



# European SRI Transparency Code

Liontrust GF Sustainable Future Multi-Asset Global Fund

31 October 2021





# Statement of Commitment

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of Liontrust International (Luxembourg) S.A. We have been involved in SRI since 2001 and welcome the European SRI Transparency Code.

Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

# Compliance with the Transparency Code

Liontrust International (Luxembourg) S.A is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Liontrust International (Luxembourg) S.A meets the full recommendations of the European SRI Transparency Code.

31 October 2021

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# Section 1: List of funds covered by the Code

NAME OF THE FUND(S): LIONTRUST GF SUSTAINABLE FUTURE MULTI-ASSET GLOBAL FUND					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input type="checkbox"/> Engagement & Voting <input checked="" type="checkbox"/> ESG Integration <input type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <input checked="" type="checkbox"/> Leading to exclusions <input checked="" type="checkbox"/> Leading to risk management analysis/engagement <input checked="" type="checkbox"/> Sustainability Themed	<b>Passively managed</b> <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing – ESG/SRI benchmark: specify the index tracking <b>Actively managed</b> <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input checked="" type="checkbox"/> International shares <input checked="" type="checkbox"/> Bonds and other debt securities denominated in euro <input checked="" type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> Controversial weapons <input checked="" type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input checked="" type="checkbox"/> Human rights <input checked="" type="checkbox"/> Labour rights <input checked="" type="checkbox"/> Gambling <input checked="" type="checkbox"/> Pornography <input checked="" type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic engineering <input checked="" type="checkbox"/> Other (please specify) <input type="checkbox"/> Global Compact <input type="checkbox"/> OECD <input type="checkbox"/> Guidelines for MNCs <input type="checkbox"/> ILO <input type="checkbox"/> Conventions <input type="checkbox"/> Other (please specify) <b>Screening criteria link:</b> <a href="https://liontrust.co.uk/sustainable">liontrust.co.uk/sustainable</a>	AUM: €24.8m as at 31.10.21 (Fund launched on 13.10.21)	<input checked="" type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input checked="" type="checkbox"/> Febelfin – Towards Sustainability Label <input type="checkbox"/> Other (please specify)	– (KIID) – Prospectus – Management report – Financial and non-financial reporting – Corporate presentations – Other (please specify) – <b>GF SF Multi-Asset Global Fund KIID &amp; prospectus</b> <a href="https://www.liontrust.co.uk/funds/gf-sustainable-future-multi-asset-global-fund">https://www.liontrust.co.uk/funds/gf-sustainable-future-multi-asset-global-fund</a> – <b>Liontrust Annual reports:</b> <a href="https://www.liontrust.co.uk/-/media/LionTrust/files/investor-relations/reports-and-results/2021/Liontrust-Annual-Report-2021.ashx">https://www.liontrust.co.uk/-/media/LionTrust/files/investor-relations/reports-and-results/2021/Liontrust-Annual-Report-2021.ashx</a>

# Section 2: General information about the fund management company

## 2.1. Name of the fund management company that manages the applicant fund(s)

Liontrust Investment Partners LLP (“LIP”) acts as the Investment Adviser to the Fund and is authorised and regulated by the Financial Conduct Authority.

## 2.2. What are the company’s track record and principles when it comes to integrating SRI into its processes?

Sustainable investment is not only for investors who want their investments to “do good”; there is a compelling investment case for all investors taking this approach. Long-term transformative developments, such as technological and medical advancements, not only have positive impacts on society, they have the potential to deliver returns for investors as well.

The Liontrust Sustainable Investment team use a process that has incorporated SRI for over 20 years, they make use of a thematic approach to identify the key structural growth trends that will shape the global economy of the future. They aim to invest in well run companies whose products and operations capitalise on these transformative changes.

Among the team’s key differentiators is the fact that all the sustainable elements are integrated within a single team. Every team member is responsible for all aspects of financial and ESG relating to an investment decision. This means the team engages with companies across a broad range of issues relating to stages in our process, including screening criteria, sustainable investment themes and company specific ESG issues.

Further details of the Liontrust approach to responsible investment can be found at [liontrust.co.uk/sustainable](https://liontrust.co.uk/sustainable)

## 2.3. How does the company formalise its sustainable investment process?

The Liontrust Responsible Investment Policy sets out our approach to voting and company engagement and can be found at [liontrust.co.uk/sustainable](https://liontrust.co.uk/sustainable)

## 2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?

We believe that sustainable companies have better growth prospects and are more resilient than the market average, and that the market does not price these advantages efficiently. We aim to use this market inefficiency to deliver outperformance in equity, bond and multi-asset portfolios. In supporting these sustainable companies, we believe we can accelerate environmental and social improvements.

Sustainability is at the heart of the Sustainable investment process. Every member of the Sustainable Future investment team (13 investment professionals) is responsible for understanding all aspects of financial and ESG risks and opportunities – including factors linked to climate change, relating to the investment decision.

- the major trends and themes in their sector
- identifying investment opportunities and the ESG performance of those opportunities
- integrating that information into forecast earnings and valuation
- submitting investment recommendations for our funds
- engaging with companies and conducting all proxy voting for investee companies

Because of this integrated approach, investment team members engage with companies across a broad range of issues relating to steps in our investment process, such as screening criteria, sustainable investment themes and company-specific environmental, social and governance issues.

## 2.5. How many employees are directly involved in the company’s sustainable investment activity?

Peter Michaelis (Lead Fund Manager) and Simon Clements co-Fund Manager) are the managers of the GF Sustainable Future Multi-Asset Global Fund. The Sustainable Future investment team currently has 13 members. They only invest in sustainable funds.

ESG is fully integrated into the team, whereby each member of the team is responsible for performing ESG, business fundamental and valuation analysis on the companies within their specialist sectors.

