

Responsible Investment

Policy Statement

April 2023
redwheel.com

1. Application

- 1.1 The Redwheel Policy on Responsible Investment (“the Policy”) defines the views of Redwheel in relation to responsible investment and the general approach followed by its investment teams. The Policy applies to all investments held in pooled and segregated mandates managed by Redwheel entities (collectively referred to as ‘the Firm’, ‘Redwheel’ or ‘we’). At the time of writing, the Redwheel entities authorised to manage money comprise:
- RWC Partners Holdings Limited
 - RWC Partners MidCo Limited
 - RWC Partners Limited
 - RWC Asset Management LLP
 - RWC Singapore (PTE) Limited
- 1.2 The Policy seeks primarily to record Redwheel’s commitments in relation to responsible investment, and its current expectations as to how responsible investment should be delivered in practice by its investment teams. The Policy does not seek to be comprehensive with respect to investment types, issues, asset classes etc.
- 1.3 The Policy also does not seek to define how investment should be conducted by investment teams acting for Redwheel on a sub-advisory basis, although we would expect their approaches to be generally aligned with the principles set out within the Policy.
- 1.4 Ultimate accountability for the delivery of responsible investment in practice rests with Head of Investments Arthur Grigoryants, a member of the Redwheel Executive Committee, who owns the policy. For clarity, ultimate accountability for the overall business approach to sustainability rests with CEO Tord Stallvik. Training for the business and its staff on the Policy, directly related issues and broader matters relating to the business approach to sustainability is provided on a semi-annual basis by the Head of Sustainability.

2. Rationale, Characteristics and Commitment

- 2.1 Redwheel is an independent provider of active investment management services. Our organisational structure is characterised by a high level of professionalism, stable management, and a focus on helping our clients to achieve long-term investment returns. Our active investment heritage is built on a foundation of innovation, original thought and high conviction investing. Our ownership structure includes broad employee share participation that reinforces a long-term commitment to the progress of the organisation.
- 2.2 Defining features of Redwheel's approach to investment are that each team retains a high degree of autonomy over its investment process, is led by experienced and accomplished fund managers, and that the Heads of each investment team co-invest alongside their clients to create a natural alignment of interests. Redwheel in turn helps its managers to maintain focus on their respective processes by providing an operating environment that naturally avoids the undue imposition of restrictions that would compromise their ability to concentrate on achieving superior investment returns.
- 2.3 Within this arrangement, as part of ensuring that together we fulfil our fiduciary duties to clients, Redwheel and all its investment teams are committed to facilitating and delivering responsible investment in practice. Each of our teams' investment products is designed and managed taking into consideration a variety of factors including the specifics of the wider strategy, the asset class and the geographic focus; best practice in responsible investment is reflected within product design and management to the extent that each team and Redwheel together consider appropriate.
- 2.4 The list below represents a non-exhaustive list of characteristics that collectively we consider may form part of a responsible investment process:
- (i) investment teams give due consideration to sustainability factors within research, security selection and portfolio management
 - (ii) investment teams undertake stewardship relating to sustainability issues
 - (iii) as part of the ongoing development and enhancement of processes, investment teams give regular consideration to emerging views on the materiality of sustainability factors within investment processes, as well as the impact of investment processes on sustainability factors
 - (iv) investment teams document their responsible investment processes and communicate thoughtfully and transparently on their investment activities in particular as regards the consideration of sustainability factors

- 2.5 At the corporate level, Redwheel commits to support its investment teams in the delivery of responsible investment and in the completion of related exercises required under applicable regulation by:
- (i) regularly reviewing and updating (as appropriate) policies that are binding on Redwheel and its investment teams relating to sustainability and investment, taking into consideration input provided by investment teams
 - (ii) ensuring sufficient resource is available both to oversee effectively the implementation and communication of responsible investment in practice, and to support ongoing development and enhancement of products, processes and policy
 - (iii) ensuring active participation in the work of organisations and initiatives, of which Redwheel is a member, where matters relate to sustainability
 - (iv) maintaining coherence between, on the one hand, the approaches adopted by its investment teams in evaluating and challenging investee companies in relation to sustainability considerations and, on the other hand, the approaches used to evaluate its own business operations.
- 2.6 Our approach is consistent with the requirements binding on Redwheel and its investment teams through membership of the UN Principles for Responsible Investment (since 2020) and the UN Global Compact (since 2022), whose defining attributes are shown below:

