Global Equity Fund

3 GOOD HEALTH AND WELL-BEING

The BMO Responsible Global Equity Fund, which is now into its third decade, strives to play its part in mobilising private capital towards securing a more sustainable future for all. Through its investments, the fund contributes to 10 UN SDGs and strongly connects with SDG3 – Good Health and Well-being. Of its circa 50 holdings, 12 holdings directly contribute to SDG3 Good Health & Well-being.

Countries across the world, particularly during the Covid-19 pandemic, are witnessing the limits of their healthcare systems. Health care costs continue to rise with the increasing prevalence of non-communicable diseases and an ageing world population. This fund aims to invest in companies seeking to tackle these issues through a range of initiatives, enabling critical clinical research, drug development, affordable medicines, quality treatments, and insurance coverage.

These include companies that develop and provide life-saving drugs; quality hospital care; dialysis and home care; companies that support life sciences innovation through consistent launches of new analytical, diagnostics and next-generation sequencing products; exposure to technology companies taking steps to capture healthcare data digitalisation opportunities; providers of health insurance coverage and services, particularly to senior citizens.

## Case study

### Together, their healthcare holdings are actively contributing towards the targets of SDG3 – Good Health and Well-being.

Notable examples of such companies in the fund are:

### CSL Limited

Australia based producer of pharmaceutical and diagnostic products derived from human blood plasma, including vaccines and disease treatments. CSL is collecting blood plasma samples from recovered Covid-19 patients, which contain antibodies that may be able to be used as a treatment. It is sharing its experience with other plasma specialists through the CoVIg-19 Plasma Alliance. 11% of CSL Limited's revenue comes from producing vaccines for influenza and other communicable diseases and 84% of its revenues come from supporting the treatment of non-communicable diseases through the development of a range of innovative biotherapy treatments.

### Humana Inc

A US health insurance company, with individual, corporate and government-sponsored clients. The company derives 100% of its revenue by providing access to healthcare through its medical insurance products. Health insurer Humana has eliminated all costs charged to its members (most of whom are American senior citizens) for Covid-19 health care, such as for doctor tele-health consultations, testing and hospital stays.

### Qiagen NV

Based in Netherlands, specialises in testing technologies, particularly disease testing in the pharmaceutical, life sciences and healthcare areas. The company derives 100% of its revenues by providing access to healthcare through the sale of a range of diagnostic and sampling services and equipment.

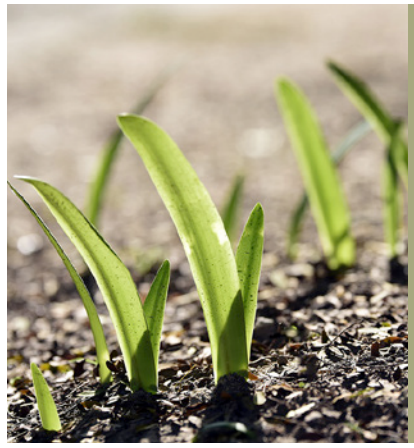
### Thermo Fisher

A US based Pharmaceuticals and Biotechnology company that manufactures a wide range of scientific instruments, chemicals and related products to the medical and scientific communities. It derives 39% of its revenue from the sale of a range of products and services aimed at the treatment of non-communicable diseases like Parkinson's disease. 61% of its revenue is derived from the support it provides to individuals in helping them access healthcare via its range of analytical and data tools.





### In addition to our sustainable investment management solutions we provide a range of services to corporate and not-for-profit organisations to help them define and achieve their own organisational goals in the Environmental, Social, and Governance areas. Should you wish to discuss these services with us please do get in touch.



### Business. For good

Increasing public interest in ethics and in how companies create value, as well as regulators' growing focus on sustainability, is changing the way companies are expected to drive their business and performance and has given rise to Environmental, Social and Governance (ESG) metrics.

With global experts able to respond to increasing challenges within a more demanding and disparate ESG regulatory system, Mazars can advise clients in this ever more complex space. We have expertise aimed at reengineering trust in business, empowering people and nurturing collective responsibility.

### Culture audit

A sound corporate culture that is aligned with strategy and reflects the values of the business is a key driver for financial and operational success, as well as a major influencer on ethical behaviour. It can drive innovation, attract the next generation of talent and protect the brand.

Mazars' Culture Compass measures cultural alignment throughout the business. When companies are going through periods of change – to the team, structure and operations – Mazars' Culture Compass can highlight both successes to be replicated and recommendations to address areas of divergence.

### Sustainability

As auditors, consultants and entrepreneurs, we consider it our duty to help our clients become ever more sustainable and responsible. Our sustainability services include: non-financial assurance; data protection and information security to provide you with comfort that your GDPR processes are appropriate and effective; anti-bribery and anti-corruption, with Mazars being formally accredited as an approved certifier of anti-corruption programmes; cyber security; and CSR and ethics in business consulting.

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