

# THREE YEAR ESG ROADMAP

March 2020

Signatory of:





## OUR INVESTMENT BELIEFS

At Unigestion, managing risk lies at the heart of our investment philosophy. We believe that integrating ESG criteria into our investment processes is essential to better managing the risk of our investments and therefore positively influences the long-term risk-adjusted performance of our portfolios.

Consistent with our commitment to being a responsible long-term investor and with our duty to act in the best interests of our clients, Unigestion has been a signatory to the UN Principles of Responsible Investment (UNPRI) since 2013 and remains committed to global initiatives supporting and promoting responsible investing.

As a responsible investor, we have established two pillars to our ESG beliefs – integration and active ownership.

### Our ESG philosophy

ESG risks are complex and rapidly evolving. We approach ESG in the same way as all investment risk, carefully assessing the potential impacts and opportunities through a combination of systematic and discretionary analysis, research and monitoring.

We believe that well-governed businesses with responsible practices can make a positive contribution to our clients' portfolios over the long term.

Sustainability will be a long-term driver for change in markets, countries, sectors and companies that will create opportunities for fruitful investment. Therefore, as an investor, we want to participate in the investment returns these opportunities will generate.

### Active Engagement: our approach to stewardship

We strive to be responsible stewards of our clients' assets within a framework of strong governance and transparency. Effective stewardship benefits companies, investors and the society as a whole.

Our stewardship and direct engagement activity focuses on the ESG factors we believe will have the greatest impact for long-term investors.

As an active and responsible owner, we incorporate ESG criteria when voting our shares to help drive positive change.

### Therefore:

We integrate Environmental, Social and Governance (ESG) considerations throughout our investment processes through universe screening, investment selection, portfolio construction and engagement.

We are committed to continuously increasing transparency of reporting to clients on ESG impacts and our active ownership activity.



## OUR 2020-2022 ROADMAP

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In 2019, we set out an ambitious three-year Road Map to fully integrate ESG considerations into our business. By 2022, we aim to meet the following objectives:

- ▶ Systematically integrate ESG within the investment process across all assets under management
- ▶ Increase our ability to offer customised ESG investment solutions to our clients with the objective of increasing bespoke ESG mandates
- ▶ Increase our engagement initiatives to over 50 companies each year.
- ▶ Use ESG considerations to improve how we operate, not just how we invest.
- ▶ Increase participation in global, industry-wide efforts to promote good ESG practices.

In order to deliver on this five-year plan, we set shorter-term objectives and review our progress on an annual basis.

## OUR AMBITION FOR 2022

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Unigestion will be an investor that integrates ESG in a responsible manner across all of our investment processes, including:

- ▶ our interaction with clients
- ▶ how we interact with the companies in which we invest
- ▶ the operational management of our own firm

We will apply ESG considerations through our core values and integrate them into our investment processes across all of our investment teams. While committed to this goal, we recognise this level of integration cannot be artificially imposed, but must evolve through time; nonetheless, we will be persistent in our efforts to achieve it.

We will be able to provide bespoke investment solutions for our clients, working with them to define and apply their unique ESG requirements as appropriate.

We want to explore the integration of the Sustainable Development Goals (SDGs) into our investment offerings. We believe that SDG-related considerations in investments will become more prevalent and concrete in years to come. Furthermore, as a Geneva-based company, we will benefit from the fact that the overarching UN organisation for SDG implementation is located in Geneva.

### Equities

- ▶ We want to offer our clients the flexibility to decide the extent to which they incorporate ESG criteria in their investments
- ▶ We will closely monitor the evolution of the SDGs and investigate ways on how to further incorporate them into our standard equity offerings

### Private Equity

- ▶ All of our investments (primaries, secondaries and directs) routinely undergo a full ESG exploration process
- ▶ We produce an annual ESG report for our investors
- ▶ ESG is used as a performance enhancer rather than a label
- ▶ We can measure the improvement in ESG scores and correlate this with improved performance

### Cross Asset Solutions

- ▶ Explore possibilities of an official ESG label for the Navigator strategy
- ▶ Have 90% of indirect assets held within the portfolio incorporating ESG criteria