UN Principles for Responsible Investment

Signatories' commitment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

UN Global Compact

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

3. Integration of sustainability considerations into Research, Security Selection and Portfolio Management

Research

- 3.1 As a business engaged in the provision of active investment management services, taking proper account of the interests of clients and acting accordingly is of critical importance; within this, delivering investment performance over the long-term plays a key role. Proprietary research represents a fundamental aspect of delivering long-term performance.
- 3.2 We believe that the assessment of investments should be both sufficiently thorough and objective - looking beyond the short-term and developing enhanced perspectives on the risks presented over the long-term, as well as the returns that might potentially accrue. These assessments are best undertaken by experienced analysts with specific knowledge of the companies and markets they cover.
- 3.3 In relation to analyst resourcing, investment teams are expected to ensure that a level of expertise is maintained which is appropriate in view of the characteristics of the products being managed by the team, and the resources otherwise available to teams from within the central Redwheel business.
- 3.4 Within investment research, each investment team is strongly encouraged to conduct due diligence to evaluate risks and opportunities holistically. Individual assessments naturally take into account a variety of conventional financial factors; some of these factors may also present sustainability characteristics. Holistic assessments also take into account sustainability factors; some of these may present financial characteristics, some may not. Examples of sustainability factors that might be considered in a holistic assessment are provided below:
- **Systemic sustainability risk factors e.g, climate** – exposure of a company to physical and transitional risks relating to climate change
 - **Environmental** - operational resilience to depletion of natural resources e.g. water; extent to which liabilities are created through the course of manufacturing a product e.g. waste/pollution with potential to cause biodiversity/habitat loss
 - **Social** – external and internal factors affecting a business’ “licence to operate” e.g. human rights, labour rights
 - **Governance** – quality of Board oversight of management and extent of applicable controls; degree of alignment in practice between management and stakeholder interests (employees, investors, suppliers, communities, regulators), including the design of compensation award programmes; transparency
- 3.5 The specific factors considered by a team to be most material in context should be given the greatest prominence within related research. The significance of those individual factors within the final analysis may vary however, depending for instance on the nature of the issuer, the sector in which it operates,

and the nature of its business lines. As required, the research process may also include direct communication with company representatives as well as proactive investigation to help uncover additional information that can enhance the assessment of investments.

- 3.6 To support information discovery, Redwheel obtains independent sustainability data and research from specialist organisations, as well as third-party peer-reviewed frameworks such as the Sustainability Accounting Standards Board® materiality map and provides it to investment teams. These resources serve primarily as inputs to research processes; investment teams remain free however not only to determine the sustainability risks and opportunities deemed most material in context to a specific investment, but also to disagree with the opinions provided. Combination and comparison of such inputs can though, on a case by case basis, help teams both to identify factors considered to have potential to be material to long-term valuations, as well as to evaluate the quality of third-party data and research. Responsibility for scrutinising the third-party data used within investment processes rests with investment teams who are encouraged to interact directly with external organisations as needed (e.g. to discuss issues including the contemporaneity and accuracy of data), escalating concerns over the quality of services/research/data to the Redwheel Central Sustainability Team as considered appropriate.
- 3.7 Having established which sustainability factors are material within the context of a specific investment thesis, teams are encouraged to conduct periodic reviews of related research, including in relation to sustainability performance, and to reflect within related documentation any updates considered appropriate at that time.

