June 2021

Climate change statement Q&A

Stewart Investors
Sustainable Funds Group

We have prepared the Q&A below in conjunction with our Climate change statement.

What are your governance and oversight arrangements for climate change, including for remuneration?

Our investment philosophy and Hippocratic Oath are the primary means by which we ensure our investments are well aligned with climate and other sustainability objectives. Our long-term focus on quality acompanies that are well positioned to contribute to, and benefit from, sustainable development is not an add-on or side project, it sits at the heart of every investment decision we make.

Our team, Board and senior investors are ultimately accountable for ensuring we execute our stewardship responsibilities in line with our philosophy and that our team has the support it needs to deliver on our objectives.

Stewart Investors also participates in, and is subject to, the governance arrangements of its parent company First Sentier Investors (FSI). Stewart Investors staff sit on FSI's Global Responsible Investment and ESG Committee. Stewart Investors' investment strategies are overseen by FSI's global investment committee, risk assurance and internal audit functions.

Remuneration for all investment team members is linked to the long-term performance of our investment strategies and our business. We do not believe separate incentives for sustainability are necessary, or effective, in the context of our organisation and its deep commitment to sustainable investment.

Are you committing to net-zero emissions by 2050 and signing the Net Zero Asset Managers Initiative?

We are committed to achieving global sustainable development objectives, including the well below 2°C warming target of the Paris Agreement. We believe that we have been playing a positive role in pursuing sustainable development objectives for many years, and are focused on increasing and improving our contribution.

Our industry has created multiple initiatives to sign up to, each year, for the past decade or more. Their aspirations are admirable but very few have achieved a meaningfully-better outcome for the world. This makes us cautiously question our contribution when each initiative is put in front of us. Many are designed more for those who own the whole economy or are far less selective with their sustainable investment remit.

The Net Zero Asset Managers Initiative[1] appears well structured, with interim and long-term targets which, if tangible and binding, have the opportunity to shift capital to achieve the carbon needs of the future. We worry the pace of uptake is usually inversely related to the extent of meaningful change, and rapid uptake is exactly what we have witnessed with the Net Zero Asset Managers Initiative. Time will tell how closely signatories have scrutinised their commitments before jumping in.

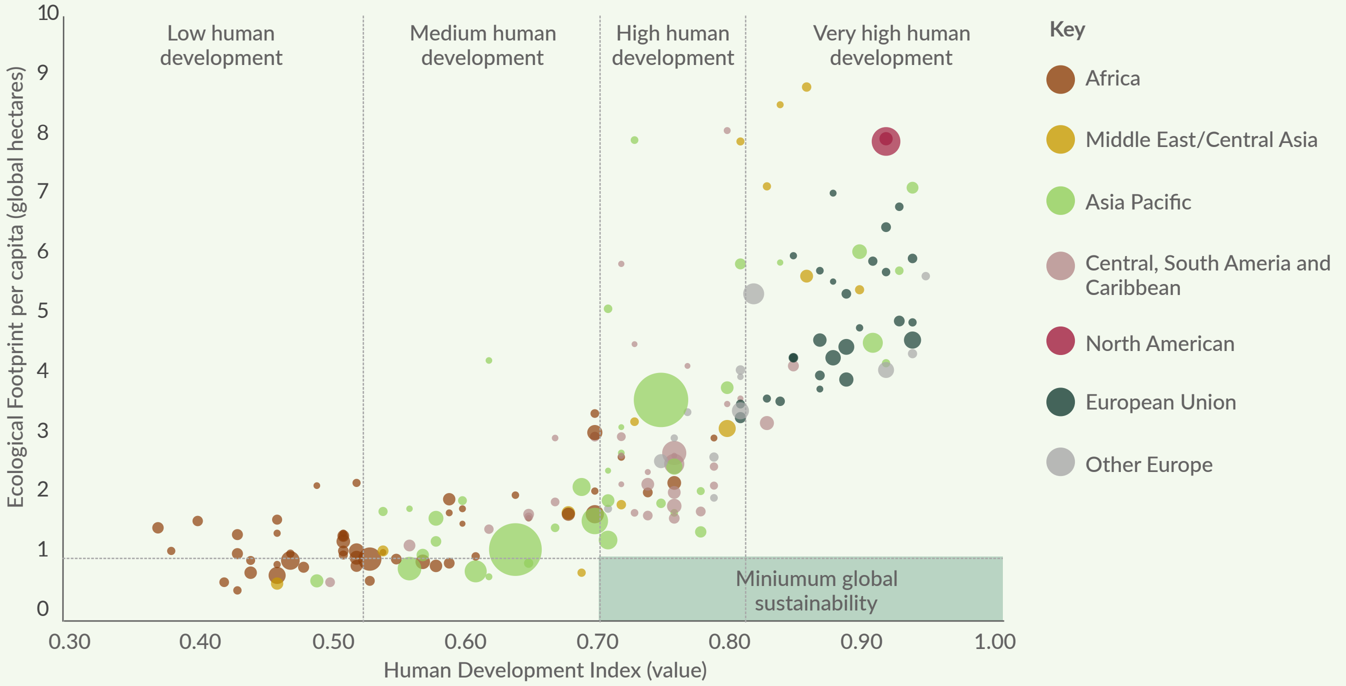
However, we will monitor and consider whether it is appropriate for us over time, while pushing on investing for a carbon-constrained future. By the end of 2021 we aim to report on our investments and climate change, including baseline measures. Before that report we will continue to consider what targets make the best sense for how we invest, and whether signing the Initiative will have an impact on how we invest, operate or report.

