Our stewardship report 2022

April 2023

Succeeding together

7IM

Contents

Contents
Continued

Foreword

As I sit down to reflect on 7IM's progress on stewardship, I can't help but think about the recent news of Credit Suisse's collapse. The bank's failure to properly manage risk and adhere to ethical standards ultimately led to its downfall, and the consequences are being felt by investors and employees alike.

It serves as a stark reminder of just how important good stewardship truly is in today's climate and environment.

But what is good stewardship, you might ask? It's a term that's often thrown around in financial circles, but it's so much more than just a buzzword.

The UK Financial Reporting Council (FRC) defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".

In many ways, then, good stewardship is about taking care of what we have been entrusted with, and using these assets wisely and thoughtfully, to help create a better world for future generations.

This resonates strongly with one of our founding beliefs: looking after our client assets is a privilege, and not a right. This founding belief has in turn shaped our investment approach and identity, focusing on robust processes to help preserve or grow our clients' wealth in an unashamedly conservative manner.

Through our founding beliefs and investment philosophy, I can proudly and confidently say that 7IM has continued to act as good stewards of our clients' capital in an ever-changing world where we face complex and pressing climate-related, social, and economic challenges.

Of course, good stewardship isn't just about how we manage our clients' money, but also about how we operate as a business. As such, our 2022 *Stewardship Report* is the most comprehensive stewardship document we have produced thus far, and it is where we have detailed our achievements from 2022, while outlining our plans and how we are aiming to continue to demonstrate good stewardship, in line with the FRC's Code.

Above all, however, we believe that our latest *Stewardship Report* provides a valuable opportunity to remind ourselves of how, if we all work together, we can build a more sustainable, equitable, and just society – one that we can all be proud to be a part of.

The UK Stewardship Code 2020

The Financial Reporting Council's Stewardship Code was first published in 2010. It was revised and upgraded in 2019-20, with more emphasis on recognising and implementing a range of stewardship and environmental, social and governmental (ESG) issues in investment and business decisions, and ensuring that outcomes were satisfactory. Its scope was also broadened to cover all asset classes.

This report explains how 7IM complies with the revised Code. On the next three pages, we outline the 12 principles of the Code and list the pages of the document that support them, including principles, case studies and outcomes.

After an extensive process of internal review, this document was approved by the 7IM Board.

In closing, I would like to repeat my appreciation of my colleagues and stakeholders for their continued support, and our gratitude to our clients for their ongoing and much valued partnership.

Dean M. Proctor, Chief Executive Officer, 7IM

Executive summary

Principle 1 – Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Back in 2002, our founders wanted to create an organisation they'd invest with themselves. They wanted everyone to have access to the kind of service and expertise that institutional investors would expect. We explain our corporate purpose and vision on pp. 12-13. Through our culture and values (p. 14), we aim to be 'Succeeding Together'. Our investment approach and beliefs are underpinned by being sound stewards of our clients' assets (p. 48). On pp. 57-58, we outline how we integrate stewardship and environmental, social and governmental (ESG) issues into our investment process.

Principle 2 – Signatories' governance, resources and incentives support stewardship.

Our Culture and Sustainability (C&S) Committee is responsible for stewardship and related issues (pp. 22, 38). At the investment level, the ESG Investment Committee ensures full integration of stewardship through our investment processes, overseen by the Investment Committee (p. 25). We discuss our research and analysis resources and tools, including subscribing to Implied Temperature Rise and ClimateVAR data in 2022, to help us manage climate risk better (p. 59). 7IM's remuneration strategy, described on p. 43, ensures incentives are aligned with client outcomes and beneficiary investment objectives.

Principle 3 – Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

We have several measures in place to identify and manage conflicts of interest (COI). These include a publicly available COI policy, training programmes on COI and personal accounting dealing for employees, and controls that address COI within the investment management function. These are explained from p. 44.

Principle 4 – Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

We regard climate change as the key long-term market-wide risk (p. 56). The depletion of natural capital is an increasingly important issue; we are focusing on biodiversity and water, in line with the Taskforce on Nature-related Financial Disclosures (p. 55). In 2022, we submitted responses to the Investment Association and MSCI regarding ESG disclosure and reporting (p. 61).

Principle 5 – Signatories review their policies, assure their processes and assess the effectiveness of their activities.

From pp. 44-47, we explain how we ensure we comply with the regulatory environment, manage conflicts of interest and put client interests foremost at all times. In 2022 we implemented an enhanced Risk Management Framework that includes aCCelerate, a new governance, compliance and risk tool, which improves our operational risk management and assessment of strategic risks across the firm (p. 47). In 2022, we reviewed the voting processes and reporting of our third-party managers that exercise rights and responsibilities on our behalf (p. 86).

Principle 6 – Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

We describe how we support our clients through regular communication, listening to their feedback and suggestions and have developed a suite of services, technology and products for clients across the UK (p. 15). We summarise our client assets by asset class and geography on pp. 39-40. We look to support our clients by continuing to improve our client offering (p. 42).

Principle 7 – Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Our investment approach and beliefs (pp. 48-51) address this principle. Our integration of stewardship and ESG into our investment process are evidenced via Strategic Asset Allocation, Tactical Asset Allocation, product selection and risk management (pp. 52-61). We extended and enhanced our proprietary ESG questionnaire in 2022, applicable to all our third-party managers, to ensure they are aware of and carrying out their stewardship responsibilities (p. 65).

Principle 8 – Signatories monitor and hold to account managers and/or service providers.

Part of being sound stewards of our client's capital is to regularly monitor corporate actions that arise from fund and investment holdings alerts. We monitor and hold third-party fund managers accountable for ESG and stewardship (p. 65). Given our investment approach, we set expectations for stewardship and ESG in our ESG questionnaire (p. 65), which applies to our third-party fund managers and fund managers we outsource stock selection to. We track the voting output of our proxy voting service providers to ensure they are voted as directed, pulling reports from the service providers as required by clients and advisers (p. 82).

Principle 9 – Signatories engage with issuers to maintain or enhance the value of assets.

We believe good stewardship practice is a basic obligation when we perform fiduciary duties for our clients. We outline how we prioritise our engagements on pp. 68-69, and how engagements vary by asset class, region, and type of investment. We cover a wide range of engagements with several examples from 2022 from pp. 69-80. Most of our engagements are with third-party fund managers that we are invested with; we closely monitor how managers engage with their investee companies. We also engage directly with companies when appropriate (p. 74).

Executive summary
Continued

Note that over half of our assets under management are in our platform business. We don't select or manage these investments and cannot engage with their third-party managers (see p. 41).

Principle 10 – Signatories, where necessary, participate in collaborative engagement to influence issuers.

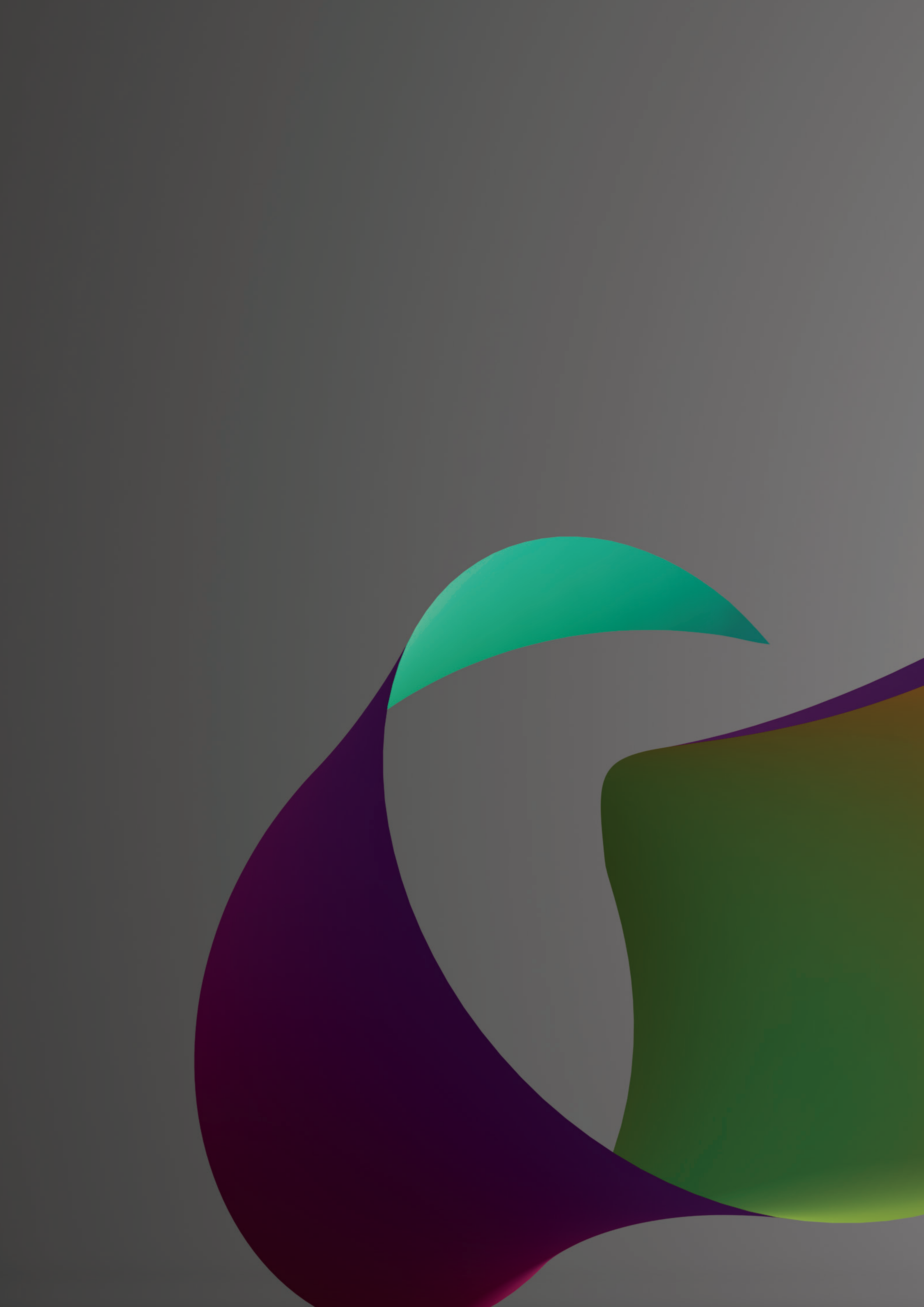
We take part in collaborative engagements when we think we can enhance the value or lower the risks of client assets and expect our third-party managers to engage collaboratively on our behalf when appropriate (p. 74). In 2022 we worked with the Carbon Disclosure Project and with other investment houses to challenge companies on their ESG performance (p. 75). Sarasin, who manage an equity portfolio for us, have been engaging vigorously with Big Four audit firms that have not considered climate risks enough (p. 76).

Principle 11 – Signatories, where necessary, escalate stewardship activities to influence issuers.

On p. 78, we outline our approach to escalation. Most of our escalations are with third-party fund managers, with Fidelity / Geode as an example (p. 79), but occasionally we escalate directly, as with Civitas in 2022 (p. 79). The case studies focus on the need to benefit clients or mitigate potential risks, in terms of performance, liquidity, the environment or other considerations.

Principle 12 – Signatories actively exercise their rights and responsibilities.

Our voting policy is shown on our website and applied to all proposals for which 7IM has the right to vote on clients' behalf. From p. 83, we detail how 7IM vote on investments held directly via the Broadridge Proxy Edge voting platform as well as how we monitor voting from our third-party managers. While we have a modest number of direct votes because we invest mostly via third-party managers, we detail our 2022 voting record and the underlying motivations, including case studies of Berkshire Hathaway and Target Healthcare on pp. 84-85.



The 7IM purpose and strategy

Our vision and purpose

The '7' in 7IM refers to the seven original founders of the business. Back in 2002, they couldn't find a firm they trusted to manage their families' money properly – big banks seemed impersonal and greedy, while most boutiques lacked the necessary investment process and structure. They created the kind of organisation they'd like to invest with themselves.

Their aim was to deliver steady returns over the long term, while keeping an eye on risk, using the best available technology. They wanted everyone to have access to the kind of service and expertise that institutional investors would expect.

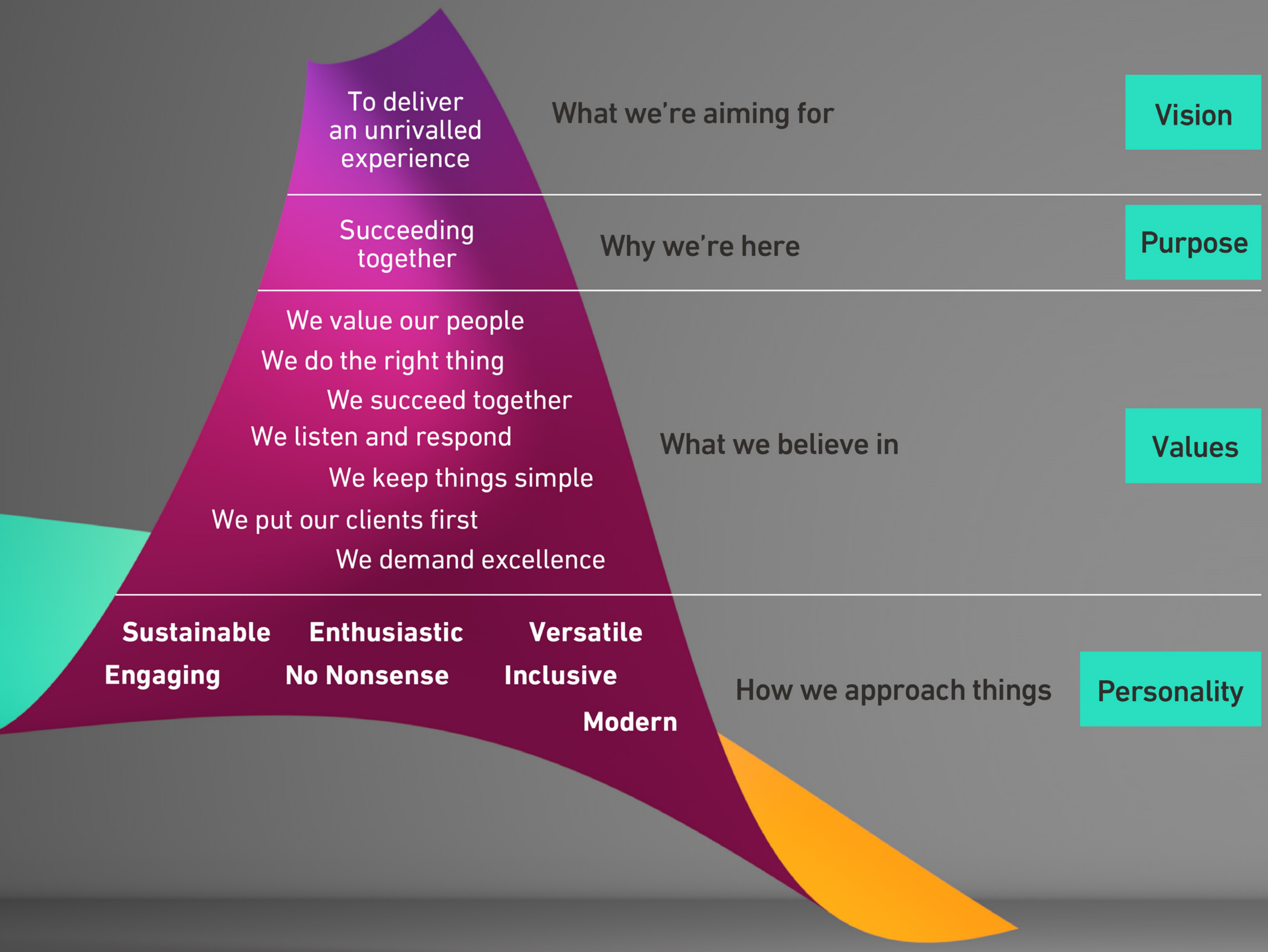
Our team, client base and funds under management have grown steadily over the years. As at 31 December 2022, 369 staff based in London and Edinburgh managed over £18bn in assets for a wide range of clients, including individuals and families, financial advisers, corporates, charities and trustees. In 2015, Caledonia Investments joined us as a major shareholder.

As a firm, 7IM has a vision, purpose and set of values that frame and drive everything we do. They are depicted below.

Our vision as a firm is to deliver an unrivalled experience. This vision is supported by our purpose statement, 'Succeeding Together', which articulates the spirit of the long-term partnerships we foster with our clients, colleagues and suppliers. We want to continue growing, and to be known for offering the best-in-class investment management and client service in the UK.

We offer more than just investment management, although that is at the heart of our business. We make investing easy via the 7IM Platform service, which delivers a unique, personal and digital client experience. We help individuals with pensions and retirement income, partner with advisers who want to focus on client relationships, rather than administration, and provide an overall unrivalled experience via the use of technology to make things simple and clear.

Everything we do is wrapped up with real, honest, human service – that's what sets us apart. If you call us, we'll answer. If we don't know something, we'll say so. And we try to make sure every one of our clients' experiences leaves them satisfied.



To deliver an unrivalled experience
What we're aiming for
Vision
Succeeding together
Why we're here
Purpose
We value our people
We do the right thing
We succeed together
We listen and respond
We keep things simple
We put our clients first
We demand excellence
What we believe in
Values
Sustainable
Enthusiastic
Versatile
Engaging
No Nonsense
Inclusive
Modern
How we approach things
Personality

The 7IM purpose and strategy
Continued

Our culture and values

The 7IM management and team want to build a great firm with a great culture. Our 7IM vision, purpose, values and personality (VPVP), originally defined in 2019 following our 'Succeeding Together' culture development programme, captured the essence of 7IM as a firm. In 2022 we decided to switch one of our core personalities from 'Spirited' to 'Sustainable' to reflect our commitment to operating in a responsible and sustainable manner, for the benefit of our stakeholders and the wider world.

The most powerful tool for understanding people and culture is feedback.

We run regular surveys to learn what our people are thinking and feeling and seek their views on specific issues. We have an Extended Leadership Forum (ELF), including most senior staff in the business, as a forum for communicating feedback, while further embedding the company culture and values. In Q4 2022, we held 10 in-person Cultural Advancement events across our London and Edinburgh offices for all colleagues, facilitated by our longstanding partner ABSTRACT and supported by ELF members. The topic for these events was 'Changing the Narrative and Greater Collaboration', designed to encourage office-based collaboration, improve people's sense of belonging, and ensure all teams reflect our VPVPs.

Supporting our clients

7IM's business has been shaped in close collaboration with financial advisers, and more recently, with individual clients, over many years. Based on their feedback and suggestions, we have developed a suite of services, technology and products for clients across the UK, whatever their needs may be.

For individual clients, we complete a full analysis of personal and financial circumstances and an assessment of needs and requirements and make recommendations on appropriate solutions. When we work with professional advisers, they will complete this process on behalf of their clients and are responsible for making recommendations on appropriate solutions.

Communicating clearly and frankly with clients is critical at 7IM. Our team of relationship managers meet their clients and advisers regularly to share information, performance and progress, review individual plans and answer questions. We have a centralised Client Experience function that combines marketing, communication and content, press, social media, digital and creative. This team ensures we communicate regularly and clearly through a variety of media to reach our base of clients and advisers – including emails, social media posts on key topics, and hosted webinars with in-house and external experts.

Our website hosts an interactive digital 'Fund Centre' where key marketing documents, information documents and annual accounts can easily be searched and accessed. In addition, all our clients and advisers can access their accounts 24/7 on a web portal or dedicated mobile phone app, where they can review performance and drill into the specifics of their holdings at 7IM.

It's vital that we listen to our clients. Every day, our relationship teams meet clients and advisers and record and pass feedback to the Client Experience team. This team uses these insights to help decide what to focus on and what changes need to be made if something is not working as planned. We also commission two regular independent annual surveys, one for individual clients and one for advisers, to learn what our clients are thinking and where we can improve.

Through these processes and the insights gathered, we review and refine our communication approach. We shape our communications around our clients and their needs.

We have continued to improve the content on the 7IM website to guide our clients on how to use our systems, view the new features available on our Platform, and understand what 7IM as a company believe in.

Inside 7IM

Whether you're a company keen to ensure we align with your values, a
investor who wants to understand more about our ethos, or an
individual looking to join the team, here's where you can find out mor
about 7IM, and how we really do live our values.

Inside 7IM:

We have found that some clients aren't aware of what 7IM stands for, including our beliefs and company culture. We created a dedicated section of our website (www.7im.co.uk/inside-7im) to help companies that want to understand our values, clients who want to understand more about our ethos, or individuals who are looking to join our team and want to learn more about 7IM.

Our people

We believe that our firm is nothing without the great people who work at 7IM.

