

# Scottish Widows Schroder Personal Wealth (ACD) Limited

## Responsible Investment Policy

*Effective from 1<sup>st</sup> October 2024*

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Schroders Personal Wealth is a trading name of Scottish Widows Schroder Personal Wealth (ACD) Limited. Registered in England and Wales No. 11722973. Authorised and regulated by the Financial Conduct Authority number 834833. Registered Office: 25 Gresham Street, London EC2V 7HN.

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## Definitions

In this Policy, the following definitions shall have the following meanings:

“Active” means an investment approach that seeks to add value (typically versus a benchmark or a comparator) by making decisions on which investments to buy, sell or hold depending on, for example company, market or economic factors;

“CIS” means Collective Investment Scheme;

“Effective Date” means 1<sup>st</sup> October 2024, being the date from which this Policy applies to the SPW Funds;

“ESG” means environmental, social, and governance, as more fully described below under Section 2, Defining ESG and Sustainability;

“Responsible Investment framework” means the framework for integrating environmental, social and governance factors into the investment management process;

“Investment Adviser” means the investment adviser delegated by SPW to manage the SPW Funds, being Schroders Investment Management Limited;

“Passive” means investment management where the Investment Adviser aims to match a benchmark and will buy, sell or hold investments depending on the components of that benchmark;

“Policy” or “Responsible Investment Policy” refers to the integration of environmental, social and governance factors into the management of SPW’s range of Sub-Funds, as may be reviewed and updated by SPW from time to time;

“Risk adjusted returns” means the risk-adjusted return, measuring the profit an investment has made relative to the amount of risk the investment has represented throughout a given period of time;

“Responsible Investment” means an investment strategy and practice which incorporates environmental, social and governance factors in investment decisions and active ownership.

“SIM” means Schroder Investment Management Limited;

“SPW” means Scottish Widows Schroder Personal Wealth (ACD) Limited, being the authorised corporate director of the SPW Funds;

“SPW Multi-Asset Funds” means the sub-Funds of SPW Investment Portfolio ICVC, a UK non-UCITS;

“SPW Portfolio Funds” means sub-funds of SPW Investment Fund Company, a UK UCITS;

“Sub-Fund” means a sub-fund of either SPW Managed ICVC, SPW Investment Portfolio ICVC and/or SPW Investment Fund Company; and

“PRI” means Principles for Responsible Investment

## Introduction

SPW aims to provide a range of actively managed best-in-class investment products (the SPW Funds) designed to help clients achieve their financial goals over the longer term.

We believe that a supportive element in meeting client needs is the integration of Environmental, Social and Governance (ESG) factors into our investment decision-making process. In our view, adopting Responsible Investment principles and promoting positive ESG integration supports risk-adjusted returns to investors over the longer term. We expect that this will also reflect the preference of our clients to invest in companies that provide responsible products and services, and their growing recognition of the role of engagement in driving positive ESG change.

This Responsible Investment Policy sets out, at a high level, a broad framework to ensure that SPW's investments meet certain Responsible Investment criteria and contribute to the achievement of SPW's Responsible Investment aims.

Specifically, this Responsible Investment Policy summarises the more detailed considerations that can be found in the investment mandates by setting out the:

- i) mechanisms for integrating ESG factors in the investment decision-making process of SPW Funds; and
- ii) oversight and monitoring of the Responsible Investment approach in respect of SPW Funds.

References to the Responsible Investment Policy and the integration of ESG factors are also made in the relevant Prospectuses.

The Responsible Investment Policy will be reviewed on a regular basis and at least annually.

## Responsible Investment

SPW follows Principles for Responsible Investment (PRI) definition of responsible investment, such that responsible investment “includes environmental, social and governance (known as “ESG”) information in investment decision-making and stewardship practices, to ensure that all relevant factors are accounted for when assessing risk and return”.

SPW defines ESG factors as:

**Environmental:** Environmental factors relate particularly to the natural world and incorporate the relationship between renewable and non-renewable resources. Environmental factors may include climate change, renewable energy, carbon mitigation / decarbonisation, resource allocation, waste and recycling, and preservation of the natural environment and biodiversity.

**Social:** Social issues involve the people who work for a company, those who are its clients and suppliers and the impact the company has on the day-to-day lives of people living and working in proximity to where the businesses are located. Social factors may include issues such as human rights, child labour, modern slavery, equality and diversity, civil society engagement, conditions of employment and employee relations.

**Governance:** Governance is associated with the rules, practices and codes of behaviour that influence how a company or organisation is managed. Developing strong strategic, financial and risk management frameworks and the ongoing management of these policies can have a significant impact on a company's capacity to succeed, prosper and survive. Important governance matters may include policies designed to prevent fraud, bribery and corruption, strategies relating to wages and salary setting including executive pay, board diversity and inclusion, lobbying and donations, and shareholder rights, and having plans to deal with crisis management and key person succession.