If you want to achieve the Paris Agreement target of well below two degrees Celcius of warming, why not just make a net-zero commitment now?

We need to identify and better understand how we can set credible and implementable targets which are aligned with our investment philosophy and process. Historically we have not used targets for any of the issues we find important (you can read more on this at Our approach to sustainable investing).

Sustainable development

Global Footprint Network - Human Development Index and Ecological Footprint of countries



Source: Global Footprint Network, 2021 National Footprint and Biocapacity Accounts www.footprintnetwork.org and https://tinyurl.com/5vatake9. Latest country data for the Ecological footprint is 2017. Graph scale is limited to 10 on the ecological footprint axis and excludes Luxembourg and Qatar.

Our broad understanding of sustainable development is best represented by the Global Footprint Network's chart which compares human development on the X-axis and ecological footprint on the Y-axis.

The implied goal is to move towards the bottom right-hand corner of the chart where human development is high and ecological footprint is low. Historically, we have not set targets for goals like health and wellbeing, living wages, pollution or biodiversity, rather we focus on the quality, stewardship and sustainable development contributions being made by individual companies.

While we support the intention behind net-zero targets, we are concerned society will need to do more than many of the pathways outlined today. Top-down models of the economy and its emissions bear little relationship to our portfolios which are largely fossil fuel free. Such modelling may suggest our portfolios have already arrived at the 1.5oC world, but we know this is not the case. We worry about commitments being made that are reliant on negative-emissions technologies and an abundance of carbon sinks[2] in the future. We will continue to support a lower-carbon future in the global economy by investing in relevant and proven solutions.

Do you have an action plan?

Yes, as described in the statement, our action plan on climate change is focused on two primary areas: 1) how we allocate capital and 2) our engagement with investee companies, including our proxy voting decisions. We also:

> Support organisations who are better placed than we are to achieve meaningful change, for example, in the area of public policy.

> Collaborate with investors and other stakeholders so we can learn and achieve shared climate objectives.

> Continue to commission investment research and, where possible, share it with clients and companies for engagement purposes.

> Reduce our own operational emissions and offset those we cannot eliminate.

We will remain focused on real-world outcomes. Our history of dedicated sustainable investing means our starting position for portfolio emissions is far below the broader economy. Currently, the aggregate emissions intensity of our investment strategies is only 25% of the total of our strategies' benchmarks, and every individual strategy has emissions intensity less than 40% of their respective benchmarks[3]. Climate success for the global economy should see that gap narrow, rather than grow.

We expect the companies we invest in to make a genuine and growing contribution to global efforts to reduce emissions and ensure an equitable transition to a zero-carbon economy for their stakeholders. This will occur through the products and services they sell, in their direct operations and in their supply chains.

Rather than judge what level is appropriate through top-down economic models, we believe our bottom-up investment analysis is the best way for us to take a nuanced view of how companies are contributing to decarbonisation. With this in mind, our goal is to see increasing ambition and action from the companies in which we invest. To monitor and evaluate this goal we will collect data and report the results to our clients.

We will also report any noteworthy support or funding we provide to organisations helping the world achieve its carbon aims.

Are you involved with recognised industry climate change initiatives?

We have a history of supporting various industry initiatives (and other initiatives) aimed at improving investor understanding and adoption of sustainable investment practices. For example, we were amongst the first investors to commission carbon-accounting[4] research in the Asia Pacific (through Trucost); we were founding members of the Association for Sustainable & Responsible Investment in Asia (ASrIA) and are a signatory to the Carbon Disclosure Project (CDP).

