EQ Investors

Responsible Investment Policy

August 2023

Introduction

EQ Investors (EQ) has developed this policy to guide the firm's approach to responsible investment. This policy has been adopted by the Board for use across the entire firm. It is formally reviewed and updated on an annual basis.

As a signatory of the PRI[1], EQ Investors commits to the following statement:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) factors can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying the following Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- Principle 1: We will incorporate ESG factors into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG factors into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG factors by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will report on our activities and progress towards implementing the Principles.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. We encourage other investors to adopt the Principles.

As a certified B Corp, and UK founder member, EQ Investors fully supports the B Corp - Declaration of Interdependence:

- We must be the change we seek in the world.
- All business ought to be conducted as if people and place matter.

[1] United Nations Principles for Responsible Investment, https://www.unpri.org/

- Through their products, practices, and profits, businesses should aspire to do no harm and benefit all.
- We act with the understanding that we are each dependent upon another and thus responsible for each other and future generations.

This encapsulates our vision of a global economy that uses business as a force for good. We strongly believe that all companies should be purpose-driven and run for the benefit of all stakeholders, not just shareholders.

It is only through understanding the interdependencies of the system - balancing the needs of communities, environment, customers, and workers – that we can create a world in which we can all thrive.

This thinking drives the way we run EQ Investors at the firm level and how we invest.

"*As one of the founding B Corps in the UK, EQ Investors has an ambition is to make sustainable investing mainstream and help change finance to be a force for good. We have a unique corporate structure where we're wholly owned by our staff and our charity, the EQ Foundation. This allows us to make the right decisions for people and the planet, not just shareholders. By making it easy for our clients to invest in businesses that benefit people and planet, we can work together to create a better world*", Sophie Kennedy, Joint CEO.

EQ Responsible Investment Policy
Adopted by Board of EQ Investors

Defining Responsible Investment

EQ Investors defines responsible investing as the integration of environmental, social, and corporate governance (ESG) factors into investment management processes and stewardship practices in the belief that these factors should be considered when evaluating both investment risk and opportunity. Responsible investing also aims to avoid harm on people and planet and takes responsibility for real world impacts of investment decisions and stewardship activities.

Client Sustainability preferences:

While EQ believes ESG integration, baseline exclusions and responsible stewardship approaches are appropriate across our client base, different client sustainability preferences can be catered for.

EQ provide suitable sustainable portfolio solutions across the spectrum of capital and are determined to provide these in an accessible manner (low starting capital, retail friendly).

EQ's Statement of Responsible Investment Beliefs

- Sustainable investing characteristics and processes, including systematic ESG integration, can enhance long term investment returns.
- EQ holds a responsibility to avoid harm on people and planet through investments managed.
- Climate change is a material investment risk and opportunity.
- EQ holds a responsibility to provide sustainable investing solutions to suit a range of client preferences.

To reflect these beliefs, EQ has developed 'Minimum Sustainability Standards' for assets under discretionary management. Further, EQ manages multiple investment strategies that apply higher sustainability intentionality.

EQ's Minimum Sustainability Standards

EQ's Responsible Investment beliefs are reflected in their Minimum Sustainability Standards. These standards feed directly into external manager selection and monitoring, as well as EQ's engagement activities. External managers are evaluated in the context of each specific investment style, strategy, and asset class.

(1) Avoiding harm: baseline negative exclusions

EQ expects all underlying strategies in our portfolios to adhere to the following baseline negative exclusions:

- Adult entertainment (>5% revenue)
- Armaments (>10% revenue)
- Gambling (>10% revenue)
- Tobacco (>10% revenue)

- Thermal coal (>25% revenue or >25% generation)
- Legally required exclusions (those required by law, bans, treaties, or embargoes), which includes human rights violations.

EQ expects these to be:

- An explicit integration in the relevant investment process via negative screening, or
- An implicit outcome of stringent positive or thematic screens.

(2) Systematic ESG integration into the investment process, and ambitious stewardship

EQ believes that integrating Environmental, Social and Governance (ESG) data into investment decision making is in line with fiduciary duties and benefits investor returns. This view is amply supported by the academic and practitioner literature and by our own experience in managing sustainable portfolios over the past 10 years.

