

How we screen



Why do you screen?

We launched our first screened fund in 1988, as one of the first ethical funds in the UK. This marked the start of a long-term commitment to responsible and sustainable investment.

Screening is one of EdenTree's four core pillars that support our approach to responsible and sustainable investment. We believe consistent, long-term returns are more likely to be achieved by investing responsibly in sustainable businesses, and we fully integrate environmental, social and governance factors throughout our investment process.

Across our range of Responsible, Sustainable and Impact funds we seek to invest in companies operating as sustainable businesses, as well as those contributing to environmental and social solutions. Screening, at its simplest, entails reviewing the suitability of companies to be included in our funds in accordance with their sustainability practices.



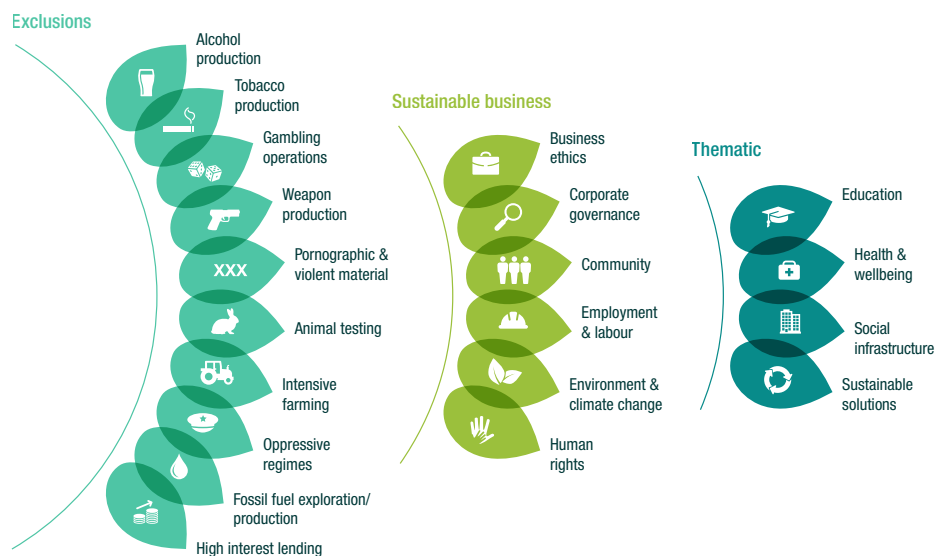
Our Responsible & Sustainable Funds

Our Responsible & Sustainable Fund range seeks to invest in companies which operate as sustainable businesses, and is based on our award-winning Responsible & Sustainable screening process.

To be considered suitable for inclusion within our Responsible & Sustainable funds, an investment idea is assessed across three pillars.

Firstly, exclusions are applied to sectors and activities which we consider fundamentally misaligned with our sustainability objective. These companies are actively excluded from our portfolios. Then, ideas are assessed across six areas of business risk to determine the strength of company's approach as a sustainable business. Finally, we assess companies' contribution to several sustainability themes. These are typically areas of the market we are positive on for their strong social utility or their sustainability credentials.

Every idea proposed by our investment team is independently analysed by our Responsible Investment team to determine whether it is suitable for the portfolio. This is a collaborative process, where both the investment and RI teams seek to enhance each other's understanding of a company and its sustainability impact. Crucially though, the final decision of inclusion rests with the RI team.



How do you assess sustainable business practices?

