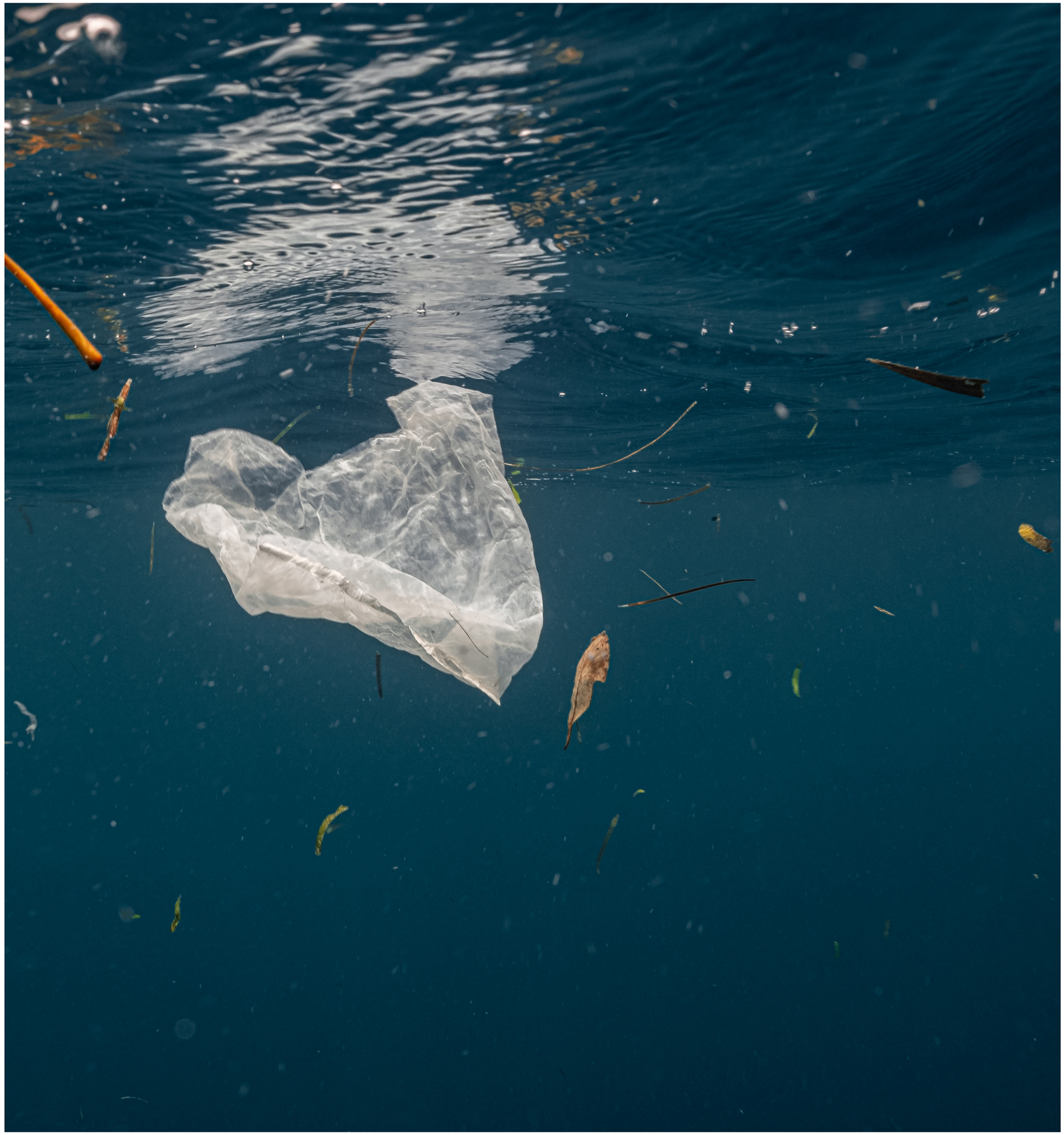
ESG-AWARE INVESTING

London &Capital

At London & Capital, our long-term approach is central to our investment philosophy. And ESG-aware investing is fundamentally aligned with the key tenet – investing for the long-term in assets with sustainability and resilience, where risks can be actively managed.