EQ expects to see evidence that the following best practices have already been implemented:

- Managers go beyond ESG integration for risk mitigation by also aiming to capture ESG opportunities.
- Managers understand the dynamic nature of E, S, and G criteria, and reflect concepts of materiality in their processes.
- Managers address systematic sustainability risks and opportunities in their decision-making, such as climate change and respect for human rights. These processes should apply a prioritisation framework, considering sector, geography, and company-specific materiality.
- Managers invest in internal resource & expertise and have sufficient ESG oversight.
- Managers systematically integrate ESG information and information on relevant systematic sustainability themes into binding investment decision-making: including investment selection, portfolio construction, and sell-discipline.

Further, EQ evaluates all fund managers on the quality and intentionality of their ESG engagement and voting process and will only invest in those that demonstrate high ambition. EQ expects all asset managers to use voting rights (where applicable) and engage with company management to:

- gather information on ESG issues, and
- strategically drive positive change on identified ESG weaknesses and opportunities.

(3) Carbon risk and climate transition risk integration

EQ considers carbon risk, physical climate impacts and the transition risk posed by a decarbonising economy as material investment risks. As part of EQ's minimum standards, we expect fund managers to manage material climate related risks and opportunities and integrate these into investment decision-making and stewardship.

It is our aim to keep EQ's investment portfolios aligned to a decarbonisation pathway aligned with the Paris Climate Accord. To best implement this intention, EQ is designing a best-practice climate strategy covering all its investments, to be shared with stakeholders in 2023.

Applicable asset classes:

Our approach to responsible investment applies across all assets managed by EQ. Specifically in respect to the EQ minimum sustainability standards, these apply to the following primary asset classes, managed by external managers: listed equity, listed corporate bonds, infrastructure, real estate. Sovereign bonds are covered by an extension of these minimum standards.

In absolute return strategies, these minimum standards are applied for any direct positions, but currently cannot be integrated into the use of index derivatives (given the low liquidity of ESG-integrated and negatively screened index derivatives).

We have the intention to extend minimum sustainability standards to other asset classes, including commodities and ABS, but methodologies are not yet fully developed. In these asset classes where, best practices are still developing, we engage with all managers to help shape and lift ambitions.

Responsible Investment Process

ESG and sustainability characteristics are fully integrated into EQ's fund research process. For more information on EQ's investment process please contact us.

ESG and engagement scoring
Current and potential investments with third party managers are evaluated by our fund analysts, including the approach of such managers to ESG analysis and engagement. The team use a proprietary questionnaire and interview managers to score separately for E, S, and G integration and stewardship intentionality. Firm-wide and specific strategy level achievements are distinguished. This evaluation is completed by EQ's sector specific fund analysts, supported by EQ's sustainability team, and is fully integrated into the fund selection process. ESG integration is one of the many factors that is considered by our fund analysts and influences third party manager conviction. However, any new fund is required to meet EQ's 'Minimum Sustainability Standards' as described above to pass the fund selection committee. Further requirements exist for strategies with specific sustainability objectives.

Baseline exclusions and strategy-specific exclusions
Current and potential investments with third party managers are evaluated by our fund analysts on their adherence to our baseline and/or strategy-specific exclusions applied. These exclusions cover different categories: controversial business behaviour, real-world negative impacts, financially material risk exposures. We then use external independent data to test and monitor these exclusions at the underlying holdings level and have an escalation process in place to act on any flags.

Positive impact and systematic sustainability outcomes
EQ carries out an independent review of UN Sustainable Development Goal alignment of underlying fund holdings, which includes positive and negative alignment. EQ uses this framework to assess how investments address the most challenging social and environmental issues that need tackling. SDG aligned companies deliver net-positive impact on real world social and environmental challenges and unmet needs. This framework is well aligned to assess systematic sustainability risks and opportunities.

This assessments allows fund analysts and portfolio managers to identify, track and set future targets for the sustainability outcomes of EQ's investments. The UN SDG data also feeds into our stewardship process, where we engage on identified weaknesses through our monitoring.

Where appropriate to the fund's objectives, EQ carries out an in-depth assessment of the philosophy, policies, resources, and processes in place to manage and maximise positive real world sustainability outcomes intentionally. We manage the EQ Positive Impact Portfolios, consisting only of those funds that deliver this.

