

Statement on principal adverse impacts of investment decisions on sustainability factors

Art 4 SFDR, June 2023

Summary

Name of the financial market participant to which the adverse sustainability impacts statement relates	RWC Asset Management LLP (trading as Redwheel)
Principal adverse impacts on sustainability factors are considered?	Yes
Reference period	1 January 2022 – 31 December 2022
Notes	As a financial market participant having fewer than 500 employees, RWC Partners Limited provides this statement on a “comply or explain” basis. In this context, adopting a principles based approach, a description of the principal adverse impacts on sustainability factors is provided below on a generalized basis.
Summary of the Principal Adverse Impacts	<p>As part of enhancing the ability of our investment teams to integrate sustainability factors within investment processes, across 2022 Redwheel focused heavily on developing new technical capabilities. Within this work, the development of centralised resources to support the monitoring and assessment of portfolios in relation to sustainability performance indicators was an area of significant focus, culminating in the introduction of a new data management platform toward the end of the year. The platform, provided by Northern Trust/Equity Data Science (NT-EDS), brings together in one place financial and non-financial data relating to the constituents of Redwheel’s products and associated benchmarks.</p> <p>In relation to the Principal Adverse Impact (“PAI”) framework set out within the Regulatory Technical Standards (“RTS”) applicable under the EU Sustainable Finance Disclosure Regulation (SFDR), over the course of 2022 work was prioritised to focus on the development of analytical capabilities relating to PAI factors listed in Annex I, Table 1 of the RTS. Work then extended to the development of capabilities relating to the optional PAI factors shown within Tables 2 and 3. The underlying methodologies applied are those set out within the Annex I; in the absence of specific guidance, methodologies of an equivalent standard were developed.</p> <p>Through the introduction of these new capabilities, Redwheel’s investment teams now have access to a set of tools that enable a consistent and robust approach to be applied when profiling portfolios against the evolving PAI framework, drawing on issuer level data provided by our preferred third-party data provider Sustainalytics. These analytics in turn enable investment teams to adopt a consistent approach to assessing – when viewed through the lens of the Sustainalytics data set - which companies within portfolios are contributing to adverse impacts, as well as data coverage for each PAI.</p> <p>Within our approach to addressing broader requirements of SFDR, specific PAIs may be used by teams as part of evidencing the attainment by investment products of the promotion of environmental/social characteristics. Where this is the case, teams are encouraged to take account of those PAIs particularly within the prioritisation of stewardship activities.</p>

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Our Stewardship Policy and approach is underpinned by the following beliefs as to what good practice at the issuer level should comprise:

1. Over the long run, issuers can deliver investment return while managing risk by focussing on financial and non-financial factors;
2. Issuers should have a primary focus on creating and maintaining value over the long-term and incentivising this appropriately. They should also implement governance frameworks that maintain the interests of investors and management in appropriate alignment;
3. Where a third party exerts significant control over a company in which we are invested, the Board should ensure that the rights of minority investors are respected and protected;
4. Boards should in aggregate have appropriate expertise, represent a diverse range of backgrounds and interests, and ensure appropriate balance in the representation of independent and non-independent members. Individually, shareholder representatives should have and should continue to invest in appropriate skills and knowledge, enabling them to offer constructive challenge to executives in relation to risk management in practice, as well as the pursuit of new areas of opportunity;
5. Issuers should develop and implement policies relevant to their current and anticipated operations. They should also be transparent about their commitments so that progress towards achievement of end goals can be assessed.

Where issuers are not able to evidence such practices, our investment teams commit to promote these beliefs within their stewardship activity.

As part of the monitoring of investments, the stewardship strategy adopted by our teams may on the one hand be proactive (i.e. risk/opportunity driven) or on the other reactive (i.e. event driven).

Within proactive engagement, actions may include raising awareness of emerging best practice, encouraging focus on areas of new opportunity, or seeking to address/reduce issues arising through the course of operations.

Within event-driven engagement, actions may include advising boards and management on options for responding effectively to relevant events. They may also include as part of subsequent proxy voting consideration of the role of the company and its senior leadership within those events, as well as our views on the adequacy of the response in context.

In determining the need for intervention, teams will consider factors such as:

- Engagement/proxy voting history with the company
- % of market cap held, significance of company within portfolio, and expectations of engagement success
- Extent to which concerns are 'acute' (one time) or 'chronic' (persistent)
- Extent to which our teams see risk to their sector view or to the specific investment thesis
- Marginal benefit of the engagement outcome in securing continued investment
- Company's pre-existing involvement in stewardship initiatives of relevance
- Extent to which we can leverage our memberships to support/encourage novel stewardship approaches

Whilst engagement is typically undertaken with respect to those factors of specific relevance to the target company, where portfolio-level adverse impacts are monitored, engagement may also be undertaken to encourage companies to take related action to reduce those adverse impacts. These impacts may include those identified under the Principal Adverse Impact framework established in relation to the EU Sustainable Finance Disclosure Regulation.

The Redwheel Stewardship Policy, and the Redwheel Policy on Responsible Investment which provides the overarching framework for all policies relating to responsible investment at Redwheel, are subject to annual review and approval by the Redwheel Sustainability Committee. All policies are public and incorporate version control to facilitate identification of the approval record.

