bordier 1844

Our approach to responsible investment (ESG)

About the cover

The planet's oceans are a pivotal natural resource: serving as climate regulators, carbon wells and fishing resources which represent the main source of animal protein for approximately one billion people. Nonetheless, it's estimated that we have only explored 5% of our oceans and that 90% of subsea species are yet to be discovered.

In becoming an official sponsor of the 'Under The Pole' III Twilight Zone expedition, the Bordier Group is making a responsible and sustainable commitment to improving knowledge of the deep-sea environment and the challenges arising from climate change.

Launched in 2010, 'Under The Pole' is a fully-fledged business venture, and has gathered more than 100 experts into an interdisciplinary team – from divers, sailors and scientists to mechanics, engineers, photographers, cameramen and doctors. Over three years, they are in turn exploring the Earth's oceans, starting in the Arctic Ocean before transiting via the Pacific to the Antarctic, and then finally to the Atlantic.

The objective is to participate in a better understanding of the underwater world by studying the impact of global warming on the oceans, with exploration focusing on the so-called 'Twilight Zone' – sea beds situated between 50 and 150 metres below the surface level – and about which relatively little is known.

www.bordier.com/en/underthepole

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Introduction

This guide outlines how responsible investment is embedded within Bordier UK's investment process and, therefore, in clients' portfolios. It describes what is meant by responsible investment and the factors that are driving momentum in both awareness and implementation within the investment world. It also explains that responsible investment's roots lie in strong corporate governance and that they extend beyond the more prominent socially responsible or ethical investment concepts that are frequently in the public eye.

As the topic of responsible investment is so broad, evolving and often quite open to interpretation, we are of the firm opinion that there should be no hard lines in terms of how it is implemented and addressed in any investment process. However, as this guide outlines, responsible investment is already strongly embedded within the institutional world and within the funds we select for clients' portfolios. Indeed, as of March 2020 **over 95% of the active funds we use across our range of portfolio strategies are managed by firms who are signatories to the United Nations-backed Principles for Responsible Investment ('PRI') initiative.**

As this guide concludes, we are hopeful that the current momentum on responsible investment will develop to a point where it has become so deeply entrenched and mainstream that it does not need a special mention or require any conscious decision to be made.

For the past 175 years, Bordier & Cie has helped preserve clients' wealth, growing and safeguarding it for future generations. Investing responsibly is integral to the philosophy and values on which our services are based – we therefore hope this guide helps to inform and explain that investing responsibly does have financial relevance and can not only contribute to the creation of long-term investment returns but is also having a meaningful impact on protecting and enhancing our world for the benefit of those who follow in our footsteps.

Investing responsibly is integral to the philosophy and values on which our services are based

What is responsible investment?

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance ('ESG') factors into investment decisions, to better manage risk and generate sustainable, long-term returns for investors.

Awareness and interest in responsible investment continues to gather momentum: it is establishing itself as a pillar of mainstream investing, as companies, their shareholders, and investors, in general, increasingly recognise that ESG engagement can create value both in terms of improving long-term financial rewards and contributing positively towards society and the environment. Research shows that companies which, for example, provide greater transparency to shareholders, employ more diverse management and reduce climate change risks from their operations can report greater profits and therefore generate greater longer term returns for investors.

We believe that to ignore ESG factors is to ignore the risks and opportunities that can, over the longer term, have a material effect on the returns and outcomes delivered to our clients and, of course, the generations that follow.

Awareness and interest in responsible investment continues to gather momentum: it is establishing itself as a pillar of mainstream investing

What are the environmental, social and governance factors?

