

## Statement on due diligence policies with respect to adverse sustainability impacts – Art 4 SFDR, January 2022

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### Information about our policies on the identification and prioritisation of principal adverse sustainability impacts and indicators + Description of the principal adverse sustainability impacts and of any actions in relation thereto taken or, where relevant, planned

Our stewardship policy and approach is underpinned by the following beliefs as to what good practice at the issuer level should comprise:

1. Over the long run, issuers can deliver investment return while managing risk by focussing on financial and non-financial factors;
2. Issuers should have a primary focus on creating and maintaining value over the long-term and incentivising this appropriately. They should also implement governance frameworks that maintain the interests of investors and management in appropriate alignment;
3. Where a third party exerts significant control over a company in which we are invested, the Board should ensure that the rights of minority investors are respected and protected;
4. Boards should in aggregate have appropriate expertise, represent a diverse range of backgrounds and interests, and ensure appropriate balance in the representation of independent and non-independent members. Individually, shareholder representatives should have and should continue to invest in appropriate skills and knowledge, enabling them to offer constructive challenge to executives in relation to risk management in practice, as well as the pursuit of new areas of opportunity;
5. Issuers should develop and implement policies relevant to their current and anticipated operations. They should also be transparent about their commitments so that progress towards achievement of end goals can be assessed.

Where issuers are not able to evidence such practices, our investment teams commit to promote these beliefs within their stewardship activity.

As part of the monitoring of investments, the stewardship strategy adopted by our teams may on the one hand be proactive (i.e. risk/opportunity driven) or on the other reactive (i.e. event driven).

Within proactive engagement, actions may include raising awareness of emerging best practice, encouraging focus on areas of new opportunity, or seeking to address/reduce issues arising through the course of operations.

Within event-driven engagement, actions may include advising boards and management on options for responding effectively to relevant events. They may also include as part of subsequent proxy voting consideration of the role of the company and its senior leadership within those events, as well as our views on the adequacy of the response in context.

In determining the need for intervention, teams will consider factors such as:

- Engagement/proxy voting history with the company
- % of market cap held, significance of company within portfolio, and expectations of engagement success
- Extent to which concerns are 'acute' (one time) or 'chronic' (persistent)
- Extent to which our teams see risk to their sector view or to the specific investment thesis
- Marginal benefit of the engagement outcome in securing continued investment
- Company's pre-existing involvement in stewardship initiatives of relevance
- Extent to which we can leverage our memberships to support/encourage novel stewardship approaches

Whilst engagement is typically undertaken with respect to those factors of specific relevance to the target company, where portfolio-level adverse impacts are monitored, engagement may also be undertaken to encourage companies to take related action to reduce those adverse impacts. These impacts may include those identified under the Principal Adverse Impact framework established in

relation to the EU Sustainable Finance Disclosure Regulation, relating to climate and other environment-related adverse impacts, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

### **Brief summaries of engagement policies in accordance with Article 3g of Directive 2007/36/EC, where applicable**

The Redwheel Stewardship Policy available on our website at [www.redwheel.com](http://www.redwheel.com) provides a detailed description of our approach to stewardship, including engagement and (where applicable) proxy voting.

Within our approach to engagement, we strive to ensure that activity supports the delivery of client and regulatory expectations. Engagement is most typically undertaken bilaterally, discreetly and diplomatically. Dialogue is directed towards what we consider to be the most appropriate counterparty in the first instance, whether Board directors (e.g. Chair of Remuneration Committee in relation to remuneration matters) or executives (e.g. Head of Sustainability in relation to emissions management practice). As appropriate, engagement may otherwise be undertaken in collaboration with other stakeholders.

Whilst all investment approaches provide scope for engagement, some put enhanced emphasis on the role of engagement (e.g. those seeking to reorient corporate strategies through a combination of deep engagement and significant ownership). For these strategies, stewardship may in exceptional circumstances also extend to seeking seats on company boards for team members. In this way, relevant portfolio managers - accepting the responsibilities and liabilities that arise as a director - can secure a perspective advantage over ordinary shareholders, through direct oversight of the investee company's management and the implementation of strategy by the Board. For more conventional strategies, portfolio managers would typically not seek to join an investee company's Board, although they may look to support the nomination of third parties to serve as shareholder representatives.

We also conduct engagement with a wider range of industry and business stakeholders as part of contributing to the development of the wider operating environment within which we conduct our business. We recognise that as a business we have a responsibility to engage with industry stakeholders in support of the development of an operating environment that is itself sustainable over the long-run. Given our core focus as a business on supporting responsible investment, we may from time to time choose to align ourselves with third party organisations focussed on responsible investment issues and whose interests are aligned to our own. Where we do so, we will look to make an active contribution to the development of the work conducted by and within those organisations.

### **Reference to our adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of their alignment with the objectives of the Paris Agreement**

Our approach to stewardship is consistent with the definitions advanced by the UK Stewardship Code and the UN Principles for Responsible Investment of which we are a member. Within the assessment of operational approaches to managing environmental, social, and governance factors, the following external reference frameworks are viewed as having fundamental relevance:

- UN Global Compact<sup>1</sup>
- ILO Core Labour Standards<sup>2</sup>
- UN Guiding Principles on Business and Human Rights<sup>3</sup>
- OECD Guidelines for Multinationals<sup>4</sup>
- SASB<sup>5</sup>

Investment teams may also take into account other frameworks where these aid analysis of company specific factors, including relevant thematic/sector/national/global standards (such as the development of science-based targets to support emissions reductions objectives aligned to the delivery of the Paris Agreement), as well as:

- Issues yet to be reflected within frameworks seeking to define operational best practice;
- Recommendations and insight provided by organisations of which Redwheel is a corporate member (for example, the ClimateAction100+, and CDP);
- Our own distinct views on companies' disclosure and performance;

<sup>1</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles>

<sup>2</sup> <https://www.ilo.org/global/standards/lang--en/index.htm>

<sup>3</sup> <https://www.ohchr.org/en/issues/business/pages/businessindex.aspx>

<sup>4</sup> <http://mneguidelines.oecd.org/guidelines/>

<sup>5</sup> <https://www.sasb.org/>

- The extent to which our teams consider companies to be meeting effectively other standards that are relevant in context.

The information shown above is for illustrative purposes only and is not intended to be, and should not be interpreted as, recommendations or advice.

## **CONTACT US**

**Please contact us if you have any questions or would like to discuss any of our strategies.**

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