In relation to the Principal Adverse Impact framework set out within the Regulatory Technical Standards (“RTS”) applicable under the EU Sustainable Finance Disclosure Regulation (SFDR), over the course of 2022 work was prioritised to focus on the development of analytical capabilities relating to PAI factors listed in Annex I, Table 1 of the RTS. Work then extended to the development of capabilities relating to the optional PAI factors shown within Tables 2 and 3. The underlying methodologies applied are those set out within the Annex I; in the absence of specific guidance, methodologies of an equivalent standard were developed.

Through the introduction of these new capabilities, Redwheel’s investment teams now have access to a set of tools that enable a consistent and robust approach to be applied when profiling portfolios against the evolving PAI framework, drawing on issuer level data provided by our preferred third-party data provider Sustainalytics. These analytics in turn enable investment teams to adopt a consistent approach to assessing – when viewed through the lens of the Sustainalytics data set - which companies within portfolios are contributing to adverse impacts, as well as data coverage for each PAI.

Within our approach to addressing broader requirements of SFDR, specific PAIs may be used by teams as part of evidencing the attainment by investment products of the promotion of environmental/social characteristics. Where this is the case, teams are encouraged to take account of PAIs within the prioritisation of stewardship activities.

Engagement policies

The Redwheel Stewardship Policy available on our website at <http://www.redwheel.com> provides a detailed description of our approach to stewardship, including engagement and (where applicable) proxy voting, including in relation to escalation.

Within our approach to engagement, we strive to ensure that activity supports the delivery of client and regulatory expectations. Engagement is most typically undertaken bilaterally, discreetly and diplomatically. Dialogue is directed towards what we consider to be the most appropriate counterparty in the first instance, whether Board directors (e.g. Chair of Remuneration Committee in relation to remuneration matters) or executives (e.g. Head of Sustainability in relation to emissions management practice). As appropriate, engagement may otherwise be undertaken in collaboration with other stakeholders.

Whilst all investment approaches provide scope for engagement, some put enhanced emphasis on the role of engagement (e.g. those seeking to reorient corporate strategies through a combination of deep engagement and significant ownership). For these strategies, stewardship may in exceptional circumstances also extend to seeking seats on company boards for team members. In this way, relevant portfolio managers - accepting the responsibilities and liabilities that arise as a director - can secure a perspective advantage over ordinary shareholders, through direct oversight of the investee company’s management and the implementation of strategy by the Board. For more conventional strategies, portfolio managers would typically not seek to join an investee company’s Board, although they may look to support the nomination of third parties to serve as shareholder representatives.

We also conduct engagement with a wider range of industry and business stakeholders as part of contributing to the development of the wider operating environment within which we conduct our business. We recognise that as a business we have a responsibility to engage with industry stakeholders in support of the development of an operating environment that is itself sustainable over the long-run. Given our core focus as a business on supporting responsible investment, we may from time to time choose to align ourselves with third party organisations focussed on responsible investment issues and whose interests are aligned to our own. Where we do so, we will look to make an active contribution to the development of the work conducted by and within those organisations.

References to international standards

Our approach to stewardship is consistent with the definitions advanced by the UK Stewardship Code and the UN Principles for Responsible Investment of which we are a member. Within the assessment of operational approaches to managing environmental, social, and governance factors, the following external reference frameworks are viewed as having fundamental relevance:

- UN Global Compact¹
- ILO Core Labour Standards²
- UN Guiding Principles on Business and Human Rights³
- OECD Guidelines for Multinationals⁴
- SASB⁵

When viewed through the lens of the Sustainalytics data set, related PAI indicators may be used by investment teams to assess the adverse impacts of investments on sustainability factors. Within this work, data coverage at the portfolio level remains a key consideration.

Investment teams may also take into account other frameworks where these aid analysis of company specific factors, including relevant thematic/sector/national/global standards (such as the development of science-based targets to support emissions reductions objectives aligned to the delivery of the Paris Agreement), as well as:

- Issues yet to be reflected within frameworks seeking to define operational best practice;
- Recommendations and insight provided by organisations of which Redwheel is a corporate member (for example, the ClimateAction100+, and CDP);
- Our own distinct views on companies' disclosure and performance;
- The extent to which our teams consider companies to be meeting effectively other standards that are relevant in context.

Forward looking climate scenarios are not currently used within the assessment of PAIs. Furthermore, it is not recommended that historic/current PAIs should be used to infer or forecast future adverse impacts, either at the product or the constituent level.

The information shown above is for illustrative purposes only. No investment strategy or risk management technique can guarantee returns or eliminate risks in any market environment.

CONTACT US

Please contact us if you have any questions or would like to discuss any of our strategies.

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¹ <https://www.unglobalcompact.org/what-is-gc/mission/principles>

² <https://www.ilo.org/global/standards/lang--en/index.htm>

³ <https://www.ohchr.org/en/issues/business/pages/businessindex.aspx>

⁴ <http://mneguidelines.oecd.org/guidelines/>

⁵ <https://www.sasb.org/>

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