S&P
SMITH & PINCHING

THE NAME YOU CAN TRUST

Environmental, Social & Governance Investing

What are Environmental, Social, and Governance Factors?

Environmental

This relates to the impact a company has on the environment and considers how it manages those risks. These factors include:

- **Greenhouse gas emission** - does the company observe and manage their greenhouse gas emissions, and are they taking steps to reduce this? A collected effort will reduce the physical risk to assets and supply chains from rising sea levels and weather events.
- **Pollution and waste** - does the company properly dispose of harmful bi-products and try to minimise pollution from the manufacturing process?
- **Resource shortage** - does the company exacerbate resource shortages such as depriving water from a community in a time of crisis?
- **Deforestation and land use** - does the company use land in a responsible manner and doesn't add to the problem of deforestation?

What are Environmental, Social, and Governance Factors?

Social

This relates to a company's relationship with its employees, vendors, and consumers. Social factors include:

- **Health and safety** - does the company protect its workforce from accidents and injuries whilst also supporting employee wellbeing by limiting the risks of occupational diseases and conditions?
- **Employment standards** - does the company support a positive and productive work environment and doesn't take advantage of vulnerable workers? In time, this will reduce the associated costs of excessive staff turnover and strike action.
- **Product liability/consumer protection** - does the company take all available steps to keep customers safe and healthy?
- **Consumer access** - does the company strive to make its products and services available to all who need it? This is especially important in the pharmaceutical sector with life saving drugs being made available to the poorest communities.
- **Vendors** - does the company have fair terms with its vendors; settling invoices in a timely manner and negotiating rates acceptable for all parties.

> **"ESG Investing - it's not philanthropy, it's forward looking investing. Investors can do well, while doing good." - Matt Keay, Senior Investment Manager.**

What are Environmental, Social, and Governance Factors?

Governance

This relates to the way in which a company is run, including the personal responsibilities and demographic composition of its owners and top-level employees. Governance factors include:

- **Diversity -** most boards and managers still lack diversity. Does the company aim to achieve diversity in areas such as race, religion, gender, socio-economic background?
- **Corporate reporting -** does the company allow a suitable third party to audit their accounts in a detailed and timely manner? Changing of the auditor is to reduce the risk of this closeness affecting the 'quality' of the audit.
- **Shareholder rights** - does the company properly protect its shareholders' capital through the right to vote on important matters?
- **Avoidance of bribery and corruption -** does the company only engage in legal and ethical business activities? Proper practice will mitigate the risk of large fines.
- **Tax responsibility** - does the company ensure that tax strategies are disclosed and are not overly aggressive? Abiding by the law isn't always enough. A company should pay what is 'fair' and make a contribution to society.

ESG Investment Styles

There are a number of styles within the ESG investment world. Different selection processes are often categorised as light or dark green. A light green approach uses more relaxed investment criteria and generally employs positive standards for selective stocks based on the good they do for society. A dark green approach on the other hand has strict exclusionary criteria when stock picking. This is referred to as a negative screening process.

Socially Responsible Investment (SRI)	Ethical/Values Driven Investment	Thematic Investment	Impact Investment
Starting in the 1970s, this investment style generally uses negative screening to exclude certain companies or sectors whilst still focusing primarily on investment performance. Excluded companies often include those in sectors such as weapons production, tobacco, adult entertainment and gambling.	This is a subset or continuation of SRI investing in which the investment criteria is set by the individual investor or institution. They can also include rigid exclusionary criteria but often with a more narrow basis than SRI investments.	Thematic investing involves investing in themes which are set to impact the world in a positive way, these include areas such as digitisation, decarbonisation or renewable energy. With each successive generation, social & environmental issues are becoming more important. This should ensure that thematic investment have good long-term prospects.	This style of ESG investing is the most focused on the good that investor capital can do, with less emphasis on investment performance. Impact investors look for companies which create positive environmental and social change, rather than just exclude the 'bad' companies. Impact investors are often very active in their engagement with the companies they are invested in.

Our ESG Investing: Ethical Models

At Smith & Pinching we have been managing Ethical Model portfolios since 2009. ESG has been at the heart of the Ethical Models since their inception. We have always looked at negative exclusions within funds (e.g. no investments in tobacco, armaments, animal testing etc.) as well as incorporating some positive ESG scoring, such as climate change (E), human rights (S), and equal rights (G).

As ESG has evolved over the years, so has our process. We want to see a commitment from an Investment House to doing 'good' things; ideally, this is by being a URN PRI Signatory.Signing the internationally recognised Principles for Responsible Investment allows an organisation to publically demonstrate its commitment to responsible investment, and places it at the heart of a global community seeking to build a more sustainable financial system. There are many other such affiliations and collaborations which the Investment House could be a member of, which we also consider. Similarly, individual funds can have their ESG credentials assessed, and a rating awarded.

These show a commitment at Fund or Investment House level to be doing positive things with client money. Not having any of the above would prompt a review of the ESG policies of the Investment Houses.

