

**Cameron Hume Limited**

**Responsible Investing Policy**

## 1 Document Information

### Revision History

Version Number	Revision Date	Author	Summary of Changes
0.1	29 <sup>th</sup> Dec 2017	A Everett	First Draft (building from previous ESG policy)
0.2	11 Jan 2018	A Everett	Following review by R Srinivas and C Torkington
0.3	26 Jan 2018	A Everett	Following comments from G Cameron and further review and drafting by C Torkington
1.0	1 Feb 2018	A Everett	Issued following final review
1.1	23 April 2020	C Torkington	General update and inclusion of climate policy
1.3	27 April 2020	C Torkington	Following comments from document owners
1.4	12 November 2020	G Cameron	Update on active ownership given experience to date

### Distribution

This document requires the following distribution and approvals where indicated.

Name	Title / Position	Purpose	Version Number
Louise MacDonald	Head of Compliance	Approval	1.4
Guy Cameron	Director and policy owner	Approval	1.4

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## 2 Introduction

This document details the Responsible Investing policy within Cameron Hume Limited.

### 2.1 Definition of Terms

“Company” means Cameron Hume Limited.

“ESG” stands for Environmental, Social and Governance.

“ESG factors” are measures of non-financial performance that indicate an issuer’s exposure to environmental, social and governance matters.

“Environmental” refers to issues affecting the natural environment including climate change, resource and water scarcity, habitat and biodiversity loss, emissions to land, water and the atmosphere and waste generation.

“Governance” refers to issues regarding how issuing entities are ‘governed’. For corporate issuers, governance issues include board composition and skills, executive remuneration, accounting and audit practices. For sovereign entities, these include the quality of the state institutions, in particular the government, the fiscal and monetary authorities and the judiciary. For Special Purpose Vehicles, these include contractual protections as well as the protections offered by drafting law.

“Responsible investment” is an investment philosophy that incorporates environmental, social and governance (ESG) factors into investment decisions in the belief that this will improve risk management and lead to sustainable, long-term returns.

“Social” refers to issues that impact people and the societies in which they live. At the macro level, social issues include war, poverty, human rights, aging populations, dislocation and migration of populations, and topics such as access and right to education, health services and finance as well as legal protections for press freedoms, labour rights and free assembly. At a more local level, social issues are those affecting individuals whether they are employees, customers, suppliers or members of the local or broader community, and include human capital management, workplace and project labour rights, health and safety, supply chain management, and community relations.

“Staff” means all employees, contractors, consultants, interns, volunteers, vendors and other users including those affiliated with third parties who liaise with clients or potential clients of the Company.

## 2.2 Roles & Responsibilities

- 2.2.1 The board of the Company will:
  - 2.2.1.1 Ensure formal standards and processes are in place to support the on-going development and maintenance of the policy.
  - 2.2.1.2 Establish a formal annual review cycle to ensure effectiveness of this policy.
  - 2.2.1.3 The Head of Compliance will:
    - 2.2.1.4 Establish periodic reporting to measure the compliance and effectiveness of this policy and document non-compliance.
    - 2.2.1.5 Provide appropriate communications to Staff to ensure they are familiar with and understand the policy.
- 2.2.2 The Policy Owner will:
  - 2.2.2.1 Define the content of the policy.
  - 2.2.2.2 Own all policy related matters and ensure that the requirements of this policy are implemented.
  - 2.2.2.3 Ensure that policy content is updated at least annually and more frequently if required.
- 2.2.3 It is the responsibility of Staff to comply with this policy. These responsibilities include but are not limited to:
  - 2.2.3.1 Being aware of and following the policies and any applicable procedures.
  - 2.2.3.2 Reading and acknowledging having read this policy.
  - 2.2.3.3 Reporting breaches and/or potential opportunities to improve the policy to the Policy Owner or Chief Investment Officer.

## 2.3 Scope

- 2.3.1 This policy applies to all Staff. Additionally, this policy applies generally to all of the investments and investment procedures the Company makes or follows on behalf of clients. Specific application will depend on client requirements and instrument types.

## 2.4 Enforcement

- 2.4.1 Quantitative procedures will be developed by the Middle/Back Office to enable periodic monitoring of this policy.
- 2.4.2 Exceptions to this policy or waivers will have to be submitted to the Head of Compliance or Policy Owner and approval requested. Where applicable, waiver requests will be referred to the Investment Committee for clarification.
- 2.4.3 Any employee may, at any time, anonymously report policy violations to the Head of Compliance and have his or her anonymity respected/preserved.
- 2.4.4 Violation of this policy may result in disciplinary action.