Examples of ESG factors are numerous and ever-shifting, and some will depend on the asset class, geography and/or industry of a particular investment. Broadly speaking the factors include:

Environmental	• Climate change/carbon emissions • Natural resource use and depletion, including water • Energy efficiency, pollution and waste • Urbanisation • Deforestation • Regulatory breaches and fines
Social	• Human rights and labour conditions • Workforce health and safety • Employee relations, diversity and equal opportunities • Privacy and data security • Conflict • Community programmes
Governance	• Shareholder rights • Executive compensation • Board diversity, structure and independence • Business ethics and culture; bribery and corruption • Audit independence and tax transparency

As noted, the global momentum surrounding responsible investment has shifted significantly in recent years. This momentum is being driven by a number of factors, including:

- recognition in the financial community that ESG factors play a material role in determining risk and return;
- understanding that incorporating ESG factors is part of investors' fiduciary duty to their clients and beneficiaries;
- end-investors becoming increasingly active and demanding transparency about where and how their money is being invested;
- value-destroying reputational risk from issues such as climate change, pollution, working conditions, employee diversity, corruption and aggressive tax strategies in a world of globalisation and social media;
- concern about the impact of short-termism on company performance, investment returns and market behaviour.

Incorporating responsible investment into our investment approach

Bordier UK's investment policy is implemented through the use of collective investment funds rather than, for example, individual company shares or bonds.

Given the vast universe of funds, the diversified nature of underlying investments and the varying interpretations of what constitutes a responsible investment policy, we do not believe it is appropriate to impose any specific restrictions with regard to investment on either our investment process or those of the external managers whose funds we select for inclusion in clients' portfolios. We do, however, expect these external managers to incorporate responsible investment practices into their investment processes.

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Responsible investment begins with strong corporate governance

Our strong preference is to invest in actively managed external funds, where fund managers are taking active decisions regarding share ownership (as opposed to investing in line with a specific benchmark).

Active managers, by their very nature, tend to have very close relationships and engagement with investee companies, in contrast to the managers of passively managed funds (such as trackers or exchange-traded funds) where there is little or no corporate engagement. It is perhaps not surprising, therefore, that during our own fund research due diligence we see strong evidence of external managers taking an active role in their engagement with company management. Many managers will actively participate in the development of the companies they invest in, frequently showing their commitment to, and conviction in, a company's future through the level of their shareholding. It is common for active managers to work in partnership with company management to maximise the probability of success, encouraging responsible corporate behaviours in the process. We see plenty of evidence of this corporate engagement and interaction when speaking with the managers of the funds in which we invest.

It is our belief that companies which are governed well, and actively supported by their shareholders in this manner, should deliver superior risk-adjusted returns over the longer term. We view corporate engagement as a key pillar of external managers' investment processes and see it as playing a vital role in, and having a natural connection to, the wider issues surrounding responsible investment.

Ensuring high standards of corporate governance is an important part of our fund research and selection process. We expect external managers not only to have high ethical standards and a strong corporate culture themselves, but also to accommodate this into their investment processes. During our initial due diligence process, we ask external managers to answer questions concerning their own due diligence process, investment philosophy, risk management systems and matters surrounding corporate governance to ensure they are adhering to these requirements. This gives us an insight into not only how relevant and prominent corporate governance is in the specific fund's investment process, but it also paints a picture of the culture and corporate governance considerations within the fund house itself.

Once any fund investment has been made, regular manager reviews will be wide-ranging in nature, covering areas such as current positioning, trading activity, performance, process and management. These reviews not only allow us to re-confirm (or otherwise) the appropriateness of any fund for continued inclusion in clients' portfolios, but they can also unveil traits of weaker governance, either in the fund's investment process or in the manner in which a firm conducts its business or promotes its funds, either or both of which may lead us to alter our research opinion.

Responsible investment is much broader than socially responsible or ethical investment

Responsible investment is not the same as socially responsible investment ('SRI') or impact investing, but there are overlaps. There are, for example, investment approaches focusing solely on environmental or ethical themes, but these will typically priorities the 'moral return' over the financial return, generally screening out morally dubious investments or industries.

Importantly, responsible investment is more far-reaching and can be incorporated into any investment strategy: it should be seen as a holistic approach that aims to include any information that could be material to investment performance. Responsible investment does not necessarily require ruling out investment in any market, sector or company. Rather, it informs the investment decision-making process to ensure that all relevant factors, both financial and non-financial, are accounted for when assessing risk and prospects for return.

