

Addendum to Investment Process

X.0 Sustainability

X.1 Integration of Sustainability Analysis

During the screening process of underlying funds, the Investment Team will assess the fund's merits as related to sustainability and socially responsible investing. Sustainability risk is one of many key considerations made by the Investment Team regarding the suitability for an investment by a FAM managed fund. Sustainability analysis may incorporate quantitative analysis, qualitative analysis or a combination of both.

X.1.1 Quantitative Sustainability Analysis

A sustainability risk score or ESG (Environmental, Social & Governance) rating provided by a recognised data provider such as Morningstar or Bloomberg (or another data source nominated by the PM) will be evaluated where available. This rating will be compared to other peers within the investment universe and those being considered for investment. The rating and its position relative to peers should be reflected in the assessment given to any funds under review, and ultimately in the decision on whether to invest. The degree to which the sustainability rating impacts the investment decision will vary depending on the relevancy of sustainability to the specific portfolio.

X.1.2 Qualitative Sustainability Analysis

The Investment Team will ensure that a target fund has integrated sustainability risk analysis into its investment process, where appropriate. The Investment Team may also seek to identify underlying instruments which have an explicit commitment to responsible investing. The following table provides examples which can be used as a framework for assessing the fund manager's approach to the most prominent ESG issues:

Table 1. Examples of ESG Issues		
Environmental Issues	Social Issues	Governance Issues
■ Climate change and carbon emissions	■ Customer satisfaction	■ Board composition
■ Air and water pollution	■ Data protection and privacy	■ Audit committee structure
■ Biodiversity	■ Gender and diversity	■ Bribery and corruption
■ Deforestation	■ Employee engagement	■ Executive compensation
■ Energy efficiency	■ Community relations	■ Lobbying
■ Waste management	■ Human rights	■ Political contributions
■ Water scarcity	■ Labor standards	■ Whistleblower schemes

The Portfolio Manager / Analyst may also consider the following in appraising the underlying fund's commitment to ESG:

- Is the parent company (or asset management division) a signatory to the United Nations Principles for Responsible Investment (UN-PRI) or similar body which encourages a responsible approach to investing?

- Does the underlying fund manager incorporate ESG factors as a meaningful part of their investment process in identifying and evaluating a potential purchase or disposal of an investment?
- Does the fund employ a dedicated ESG analyst or Team in respect of the implementation of its ESG strategy?
- Does the Fund Manager, Team or investment company actively engage with companies and use their shareholder voting rights for positive impact and to promote ESG standards in said companies?

The due diligence process outlined in section 2 also incorporates a number of questions designed to gain a basic understanding of a target fund’s approach to sustainability. Our full operational and investment due diligence questionnaires are presented in appendices C and D to this document, while the relevant questions relating to ESG are presented below.

- Could you please provide a copy of your ESG policy? Could you please advise how you implement this policy? If you do not have an ESG policy could you please explain how the company approaches the concept of ESG? If this is not a consideration for the firm please explain why this is the case.
- Please describe your ESG philosophy
- How are you managing the transition into the EU SFDR Regulation, which will come into force in March 2021?

X.2 Funds with Sustainable Characteristics / Objectives

While FAM will seek to adopt a responsible approach to all investment decisions, particular attention is given to those funds which explicitly promote sustainability as a characteristic or as an objective of the fund. This section of the Investment Process document applies specifically to FAM products classified as **Article 8** or **Article 9** (so-called ‘light green’ and ‘dark green’ funds) under the SFDR legislation, and other products as deemed appropriate.

In evaluating underlying funds for consideration within these fund of funds, the Investment Team will apply a higher degree of importance to both the quantitative and qualitative sustainability risk assessments conducted during the due diligence process. The target fund’s commitment to sustainability risks may be indicated by implementing ethics-based exclusions, targeting a specific sustainability issue or applying ESG criteria more broadly. A checklist is provided below (and repeated in an appendix to this document) which will aid the PM’s assessment of a fund’s approach to responsible investing. This checklist will be completed for all new investments within FAM’s article 8 and article 9 fund of funds, and for other products as deemed appropriate by the Portfolio Manager.

	Yes/No/Score
Is the fund classified as either Article 8 (‘Light Green’) or Article 9 (‘Dark Green’) under SFDR legislation?	
Is the parent company (or asset management division) a signatory to the United Nations Principles for Responsible Investment (UN-PRI) or similar body which encourages a responsible approach to investing?	

Does the fund manager incorporate ESG factors as a meaningful part of their investment process in identifying and evaluating a potential purchase or disposal of an investment?	
Does the fund employ a dedicated ESG analyst or Team in respect of the implementation of its ESG strategy?	
Does the fund apply ethical or norms-based exclusion lists or policies?	
Does the fund target a specific ESG-related issue (such as climate change, circular economy, workplace equality, board diversity) or one or several of the UN Sustainable Development Goals) within its investment objective?	
Does the Fund Manager, Team or investment company actively engage with companies and/or use their shareholder voting rights for positive impact and to promote ESG standards in said companies?	
Does the fund have a sustainability rating or similar on a third-party data provider such as Morningstar?	