Our positive screens evaluate the quality and strength of a company's approach as a sustainable business. We assess investment ideas across six areas of risk with reference to internationally recognised absolute standards of sustainable business conduct. This assessment informs suitability for inclusion in our Responsible & Sustainable Funds:

- **Business Ethics:** implementation of robust business policies and practices, including business codes of conduct, whistleblowing programmes, product safety, ISO standards, lobbying policies and sector specific standards such as Access to Medicine and farm animal welfare.
- **Corporate Governance:** strength of corporate governance approach including adherence to market best practice, director independence, board tenure, executive remuneration, political donations, tax policy, and board diversity.
- **Community:** impact on local community including social license to operate, giving programmes, corporate partnerships, and employee volunteering.
- **Environment & Climate Change:** environmental management and climate strategy, including greenhouse gas emissions, science-based targets, transition plan, water, waste and recycling, energy use, and biodiversity.
- **Employment & Labour:** human capital management, including respect for ILO principles, ISO Standards, freedom of association, living wages, health and safety, WDI disclosure and employee wellbeing.
- **Human Rights:** support for UN Universal Declaration of Human Rights and OECD guidelines, prohibition of bonded, child and forced labour, respect for land rights and indigenous people, regular human rights due diligence and supplier audits.

For each of these six areas, we look at companies' policies, disclosure, targets, as well as any controversies. We assess companies both across their direct operations and supply chains, and apply a 'traffic light' system, assigning a green, red or amber flag to each of these criteria.

Poor disclosure might lead to amber, as might evidence that a key indicator is going in reverse e.g., GHG emissions or accident rates. Red is used when the company shows poor practice or has been involved in a serious controversy.



What themes do you invest in?

Our Responsible & Sustainable Funds apply a discretionary thematic screen by looking at companies' contribution to several sustainability themes.

These are typically areas of the market we are positive on for their strong social utility or their sustainability credentials:

- **Education:** Education, training, human development, promoting girls' education, student housing and support.
- **Health & Wellbeing:** Affordable healthcare, access to medicine, pharmaceuticals R&D, biotechnology, critical care, nutrition & Wellbeing.
- **Social Infrastructure:** Social housing, affordable housing, community & housing associations, urban regeneration, brownfield development, public facilities.
- **Sustainable Solutions:** Providing products & solutions which respond to environmental or social challenges, such as renewable energy, circular economy, financial inclusion and sustainable transport.

What exclusion criteria do you apply?

There are certain sectors and economic activities where we consider the sustainability risks fundamentally misaligned with our sustainable investment approach. We therefore apply baseline exclusions to actively exclude such companies from our investment universe.

Issuers that derive more than 10% of their revenue from the activities listed below are excluded from our universe of investible stocks:

- **Alcohol production:** Applies to manufacturers of alcoholic beverages, but not to retailers.
- **Gambling operations:** Includes betting shops, internet sites, bingo and casino, racing venues, lotteries and the supply of gaming machines.
- **Pornographic & violent materials:** Includes print, digital and broadcast media plus companies operating dedicated licensed sex premises showing live shows.
- **Conventional weapon production:** The manufacture of weapons and weapon systems or goods and services specifically to support those systems.
- **Tobacco production:** Applies to producers of tobacco, but not to retailers.
- **Intensive farming:** Avoid companies directly involved in intensive farming in the beef, dairy, poultry and fish sectors.
- **Fossil fuel exploration & production:** Oil and gas exploration & production, as well as thermal coal extraction. This exclusion does not include fossil-fuel generation.
- **High Interest Lending (non-standard sub-prime credit):** Companies operating wholly or mainly in high interest lending (non-standard sub-prime credit) where this is defined as (and limited to) door-stop lending, pay-day loans and/ or pawn-broking sub-prime credit).

We have a 0% tolerance to the following activities. Issuers deriving any revenue from the activities listed below are excluded from our universe of investible stocks:

- **Unconventional weapons:** We seek to avoid companies with exposure to the manufacture of unconventional weapons, defined as nuclear, biological and chemical weapons, land mines and cluster bombs.

- **Animal testing:** We will not invest in companies that use animals to test cosmetic or household products. We do allow animal testing where required by law, for example by pharmaceuticals companies or under REACH regulation.

In addition, we apply the following screen on a case-by-case basis based on our proprietary assessment:

- **Oppressive regimes:** Companies operating in oppressive regimes, as determined by our proprietary methodology (available here) are reviewed on a case-by-case basis to determine suitability for our funds. Bonds issues by countries on our oppressive regime list are excluded.