We do believe responsible investment can, and should, be pursued even by those investors more focused on just financial return. Research shows that companies which, for example, provide greater transparency to shareholders, employ more diverse management and reduce climate change risks from their operations can report greater profits and therefore generate greater longer term returns for investors. There is now widespread acceptance and evidence that investing responsibly by applying the ESG factors does have financial relevance.

We believe there should be no hard lines when it comes to determining what constitutes responsible investment, and how it is implemented. This is largely because responsible investment is such a broad and evolving topic, often open to interpretation and with varying degrees of adoption and application in different sectors and regions of the world. We believe external managers should have the freedom to apply their own set of responsible investing criteria into their investment processes, thereby maximising the opportunity for investors whilst also contributing positively towards societal and environmental issues.

However, as previously mentioned, we believe that to ignore ESG factors is to ignore the risks and opportunities that can, over the longer term, have a material effect on the returns and outcomes delivered to our clients and, of course, future generations.

How can responsible investment be incorporated into an investment process?

How institutional investors practice responsible investment varies widely.

It can include:

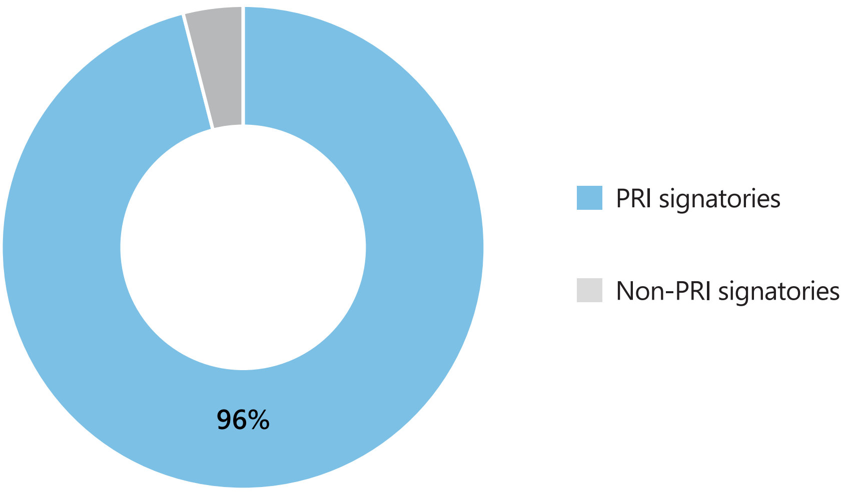
- integrating ESG information into quantitative and qualitative analysis (such as fundamental analysis of company value in equity investing, or assessment of creditworthiness in fixed income investing), which could result in making adjustments to areas such as selection, weighting or asset allocation;
- engaging – either individually or alongside other investors – with investee companies/entities on the ESG factors identified as relevant to them;
- using shareholder voting rights to influence company behaviour;
- encouraging investee companies/entities to disclose information on the ESG factors that do or could affect them;
- monitoring overall ESG risk within a portfolio, for instance by measuring the portfolio's carbon footprint.

To what extent are Bordier UK's external managers considering responsible investment?

Through both our initial and ongoing due diligence process in relation to the funds we select for our clients' investment portfolios, we are satisfied that the external fund managers to whom we allocate capital are incorporating strong disciplines within their own investment and decision-making processes in relation to ESG matters.

Indeed, as of 31 March 2020 over 95% of the actively-managed stockmarket and fixed interest funds being utilised by us to construct our range of investment strategies are being managed by firms which are signatories to the United Nations-backed Principles for Responsible Investment ('PRI') initiative.

Percentage of Bordier UK's actively-managed funds with managers signed up to PRI (March 2020)



Our external managers' credentials on responsible investing:

- 49 actively-managed equity or fixed interest funds used across our range of 'growth' and 'income' strategies.
- 47 of these funds are managed by firms which are signatories to the UN PRI initiative.
- 30 of the 32 separate global institutions we utilise across our strategies are signatories.

Source: Bordier UK as at 31 March 2020.