In this context, SPW recognises the importance of integrating ESG factors to help minimise risks for our clients' investments over the long term. We also believe that this Responsible Investment Policy reflects the company's values and its commitment to engaging actively in propelling positive change.

SPW also aspires to active, ongoing engagement and partnership with its Investment Adviser (including investment managers of CISs in which we may invest), helping to propel the investment management industry towards a more sustainable future.

### SPW's Responsible Investment Principles

The Policy sets out the Responsible Investment framework relating to SPW Funds. We believe that this Policy will help our clients achieve their investment goals through assessing the material impacts that ESG factors can have on the economy and investment risk. As such, SPW has established the following key Responsible Investment principles:

**Financial returns** - SPW aims to help its clients achieve their financial goals by offering a wide range of investment options that offer competitive risk-adjusted returns over the long term.

**Increased resilience** - SPW believes that by integrating ESG factors into its investment processes, we will identify risks (such as climate change) and opportunities that might otherwise have remained undiscovered and invest in companies with more resilient business models. Therefore, in our view, investing responsibly and promoting ESG integration will increase the resilience of clients' investments over the long term.

**Active management** - SPW is an active investor and believes that the evaluation of ESG factors should be a key component in all investment decision making. By integrating key ESG factors into our investment processes, we are helping our clients fulfil their investment aims.

**Oversight** - SPW will oversee the SPW Funds to ensure that each respective Responsible Investment approach is implemented consistently.

**Engagement** - SPW is generally seeking to drive improvement in the integration of ESG factors within the investment management industry and promotes change over exclusion. In doing so, SPW recognises that engagement with its investment manager(s), and indirectly through their engagement with the corporate management of underlying investments, is key to assisting transition to a more sustainable world and for driving long-term change.

**Communication** - SPW's Responsible Investment process will be communicated clearly to its clients.

**Continuous improvement** - SPW recognises that Responsible Investment is an evolving concept and is one of continuous improvement and regulatory change. Accordingly, SPW will regularly review its Responsible Investment approach to reflect best practice and to ensure applicable regulatory requirements continue to be met.

## Roles and Responsibilities

SPW delegates to the Investment Adviser responsibility for, and full discretion in, making all investment decisions in relation to the SPW Funds subject to, and in accordance with, an Investment Management Agreement between SPW and the Investment Adviser, and the investment objectives and investment policies of the SPW Funds.

In relation to the SPW Funds, the Investment Adviser carries out investment management of the majority of the portfolios of the Sub-Funds. SPW also delegates risk management and investment compliance activities associated with the investment management of the SPW Funds to the Investment Adviser. SPW expects its Investment Adviser to be a signatory of the PRI, or act in accordance with the Principles.

SPW is responsible for monitoring and overseeing the activities of any party to whom investment management has been delegated. SPW will conduct, and the Investment Adviser will help facilitate, appropriate oversight of the Investment Adviser's investment management activities and compliance with this Responsible Investment Policy. For this purpose, in accordance with the terms of the IMA, SPW will receive regular reporting and attestations from the Investment Adviser (including mandate compliance, breaches, risk and performance), undertake assurance activities and oversee certain key activities by the Investment Adviser including in the areas of risk management, performance reporting and fund selection. In doing so, SPW may use third party monitoring systems as necessary and/or access the Investment Adviser's internal systems as agreed.

## Scope and Investment Policy

This Policy applies to SPW Managed ICVC, SPW Investment Portfolio ICVC and SPW Investment Fund Company and all their respective Sub-Funds.

SPW provides its clients with investment products that integrate its Responsible Investment principles into the research and selection process. SPW employs a Responsible Investment Policy consisting of the following pillars:

1. Exclusions/ Restrictions;
2. CIS ESG Assessment;
3. Engagement and Stewardship; and
4. Monitoring and Oversight.

## Scope and Exceptions

The framework set out below applies to direct investments by the Investment Adviser and CISs used in Sub-Funds with the exception of cash, or cash equivalent CISs.

The framework does not apply to derivatives.

## Exclusions/Restrictions

The Investment Advisor is expected to consider ESG characteristics in the investment selection process for underlying securities.

In addition, SPW prohibits investment in certain securities on ESG grounds.