Meet our people →

The 7IM ESG Calculator

As highlighted in our 2021 report, we launched an interactive Environmental, Social and Governance (ESG) Calculator designed to help advisers better illustrate the sustainable impact of their investment choices to their clients. 7IM was nominated for an award for this ESG calculator at the 2022 Investment Marketing Awards. We are considering various ways of developing it further.

investmentmarketingawards.co.uk/IMAIA2022/en/page/2022-shortlist

www.7im.co.uk/financial-adviser/esg-carbon-reduction-calculator

The 7IM Platform

We started our investment management business in 2002, with the aim of doing things differently. Our investment platform followed soon after because we wanted to build an approach that was efficient, effective and supported open architecture. Financial advisers choose our platform because it's flexible, easy and attractive to use, and provides a wide range of investment solutions.

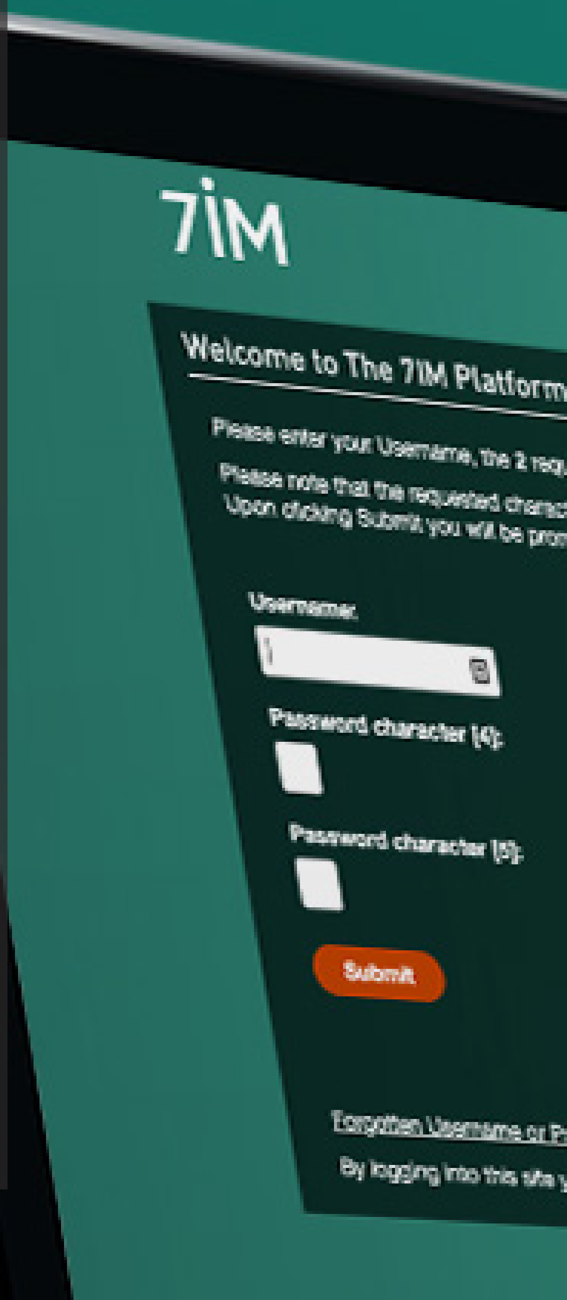
The 7IM Platform is more than a simple platform – it's a service. Two elements of this service set us apart and are at the core of our stewardship. First, it's digital-based, providing an engaging experience for both advisers and clients, which reduces the need for paper. Second, it provides open architecture access to a wide range of products. We are constantly adding to our range and have a focus on widening the investment choices to meet the growing demand for environmental, social and governance (ESG) compliant investing. This is evident from the recent additions to our suite of sustainable investment solutions.

We designed the platform to be efficient and cost-effective. Its award-winning functionality, advanced financial planning tools and streamlined reporting processes help save time and, more importantly, engage with clients who value the advice of their financial planners.

Removing paper may be an end in itself, but crucially it is the result of the use of novel digital technology. Clients can now engage with their portfolios via the experience depicted here, rather than via paper reports.

Through 2022 we continued to expand our Platform offering with enhanced products and functionalities. We are proud to have partnered with Just to provide clients with Secure Lifetime Income. The SLI is an insurance contract provided by Just and sits as an asset within the 7IM SIPP. It provides a guaranteed income that is payable for life.

In 2022 we also delivered enhanced functionality for users of Discretionary Fund Manager (DFM) models on our platform to strengthen the range of tools and reporting available to independent financial advisers. The work included capturing a DFM client authority online, linking a portfolio to a model without rebalance, displaying model names in the Dealing and My Orders screens, including DFM model names in client reporting, a DFM models data report, and a DFM model rebalance alert with a supporting excluded portfolios report.

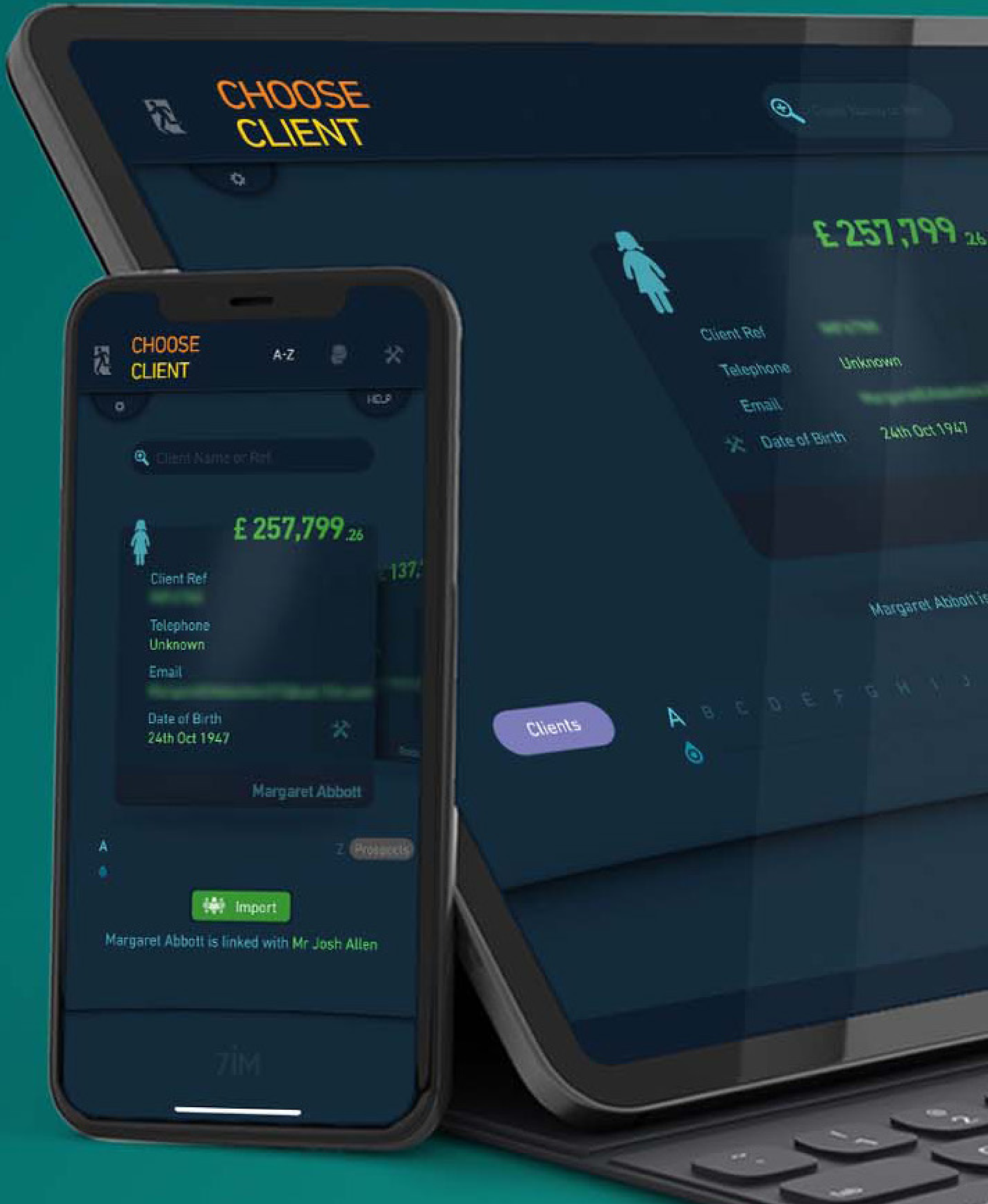


We have always prided ourselves on the service and solutions that we provide our clients and were delighted to win the Best Platform for Advisers (below £25bn assets under administration) in the 2022 Professional Adviser Awards.

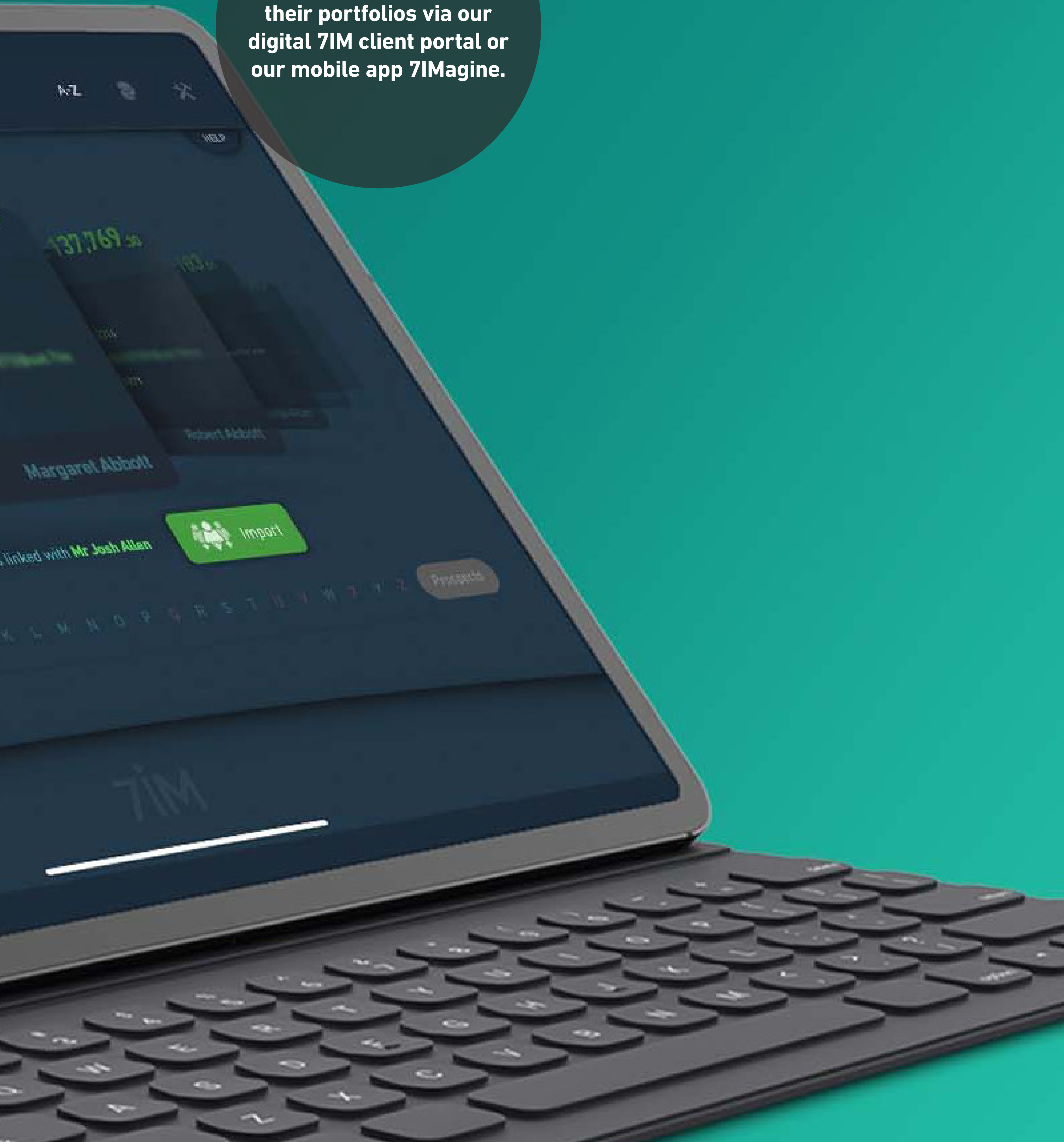
We continue to focus on providing an unrivalled service to our clients, which has once again been recognised by the industry by our receiving a Gold rating for Service through Defaqto.

Professional Adviser PA AWARDS 2022
WINNER
Best Platform for Advisers
(below £25bn AUA)
7IM Platform

defaqto
2022
GOLD
Platform Service


CHOOSE
CLIENT
£257,799.26
Client Ref
Telephone
Unknown
Email
Date of Birth
24th Oct 1947
Margaret Abbott is
Clients
A B C D E F G H I J
CHOOSE
CLIENT
A-Z
HELP
Client Name or Ref
£257,799.26
Client Ref
Telephone
Unknown
Email
Date of Birth
24th Oct 1947
Margaret Abbott
A
Z
Prospects
Import
Margaret Abbott is linked with Mr Josh Allen
7IM

Clients can interact with their portfolios via our digital 7IM client portal or our mobile app 7IMagine.



The 7IM purpose and strategy
Continued

Stewardship and Responsible Investing

Stewardship and Responsible Investing at 7IM are ultimately managed by the **Culture and Sustainability Committee**, set up in 2020. The Committee is held accountable for pulling together and embedding our commitments within our culture and related groups and activity, and includes people from across the whole business. The Culture and Sustainability Committee reports to the 7IM Executive Committee (ExCo).

Our Culture and Sustainability Committee

Chair: Verona Kenny

Managing Director, Intermediary, ExCo member

Adam Suggett

Head of Finance

Anna Darling

Proposition Analyst

Anna Baker

Head of Proposition & Transformation

Glen Steven

Head of Office Services and Facilities

Jack Turner

Head of ESG Portfolio Management, Responsible Investing

Jeff Hodgetts

Adviser, PWM

Jennifer Lang

Campaign Manager, Private Client

Kieran Cardozo-Smith

Digital Product Manager

Poppy Campbell-Lamerton

Director, Private Clients

Rehana Yasin

Senior People & Culture Partner

The Culture and Sustainability Committee's responsibilities include: i) to act as guardian of the 7IM Stewardship Code; ii) to review and recommend changes to 7IM's sustainability strategy and policy, to ensure that standards of business behaviour are up to date and reflect best practice; iii) to introduce to 7IM best practice thinking and ongoing awareness of global developments in sustainability and corporate social responsibility; and iv) to make sure the 7IM culture is respected and advanced across the firm.

The Culture and Sustainability Committee is increasingly focusing on the outcomes of our stewardship and ESG activities, as required by the UK Stewardship Code.

Representatives for each of our four Sustainability Commitments (as outlined below) take turns to report on progress at the monthly Committee meetings. An operating rhythm has been set to ensure each of our lead representatives are providing an update, including both successes and any blockers to achieving our objectives, on a quarterly basis.

Investment stewardship and ESG at 7IM are managed by the ESG Investment Committee, also set up in 2020. It reports to the Culture and Sustainability Committee and to the Investment Committee, which is the senior decision-making body for all 7IM's investments and is ultimately responsible for investment performance.

The **ESG Investment Committee** is based in the Investment Management team and has six members. It includes representatives from every stage of the investment process at 7IM: Strategic Asset Allocation, Tactical Asset Allocation, Portfolio Management and Investment Risk. Two members of the Investment Committee also sit on the ESG Investment Committee.

Our ESG Investment Committee

Chair: Jack Turner
Head of ESG Portfolio Management, Responsible Investing

Jack has been a member of the 7IM Investment Management team since 2016 and has been instrumental in driving forward ESG integration across the investment process. He is lead portfolio manager on the Responsible Choice Model Portfolios and the Sustainable Balance Fund.

Loic Yegba
Investment Risk Developer

Loic joined 7IM in April 2022. He works in the Investment Risk team and is responsible for incorporating ESG analysis into the risk oversight process.

Terence Moll
Head of Investment Strategy and ESG, Investment Committee member

Terence has 31 years of investment experience, mostly in multi-asset roles. With a research background in economics, he has long been interested in the environment and development, and is responsible for ensuring that stewardship and ESG issues are entrenched in the investment process.

Tiziano Hu
Quantitative Investment Strategist

Tiziano joined 7IM in 2020 after completing an MSc in Financial Technology. Tiziano has been instrumental in incorporating ESG data into 7IM's analytics platform, Jasmin, and helped to develop our ESG calculator.

Uwe Ketelsen
Head of Portfolio Management, Investment Committee member

Uwe joined 7IM as Head of Portfolio Management in 2021. He has 26 years of investment experience and was most recently Head of Fund Research at Coutts, where he helped to shape their approach to ESG integration in investment portfolios.

Wenqian Zeng
Junior ESG Investment Analyst, Responsible Investing

Wenqian joined 7IM in February 2023 and has completed an MSc in Climate Change, Management and Finance. She is responsible for ESG investment research, ESG integration, and stewardship.

The 7IM purpose and strategy
Continued

Corporate social responsibility

Our commitments

As discussed in our previous *Stewardship Report*, in 2021 we partnered with sustainability specialists Green and Good Consulting and developed four key business sustainability pillars that include commitments to: cleaner investments, sustainable choices, an inclusive team, and giving back. Through 2022 we continued to work towards a sustainable and more inclusive future as a business.

01

Cleaner investments

We have committed to a 30% reduction in the carbon intensity of our Strategic Asset Allocations (SAAs) by 2026. We completed the first phase in July 2021 with our US equity exposures (p. 56). Phase two of our SAA reduction project, with a focus on making our credit investments cleaner, was implemented in July 2022. In November 2022, we began switching over £200m of assets in traditional corporate bonds to bonds that are 70% less carbon intensive, while retaining a similar return profile.

In addition, we rolled out our firm-wide Controversial Weapons Policy in 2022. We hold a Global Climate Change theme across all 7IM portfolios, which looks to profit from companies that are aligning towards a greener future, explained in more detail on p. 57. We continue to conduct extensive due diligence on the fund managers we invest with to review how they incorporate ESG into their investment processes, and on their voting and engagement and diversity and inclusion policies, and have introduced new standards and requirements for them. More information on these developments is provided later in the report.

02

Sustainable choices

We have committed to reducing our Scope 1, 2 & 3 CO_2 emissions and pledged that our business would become carbon-neutral in 2021. We partnered with World Land Trust to offset our 2021 carbon footprint, by supporting the organisation's Carbon Balanced project in Guatemala. The World Land Trust works with hundreds of landowners, including local communities, to register and obtain land titles to protect 133,827 acres of threatened coastal forest for the benefit of the region's biodiversity.

We are proud to continue our partnership with the World Land Trust and will offset any unavoidable 2022 emissions in Q2 2023.

We continue to promote our revised travel policy, launched in 2021, encouraging staff to take more sustainable methods of transport. In 2022 rail travel represented more than 44% of the total journeys undertaken within the group (against 20% in 2021). Air travel was cut to less than 1% in 2022 from 10% in the prior year (when travel restrictions still applied). We also endeavour to renew all energy fixed-term contracts with non-fossil-based energy providers when we have the opportunity across all our non-centrally managed offices.

In addition, we are driving the reuse of desks and furniture from our Leith office in our Princes Exchange office, with plans underway to merge the two offices in 2023. As part of this move, we will sell and recycle any furniture still suitable for use. We are working with Space Solutions on this project, embracing the principle of the Circular Economy at all times.

03

An inclusive team

7IM is committed to achieving a diverse and equitable employee base, and we're working hard to develop a culture that is positive, inclusive and celebrates diversity. Our Diversity and Inclusion Committee, formed in 2020, champions initiatives to make 7IM a more inclusive employer, leading to 7IM coming runner-up for 'Best Approach to Wellbeing' at the 2022 Personal Investment Management & Financial Advice Association's Diversity & Inclusion Awards.

In 2021, we launched our Gender Equality Network, focussed on addressing the gender imbalance across the finance industry, with the purpose of attracting and retaining more women in our business. In a male-dominated industry, we are making strides to create a more diverse workforce, and have seen our percentage of women in the business rise to 38% as at 31 December 2022.

As an extension of our school outreach programmes, our colleagues in Scotland worked with Future Asset to launch the "Kickstart my Career at 7IM" programme in November 2022, the aim of which is to assist school leavers with starting their career in financial services.

04

Giving back

7IM has a longstanding Charity Committee that oversees charitable contributions across the business and arranges fundraising campaigns for the charities we support. In 2022, 7IM raised more than £35,000 for charity through staff fundraising, matched funding, challenges and donations.

In addition to our "Give As You Earn" scheme, launched in 2022, we are currently finalising our Volunteer Leave Policy. When launched in early 2023, this will be another way in which we can support colleagues in their charitable endeavours.

