

ESG Review

Hawksmoor Sustainable World Portfolios

Cautious Strategy

November 2020

Contents

Key facts Page 3
Fund information
ESG policy and alignment
Levels of ESG integration
Sustainable Development Goals

ESG factors

Environmental Page 4
Social
Governance

Levels of ESG integration

Exclusions Page 5
Sustainability focus
Impact investing
Top 10 holdings

Sustainable Development Goals Page 6
Engagement with corporates and/or funds
Resources
Hawksmoors’s ESG policy

ESG Review



Hawksmoor
Sustainable World Cautious Portfolio
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Key facts

- Generalist ESG portfolios, focusing on sustainability whilst understanding that negative exclusions and a level of impact investing will naturally occur. Diversification and risk management will guide the portfolio construction towards supporting businesses that are working towards a more sustainable future.
- Due diligence on underlying funds focuses on the future which means decision making is driven by qualitative analysis more than quantitative analysis.
- Where possible Hawksmoor tend to favour investing in smaller funds, which they judge to be 'ones for the future'. Hawksmoor believe that supporting smaller funds helps them establish more robust relationships with the fund managers. They also believe that this strategy is not really an option for larger ESG portfolios.

Fund information

Launch Date	February 2019	UN PRI signatory*	No
Portfolio Manager	Jim Wood-Smith & Team	UK Stewardship Code signatory	No
Domicile	GBP	IA Sector	-
Assets	Active	Morningstar Category	-
Approach	Risk Focused	Defaqto Diamond Rating Type	MPS Family
Type	MPS	Diamond Rating	5

*UN Principles for Responsible Investment (PRI)

ESG policy and alignment

Number of exceptions: 0

The objective of this portfolio strategy is to invest in funds that in turn have the objective of investing in businesses that specifically seek to provide solutions to sustainability issues and/or have strong corporate policies relating to ESG criteria. The Cautious portfolio also has the objective of providing returns from a combination of capital growth and income within the agreed risk profile. The portfolio will have an equity content of between 0 and 40%.

This portfolio invests in third party funds. The selection of

funds for the portfolio follows a series of primarily qualitative stages that includes a number of fund manager meetings and team discussions. The team seek to understand how the third party managers consider and incorporate ESG factors in to their investment decisions. While there is no specific underlying ESG theme to the portfolio, diversification and risk management will guide the portfolio construction resulting in the focus of the portfolio supporting businesses that are working towards a more sustainable future.

Levels of ESG integration

Exclusions	0%	Sustainability focus	93%	Impact investing	7%
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While there is no specific policy on exclusions, Hawksmoor take the view that the funds they are investing in will naturally have exclusions. Any funds that have 5 or less exclusions will be subject to further discussion within the team and reasons will be sought from the third party managers.

Sustainable Development Goals (SDG) focus



ESG factors

Environmental

Less than 1%	Between 1% and 10%	More than 10%
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Environmental Exposures	Product
Fossil Fuel	3.45%
GMO	0.00%
Nuclear	1.06%
Oil Sands Extraction	0.04%
Palm Oil	0.00%
Pesticides	0.00%
Thermal Coal	1.39%

There are two exposures of note here, fossil fuel at 3.45% and thermal coal at 1.39% (and Nuclear at just over 1%). No one underlying fund contributes more than 0.35% to the portfolio total exposure to fossil fuels and no more than 0.21% to thermal coal. The majority of these exposures are through the parent company, where there may be some legacy exposure, although the investments are in the main corporate bonds where it is unlikely any earmarked fund raising will have any of these exposures.

Decarbonisation is an area that Hawksmoor are particularly focused on so would certainly form a significant element of discussions with the fund managers to ensure that exposures are heading in the right direction and are not significant, although the team are content with underlying fund managers investing in the transition from fossil fuels to renewable energy which may flag up as noted here .

Source: Based on availability of Morningstar ESG data as at 17 Dec 2020

Social

Social Exposures	Product Involvement
Adult Entertainment	0.00%
Alcohol	0.00%
Animal Testing (Pharmaceutical)	5.07%
Animal Testing (Other)	0.00%
Controversial Weapons	0.00%
Fur and Specialty Leather	0.00%
Gambling	0.00%
Military Contracting	0.00%
Small Arms	0.00%
Tobacco	0.00%

There is only one exposure of note, which is animal testing. Even though it is a relatively low exposure at just over 5%, the majority of this exposure comes from underlying investments in pharmaceutical and healthcare related investments. It should be noted that there is usually a legal requirement to test new vaccines and drugs on animals. There is no exposure to non-pharmaceutical animal testing, and no one underlying fund contributes more than 1% to the overall portfolio exposure.

As an example the EdenTree Amity funds exclude companies that use animals to test cosmetic or household products, but do invest in Pharmaceutical companies that may conduct animal testing. BMO take it a step further, excluding even pharmaceutical companies that are not replacing, reducing and refining animal testing in order to minimise harm and enhance welfare.

