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*What does an ESG screened portfolio actually look like?*

# Association of Charitable Organisation's Annual Conference September 2023

# Today's speaker

## Emma Moffat


**Investment Manager**

Evelyn Partners Investment Management LLP

emma.moffat@evelyn.com

# AGENDA

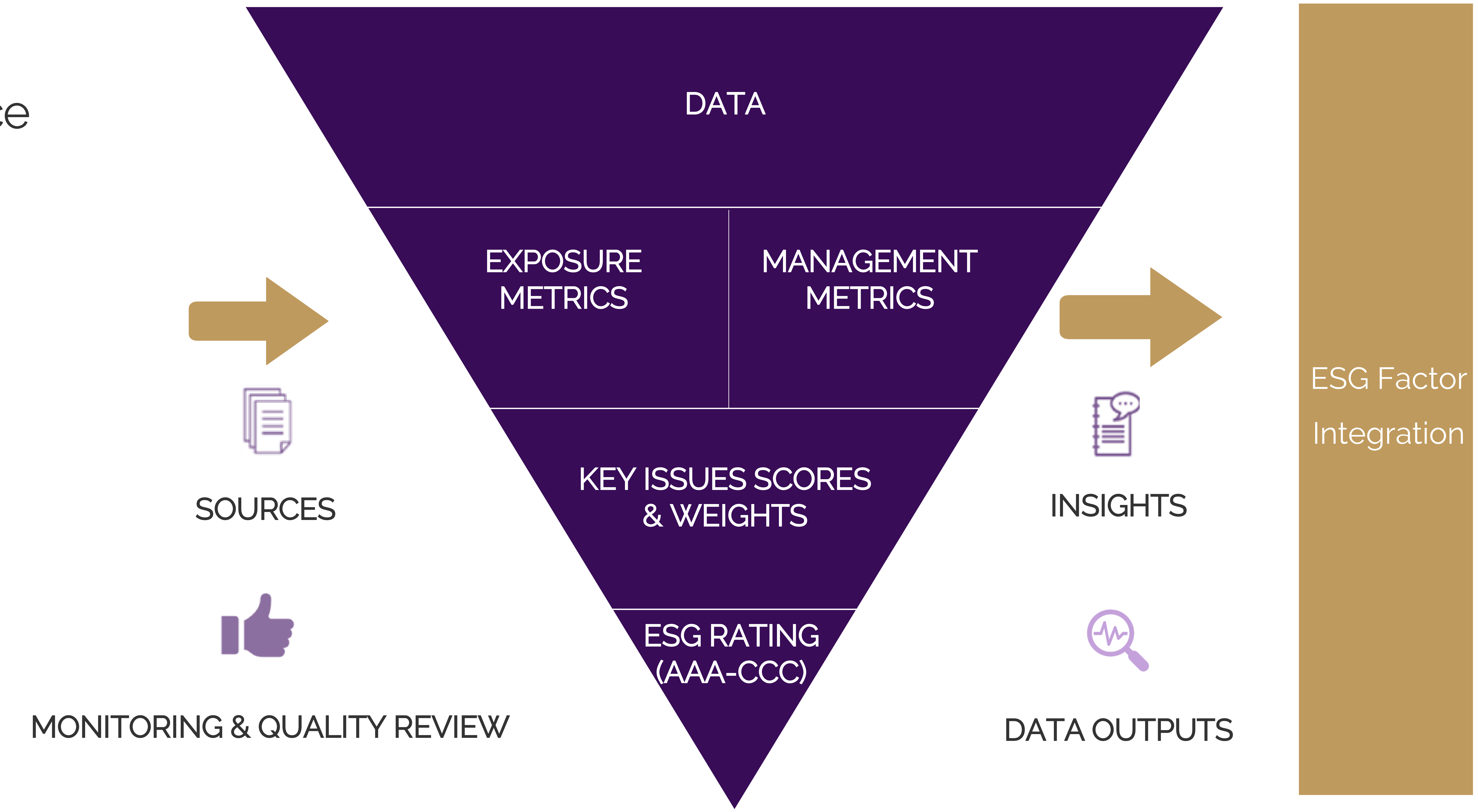
*What does an ESG screened portfolio actually look like?*

1. Why is ESG integrated into portfolio construction?
2. How do we integrate ESG into portfolio construction?
3. What are the first steps in applying an ESG screen to your portfolio?
4. Factors to consider when integrating ESG into your portfolio