The team are supported by an Advisory Committee that help shape thinking on ESG issues and provide challenge over holdings within the team’s portfolios.

# Section 2: General information about the fund management company

## 2.6. Is the company involved in any RI initiatives?

GENERAL INITIATIVES	ENVIRONMENTAL/CLIMATE INITIATIVES	SOCIAL INITIATIVES	GOVERNANCE INITIATIVES
<ul style="list-style-type: none"> <li><input type="checkbox"/> ECCR – Ecumenical Council for Corporate Responsibility</li> <li><input type="checkbox"/> EFAMA RI WG</li> <li><input type="checkbox"/> European Commission’s High-Level Expert Group on Sustainable Finance</li> <li><input type="checkbox"/> ICCR – Interfaith Center on Corporate Responsibility</li> <li><input type="checkbox"/> National Asset Manager Association (RI Group)</li> <li><input checked="" type="checkbox"/> PRI – Principles For Responsible Investment</li> <li><input checked="" type="checkbox"/> SIFs – Sustainable Investment Fora</li> <li><input checked="" type="checkbox"/> Other: Liontrust affiliations: <ul style="list-style-type: none"> <li>– Financial Reporting Council (FRC) Stewardship Code</li> <li>– Taskforce on Climate-Related Financial Disclosure (“TCFD”)</li> <li>– 30% Club Investor Group</li> <li>– Workforce Disclosure Initiative (“WDI”)</li> <li>– UK Sustainable Investment and Finance Association (“UKSIF”)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> CDP – Carbon Disclosure Project - signatories, data on carbon emissions, water and deforestation.</li> <li><input type="checkbox"/> Climate Bond Initiative</li> <li><input type="checkbox"/> Green Bond Principles</li> <li><input type="checkbox"/> IIGCC – Institutional Investors Group on Climate Change</li> <li><input checked="" type="checkbox"/> Montreal Carbon pledge</li> <li><input type="checkbox"/> Paris Pledge for Action</li> <li><input type="checkbox"/> Portfolio Decarbonization Coalition</li> <li><input checked="" type="checkbox"/> Other: Liontrust endorsed statements: <ul style="list-style-type: none"> <li>– PRI Statement of Investor Commitment to Support a “Just Transition” on Climate Change - Endorsed statement</li> <li>– PRI Sustainable Palm Oil Expectation statement - Endorsed statement</li> <li>– Global Investor Statement to Governments on Climate Change - Endorsed statement</li> <li>– PRI Investor statement on deforestation and forest fires in the Amazon - Endorsed statement</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Access to Medicine Foundation</li> <li><input checked="" type="checkbox"/> Access to Nutrition Foundation</li> <li><input checked="" type="checkbox"/> Accord on Fire and Building Safety in Bangladesh</li> <li><input type="checkbox"/> Other:</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> ICGN – International Corporate Governance Network</li> <li><input checked="" type="checkbox"/> Other: The Sustainable Investment team are members of: <ul style="list-style-type: none"> <li>– PRI Listed Equity Advisory Committee</li> <li>– PRI Sustainable Palm Oil Investor working Group</li> <li>– PRI Global Investor Taskforce on Tax &amp; the PRI Tax Advisory Committee</li> <li>– PRI Cyber Security</li> <li>– SDG and Active Ownership Committee</li> <li>– PRI Investor Working Group on the Just Transition</li> </ul> </li> </ul>

## 2.7. What is the total number of SRI assets under the company’s management?

The Sustainable Investment team manages £13.2 billion in assets under management and advice as at 30 September 2021.

Available funds managed by the team are listed in the link below: [liontrust.co.uk/sustainable](http://liontrust.co.uk/sustainable)

# Section 3: General information about the SRI fund(s) that come under the scope of the Code

## 3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?

Our Sustainable Future investment philosophy contends that investors underestimate the value of sustainable and responsible businesses. We seek to identify these companies and exploit this market inefficiency. ESG factors do affect the value of investments and analysing these aspects of companies is an important part of making investment decisions. By identifying attractively valued companies that are more sustainable than the market we believe we can deliver investment returns that benefit from sustainable trends and outperform mainstream benchmarks.

## 3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

Given the integrated team approach, all members of the Sustainable Future team produce proprietary research, including input into the top-down strategy, and both an annual sustainability assessment and credit analysis report on each of the companies within their specialist sectors.

The Sustainable Future investment team conduct their own proprietary research using the following:

**Advisory Committee:** guides on themes and new challenges and opportunities facing companies.

**Academic Institutions:** for example; Cambridge Institute for Sustainability Leadership to develop longer term thinking and to refine the set of themes or Government agencies and audit reports.

**ESG Research Providers:** currently we use MSCI ESG Manager and Ethical Screening to provide initial analysis of sustainability factors.

For independent validation, we commission MSCI to perform analysis on our portfolios to assess the quality of ESG and carbon intensity relative to relevant benchmarks. These reports consistently demonstrate that all of our funds have significantly higher quality ESG and lower carbon intensity (circa 60% less) than benchmark.

**Meetings with company management and site visits:** we aim to meet with investee company management at least twice a year to discuss longer term strategy, this involves travelling to the region the company is headquartered in and conducts additional research and analysis from NGO reports and websites.

**Expert networks:** We use Guidepoint to arrange calls with independent experts in a particular sector (e.g. cyber-security purchasers to develop a view on Palo Alto)

**Independent research providers:** We pay for research from selected research providers who are unconnected with corporate finance or broking.

**Sell-side research:** Selected research is purchased to develop a broader understanding of industry sectors and to provide financial models of companies under analysis.

It must be emphasised though that these research inputs provide a foundation to the assessment by each analyst. The analysis and recommendation itself is always formed by the relevant team member.

