

Cameron Hume

Fixed Income Specialist

Our Approach to ESG

Our current and prospective clients apply principles of responsible investment to their investment portfolios. Although these principles are specific to each client, the United Nations Principles of Responsible Investment (UN PRI) provides the framework within which many of these policies are formulated. Those who become signatories to the UN PRI commit to follow six guiding principles and are required to report on their activities in support of each.

The different ownership rights of fixed income instruments and the finite term of a bond mean that the application of these policies to fixed income portfolios is different from the application to equity portfolios. Cameron Hume became signatories to the UN PRI in 2015 and since then we have been developing our implementation of the six principles. Central to our approach is how we propose to help our clients pursue their Environmental, Social and Governance (ESG) principles, monitor their effect on the portfolio and meet their reporting obligations.

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

This principle incorporates not only the strategic policy decisions of our clients but also how we at Cameron Hume incorporate ESG considerations into security selection and the investment activities we undertake on behalf of our clients. Fixed income investors are naturally concerned about issuers' ability and willingness to repay their borrowings and ESG considerations may influence the perceptions of both. So, we weigh their influence alongside other measures of credit quality and fragility in assessing the relative merits of an individual instrument.

More importantly, however, we understand our clients' policies and their ESG risk appetite. We will strive to capture the first of these in the Investment Management Agreement and to agree measures of the second in the client-specific investment guidelines.

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

This principle is challenging for fixed income investors as our ownership rights are contractual in nature. That is, bondholders' rights are limited to the entitlement to the prompt and full payment of monies due. Unless the issuer defaults on these payments or some other element of the bond agreement, bondholders have no opportunity to vote on any resolutions governing the policies or actions of the issuer. Bondholders are not entitled to attend shareholders' meetings or to vote on resolutions put to shareholders.

However, bondholders are still able to influence the policies of companies. Some of the ways in which this is possible are set out in the 2014 document from the UN PRI **Fixed Income Investor Guide - Principles of Responsible Investment**.

At Cameron Hume we recognise that we are acting as our clients' agents and while we alone may have marginal influence our clients may, by virtue of their equity holdings or their reputation, be able to effect change more readily. Therefore, an important element of the service we provide our clients will be first to let them know about the generality of ESG exposures in their portfolio and to draw their attention to particular exposures that they may wish to act upon.



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

This principle too is challenging for fixed income investors. As our clients have no vote in ordinary circumstances our influence with management or officials is tenuous at best. For this reason we decided to outsource the analysis of ESG issues to a specialist firm, which by dint of their scale and public profile does have influence. We subscribe to the MSCI ESG Research service which claims to:

'directly engage with the companies that [it] evaluate[s] to encourage them to improve their ESG reporting and sustainability efforts.'

This service means we have extensive coverage of the ESG profiles of substantially all, by volume of issuance, of the investment grade corporate and sovereign issuers worldwide. Further we have integrated the quantitative measures provided by the MSCI service into our portfolio management systems so that we can monitor these exposures alongside more traditional fixed income factor exposures. By doing so, we believe that we can establish a basis for measuring compliance with the policies and ESG objectives of our clients.

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

We believe that we will achieve the objectives of this principle by improving our clients' ability to govern the implementation of their ESG policies and risk appetite in their fixed income portfolios. Once our clients can see the investment consequences of their policies and of our interpretation of their policies, then we can work together to refine our approaches to improve outcomes.

One way in which we expect to achieve this is to subscribe to an independent source of ESG research, the MSCI ESG Research service. This means that our clients will have the ability to assess the ESG risks in their portfolio separately from our judgement. Secondly, we will agree with our clients an Investment Management Agreement and set of investment guidelines that capture their ESG policies and risk appetite using these independent measures. Finally, by incorporating these ESG measures and encoding our clients' guidelines into our portfolio management systems we will establish the control framework to ensure compliance with our clients' objectives.

We believe that a robust governance structure as we have described will promote greater consideration of the Principles encouraging acceptance and improving implementation.

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

We recognise that as a specialist fixed income investor we have to work with our clients, our suppliers and other investors to enhance the effectiveness with which we implement the Principles. We believe that we can be most effective by helping our clients implement their policies. We can bring our understanding of fixed income investment management and the data requirements to bear on each aspect of the challenges our clients face in governing and implementing their ESG policies. This will involve helping them develop metrics to capture the intent of their ESG policies, managing their portfolios to their policy, helping them to iteratively refine their policy and developing reporting packs so that they in turn can report to their stakeholders.

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

We believe that in many ways this principle underpins all others. As a signatory to the UN PRI we are required to make an annual return setting out our activities and progress. However, our primary obligation is to our clients and in assisting them in meeting their objectives. In this paper we have set out how we expect to integrate our clients' policies into our portfolio management systems. By doing so we are also able to provide them with the information that they require to fulfil their responsibilities within the fixed income element of their portfolio.



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