# WHY IS ESG INTEGRATED INTO PORTFOLIO CONSTRUCTION?

1. Risk assessment and performance
2. Investor demand
3. Stakeholder engagement
4. Regulatory requirements

MSCI SCREENING SERVICE – ESG MANAGER




ISSUE SCORE AND WEIGHTS COMBINE TO OVERALL ESG RATING RELATIVE TO INDUSTRY PEERS. **E,S,G SCORES** ALSO AVAILABLE

# HOW DO WE INTEGRATE ESG INTO PORTFOLIO CONSTRUCTION?

## Responsible Investment

### Environmental (E)
- Climate change risks
- Raw materials and water scarcity
- Pollution and waste
- Innovation

### Social (S)
- Labour policies and relations
- Product liability, cyber security
- Controversial sourcing
- Social impact reporting

### Governance (G)
- Shareholder rights
- Diversity
- Business ethics
- Transparency

### Ethical
- Process of excluding certain companies from the investment universe
- Threshold for companies meeting criteria is usually on percentage of revenue among other factors

### Sustainable investing
- This is a broad area, stretching from a best-in-class approach to thematic and impact investment, where investors seek positive social and environmental outcomes.

#### Best in class
Comparing and including companies on **relative** ESG characteristics

#### Positive/inclusionary
Process of including companies based on ESG criteria

#### Thematic
Investing in companies that are involved in and profit from a certain theme

#### Impact
Finding companies that generate a measurable positive impact

## Stewardship

# WHAT ARE THE FIRST STEPS IN APPLYING AN ESG SCREEN TO YOUR PORTFOLIO?

- The Charity Commission describes responsible investment as taking into account the charity's purposes and values, not just the financial considerations.
- In today's world, adopting a responsible approach to investing is increasingly seen as the minimum standard expected of charities.
- Charity Trustees are expected to manage their investments to maximise their returns in respect of their risk tolerance and their mission.