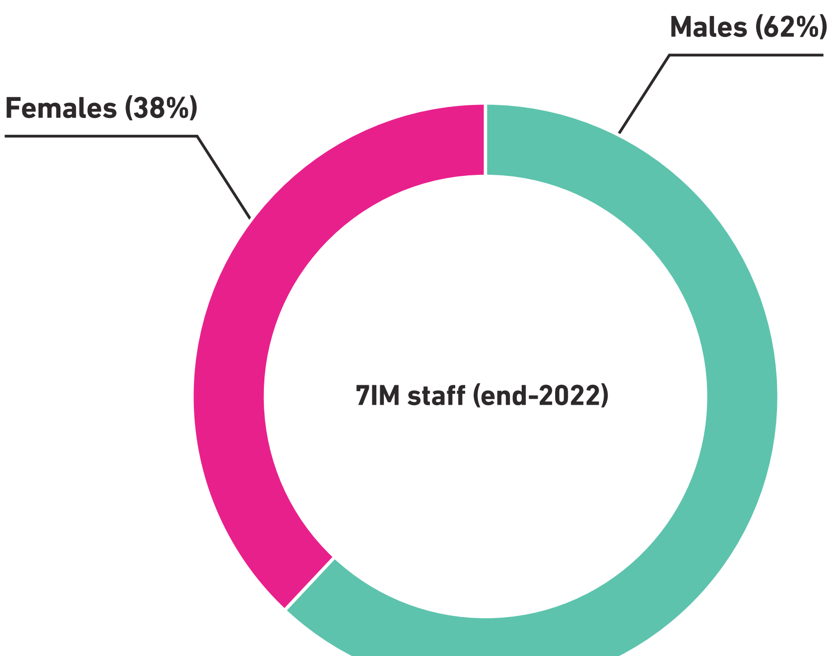
The 7IM purpose and strategy
Continued

Our people

At the end of 2022, 7IM had 369 staff, 62% male and 38% female, compared to 65% male and 35% female the previous year.

7IM have been reporting on the gender pay gap since April 2018. At the time of the first report, women earned 19% less per hour than men, on average. By April 2022, the average difference in hourly pay had fallen to 12.6%. We are determined to tackle our gender pay gap and push for equality and fairness among all members of staff. Our activity falls into two main areas: recruitment, and retention of female talent. There was a 17% increase in female hires from 2020 to 2022, with women making up 30% of applications but 42% of hires. We saw a 2% decrease in women leavers from 2020 to 2022.

Our Gender Equality Network (GEN) was set up in 2021 to promote gender equality in the workplace. The network aims to identify and address barriers for women in the firm and to work towards a more inclusive and equitable workplace. An active workstream of the Gender Equality Network focuses on balance and flexibility. The ability to balance home and work life is important for everyone, and is crucial for working parents – without it, we will never be able to achieve gender equality within the firm.



This workstream has focused on understanding where we have discrepancies within the business and challenging them. We are pleased that our Chief People Officer and Chief Executive Officer were nominated in the Women in Summit & Award Series in 2022 for Advocate of the Year & Ally of the Year, respectively, for their efforts towards promoting gender equality in the firm. Our CEO, Dean Proctor, won the latter award for his role as an ally, supporting GEN to create a more inclusive culture in the firm and advocating gender equality.

With many staff now working in a hybrid manner across the business with differing working days in and out of the office, we aim to have robust processes and support mechanisms in place to help our people to feel valued, secure and empowered. We have taken a number of progressive steps in this area, concerning training and development, wellbeing and the onboarding of new staff.

For example, virtual sessions were held for colleagues in the firm where senior managers and executive members were interviewed to share their career journey, struggles, highlights, and how they got to their position today. By sharing their experiences, senior managers and executives were able to provide insights into the skills, knowledge and strategies needed to advance in their careers. This initiative provided inspiration to colleagues and helped to foster a culture of learning and development within the firm.

We strive to promote gender equality and diversity at all levels of 7IM. For example, all job descriptions go through a gender decoder to make them more gender-neutral and less masculine in language, to ensure they don't inadvertently discourage or exclude qualified candidates based on their gender. Additionally, we make sure to have a diverse interview panel for all job openings, to ensure that the hiring process is fair and unbiased, and that all candidates are evaluated based on their qualifications and potential.

The 7IM purpose and strategy
Continued

Training and development

7IM is a learning organisation that encourages its people to study, participate in courses and learn – to improve their skills and capabilities, and develop them as human beings. This approach makes our people happier and more productive at work, and more committed to the corporate vision. 7IM pays for external courses that are relevant to their roles and gives staff members time off to study.

Some of our training and development achievements of 2022 were:

Career Management Development

25 attendees came away with:

A personal framework for career success.

A toolkit of tools and techniques to develop their careers.

An understanding of how they can contribute to 7IM's organisational priorities.

Speakers Gym

28 attendees went through a training course on increasing confidence, giving them tools to ensure they are being heard and feeling comfortable being their true selves.

Courses

7IM paid for 58 staff members across the business to do training courses leading to industry-recognised qualifications.

These included courses with the Chartered Institute for Securities and Investment, the Chartered Insurance Institute, and others.

Diversity and inclusion

7IM is committed to developing a culture that is positive, inclusive and supportive, to which all staff can contribute and within which all can reach their full potential. Our Diversity and Inclusion (D&I) strategy was launched in 2020 and sets out our commitment and objectives in this area.

D&I is a key element in 7IM's cultural development. Our D&I Working Group aims to champion initiatives that will make 7IM a more inclusive employer and deal with practices that exacerbate inequality and disparity among the workforce. It's chaired by an ExCo member but driven by volunteers from within the firm from a range of backgrounds.

We published our D&I strategy and made it available to all colleagues, so they can hold the firm to account should it not achieve its objectives. The strategy focuses on two key areas: representation, and an inclusive culture. To increase representation from different ethnic and other backgrounds, initiatives like anonymised recruitment have been implemented, to remove conscious or unconscious barriers in recruitment and selection.

Diversity and Inclusion Calendar

We have a calendar of events in place that prompts us to celebrate and raise awareness of special days related to diversity and inclusion. By acknowledging and celebrating these events, we are able to demonstrate our support for diversity and create opportunities for education and awareness-raising among our staff. Our people share their experiences and perspectives on diversity-related topics through blogs. This provides a platform for colleagues to share their stories and contribute to the conversation around diversity and inclusion, helping to foster a culture of openness, respect and understanding.

Pride and Faith Networks

The PRIDE network and Faith networks were created in 2022 to promote inclusivity and create safe spaces for colleagues who identify as members of the LGBTQ+ community and different faith groups. The PRIDE network provides support to LGBTQ+ colleagues, raises awareness about LGBTQ+ issues, and encourages open dialogue about these topics. Similarly, the Faith networks provide support to colleagues who practice different religions by creating a platform for them to share their experiences, connect with like-minded individuals, and celebrate cultural events.

The 7IM purpose and strategy
Continued

Cultural Advancement

We believe that the voices and opinions of our colleagues are extremely valuable. To ensure that we continue to create a positive and supportive working environment, we held a number of cultural advancement feedback sessions in 2022, designed to check in with all colleagues and get their input. The sessions focused on key areas like leadership, reward, communication, environment, and company values. The feedback we received helped us to identify areas where we needed to make improvements. Based on this feedback, we created our People First strategy for 2023, reflecting our commitment to putting our people first and creating a workplace where everyone feels valued, supported, and included.

A monthly newsletter has been launched to educate staff about other cultures, and blogs from colleagues have described their personal experiences of prejudice and discrimination.

7IM is a signatory of the Race at Work and Women in Finance Charters – further commitments to improving diversity and inclusion within the firm.

Case study: Sponsors for Educational Opportunity

Sponsors for Education Opportunity (SEO) is a UK charity that helps talented young people from disadvantaged ethnic and socioeconomic backgrounds to access and connect with organisations where they can build lasting networks to launch successful careers in the future. 7IM is associated with SEO Schools, which focuses on academically strong students from disadvantaged backgrounds in Years 11 to 13. SEO Schools work with over a thousand students across 40 schools in London.

In August 2022, we hosted a session for 20 SEO students on Interview and Assessment Centre skills. Staff from across the business were paired with a couple of students, and ran through how to prepare for an interview/assessment centre, with examples of competency-based questions. They also helped the students with writing their CVs. The feedback from SEO was very positive and we are planning to run more such sessions in 2023.

The 7IM purpose and strategy
Continued

The 7IM charity programme

7IM'ers have been committed to supporting charities and communities for a long time. During 2022, the 7IM community donated over £35,000 to a range of charitable causes, through a combination of staff fundraising, matched funding, and donations from 7IM, colleagues and friends.

By putting the decision of who and what to support in the hands of the team, we are building the 7IM community spirit and encouraging everyone to get involved in fundraising in a way that suits them. As well as the matched funding initiative where 7IM'ers can fundraise for a charity of their choice and receive matching of up to £500, we also partnered with two charities centrally, supporting Centrepoint, a London-based charity that helps homeless youths, and the Scottish Association for Mental Health.

Through 2022, we saw many lives lost and families and homes destroyed by the ongoing Ukraine conflict. As a business, we have committed to match fundraising efforts, up to £5,000, to support the Ukraine crisis. We set up donation points in our offices and have collected various essential items, including clothes, toiletries and vital supplies for the appeal.

We continue to promote our Give As You Earn scheme, launched in 2021, whereby staff members can give a certain amount to a specific charity from their monthly salary. Give As You Earn is a tax-efficient way of donating to charity. There are no minimum or maximum amounts, and donations can be made to as many causes as staff wish.

We are in the process of finalising our Volunteer Leave policy, to be launched in 2023. This initiative will enable colleagues to take paid time off to participate in volunteer activities that align with 7IM's values and sustainability efforts. We encourage all colleagues to take advantage of this opportunity to give back and make a positive impact in our communities.

7IM's environmental footprint

In addition to environmental concerns around waste and recycling, we have been monitoring the big-impact areas of utilities consumption and greenhouse gas emissions. In line with the EU energy efficiency directive, we filed an Energy Savings Opportunity Scheme (ESOS) report in 2019 (for reporting period 1/1/2018-31/12/2018), which gave rise to several ideas for improvement.

We are preparing to report under the Streamlined Energy and Carbon Reporting (SECR) framework in 2022 for the second time. This year's report highlights further areas of improvement but also emphasises the reduced environmental footprint resulting from our actions in 2020 and 2021. Finally, we consider sustainability in our procurement processes and project delivery channels. Over time we will review our downstream business impacts (Scope 3 emissions) and try to lower emissions further.

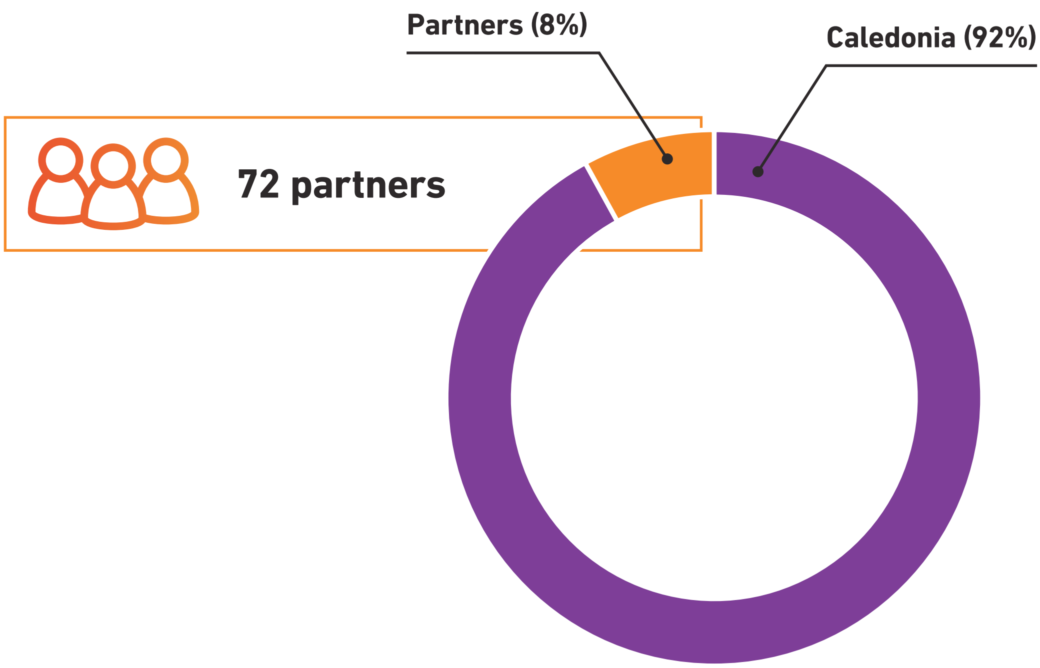
Our vision is to deliver an unrivalled experience. Our clients are increasingly concerned about sustainability and ESG, and we understand that their interest includes and extends beyond investments. Our internal "Go Digital" Team has kickstarted the 'Reduce Paper' campaign, with an aim to replace any paper documents that a client could receive with slicker digital versions where possible. To gauge feedback, we have reached out to multiple firms to offer clients the option of switching to electronic quarterly reports and contract notes.

About 7IM

Corporate structure

Seven Investment Management LLP is a limited liability partnership within the 7IM group, the ultimate holding company of which is 92% owned by Caledonia Investments PLC. The remaining 8% is owned by members of the 7IM Management Team. At end-December 2022, 72 partners shared directly in 7IM's growth over time.

This structure has allowed 7IM to take a long-term approach to the development of the business, just as we recommend our clients do with their money.



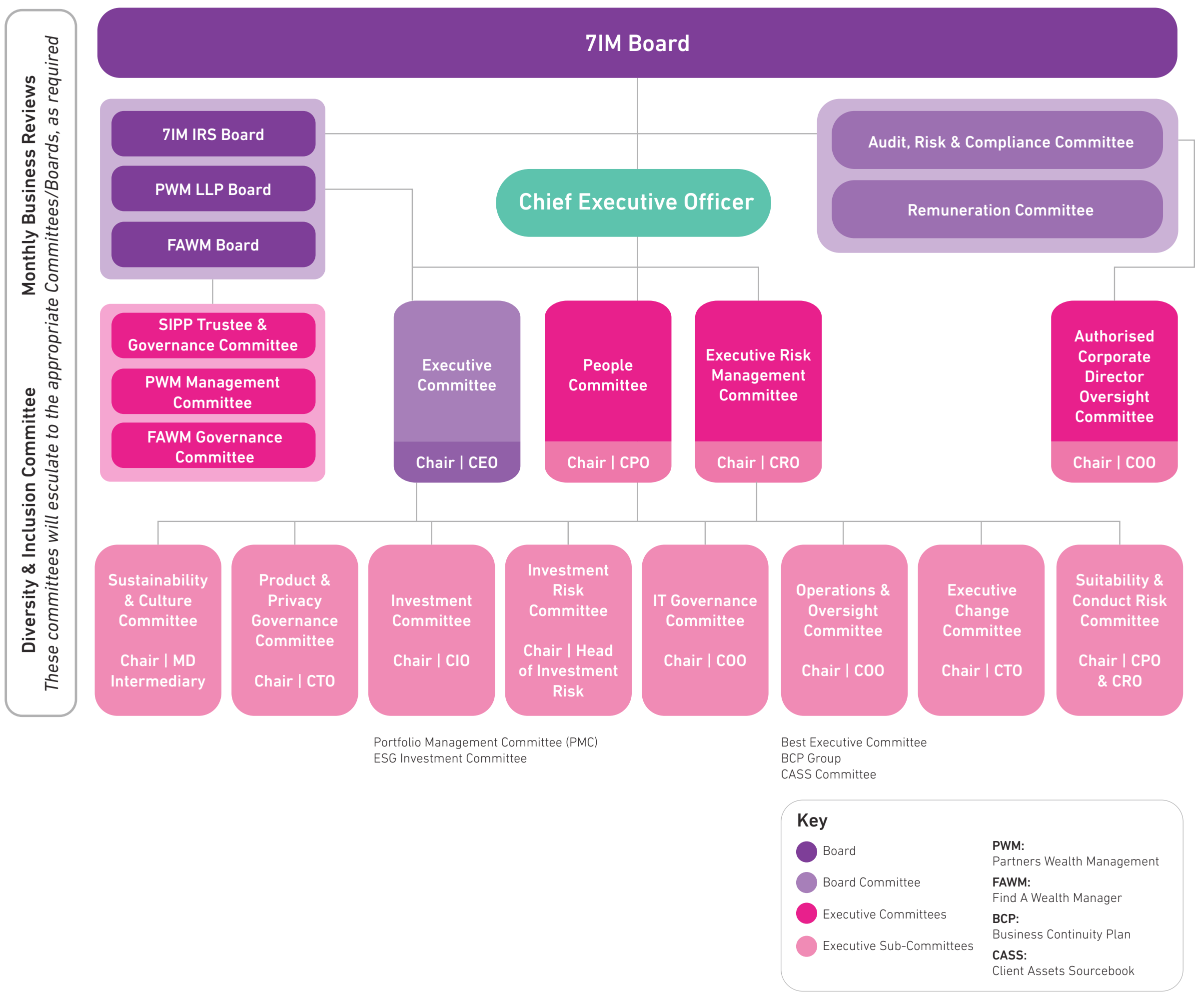
Corporate governance

7IM has a comprehensive and agile corporate governance framework. Committees operate with clear areas of focus and Terms of Reference. All Executive Committees are chaired by Accountable Executives from the Executive Committee (ExCo), and enable Executives to discharge their Executive and/or Senior Management Function obligations to manage the group accordingly. These committees monitor and provide oversight of key risks, and escalate any risk or concerns to the Executive Risk Management Committee, People Committee, and Executive Committee as per their Terms of Reference.

The Executive Committees report to the Board sub-committees (Remuneration Committee and Audit Risk & Compliance Committee) on a quarterly basis. All Executive Committees are attended by at least one member of the second line Risk Function who provide support and challenge to the stewardship process.

At end-2022, the corporate governance framework was as follows:

7IM corporate governance framework



About 7IM
Continued

Stewardship governance

We reviewed and upgraded our stewardship governance framework in 2020 to support 7IM's stewardship more effectively and explicitly. At the corporate level, as noted earlier, the **Culture and Sustainability (C&S) Committee** is responsible for stewardship and related issues. The C&S Committee is chaired by a member of ExCo.

At the investment level, the **ESG Investment Committee** ensures full integration of stewardship through our investment processes, overseen by the Investment Committee.

As discussed in our previous report, much thought went into the design of 7IM's current governance structure and underlying processes. We believe they support our targets and ambitions with regard to stewardship in two ways. First, the roles and responsibilities of these two committees have been formalised. Second, stewardship metrics have been incorporated into the objectives and quarterly reviews of the key people involved.

We continue to monitor our stewardship governance to ensure it remains fit for purpose and adequately covers both 7IM's stewardship objectives and the full suite of potential harms to which it and our clients are exposed.

In February 2022, Jana Sivananthan joined 7IM as Chief Risk Officer (CRO), and leads the Risk, Compliance and Investment Risk teams. Enhancements were made to the Risk Management Framework and systems to support key risk management processes. Star Compliance – a compliance tool – supports the robust management of regulatory risks such as conflicts of interest, policy management and compliance, personal account dealing, and gifts and entertainment. aCCelerate (a RiskLogix application) is a Governance, Risk and Compliance (GRC) system that enables the firm to capture and link core risk data (risks, controls, incidents and management actions) to provide management info to manage risks within the business. Power BI – a Microsoft Analytics tool – brings disparate data from across various systems together to provide a powerful and more holistic picture of corporate risk, supporting robust, consistent, risk-based decision-making.

As part of the CRO Roadmap, a new Sustainability Framework is being developed and will be implemented across the Group through 2023, to ensure there is a consistent and focused approach across People, Corporate and Investment-related Sustainability initiatives.