## 3.3. What ESG criteria are taken into account by the fund(s)?

We believe sustainability (and ESG) is potentially a very material driver of investment returns and so we look at the businesses we invest in from two important aspects:

1) What business or service the company is providing our economy – and whether in a more sustainable economy we need more or less of these products and services.

2) How well the company is managing the relevant ESG related aspects of their business as we are looking to invest in companies that are proactively managing their business as we believe they will be more successful. Where we believe a company is not adequately managing their business we will not invest in that business; where a company is adequately managed but has aspects we believe that need to be improved, we could potentially invest and engage with that business.

Both of these criteria: the sustainability of the company’s products or how well they are managing the ESG aspects of their business affect how we assess the sustainability and therefore suitability of every company for the Sustainable Future funds or not. This enables us to avoid poorly managed companies with sustainable products and also avoid well managed companies with unsustainable products.

We look at sustainability trends in our economy to help us analyse and understand the direction of travel, which industries will be affected and ultimately whether a given company we are looking to invest in will be a winner from this positive change (by contributing in a positive way) or whether they are the wrong side of sustainability trends and will potentially lose out as society and or regulation acts against them (we call this Thematic analysis).

This approach enables us to analyse and make an assessment of each company on an individual basis and make sure we are investing in the most sustainable businesses both in terms of having more sustainable products as well as better managing the environmental and social aspects of their business as compared to the market as a whole.

This sustainability assessment is captured in our own proprietary Sustainability Matrix rating and is informed by our Thematic analysis. Both are described in more detail in section 3.5.

# Section 3: General information about the SRI fund(s) that come under the scope of the Code

## 3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?

We recognise the urgent need to reduce carbon emissions across the economy to limit the negative impacts stemming from the climate change emergency and believe this shift will have very material impacts on investment returns. Consequently we have positioned our portfolios for an aggressive shift towards an ultra-low carbon economy (as we believe the companies we invest in will gain a competitive advantage by adopting a progressive strategy and will be more successful as a result).

Climate change is taken into consideration throughout the Sustainable Future investment process and is included in our investment decisions in the following ways:

Firstly we avoid investing in carbon intensive industries that we believe are the wrong side of the energy transition through our climate change exclusion criteria outlined on page 17.

Secondly our thematic analysis helps ensure we are invested in companies on the right side of the energy transition. We believe companies helping to reduce emissions will experience significant growth across industries as diverse as power and heat generation, transport and heating and cooling buildings. The relevant sustainable investment themes which help combat climate change include:

### Increasing electricity generation from renewable sources

Electricity generation is a major emitter of carbon dioxide. Substituting carbon-intensive fossil fuel electricity generation (especially coal) with renewable power sources reduces carbon emissions as well as providing a cost-effective means to connect people to cleaner power sources. We like wind and solar and some biomass (using waste streams as opposed to feedstock grown on agricultural land).

### Improving the efficiency of energy use

We see many ways of making energy cheaper by reducing waste, as well as emissions, through more efficient usage. This cuts across many areas of the economy and includes building insulation, efficient lighting, energy efficient climate control, travel and industrial processes.

### Improving the management of water

Water is essential for life. And changes to the availability of water are expected as a direct result of climate change with increased frequency of extreme weather events (involving floods and droughts). Companies that can manage waste water treatment, or produce products or services that improve the efficiency of water distribution, are vital and in demand in helping us cope with climate change.

### Improving the resource efficiency of industrial and agricultural processes

We like companies providing products or services that help to make industrial processes more resource efficient, as well as safer for workers and users. We see investment opportunities in software and systems that help implement life-cycle design (including disposal of products) and manage supply chains, as they modernise and improve industry. We are looking for companies driving real improvements in energy and material use.

### Delivering a circular materials economy

With finite resources on earth, recycling remains a huge part of the shift to a more sustainable world. But to make better use of materials, we need to consider the whole life cycle rather than just the 'waste' stage, moving beyond the current take-make-waste model towards a more circular economy. This is based on three core principles – designing out waste and pollution, keeping products and materials in use, and regenerating natural systems – and we believe companies built on these lines should benefit from this trend

### Making transportation more efficient

Urban transport systems are improved by reducing congestion as well as emissions (which also make the local air quality toxic), as the mode of transport shifts from self-driven cars to public systems such as trains, tubes and buses.

Thirdly, we want to ensure the companies we own understand the magnitude of the energy transition and are managing their businesses in a proactive way that protects them from inevitable tightening regulations. We engage with companies to encourage them to manage this (and other key) material impacts on their business. In 2020 one of our key engagement priorities is our One and a Half Degree Transition Challenge: To challenge companies the SF Funds are invested in to ensure they have strategies to reduce absolute carbon emissions at a rate consistent with limiting global warming to 1.5 degrees.

Finally, we believe that external validation of portfolios is important. To achieve this for climate change, MSCI are commissioned to produce a carbon analytics report which we have been disclosing since we first committed to the Montreal Carbon Pledge (to publicly disclose carbon information for our funds) over five years ago. Over time these reports have consistently demonstrated that our portfolios have significantly lower carbon (typically 50-70% lower) than each fund's conventional benchmark. This information on carbon is publicly available in our Fund Sustainability and Impact report.

## 3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?

Our investment process is a high-conviction, bottom-up approach whereby sustainability is explicitly integrated throughout. The process is designed to capture long term investment opportunities from transformative changes in the global economy, tied to the idea that over time economies become more sustainable.

For idea generation whereby new opportunities are identified, this is based on four key filters any investment needs to satisfy to be eligible for investment. These four filters are;

1. **Theme:** Our 21 investment themes are reviewed annually.