We also screen the funds, again using a third-party service, although not a tick box exercise - seeking comment from the Investment House in each area. If a fund is not already monitored by this third-party, we look to the Investment House and Fund Manager to provide this information.

Negative Screens	Positive Inclusions
Tobacco Alcohol Animal Testing (Pharmaceutical/Medical) Animal Testing (Cosmetics) Military/Armaments Non-Sustainable Timber Nuclear Power Pornography Gambling Genetic Engineering Intensive Farming	Climate Change Environment Equal Opportunities Human Rights Positive Business Focus

Our ESG Investing: Ethical Models Continued...

We do not need a certain number of inclusionary/exclusionary policies within a fund, but we will formally review the outputs from the data provided. Excluding tobacco, oil & gas, and pornography is meaningless if the balance of the fund is investing in armaments. This formal review will occur when a fund is purchased as well as at the half yearly Investment Oversight Committee (IOC) Ethical Fund review meetings. At this formal review, we will also look through the holdings of the funds for any obvious offenders (tobacco, arms, oil and gas as well as any names on our controversy list).

Part of our ongoing due diligence is to ensure that these funds do not hold potentially controversial names. A holding or region could become controversial. For example, Kingspan (cladding), Microsoft (US defence contract) or Russia (Ukrainian invasion).

If a name is added to our controversy list, we ascertain whether it is being held in Ethical Models. The nature of the controversy will be discussed at the next IOC meeting to determine whether we feel it is material or not. Further work may be required, such as discussion with the manager who holds the controversial names to avoid a knee jerk reaction.

If the controversy is deemed material, we should contact all managers with the offending holdings for comment. Alongside this, we should be looking for alternative investments for model portfolios.

At the subsequent IOC meeting, the feedback from managers will be discussed and the offending funds will either be sold or retained.

The Ethical Models are not the only range which have ESG considerations. Although they are currently the only range with an ESG hurdle for fund inclusion. We do see most fund managers are integrating ESG into their investment process. Looking for headwinds or tailwinds which can be caused by being a ‘bad’ or ‘good’ ESG name - such as additional legislation/taxation for ‘bad’ names or increasing consumer demand from ‘good’ names.

Why use Smith & Pinching

A dedicated investment team

A key part of our investment management service is the investment team. This team is led by two Investment Managers, both of whom have achieved Chartered Financial Planners status - the highest level of qualification within the industry. Their sole focus is the optimisation of our model portfolios; they don't provide investment management for anyone else. This gives them the ability to regularly monitor investment markets, watching for shifts in macro-economic indicators and market trends, ready to adjust your portfolio quickly and effectively.

Ross Henderson BA(Hons), Chartered MCSI
Associate Director and Senior Investment Manager
Ross joined S&P in 2003 and is responsible for S&P's private client investment services. He plays a key role in the management of our model portfolios and segregated discretionary bespoke portfolios. He is a Member of the Chartered Institute for Securities & Investment and holds the Diploma in Private Client Investment Advice & Management. He presents regular internal monthly economic and asset allocation reviews and interviews many Fund Managers to evaluate funds' inclusion in our model and bespoke portfolios.

After graduating with a BA(Hons) degree in economics from Leeds University, Ross joined Barclays Trust Company/Stockbrokers to manage investment portfolios on behalf of high net worth clients. He subsequently moved to Affinity Investment Management before making the move to S&P.

Matthew Keay FPFS, IMC
Senior Investment Manager
Matt holds the Investment Management Certificate and the Advanced Diploma in Financial Planning as well as certificates in many specific disciplines including Discretionary Investment Management, Investment Operations and Securities Advice and Dealing.

In 2018, Matt earned his FPFS designation and in 2020, he completed the CFA certificate in ESG Investing, and the CFA Diploma in Investment Management (ESG).

Matt's role involves meeting Fund Managers and providing commentary on market changes for client reports. He sees the most important part of his role as ensuring that we know exactly what investments we hold, why we hold them, and how they fit in with other holdings within the model and bespoke portfolios.

Why use Smith & Pinching

Discretionary investment management

We offer something which is rare in East Anglia: in-house discretionary management. This differentiates us from many other financial advisory firms which outsource this function. With our discretionary permissions, our Investment Managers will buy and sell assets in your portfolio within agreed parameters, but without having to obtain your permission for each trade. This streamlines the process and maximises the opportunities for growth. This efficiency allows us to offer our Ethical models, in addition to our other model porfolio ranges for no additional cost.

Alongside our model portfolio service we also offer a full bespoke investment service. This can be managed to a specific client mandate or investment approach and can utilise asset classes not currently used in the model portfolio service. This can be a specific climate change focus, for example. As this is a bespoke service, there is a small additional charge.

To find out more about our ethical investments, call or email us today. An initial discussion is without obligation or charge.

01603 789966

enquiries@smith-pinching.co.uk

The value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested. The tax treatment of investments depends on individual circumstances and is subject to change.

S&P SMITH & PINCHING | THE NAME YOU CAN TRUST

Financial Planners Chartered