These exclusions are applied across our Responsible & Sustainable, and Impact Funds.

What information do you use for screening?

The Responsible Investment Team has access to a range of sources to conduct this assessment. This includes company's Sustainability and Annual reports, industry publications and websites, as well as NGO research. Government, academic research, investor databases, and benchmark initiatives also provide useful insights.

In addition, we have access to ESG data provided by ISS and Sustainalytics, and whilst we capture overarching ESG ratings and controversies as part of our assessment, these third-party ratings do not drive our screening decisions.



What are the outcomes of the screening process?

There are several potential screening outcomes:

- **Suitable:** this means the company passes the exclusion criteria and the sustainable business screens. It is deemed suitable for investment.
- **Suitable with caution:** this means the company passes the exclusion criteria and the sustainable business screens, however due to the nature of the business or sector of operations there is an elevated level of risk which we wish to alert the fund manager to, and may also engage on. It meets our threshold of a sustainable business, and is deemed suitable for investment.
- **Engagement needed prior to investment:** this is reserved for situations where we may need more information before we can make a final decision, or wish to engage with the company on material ESG risk prior to investing. This is a temporary outcome, and once the engagement has been successfully completed we may invest in the company or fail it.
- **Fails:** the fund manager cannot invest, because the company does not meet the exclusion criteria and/or the sustainable business screens and therefore does not meet our threshold for inclusion.

Can you give some examples of the different outcomes?

Suitable: Companies that pass our screens typically have transparent disclosure and show strong management of key ESG issues. Risks are well understood and they demonstrate leadership in improving practices in their industry. Companies that pass our screens are seeking to reduce their impacts, and metrics tend to show a positive trend.

Suitable with caution: these are companies that still pass our screens and are suitable for inclusion in the funds, but have elevated areas of risk or some residual issues. This could be because of controversies a company has been involved in, poor corporate governance, or a lack of disclosure on important ESG issues.

Engage before Invest: these are companies where more information is required to ensure they are suitable for inclusion in our funds. Further information may be needed to ensure they do

not breach our exclusions, or it may be needed on specific areas of the business operations such as its environmental or human rights impact.

Fails: these companies show significant failings and do not meet our sustainable investment criteria. This could be due to involvement in one of our excluded activities, or as a result of poor management of ESG risks such as a high level of environmental incidents, a poor climate transition plan, or high risk of human rights abuses.

How do you monitor companies already held in the funds?

Stocks are monitored on an ongoing basis to ensure they continue to meet the Funds' sustainability criteria for inclusion. This includes monitoring of controversies through our two ESG data providers ISS-ESG and Sustainalytics, ongoing engagement with holdings, and a bi-annual risk review based on company performance on key indicators such as performance on ratings, norms and controversy flags, and climate risk metrics.

In the event that a company falls below our expectations, we will engage with the company to understand the reasons, and where necessary, realise our investment in an appropriate timeframe, usually within 90 days.

Can you ensure only screened companies are allowed?

All new investment ideas need to be approved by the RI Team before any trading can take place. To ensure that a fund manager cannot trade an unscreened stock, we have integrated our screening process into Charles River. This places automatic tags on all stocks (including excluded ones), and prevents fund managers from dealing unless a stock has been approved by the RI Team.



Our Impact Funds

Our Impact Funds pursue positive social and environmental outcomes across global equities, fixed income, and infrastructure.

All three funds are subject to positive screens to identify companies providing solutions to social and environmental challenges. In addition, the exclusion criteria outlined above apply across all of these funds.