### Better resource efficiency

- Improving the efficiency of energy use
- Improving the management of water
- Increasing electricity generation from renewable sources
- Improving the resource efficiency of industrial and agricultural processes
- Delivering a circular materials economy
- Making transportation more efficient

### Improved health

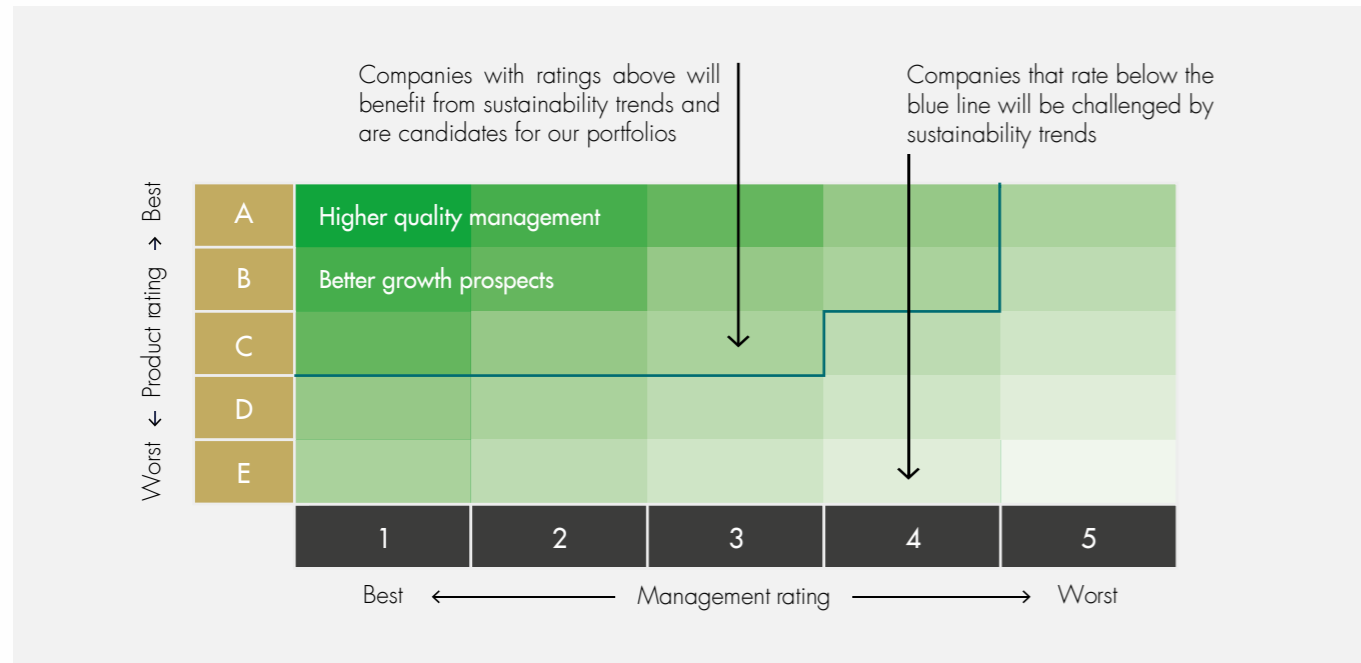
- Providing affordable healthcare
- Connecting people
- Delivering healthier foods
- Building better cities
- Providing education
- Enabling innovation in healthcare
- Enabling healthier lifestyles
- Encouraging sustainable leisure

### Greater safety and resilience

- Increasing financial resilience
- Saving for the future
- Insuring a sustainable economy
- Leading ESG management
- Improving transport safety
- Enhancing digital security
- Better monitoring of supply chains and quality control



# Section 3: General information about the SRI fund(s) that come under the scope of the Code



**2. Sustainability:** our proprietary Sustainability Matrix assesses the whole company in two dimensions – the set of products or services offered; and the management of ESG exposures relevant to that industry sub-sector, only investing in companies with a C3 rating or higher as depicted in the picture above.

**How we use third party ESG data:** we initially look at the conclusions from our third party ESG data provider (MSCI ESG) to understand how well the company manages the aspects the provider have determined are most important as well as understanding any controversies surrounding the business. We use the ESG data they provide to understand how the business ranks relative to their peers. This is the start of our sustainability assessment.

**How we quantitatively score the sustainability matrix:** we further augment the research from the third party ESG data provider by using our own proprietary model which identifies what we have identified as the most material ESG aspects that need to be managed and we measure how well the company is managing these to form our own view on how well the material ESG aspects are being managed by the company. There is significant overlap with the third party data provider but also important differences which can generate a different conclusion, using our discretion, based on our experience and proprietary research.

- **Product sustainability (rated from A to E):** Using our own proprietary model we quantify the sustainability of the products or services the company provides from the different business units within the company to come up with a business weighted overall sustainability score for the company. This enables us to go beyond industry classification generalisations and assess companies in more detail on an individual basis. This enables us to assess the extent to which a company's core business helps or harms society and/or the environment. An 'A' rating indicates a company whose products or services contribute to sustainable development (e.g. renewable energy); an 'E' rating indicates a company whose core business is in a conflict with sustainable development (such as tobacco).

- **Management quality (rated from 1 to 5):** Using our own proprietary model we quantify how well the company is managing the material ESG aspects within the company to come up with a quantitative overall ESG management score for the company. This includes performance data on material ESG factors that can come from the ESG data provider or can be augmented by our own analysis. This enables us to go beyond industry classification generalisations and assess companies in more detail on an individual basis. This enables us to assess whether a company has appropriate structures, policies and practices in place for managing its environmental, social and governance risks and impacts. Management quality in relation to the risks and opportunities represented by potentially material social, environmental and governance issues are graded from 1 (excellent) to 5 (very poor).

**Exclusion of controversial or unsustainable businesses:** we have identified a number of controversial business activities or those we believe to be inconsistent with sustainable development. We exclude companies with more than 5% of group sales from these controversial industries. Exposure to these industries is analysed and reflected into the Sustainability Matrix Rating.