### Liquid Alternatives

- ▶ Explore practical solutions on short positions, the application of a broader set of exclusions, and seek improvement
- ▶ Become a thought leader on the question of the integration of ESG in Alternatives



## Active Ownership

- ▶ We will focus on a number of engagement themes which will be aligned with our ESG beliefs and certain SDGs
- ▶ We aim at being able to demonstrate the benefits of our engagement activity on the risk-adjusted performance of the companies we have engaged with
- ▶ Vote on at least 95% of our equity shares
- ▶ Have a more customised proxy voting policy aligned with our core values
- ▶ Monitor the evolution of the leading proxy voting companies and adapt in a period where they are, at times, criticised for their dominant positions. However, it is unrealistic to internally monitor 10,000 votes per year
- ▶ Monitor the evolution of securities lending best practice and consider ceasing the activity for our funds if it is deemed to be in the best interests of our clients and in line with good corporate governance

## OUR GOALS FOR 2020

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- ▶ 100% of direct assets under management are to be subject to the common exclusion list, determined by our Responsible Investment Committee. A full list of our current exclusions is provided at the end of this document.
- ▶ Increased transparency: standardising and implementing ESG and engagement metrics across client reports

## Equities

- ▶ Enhance our ESG scoring for companies and introducing a second improved version
- ▶ Write a paper about incorporating ESG criteria in equity portfolios
- ▶ Incorporate ESG criteria within factor portfolios

## Private Equity

- ▶ Finalise the scoring of our ECD and UDO portfolios
- ▶ Have all existing core fund managers complete our ESG questionnaire as part of our next fund monitoring process
- ▶ Write a PE perspectives piece on our ESG process
- ▶ Phase 1 of designing our first PE ESG report to investors

## Cross Asset Solutions

- ▶ Improve ESG rating to qualify for inclusion on various external buy-list
- ▶ Investing in Green bonds within the Government bonds allocation
- ▶ Improve the scope and coverage of external managers

## Liquid Alternatives

- ▶ Implement ESG for long-short equity factors
- ▶ Benchmark our ARP strategy with best-practices in liquid alternatives and review potential improvements
- ▶ Produce a Thought Leadership piece on ESG integration for liquid alternatives

## Active Ownership

- ▶ Follow the evolution of ISS' case with the SEC
- ▶ Customise our ISS proxy voting policy in line with our core values and ESG beliefs
- ▶ Conduct Due Diligence on ISS to ensure that there are no unknown conflicts of interest, operational or cyber security issues
- ▶ Investigate the services of other outsourced providers such as Hermes to compare them with ISS



## OUR ACHIEVEMENTS PRIOR TO 2020

- ▶ As at 31 December 2019, over US\$12bn\* of our total assets under management integrated ESG criteria within the investment process and/ or incorporated ESG considerations
- ▶ 55% of total assets under management integrate ESG factors within the investment decision making process
- ▶ Formalisation of Unigestion’s Responsible Investment Committee - sponsored by Fiona Frick, CEO – and its terms of reference<sup>1</sup>
- ▶ Appointment of a Head of Responsible Investment, Equity Portfolio Manager Sara Razmpa
- ▶ Creation of a proprietary ESG scoring system for equities and fixed income instruments
- ▶ Proxy voting activity of 95% percentage of votable meetings

\*Source: Unigestion

## OUR APPROACH

We believe that ESG factors can have a material impact on the risk/return profile of our investments and therefore integrate ESG considerations into our investment processes as a matter of course.

### We define Integration as the following:

- ▶ A clear inclusion of ESG criteria within the investment process
- ▶ Active modification of investment holdings given ESG criteria

The concept of integrating of ESG considerations within our investment processes is targeted at direct investments. That is, we currently consider physical asset classes (Equity, Fixed Income, and Private Equity) and the external investment within these asset classes. We do not apply ESG criteria to derivatives, short positions or cash (as at December 2019).