Assets under management

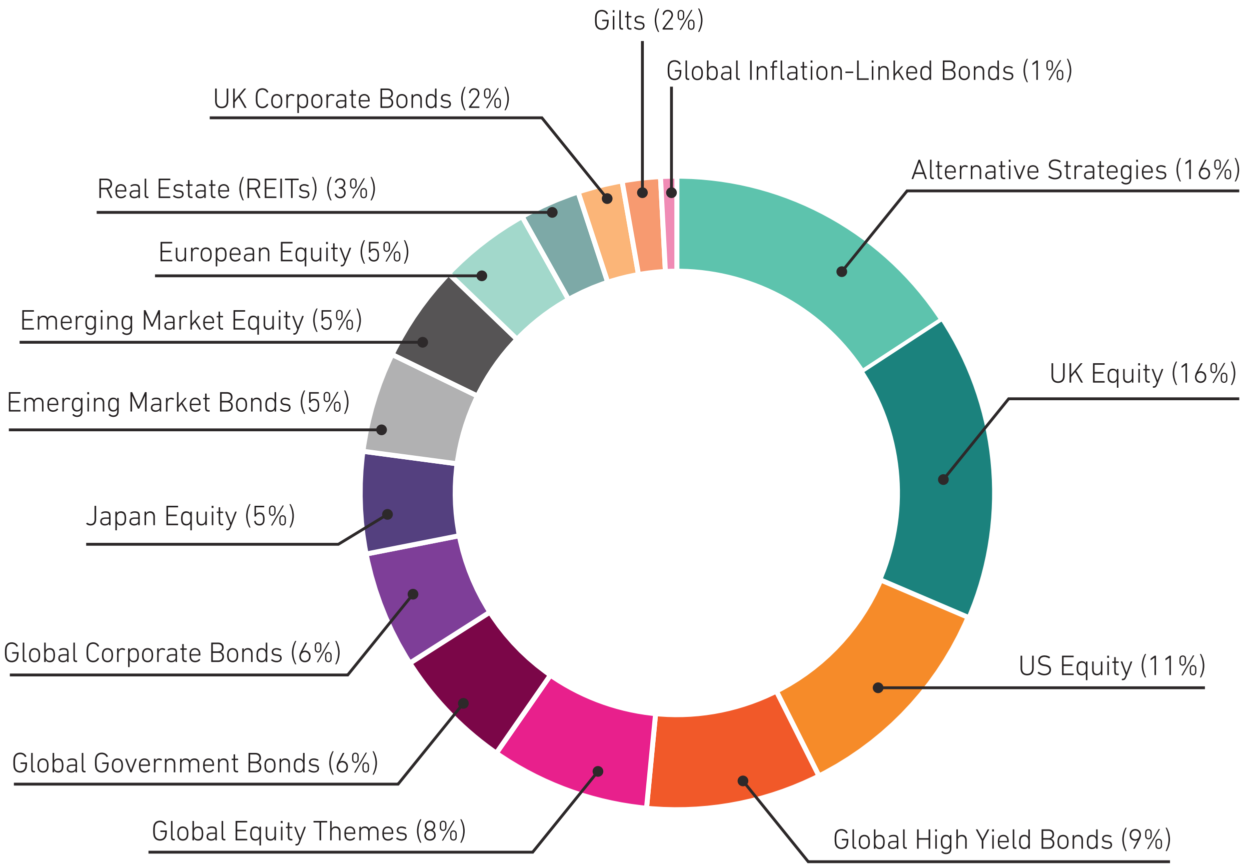
At the end of 2022, 7IM held £18.1bn of assets on behalf of its customers. Of this total, approximately £7.4bn was in discretionary funds and portfolios managed by 7IM. The remaining £10.7bn – referred to below as 'assets under administration' – was held on our platform and were not managed by us.

Discretionary assets

7IM managed £7.4bn of discretionary assets in funds and portfolios at the end of 2022. These assets were approximately 94% invested in third-party actively managed, quantitative or index-tracking products. This breakdown drives the types of engagement techniques that we follow, as described in the 'How we prioritise our engagements' section below.

Looking through to the underlying holdings of third parties and our directly-held assets, the charts below show the breakdown of this £7.4bn, by asset class and by region, at the end of 2022:

Asset Class Split (%)

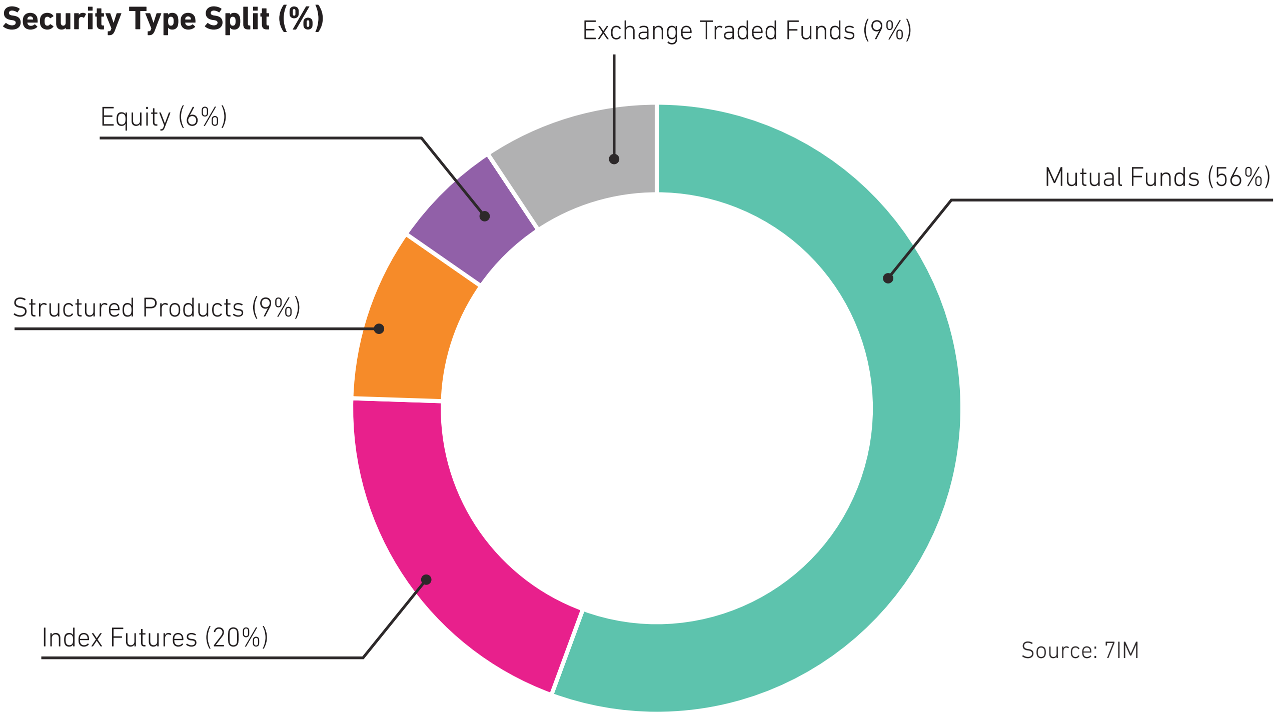


Source: 7IM, Cash not included (-1.1%)

About 7IM
Continued

These discretionary assets can also be broken down by security type, excluding cash and cash equivalents:

Security Type Split (%)



Source: 7IM

All our funds and portfolios follow the same investment process and risk oversight methods to ensure they follow their investment objectives and stay within the investment limits of our underlying clients. This involves monitoring by the Portfolio Managers, Investment Risk team and Compliance team, to ensure that client interests are kept front and centre at all times.

These assets are spread across the range of investment products and services that we offer, from open-ended investment funds available to investors via their financial advisers on third-party platforms to discretionary portfolios that we provide through our Private Client service. Of the discretionary £7.4bn, £3.5bn sits in our custody, where we have direct relationships with the underlying clients. About 47% of this £3.5bn was held via intermediaries, and 53% were private clients (including wealth management, family office and self-invest).

Geographically, our clients are almost entirely UK-based. The UK has always been the sales focus of the business and allows us to maintain solid interaction with clients from our London and Edinburgh offices.

Assets under administration

At the end of 2022, 7IM held about £10.7bn on our platform in non-7IM products. We oversee the administration of these assets but do not make discretionary investment decisions on them. Despite not being able to engage on these assets, we still have the duty to be sound stewards of this capital in other forms.

The 7IM Platform service delivers a unique, personal and digital client experience. We help individuals with pensions and retirement income, partner with advisers who want to focus on their client relationships rather than administration, and provide an overall experience via the use of technology to make things simple and clear.

Financial advisers choose our platform because it provides a wide range of investment solutions, accessed through an engaging adviser and client experience, as described in the '7IM Platform' section. Its assets are administered by Pershing, our custodian and a market-leader in this area. We carry out oversight of Pershing across the whole investment life cycle, including corporate actions, pricing and reconciliations, to ensure our clients' assets are protected and being managed in line with regulatory requirements.

Our business model means we are in a unique position to offer services that other platforms are unable to provide. Lessons learned and services developed through our Funds and Models business are transferable to our platform. This includes developments due to the Markets in Financial Instruments Directive II (MIFID-II) and client reporting.

About 7IM
Continued

Our range of products

Our Multi-Manager fund range is designed to give clients exposure to our overall investment views, with active manager expertise within asset classes where we think stock-picking can add further value. There are different funds for different risk profiles: 7IM Adventurous, 7IM Moderately Adventurous, 7IM Balanced and 7IM Moderately Cautious.

Our AAP fund range (Asset-Allocated Passive) incorporates the benefits of our Investment Management team's active allocations and views but keeps costs down through the use of largely passive, low-cost instruments: 7IM AAP Adventurous, 7IM AAP Moderately Adventurous, 7IM AAP Balanced, 7IM AAP Moderately Cautious, 7IM Cautious and 7IM AAP Income.

In 2020, we launched the 7IM Pathbuilder fund range, a diversified suite of funds with a keen focus on costs. They use streamlined versions of our Strategic Asset Allocations to help us to keep costs low.

We also have a selection of funds designed to meet specific needs, such as the 7IM Personal Injury Fund, the 7IM Real Return Fund and the 7IM Sustainable Balance Fund.

The 7IM Model Portfolios are a range of risk-rated portfolios designed to meet the varying needs and goals of our clients.

Our Active Model Portfolios adopt the same investment process and active asset allocation process as our funds, with the asset allocation implemented using predominately active funds and products: 7IM Active Adventurous Plus Model Portfolio, 7IM Active Adventurous Model Portfolio, 7IM Active Moderately Adventurous Model Portfolio, 7IM Active Balanced Model Portfolio, 7IM Active Moderately Cautious Model Portfolio and 7IM Active Cautious Model Portfolio.

Our Blended Model Portfolios, like our Active range, follow the same active asset allocation process as our funds but the asset allocation is implemented using passive and smart passive investments. Based on adviser demand, we completed our Blended Model Portfolio range in August 2022, with the launch of the 7IM Blended Adventurous Plus Model Portfolio to cater for clients with a higher risk tolerance. The range now comprises: 7IM Blended Adventurous Plus Model Portfolio, 7IM Blended Adventurous Model Portfolio, 7IM Blended Moderately Adventurous Model Portfolio, 7IM Blended Balanced Model Portfolio, 7IM Blended Moderately Cautious Model Portfolio, 7IM Blended Cautious Model Portfolio and 7IM Blended Income Model Portfolio.

We also offer the 7IM Select Funds and 7IM Select Models. These follow the tactical direction of the other ranges, but try to reduce the impact of falling markets via careful use of derivatives or negatively-correlated assets (assets that may move in the opposite direction to the rest of portfolios).

In 2019, we launched the 7IM Passive Model Portfolios, a diversified range of passive multi-asset model portfolios underpinned by our robust SAA process. They are built purely using a streamlined version of 7IM's robust SAAs. Late in 2021, we launched the 7IM Passive Cautious Model Portfolio in response to adviser demand to complete our Passive range: 7IM Passive Adventurous Plus Model Portfolio, 7IM Passive Adventurous Model Portfolio, 7IM Passive Moderately Adventurous Model Portfolio, 7IM Passive Balanced Model Portfolio, 7IM Passive Moderately Cautious Model Portfolio and 7IM Passive Cautious Model Portfolio.

7IM Responsible Choice is a diversified range of multi-asset model portfolios that invest in ESG and responsible products only: 7IM Responsible Choice Adventurous Model Portfolio, 7IM Responsible Choice Moderately Adventurous Model Portfolio, 7IM Responsible Choice Balanced Model Portfolio, 7IM Responsible Choice Moderately Cautious Model Portfolio, 7IM Responsible Choice Cautious Model Portfolio. In December 2021, we also launched the 7IM Responsible Wealth Model Portfolios for 7IM Private Clients.

The 7IM Funds and Model Portfolios are available through the 7IM Discretionary Service and Platform, as well as through other third-party platforms.

Incentives and remuneration

The 7IM remuneration strategy has been designed to assist the organisation in achieving its strategic goals and objectives by attracting and retaining talented staff within the business, while promoting and rewarding behaviours that drive a high-performing culture.

When reviewing staff remuneration annually, thorough salary benchmarking exercises are conducted, providing an impartial and accurate picture of remuneration to help the business to make informed and effective remuneration decisions across departments.

We use Balanced Scorecards to avoid unwanted emphasis on short-term financial targets. Our model has three segments, to represent and focus attention on our long-term strategy. Staff are reviewed on a quarterly basis against objectives aligned to goals in the areas of Financial, Strategic, Compliance, and Values & Behaviours, allowing consideration of both long-term and short-term factors in the evaluation process.

Within Compliance and Values & Behaviours are objectives linked to Treating Customers Fairly, collaboration, monitoring and adhering to controls. These ensure that members of staff are incentivised to 'do the right thing' for fellow members of staff and clients.

Staff bonuses and members' variable drawings remain discretionary across the business and depend on overall 7IM performance, individual performance on Balanced Scorecards, and external market conditions. No management or staff reward is made on a transactional basis, and no commission is paid except in exceptional circumstances. The Remuneration Committee has ultimate sign-off on compensation across the business and is underpinned by the remuneration policy, which ensures that these principles are applied and followed consistently.

7IM's culture shapes the remuneration processes to ensure that staff understand how their work impacts the firm, sets clear targets, and puts processes in place to support training behind achieving these. We run initiatives across the business to help colleagues to succeed and encourage collaboration across a matrix or outside individual silos. Personal Development Plans support Balanced Scorecards to bring out people's potential and help develop the managers and leaders of the future.

The 7IM remuneration policy is publicly available on our website, **www.7im.co.uk.**

Internal checks & balances

Conflicts of interest

7IM maintains a Conflicts of Interest (COI) Policy that is publicly available on our website.[1] It forms part of 7IM corporate governance and documents the firm's approach to identifying, preventing and managing conflicts of interest. In addition, there is an internal policy and register of identified COI and the controls in place around them.

Key elements of the policy that support good stewardship include Executive Team accountability for identifying and managing COI, with oversight of the process provided by the Compliance team. 7IM manages COI based on the following steps: i) identification (and escalation), ii) assessment and evaluation, and iii) appropriate management action. The key is to ensure that 7IM has in place appropriate controls to prevent COI incidents or, at a minimum, robust detective controls.

The Compliance team provides training on the COI and Personal Account Dealing policies as part of the comprehensive 7IM induction training provided to all new joiners. Regular COI training is provided to all employees at least annually.

As part of our continual assessment of potential conflicts within the business, the register of potential conflicts was updated in 2022, and a summary of the registered potential COIs, plus the mitigating actions we take, is given below.

Risks of COIs around external interests, gifts, hospitality and inducements exist regardless of role or department at 7IM. The Executive Committee is responsible for managing risks within their individual departments. Colleagues are reminded of the 7IM policy on accepting gifts, for example, at Christmas, as well as hospitality that could be viewed as excessive or designed to influence 7IM decisions.

Compliance with the regulatory environment

As a business within the financial services sector, it's vital that we watch out for and prevent COIs that would breach the guidelines and regulations governing our industry. In the Discretionary Investment business, our suitability checking process ensures that COIs do not impact the suitability of investment solutions recommended.

On every business day at 7IM we are entrusted to execute thousands of trades on behalf of our clients. We consider it a privilege to do so, and the checks and controls around this part of our business are extensive.

7IM follows a three lines of defence model. Those responsible for managing client portfolios and executing on their behalf are responsible for identifying, assessing and managing the harms posed to our clients, the firm or the markets we operate in.

Our Risk and Compliance teams set the regulatory policies and expectations across the firm and work with (and train) the front office and client-facing teams to ensure appropriate mechanisms are in place to manage and monitor regulatory risk and comply with the regulatory environment. Their remit is to challenge and escalate where behaviours are below the standard expected. Incident management and failures to complete mandatory training are provided as inputs to employee quarterly performance reviews.

Internal Audit independently delivers a programme of audit reviews on behalf of the Audit Risk and Compliance Committee (ARCC). This provides the 7IM Board and Executive Committee with ongoing assurance in respect of operational and regulatory risk exposures.

[1] See www.7im.co.uk/media/syxlv2cj/conflicts-of-interest.pdf

Within our complaints process, we actively manage COI risks, e.g. the risk of a 7IM colleague failing to report a complaint because of a personal COI. As a learning organisation, lessons learned are taken forward in the form of remediation plans where appropriate. These plans are documented and tracked through our governance structure.

Managing conflicts in investment management

Investment management is at the heart of our business and working to manage COIs robustly is central to our operating model. Our Chief Investment Officer is responsible for ensuring that COIs within our investment process are managed appropriately. Several policies address potential conflicts of interest in the investment management function.

First, there is a potential COI around overlapping charging when 7IM funds are held in a 7IM model. There is a policy in place to ensure that clients are not disadvantaged by assessing the value clients are getting and making sure that they are not being charged unfairly.

Second, there could be a potential COI if a client or group of clients have a large holding in a 7IM fund and seek to influence an investment decision. A fund must be managed in the best interests of all the fund holders, not just the large holders. This is monitored by the Authorised Corporate Director (ACD) Committee of the fund, which will receive reports from the Investment Management team on any issues that arise.

Third, there is a potential COI when buying or selling a holding that is in a number of 7IM funds. There is a policy in place that requires the trades to be allocated proportionately across all funds, by value.

Fourth, conflicts of interest can arise when an individual on the Investment Management team is made an insider and can no longer act as a decision-maker on the subject of the inside knowledge, nor deal in related shares. This can occur when there is a potential corporate action and may be the result of a broker taking a market sounding. Team members are required to report any conversation about being made an insider or that touches on market soundings to the Compliance department.

Sanctions compliance

7IM complies with all sanctions regimes that are legally applicable. Following Russia's invasion of Ukraine, 7IM initiated close monitoring of the conflict and took steps to mitigate the risks associated with any sanctions developments. After the announcement of the first round of sanctions against Russia, 7IM refreshed its due diligence approach on current and future third-party fund managers to ensure that they had appropriate processes and systems in place to adhere to the sanctions. 7IM also screened its portfolio holdings on a look-through basis to identify any potential exposures that could be subject to sanctions.

7IM has procedures, systems and internal controls designed to comply with applicable sanctions. To prevent dealings with sanctioned parties, 7IM conducts automated name list screening of clients against internationally recognised sanctions lists issued by governments and other competent authorities, including the US Department of Treasury's Office of Foreign Asset Control, the United Nations Security Council and the European Union. 7IM restricts direct investments in securities and companies that may be subject to primary, sectoral, and other sanctions. Additionally, 7IM actively monitors indirect investment exposure to ensure effective controls are in place to comply with applicable sanctions.

Internal checks & balances

Continued

Enhancing product governance

The 7IM Product Governance & Pricing (PGP) Committee oversees all matters relating to the governance of our products and services at 7IM, all of which, during the last 12 months, have undergone an annual review as required by the 'Product Intervention and Product Governance Sourcebook' within the FCA Handbook (the PROD rules). Launches of new products or services, or significant changes to existing ones, go through a similar review process with approval required by the PGP Committee – the emphasis being on the requirement for the product or service to have a clear target market, be priced fairly and in line with the market, and be designed to deliver sound outcomes for customers.

In 2022, we signed an agreement with Kore Labs to use their innovative online Product Relationship Management platform to support our product governance processes. By digitising the management and governance of our products and services across the entire product lifecycle, we will deliver greater transparency and data to support the decisions we make as a business in the best interests of our clients.

The FCA's 'Consumer Duty' Policy Statement was published in July 2022, and will fundamentally improve how financial services providers serve their customers. It sets higher and clearer standards of consumer protection across financial services and requires firms to clearly demonstrate how they are putting their customers' needs first. Firms were given until the end of July 2023 to implement their plans for alignment with Consumer Duty and 7IM has a project ongoing to deliver this.

Personal account dealing

7IM maintains a Personal Account (PA) Dealing Policy, designed to prevent behaviour that may conflict with the firm's obligations to its clients or mislead other market users and prevent misuse of privileged information. The policy is owned by the Compliance team. The last all-staff communication on the policy and its key features was issued in January 2022 by our Compliance Director (and Money Laundering Reporting Officer). In the period covered by this report, we did not record any material PA Dealing issues.

Risk management process milestones in 2022

We always seek to improve our risk management processes. In 2022, 7IM implemented an enhanced Risk Management Framework approved by the 7IM Group Board. We developed extensive face-to-face training for all colleagues in respect of the Risk Management Framework, which involves training on various aspects of regulatory obligations. A training timetable, which aligns to policy issuance and attestation, is now in place to embed the knowledge fully.