Funds selected by Bordier UK are managed by the following signatories to the UN PRI initiative:

Aberdeen Standard	Fidelity	M&G
Artemis	Findlay Park	Man GLG
AXA	Franklin Templeton	Montanaro
Barings	Invesco	Premier Miton
BlackRock	Investec	River & Mercantile
BNY Mellon	Janus Henderson	Schafer Cullen
Capital Group	J O Hambro Cap. Mgt.	Schroders
ClearBridge	J P Morgan	Threadneedle
Coupland Cardiff	Jupiter	Troy
Crux	Liontrust	Waverton

We are satisfied that the small minority of firms (just two as at 31 March 2020) which are not currently formal signatories to the PRI (largely due to their specialist nature) are taking a positive approach to such matters in their investment processes and engagement with investee companies.

Indeed, in some cases, it is possible to argue that some firms' engagement with investee companies, and their knowledge of business models, is so strong that they are going well beyond some of the basic tenets of the PRI in their research processes.

Source: Bordier UK as at 31 March 2020.

What is the PRI?

The PRI Association is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance factors and encourages its international network of investor signatories to incorporate these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent, encouraging institutional investors to use responsible investment to enhance returns and better manage risks. The PRI does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

PRI Principles for Responsible Investment

The PRI is truly independent, encouraging institutional investors to use responsible investment to enhance returns

What are the Principles for Responsible Investment?

The Principles for Responsible Investment were developed by an international group of institutional investors, for investors. The Principles reflect the increasing relevance of environmental, social and corporate governance issues to investment practices, and in implementing them, signatories contribute to developing a more sustainable global financial system.

The process was initiated in 2004 when Kofi Annan, the then Secretary-General of the United Nations, turned to institutional investors – the owners of companies and the custodians of savers' financial futures – to encourage them to explore the role they could play in building a more sustainable future for the benefit of those they serve.

The initiative's aim was to find a way to incorporate ESG into capital markets and led to a subsequent report entitled *'Who Cares Wins'*. This report drew together the opinions and endorsements of major global institutions who were convinced that in a more globalised, interconnected and competitive world the way that environmental, social and corporate governance issues are managed is part of companies' overall management quality needed to compete successfully. The report concluded that companies that perform better with regard to these issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action or accessing new markets, while at the same time contributing to the sustainable development of the societies in which they operate. In addition, the report highlighted that issues can have a strong impact on reputation and brand, which are an increasingly important component of a company's value.

Six Principles for Responsible Investment were developed following this initial study. The Principles are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

In signing the six Principles, institutional investors publicly commit to adopt and implement them, where consistent with their fiduciary responsibilities. They also commit to evaluate the effectiveness and improve the content of the Principles over time. In doing so, they believe they will improve their ability to meet commitments to beneficiaries as well as better align their investment activities with the broader interests of society.

Signatories to the PRI commit to:

- incorporating ESG issues into their investment analysis and decision-making processes;
- being active owners and incorporating ESG issues into their ownership policies and practices;
- seeking appropriate disclosure on ESG issues by the entities in which they invest;
- promoting acceptance and implementation of the Principles within the investment industry;
- working with others to enhance their effectiveness of implementing the Principles;
- reporting on their activities and progress towards implementing the Principles.

We believe that active managers are in a strong position to incorporate ESG factors into their investment processes and it should not therefore be a surprise to see a significant proportion of them already having become signatories to the Principles for Responsible Investment.

Bordier UK's research team engages directly with all external fund managers and considers that, whether or not they are signatories, the spirit and objectives of the PRI guidelines are being observed by the external managers used to construct clients' portfolios.

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The future

The investment world is moving quite rapidly towards fully embedding responsible investment considerations into investment processes.

Through a combination of company management focusing more on their corporate responsibilities and investors demanding change, we are hopeful that one day soon, responsible investment will have become so deeply entrenched that it will turn out to be entirely natural and the norm, and something about which both companies and investors do not have to make a conscious decision. In the meantime, we believe important steps have already been taken to incorporate ESG factors into the investment processes of the active external managers to whom we allocate clients' capital.

We expect this momentum to build as awareness increases and the long-term rewards of responsible investment, both financially and towards society, are more widely recognised.

We are hopeful that one day soon, responsible investment will have become so deeply entrenched that it will turn out to be entirely natural and the norm

Risk warnings

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