ESG Review

Hawksmoor Sustainable World Portfolios

Cautious Strategy

December 2021

Contents

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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
Portfolio Manager	Richard Philbin & Kishan Raja
Domicile	GBP
Assets	Active
Approach	Risk Focused
Type	MPS

UN PRI signatory*	No
UK Stewardship Code signatory	No
Defaqto Diamond Rating Type	MPS Family
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%.

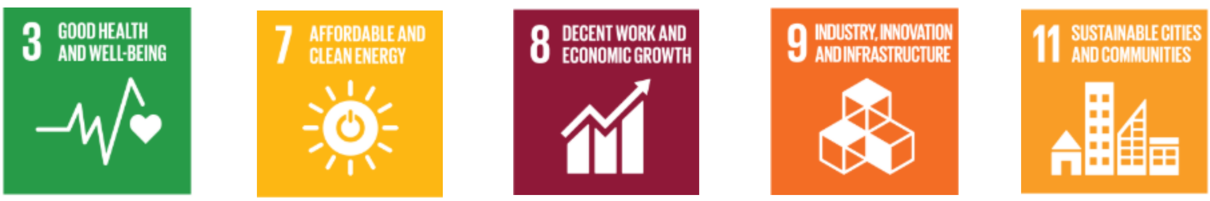
This portfolio invests in third party funds. The selection of funds for the portfolio follows a series of primarily qualitative stages that includes a number of fund manager meetings and team discussions. The team seek to understand how the third party managers consider and incorporate ESG factors in 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

Risk management	2%	*ESG integration/ exclusionary*	39%	*Sustainability focus*	54%	*Impact investing*	5%

For full details, please refer to p5

Sustainable Development Goals (SDG) focus



ESG factors

Environmental

Less than 1%	Between 1% and 10%	More than 10%

Environmental Exposures	Product Involvement %
Fossil Fuel	3.66
GMO	0.00
Nuclear	0.75
Oil Sands Extraction	0.00
Palm Oil	0.00
Pesticides	0.00
Thermal Coal	0.28

Source: Based on availability of Morningstar ESG data December 2021

There is only one exposure of note here, fossil fuel at 3.66%. The majority of this exposure will be legacy, as companies transition to cleaner energy production. For the same reasons, there are also small exposures to Nuclear and Thermal coal

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 .

An example of this would be National Express Group. While emissions on Diesel powered coaches may be flagged, they are already incorporating electric double deck buses in to their fleet, ordered new hydrogen fuel cell electric vehicles (FCEVs) and committed to never buying new diesel powered coaches in the UK.

Social

Social Exposures	Product Involvement %
Adult Entertainment	0.00
Alcohol	0.00
Animal Testing (Pharmaceutical)	7.74
Animal Testing (Other)	0.00
Controversial Weapons	0.00
Fur and Specialty Leather	0.00
Gambling	0.00
Military Contracting	0.05
Small Arms	0.00
Tobacco	0.00

Source: Based on availability of Morningstar ESG data December 2021

There is only one exposure of note, which is animal testing. Even though it is a relatively low exposure at just under 8%, the majority of this exposure comes from underlying investments in pharmaceutical and healthcare related investments, where 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,

As an example, the EdenTree 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.

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 implemented across the portfolio. We use the IA responsible investment framework across three portfolio-level components: exclusions, sustainability focus and impact investing.

Risk management 2%

Unusually, excepting a small cash holding, all underlying investments have been made in funds that focus primarily on ESG principles.

ESG integration/exclusionary 39%

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 54%

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.

For this reason, Hawksmoor due diligence of underlying funds focuses on those funds 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 favoured that are invested in companies that operate best practices in employment and engage with the communities in which they work.

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. . Funds are scored from –5 to +5 for each category. Scores must be above 0. Weighted average is calculated and best scoring funds are more likely to feature on the buy list.

