

# **Axiom Investors**

## **Sustainability Investment Risk Policy**

### **INTRODUCTION**

This policy document outlines Axiom Investors (“Axiom”) approach to integrating Environmental, Social and Governance (ESG) factors within its investment risk management framework. It applies as standard to all investments made within pooled vehicles, UCITS and separate account mandates.

This Policy is reviewed on a regular basis by Axiom’s ESG Committee and updated where necessary to reflect changes in circumstances and actual practice.

### **ESG investment factors**

Investment analysis of non-financial factors – commonly referred to as Environmental, Social and Governance (ESG) factors – encompasses those aspects of a company’s operations which may materially influence its ability to meet its financial objectives in the long term. These ESG related risks (and opportunities) will vary by country, industry, as well as by characteristics specific to an issuer such as size and geographical footprint. However, examples of each type of ESG risk could include the following:

- *Environmental*: climate change - ‘stranded assets’ risk for oil & gas companies.
- *Social*: human rights & supply chains – security of supply risk for retailers sourcing from suppliers operating unethical and illegal working conditions.
- *Governance*: transparency & integrity – lack of appropriate board oversight and decision making structures which undermine investor confidence in management.

### **Our investment philosophy**

Axiom is committed to delivering attractive returns for its clients over the long-term. Its investment approach to generate alpha is governed by a style incorporating the following investment principles:

- Dynamic, research driven approach;
- Disciplined, risk controlled environment, and
- Active management (both top down and bottom up inputs).

Axiom believes ESG factors can potentially have a material impact on an issuer’s long-term financial performance. Poorly managed ESG risks can lead to inefficiencies, operational disruption, litigation and reputational damage, which may ultimately impact an issuer’s ability to achieve their financial and performance objectives. Supplementing traditional financial analysis by reviewing ESG related management practices and performance is therefore not only prudent but also in line with Axiom’s fiduciary duty to optimize investor returns.

Axiom considers ESG information when assessing the return potential and riskiness of an investment opportunity. Our investment team has incorporated these factors since the inception of the firm in 1998. All relevant and material ESG considerations are systematically evaluated and expressed within Axiom's Rating Grid, which directly informs our buy and sell decisions, as well as our position sizing, ensuring we uniformly account for these factors.

## **ESG INVESTMENT RISK MANAGEMENT APPROACH**

While Axiom's investment process has always to some degree, taken into account ESG related risk factors in the decision making process, during 2020 Axiom reinforced its commitment by becoming a signatory of the United Nation-supported Principles for Responsible Investments (PRI), a global voluntary initiative focused on the investment industry, whose signatories have committed to integrating ESG factors into investment processes.

### **ESG investment strategies and frameworks**

#### ESG integration

Axiom primarily employs an ESG integration investment strategy. ESG integration describes an approach where material ESG risk factors are considered as part of the broader investment process. Such an approach potentially means portfolios do not automatically excluding issuers from investment on purely on ESG grounds if the investment team does not feel such risks are relevant and/or the risks are reflected in the valuation metrics. Its purpose is to ensure Axiom's investment team is aware of and making informed investment decisions with knowledge of key ESG risks. In this way, ESG factors are an input into Axiom's investment process, but they are not necessarily the key determinant in the final investment decision making process, which ultimately reflects the view of an investment's risk or return.

In line with Axiom's active management philosophy, ESG integration involves considering both:

- *Top-down macro-level ESG analysis:* analyzing and evaluating trends and development at a global/regional/country level in terms of the political, legal and regulatory, environmental and social megatrends shaping the operating environment of governments and economic development, and which set the stage for corporate activities.
- *Bottom-up micro level ESG issuer analysis:* at the corporate level, this involves fundamental analysis and evaluation of ESG management and performance trends and developments for a given industry.

As an asset manager investing globally, Axiom acknowledges the need to be pragmatic when assessing ESG factors, to consider legal and cultural differences in different markets. As such the analysis will be sensitive to the issuer's individual situation in terms of the local norms, laws, regulation and expectations of the market in which it operates.