We introduced two new systems as part of the enhancement:

- 'Star Compliance' is an automated personal account dealing repository with comprehensive reporting functionalities. The system allowed us to move from a manual process, requiring manual monitoring, to an automated system with workflow functionality, linked to external brokers for the submission of contracts resulting in timely approvals and second line monitoring. The system also allows automated gifts and entertainment workflow with built-in limits and approvals. It operates as a centralised repository for policies, supports version control and golden source, and supports attestation workflow and monitoring. Star Compliance is also our central repository to capture COI.

- 'aCCelerate' has been introduced as our Governance, Compliance and Risk (GCR) tool. It is a scalable risk management product that replaced a less flexible legacy tool. aCCelerate enables incident data consolidation (errors, breaches, complaints, and near misses) in one place. It can be linked to our bottom-up risk maps (BURMs, i.e., operations-focused risk registers assessed semi-annually) which, in turn can be linked to the top-down (or key) risks of the organization. The top-down risks are now assessed from a strategic perspective every six months. During 2022 and as part of the enhanced Risk Management Framework implementation, the business completed BURMs for each function. The output has provided senior management with a list of their operational level risks and key controls, assessed according to a groupwide impact and likelihood scale to provide consistency of approach. A Top-Down Risk Map (TDRM) was introduced – a forward-looking assessment of the strategic risks across the Group, which is determined by the Executive Committee given several key inputs like the Group's risk appetite, the BURMs, key indicators, audit findings and incident data.

Based on the key risks identified by the Executive Committee and approved by the Board, key indicators aligned to each key risk and risk appetite thresholds were agreed in 2022.

Data outside of risk appetite are a significant input to the TDRM assessment and the ongoing risk monitoring and reporting to the Executive Risk Management Committee.

The Risk Management Framework enabled us to identify potential harms to clients, firm and wider market to support the completion of the internal capital and risk assessment (ICARA) process in July 2022.

Beyond these improvements, the governance structure has been further strengthened. Each ExCo member leads a risk-focused committee to support their Executive Management and/or Senior Management Function responsibilities.

We implemented PowerBI to support the use of data for risk-based decisions and continue to support the 7IM Group on its journey for continuous improvement. PowerBI is fed by our internal risk tool and business user system data.

We introduced a Conduct Risk Score for all colleagues, which will feed into the 2024 remuneration process.

Finally, we took steps to introduce a third-party supplier risk framework, which will be rolled out in March 2023.

How we approach investment management

People don't retire for a quarter, or a year, or even a decade. Generally, they retire forever. No matter how good or bad short-term investment returns are, it's the long term that matters in the end. We want our clients' portfolios to be around for the next generation, and beyond.

That means two things: we protect our clients' assets in the short term through diversification, and aim to grow them in the long term via a range of smart, well-researched investments across different asset classes. We blend structure and flexibility. Our portfolios have a long-term framework that gives us confidence in their longevity and consistency and allows us to make active decisions to take advantage of opportunities we see in the markets.

We believe all investors deserve the same approach to investing that institutions enjoy. We use the techniques, tools and knowledge employed by large institutional investors for the benefit of our clients.

For example, our Investment Risk team employs the same tools that are used by the largest institutional investment houses in the world. Likewise, we aim to set the industry standard when it comes to integrating ESG issues into our investment approach – strategically, tactically, and in terms of product selection.

We don't believe in 'star managers'. There's a reason why few individuals get into the history books as truly great investors – we are all human, and we all make mistakes. While the stars are lauded by the media, wishing on that single star often ends badly. Instead, we prefer a structured, disciplined and institutional approach from a team of experienced investment professionals.

How we approach investment management
Continued

Our seven investment beliefs

There are many ways to invest, often driven by different beliefs about human behaviour and how the investment world works. We have developed a set of seven beliefs that summarise how we invest for our clients, and what we do and don't do as an Investment Management team. These beliefs influence our investment decisions, and our stewardship of client assets.

01

Invest for the long term – Strategic Asset Allocation is key

Most of our investors have long time horizons, often longer than 10 or 20 years, which require long-term preparation and planning. Our Strategic Asset Allocation (SAA) process is designed to provide the long-term framework for all portfolios. Since it's the engine that powers all our investing strategies, we review and test it rigorously every year. We complement this with our long-term focus on environmental, social and governmental (ESG) issues.

02

Markets are not always efficient – Tactical tilts can add value

Financial markets regularly go through phases of fear and greed. At these times, tactical opportunities of various kinds can arise, for us to enhance portfolio returns or avoid potential risks. There are also structural changes in the world that aren't captured by our SAA process, which can be explored tactically.

03

No perfect foresight – Diversification is essential

We don't believe in making predictions and investing according to them. Forecasting the future is a great way to be exactly wrong. We prefer to focus on holding a diversified spread of investments in portfolios. We don't want every part of a portfolio to be doing the same thing – we want to have parts ready in case the world changes.

04

Emotional responses damage wealth – Composure and patience help

It is always tempting to act in response to events. Doing nothing is often preferable. We have built data-driven models and use ways of thinking and making decisions that dampen our emotional reactions and help us to take a sensible look at the world in wild periods. We encourage our clients to do the same.

05

Control costs – Flexible implementation, based on value, not price

Controlling costs is crucial to achieving investment goals. But it can be worth looking beyond the cheapest offerings available, especially if you are seeking a specific exposure or theme. We are flexible when implementing ideas, blending active and passive approaches where we think it makes sense.

06

Independence and openness – High challenge, high support teams prosper

Cognitive diversity is undervalued in asset management. A great team should always beat a great individual in the long run. We have worked to build an investment culture that encourages challenge and independent thinking from every member of the team. When we communicate honestly, we end up seeing the bigger picture – and making better decisions.

07

Learn lessons – Constant review and evolution

We won't always get things right. That's the nature of investing, and of the world. But getting them wrong twice in a row is unacceptable. We try to review all aspects of our decision-making and portfolios, to make sure we learn from failures and successes and build a stronger and more robust investment process.

How we approach investment management
Continued

Our cornerstone: The Strategic Asset Allocation

At 7IM, the Strategic Asset Allocation (SAA) is the long-term investment plan for every portfolio. It is based on weights for different asset classes that our research finds to be appropriate for investors over long periods of time.

Different types of investors require different blends of assets, depending on their return goals and risk appetite – we want to make sure that the long-term shape of each risk profile matches the type of investor. We've been developing SAA plans since we began investing our clients' money, and our approach has worked consistently over the years. We update data and inputs and refine our SAA models every year, to ensure portfolios are constructed robustly and that they incorporate the latest academic thinking.

Many SAA processes focus on the volatility and correlation characteristics of individual asset classes. Starting in 2019, we extended our approach to include analysis of the underlying drivers of each asset class. There are a number of underlying investment drivers – or risk factors – in the financial world, and different asset classes have different exposures to them.

Looking at the common drivers behind asset classes gives us a better idea of the diversification that a portfolio can deliver in the long run. The SAA portfolios through 2022 remained broadly exposed to these common drivers of returns and risk.

The process we follow leads to several key themes in our SAAs versus other managers:

01

High yield, corporate bonds and emerging market bonds

Our SAA portfolios have higher allocations to high-yield bonds, corporate bonds and emerging market bonds than more traditional multi-asset portfolios. This leads to a more diversified exposure to risk factors, entailing a reduction in the exposure to economic growth and more exposure to other risk factors, like credit and inflation.

02

Real estate investment trusts (REITs)

As an asset class, real estate is exposed to interest rates, inflation and economic growth. This complex mixture of risk factors mean that real estate is a well-diversified asset class when viewed through a risk factor lens. You will see an allocation to this asset class in 7IM SAAs from Moderately Cautious up to Adventurous as a consequence.

03

Alternatives

The days when investors could rely on government bonds as safe, income-producing securities that hedge equity risk and deliver returns that keep pace with inflation seem to be over. We make use of various alternative strategies, which we believe have favourable risk characteristics and can have higher expected returns than government bonds.

We rebalance our portfolios back to the SAA regularly, ensuring our clients and investors remain on the investment path they expect. In addition, our clients benefit from a strong investment risk management function which oversees our processes and ensures our risk-rated funds and models are delivering as designed.

How we approach investment management
Continued

Responsible investing and sustainability in the long run

Responsible Investing is becoming a precondition for doing investment business in modern society. While governments, regulations and guidance will help to shape the 21st century investment world, investors have a huge role to play in helping humanity address dangerous long-term environmental and social problems.

Fortunately for investors, responsible investing makes business sense, as we have discussed in previous *Stewardship Reports*. ESG factors can materially affect a company's performance and market value. We view ESG as important as the well-known academic factors like growth, quality, or value in determining how companies perform in the long run. In a few years' time, we expect that almost all investing will be responsible and ESG-focused.

Through 2019-21, the 7IM Investment Management team focused on climate change as a key environmental issue that will affect our portfolios in the long run, and is crucial to the future of humanity. From 2022, we have also been examining how firms, governments and investments function in the natural world.

Our starting point is the Earth's natural capital – the stock of natural resources and ecosystems that provide humanity with valuable goods and services, including clean air and water, fertile soils, biodiversity, and climate regulation. Natural capital is critical to sectors like agriculture, forestry, fisheries, and tourism, and is a source of innovation and technological progress.

These resources are essential to human life and economic development. As noted in *The Dasgupta Review*[2], a 2021 study commissioned by the UK Treasury on the Economics of Biodiversity, "if Nature is destroyed, life would cease to exist." Yet natural capital is often undervalued and can get overexploited and depleted without proper management and protection. Traditional economic models, for example, tend to focus on market-based transactions and ignore the 'externalities' of environmental degradation and depletion.

[2] Dasgupta, Partha (2021), The Economics of Biodiversity: The Dasgupta Review (London: HM Treasury), p. 47.

By one estimate, the world is using its natural capital at a rate 1.8 times greater than the Earth is able to sustain. Policymakers, businesses and civil society need to recognise and account for natural capital in their decision-making processes, and adopt sustainable practices that protect and enhance natural resources and ecosystems for the benefit of current and future generations.

We have been focusing on two components of natural capital: biodiversity, and water. Biodiversity refers to the variety of life on earth, including all the different species of plants, animals, and microorganisms, as well as the genetic diversity within and between species, and the diversity of ecosystems and landscapes. Different species play unique and important roles in maintaining ecological balance, such as pollinating plants, decomposing organic matter, and regulating the populations of other species.

Unfortunately, biodiversity is under threat from a range of human activities, including habitat destruction, climate change, pollution, and the introduction of invasive species.

Many species are at risk of extinction, and the loss of biodiversity can have far-reaching and often unpredictable consequences. By working to preserve biodiversity, we can help to ensure a healthy and sustainable planet for generations to come.

Water is an essential natural resource that sustains life on Earth – for drinking, agriculture, industry, and hygiene. As the world's population grows, so does the demand for water, and fresh water is becoming increasingly scarce. Moreover, as temperatures rise with global warming, evaporation rates increase, which leads to more frequent droughts and decreased water availability. The growing demands of water-intensive industries like energy and manufacturing also contribute to water stress. Only through coordinated action and a commitment to sustainable water use can we ensure the availability of this vital resource for future generations.

We are investigating how to operationalise our biodiversity and water research, leading to portfolio-level impact assessment for third-party fund managers and companies. From an investor viewpoint, it is hard to standardise, prioritise and implement natural capital policies, and company reporting is generally inadequate. The Taskforce on Nature-related Financial Disclosures (TNFD) has produced a framework detailing how firms should report and act on evolving nature-related risks, and its final recommendations will appear in 2023. We are studying these proposals and may incorporate them into our approach going forward.

How we approach investment management
Continued

Climate change: Decarbonising our SAA

Climate change is the key threat to human society and hence to the world's investors in the long run. It's increasingly being recognised as a global risk and is a fundamental issue that's facing asset managers everywhere, as discussed in our 2020 *Stewardship Report*.

Through 2020, we began a research programme aimed at decarbonising the 7IM Strategic Asset Allocations (SAAs) and reducing the emissions-intensity of all portfolios. 7IM's Executive Committee agreed to a programme by which the carbon emissions of the Strategic Asset Allocations of all portfolios will be reduced by 30% at the SAA level between 2021 and 2026.

We began by lowering the carbon-intensity of our US equity and corporate bond exposures in 2021–22. In 2022 we continued our work in this area, looking at how we could decarbonise other asset classes. The asset class review had three main conclusions. First, a fair number of new lower-carbon funds have been launched recently and existing ones converted that can help us with our goal in achieving a reduction in carbon intensity. We have also seen active fund ranges launched alongside passive, with Royal London Asset Management (RLAM) and Legal & General (L&G) having active fund ranges with constrained tracking error.

Second, the immediate options to decarbonise our equity assets further are limited. European and Japanese equity indices are relatively clean compared to MSCI World, while the UK and EM indices are more carbon-intensive, but funds that have lower emissions have higher tracking errors. All the same, there are alternatives in Japanese equity, with low-carbon products in futures and ETF forms. This region will be a focus of further research in 2023.

The third finding was that the fixed income space had become much more fruitful. Global corporate bonds can be an efficient way to cut portfolio carbon emissions. It is relatively easy to match the risk characteristics of an index by matching key rates and credit quality, and as the number of issuers in an index runs into the thousands, the idiosyncratic risk is minimal. This is important as we are making these changes to our whole client base, so want to limit unintended performance changes.

We spoke to three managers who were launching or transitioning funds in this area. The feedback was that our competitors were on similar paths, but we were much further ahead in making portfolio changes.

This first-mover advantage helped us with three prospective investments where we were able to negotiate beneficial fee deals, so our existing investors got access to lower-carbon corporate bond funds for lower fees than before. This is a great outcome for clients: not only are their portfolios better prepared for transition risks, but they benefit from lower fees.

Case study: Climate change exposure in portfolios

In 2021 the Investment Management team initiated a position that invested in companies that were helping in the long run fight against climate change. Through 2022 we continued to hold the position, despite this being a difficult period for the types of companies we wanted to invest in. The Russian invasion of Ukraine and the hangover from the COVID-19 stimulus packages fuelled inflation and energy prices and drove interest rates up, leading to the underperformance of sectors that are aligned with a sustainable future – whilst sectors like Defence, Tobacco and Energy surged.

Despite this underperformance, our belief in the investment case was boosted by new legislation in the US. The Inflation Reduction Act was passed in the summer and included government subsidies for industries supporting the energy transition, a major tailwind for our climate change position.

Our ESG integration approach

What is the best way to ensure that the Investment Management team takes ESG and stewardship seriously when they make decisions? We believe ESG is best handled *within* investment teams, as part of their regular activities, rather than by having a separate ESG or Stewardship team.

ESG issues are considered at each stage of the 7IM investment process: Strategic Asset Allocation, Tactical Asset Allocation, Portfolio Implementation, and Investment Risk. One person in each area is designated the ESG champion and makes sure that ESG issues are addressed appropriately when decisions are made. They report back to the ESG Investment Committee, where progress is discussed and monitored.

Our tactical views can be a powerful tool to position the 7IM portfolios to navigate a world impacted by climate change. We review ESG metrics when we consider Tactical Asset Allocation (TAA) views and changes across portfolios. We also consider TAA views that have some ESG characteristics, such as US Healthcare, a position we have held since 2019.

Similarly, when we select third-party funds or design a structured product, we incorporate ESG considerations into the decision-making process, as explained later in this report.

How we approach investment management
Continued

Finally, our Investment Risk team is a cornerstone of our investment process and ESG metrics are increasingly being incorporated into the risk oversight of the funds.

A focus on investing taking ESG issues into account should, in theory, lower overall portfolio risk in the long run, because ESG-compliant assets would be expected to have less climate and environmental risk. For example, ESG investors tend not to be invested in companies that emit a lot of carbon, which might be punished if policymakers introduce strict carbon taxes or similar policies.

Many investors demand that companies set science-based targets to align their activities with the Paris Agreement target of keeping global warming to only 1.5 degrees above pre-industrial levels. Companies that lack science-based targets may find investors reluctant to hold their shares and might be more exposed to environmental uncertainties and carbon emission risks.

In the long term, we believe market-wide and systemic risks can be reduced by taking an ESG focus. We have implemented this view by challenging fund managers to show that they are addressing ESG as corporates, within the funds they run, and by voting at annual general meetings to promote ESG issues.

Controversial weapons policy

One outcome of our ESG integration approach has been a firm-wide controversial weapons policy, finalised in 2021 and rolled out in 2022.

Controversial weapons are those that have an indiscriminate and disproportional humanitarian impact on civilian populations, the effects of which can be felt long after military conflicts have ended. Our definition includes anti-personnel landmines, cluster munitions and chemical and biological weapons. We did not include nuclear weapons because their use is not prohibited within the 'nuclear weapon states' (the 1968 'Non-Proliferation of Nuclear Weapons' treaty limits the spread of nuclear weapons to the so-called Nuclear Weapons states: the USA, Russia, UK, France and China).

Several international conventions and treaties prohibit or limit the use and availability of these weapons. Where a country has signed and ratified a convention, the production, stockpiling, transfer and use of that weapon is illegal. In some jurisdictions, the direct and indirect financing of these weapons is also prohibited by country-specific legislation. Additionally, we do not deem companies producing such weapons to be appropriate investments, based on their potential reputational risks.

Our exclusion policy applies to our actively-managed funds, both open- and closed-ended, across all asset classes. It also applies to structured products that are not linked to the performance of indices. We expect our active managers to apply screening and exclude companies where there is evidence of non-compliance with four main international treaties: the Convention on Cluster Munitions (2008), the Anti-Personnel Landmines Treaty (1997), the Biological Weapons Convention (1975) and the Chemical Weapons Convention (1977).

Upgrading portfolio management, ESG monitoring and products

We are constantly challenging ourselves as investment managers, and describe our drive to improve our portfolio management capabilities below, particularly regarding ESG products, data and research. In a later section, we describe our external manager research and monitoring process, and the ESG survey we carried out in 2022.

ESG risk metrics and reviews

As explained in our previous report, we have embedded the monitoring of carbon risk and ESG risk into our portfolio monitoring process, and in reports to the Investment Risk Committee. In 2022 we reviewed the data provider we were using to make sure we were getting value for money and to evaluate the capabilities of new entrants in the market.

Having done some work on climate scenarios we realised we needed more forward-looking climate metrics. We decided to subscribe to MSCI's Implied Temperature Rise and ClimateVAR data, and in 2023 will use this info to enhance climate risk management at 7IM further.

Improving product mix and implementation

We are always on the lookout for external products that better meet our investment needs – because they're less expensive, more focused, more diversified, meet fund mandates better, or some combination thereof. This is especially important in the ESG area, where the range of products has historically been quite limited. In 2022 we invested in two new products, one to balance the factor exposure of our ESG portfolios, the other to access interesting investments in Healthcare Innovations.

Schroder Global Sustainable Value

After a long period of underperformance, value stocks revived in 2022. We knew our sustainable portfolios were exposed to a value reversal given their growth bias and set about finding a solution. We had an existing holding in Schroder Global Recovery and were notified that they were launching a sustainable version.

We met with the team a number of times to understand how they were going to apply ESG screens to a portfolio with the aim of selecting value investments. We were reassured by the investments that Schroders had made in developing their internal ESG rating tools; CONTEXT and SustainEX. We invested in the fund in May 2022, and it contributed to performance in the last quarter of 2022.

How we approach investment management
Continued

Baillie Gifford Healthcare Innovations

In early 2022 we initiated a position in the Baillie Gifford Healthcare Innovations fund. We already had an investment in Healthcare companies based on the following multi-year trends:

- Demand from ageing populations in the developed world
- Economic growth in the developing world driving demand
- Medical and scientific innovation creating new treatments, and technologies creating new markets for healthcare spending.

The broad healthcare index (MSCI World Healthcare) we use is exposed to the first two of these themes through its allocations to global pharmaceuticals (37%) and healthcare equipment and supplies (22%); both industries will be broad beneficiaries of the increased demographically spend on healthcare. COVID-19 was a demonstration that mass distribution of medicine/ medical equipment must be done in partnership with the large global players, which are the only ones with enough manufacturing scale and distribution channels.

The third area – innovation – has been a space where the mainstream healthcare index has modest exposure. Although the large businesses in MSCI World Healthcare should ultimately benefit from R&D, we realised we could be missing the best period of returns to innovation.

We thought that areas of disruptive innovation within the healthcare industry might be worth a standalone allocation as part of our broader theme, and that financial markets are likely to recognise and reward the innovators before the academic literature and larger healthcare companies catch up. There are three key areas of healthcare where innovation is most required, and hence are most potentially lucrative for businesses that enable it: Research & Development, Treatment/ Prevention, and System Efficiencies. We think these three areas should boost profits for the Healthcare Innovations industry.

Bloomberg AIM

As mentioned in our previous report, we introduced Bloomberg AIM in May 2022, a new portfolio management system designed to be more robust and efficient than the incumbent system we'd been using. In 2023 our risk team started a project to see how we could use the system for our risk oversight.