Impact investing 5%

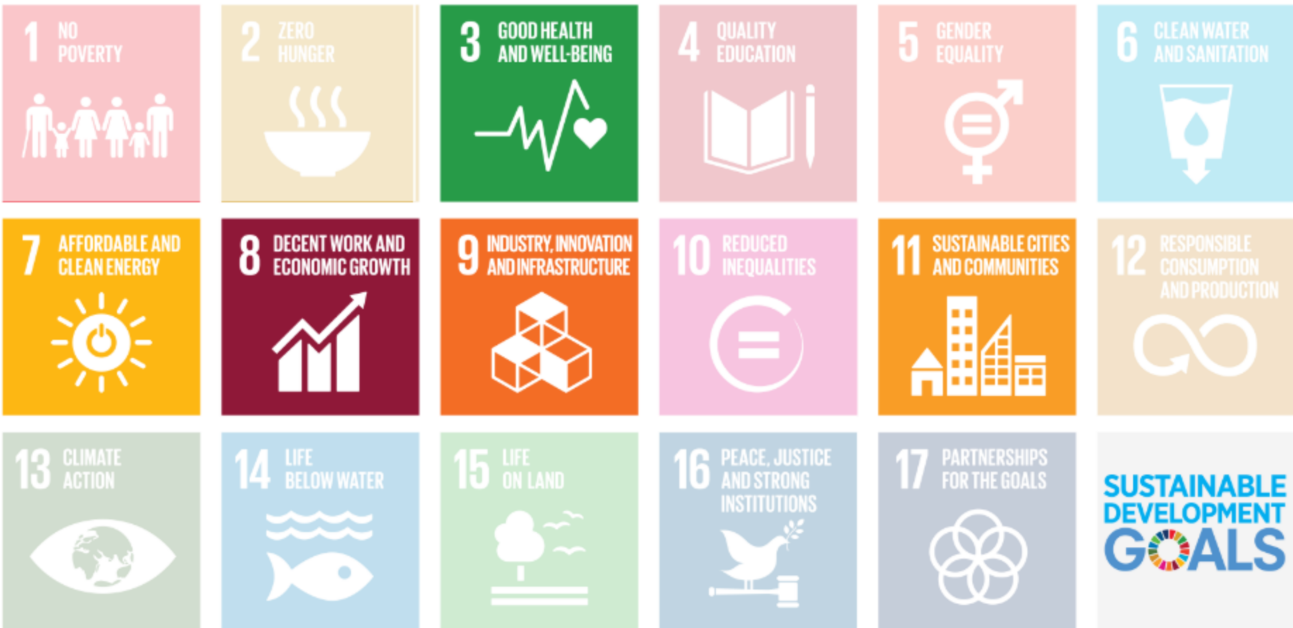
Hawksmoor take a pragmatic approach to portfolio construction in terms of impact investing which they see as the higher risk end of ESG investing. In this context, we see impact investing as a strategy where all investments in an underlying fund have a measurable impact on a specified sustainability 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
TwentyFour Sust. Short Term Bond Income	Fixed Income	7%
EdenTree Resp & Sust Short Dated Bond	Fixed Income	6%
Liontrust Sustainable Future Global Growth	Global Equity	6%
BMO Responsible Sterling Corporate Bond	Fixed Income	6%
Royal London Ethical Bond	Fixed Income	6%
BMO Responsible Global Equity	Global Equity	5%
Close Sustainable Bond	Fixed Income	5%
EdenTree Resp & Sust Global Equity	Global Equity	5%
EdenTree Resp & Sust Sterling Bond	Fixed Income	5%
Foresight Sustainable Real Estate Securities	Global Property	5%

Source: Hawksmoor Investment Management: 31 December 2021

Sustainable Development Goal (SDG) focus



Source: Hawksmoor, December 2021

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

September 2022 update: The Hurst Point Group (a subsidiary of The Carlyle Group, which has upwards of $325bn of AUM), completed the purchase of Hawksmoor in March 2021. As Wellian was part of associated acquisitions, this was an opportunity to strengthen the MPS team. Richard Philbin CIO (Investment Solutions) and Kishan Raja Assistant Portfolio Investment Manager are now the lead portfolio managers for the MPS ranges.

In addition, Richard Pike has recently come on board as Head of Investment Management and it is he who is responsible overall for the Hawksmoor investment process.

Although the Funds team is a separate team, all notes and research produced by them are available to the MPS team, as well as all research undertaken by the Hawksmoor Investment Management Research Team.

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 a useful resource to check their thinking.

In terms of risk controls, Portcullis software is used to assess contributions of funds and effects on portfolio, such as volatility breaches, asset class weightings, asset class diversification, exposure to passives, performance, income and attribution analysis.

In addition, To maintain adherence to the mandate, simulations are run using FinXL. This looks at income, volatility, number of holdings, correlation, degree of diversification and changes to holdings.

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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