Security/issuer selection

- 3.8 Within investment selection, individual investment opportunities are reviewed to identify those considered to have potential to make a positive contribution to the delivery of the investment objectives of the relevant fund.
- 3.9 In the evaluation of the strengths and weaknesses of investment opportunities, the specific weighting allocated to sustainability factors, and the specific factors that are considered, can and do vary for reasons including:
- the nature of sustainability risks and opportunities inherent within the sector/industry within which the issuer operates, relative to those applicable to alternatives
 - the variety and degree of environmental and/or social liabilities created in the course of the issuer's business operations, relative to those generated by alternatives
 - the relative strength of commitment of management to improving standards of operating practice over time
 - the extent to which the company is considered to provide potential to meet future market expectations as regards sustainability characteristics, relative to alternatives
- 3.10 The selection of investments will also be influenced by the extent to which formal product-level constraints apply which may include best-in-class approaches as well as negative screens designed to

support the achievement of particular product goals. Such screens may be defined as part of controls introduced to prevent investment exposure to companies exhibiting particular sustainability characteristics (e.g. those considered to breach widely accepted standards of operational best practice such as the UN Global Compact); they may also be defined to prohibit investment exposure to companies in specific sectors (e.g. defence) or deriving revenues from particular activities (e.g. alcohol production, or thermal coal extraction); they may also be a combination of the two. The positioning of relevant funds within the Redwheel Product Matrix will have particular bearing on the nature and extent of product-level screens applied.

- 3.11 In parallel, firm-level policies - in particular the Redwheel Controversial Weapons Policy - may bear upon security selection by prohibiting an investment team from investing in certain securities and/or practices. These policies form a key element of our approach to ensuring consistency for our clients and they are broadly communicated within Redwheel which helps to ensure efficiency in terms of both research and security selection. Importantly, nothing should be inferred about the underlying preferences of our investment teams from the existence of such policies.

Portfolio management

- 3.12 Having identified a basket of investments from which to construct a portfolio, portfolio managers determine on a relative basis the weight to assign to each investment, seeking to ensure that applicable product-level characteristics continue to be met as constituent level attributes change through time. Relevant characteristics may be expressed in relation to technical and financial goals for the product (volatility, tracking error etc.); they may also be expressed in relation to sustainability goals.
- 3.13 Where a commitment is made to demonstrate particular sustainability characteristics at the product level, products are regularly assessed by Redwheel's Sustainability Committee, typically at least quarterly.
- 3.14 As required by the Redwheel Compliance team (working in partnership with the Central Sustainability Team), portfolio managers will be advised and instructed to take action to avoid or remediate breaches relating to sustainability considerations. The processes described in Redwheel's investment policies, in particular the Redwheel Breaches Policy, shall inform the specific actions required.

4. Stewardship

- 4.1 Particularly the case for those teams managing equity products, having made an investment all teams are expected to engage actively with investee companies; teams managing equity products are also expected to participate in proxy voting. Investment team leaders have responsibility for determining who should take part in stewardship activities, and for ensuring that those selected have sufficient skills and knowledge to do so effectively in light of the plans established for the target company.
- 4.2 Where a team interacts with a company as part of information discovery and/or ongoing relationship management, teams will be expected to generate summary notes and update thesis documentation as appropriate. These interactions are considered incidental to but not a core aspect of engagement.
- 4.3 Where a team interacts with a company as part of an effort to effect change within the target organisation (for instance by commending the adoption of new business practices and/or the reduction or amelioration of certain impacts), this will be considered as a substantive engagement consistent with the definitions applied by the UK's Financial Reporting Council. In such cases, teams will be expected to record the topics discussed within engagements in detail, to set appropriate milestones and to use escalation mechanisms appropriately.
- 4.4 Further detail on commitments relating to stewardship is contained within the Redwheel Stewardship Policy which forms part of the wider suite of Redwheel's policies relating to responsible investment.