Market functioning and market-wide risks

As investors, we function within market and institutional frameworks that influence portfolio returns and risk and hence the welfare of our clients in the long run. We have a keen interest in improving market functioning and managing macroeconomic, environmental, social and governmental risks, some of which were discussed above. We encourage interactions with regulators, industry organisations and external managers, in the hope that our experience can direct them to provide more appropriate products and help to develop more robust investment markets.

During 2022, 7IM participated in a number of collaborative engagements with regulators and the investment industry. Some key engagements are described below.

The Investment Association and Sustainability Disclosure Requirements

In December 2022, we submitted a written response to the Investment Association's (IA) draft response to the FCA's Consultation Paper on 'Sustainability Disclosure Requirements (SDR) and investment labels' (October 2022). After reviewing the Consultation Paper, we spoke with industry counterparts to gain an understanding of the proposed regulation.

While we agree that the regulator needs to introduce steps to regulate sustainability claims, we thought the proposal was not appropriate for multi-asset fund of funds. The classification system proposed was too rigid and would not allow flexibility as to how sustainable mandates are run in practice. We explained that it often makes sense for an investment manager to combine sustainable strategies in a single product, e.g. a core of companies that are ESG leaders, plus a few companies that are on an improving trend, and some that would be classed as impact investments.

We suggested that the FCA should develop a label that incorporates this flexibility and caters for a large segment of the existing sustainable market. The label would cover a blend of the categories that the FCA has proposed, allowing an investment manager to allocate between the three categories.

MSCI Consultation

In July 2022, we responded in writing to an MSCI consultation on ESG reporting enhancements. We have been subscribers to MSCI's ESG ratings data since 2020 and use it to highlight ESG risk in our multi-asset portfolios. We were in favour of the changes that MSCI proposed, especially the element that removed the adjustment factor from the Fund ESG Quality score. We had noticed a general increase in the average ESG rating, with many more funds being given the maximum AAA rating. The removal of the adjustment factor will allow more differentiation between company ratings.

iShares Global Property fund

In June 2022, we were consulted by iShares on their proposals to include ESG tilts in their global property securities fund. They contacted us because we were one of the first UK investment managers they had seen moving to lower carbon products across our core fund range. We supported the proposals as we anticipate many more managers aiming to tilt their portfolios away from climate risk. We gave them feedback on introducing carbon reduction targets, which we have already done for our SAA. We highlighted the potential impact it could have on tracking error, and how this should be managed alongside financial objectives.

Stewardship and engagement at 7IM

How we prioritise our engagements

We believe good stewardship practice is a basic obligation when we perform our fiduciary duties for our clients. Engaging with companies and voting at company meetings are part of being a responsible asset owner and steward of capital, and we have prioritised them as an investment manager for a long time.

We focus our engagements on material issues that we think represent specific risks to the long-term value of our clients' shareholdings. We also pay attention to the size of holdings, the scale and urgency of problems, and how much influence we may have.

Our core investment services provide multi-asset class portfolios, usually via collective investment vehicles. Externally-managed products total around 94% of 7IM assets under management, and our manager monitoring system is designed to inform us whether external managers are working to safeguard and maximise the value of their assets, with sound stewardship and taking ESG issues into account in their investment processes.

In some cases, we engage with fund managers directly, where we have concerns about their investment strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters. We regularly question them about their holdings, to ensure that they are implementing full stewardship in their portfolios – via voting, engaging with managements where necessary, and encouraging the companies they hold to follow sound ESG policies.

For collective investments, we prioritise our engagements in the light of UN Principles for Responsible Investment (PRI) guidance. This prioritisation differs across asset classes but is consistent across geographies.

Active equities and real estate. We focus our equity engagements on our top 30 or so active funds, which total approximately 94% of active equity exposure and approximately 15% of assets under management. We engage mostly with active managers since they have discretion over concentrated portfolios and often work closely with their companies. We will engage where we've identified material issues that represent specific risks or following a controversy that we consider material.

Developed market bonds. Where the counterpart is a developed market government like the United States or Germany, the scope for engagement is small. Our assets under management here are low.

Passive equities. We define these to include index funds, index ETFs and diversified quantitative products. We expect managers to engage where possible with the companies in their portfolios but recognise that because of the large number of holdings and lack of discretion they are unlikely to engage as much. We check that they are using the weight of their assets under management to vote on important issues and are taking their stewardship obligations seriously.

Credit. We engage with credit managers based on the size of our holdings and where we identify material ESG risks in portfolios where we can influence change. As a holder of credit, it is possible to engage, but without the use of a vote to make the point some companies choose to ignore bond holders. Votes on bonds tend to be narrow, with little impact on the firm's operations. Occasional opportunities may arise for managers to engage. Emerging market debt managers, for example, can engage with the governments of some countries.

Alternative strategies with direct equity exposure, like event or equity long-short. For these products, we follow a similar approach to stewardship as for active equities. We note, though, that stock holding periods are often shorter than for fundamental equity strategies, giving managers less scope to influence company behaviour.

Alternative trading funds, like trend-following, put-selling or commodity strategies. There is little or no scope to influence manager stewardship in such cases. Our role is limited to ensuring that managers are looking after the best interests of their clients.

Where 7IM holds equities and bonds directly, we endeavour to ensure that companies are appropriately managed and meet our environmental, social and governmental requirements. We monitor, engage and are prepared to escalate issues that we consider to be material with companies and issuers. In practice, we focus our engagements on the top 20 or so direct holdings, representing about 80% of direct assets under management. The largest of these by far is Berkshire Hathaway, discussed on p. 84.

Stewardship and engagement at 7IM
Continued

In this section of the report, we provide case studies of our engagement and voting efforts, and examples of how our third-party asset managers engage, escalate, and vote on our behalf. These are summarised in the table below:

Type of Engagement		Equity Case Studies	Fixed Income Case Studies
Engagement	7IM with external managers	Usonian Japan Value Premier Miton European Opportunities	BlackRock iShares Overseas Corporate Bond BlueBay AT1s
	7IM direct holding	Target Healthcare REIT	N/A
	Sarasin engagements on our behalf	LSEG Siemens	N/A
	External manager engagements on our behalf	Ninety One and Croda Baillie Gifford and Kering	BlueBay and Volkswagen Barings and JSW Steel
	7IM collaborative engagement efforts	Carbon Disclosure Project	
	External manager collaborative engagement on our behalf	Sarasin and auditors Royal London and Just Transition LGIM and nutrition	Columbia Threadneedle and CA100+
Escalation	7IM direct holding	Civitas	N/A
	7IM with external managers	Fidelity and Geode	-
	External manager escalation on our behalf	Regnan and Home REIT Baillie Gifford and SeaGen	-
Voting	7IM direct holdings		
	External manager votes on our behalf		
	Sarasin votes on our behalf		

External manager stewardship and ESG monitoring

7IM is largely a fund of funds business and about 94% of assets are managed by third-party managers in equities, bonds and alternative investments. We rely on external managers to be sound stewards of client capital and expect them to report on how they exercise the rights and responsibilities of assets held on behalf of 7IM. We engage with them on environmental, social and governance issues in the companies and governments whose equity and debt they hold.

Our engagements with companies and managers are structured by our investment process, with a member of the Investment Management team responsible for day-to-day contact. When considering how to prioritise engagements with managers, we focus on issues that arise from our regular meetings with them and from our stewardship and ESG research, highlighting issues and weaknesses that we perceive in their investment processes and potential ESG issues with their products.

Having met many fund managers over the years, analysed their investment processes, and reviewed how they approach stewardship, we have a good idea of what best practice is, and how the bar has moved up over time. This enables us to define minimum standards and provide feedback to fund managers, hence helping the wider industry to improve.

Dedicated ESG manager questionnaire

In 2022 we further developed our 'ESG questionnaire', learning from responses that we received in the previous year. The objective remained unchanged: Since we mostly invest indirectly, through collective vehicles, third-party managers are our main 'levers' to achieve our stewardship-related objectives, and are our main 'targets' for engagement and escalation.

Some of the changes we made to the questionnaire include the following:

- We removed several questions that tended to result in very generic responses
- We expanded a section focusing on climate change, for example asking fund houses that had signed up to the 'Net Zero Asset Managers initiative' for their implementation plans
- We expanded the question around diversity, recognising that our focus on gender diversity only had been too narrow.

The structure of the questionnaire was unchanged, organised in three main sections as described in previous *Stewardship Reports*, i.e. firm-level considerations, fund-specific aspects, and issues around voting and engagement. The survey covered all asset classes, and was managed jointly by the ESG and sector specialists, to put responses into the sector / industry context and to ensure consistency in our dialogues with fund managers.

We were able to compare and rank the fund managers in all the 7IM funds and models by their ESG credentials.

Stewardship and engagement at 7IM

Continued

ESG survey results

Overall, we reviewed more than 120 investment strategies managed by more than 40 asset managers. Key insights from the 2022 review:

- Some fund houses not only operate at high levels in terms of the quality of their stewardship approach, but keep improving and setting new standards
- Many of the larger asset managers are signing up to initiatives targeting climate change, such as Net Zero, but almost none of them can clearly specify how they'll achieve this
- The gulf between 'good' and 'bad' remains huge and can be often explained by a firm's customer base and target markets; for example, fund managers predominantly servicing the US market tend to allocate less resources to stewardship than competitors with more European investors.

The questionnaire enabled us to systematically identify 'leaders' and 'laggards' in ESG practices across the industry, and to engage where we thought improvements were desirable and possible. Below, we describe some of our interactions with managers that scored poorly on our ESG rating system.

Engagements with external managers on ESG and stewardship

Usonian Japan Value

We have been an anchor investor in Usonian's Japanese equity strategy for several years, but had been critical of the – in our view - very limited considerations of ESG aspects in Usonian's investment process, while recognising the constraints on Usonian from their parent, GMO.

We articulated this concern after the roll-out of our ESG questionnaire in 2021 (see our 2021 *Stewardship Report*). Following extensive discussions through 2021–22 about Usonian's approach to stewardship-related matters and ESG integration, the discussion evolved into one where Usonian Japan considered becoming an Sustainable Finance Disclosure Regulation (SFDR) Article 8 fund and requested 7IM's input. The GMO team outlined their ESG process and asked for our advice on what clients expect from an Article 8 fund. We focused on their lawyers' advice that improvements had to be shown in third-party data, which we believe was an incorrect interpretation of the SFDR rules. Their focus on engagement has historically been on governance-related issues but they've expanded to include more engagements on environmental and social topics.

Following these conversations, Usonian developed a GMO proprietary ESG rating based on three third-party data vendors (MSCI, Truvalue Labs, and Refinitive), aiming to have a minimum MSCI rating of BBB in all the companies held in the fund. The ESG rating system is used as a base with an overlay from Usonian analysts. They have also added a pre-trade ESG analysis into the investment process.

BlackRock iShares Overseas Corporate Bond Index Fund

We engaged with BlackRock in the second quarter of 2022 regarding a change in the benchmark of the iShares Overseas Corporate Bond Index Fund. BlackRock proposed upgrading the ESG profile of the fund with the addition of some baseline screens. We examined how the addition of business screens like controversial weapons, nuclear weapons and civil firearms might affect performance, yield and duration, as well as controversy flags such as UNGC violations and controversy score. We also investigated climate and carbon screens such as thermal coal, oil sands, oil and gas equipment and services, and oil and gas extraction and production. The results showed minimal impact on performance, yield and duration, so we encouraged the index change.

The addition of ESG criteria to this fund made it a candidate for our 2022 carbon reduction targets across our fund range. We had used an ESG US equity index future to reduce carbon exposure over 2021, but using the iShares ESG Screened Global Corporate Bond Index fund across the same fund ranges meant we were able to get closer to our desired SAA carbon reduction target of 30% by 2025.

Case study:
Our expectations on new investments

When we examine the investment universe and narrow down our shortlists, we hold external managers to a high standard when it comes to stewardship and ESG. Our conversations with external managers aim at identifying and reducing sustainability risks and uncovering and capturing opportunities related to sustainability.

Going into 2022, we held tactical portfolio positions in bank capital securities known as Contingent Convertibles or 'Cocos' through an actively managed fund. We were seeking to diversify this manager-specific risk and reduce the overall cost of this holding, by adding a second manager. When conducting our due diligence on the preferred candidate, we analysed the structure of its existing investor base and found its shareholder structure was uneven, with two major investors holding an uncomfortably large proportion in the fund. Given our intention to allocate patiently and for the longer term, we concluded that the benefits of allocating to this additional fund did not justify the risks coming with the concentrated shareholder base. We communicated this to the preferred candidate, and they are proactively seeking to address our concerns. We chose to continue looking for suitable alternatives whilst engaging with the incumbent manager via our ongoing monitoring process.

Stewardship and engagement at 7IM
Continued

Case study:
Digitising our fund due diligence

In 2021 we upgraded our due diligence process for fund selection by signing up to Door, a digital platform where asset managers exchange due diligence information with manager research teams through a standardised question set distilled from the most commonly sought-after topics, with the option to add bespoke questions when needed.

In 2022, we campaigned across the third-party fund houses that we are invested in, to encourage them to migrate towards the platform. This campaign was successful, with some large fund houses signing up to Door, having initially been rather reluctant. We believe that our decision to digitise the collection of due diligence information, alongside some other investors making this move around the same time, has created some real momentum in the asset management industry.

We are always looking to improve our processes, and in 2023, we plan to work with Door to digitise our ESG questionnaire. This would allow a uniformed and convenient way of reporting and tracking the changes in ESG information provided over time. Door simultaneously improves efficiencies and our ability to deliver on our regulatory and stewardship obligations.

Engagements

The 7IM stewardship philosophy has an ownership mindset. A crucial element of this mindset is active engagement with the third-party fund managers that manage the products in which we invest.

We base our engagement policy with third-party managers on four principles. First, we expect managers to focus on the long-term prosperity of companies and countries, and not look for short-term fixes that may be achieved at the expense of longer-term performance.

Second, we expect managers to engage and suggest where they think companies can improve their stewardship and ESG practices. If companies fail to take the best interests of shareholders into account, then we would expect managers to take appropriate action.

Third, we will speak out publicly on any matters of concern where we believe this is necessary or helpful to protect or enhance our clients' capital.

Finally, we operate in public markets and all our interactions are governed by local laws and regulations that seek to ensure level playing fields for all investors. As a rule, we do not wish to receive any material non-public information. In those rare cases where we do receive 'inside' information, our policies ensure we keep this information confidential and don't trade on the basis of it (see p. 45).

As multi-asset multi-manager investors, we engage with companies and managers on assets in different asset classes and different geographies. We question our active managers about their holdings of stocks with poor ESG ratings and expect them to engage with companies and encourage them to improve their stewardship and ESG performance.

We describe some of these engagements in the examples below, which include engagements with both equity and bond managers, across a number of geographies.

Premier Miton European Opportunities Fund

As a house, we prefer our interactions with external managers to be constructive, aimed at expressing our stewardship and ESG expectations and helping them to improve their research, analysis and business practices to the long-term benefit of all their clients. From our European ESG reviews in 2021 and 2022, Premier Miton was flagged as one of the 'laggards' in ESG integration and stewardship capabilities via our holding in the European Opportunities Fund.

The fund has been growing and performing strongly in recent years. Since 2021, we have been interacting with the manager on ESG and stewardship issues. Since the fund's focus is on performance and asset growth, it excludes polluting sectors such as oil and gas. However, this positive outcome is a product of the quality growth investment mandate, rather than ESG considerations. We communicated our view on their lack of ESG promotion and stewardship across the industry, lack of ESG integration across the investment function, and limited use of ESG data. In particular, we noticed that their European Sustainable Leaders Fund, which is advertised as the sustainable version of the European Opportunities Fund, had a large – and perhaps excessive – overlap of holdings with the European Opportunities Fund.

We recognise that Premier Miton is a small boutique manager and lacks the resources of larger firms. However, we believe there is scope for improvement and voiced this feedback to the manager. They confirmed they will take our concerns into account. We welcome the opportunity to interact with managers like Premier Miton and provide feedback and ideas that can help them to develop their products and businesses in more responsible and sustainable ways. We will continue to monitor the ESG capabilities of the manager in 2023.

Stewardship and engagement at 7IM
Continued

BlueBay AT1s case study

In 2022, we engaged with BlueBay Asset Management around exposure to fossil fuel financing in European banks through the BlueBay AT1 funds held in a number of 7IM funds. We directed the conversation to focus on BNP, one of the largest European banks.

BlueBay's response was clear, comprehensive, and transparent. They acknowledged BNP's historically large oil & gas exposure, but emphasised BlueBay's ESG due diligence on the bank's exposure to climate risks as well as the importance of engagement to shape the future. BlueBay has engaged with BNP over several years on this topic and have observed positive progress. BNP was a founding signatory of the Net Zero Banking Alliance and has developed a strong climate policy which details intermediate targets for emission reduction, focussing on greenhouse gas (GHG) emitting sectors, as well as reducing exposure to certain sub-sectors, such as the upstream oil industry. BNP has also collaborated with other banks, such as Société Générale and Standard Chartered, to develop an open-source methodology to adapt the Paris Agreement Capital Transition Assessment to credit portfolios, which helps best practice development and measurement across the sector.

In total, only 7% of the BlueBay portfolio is exposed to banks lending to the oil & gas and automotive sectors. In BlueBay's view, as long as banks are setting themselves robust targets and providing data and methodologies to measure the success of reaching these targets, then this should be viewed as an acceptable investment strategy.

Sarasin engagements on our behalf

7IM has had an investment mandate for a portion of the Sustainable Balance Fund's equity assets with Sarasin & Partners for over 15 years. Sarasin operates an integrated approach to ethics and stewardship, being an active owner to promote effective governance of the companies held in the fund on behalf of 7IM clients. This includes voting on the holdings in the fund in line with its investment objectives, e.g. favouring greater diversity in companies and voting in line with climate change objectives and the Paris Agreement.

We have confidence in Sarasin's commitment to stewardship, especially in their ability to convert engagement into successful outcomes, often in collaboration with other investors, as described in last year's *Stewardship Report*.

SARASIN & PARTNERS

Sarasin engagement case studies

London Stock Exchange Group (LSEG)

LSEG is held in Sarasin's Sustainable Balance mandate. In 2022, Sarasin met with the Chair of the LSEG and Head of Investor Relations to discuss concerns regarding poor investor communication following the merger with Refinitiv, the Board's failure to respond to Sarasin's correspondence, Board composition, remuneration, and net zero alignment.

The meeting generated positive outcomes and steps for further improvement. Sarasin received a clear plan about how the LSEG would improve investor communications and upgrade the composition of the Board. The unexpected change in the executive remuneration policy in 2021 was also explained to Sarasin. In addition, Sarasin highlighted the potential for LSEG to establish itself as a market leader in net zero transition through several avenues: make a net zero transition plan a conditionality for entry into the premium market, produce financial reports incorporating material climate risks and a 1.5C sensitivity analysis, and commit to net zero-aligned lobbying activities. The Chair showed interest in Sarasin's suggestions and encouraged Sarasin to follow up with the CEO on these proposals.

Siemens

Sarasin expressed concerns regarding labour and human rights performance with Siemens, a multinational German industrial manufacturing company, through 2022. Sarasin had been apprehensive about Siemen's bribery and corruption allegations, as well as supply chain risks, and challenged the Chief Compliance Officer and the management team on the effectiveness of their internal controls and whistleblowing, assessment and monitoring of higher risk areas of forced labour, and workers' rights and pay equity.

Sarasin learned that Siemens have taken on board learnings from previous bribery and corruption allegations, and have implemented stronger controls. They are also developing a comprehensive compliance management system, with improved policies and procedures. Sarasin was also informed that Siemens are in a good position to comply with the new German Supply Chain Due Diligence law, which partly addresses labour and human rights issues within the supply chain. Sarasin will continue to monitor Siemen's progress in this matter.

Stewardship and engagement at 7IM

Continued

Third-party managers engaging on our behalf

As a multi-asset fund of fund business, 7IM invests with a range of external managers, both active and passive. We seek external managers with sound engagement practices for the benefit of investors and clients. As stewards of clients' assets, we expect and encourage managers to engage with their companies and holdings on ESG. Several case studies of managers engaging with companies in their portfolios are described below.

Ninety One and Croda

Ninety One gave us an example from 2022 of how they had engaged with Croda, a leading bio-based chemical producer, to understand the contribution of the company's new flavours and fragrances business as well as biodiversity issues. Croda produces ingredients for products such as skin creams, vaccines, and biological pesticides. These ingredients replace carbon-intensive and fossil-fuel-based alternatives, making it an enabler of decarbonisation in industries like personal care and crop protection.

Following Croda's acquisition of Iberchem and Parfax, Ninety One visited one of their manufacturing plants in the second quarter of 2022. Parfex, as a fine fragrance business, has developed a deep expertise in natural ingredients that has not yet been transferred to Iberchem, but Ninety One was reassured that this is a clear priority for Iberchem management and Croda more broadly.