ESG-AWARE INVESTING

We believe that including ESG (Environmental, Social and Governance) factors in our investment analysis provides us with a more robust view of potential risks and opportunities. As with financial metrics, we recognise that ESG issues are dynamic, and our process will adapt over time. Furthermore, our investment desk allows our clients to engage with us to set their own level of ESG integration according to their interests.

London & Capital's (L&C) ESG approach is folded into our investment strategy and the primary purpose remains to control downside risk and preserve capital in adverse economic conditions and financial market stress. Our three-pronged ESG proposition allows clients to continue to reap these benefits, whilst also selecting the level of ESG integration they want in their portfolio. It gives them the ability to fine tune what balance of E, S or G they'd like to focus on.

OUR ESG PROPOSITION HAS THREE LAYERS

01

INTEGRATION

Explicitly and systematically including ESG issues in our proven investment analysis and decisions, to better manage risks and improve returns.

02

NEGATIVE SCREENING

Applying filters to L&C approved potential investments to rule companies in or out of contention for investment, based on a client's preferences, values or ethics.

03

THEMATIC INVESTING

Seeking to combine attractive risk return profiles with a proactive intention to contribute to a specific environmental or social outcome.

01

INTEGRATION

ESG INTEGRATION

We are committed to the practice of incorporating ESG information and data into investment decisions to help enhance risk-adjusted returns, regardless of whether the overall strategy has a specific sustainable mandate.

ESG issues are given significant consideration as they provide us with a more robust view of potential risks and opportunities; financially material ESG factors are weighed alongside other traditional financial metrics before an investment decision is made. This is especially relevant given that ESG issues can alter the expected risk/return profile of an investment.

L&C ESG SCORING METHODOLOGY

L&C has developed an in-house ESG scoring methodology, which acts as a qualitative overlay to our existing investment process, informing investment decisions and incorporating ESG market data available today. We use data from external providers as well as our own analysis of annual reports that incorporate the key qualitative attributes behind a company's ESG standards.

ENVIRONMENTAL

- Climate change
- Biodiversity
- Energy resource management
- Biocapacity
- Ecosystem quality
- Air pollution
- Natural resource management
- Water resource management
- Water pollution

SOCIAL

- Human rights
- Employee relations
- Skilled labour policies
- Health and safety
- Diversity
- Customer relations
- Product responsibility
- Supply chain management

GOVERNANCE

- Business integrity
- Shareholder rights
- Executive pay
- Audit practices
- Board independence/ expertise
- Fiduciary duty
- Transparency/accountability
- Related-party transactions
- Dual class share structures
- Tax practices

Not every issue is relevant for every company or industry, but the analysis ends by assigning an ESG score for each company in each category. The scores range from 0 to 100% and, depending on the client's preference for ESG integration, a minimum score can then be implemented to "pass" this initial screen, as well as assigning an overall portfolio score, allowing clients' control over the level of ESG their portfolio holds.

ESG WEIGHTING AND DISCLOSURE

To ensure these ESG considerations are appropriately incorporated into our bottom-up due diligence, with each company's and industry's specific ESG considerations reviewed, updated and evaluated by our investment teams, we capture the following information:

ESG DISCLOSURE POLICY

The powerful lobby of strategic shareholders and investors demand details of efforts made to make the world more sustainable, be it from an emissions perspective or from a workers' equality angle.

ENVIRONMENTAL SCORE

Further assessment to assess the willingness of a company to address environmental considerations by examining the number of key standard environmental policies it has disclosed in its latest annual reports.

SOCIAL SCORE

Further assessment to assess the willingness of a company to address social considerations by examining social policies around diversity, community relations, health & safety, and general business ethics.

GOVERNANCE SCORE

Further assessment to assess the willingness of a company to address governance considerations through policies such as board composition and diversity, compensation structures, and level of director independence.

Of course, not all businesses are the same when it comes to evaluating E, S and G, as such, it is not appropriate to assign equal weightings to E, S and G for all companies.