5. Reporting and Transparency

- 5.1 We believe that only with high standards of transparency and reporting can investment professionals earn the trust of clients.
- 5.2 As a business, we have committed and will continue to commit resource to the development of our technology and reporting infrastructure in order to build trust with our clients. Leveraging this investment to enable high-quality quantitative reporting, whilst simultaneously drawing on the insights of our managers to provide contextual qualitative commentary, provides a solid basis on which to generate a holistic assessment of how our teams manage portfolio risks in practice – including those relating to sustainability – and the tools and techniques they use to harness related opportunities to generate returns within funds.
- 5.3 Against a rapidly evolving backdrop, we believe that we can best help our clients by focussing on the implementation of a relatively standardised reporting approach applicable across all our investment teams. By realising economies of scale in this way, we are able to spend more time focussing on generating the kind of insights that we know are of greatest interest to our clients.
- 5.4 Insights gained from the completion of annual reporting exercises such as required by regulators (e.g. via the UK Stewardship Code) or by virtue of our membership of external organisations (e.g. the UN Principles for Responsible Investment), or otherwise by ratings and reports issued by relevant third party organisations (e.g. academia, finance-focused NGOs) will also be taken into account as we seek to continually improve and enhance our proposition over time.

6. Product Support, Education and Training

6.1 In light of the acceleration in the interests of clients and regulators in relation to responsible investment (including stewardship) and sustainability more broadly, Redwheel has committed to support its investment teams through the creation of a specialist central Sustainability function to help improve awareness and understanding of sustainability issues across all business areas.

6.2 On a day-to-day basis, the central Sustainability Team has particular responsibility for:

- Advising and educating relevant business units and investment teams in relation to responsible investment, including in relation to operational and policy requirements
- Supporting the development of Redwheel's own approach as a sustainable business

6.3 Amongst other duties, the central Sustainability Team also:

- Provides the secretariat for the Redwheel Sustainability Committee
- Co-ordinates regular education and training sessions for investment teams and the wider business, both proactively and reactively
- Leads in the preparation and update of policy relating to responsible investment considerations, and in the production of communications relating to responsible investment activity, in particular those relating to our core business approach and reports that aggregate activity undertaken by our investment teams.

6.4 Further support is provided to our investment teams by our Thematic Sustainability Research team, "Greenwheel". This team has been created to increase awareness of investment opportunities relating to broad macro-level sustainability themes, and to support the design and development of sustainability-focussed investment strategies. Investment teams managing products with sustainable/impact objectives, or otherwise aligned to sustainability themes, are expected to work particularly closely with the Greenwheel team.

6.5 Mindful of the need for investment teams to retain autonomy over their processes, the Sustainability and Greenwheel teams will work together to provide technical and specialist support to teams as required whilst also helping to support activities relating to fund governance. The degree of support provided will vary dependent on the nature of the strategy. The Product Matrix shown below indicates the principal differentiators between our products in terms of their incorporation of sustainability considerations, offering a sense of how the nature of the interaction between teams can change.

6.6 Resources are prioritised by the Sustainability and Greenwheel teams as appropriate, balancing the requirements arising from the need to provide ongoing education, training and support to investment teams against the need to provide the same to the wider business. Ultimate responsibility for determining the training needs of analysts rests with the Head of the relevant investment team.

Redwheel Product Matrix – expectations within categories

Product Category	ESG Integrated	Enhanced Integration	Transition	Sustainable	
Brief Description	Conventionally run investment strategies seeking a desired balance of risk and return, with ESG integration, binding elements, commitment to engagement and greater transparency.	Conventionally run investment strategies seeking a desired balance of risk and return, with ESG integration, material exclusions, superior to benchmark characteristics, commitment to engagement and greater transparency.	Specialist focus investment strategies seeking to identify and actively assist the companies on their transition paths to greater suitability (could be one or a combination of product mix, business model, practices/processes). Exclusions are less important as emphasis is on engagement and change.	Investment strategies with demonstrable commitment to sustainability, achieved through allocation to companies contributing to environmental and/or social objectives. A strong and clear position on climate is expected. Commitment to engagement, transparency, and an independent challenge.	
Sub-types				“Solutions”	“Impact”
For EU funds, SFDR Art.	8	8	8	8	9