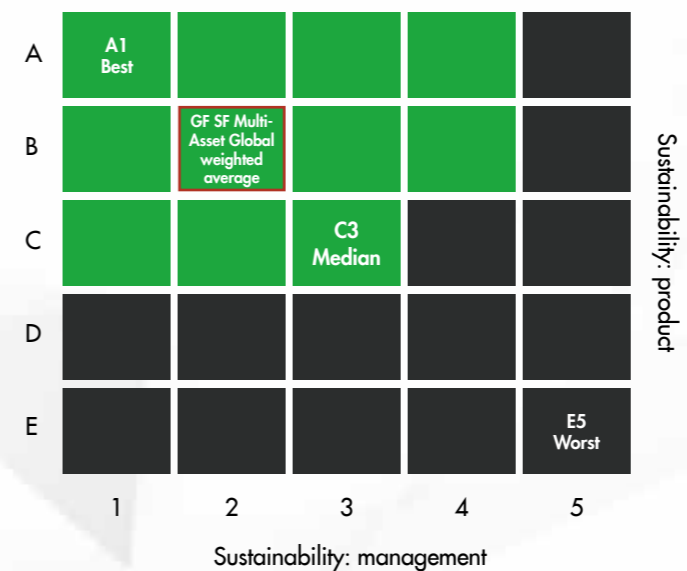
A detailed explanation of what businesses activities we exclude, why and how we measure them is laid out at the back of this document in Appendix 1: Sustainable Future screening criteria (pages 16–19).

Ultimately, we measure how sustainable a business is and therefore whether it is eligible for investment using this proprietary Sustainability Matrix which is an output of our sustainability research.

The companies with the most sustainable products or services and the best sustainability management get a rating of A1; the worst E5; the market median is C3.

To be eligible for the Sustainable Future funds the company must fall in the area marked green and is rendered ineligible for the fund (and excluded) if it falls in the grey part of this matrix.

Sustainable Future: Sustainability matrix rating



Only companies that can pass both of these "quality" sustainability filters (thematic and sustainability matrix rating) are eligible for investment.

## 3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?

A formal ESG rating is required for all holdings prior to investing and all ratings are required to be updated on an annual basis. Third party providers, namely MSCI and Ethical Screening, provide ongoing monitoring of any controversies on all holdings. Within the team the relevant sector specialist is required to respond on any controversies and comments on the: impact; relevance; and any action is required i.e. engagement or sale. All controversies and comments are recorded in a central database that is maintained by the team.

**How we ensure we adhere to our negative screening criteria:** eligibility of a business is checked by the analyst as well as our independent third party (EthicalScreening) provider prior to investment. This ensures we meet our publicly stated criteria. Our portfolios are reviewed quarterly by our independent third party (EthicalScreening) provider to ensure continued compliance. Any stocks that have changed and fail these criteria are flagged, their sustainability matrix rating downgraded and divested within a 6 month grace period in which to find an eligible replacement.

## Section 4: Investment process

### 4.1. How are the results of the ESG research integrated into portfolio construction?

From the available buy recommendations identified in first stage of the investment process the team constructs a concentrated portfolio to maximise returns while diversifying systematic risks.

The team monitors risks to ensure that stock specific risks dominates. Typically the funds have a high active share yet a predicted volatility close to that of the benchmark.

Stock selection is based on high scoring Sustainability profiles, robust business fundamentals and attractive stock valuations.

**Strong business fundamentals:** we target companies that exhibit growth above both their industry average and the economy as a whole. We also explicitly target companies which can illustrate recurring revenue streams, and can consistently convert earnings to free cash flow.

**Valuation:** this filter ensures that all the companies we invest in are undervalued. We model 5 years of future revenue, margin and expected earnings and free cash flow.

### 4.2 How are criteria specific to climate change integrated into portfolio construction?

Climate change is integrated into portfolio construction as follows:

- Stock selection that incorporates a rigorous ESG assessment
- Investment themes focusing on better resource efficiency
- Formal screening criteria
- All our portfolios are deemed to be fossil free
- Portfolios have 50-70% less carbon intensity than their benchmarks

We have the capacity to report in line with the Taskforce on Climate-Related Financial Disclosure ("TCFD") and already report as such via the PRI Assessment.

### 4.3 How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?

All sustainable elements are integrated into the heart of the investment process. All issuers present in the portfolio are subject to ESG analysis.

### 4.4. Has the ESG evaluation or investment process changed in the last 12 months?

No. The Sustainable Equity investment team has been using the same philosophy and process, encompassing its Sustainability

Criteria, investment themes, engagement policy and proprietary Sustainability Matrix Ratings since its inception in 2001.

Over the past 20 years, the team has modified the tools it uses and improved its approach to data collection in order to better use its resources and be more productive in its work.

### 4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?

Measuring impact is a challenging and evolving area but we are committed to developing this and to meeting the increasing demand from clients who want to know what impact their investments are having in the real world.

We currently disclose information on environmental and social impacts such as:

- Independent analysis on carbon and how the SF funds compare to the markets in which they are invested, in terms of carbon emitted, and investments in solution providers as well as information on exposure to fossil fuels (which is zero).
- The investment ideas in our equity portfolios are driven by finding companies exposed to our 21 themes. We will continue to engage with companies to disclose the impacts of these positive themes and share these as we progress. Overall fund exposure to these themes is available on request or on our website.
- We will continue to disclose how we are engaging with companies and where we are affecting positive change in how companies are managed.
- We also demonstrate the alignment of our funds with the UN Sustainable Development Goals

### 4.6. Does (do) the fund(s) engage in securities lending activities?

No – The fund does not engage in securities lending.

### 4.7. Does (do) the fund(s) use derivative instruments?

The Fund may invest in derivatives, including forwards, for both Efficient Portfolio Management (including hedging) and investment purposes. Derivatives are not currently used for this Fund. There have been very few occasions when they have been used.