According to this definition, our total assets under management by investment team is provided below alongside the AUM according to ESG criteria managed by these respective teams:

Investment Team	AUM USDm	ESG AUM USDm	ESG as %
Equities	13'461.5	11'348.7	84%
Private Equity	7'216.0	665.1	9%
Cross Asset Solutions	2'269.0	666.2	29%
<b>Total Firm AUM</b>	<b>22'946.4</b>	<b>12'680.0</b>	<b>55%</b>

Source: Unigestion as at 31 December 2019

## OUR IMPLEMENTATION

True to our investment philosophy, in particular intelligent risk-taking (understanding and anticipating risk as a means to outperform) and collaborative intelligence (the power of human insight and leading edge technology) we adopt a largely quantitative approach. Not satisfied with any single established solution, we have developed our own ESG scoring methodology and proprietary model that references a number of external data sources along with internal views on E, S and G dimensions, at the analyst level as well as at a corporate level.

<sup>1</sup> Available on request



In line with our ambition, ESG considerations are not considered as a supplementary overlay. Rather, they are integrated into each investment process with varying degrees of flexibility, reflecting the nuances of each asset class and the established investment approach therein.

The integration of ESG criteria and their application will naturally differ between equities, bonds, private equity, and liquid alternatives and we therefore need to apply some flexibility in determining the specifics of the approach for each of these instruments. Each investment team remains responsible for determining their approach and, importantly, retains ultimate responsibility for the performance of their portfolios.

A summary of how ESG is currently applied by our investment teams is provided below:

Investment Team	ESG Implementation
Equities	<ul style="list-style-type: none"> <li>▶ ESG risk scoring</li> <li>▶ Fundamental analysis</li> <li>▶ Shareholder engagement</li> <li>▶ Common exclusions</li> </ul>
Private Equity	<ul style="list-style-type: none"> <li>▶ 'Ethos' sustainable PE strategy</li> <li>▶ Common exclusions</li> </ul>
Cross Asset Solutions	<ul style="list-style-type: none"> <li>▶ ESG risk scoring (single stock equities)</li> <li>▶ ESG selection criteria incorporated into external manager selection</li> <li>▶ Common exclusions</li> </ul>

As at 31 December 2019

## CONSISTENCY

Coordination at a firm level is crucial for overall guidance and consistency in investment outcomes across our investment teams. Unigestion's Responsible Investment Committee (RIC) provides the beacon for ESG integration and our commitment to its integration.

In addition to guiding and monitoring the progress of ESG implementation within investment teams, the RIC has specific responsibility for validating companywide policies on sector and activity exclusion.