NB: Both Solutions and Impact funds would invest in sustainable investments (see below) but only Impact funds would have sustainable investment as an objective

7. Policy development and governance

- 7.1 Terms of Reference have been established for a Redwheel Sustainability Committee, under which responsibility is established for ensuring that policies relating to sustainability issues are reviewed and updated as appropriate. All Redwheel policies relating to sustainability issues, including the Policy on Responsible Investment, are subject to annual review. Policy review will normally also involve close coordination with our investment teams, not least given the importance of maintaining alignment between existing team level process documentation and any new firm-level commitments.
- 7.2 Whilst all efforts are made to ensure that individual policies relating to sustainability issues are clear and internally consistent, it may be necessary that they should be read in conjunction with one other in order to fully appreciate issues of scope and/or application e.g. in relation to the management of conflicts of interest, as well as any issue-specific policies or position papers that may be issued from time to time.
- 7.3 Currently, the principal policies relating to sustainability considerations, the implementation of related investment strategies, and the roles of individual teams in overseeing the operation of investment products in practice, comprise:
- Redwheel Policy on Responsible Investment
 - Redwheel Stewardship Policy
 - Redwheel Controversial Weapons Policy
 - Redwheel Breaches Policy
 - Redwheel Conflicts of Interest Policy
 - Redwheel Remuneration Policy
- 7.4 Whilst the Redwheel Sustainability Committee has been established with an explicit mandate to focus on sustainability considerations and to oversee the delivery of responsible investment in practice by investment teams, other governance committees within our business can and do discuss sustainability matters where it is considered appropriate; for example, our Product Management Committee, to help contextualise issues affecting security selection and the governance of particular types of products. Sustainability specialists regularly attend such meetings to offer insights and perspectives as required, enhancing the overall approach to sustainability governance. Our Head of Sustainability is also a member of our Portfolio Risk Committee, helping to ensure that the ongoing assessment of the management of financial risk exposure can be contextualised in light of pertinent sustainability risk exposures.

8. Memberships

8.1 Where we think it is prudent to do so, we may participate in and provide financial support to third party organisations working in the area of responsible investment. In this way, we are able not only to build expertise through interacting with peers working on the same or similar issues, but we can make an effective contribution to work intended to promote the development of a well-functioning investment industry.

8.2 Key partners currently include:

- UN Principles for Responsible Investment
- Investor Forum
- ClimateAction100+
- Institutional Investors Group on Climate Change (IIGCC)
- Investment Association – Sustainability & Responsible Investment Committee
- Corporate Governance Forum
- Pensions and Lifetime Savings Association - Stewardship Advisory Group
- Independent Investment Management Initiative - ESG Working Group
- Sustainability Accounting Standards Board IP Licensee (SASB®)
- CDP (formerly Carbon Disclosure Project)
- UN Global Compact
- Grantham Research Institute on Climate Change “Financing a Just Transition” Alliance

8.3 We strive to ensure that each of the organisations of which we are a member offers distinct and unique value. For this reason, and in consideration of the fact that we always aim to be an active participant of organisations of which we are a member, we continue to adopt a selective approach.