### 3 Policy Framework

- 3.1 The Company is a signatory to the UN Principles of Responsible Investment (PRI). These principles guide the Company's approach to Responsible Investment and ESG issues.
- 3.2 The Principles require signatories to:
  - 3.2.1 Incorporate ESG issues into investment analysis and decision-making processes.
  - 3.2.2 Be active owners and incorporate ESG issues into our ownership policies and practices.
  - 3.2.3 Seek appropriate disclosure on ESG issues by the entities in which we invest.
  - 3.2.4 Promote acceptance and implementation of the Principles within the investment industry.
  - 3.2.5 Work together to enhance our effectiveness in implementing the Principles.
  - 3.2.6 Report on our activities and progress towards implementing the Principles.
- 3.3 The Company recognises the commitments of the PRI as a work-in-progress which provide direction for its responsible investment efforts, as articulated by the UN PRI.
- 3.4 The Company publicly reports its responsible investment activity annually, in accordance with the requirements of the PRI.

## 4 Responsible Investing Policy

- 4.1 The Company invests on behalf of its clients. In doing so, the Company, to the best of its ability, will identify the expected returns and associated risks of an investment relative to peers, therefore achieving sustainable returns within its clients' performance targets and risk appetite.
- 4.2 The Company believes that an issuer's consideration of ESG factors may have an impact on the likely returns and the distribution of those returns. Therefore, these factors can affect the likelihood of our clients achieving sustainable returns from an investment in the obligations of that issuer.
- 4.3 The Company uses the research facilities of MSCI to corroborate the ESG factors facing any issuer in which it may consider investing on behalf of clients. MSCI provide the Company with issuer scores relative to suitable peers. The Company has integrated this data into its data warehouse. As a result, where MSCI scores are available, the Company can report to its clients on an individual ESG factor level the relevant MSCI ESG rating for their holdings and those in their choice of benchmark. Additionally, the Company can employ these scores within its analytical suite, 'CaTo' to identify issuers where ESG factors appear to be incorrectly priced.
- 4.4 As a fixed income investor, the Company has no ability to use the proxy voting process to directly influence the behaviours of the entities in which its clients invest. We will use active ownership in our ESG integration process where it may raise returns for clients, or assist our clients' pursuit of their values.
- 4.5 Our research shows that the bond market offers limited premia to compensate for poor management of ESG issues. As such, our view is that in the bond market active ownership encompasses active non-ownership - choosing not to lend to issuers with poor ESG practices for which there is no premium.
- 4.6 The Company acts as its clients' agent and those clients may, by virtue of their equity holdings or their reputation, be able to effect change more readily than the Company. Where appropriate, clients are informed of the ESG exposures in their portfolio, with attention drawn to the exposures, which they may wish to act upon.
- 4.7 The Company has the opportunity to engage with issuers and their agents when new instruments are issued. The Company takes advantage of this engagement opportunity and will consider ESG factors when deciding whether to participate in a new issue. The Company will provide feedback on its ESG considerations to issuers and their agents.
- 4.8 The Company seeks to engage proactively with its clients in order to determine their policies on ESG issues. The Company seeks to incorporate these policies in the Investment Management Agreements it signs with its clients, hence promoting the acceptance and implementation of ESG principles.
- 4.9 The Company seeks to engage proactively with the PRI and with other market participants and interested parties. This collaboration takes place via the PRI Collaboration Platform, participation in events and conferences and direct interactions with other market participants.

## 5 Exclusions and Screening

- 5.1 Exclusion and screening methods may conflict with exposures entailed by clients' choice of benchmark and the limitations imposed by their investment guidelines. Excepting requirements by law or regulation, the Company does not routinely exclude any sector or issuer from client portfolios as this may expose clients to other risk factors such as currency, rate sensitivity and credit risk that they may hold to be more material.
- 5.2 The Company seeks to weigh the expected returns and associated risks of an investment relative to its peers, a process which encompasses ESG issues as well as traditional financial and market factors. As a result, when considering investments, the relevant ESG factors are considered and we assess whether in our opinion those risks are adequately priced.
- 5.3 In general, the Company seeks to capture its clients' investment policies and responsible investing/ESG philosophies in the Investment Management Agreement. The Company will implement clients' exclusion or screening policies via their segregated account.
- 5.4 For collective investment vehicles, the Company will have regard to the requirements of investors and potential investors in the vehicle and to prevailing market norms that may be represented in the policies of leading asset owners, national and supranational bodies. Where these views or norms reflect a requirement for exclusions and/or screening, the Company may include them within the guidelines for the collective vehicle.