*Which factors are most aligned with your purpose?*

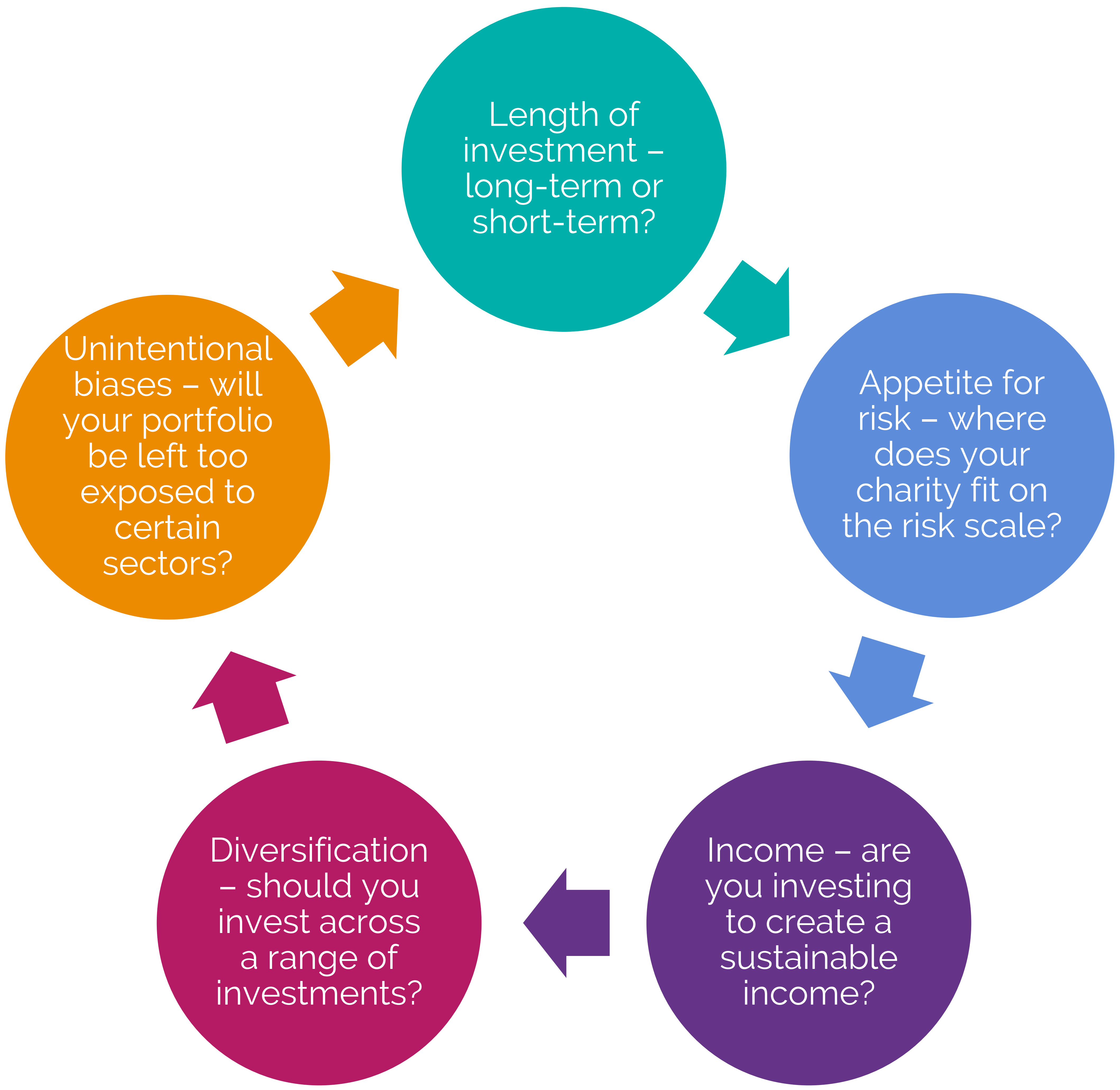
## Regulation – CC14

- The Charity Commission has in April published its refreshed guidance on charities and investments, known as CC14, aiming to provide greater clarity to trustees about their ability to account for factors such as the environmental impact of investments and reputational risks.

## Investment Policy Statement

- Objectives and investment powers
- Time horizon and risk
- **Portfolio constraints and restrictions**
- Strategic asset allocation, benchmarking and targets
- Performance and reporting