The Investment Team will use the information gained from this questionnaire, coupled with any additional qualitative and quantitative assessment, to address the following questions:

- Does the fund compare favourably in terms of sustainability risk or ESG credentials relative to other funds shortlisted or within the wider peer group?
- Would an investment in this fund enhance the overall sustainability profile for the portfolio into which the investment is being proposed?
- Would an investment in this fund negatively impact the expected risk-adjusted performance or fee level of the portfolio into which the investment is being proposed?

The Investment Team will update this checklist at least annually for each position held within these article 8 / article 9 products. Any material changes to the fund's ESG approach and/or article 8/9 classification will be presented to the Chief Investment Officer and wider Investment Team, as well as any proposed action.

X.2.1 Objectives and Measurement of Article 9 Funds

FAM Sustainable

The investment objective of FAM Sustainable is to generate long-term capital growth by investing in a portfolio of global equity investments with a sustainability profile that is materially better than a broad comparison index. This is achieved by selecting and investing in funds with one or more of the following characteristics:

- **Socially Responsible Investment funds** (funds which apply environmental, social and governance (ESG) principles as meaningful criteria in evaluating investment companies)

- **Best in class ESG funds** (apply a score to all companies within the investable universe and invest only in those which overcome a defined hurdle rate)
- **Thematic funds** (funds targeting one or more sustainable themes, for example climate change mitigation, clean energy, sustainable agriculture)
- **Impact funds** (funds investing with the specific intentionality of generating positive, measurable social and environmental impact alongside a financial return)

While it is recognised that there are a variety of methods of appraising an investment fund's sustainability credentials besides classification under SFDR, the Portfolio Manager will target a minimum exposure to these funds as outlined below:

- Article 8 fund of funds will target a minimum of 25% of its exposure to underlying funds classified as either article 8 or 9.
- Article 9 fund of funds will target a minimum of 50% of its exposure to underlying funds classified as either article 8 or 9.

As SFDR is a new regulation, these targeted thresholds remain subject to change as more information becomes available and industry standard practice is established.

Additionally, the Team will monitor the overall portfolio sustainability rating on third party data provider platforms such as Morningstar Direct, where available. The Portfolio Manager will expect to achieve a rating that is above average or better (equivalent to 4 or 5 Morningstar Globes). Any deviations from this can be used to identify any sources of weakness within the portfolio, such as individual constituents which carry below average scores or are identified as having a particular sustainability risk.

X.3 Overall Portfolio ESG Ratings

Our approach to integrating ESG factors into our decision-making is dependent on the specific asset class and the investment style. Where a FAM product has its own sustainability or ESG rating on third-party data providers (e.g. Morningstar), it is the responsibility of the Portfolio Manager to monitor this. Each PM should estimate as closely as possible the effect of any proposed changes (adding/removing underlying funds) to the portfolio's overall sustainability profile. Any material enhancements or reductions in a portfolio's sustainability/ESG score resulting from an underlying fund change should be documented within the proposal document, and detrimental changes should be given due consideration in order to fully justify the proposed change.

X.4 Other Considerations

As a fiduciary for its clients' assets, FAM is committed to fully appraising every aspect of an investment decision to ensure it is conducted in the best interests of its investors. This means that, while an investment's sustainability or ESG profile is of great importance, other concerns such as investment performance and the level of fees paid also need to be considered simultaneously.

- **Performance:** investments with stronger SRI scores should not be considered as optimal over weaker-scoring peers if their risk-adjusted performance metrics are materially inferior.

- Fees: investments with stronger SRI scores should not be considered as optimal over weaker-scoring peers if their fee level is punitive or disproportionately high relative to those peers.

Please refer to FAM's Responsible Investment Policy for more details regarding the precedence of sustainability considerations versus other fundamental attributes.

APPENDIX E – Sustainability Checklist

The following checklist can be used to aid the Investment Team’s assessment of an investment fund’s approach to responsible investing.

The Investment Team will use the information gained from this questionnaire, coupled with any additional qualitative and quantitative assessment, to address the following questions:

- Does the fund compare favourably in terms of sustainability risk or ESG credentials relative to other funds shortlisted or within the wider peer group?
- Would an investment in this fund enhance the overall sustainability profile for the portfolio into which the investment is being proposed?
- Would an investment in this fund negatively impact the expected risk-adjusted performance or fee level of the portfolio into which the investment is being proposed?

	Yes/No/Score
Is the fund classified as either Article 8 ('Light Green') or Article 9 ('Dark Green') under SFDR legislation?	
Is the parent company (or asset management division) a signatory to the United Nations Principles for Responsible Investment (UN-PRI) or similar body which encourages a responsible approach to investing?	
Does the fund manager incorporate ESG factors as a meaningful part of their investment process in identifying and evaluating a potential purchase or disposal of an investment?	
Does the fund employ a dedicated ESG analyst or Team in respect of the implementation of its ESG strategy?	
Does the fund apply ethical or norms-based exclusion lists or policies?	
Does the fund target a specific ESG-related issue (such as climate change, circular economy, workplace equality, board diversity) or one or several of the UN Sustainable Development Goals) within its investment objective?	
Does the Fund Manager, Team or investment company actively engage with companies and/or use their shareholder voting rights for positive impact and to promote ESG standards in said companies?	
Does the fund have a sustainability rating or similar on a third-party data provider such as Morningstar?	