Climate change/ net-zero
Recognising its financial materiality, EQ expects asset managers to incorporate climate change contribution and transition risks in their investment decision-making and stewardship. We test this in due diligence and monitoring. We also assess underlying holdings independently to test the

implementation of such processes. For example, EQ aims to assess the climate change contribution of all funds via carbon foot printing (Scope 1, 2 and 3), net-zero target alignment, carbon reserve exposure.

Furthermore, we analyse the investment in climate solutions (or green bond financing thereof) where appropriate for the funds and portfolios' objective.

Governance Matters

Managing conflicts of interest related to responsible investment

In respect to managing conflict of interest in clients' sustainability preferences, we have designed a range of portfolios that carry different sustainability objectives to manage this suitably. Further, we offer bespoke portfolios that can further personalise portfolios to avoid any conflict. We do not however compromise on EQ's house-views to responsible investment, as detailed in the minimum standards, as these are grounded in financial materiality, and we believe align well with our fiduciary duty to all clients.

Further, conflicts of interest may arise in the context of our stewardship activity. We aim to mitigate and minimise these by grounding EQ's engagement topics/themes in well-established sustainability frameworks, such as the UN Sustainable Development Goals. This way, our push for change through external fund managers or underlying companies is not an expression of any client's views or values but instead is aligned with a global vision for sustainable change. This is further supported by EQ's investment philosophy, describing that investors' long-term financial success depends on a healthy global environment, a stable society and well-functioning, well-governed companies. Engagement that contributes to this therefore should not cause significant conflict of interest.

Further, we avoid conflict of interest related to responsible investing through our dedication to transparency and disclosure. By providing information on portfolios' sustainability credentials, their outcomes and associated stewardship, we help all underlying clients access the most suitable option.

More generally in respect to managing conflicts of interest, our staff are trained to always "act...honestly, fairly and professionally in accordance with the best interests of [our] client", including when they:

- Gather all relevant and material information from our client, and an appropriate range of product and service providers.
- Carry out an analysis and form a view about what course of action to recommend to our clients.
- Recommend (and only recommend) investments and services that are suitable and appropriate for the client.
- Carefully, thoughtfully, and fully record all necessary information and actions.

Staff training takes place when an individual joins the firm; if this policy changes; or if anything happens, which suggests that further training is necessary, appropriate, or desirable.

Organisational Governance

Responsibility for the annual review of and regular adherence to this policy, and approval of changes, lies with EQ's Board, and in particular, with the Joint CEOs.

At an operational level, sustainability objectives and commitments are overseen by the most senior members of our investment team, comprising the Investment Oversight Committee (IOC). Please see below the responsible investment processes implemented and governed by our various other committees (alongside their other objectives).

Committee	Objective	Outcomes
Fund selection committee (FSC)	• Review fund recommendation research reports produced by fund research team, covering investment idea/ rationale, market opportunity, quantitative analysis of manager returns and qualitative analysis of strategy & process, organisational stability and team • Review sustainability processes, including ESG integration, sustainability and impact analysis • Continuous monitoring of fund objectives	• EQ Buy List: a list of recommended funds that meet our qualitative and quantitative criteria and relevant sustainability criteria by strategy • Suitability recommendations for different mandates, including by sustainability objective • Sizing recommendations if appropriate
Portfolio management committee (PMC)	• Identify new research areas, idea sharing • Review historic performance attribution • Peer challenge and 360-degree reviews to ensure all managers' positioning is pointing in the same direction • Implement recommendations of SAAC and FSC in portfolios • Implement sustainability objectives in portfolios	• Guidance for investment managers on portfolio construction, sustainability integration and risk management • Feedback to SAAC and FSC for future research initiatives
Investment oversight committee (IOC)	• Review historic risk to ensure portfolios are within risk tolerances and in line with client mandates • Review portfolio positioning and performance to ensure all portfolios have been aligned to the SAAC and FSC recommendations • Review sustainability metrics and outcomes to ensure the relevant standards are being met	• Meet fiduciary duties • Stakeholder interaction • Ensure all clients have similar experiences for the same mandates • Ensure all regulatory requirements are met

It is acknowledged that EQ (and the rest of the asset management industry) is on a journey and that we should continually push for improvement in our responsible investment practices and objectives to reflect evolving best practice.

For details on our stewardship activity, please refer to our Stewardship Code.

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