Green Future Fund

The Fund invests in companies which provide sustainable solutions to some of the world's environmental challenges, such as:

- Alternative Energy (the generation, storage and distribution of clean energy)
- Energy Efficiency (the enabling of a low carbon transition)
- A Circular Economy (solutions for sustainable materials and resource stewardship)
- Environmental Services (pollution control, testing and impact management)
- Water Management (water conservation and management)
- Future Mobility (technologies and services enabling sustainable transportation)
- Regenerative Agriculture (sustainable food production)

The Fund will provide transparency on its environmental impact through annual reporting to investors. This reporting provides both quantitative and qualitative assessments on how investee companies are achieving environmental targets and developing solutions to address the world's environmental challenges.

IA Sector Global

Green Infrastructure Fund

The Fund invests in listed infrastructure-related equities and investment companies that demonstrate positive environmental outcomes by addressing some of the challenges around climate change, sustainable water use, pollution prevention and control, and the transition to a circular economy.

The infrastructure-related companies have businesses based on the ownership, operation, construction, development, or debt funding of real assets and infrastructure projects in the following fields;

- Alternative Energy (the generation of clean energy)
- Energy Storage and Efficiency (enabling a low carbon transition)
- Natural Capital (such as sustainable forestry and agriculture)
- Circular Economy (solutions for recycling, waste processing and resource stewardship)
- Water Management (treatment, conservation and management)
- Sustainable Transportation (technologies enabling sustainable transportation)

The Fund will provide transparency on its environmental impact through annual reporting to investors. This reporting provides both quantitative and qualitative assessments on how investee companies are achieving environmental targets and developing solutions to address the world's environmental challenges.

IA Sector Infrastructure

Global Impact Bond Fund

The Fund aims to deliver positive and social environmental impact by investing in fixed interest securities issued by companies that make a positive contribution to society and the environment through sustainable and socially responsible practices.

The positive impact sought is categorised but not limited to the EdenTree themes of Sustainable Solutions, Social Infrastructure, Health & Wellbeing as well as Education.

The Global Impact Bond Fund is subject to the full EdenTree Responsible and Sustainable screening process, but differs from our Responsible and Sustainable Funds by also requiring at least 80% of the holdings to have a demonstrable positive impact.

The Fund also provides transparency on the impacts of its investments annually by reporting measurable outcomes data and Key Performance Indicator metrics, including (but not limited to):

- GHG emissions avoided (metric tonnes)
- Energy Savings (megawatt hours (MWH))
- Water Savings (gallons)
- Number of jobs created
- Number of social/affordable homes
- Number of medical doses provided
- Number of shipments to low income countries
- Number of Educational Institutions funded

Declared contribution to the UN Sustainable Development Goals also reported and monitored.

IA Sector **Global Corporate Bond**

Is there any oversight of the sustainable investment process?

Our approach is overseen by our Independent Responsible Investment Advisory Panel. The Advisory Panel meets three times a year and oversees the RI Team's engagement, research, screening, and governance work. They also serve as a sounding board for key ethical dilemmas and challenges.

As of April 2024, the Panel comprised of seven non-executive members:



Will Oulton
Panel Chair



Paul Simpson
OBE
Strategic Advisor



Mike Barry
Former Director of
Sustainable Business



Annette Fergusson
Director, Threefold



Julian Parrott
Client Member,
Ethical Futures



Sue Round
Deputy Chair, EdenTree
Investment Management



Verity Mitchell
Former Director of
Utilities Research

Our Responsible Investment Team

We have a specialist in-house Responsible Investment (RI) team who carry out thematic and stock-specific research to identify responsible and sustainable investment ideas for our range of Funds. The team is headed up by Carlota Esguevillas, Head of RI and supported by Amelia Gaston, Hayley Grafton and Cordelia Dower-Tylee. The team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of environmental, social and governance topics. For investors, it's an added layer of assurance that our clients' money is being invested in companies that are operating in a responsible and sustainable way. Our responsible and sustainable investment process is overseen by an independent Advisory Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.



Carlota Esguevillas
Head of Responsible
Investment



Amelia Gaston
Senior Responsible
Investment Analyst



Hayley Grafton
Senior Responsible
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Cordelia Dower-Tylee
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We hope you find this useful and informative.
For any further information please contact us on

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