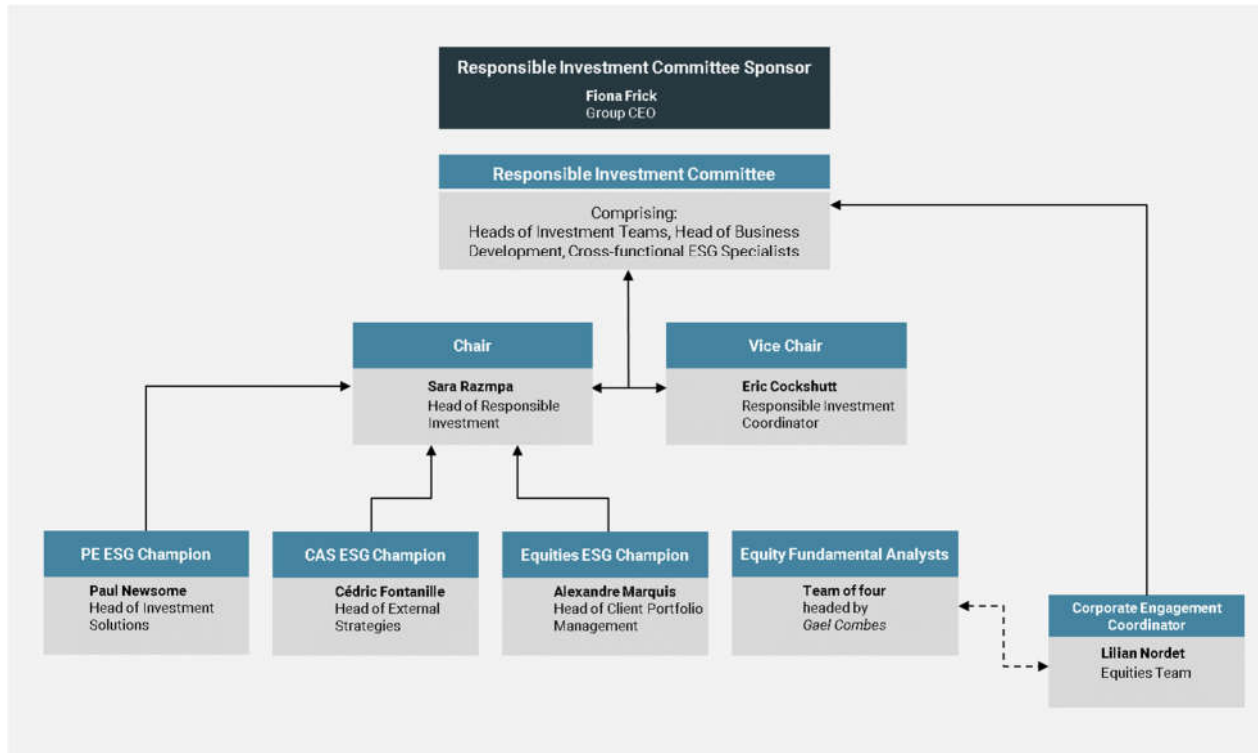
The RIC is sponsored by Fiona Frick, Group CEO, and Chaired by Sara Razmpa, Head of Responsible Investment. Membership is drawn from across the business and includes;

- ▶ Heads of Investment Lines (or delegated senior investment line representative),
- ▶ Head of Business Development, and
- ▶ Cross-firm ESG specialists.

An organisation chart of our RIC is provided overleaf.



## Unigestion's Responsible Investment Committee



Source: Unigestion as at 31 December 2019

## TRANSPARENCY

We commit to sharing our progress with clients at least annually as we work towards achieving our 2023 ambition.

The following documents are available on our website:

- ▶ Our Responsible Investment Policy
- ▶ Our Responsible Investment Annual Report
- ▶ Our Transparency Policy Report
- ▶ Our PRI Assessment Report
- ▶ Unigestion (UK) Limited's UK Stewardship Code
- ▶ Voting policy<sup>2</sup>
- ▶ Engagement policy<sup>2</sup>
- ▶ Common Exclusion List

Additionally, the following documents are available on request:

- ▶ Voting Reports
- ▶ Engagement Reports
- ▶ ESG Risk Reports for pooled funds

<sup>2</sup> Available in H2 2020



## UNIGESTION'S COMMON EXCLUSION LIST

Exclusion list	Description
Human Rights	Businesses that do not support and respect the protection of internationally proclaimed human rights or are complicit in human rights abuses
Labour Rights	Businesses that do not uphold: <ul style="list-style-type: none"><li>▶ the freedom of association and the effective recognition of the right to collective bargaining</li><li>▶ the elimination of all forms of forced and compulsory labour</li><li>▶ the effective abolition of child labour</li><li>▶ the elimination of discrimination in respect of employment and occupation</li></ul>
Environmental Issues	Businesses that do not: <ul style="list-style-type: none"><li>▶ support a precautionary approach to environmental challenges</li><li>▶ undertake initiatives to promote greater environmental responsibility</li><li>▶ encourage the development and diffusion of environmentally friendly technologies</li></ul>
Business Ethics	Businesses with any corruption allegation including extortion and bribery
Controversial weapons	Businesses that manufacture, distribute or sell controversial arms or ammunitions such as cluster bombs, landmines, depleted uranium, etc.
Adult entertainment producers	Businesses principally engaged in the production of pornography
Tobacco producers	Businesses principally engaged in the manufacturing of or trading in tobacco
Thermal coal	Businesses with more than 10% of their total revenue derived from thermal coal
Predatory lending	Businesses directly involved in unethical lending practices that impose unfair and abusive loan terms on borrowers.





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