### 4.8. Does (do) the fund(s) invest in mutual funds?

No.

## Section 5: ESG controls

### 5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?

To ensure portfolio compliance to ESG rules, the team have the following controls:

#### Portfolio Risk Committee

The oversight of portfolios and investment risk is performed by the Portfolio Risk Committee ("PRC"). The PRC is totally independent of the Front Office.

The PRC uses a Risk Management Process ("RMP"), enabling it to monitor and measure as frequently as appropriate the risk of a fund or portfolio's positions and their contribution to the overall risk profile. This oversight encompasses portfolio performance, establishing parameters for exception reporting and ensuring that appropriate client communications are prepared as necessary. Portfolios are reviewed daily, and in more detail monthly, as part of our internal risk meetings.

#### Adherence to screening criteria

To uncover ESG opportunities and risks we believe in thoroughly researching potential investments as well as continually monitoring investee companies. Our research includes primary research by the team as well as information from a wide range of sources such as external research providers, and experts from companies, NGOs and other organisations.

There are four elements to the assurance and oversight of the screens:

1. The sustainability analysis of each company is presented at team meetings where challenge from peers is invited.
2. The Advisory Committee are shown a list of all holdings and transactions and will request clarification on any positions they feel warrant greater scrutiny.
3. Ethical Screening conduct a formal audit of all holdings every quarter to ensure adherence with our stated screening criteria. We also have access to data from Sustainalytics and MSCI Governance Research as well.
4. All holdings are published quarterly so clients can see each position and challenge any holdings they feel do not meet with the spirit of the Sustainable Future approach.

# Section 6: Impact measures and ESG reporting

## 6.1. How is the ESG quality of the fund(s) assessed?

As explained (Section 3.5), we use our proprietary Sustainability Matrix framework to assess the sustainability and eligibility of every company we potentially wish to invest in. We review the average weighted matrix rating for the funds which is a measure of the ESG quality of the fund as a whole.

We actively engage with companies where we feel they need to be more proactive at managing a material ESG aspect of their business. Through this engagement process we aim to improve the ESG management quality of the companies we are invested in over time.

We are interested in the thematic exposure of the fund and monitor and disclose which sustainable investment themes we are exposed to. We are consciously looking to have high conviction in all our holdings on all four aspects we believe that make a good investment, two of these being focused on the sustainability: trends companies are exposed to (sustainability themes) as well as how sustainable the overall business is (measured using our Sustainability Matrix rating).

Additionally, we believe that external validation of portfolios is important. Our Advisory Committee, which the investment team meet with three times a year, review all the holdings in the Sustainable Future funds and will raise any concerns they have on the ESG quality of any holdings or sustainable investment themes we are exposed to. As a result of any concerns we do extra sustainability analysis to ensure we are not missing any negative aspects of a theme or company the fund is invested in.

We also use third party data providers such as MSCI to produce both an ESG report on our portfolios relative to benchmark and a separate carbon report.

## 6.2. What ESG indicators are used by the fund(s)?

The main sustainability, impact and ESG indicators used by the funds are:

- Sustainability of individual companies and the weighted fund average: Sustainability Matrix.
- Exposure to our positive sustainable investment themes is measured at the stock level and includes the proportion of the business exposed to a positive theme and this can be aggregated at the fund level.

- We have mapped our investment themes to the underlying KPIs in the United Nations Sustainable Development Goals. SDGs are increasingly being used by investors in our fund to understand how our themes are making a positive impact in terms of an internationally agreed framework for sustainable development, such as the SDGs.
- Activity and progress in engaging for positive change in the way companies the funds invest in are managed.
- We include various third-party data on ESG metrics that help measure the environmental, social and governance aspects of the Sustainable Future funds and the companies they are invested in. This is evolving and is driven both by what we believe is important as well as client demand for extra ESG detail.

We have the capacity to report in line with the Taskforce on Climate-Related Financial Disclosure ("TCFD") and already report as such via the PRI Assessment.

## 6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?

We publish an extensive amount of information on the sustainability, impact, ESG and engagement of the Sustainable Future funds which include:

SF Annual Review is a detailed review of the Sustainable Future funds; who the investment team are and what they have been working on; as well as their observations on:

- Sustainable investment themes
- Climate change, how we are positioned as well as detailed third party carbon related data on the funds
- Impact and measurement
- How our investment themes are aligned with the SDGs and which of these the funds have most and least exposure to
- Key engagement updates and which priority engagements have worked as well as any that have not
- Sustainability related data on the Sustainable Future fund range

The SF Annual Review 2020 is available here: [liontrust.co.uk/annual-review-2020](https://liontrust.co.uk/annual-review-2020)

Quarterly reports for individual funds showing data on exposure to investment themes as well as listing all companies held in the fund (not just the top ten as is industry practice).

The investment team engage with investors in the fund or their advisors to answer any specific questions on why the fund is invested in a particular stock or clarifying the investment team view on a particular sustainability issue.

Monthly fund updates and fund manager blogs which often highlight interesting sustainability related information for investors can be found on our website as follows: [liontrust.co.uk/sustainable](https://liontrust.co.uk/sustainable)

We have committed to publicly disclose individual Fund Sustainability and impact reports which detail all the sustainability data discussed in our SF Annual review at the fund level as well as including additional specific ESG metrics. These are available on our website at the link above. We fully expect this reporting to further evolve in response to increase client demand, as well as regulation and we are committed to providing additional disclosures for the Sustainable Future fund range to ensure stakeholders have all the information they need.

The Fund publishes monthly Factsheets, Annual & Semi-Annual Accounts, yearly KIIDs and ad-hoc Sales Aids on our website.