Ninety One met with the Managing Director of Croda's Crop Protection business, to discuss biodiversity and how products are contributing to land savings. They gained an understanding of Croda's methodology for calculating land savings as a result of use of their products and encouraged Croda to provide further transparency around these calculations. Ninety One also discussed Croda's goal to develop a scientific-based target for the company's impact on nature, aiming to become 'nature positive', although this remains in an early stage.

Baillie Gifford and Kering

Kering, a French luxury goods corporation, is held in Baillie Gifford's Managed Fund and the Scottish Mortgage Investment Trust, both of which 7IM held in 2022. Baillie Gifford engaged with Kering pre-AGM on remuneration and Board attendance.

Kering planned to introduce an employee share scheme for its wider workforce, to act as a retention tool, which Baillie Gifford viewed positively. The company is also ratcheting up the target ambition on the ESG components of its long-term incentive plan for executive management, which includes a metric linked to sustainable raw material sourcing. Baillie Gifford raised concerns regarding the low Board attendance rate of some Board members, and expect to see attendance rates improve in the following year.

BlueBay fixed income engagement

BlueBay Asset Management, a fixed income specialist that manages an ESG financial capital bond fund held in 7IM funds, gave us an example from 2022 of how they had engaged with a company on ESG issues to get a better understanding of the business.

Volkswagen (VW) is one of the largest automotive companies in the world. It was highlighted as a red-flag ESG controversy company by MSCI, which gave it a United Nations Global Compact (UNGC) compliance status of Fail following allegations of forced labour of Uyghur minorities at the SAIC Volkswagen (Xinjiang) Automotive plant. The plant is a 100% subsidiary of a joint venture (JV) between SAIC and VW, and is not controlled by VW through this structure.

BlueBay engaged with VW to gain insight into its view of the downgrade. Due to the ownership structure between SAIC and VW, VW has limited ability to influence the plant.

BlueBay also engaged with MSCI to gain a better understanding of the rationale as other companies operating in the area have not been downgraded.

Following the engagements, BlueBay changed VW's 'high' ESG risk rating to 'very high'. BlueBay will continue to monitor VW and engage as appropriate. In the meantime, they have reduced exposure to VW in all their SFDR Article 8 funds.

Barings emerging markets debt engagement

The Barings' Emerging Markets Debt Blended Total Return Fund is one of our core holdings. Barings illustrated their engagement capabilities on social issues through their interactions with JSW Steel, an Indian multinational steel producer. Barings engaged with the company on two social concerns in 2022: their contractors' fatality rate, and community relationships.

Barings' assessment of JSW Steel's social performance highlighted that despite zero staff fatalities in 2020, there were 16 contractor fatalities in that year. Management said this was due to a lack of training for contractors and have responded with increased safety training for them.

Barings engaged with JSW regarding community protests against JSW's Utkal Steel project in Dhinkia, in Odisha State. The JSW management team was responsive and transparent in this matter. JSW was able to dedicate resources to work with local communities and started the disbursement of financial assistance to the villagers. After local elections, further discussion will be held on rehabilitation and resettlement benefits of the project. Barings will continue to engage with management and monitor the situation.

Case study: Effective manager engagements

Understanding how managers engage with their underlying holdings to add investment value and take material risks and opportunities into consideration is part of our ESG assessment process. Schroders, a large British active asset manager managing an array of asset classes, has developed a clear outcome-based engagement policy, Engagement Blueprint, which they describe as follows:

1. Materiality: We seek to focus our engagement on what we consider to be the most material sustainability threats and opportunities to the company.
2. Regional context: The potential materiality of issues and the expectations we have of companies may vary by country and region.
3. Realistic outcomes: We consider both leading practice and what could realistically be achieved by the company in the next few years, including considering the size of the company and how quickly it might effect change
4. Ability to monitor progress: We aim to use objective, measurable metrics or indicators that can be used to assess company performance on an issue.
5. Length of engagement: We aim to set short- to mid-term objectives – that can often be achieved over a 12- to 24-month period depending on the intensity of the engagement – but with a longer-term vision in mind.

We were pleased to see Schroders' open and transparent active ownership policy directed at key engagement themes, and view it as a successful case study in applying a common approach to engagement across asset classes on a global scale.

Stewardship and engagement at 7IM
Continued

7IM direct equity engagements

About 6% of 7IM assets under management are held in direct stocks and bonds, many of which are UK investment trusts, to get exposure to specialised investment themes or market segments. We monitor them closely and engage with them, where appropriate, on stewardship and ESG issues.

Target Healthcare REIT

We held Target Healthcare REIT in our Sustainable Balance Fund in 2022. We originally invested in the REIT due to its strong ESG qualities compared to its peers. We have been engaging with them since 2021 on a range of topics, including energy efficiency, ESG reporting, and staff and resident wellness.

On the environmental side, the vast majority (96%) of Target's care homes have wet-rooms, compared to the industry's 29% average. The buildings are modern, with 100% A-C EPC ratings and low-carbon ground source heating. From our engagement, we found that Target have a strong interest in making sure the staff interaction and quality of care is positive by working constructively with tenants. We were also informed that Target Healthcare had "secret shoppers" who visited tenanted homes and engaged with the landlords as part of the monitoring process. There is a certain degree of key person risk associated with the CEO, who has been the main face of Target Healthcare, but we remained satisfied with the team supporting him. They are also planning to increase their ESG reporting efforts, such as Global Real Estate Sustainability Benchmark (GRESB) reporting and following an enhanced data collection process.

Collaborative engagements

There are occasions when shareholders might collaborate with other investors to increase their influence on specific company decisions, to ensure that outcomes benefit their clients. This might happen when they intend to vote against company management and believe that other shareholders share their views and concerns. Small shareholders typically have little influence on companies, but when they band together, they can be far more effective. We take part in collaborative engagements when we think we can enhance the value or lower the risks of client assets and expect our third-party managers to engage collaboratively on our behalf when appropriate.

As an investment management firm that primarily uses fund-of-fund structures, the opportunities we have to engage directly with companies are limited. Directly invested equities make up only 6% of our assets under management, with unitised products or closed-ended investments making up the rest.

Case study: Carbon Disclosure Project

In 2021 we began a project to consider collaborative initiatives that would enable us to enhance the environmental engagement we could have on behalf of our investors. After extensive research, we signed up to the Carbon Disclosure Project (CDP) in November 2021. Prior to applying, we had been interested in two optional campaigns that we could join, the Non-Disclosure Campaign and the Science Based Targets Campaign. We took part in the CDP Non-Disclosure Campaign in Q1 2022.

The Non-Disclosure Campaign targets companies that have not responded to the CDP in the past. The campaign endeavours to encourage greater disclosure by companies, since firms that measure and disclose their impacts on the environment are more likely to do something about them. The approach is to co-sign letters with other large investors, which are then sent to the CEOs of those companies.

The only company on the list of non-disclosing companies that we had a direct holding in was Berkshire Hathaway. Alongside Berkshire, we added large polluting companies from the FTSE 100, such as Glencore, Rio Tinto, BP and Shell and the Indian energy firm Reliance Industries, which we access through our emerging market equity holdings. We hold almost £900m indirectly in UK equities through active and passive managers and have a sizeable emerging market allocation, hence feel justified in being co-signatories for these companies.

The campaign targeted 1,466 companies from 30 countries. Across the three themes of climate change, water and forestry, 388 of the companies targeted responded. Using a control group to analyse the effectiveness of engagements, CDP found that companies were 2.3 times more likely to disclose after being targeted through the Non-Disclosure Campaign.

The best response rates were in high-emitting sectors such as transportation and power generation. Companies in these sectors were 4.5 times more likely to disclose after being contacted through the campaign. Increasing climate disclosure in these sectors is vital if the fight against climate change is to be successful.

Reliance Industries responded in 2022 for the first time after multiple engagements in previous years. Hitherto Reliance Industries has been slow to introduce environmental targets, but perhaps this will change in the future. They have committed to enabling at least 100 GW of solar energy by 2030.

Stewardship and engagement at 7IM
Continued

Sarasin engaging with auditors on climate change

Sarasin's engagement with large audit companies (described in 7IM's 2021 *Stewardship Report*) continued into 2022. Sarasin challenged the Big Four auditors on the lack of identification of climate risks in the reports and accounts of companies audited. In November 2022, Sarasin coordinated engagement letters from investors to the heads of the Big Four auditors, copying in the Financial Reporting Council. The letter reiterated investors' ongoing expectations for more quantitative disclosures relating to the incorporation of climate considerations in their audits, as well as 1.5 degree C-aligned sensitivities provided by the companies.

Since Sarasin initiated this work in 2019, they have welcomed progress and the discussions they have held with the audit firms. However, they observe a continued lack of detail and reassurance that individual companies' accounting assumptions and judgements have been fully tested for shifting outlooks linked to the energy transition. It is notable how few companies have made changes to accounting assumptions, despite the urgency of the climate crisis.

We continue to work with Sarasin to take up their challenge on auditors. We will pursue this issue at 2023 annual general meetings, and will question the reappointment of auditors at climate-exposed companies.

Fund managers engaging collaboratively on our behalf

Royal London Asset Management (RLAM) and Just Transition

RLAM have collaborated with the Friends Provident Foundation (FPF), an independent charity committed to addressing equity and social justice issues in society, to engage with banks regarding the need for a Just Transition policy. RLAM and FPF met with several banks and encouraged them to integrate Just Transition into their climate transition plans. All have agreed to address the subject. An early success was HSBC, the first bank to develop a Just Transition policy in 2022.

Through 2021 and 2022, RLAM engaged with HSBC on Just Transition. RLAM provided feedback on HSBC's draft energy policy which outlines its position on oil, gas, hydrogen, renewables, hydropower, biomass and nuclear. The feedback allowed HSBC to improve definitions, clarify the wording of its commitment, and incorporate Just Transition when assessing their oil and gas client's climate plans. In addition, RLAM asked the bank to change the wording in its policy from 'consideration' to 'integration' or 'application' of Just Transition principles, but HSBC did not address this request.

Legal and General Investment Management (LGIM) and the Access to Nutrition Initiative

We hold a number of LGIM products in our funds and models. LGIM acknowledges the importance of nutrition within global health and development, and we were pleased to see their participation within the Access to Nutrition Initiative (ATNI) and ShareAction Healthy Markets Initiative in 2022.

Via ATNI's Global Index, LGIM can assess holdings' contribution to address malnutrition. In 2022, LGIM was one of the lead investors for collaborative engagement to address Unilever's score downgrade on ATNI. LGIM co-signed a letter to Unilever with other initiative members highlighting areas for improvement. These include issues related to products, targets, marketing, and transparency. LGIM expressed concerns regarding the amount of revenue generated from 'healthy' products and beverages, and the discrepancy of this figure versus the percentage of products that Unilever states meets the highest global nutrition standards. The letter also contained targets for affordability of healthy products and transparency of the targets to increase the volume of healthy product sales.

In December 2021, ShareAction filed a shareholder proposal at Unilever asking that the company disclosure of the proportion of food and drink sales from healthier products be aligned with government-endorsed nutrient profiling models, and that the company set a strategy and targets to significantly increase this proportion in the longer term. LGIM decided against co-filing on this as they were not in complete alignment with some of the more granular details. They met with Unilever several times and took on the role of supporting dialogue between ShareAction and Unilever to understand Unilever's position. As a result, the resolution was withdrawn in March 2022.

Columbia Threadneedle and Climate Action 100+

We are invested in Columbia Threadneedle's (CT) UK Social Bond Fund. During 2022, CT participated in several engagements with Mercedes-Benz. The carmaker made encouraging announcements on the energy transition in 2022, planning to go all-electric by 2030 and reduce emissions per car by more than half by 2030. As part of CT's membership of Climate Action 100+, CT engaged collaboratively to advocate for improved disclosures on Paris-aligned accounting, Task Force on Climate-related Financial Disclosures (TCFD) reporting, and lobbying activities.
During the year, they had positive conversations on improvements to financial accounts and TCFD, where Mercedes was eager to receive feedback. Mercedes made an important step forward by releasing its first lobbying report in 2022, following CT's encouragement.

Stewardship and engagement at 7IM
Continued

Escalation

We define 'escalation' as situations where engagement has not worked successfully, and a more proactive approach is required. With companies, we will escalate matters if we are planning to vote against management at a company meeting. Before the meeting, we will engage with the management to explain our views and ensure we understand their views. The issues we escalate will depend on how material they are, and on our capacity to influence outcomes.

We might escalate matters via various means, e.g. engaging with the management ahead of General Meetings, attending ad hoc meetings with the company, or meeting with the Chair or other Board members to discuss concerns. We might even make a public statement in advance of a General Meeting or submit a resolution and speak at a General Meeting, but such cases would be exceptional. We might collaborate with other investors in an escalation process, to raise our chances of securing a positive outcome.

Since 94% of our assets under management are held in third-party products, we expect external managers to escalate with companies on our behalf, when appropriate.

Likewise, on occasion, we have found it necessary to escalate issues with investment managers, where we believed their management, product strategy or implementation was not appropriate and that our concerns were not being considered seriously. We will escalate with management companies at whatever level is required.

Direct escalation case study

Direct engagement case study: Civitas

We have been engaging with Civitas, a UK social care housing real estate investment trust (REIT) held in the Sustainable Balance Fund, over several years. Civitas provides housing in the community for vulnerable adults, which is managed by registered providers of care and is regulated by the Regulator of Social Housing.

Civitas has faced extensive controversy in recent years. In addition to the attack by short seller Shadowfall in 2021 (see our 2021 *Stewardship Report*), the regulator expressed concerns in 2022 that the registered providers Civitas sign leases with are not sufficiently capitalised and there is a risk of them failing. We engaged with Civitas to understand why the company suffered such negative news flow, seemingly worse than other social housing REITs despite it having delivered relatively solid earnings. The negative news appeared to be the main weakness behind the share price.

We learned that the company often steps in to help registered providers get payments from local authorities. The payment to the registered provider is made up of a relatively small amount of rent which is passed on to Civitas, and a larger amount for the care package, which was more problematic than we had realised. To allay the regulators' fears, Civitas put in place a provision that allows registered providers to defer payment of rent if it is not forthcoming from the local authority. Civitas said the reason why other social housing REITs weren't being criticised by the regulator is that they are not regulated.

Following these controversies, we did not believe the potential gains from holding Civitas cover the investment and reputational risks of holding the stock. We sold our position in Q4 2022.

Case studies: 7IM escalation with external managers

Geode / Fidelity

Thanks to the initial roll-out of our ESG questionnaire in 2021, we identified Fidelity's passively managed product range, managed by a firm called Geode, as an area of engagement. In 2022, we built on our engagement regarding the stewardship concerns detailed in our 2021 *Stewardship Report*.

Geode, based in the US, with a predominantly US investor base, manage more than $800bn assets with just over 100 staff. Due to pressure by investors like us, Geode have improved their stewardship slightly. For example, they increased their proxy voting and engagement team from two in 2021 to four in 2022, with a view to raising this to six in 2023. Nevertheless, their efforts in this space remain way behind their industry peers, be it in the form of voting & engagement, active participation in industry initiatives, moving towards corporate sustainability or articulating their diversity agenda.

Geode kept us informed regarding their 'ESG Roadmap' through 2022. In autumn 2022, we focused our communication on Fidelity International, who are the manager and provider of the index products (sub-advised by Geode) that we invest in. We encouraged Fidelity International to reconsider the investment management arrangement with Geode, though this is unlikely, given the historical relationship between the two firms and the 'leverage' that Fidelity International have within the wider organisation.

We have seen little evidence of improvement and concrete steps taken by Fidelity. We shall continue to monitor and maintain a dialogue with Fidelity in 2023.

Stewardship and engagement at 7IM
Continued

Case studies: Escalation by external managers on our behalf

Given our investment approach, we are almost entirely reliant on third-party fund managers to vote, engage with and scrutinise companies on our behalf. Our expectations are high when it comes to external managers being aware of controversies affecting a company they are invested in, proactively addressing issues via continuous engagement, and being ready to escalate (and possibly divest) if responses by the investee company's management remains unsatisfactory.

Regnan and Home REIT's questionable governance

A positive example of this approach is an investment by one of our external fund managers, Regnan, in Home REIT. In November 2022, media reports surfaced, quoting a short seller that accused Home REIT of questionable financials, inflated asset prices and a poorly aligned fee structure. Regnan held a small position in Home REIT, and we challenged the fund manager with regard to this holding. We found that Regnan was already in dialogue with Home REIT's management and working through various issues. Regnan eventually sold this holding, pointing to the loss of trust caused by the management of Home REIT. Regnan will continue meeting with the management team, and may reconsider the stock at a later date.

We felt well-informed by Regnan throughout the process and understand that the fund manager made a prudent and informed decision when it decided to divest. Regnan's constructive and collaborative approach, coupled with the readiness to exit the investment altogether, is an illustration of what we expect all our external fund managers to do.

Baillie Gifford and governance issues

In 2022, Baillie Gifford escalated governance concerns with SeaGen, a US biotech company focussed on developing anticancer drugs, which they have held since the inception of the Health Innovation Fund. Baillie Gifford expressed concerns regarding the high turnover of people at management level, and lowered its conviction in the company's 'science focused' culture due to the unbalanced focus on one area, Antibody Drug Conjugate technology. The engagements with the SeaGen management team led Baillie Gifford to sell their position in the company.

Governance and voting

7IM is responsible for the effective stewardship of all companies in which we invest. We have a duty to vote on our shareholdings to preserve and grow client capital, encourage good business behaviour and support sound corporate governance. We exercise our rights and responsibilities on all assets held in our funds.

As a multi-asset multi-manager asset manager 7IM exercises its rights and responsibilities mainly through the votes made by third-party managers of the funds it invests in. Listed equities form a relatively small proportion of overall assets under management – around 6% – and these are the holdings that are directly voted on by 7IM and for which 7IM applies its own voting policy.

Voting on investments held directly

7IM seeks to vote on all shares held actively and passively where voting rights are held. 7IM considers the UK Corporate Governance Code and other international guidance on governance when voting on issues like board structure, remuneration and shareholder rights. As a rule, we expect to vote with management unless dissatisfied by a company's adherence to these governance codes, or there is a specific ESG-related or other issue that we support.

7IM does not use an advisory service to recommend how to vote. We prefer to vote ourselves, making decisions using internal resources, since that better reflects 7IM's governance views, rather than taking an external adviser's recommendation. There are relatively few direct holdings that need to be voted on, so voting can be managed in-house.

For listed equity assets that are held directly, the 7IM Investment Management team will review and discuss proposals and decide how to vote.

House policies on voting

As a rule, 7IM votes on directly-held assets held in funds in line with management unless otherwise agreed by the sector lead on the Investment Management team and the ESG Investment Committee. One policy is set for all funds managed by the Investment Management team.

There are occasions when this house rule is overridden, e.g. where investments are held for clients in a private OEIC or in their own name, and they wish to vote on the shares themselves. It would therefore be possible for 7IM to vote one way in the main funds and another way for a client who holds the same shares in a private OEIC or directly. These directly-held client assets are held through a different nominee company to the investments held in the 7IM funds and there is a separate voting policy in place whereby the nominee company can arrange for votes to be exercised in line with client requests.

Fixed income votes

When investing directly in fixed income securities, we study the terms and conditions of the issue before investing. There are rare occasions when the terms and conditions of a fixed income security may change and require a vote to change them. The reasons for changes to these terms are usually around the index used to calculate the interest paid, but there may be other changes that need to be voted on.

Our ESG questionnaire asks managers if they engage with fixed income issuers. As mentioned earlier, some engage on all asset classes and others say that as fixed income holdings do not have a vote they do not engage. We would expect them to vote on resolutions as described above, and discuss this in our regular meetings with the fund managers.

Proxy voting service

7IM uses a proxy voting service to execute voting decisions and maintains a voting record on these listed equity assets. The policy on disclosure of voting activity is to make records available on the 7IM website on an annual basis.[3]

Some clients require voting records to be disclosed, and for these clients we will arrange a report that covers the specific votes within the required period and report on any engagements that have taken place.

There have been few requests to view voting records, but if a client wants to see specific votes such as for an individual company or for a fund then these are available. If the number of requests to see the voting records were to rise, 7IM would consider moving to half-yearly or even quarterly reporting.

Apart from the voting done by the third-party fund managers and Sarasin, 7IM monitors voting timetables through regular alerts from its proxy voting services. This means the voting decisions can be managed efficiently and the appropriate members of the Investment Management team can decide how the votes should be cast.