## 6 Climate Change

- 6.1 The challenge for investors, is to navigate a range of scenarios and not just an ideal one in which the world “shifts gradually, but pervasively, toward a more sustainable path”. The Financial Stability Board has alerted financial market participants of the need to act. The Taskforce for Climate-related Financial Disclosures (TCFD) recommendations essentially advise that we should be guided by the principles of good governance
- 6.2 Our interpretation of the TCFD recommendations for our clients and ourselves, the fixed income investment manager follows.

### 6.3 Governance

#### **“The organization’s governance and climate-related risks and opportunities”**

- 6.3.1 The documents that govern the investment management arrangements should reflect both parties’ understanding of the client’s climate policy. The climate policy could be:
- 6.3.1.1 Discursive: requiring the asset manager simply to report on how they have reflected the risks and opportunities of climate change in the portfolio;
- 6.3.1.2 Exposure-based: setting portfolio limits based on measures of climate exposure, such as carbon footprint or alignment with a transition scenario;
- 6.3.1.3 Exclusion-based: excluding certain issuers, sectors, or groups of issuers whose exposure to a sector, region or specific climate risk exceeds a threshold; or
- 6.3.1.4 Alignment-based: portfolios may consist of issuers that have committed to reduce their GHG emissions in line with a specified transition scenario; or excludes issuers who have made no such commitment.
- 6.3.1.5 The existence of a climate policy will promote understanding of the actual and potential impacts of climate-related risks, one of the objectives of the TCFD, by encouraging all parties to engage.

### 6.4 Strategy

#### **“The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning”**

- 6.4.1 When clients set out their climate policies there is an explicit expectation that portfolios should reflect both their climate policies and the manager’s active investment views. Therefore, portfolio reporting should demonstrate compliance with clients’ policies and identify the climate-affected investment decisions of the manager.
- 6.4.2 The ability to demonstrate compliance depends on defining what we mean by exposure to climate risk and on constructing measures that quantify that exposure. Without such a definition, we are unlikely to be able to express our mutual understanding of our clients’ climate policies in investment management arrangements. Having measures that quantify climate exposures is a pre-requisite for an informed discussion of the risks and opportunities posed by climate risk.
- 6.4.3 As an objective of the TCFD is to improve the availability of data on issuers’ exposure to climate risk and the actions they are taking to mitigate those risks the portfolio measures we use today are imperfect but we are still able to apply the well-established principles of risk management to the climate exposures in portfolios.

## 6.5 Risk Management

### **“The processes used by the organization to identify, assess and manage climate-related risks”**

- 6.5.1 The gross risk arising from a scenario is a function of the probability of that scenario occurring and the loss incurred in that scenario: for example, in credit modelling we measure default risk in terms of loss from default, which is calculated as the product of the probability of a default and the expected loss given default. Mitigating strategies may reduce either the probability of the scenario or the loss in that scenario.
- 6.5.2 The impact of climate-related risks on an issuer depends on the scenarios, the current position of the issuer, its transition path, what happens along the way and the management’s competence to deliver on the necessary business transformation.
- 6.5.3 We believe that the management of climate risks in fixed income portfolios is additive to existing risk management principles. Many of the questions about an issuer’s ability and willingness to meet its debt obligations are the same, but the ‘large-scale and long-term’ nature of the challenge merits a layered approach spanning portfolio, sector and rating aggregates as well as individual issuers.

## 6.6 Metrics and Targets

- 6.6.1 We believe that the data provided by the ESG services of, for example, FTSE-Russell, MSCI and Sustainalytics provide the means to engage with the investment implications of climate risk. Although their assessments are largely qualitative because they are produced by a transparent, standardised process we can use them to provide a working definition of exposure to climate risk. Because they assign a scale to their assessments, we can use this scale to stimulate discussion about the sources and materiality of a portfolio’s exposure to climate risks. The Transition Pathway Initiative, the ‘Inevitable Policy Response’ and the Science-based targets Initiative also provide the means to consider some of the other aspects of transition risks.
- 6.6.2 These measures are imperfect and are an imprecise measure of climate risk but do provide the basis for a discussion of the implications of the climate-related risks and opportunities in the portfolio.