9. SEED

- 9.1 We strive to be responsible in everything that we do and to this end our Sustainability Team also has a responsibility for making sure that our corporate sustainability approach develops in a manner coherent with our evolving approach to responsible investment.
- 9.2 Corporate sustainability activity is often referenced as SEED, having been named for the three principal areas which related activity covers:
- Social Enterprise
 - Environment
 - Diversity, Equity and Inclusion
- 9.3 Activity in each area is supported by a working group of employee volunteers, helping to take work forward and ensure a high degree of engagement and ownership with sustainability issues throughout our business.
- 9.4 Social Enterprise captures our charitable giving initiatives. We want to contribute sustainably to the communities in which we live and work. To help provide financial stability for our selected charities, our approach to charitable giving focuses on the development of multi-year partnerships although one-off donations are also made from time to time. We also support our people in their own charitable endeavours by providing matched funding for initiatives of personal importance.
- 9.5 We also want to minimise the environmental impact of our operations to the extent possible, reflecting our commitment to become a net-zero emissions business. We recognise that our business activities create and are associated with the generation of carbon emissions. Having started measuring our carbon footprint in 2019 to set a baseline for our approach, we have now put in place a series of measures intended to reduce over time the carbon footprint of our operations and have entered into partnerships with organisations to offset residual emissions.
- 9.6 We want to have a truly inclusive and diverse workplace as we believe that this will drive innovation, help us make better decisions and enable us to excel in all areas of our performance. Having an inclusive and diverse workplace is critical to the long-term success of companies. We are committed to fostering a culture in which different experiences and identities are valued; where people feel they can be their true selves and are encouraged to speak up and express opinions freely. We believe this will help us to attract & retain a highly competent and diverse range of people to help us continue to evolve and grow.
- 9.7 In combination, Redwheel SEED brings together our people in shaping these priorities and delivering against them. Individuals actively participate in working groups aligned to each priority to challenge and validate approaches, provide ideas, input and approval for partnerships, and deliver the work needed to achieve the goals of each initiative.

10. EU Sustainable Finance Disclosure Regulation

- 10.1 This section offers a summary of how Redwheel applies the obligations under the SFDR which came into effect on 10 March 2021. All related aspects are reviewed at least annually.
- 10.2 Article 3 of the SFDR: the Redwheel Policy on Responsible Investment should be interpreted as the information required on the integration of sustainability risks in investment process as applicable to the Redwheel and financial products considered to be in scope for compliance with the SFDR. Sustainability risks are integrated by all investment teams within their investment processes. To the extent applicable, remuneration decisions for investment team members will therefore take into account each team's approach to the integration of sustainability risks.
- 10.3 Article 4 of the SFDR: the adverse impacts of investment decisions on sustainability factors are considered in investment processes as appropriate and to the extent required for financial products in scope for compliance with SFDR e.g. as relevant to the specific asset class and/or strategy. The types of impacts considered are broad and vary by strategy. Our current approach is framed with reference both to the Redwheel Policy on Responsible Investment and to our Stewardship Policy in which more detail can be found on our stewardship approach.
- 10.4 Article 5 of the SFDR: when considering remuneration Redwheel takes account of non-financial performance criteria including compliance with the regulatory rules and internal policies and procedures (including, where applicable, the Redwheel Policy on Responsible Investment which should be interpreted as the information required on the integration of sustainability risks in the relevant Redwheel investment processes).
- 10.5 Article 8 of the SFDR: All our UCITS funds fall within the scope of Article 8 of SFDR because they promote environmental and / or social characteristics. Our approach to assessing "good governance" is described within the Redwheel Stewardship Policy. Associated website disclosures are available for inspection on the website of our European fund distributor Waystone: <https://www.waystone.com/>