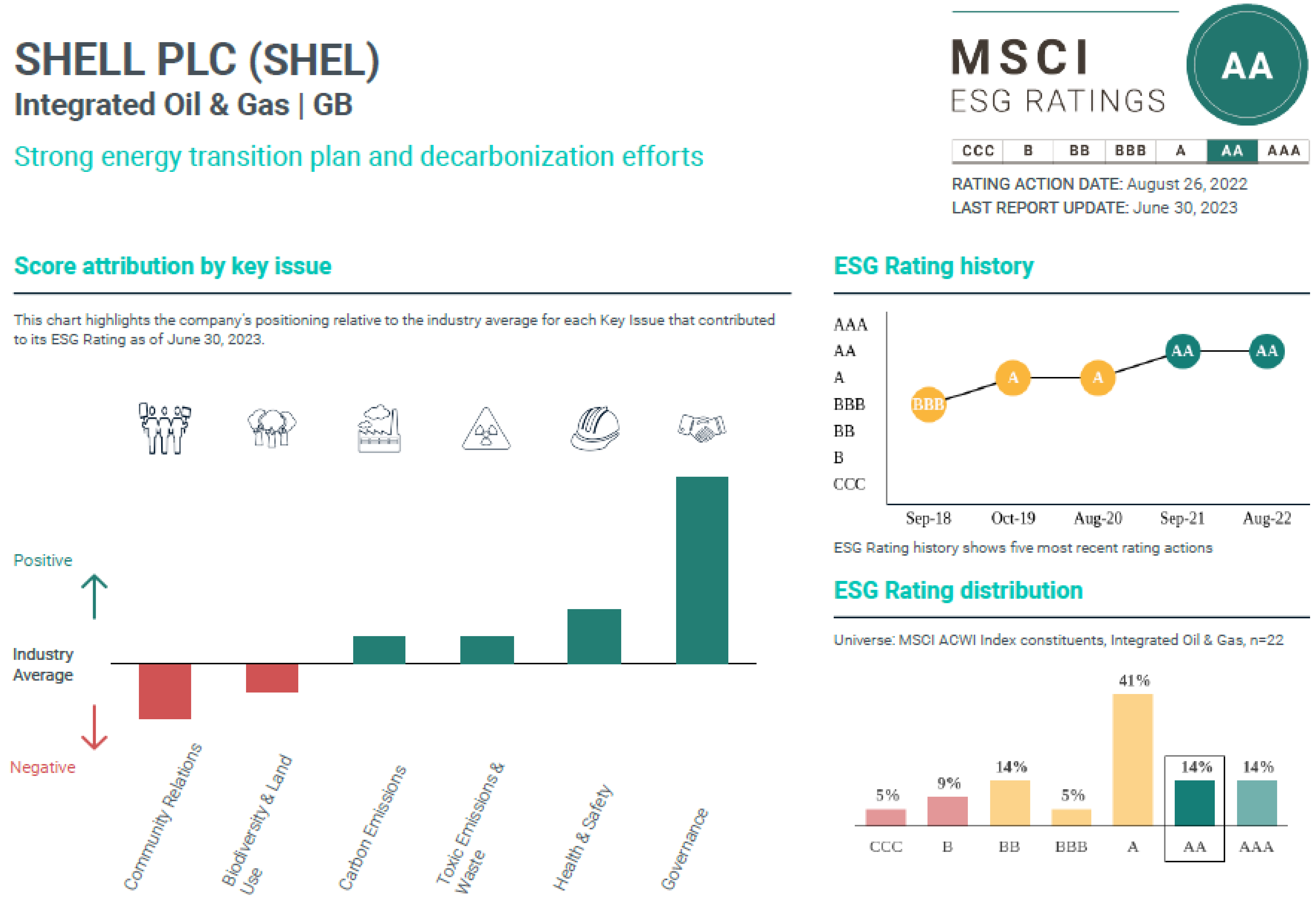
# FACTORS TO CONSIDER WHEN INTEGRATING ESG INTO YOUR PORTFOLIO



# POSITIVE SCREENING/INCLUSIONARY APPROACH

- The rise of social media has increased reputational risks for investors
- The market is moving away from an exclusion only approach towards positive screening
- The evidence to date suggests that this kind of positive integration appears to outperform negative screening

- Shell is an example of a company operating in a “sin sector”, but one that has managed to gradually improve its ESG rating since 2018
- Shell scores highly on its governance practises, and (according to MSCI) scores above average in terms of their carbon emission exposure and reporting on efforts to manage their climate related risk, resulting in an improved score

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# CASE STUDY - L'OREAL

## SHAREHOLDER ENGAGEMENT IS KEY

Governance is a critical component in our investment case

We believe this links strongly to good environmental and social practises

L'ORÉAL

- Recommendation to vote against the election of Fabienne Dulac (director) at the 2023 AGM, due to poor meeting attendance (>75%) and the fact that she serves on too many boards.
- Glass Lewis view this as a failure to fulfil a fundamental responsibility to represent shareholders at such meetings. Further, the board has failed to disclose an explanation for her lack of attendance.
- We voted against the re-election and sent a letter to the company outlining rationale.
- L'oreal reverted and confirmed that Ms Dulac's attendance rate had averaged 88% over the past 4 years, with 100% attendance in 2020 and 2021. In addition, her role on other boards was shortly changing which would result in freeing up her capacity for L'oreal.
- Due to their engagement, we changed our vote, supporting her re-election

 The logo belongs to the relevant company. Source: L'Oréal Company website

# GREENWASHING

## WHAT IS IT?

- When companies make false or exaggerated claims about their environmental impact or sustainability efforts which can mislead consumers into believing they are environmentally friendly

## WHY DOES IT HAPPEN?

- Significantly increased consumer demand for green products

## HOW TO AVOID IT?

- Vague language: Using words or terms with no obvious meaning (e.g., “eco-friendly” or “green”)
- Cherry picking data: For example, highlighting one particular area of sustainability efforts and ignoring other areas which fall short
- False statements: Making statements without the data to back the claims up

# Important information

Nothing in this presentation is intended to constitute advice or a recommendation, and you should not take any investment decision based on its content. Our opinions may change without notice.

The value of an investment, and the income from it, may go down as well as up and you may get back less than you originally invested.

Past performance is not a guide to future performance.

Examples of specific stocks or sectors are included solely to illustrate the investment process and strategies which may be utilised by the Portfolio Manager and should not be considered as a recommendation or advice relating to the acquisition or disposal of investments.

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# Contact details

**Please contact Evelyn Partners with any questions about your charity's investment objectives**

Caroline Gee

Head of Charity Business Development

Caroline.Gee@Evelyn.com