For climate change specifically, we are currently signatories to the CDP and have led, and participated in, the Principles for Responsible Investment (PRI) initiatives, including collaborative engagements on deforestation and plastics.

We are also active members and contributors to other related industry forums including the UK Sustainable Investment and Finance Association (UKSIF), the Responsible Investment Association of Australasia (RIAA) and the Intentional Endowments Network in the US (IEN).

Will you invest in fossil fuel companies which are transitioning?

Consistent with our position statement on harmful and controversial products and services, we do not have any direct fossil fuel investments. There are many transition risks for these companies that conflict with our objective of investing only in companies contributing to a more sustainable future and our belief that capital preservation is important for capital growth.

There may be rare cases, particularly for utilities, where a company has the ability and willingness to transition successfully and profitably. In such cases, we would need to be convinced that the transition plan can be achieved rapidly and credibly. Should this occur we will fully disclose any such investment and the reasons for it.

What do you mean by commissioning and sharing research?

For many years we have been commissioning independent investment research on sustainability themes and issues which support our investment decisions. This research spans diverse topics from political lobbying in health care to the lead content in paints. In terms of climate change, we have commissioned research on subjects including sustainable palm oil, alternatives to palm oil, sustainable sourcing of soy, the ecosystem impacts of consumer products, fossil fuel-dependent capital goods, and the loan-book assessment of Asian banks.

Where contractual requirements allow it, we share this research with clients and use it as an important engagement tool with the companies we are invested in. Wherever possible we ask the external providers to publish the research.

Do you support and comply with the Task Force for Climate Related Financial Disclosure (TCFD)?

We will report annually on our progress against our climate change objectives. We will model this reporting on TCFD[5] to the degree it is relevant to us and we will support our clients in meeting their reporting requirements.

The TCFD is primarily focused on the risk of climate change to the reporting organisation, rather than the effect the reporting organisation has on the climate or its role in driving solutions. Both perspectives are important and we intend to cover both in our reporting.

The TCFD also includes recommendations on scenario analysis. We don't believe top-down scenarios are relevant or effective for understanding the climate change related risks and opportunities of our investments at portfolio level, however we regularly consider different scenarios at a company level. We will incorporate climate related risks and opportunities in our company level disclosures.

The TCFD is also a useful model for the companies we invest in to use for their reporting. However, we do not see it as a 'tick the box' exercise and are more interested in seeing an integrated approach to reporting which covers all relevant issues as part of the company's strategy. We will encourage companies to refer to TCFD where we believe their climate change reporting needs to be improved.

Is your engagement and voting strategy aligned with your climate change commitment?

Engaging with companies and proxy voting are core parts of our investment process. In the same way our investment process seeks out quality companies that are well positioned for sustainable development, our engagement and voting revolves around understanding and encouraging improvements in those areas.

One of the expected outcomes from our action plan is increasing ambition and falling emissions from the companies we invest in. We will use engagement to support our companies in the climate challenge. In our first climate change report we will provide baseline analysis of company ambition and emissions performance, and will then use that information to encourage companies to improve where meaningful.

Will you be using carbon offsets?

We will purchase offsets for our direct operations. Purchasing carbon offsets[6] helps us to incorporate a cost of carbon into our business while supporting the transition to a carbon constrained economy, particularly for those people and communities most vulnerable to climate change.

We do not count these offsets towards our carbon calculations and pay for them as a business expense. We will only purchase high quality offsets, such as those certified by the Gold Standard or Plan Vivo[7].

Footnotes

[1] The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting net-zero goals. https://www.netzeroassetmanagers.org/

[2] A carbon sink is anything that absorbs more carbon from the atmosphere than it releases – for example, plants, the ocean and soil.

[3] Source: Stewart Investors investment team and MSCI.

[4] Carbon accounting quantifies and measures carbon emissions from physical amounts of greenhouse gas emissions to the atmosphere and/or financially by giving carbon a financial market value.

[5] TCFD is a market-driven initiative, set up to develop a set of recommendations for voluntary and consistent climate related financial risk disclosures in mainstream filings.

[6] Carbon offsets allow individuals or companies to invest in carbon reducing environmental projects in order to balance out their own carbon footprint.

[7] https://www.offsetguide.org/understanding-carbon-offsets/carbon-offset-programs/

Investment terms

View our list of investment terms to help you understand the terminology within this document

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client.engagement@stewartinvestors.com

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