[3] For 2022, see https://www.7im.co.uk/media/fp5fehon/full-voting-records-2022.pdf

Securities lending

As a fund house, 7IM can engage in stock lending, which provides extra income for the funds, but the benefits are small compared with the administration costs and must be weighed against the rights that might be sacrificed by not owning the shares when voting is taking place. We have been careful not to lend securities when an important vote is looming, and we check that the managers of funds we invest in have a similarly cautious approach.

In 2022, after a review requested by the Authorised Corporate Director (ACD) Committee, the decision was taken to cease stock lending for the foreseeable future.

How we voted in 2022

7IM uses proxy voting services provided by Broadridge and ISS to vote on directly-held investments. Team members monitor corporate actions and voting proposals on shares and securities held in client portfolios, to assess whether the recommendations made by the management are, in our view, in the best interests of the investors.

We monitor service providers by requesting reports on specific votes or on how a fund has voted. When we receive client requests for voting on funds, we are able to pull specific reports.

During 2022 we voted on 2,776 proposals. These votes represent a modest proportion of the overall votes made on 7IM's behalf, because most listed equity votes on holdings in 7IM funds are not made by 7IM directly but by the third-party managers of the products held in 7IM funds, or by Sarasin, which manages a portfolio of listed equities on 7IM's behalf.

Below, we outline our reasons for voting both for and against management on two Berkshire Hathaway resolutions, why we voted for management on the reappointment of Target Heathcare's auditors, and why we voted against equity issues without pre-emptive rights for several investment trusts.

7IM voting record in 2022	
Voted shares	1,205,128,870
Shareholder meetings	116
Proposals voted	2,776
With management	2,706
Against management	69
Not voted	1

Governance and voting
Continued

Direct voting case study: Berkshire Hathaway and ESG

In 2021, Berkshire Hathaway scored poorly on many third-party ESG scoring systems. We voted with management against two ESG-related shareholder proposals despite normally favouring standardised ESG disclosure requirements. The first proposal was to require an annual climate change disclosure report for all Berkshire subsidiaries, and the second was to require an annual diversity and inclusion report. Our view then was that Berkshire Hathaway had a small head office team and outsourced the decisions on climate risks, measurement, disclosure, and greenhouse gases reduction to its subsidiaries, as well as diversity, equity, and inclusion reporting efforts. At the time, we believed it was unfair to ask the Berkshire Hathaway head office to manage these risks.

In 2022, after further consideration within our Investment Management team, we highlighted the risks of Berkshire's subsidiary companies not addressing these ESG issues. We decided that although the head office team was small, it was ultimately their responsibility to measure and disclose on climate change and diversity and inclusion. In addition, we concluded that Berkshire Hathaway should upgrade its reporting efforts to be in line with Task Force on Climate-related Financial Disclosures recommendations. We voted against management and in favour of shareholder proposals to produce an assessment of climate risks, to measure, disclose and reduce greenhouse gas emissions, and to report on diversity, equity and inclusion.

In the UK, separating a company's Chairman and CEO roles is considered to be good governance, but in the US it is still common to see these roles combined. We have a strong conviction in Warren Buffet, who has done an exceptional job in his 52 years as Chairman and Chief Executive Officer at Berkshire Hathaway, and prefer him to keep both roles (as discussed in last year's *Stewardship Report*). We thus voted in favour of management and against a shareholder proposal to separate the Chairman and CEO roles at Berkshire.

Direct voting case study: Target Healthcare REIT

In 2022, Target Healthcare REIT, a UK care home real estate investment trust we hold in the Sustainable Balance Fund, issued a management proposal to reappoint Ernst & Young (EY) as auditors. We believe it is important for auditors to provide sound disclosure relating to material climate change considerations in company accounts. We examined Target Healthcare and its auditors to understand how they are addressing this matter before deciding on the proposal.

We found that the auditors had taken climate considerations into account. They explained that Target Healthcare's parent company, Target Fund Managers Limited, include climate change-related risks as part of 'Other Information'[4] in the annual report rather than in the audited financial statements. EY's audit effort in climate change focuses on whether the issues identified in the 'Other Information' section are misstated or materially inconsistent with the financial statements. EY concluded that as the investment properties are valued at fair value, no further climate change impact needed to be considered. EY also challenged the Directors' considerations of climate change in their assessment of viability and associated disclosures. We voted in favour of reappointing EY as we were satisfied that they had taken climate change risks into account.

Case study: Voting against equity issue without pre-emptive rights

In our direct holdings in 2022, there were a few proposals regarding authorising the issuance of equity without pre-emptive rights. We consider pre-emptive rights to be an important shareholder right, since we need to ensure we are protecting existing shareholders, and in turn, protecting voting power in order to be sound stewards of our clients' capital.

We voted against management on the issue of equity without pre-emptive rights for three London-listed investment trusts: The Renewables Infrastructure Group, 3I Infrastructure Plc, and Target Healthcare REIT.

[4] FRC (2018) defines 'Other Information' as "all financial and non-financial information included in an entity's Annual Report other than the financial statements and the audited parts of the Directors' Remuneration Report ("DRR")".

Governance and voting
Continued

How we monitor voting and engagement with our third-party managers

In the past year, 7IM has reviewed the voting processes and reporting of the third-party asset managers that exercise rights and responsibilities on 7IM's behalf. As described earlier, we asked managers to respond to a questionnaire on ESG and Stewardship responsibilities to establish what their voting policy is and how it is implemented.

We asked whether the manager has a voting policy and to provide us with a copy of it. We questioned whether this explicitly covers environmental and social proposals. When it does not, we urge the manager to include them. We feel it is important that managers have policies on environmental and social voting, since this is an important component of Stewardship.

For equity managers, we expect to see a clear voting and engagement policy, including how they address shareholder environmental and social votes, their decision-making process, whether this is within the investment team or a specific Stewardship or responsible investing team, whether they use a third-party provider to support voting or engagement, details of their voting and engagement activity, with statistics on votes against management and case studies, and finally, how this is communicated to shareholders.

We received a number of excellent reports on voting and engagement, describing the manager voting record on environmental and social issues and detailing votes against management on auditors, executive remuneration and the Board of Directors.

Some reports failed to demonstrate a sound voting record and/or engagement activity. It would be unfair to penalise fixed income funds for the lack of a voting record, but there were a handful of equity funds that we thought did not provide adequate voting records or examples of engagement, e.g. if voting and engagement activities have not been shared with investors or are not obvious on the company website. We engaged with these managers and for the most part, our feedback was received well, and subsequent reports were greatly improved.

Outside of the ESG questionnaire, there is regular monitoring of the holdings in the third-party funds where important votes are discussed.

Managers of non-equity assets like fixed income and alternatives do not vote at company annual general meetings, and their approach to voting and engagement is necessarily different. The better managers said that even if they did not have a vote, they would engage with a company, as holders, for instance, of corporate bonds, because as owners of the company's debt, they expect to be able to influence its approach to environmental, social and governance matters.

Our ESG evaluation tool discussed earlier has proved useful in helping us to assess how our third-party managers are approaching voting and engagement on our behalf, and on behalf of the investors in our funds. We will work with these fund managers, particularly those we think can upgrade their voting and engagement, to improve and enhance our questionnaire next year.

Third-party managers voting on our behalf

BlackRock and J Sainsbury plc

Sainsbury's, a large groceries retailer in the UK, employs over 170,000 people. In the 2022 annual general meeting, a shareholder proposal requested Sainsbury's to be accredited as a 'Living Wage Employer' and follow the conditions required by the Living Wage Foundation. Though it generally supports companies that pay wages equal to or above current real living wage rates, BlackRock voted against the shareholder proposal.

BlackRock believes worker pay policies and rates should be determined by the company's management and the Board. BlackRock explained that the legally binding proposal would unduly constrain the normal business decision-making of management. They prefer to engage with companies on this topic when relevant, rather than being overly prescriptive. In addition, BlackRock views Sainsbury's existing policies, employee benefit plans and disclosures as largely addressing the issue of employee pay. Proxy advisors ISS and Glass Lewis and the Board recommended that shareholders vote against the proposal, which did not pass.

Alliance Bernstein (AB) and Maximus

We have holdings in the AB International Health Care Portfolio, which invests in Maximus, a US-based health and human services technology company specialising in managing and administering government-sponsored programs with government agencies. In 2022, AB voted for a shareholder proposal that requested a third-party racial equity audit analysing Maximus' impact on non-white stakeholders and communities of colour. The proposal also requested that the audit report be publicly disclosed on the company's website.

Maximus recognise diversity issues at the top managerial level, in particular racial diversity, and had already begun to re-establish its Board structure in the last three years. This proposal will further encourage and enhance racial diversity at the top levels of management.

AB voted for the proposal, and it passed with majority support. Maximus' chairman pledged to create a Board-level team to begin the audit process.

Legal and General Investment Management (LGIM) and Sumitomo Mitsui

In 2022, LGIM faced votes on issues regarding governance and climate change within Sumitomo Mitsui, a multinational banking and financial services institution. LGIM voted against the re-election of a director and voted for climate-related disclosures in the AGM.

In terms of cross-shareholdings, LGIM's threshold is 20%. LGIM recognises that there are high levels of cross-shareholdings in Japan and reducing this remains a challenge despite various reforms in the last decade or so. Through LGIM's engagement with Sumitomo, LGIM was pleased to hear that they plan to reduce cross-shareholdings to zero over time. LGIM voted against the director's re-election as he appeared on multiple committees and voted against the Board Chair due to the firm's strategic shareholding exceeding LGIM's threshold.

Regarding climate change, LGIM supported a proposal to disclose the company's business strategy to align investments with the goals of the Paris Agreement and a proposal to disclose measures to be taken to make sure that the company's lending and underwriting are not used to expand fossil fuel supply or the associated infrastructure. Though neither resolution passed, LGIM will continue to engage with the company on enhancing climate-related disclosures.

Governance and voting

Continued

The 7IM Sustainable Balance fund

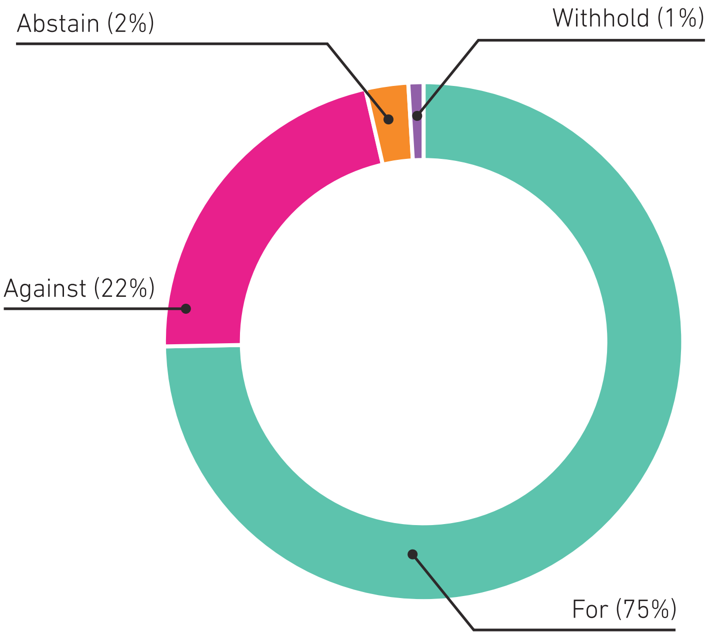
The 7IM Sustainable Balance fund is managed to a balanced risk profile, meaning returns are expected from both income and capital-enhancing assets. In addition to holding third-party funds, 7IM outsources the stock selection of a portfolio of sustainable global equities to Sarasin & Partners LLP as external manager.

We also use a small number of third-party funds for tactical tilting purposes, having researched their sustainable credentials extensively, and some thematic funds that enhance the sustainability of the fund overall. For the fixed income exposure, we invest in third-party funds to get exposure to other sustainable and impact investments in fixed income assets.

We also hold closed-ended infrastructure and social housing funds and in Q1 2022 we reviewed these assets. They had performed well from 2018 to 2021, but we revisited the investment case with the aim of improving liquidity and diversification. A decision was made to divest some of the less liquid names and replace them with larger and more liquid closed-ended infrastructure funds. The team performed due diligence on an array of potential investments and decided to invest in HICL and INPP based on the underlying assets in each fund and the ways they integrated ESG into the investment process.

Sarasin engage with the companies in the Sustainable Balance portfolio and vote on 7IM's behalf, reporting back to us at our regular meetings where we discuss their rationale and can challenge their decisions. We have confidence in Sarasin's commitment to stewardship, especially in their ability to convert engagement into successful outcomes.

Sarasin voting on 7IM's behalf during 2022
Voting Statistics (%)



Sarasin generally opposed auditors' reappointment when they had been in their position for more than 15 years or if they had not reflected climate concerns adequately (see case study on p. 71). Sarasin voted against the appointment of non-executive directors when the resulting Board did not have an independent majority and voted against remuneration schemes that did not require material share ownership. They abstained from votes on financial statements and statutory reports where there was a lack of climate change visibility.

These are just a few examples of the reasons Sarasin voted against management at annual general meetings – in aggregate, amounting to about one quarter of all the votes they cast on our behalf.

Sarasin voting case studies

Rio Tinto joint venture with China Baowu Steel Group

Sarasin considers corporate restructuring resolutions on a case-by-case basis. Sarasin voted against the management proposal of a joint venture with China Baowu Steel Group Co. Ltd in October 2022. Sarasin was concerned about Rio Tinto's ability to meet its 2050 net zero commitments with this joint venture. Through 2022, Sarasin engaged with Rio Tinto several times on climate matters, but these conversations did not indicate that Rio Tinto was net zero aligned and had sound climate targets for the new asset. Rio Tinto mentioned a US$10 million investment in low carbon technologies with Baowu, but that was quite vague and represented a small portion of the overall investment of US$2bn into this joint venture. Taking all these factors into account, Sarasin opposed the proposed transaction. The resolution passed, but Sarasin will continue to engage with Rio Tinto in this matter.

Medtronic and corporate governance

Under the Sarasin Corporate Governance and Proxy Voting Guidelines, non-executive directors are considered non-independent when they have served on the Board for 12 years or have material links to the company or its executives. Sarasin voted against a resolution to appoint a Medtronic non-independent director, who has been on the Board for 22 years, as Audit Committee Chair. During the last few years, Sarasin has voted against the re-election of this director as well as against the auditor, PricewaterhouseCoopers.

Microsoft and tax transparency

In October 2022, the Centre for International Corporate Tax Accountability and Research (CICTAR) published a report that criticised Microsoft's tax practices in various countries as questionable and insufficient. The report highlighted that despite Microsoft's enormous profits and vast network of subsidiaries, workforce, and customers, the company does not contribute fairly to funding public services. As a member of the PRI reference group on tax transparency aimed at achieving enhanced country-by-country reporting (CbCR) of tax and profits by multi-national companies, Sarasin voted for the shareholder resolution of reporting on tax transparency. Despite the resolution not passing, Sarasin aims to engage with Microsoft on the possibility of improving tax transparency.

Glossary of terms

Active ownership

Investors using their voting rights alongside engagement to effect change and improve the long-term management and value of a company.

Authorised Corporate Director (ACD) Committee

The entity in an investment management firm that holds legal responsibility for funds in the UK. It protects investors by providing independent governance and stewardship.

Carbon footprint

The amount of carbon dioxide released into the atmosphere due to the activities of a household, company or country.

Clean energy

Energy produced by non-polluting sources such as solar, wind and hydro.

Climate change

The long-term change in the expected patterns of average weather of a region or the Earth, linked to global warming.

Corporate governance

The system of rules, practices and processes by which a company is directed and controlled. Boards of directors are responsible for the governance of companies. The shareholders' role includes appointing directors and auditors and making sure an appropriate governance structure is in place.

Corporate Social Responsibility (CSR)

The term under which companies report on their social, environmental and ethical performance, having recognised their responsibility to the community and environment in which they operate.

Energy Savings Opportunity Scheme (ESOS)

A mandatory energy assessment scheme introduced by the UK government in 2014 to make sure large enterprises in the UK are energy efficient.

Engagement

The practice of shareholders entering into dialogue with management of companies to change or influence corporate behaviour and decision-making.

ESG

The consideration of environmental, social and governance factors alongside financial ones in the investment decision-making process. E, S, and G are the three key factors in assessing whether an investment is sustainable in the long run.

ESG integration

The incorporation of ESG factors and analysis into investment decisions.

Glossary of terms
Continued

Fiduciary duty

Fiduciary duties exist to ensure that those who manage other people's money act in beneficiaries' interests rather than their own.

Financial Conduct Authority (FCA)

The conduct regulator for financial services firms and financial markets in the UK. It aims to make financial markets honest, competitive and fair.

Financial Reporting Council (FRC)

The independent regulator that regulates auditors, accountants and actuaries in the UK, and draws up the UK's Corporate Governance and Stewardship Codes. The FRC seeks to promote transparency and integrity in business.

Impact investing

An investment philosophy that favours companies working to provide significant societal or environmental benefits, in addition to generating a financial return.

Low-carbon economy

An economy based on low-carbon power sources with minimal greenhouse gas emissions into the environment.

Markets in Financial Instruments Directive II (MIFID-II)

A European Union regulatory framework from 2008 that aims to increase investor protection and encourage competition by ensuring a set of common standards and rules for investment firms.

Negative screening

An investment approach that excludes some companies or sectors from the investment universe based on criteria relating to their policies, actions, products or services.

Paris Agreement

The Paris Agreement sits within the United Nations Framework Convention on Climate Change. It sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C compared to preindustrial times and was signed in 2016.

Principles for Responsible Investment (PRI)

The United Nations-supported Principles for Responsible Investment initiative was launched in 2006 and is the world's leading advocate for responsible investment. Signatories commit to supporting six principles for incorporating ESG issues into investment practice.

Proxy voting

Proxy voting allows shareholders to exercise their right to vote without needing to attend annual general meetings (AGMs). This can involve shareholders with voting rights delegating their votes to others who vote on their behalf.

Responsible investment (RI)

Responsible investment involves incorporating environmental, social and governance ('ESG') considerations into investment decision-making while practising active ownership. RI is expected to help deliver sustainable, long-term returns for investors.

Scope 1, 2 and 3 emissions

Carbon emissions are a key metric of how an entity contributes to climate change. The Task Force on Climate-related Financial Disclosures (TCFD) recommends that organisations disclose their Scope 1 and 2 greenhouse gas emissions, and if possible, Scope 3 emissions too.

Scope 1 emissions comprise all greenhouse gas emissions generated directly at the company site. This includes, for example, emissions from on-site heating boilers or chemical processes.

Scope 2 covers all indirect greenhouse gas emissions linked to energy generation by energy suppliers, particularly electricity.

Scope 3 covers all other greenhouse gas emissions produced through the operations, products and services of a business.

Stranded assets

Typically refers to fossil fuel reserves that may become 'un-burnable' due to climate, regulatory, technological or market changes.

Strategic Asset Allocation (SAA)

A strategy by which investors set target allocations for a broad range of asset classes in a portfolio and rebalance portfolios periodically back to the targets.

Streamlined Energy and Carbon Reporting (SECR)

A regulation from 2018 requiring large and medium-sized businesses in the UK to report on their carbon emissions and reduce the amount of energy they use.

Sustainability Accounting Standards Board (SASB)

An independent non-profit organisation that aims to develop and disseminate accounting standards that help firms disclose material financial information on sustainability issues to investors.

Sustainable Development

The concept of meeting present needs without compromising the needs of future generations.

Sustainable Development Goals (SDGs)

A collection of 17 interlinked global goals set by the United Nations in 2015 for the year 2030, covering poverty and hunger, health and well-being, education, gender equality, water and sanitation, energy, work and infrastructure.

Sustainable Finance Disclosure Regulation (SFDR)

A set of European Union rules that aim to make the sustainability profile of funds more comparable and better understood by end-investors. Article 6 funds have no sustainability focus, Article 8 funds incorporate ESG features, and Article 9 funds have sustainable investing as their objective.

Glossary of terms
Continued

Tactical Asset Allocation (TAA)

An investment strategy that involves making shorter-term or tactical adjustments to a portfolio to maximise returns or hedge against risks.

Task Force on Climate-related Financial Disclosures (TCFD)

A group established by the Financial Stability Board of the G20 nations, to focus on reporting on climate-related risks. It first reported in 2017.

Taskforce on Nature-related Financial Disclosures (TNFD)

A large group of investors, scientists and governments that's developing a framework for organisations to report and act on nature-related risks. Its first report appeared in 2022.

UK Stewardship Code

A code first published by the Financial Reporting Council in 2010. The Code underwent a substantial revision in January 2020.

Weighted Average Carbon Intensity (WACI)

A measure of a portfolio's exposure to carbon-intensive companies, and hence to potential climate change-related risks. It is defined as the weighted average of [Scope 1 + 2 Emissions / $1M Sales] for each company in the portfolio.

If you would like further information regarding any of our services:

020 7760 8777

information@7im.co.uk