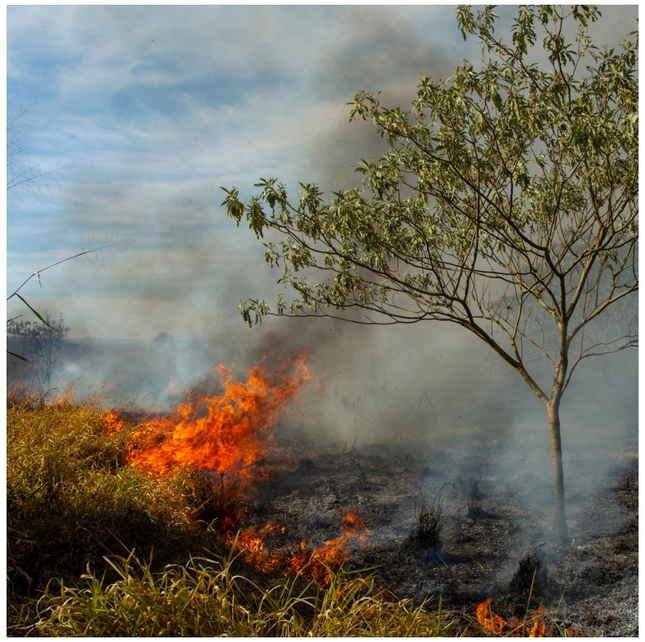
An example is to compare an industrial company to a bank. If the industrial company is engaged in using smelters and other energy-hungry equipment, it is likely to leave a much greater environmental (carbon) footprint than the bank. The bank's ESG analysis may be much more focused on its social and governance policies.

At London & Capital we apply our own proprietorial weightings to each company's E, S, and G score based on the sector it belongs to. By applying these factor weightings, we can provide a more relevant ESG score and put companies onto a more level playing field.

It is important to note that our aim here is to complement our proven investment process by incorporating ESG factors into our current investment analysis. Critically, ESG factors do not drive our investment process but rather forms part of our overall investment process – it is a thread that is woven throughout our involvement in a company.

02

NEGATIVE SCREENING



NEGATIVE SCREENING

Our ESG incorporation can be taken further by using London & Capital's negative screening process. Whilst the integration of ESG scoring into portfolios gives clients the peace of mind that their portfolio reaches a pre-set threshold of ESG standards; the negative screening is an additional screening layer where we work with your ethos/values with the aim of excluding from your portfolio, any companies which are involved in certain sub-industries that are either incompatible with or are harmful to the economy and environment.

This 'negative screening' approach is something we work directly with clients to achieve and can be tailored according to your values. For example, some clients specifically exclude exposure to companies who generate a meaningful level of revenue from tobacco or arms manufacturing. But these exclusions can also address environmental issues such as excluding exposure to companies involved in fossil fuel exploration or extraction, nuclear power or where they have been implicated in any other ecological disaster.

This is a process which takes place whilst gathering initial client requirements and then is continuously folded this into the review process, allowing your portfolio to change and adapt with you.

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03

THEMATIC INVESTING

THEMATIC INVESTING

Our ESG integration and negative screening approaches minimise exposure to companies causing harm to the environment or society more broadly, working within the London & Capital investible universe to create a portfolio which minimises ESG impact and fits with our long-term investment capabilities.

As ESG evolves within the investment marketplace and these non-financial aspects impact future returns and risks of companies, London & Capital are constantly considering a third layer of ESG incorporation via thematic investment strategies that may benefit from ESG trends. These strategies are developed by each of our asset class teams to capture investment opportunities that have a positive impact on the environment or society.

These thematic strategies can be made available to clients if they fit within the broader investment goals and suitability, if you would like to include thematic investing in your portfolios, please speak to your advisor to see what options are available to you.

CONCLUSION

Throughout the history of financial markets, investors have always needed to adapt their approach to changing market dynamics. We believe that we are at a point where ESG considerations are becoming material enough to affect investing decisions, this will continue to evolve as ESG data matures, materiality comes into focus, and regulatory frameworks push to expand market awareness. Our ESG-aware approach can provide us with a better ability to uncover hidden risks as well as increase opportunities to enhance returns.

London & Capital's effort to incorporate sustainability into our investment decisions involves a holistic approach to investment analysis where material factors—including both ESG factors and traditional financial factors—are identified and assessed to form an investment decision. Our three-tiered approach, integration, negative screening, and thematic investing allows us to work with clients to build a portfolio which incorporates as much or as little ESG into their portfolio whilst preserving and compounding wealth over the long-term.

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