11. SFDR and “Sustainable Investment”

- 11.1 Client and regulatory attention is growing in relation to greenwashing and responsible investment. Around the world, asset managers are being pushed to provide greater clarity on the definitions, policies and processes that are used to help put responsible investment into practice. Within Europe particularly, expectations are rising fast, partly through developments taking place at the national level, but largely as a result of the introduction of the Sustainable Finance Disclosure Regulation (SFDR).
- 11.2 SFDR in a broad sense represents a set of disclosure requirements applicable to funds registered in Europe, although in practice it is widely considered as a labelling framework. Whereas many of the terms used within SFDR are relatively well defined, one of the most significant areas of ambiguity relates to how managers should interpret the term “sustainable investment”
- 11.3 There are two specific areas in relation to which managers must define a sustainable investment:
- The disclosure requirements arising under Article 9 SFDR apply when a fund has sustainable investment as an objective, whereas the lesser disclosure requirements of Article 8 SFDR apply when a fund promotes “among other characteristics, environmental or social characteristics”.
 - The recitals to the SFDR text also seek to provide a definition for “sustainable investment” in terms of characterising the holdings of funds; at this level, a holding is considered to be a sustainable investment if it:
 - (a) Does not significantly harm established European environmental or social objectives
 - (b) Follows good governance practices
- 11.4 The requirements that apply under Article 8 SFDR also include a requirement to disclose investments in sustainable investments (whether or not made purposively as part of a fund’s promotion of environmental or social characteristics).
- 11.5 Notwithstanding that SFDR applies only within Europe, SFDR has been well remarked internationally over the last few years and many of the underlying concepts, including “sustainable investment”, are now resonating with the international regulatory and client audience. We believe it is important therefore – to the extent appropriate – to determine a global definition for the term “sustainable investment”, in order to give clients assurance that we are consistent on the issue of sustainability. Doing so is also consistent with the expectations of the European Securities and Markets Association, which has confirmed that managers subject to SFDR should not apply different interpretations of “sustainable investments” for different financial products.

- 11.6 At Redwheel, as a matter of principle, a sustainable investment must demonstrably contribute positively to environmental and/or social objectives primarily through its products and services; objectives of particular relevance include those set out within the UN Sustainable Development Goals as well as those related to the delivery of the Paris Agreement global goal of holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.
- 11.7 In line with the approach set out under SFDR, sustainable investments should also do no significant harm to established European environmental and or social objectives, and relevant companies should follow 'good governance' practices. Redwheel's approach to assessing 'good governance' is set out within the Redwheel Stewardship Policy.
- 11.8 At a practical level, our approach to assessing and determining whether investments constitute sustainable investments is guided by established frameworks developed by credible organisations such as the Global Impact Investing Network.
- 11.9 We recognise though that the regulatory and market landscape continues to evolve and as a result we expect that our approach will need to be refined over time. For now, as required, we prefer to assess sustainable investments through reference to the most recently available annualised revenues derived from the commercialisation of relevant products and services (as opposed to ongoing capital or operational expenditure). Under this approach, Redwheel recommends that an investment should be considered to offer scope to be classified as a sustainable investment only where related revenues exceed - or where it is agreed that they have clear potential to exceed - 20% of total revenues.
- 11.10 In proposing this figure, we have adopted a pragmatic approach given the lack of formal guidance, balancing on the one hand the need to meet implicit European regulatory expectations that sustainable investments should reflect a substantial underlying exposure to relevant economic activities, whilst on the other wanting to avoid setting a level so high that investment risks for clients in relevant funds would increase given the relatively small universe of objectively eligible companies. We believe that this figure strikes an appropriate balance in meeting these twin objectives. Notwithstanding the application of this threshold at a company level, on a precautionary basis teams managing investment products that have a target allocation to sustainable investment may wish to apply a higher threshold for the purposes of selecting investments, as a means to protect against forced selling driven by short term variation in company revenues.
- 11.11 Where it is not possible to assess the extent to which an investment may be considered to be a 'sustainable investment' through reference to revenues (for example, due to granular disclosures being absent or opaque), alternative measures may be used subject to approval by the Redwheel Sustainability Committee. To enable our clients to continue to benefit from our teams' participation in IPOs, and in light of the lower disclosure requirements applicable to private companies, new listings shall be deemed eligible to meet our sustainable investment definition unless there is clear basis that this would be inappropriate. The same will apply as regards bonds of new issuers.

Version Control

Version	Date:	Author:	Approved by:	Detail of Change
v.01	30 Apr 23	Chris Anker	Sustainability Committee	Creation, replacing the prior published Redwheel ESG Policy

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