## Exclusions

SPW will apply a list of universally excluded securities (sovereigns and green bonds are out of scope) that are prohibited from direct investment by the Investment Adviser in line with Schrodgers Group Exclusions Policy. With the exception of investments within third-party CISs, the following would currently be excluded:

- Securities with any revenue exposure to controversial weapons (cluster munitions, antipersonnel mines, chemical, and biological weapons);
- Thermal coal securities (companies that derive more than 20% of their revenues from thermal coal mining);

## CIS ESG Assessment

Each CIS is subject to an ESG assessment. This comprises a firm level assessment of their parent company.

## Firm Level Assessment

The firm-level assessment uses a proprietary scoring process developed by the Investment Advisor to grade the investment management manager's ESG profile. The assessment has a broad array of questions split across various categories. Each category has a weighting that contributes towards the firm's overall ESG score.

The firm level assessment uses a five-point scale (1 to 5, with 5 being the best) with an overall score calculated based on the weighted sum of all categories. Any CIS with a below average firm level score (1 or 2) will not be invested in.

The current categories and weightings are as follows:

- **Credentials** (15%) – review of how long the firm has been practicing sustainable/responsible investment and its commitment to industry ESG initiatives (for example, UN Principles for Responsible Investment and UK Stewardship Code)
- **Culture** (20%) – assessment of the culture of the firm as it relates to ESG integration and the proportion of assets that are managed in a 'responsible' manner.
- **Capabilities** (15%) – appraisal of the level of ESG integration and the level of ESG resource (in-house and/or external).

- **Engagement** (20%) – evaluating how the firm engages and tracks progress on ESG issues.
- **Voting** (30%) – assessment of the firm’s voting policy on ESG matters.

Assessments will be subject to annual reviews and if a CIS is found to have a below average firm level score, then the Investment Advisor will have three months to divest the fund, subject to operational constraints.

## Engagement and Stewardship

The ACD oversees stewardship through the Investment Adviser. As an exemplary steward of capital, the Investment Adviser is expected to engage with the companies in which they invest, particularly where ESG factors relating to that company can be improved. The Investment Adviser will periodically produce an engagement report which will detail the engagement activity which has occurred within SPW Sub-Funds.

In addition, a voting report will be produced periodically detailing all voting activity which has occurred within each of the SPW Sub-Funds. The report will show how many votes have been for or against management and will be consolidated into a Fund Engagement and Stewardship report which will be issued annually.

## Monitoring and Oversight

The SPW Funds will be monitored to ensure that the relevant pillars of the framework are implemented appropriately. Engagement and voting reports will be provided by and discussed with the Investment Advisor to monitor adherence to this policy. Where ESG relevant data is produced (either by the Investment Advisor or a third party) this will be reviewed by SPW as part of the oversight process.

The relevant Responsible Investment policies and procedures of the Investment Advisor will be reviewed by SPW, and the Investment Advisor is required to provide updates to any such policies on a timely basis.

## Stewardship Policy

### Background

Stewardship can help protect and enhance asset values, as well as promote well-functioning markets, thus potentially benefiting society. By acting on behalf of our clients, SPW seeks to ensure stewardship is exercised to influence investee companies to operate responsibly and improve where needed.

### Framework for Delegation of Stewardship

SPW is responsible for a range of Sub-Funds that either:

- Invest directly in investee companies (“directly invested Sub-Funds”) or
- Invest indirectly via the CISs of other asset managers (“indirectly invested Sub-Funds”).

In both cases, SPW exercises stewardship through the Investment Manager or third-party CISs to which it directly or indirectly delegates investment management.



In the case of directly invested Sub-Funds, the Investment Adviser votes and engages on behalf of SPW. SPW sets out its expectations to the Investment Adviser, and monitors and oversees their activities and their effectiveness, to ensure alignment or to alert the need for a deeper dialogue or review.

For indirectly invested Sub-Funds, the Investment Adviser periodically reviews stewardship and policy alignment of third-party CIS, recognising it has less influence over them, particularly with passively invested CISs.

### **SPW Expectations**

SPW expects that its Investment Adviser is a signatory to the UK Stewardship Code, or publicly operates in a manner that is broadly consistent the Code (or similar). SPW expects that its Investment Adviser has a group-wide sustainable investment policy in place which describes their approach to active ownership, and that reflects the following characteristics:

- Requires voting on material holdings, other than in exceptional circumstances.
- Seeks to address and mitigate potential conflicts of interest in the voting process.
- Aims to be broadly supportive of a company's proposals, unless this is not in the long-term interests of shareholders.
- Requires a consistency of approach across all voting events (as permitted by the relevant jurisdiction).
- Requires a high level of engagement with companies where there is a material holding.
- Reflects industry/jurisdictional standards and principles; utilising specialist voting and proxy service providers (in full or in part) where necessary.
- Requires the reasonable periodic provision of voting information for clients.
- Is reviewed at least annually.
- Is publicly available.