## 6.4. Does the fund management company publish the results of its voting and engagement policies?

Please visit [liontrust.co.uk/annual-review-2020](https://liontrust.co.uk/annual-review-2020) to see the Sustainable Investment Team Annual Engagement Review for 2020.

Quarterly voting records showing how the Liontrust Sustainable Investment team voted at every Company AGM on every resolution for all companies we are invested in are also published on our website.



# Appendix 1: Sustainable Future screening criteria

There are four elements to the assurance and oversight of the screens:

- 1 The sustainability analysis of each company and sovereign is presented at team meetings where challenge from peers is invited.
- 2 The external advisory committee, made up of experts from key areas of social and environmental impact, sees a list of all holdings and transactions and will request clarification on any positions they feel warrant greater scrutiny.
- 3 Ethical Screening conducts a formal audit of all holdings every quarter to ensure adherence with the team's stated screening criteria.
- 4 All holdings are published quarterly so clients can see each position and challenge any holdings they feel do not meet with the spirit of our sustainable approach.

The Liontrust Sustainable Investment team has identified 15 issues, ranging from alcohol and climate change through human rights and labour standards to tobacco and weapons systems. Over the following three pages, we list all 15 of these issues, discuss the team's position on each of them and the screening criteria used.



## Alcohol

While alcohol is consumed and enjoyed by a large percentage of the population, the excessive consumption of alcohol, sale to underage drinkers and irresponsible marketing of products can have negative social and health impacts. Companies selling alcohol must take steps to mitigate these impacts through responsible policies and practices.

- Only invest in alcohol companies that have policies and practices to address responsible marketing, consumption and sale of their products



## Animal welfare

Testing products on animals is clearly undesirable. However, it also forms an essential part of some necessary human and environmental safety testing and is sometimes required by law, for example in medical research and development, and the EU Directive on chemicals and their safe use (REACH). Recognising this, the general view of the Sustainable Future funds is that animal testing should only be used where alternatives do not exist. We also believe that companies directly or indirectly involved in animal testing have a responsibility to (i) reduce, refine and replace animal tests, (ii) provide a rationale for the use of animal testing and (iii) take an approach that ensures as far as possible that their welfare is maintained.

- Excludes companies that derive >5% of turnover from the provision of animal testing services
- Excludes companies that derive >5% of turnover from the:
  - manufacture of cosmetics or cosmetic intermediates that are tested on animals
  - retail sale of own-brand cosmetics that are tested on animals
  - manufacture of household products that are tested on animals unless the company policies and programmes to minimise testing are considered good practice



## Climate change

We recognise the urgent need to reduce carbon emissions across the economy to limit the negative impacts stemming from the climate change emergency.

We believe:

- More aggressive, front-loaded, targets are needed to achieve an ultra-low carbon economy

- The cost of decarbonising, while large, is much lower than the severe cost to the economy of doing nothing and facing the increasing costs from the impacts of climate change

- This is a very material change and there will be proactive businesses that win and reactive businesses that lose from this shift

We do not believe the material financial impacts of the transition to an ultra-low carbon economy (or many other sustainable improvements to the economy) are fully discounted in current stock or bond prices. To the extent they are, they assume a very marginal and slow global response to reducing emissions.

Our thematic analysis helps ensure we are invested in companies on the right side of the energy transition and we aim to invest in companies with strategies that are aligned with the Paris Agreement to limit the global average temperature rise to 1.5 degrees centigrade. As part of the Paris Agreement, we support the Just Transition and see this as an opportunity to do things smarter as well as better, recognising the needs of people in the energy transition.

We have positioned our portfolios for an aggressive shift towards an ultra-low carbon economy (as we believe the companies we invest in will gain a competitive advantage by adopting a progressive strategy and will be more successful as a result).

- Excludes companies that derive >5% of turnover from the extraction and production of coal, oil and natural gas
- Excludes companies that derive >5% of turnover from airlines and the manufacture of cars (unless they are specialised in making components that improve the efficiency or safety of cars) and trucks
- Excludes companies that derive >5% of turnover from the production of energy-intensive materials unless they are making significant efforts and investment to make their processes more efficient and less carbon intensive
- Excludes companies that derive >5% of turnover from electricity generation from coal or lignite fired power stations



## Deforestation

According to the United Nations Food and Agriculture Organization (FAO), although deforestation has been slowing since the 1990s, globally we still lose around 13 million hectares of forests through conversion to agricultural land or natural causes each year [1]. Deforestation and poor forestry management have significant impacts on the environment and biodiversity and must be managed effectively by companies.

- Excludes forestry and paper companies that do not have policies and practices in place to ensure that forests are managed in a sustainable way
- Excludes companies that are involved in the deforestation of primary or virgin forest or illegal logging practices

[1] United Nations Food and Agriculture Organization (FAO), 2015

# Appendix 1: Sustainable Future screening criteria



## Gambling

There are concerns regarding the negative social impact of gambling addiction, especially on vulnerable groups such as children. The SF funds expect companies involved in the gambling industry to be aware of the potential negative effects of gambling on individuals and communities and to recognise their responsibilities in this regard.

- Excludes companies that derive >5% of turnover from the management or ownership of gambling facilities



## Genetic engineering

A decade or so after the introduction and widespread commercial adoption of GE technology, the scientific debate on the benefits and risks associated with the technology continues. We have fundamental concerns regarding the lack of clear protection of both the environment and consumers. Corporate behaviour has also generated alarm regarding disturbing commercial practices such as the use of terminator and traitor technology, threatening farmer independence and food security and further distancing GM technology from application as a sustainability solution. However, given extended use of the technology outside Europe without materialisation of the earlier primary safety concerns, and given considerations of world food security and climate change, we do not feel it appropriate to completely discount the potential that this technology may in due course bring. For example, it may have the potential to improve agricultural productivity and mitigate environmental damage associated with more conventional forms of intensive farming. Consequently, we take a precautionary approach and expect careful management of the risks surrounding this technology such as threats to biodiversity and ecosystem disruption. We will approach GE on a case-by-case basis, applying core sustainability principles of precaution, environmental protection and future global food security. At the time of writing, we were not aware of any cases that pass this test.