Source: Based on availability of Morningstar ESG data as at 17 Dec 2020

Governance

When analysing governance on the underlying third party funds, they ensure that the funds they invest in are in turn investing in companies that follow all the usual governance criteria including executive structure and quality, board diversity and effectiveness, shareholder protections and rights, transparency and overall corporate culture.

In addition, they are keen that underlying fund managers

follow a policy of engagement with their invested companies and exercise voting rights where appropriate to ensure those underlying companies continue to follow and improve on ESG principles.

Where possible, Hawksmoor invest in funds that align with their own ESG philosophies.

Levels of ESG integration

Within this section, we look at how ESG has been integrated across the portfolio. Using the IA responsible investment framework, there are three fund-level components: exclusions, sustainability focus and impact investing.

Exclusions 0%

The Sustainable World portfolios do not apply any exclusions themselves believing, not unreasonably, that some or all of the underlying funds held will, by their nature, exclude investment in certain areas or sectors. An element of Hawksmoor's due diligence on third party funds explores this in more detail. While there is no specific policy of exclusions

they have a 'soft' target, where they would expect any underlying fund to have at least 5 underlying exclusions. Any less than this would result in further discussions with the fund managers with explanations sought. Currently, there are no underlying funds with less than 7 exclusions.

Sustainability focus 93%

As the names would suggest, the Sustainable World portfolios have a significant focus on sustainability, also understanding that the nature of the underlying funds will also have appropriate levels of exclusions and impact investing.

favoured that are invested in companies that operate best practices in employment and engage with the communities in which they work.

For this reason, Hawksmoor due diligence of underlying funds focuses on those that invest in companies that embrace the best practices of sustainability. These would include businesses that support and educate supply chains, source raw materials sustainably, support recycling and improve energy efficiency. In particular, exhibit low or no use of fossil fuels and are strong on decarbonisation. Funds are

Each fund on Hawksmoor's buy list is awarded both a risk score and a sustainability score. The sustainability score measures application of exclusion policies, ES & G criteria, Positive benefit, reporting on ESG issues, carbon footprint. In essence a score is given for both what they do and how they do it. Scores range from -5 to +5 for each category. Both scores must be above 0. Weighted average is calculated and best scoring funds are more likely to feature on the buy list.

Impact investing 7%

Hawksmoor take a pragmatic approach to portfolio construction in terms of impact investing which they see as the higher risk end of ESG investing. In this context, we see impact investing as a strategy where all investments in an

underlying fund have a measurable impact on a specified sustainability metric, and crucially where the fund is able to measure and report on it. An example of where this takes place would be Threadneedle UK Social Bond.

Top 10 holdings

Name	Sector	% of assets
EdenTree Amity Short Dated Bond	Alternatives	11%
EdenTree Amity Sterling Bond	Fixed Income	8%
Royal London Ethical Bond	Fixed Income	8%
Liontrust Sustainable Future Corporate Bond	Fixed Income	8%
Rathbone Ethical Bond	Fixed Income	8%
Sarasin Global Real Estate Equity	Alternatives	8%
BMO Responsible Sterling Bond	Alternatives	8%
Kames Ethical Corporate Bond	Fixed Income	7%
Threadneedle UK Social Bond	Fixed Income	7%
ASI Ethical Corporate Bond	Fixed Income	7%

Sustainable Development Goal (SDG) focus



Source: Hawksmoor, November 2020

Engagement with corporates and/or funds

Given the strategy, engagement from Hawksmoor is with the underlying third party fund managers rather than the end companies. Initial and ongoing due diligence with the underlying fund managers will cover both the corporate ESG position of the fund houses as well as their voting and engagement activities with the invested companies.

Qualitative due diligence is the foundation of Hawksmoor's selection process so engagement with the third party fund managers, through meetings and calls features strongly in the

process. Where it is identified that any fund manager is not meeting their expected standards, Hawksmoor will engage with them to seek an explanation and potentially improve their approach.

Hawksmoor actively seek out funds that are smaller and perhaps unfamiliar to advisers, but also believe this approach leads to stronger long term relationships, which enhances the engagement process when necessary.

Resources

A team based approach, headed up by Jim Wood-Smith who is CIO, Private clients. He is supported in running all MPS portfolios, including the Sustainable World portfolios, by Senior Investment Analyst Ian Woolley, Senior Fund Analyst James Clark and Ben Luck, research Assistant.

A tight-knit team that although has no dedicated ESG specialist, it is estimated that James Clark spends in excess of 60% of his time on ESG fund research. The team operate a collegiate approach where each analyst is a generalist. While MPS and

Fund Management at Hawksmoor have separate teams, all relevant research is available to both teams.

The team also subscribe to Alpha terminal, FE analytics and Vigeo EIRIS. Hawksmoor are keen to note that the third party research does not drive their process, rather is an useful resource to check their thinking.

Hawksmoor's ESG policy

Hawksmoor do not have a formal ESG policy, but are keen to point out that part of the philosophy of their Sustainable World portfolios is that applying ESG principles will naturally identify quality companies that in themselves will be sustainable and with a higher probability of succeeding over the longer term.

It should be noted that the same team run both the Sustainable World and 'traditional' portfolios within the MPS, with a number of sustainable funds in common.



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