# ESG POLICY

HAWKSMOOR
FUND MANAGERS

Considerations relating to ESG (Environmental, Social and Governance) factors have always formed a central part of our investment process. Here we explain how we incorporate ESG factors into our investment process.

As a manager of multi asset funds of funds, we are often outsourcing the management of our clients' money to specialists in their fields. We expect these active fund managers to share certain aspects of our own investment philosophy, namely:

- Their ultimate aim should be to deliver strong risk-adjusted real (i.e. adjusted for the impact of inflation) returns
- They should care about performance and the way they generate performance above asset-gathering and their own personal enrichment
- Incentive structures around them should reinforce this

In doing this, in the same way our own clients expect it of us, we expect the managers with whom we invest our clients' money to demonstrate a robust, repeatable and disciplined investment process. We believe any successful investment process will incorporate ESG considerations as a matter of course, for the simple reason that doing so leads to better investment outcomes – and always has.

Moreover, we will not invest in anything simply to display our ESG credentials. It is also worth pointing out that each asset class in which we invest requires different considerations with regard to ESG. A nuanced approach will always be warranted – rather than having a one-size-fits-all framework to judge ESG credentials.

## Environmental

Companies or investment strategies that cause damage to our environment – whether directly or indirectly – make poor investments. With authorities increasingly under pressure to meet certain climate-related targets, behaviour that violates best practice can lead to punishment. Even where poor behaviour with regard to the environment goes unpunished by authorities, individuals increasingly express their distaste about such practices by eschewing the products of any company or entity that causes environmental harm. Lack of regard for the environment undermines sustainable working practices and we expect our fund managers to incorporate such considerations into their process.

## Social

Company managements, including the managers of physical assets in which we invest, increasingly realise that stakeholders (not just shareholders) matter. They matter because the impact of a company's activities on society as a whole feeds directly into the image of that company to its potential customers. A poor perception of how a company interacts with a wide range of stakeholders will be detrimental to sales and profits. Increasingly customers demand that a company contributes positively to people and planet in the course of its everyday activities and thus we expect our fund managers to be aware of this when judging their own investments.

## Governance

We believe it is a matter of common sense that, when it comes to equity and debt investment, the management teams of companies that display poor corporate governance will allocate capital poorly and generate inferior profits for shareholders and creditors. This in turn will lead to poor performance and we expect our managers to consider the alignment and judgement of the management teams of the companies they invest in or lend to.

We also take governance considerations very seriously when we are in a position to effect change directly. This is particularly true of our own Funds' holdings in investment trusts, which we use to access less liquid assets – for example the ownership of physical assets like property or ships. We take our fiduciary responsibilities very seriously: we interact not only with the managers of the trusts' portfolios, but with the Boards and house brokers too. We make sure we vote on all of our shares.

## Thematic investing

There are investment themes that play directly into ESG considerations. Investments into renewable energy projects are one such example. We judge any investment on its own merit – and that starts with an assessment of valuation, likely returns and risk. If the investment fails to meet our strict "margin of safety" criteria, we will not invest in it. We look at thematic investments in the same way as we do other investments and we will not sacrifice any of our core investing principles.

## Conclusion

We ensure that all of the managers whose funds we invest in have a consideration of ESG factors embedded in their investment process. The number of managers explicitly stating how they incorporate ESG into their process has increased enormously over recent years, reflecting the recognition that investing in companies that fail to adapt to changing societal views, consumer behaviour and investor perceptions are likely to deliver sub-optimal investment returns. However, we believe the best managers (i.e. those to whom we entrust our clients' money), have always considered ESG factors – they have just not made it explicit.

As with other aspects of our investment philosophy, we believe our ESG policy is transparent, defensible and robust, but we always welcome further discussion and engagement with investors on the subject. There are few absolutes in investment and we are learning all the time. Finally, it is worth stating what Hawksmoor's own values are, as these run right through every aspect of our jobs.

## Values

- We put clients at the centre of everything we do and we genuinely care
- We apply integrity, innovation and discretion to everything we do
- We communicate in a clear and transparent way
- We are inclusive, collaborative and open and we empower our people
- We care about having a positive impact in society and helping create a sustainable world around us