- Assess companies on a case-by-case basis and exclude companies involved in the uncontrolled release of genetically engineered organisms into the environment unless the benefits clearly outweigh the risks



## Human rights

The term 'human rights' encompasses a number of issues ranging from civil and political rights, labour rights (see also labour standards criteria) and economic and social rights such as the right to housing or the right to education. The challenges that companies face in connection with human rights will therefore vary from company to company, sector to sector, and country to country. This diversity of human rights managerial challenges is most acute when companies operate in countries with weak governance, in other words, where governments are unable or unwilling to assume their responsibilities. If human rights

issues are poorly managed by companies, then this can lead to litigation, extortion, sabotage, lost production, higher security costs and increased insurance premiums. In our view, companies operating in countries of concern have a responsibility to put in place appropriate human rights policies, systems and reporting.

- Assess companies on a case-by-case basis and encourage those that are operating in weak governance zones to demonstrate their commitment to the integration of human rights standards into business practices and to put in place appropriate human rights policies, systems and reporting
- Exclude companies judged not to be addressing serious allegation of violations of international human rights laws and standards including the OECD Guidelines for Multi-National Enterprises (2000) and the UN Global Compact (2000), among others



## Infrastructure projects

Airport, road and dam building can play an important role in meeting people's needs through provision of essential infrastructure, job creation, and regional development. But these large-scale infrastructure projects can also be environmentally damaging and disruptive to local communities. Companies involved in large-scale infrastructure projects should adapt project designs to suit local environmental and community needs and undertake extensive stakeholder consultation to ensure that those adversely affected are properly compensated.

- Excludes companies that are directly involved in the construction of large dam projects in developing countries if those projects have not met best practice standards.
- Will only invest in companies involved in the building of large scale infrastructure projects such as roads, airports or dams if they are viewed as leaders within their sector with respect to stakeholder dialogue, environmental management and social and environmental impact assessment



## Intensive farming

Intensive farming practices raise serious animal welfare, health and hygiene concerns. Intensification of crop production has resulted in use of large quantities of pesticides and artificial fertilisers some of which can contain hazardous substances and impurities that adversely affect health and the environment.

- Excludes companies that derive >5% of turnover from intensive meat and fish farming
- Excludes companies that derive >5% of turnover from the manufacture of chemical pesticides
- Excludes companies that derive >5% of turnover from the fur trade



## Labour standards

Individuals have a fundamental right to expect certain standards in their place of work. These labour standards are enshrined within international benchmarks such as the Universal Declaration of Human Rights (see also the human rights criteria) and the International Labour Office (ILO) Core Labour Standards.

- Assess companies on a case-by-case basis, and encourage those that are operating in weak governance zones to demonstrate their commitment to the integration of international labour standards into business practices by putting in place appropriate labour standards policies, systems and reporting.
- Exclude companies judged not to be addressing serious allegations of breaches of labour standards such as those on child labour, forced labour, discrimination, union rights, working hours and health and safety.
- The international laws and standards, which we refer to when making this assessment, include the conventions which are regarded and promoted by the ILO as "core" conventions. In summary these are:
  - Child labour – Equal opportunities – Forced labour
  - Freedom of association/Collective bargaining



## Nuclear

The team takes the view that despite the benefits of nuclear power as a low carbon source of energy, it is not a viable alternative to other forms of energy generation because of the significant environmental risks and liabilities related to waste and decommissioning. Accidents or terrorist attacks on nuclear power stations also pose a serious risk.

- Excludes companies that derive >5% of turnover from owning or operating nuclear power stations, unless the company has made significant investment (>5% generation capacity) in renewable energy and does not have the option to divest its nuclear capacity [2]
- Excludes companies that derive >5% of turnover from uranium mining or reprocessing of nuclear fuel
- Excludes companies that derive >5% turnover from the development or manufacture of non-safety related products for nuclear power plants



## Ozone depleting substances

The depletion of the ozone layer continues to be a critical environmental issue with significant human health and biodiversity implications.

- Excludes companies that derive >5% of turnover from the manufacture or sale of ozone depleting substances



## Pornography

The abusive and degrading portrayal of individuals in pornography contributes to sexual discrimination and exploitation of the vulnerable and can be a contributor to violence.

- Excludes companies that derive >5% of turnover from the production or distribution of pornographic material
- Excludes companies that derive >5% of turnover from owning or operating adult establishments



## Tobacco

The team takes the view that tobacco is fundamentally in conflict with the concept of sustainable development because of the health impacts of smoking, the cost of treating individuals, and the effects of passive smoking.

- Excludes companies that derive >5% of turnover from the manufacture or sale of tobacco products



## Weapons systems

The manufacture of armaments is in conflict with sustainable development. Arms can inflict death and injury and cause damage to natural and manmade capital. While we recognise and accept the need for armaments for defence and peacekeeping, their ability to be used for aggression and oppression renders them socially unacceptable.

- Excludes companies that are major producers of full weapons systems or critical components of weapon systems. Major producers are defined as having >5% of turnover and/or >£100m revenue from offensive weapons systems
- Excludes companies with any confirmed involvement in "controversial weapons", which are defined as anti-personnel mines, cluster munitions, biological weapons or nuclear weapons. This includes manufacturing or supplying key components used in or the selling of controversial weapons. [3]

[2] This can be due to regulatory constraints that require utilities to operate nuclear facilities, as is the case in Spain.

[3] This ensures investors in countries where it is illegal to invest in companies involved with controversial weapons comply with the law. Involvement includes companies using depleted uranium to manufacture nuclear weapons.



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