The scope of Axiom's ESG integration strategy is to factor in ESG factors at different levels:

- *Issuer:* in terms of financial analysis - What is Axiom's ESG risk exposure on an individual issuer by issuer level
- *Sector:* as part of the issuer analysis - What are the material ESG risks for certain industries/sectors, and to what degree are there common ESG risks across sectors
- *Portfolio/team:* in terms of portfolio characteristics - What is the ESG investment risk exposure at a strategy level

#### ESG engagement

Complementing an ESG integration approach is ESG engagement, which essentially describes the process of dialogue with portfolio companies. An engagement activity - on ESG or conventional matters - naturally occurs as part of the investor/company interaction. For investors this usually happens in order to gain insights into the company's practices which then inform investment decisions. In more limited instances, engagement may occur with the specific aim of bringing about a perceived required change in the company's business strategy and/or management practices, usually in order to mitigate investment risks.

Axiom believes that investors do have a role in engaging with companies on matters with the potential to impact investment returns, which includes ESG related ones. As part of the routine investment research process, our investment teams do meet with company management teams and are therefore able to raise questions. Given Axiom's approach of not automatically excluding issuers from investment based on their ESG performance, actions to mitigate such risks are raised with investments teams where appropriate. Where ESG engagement is deemed necessary, this will be prioritized using a risk-based approach. This means focusing on material ESG risks facing the company and their specific ESG score, as well as the size of our investments (and whether it is a long-term position). Axiom may initiate dialogue with companies on ESG matters or may take action as a result of an external event or development. While engagement may be directly with companies on ESG matters, where it may be appropriate to do so, Axiom may consider more indirect approaches (e.g. engaging on policies which promote ESG transparency by companies).

#### Proxy voting

Axiom has developed proxy voting guidelines that are consistent with the objectives of sustainability minded investors and fiduciaries. On matters of ESG import, Axiom seeks to promote support for recognized global governing bodies promoting sustainable business practices advocating for stewardship of environment, fair labor practices, non-discrimination, and the protection of human rights. Generally, Axiom will take as its frame of reference internationally recognized sustainability-related initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, Global Reporting Initiative (GRI), Carbon Principles, and environmental and social European Union Directives. Each of these efforts promote a fair, unified and productive reporting and compliance environment which advances positive corporate ESG actions that promote practices that present new opportunities or that mitigate related financial and reputational risks.

On matters of corporate governance, executive compensation, and corporate structure, Axiom's guidelines are based on a commitment to create and preserve economic value and to advance principles of good corporate governance.

#### **Collaboration & promoting best practice**

The development of Axiom's ESG Investment Risk policy and practices has been informed by reference and consideration of current best practice with regards ESG investing. Axiom's approach and strategy will evolve as it reviews and learns from its efforts. Axiom is committed to working with others on promoting incorporation of ESG into investing and sees its membership of the UN-supported PRI as an important mechanism for achieving this.

Overtime, Axiom will review and consider involvement in other ESG investment related industry initiatives and/or organizations as appropriate.

#### **ESG RESOURCING & GOVERNANCE**

Oversight and management of Axiom's ESG investment risk management process resides within the Investment Management function. Axiom has a dedicated in-house ESG Committee. The role of our ESG Committee is to lead on Axiom's ESG investment risk strategy and develop internal tools and resources which promote awareness and understanding of ESG risks among its investment teams. Axiom's aim is to empower its investment team to use their ESG knowledge and incorporate this into the investment decision making process. As the ultimate risk takers, Axiom believes these individuals are best placed to make the valuation and portfolio construction decisions, informed by the ESG risk analysis.



To support its ESG investment efforts, Axiom sources issuer ESG data from a number of specialist third party ESG research providers, as well as utilizes other ESG data related products and services from external stakeholders (such as sell-side brokers, regulators, and academia) to help embed ESG investment analysis. These supplement in-house investment team's knowledge and insights to inform on investment decision-making.

#### **TRANSPARENCY & ACCOUNTABILITY**

Axiom is committed to providing timely and relevant communication and reporting of its ESG investment risk efforts both externally (e.g. to key stakeholders such as clients) as well as internally (e.g. to investment teams). Axiom formally fulfils the reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report which is available on the PRI website ([www.unpri.org](http://www.unpri.org)). It also seeks to disclose the results of the PRI assessment of its ESG investment risk efforts.