Our stewardship report 2023

April 2024

Succeeding together

7IM

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Welcome to our annual Stewardship Report

In my many years in financial services, I've always maintained that change is the only constant. And in a world which continues to be defined by dynamic change and multi-faceted challenges, I, more than ever, believe that the concept of stewardship holds profound significance. It encapsulates our collective responsibility to manage resources wisely, uphold ethical standards, and encourage sustainable outcomes for current and future generations.

I'm therefore honoured to introduce our latest Stewardship Report — a testament to our ongoing commitment to responsible investment practices and ethical conduct. At the heart of our approach lies an unwavering commitment to putting our clients first. This commitment has defined who we are from our earliest days, and is built around the principles of transparency, integrity, and accountability, all of which are critical in ensuring good stewardship.

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. And over the next few pages, you will find a comprehensive overview of our stewardship efforts, from our adherence to regulatory standards to our proactive engagement with investee companies on environmental, social, and governance (ESG) matters. Through diligent research, robust risk management, and strategic collaboration, we endeavour to navigate the complexities of today's financial landscape with prudence and foresight.

Our commitment to stewardship extends beyond the confines of traditional investment paradigms. It permeates every facet of our organisation, guiding our interactions with clients, colleagues, and the wider community. As the privileged stewards of our clients' capital, we recognise the profound impact of our decisions on the world around us, and we embrace the responsibility to effect positive change wherever possible.

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

In closing, and as I reflect on the achievements of the past year and look to the future, I am filled with optimism and determination. And it's with this optimism and determination that I hope that we will all continue to embrace the principles of responsible stewardship to forge a path towards a brighter tomorrow for generations to come.

Thank you for your continued trust, support, and partnership as we navigate this journey together.

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 like to 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 p. 12. 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. 18). On p. 45, 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 Sustainability Committee is responsible for stewardship and related issues (p. 18) as well as the implementation of 7IM's Sustainability Framework developed in 2023 (p. 33). At the investment level, the ESG Investment Committee ensures full integration of stewardship through our investment processes, overseen by the Investment Committee (p. 19). We discuss our research and analysis resources and tools, including embedding forward-looking metrics to our portfolio monitoring process in 2023, to help us manage climate risk better (p. 49) as well as improving ESG research at fund selection (p. 55).

7IM's remuneration strategy described on p. 39 ensures incentives are aligned with the long-term value of our clients 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, personal accounting dealing for employees, compliance with the regulatory environment and controls that address COI within the investment management function. These are explained from p. 40.

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. 45). In 2023, we have been examining how firms, governments and investments function in the natural world (p. 45), which ultimately led us to join a collaborative initiative, the Investor Policy Dialogue on Deforestation (IPDD) (p. 68). In 2023, we engaged with industry peers on Sustainability Disclosure Requirements (SDR) and Net Zero as well as with MSCI on measuring ESG within derivatives (p. 52).

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

From pp. 40-43, we explain how we ensure we comply with the regulatory environment, manage conflicts of interest and put client interests foremost at all times. In 2023, we continued to embed the enhanced Risk Management Framework that includes mandatory policy attestation, incident data improvements, 7IM's Conduct Risk Score, Third Party Supplier Framework and Policy, and AI policy and adoption (p. 43). In 2023, we reviewed our fund selection, ESG research and ESG monitoring processes as well as voting and engagement policies (p. 59).

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. 16). We summarise our client assets by asset class and geography on p. 35. We look to support our clients by continuing to improve our client offering (p. 38).

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 (p. 44) addresses 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. 44-52). We enhanced our external manager due diligence process through the integration of Door questionnaires and our ESG research framework in 2023, applicable to all our third-party managers, to ensure they are aware of and carrying out their stewardship responsibilities (p. 49).

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 rise from fund and investment holdings alerts. We monitor and hold third-party fund managers accountable for ESG and stewardship (p. 54). Given our investment approach, we set expectations for stewardship and ESG in our Door questionnaires and ESG conviction framework (p. 58), 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, and we review resolutions above a holding threshold, examining areas such as auditor independence or directors' tenure (p. 77). We conduct due diligence on our service providers, we provide an example on p. 60.

Executive summary
Continued

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 engagement on p. 54 and how engagements vary by asset class, region, and type of investment. We cover a wide range of engagements with several examples from 2023 from pp. 61-67. 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 with our limited direct equity holdings when appropriate.

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. 76). However, we're proud of the market-leading improvements we have made this year that should lead to better client outcomes.

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

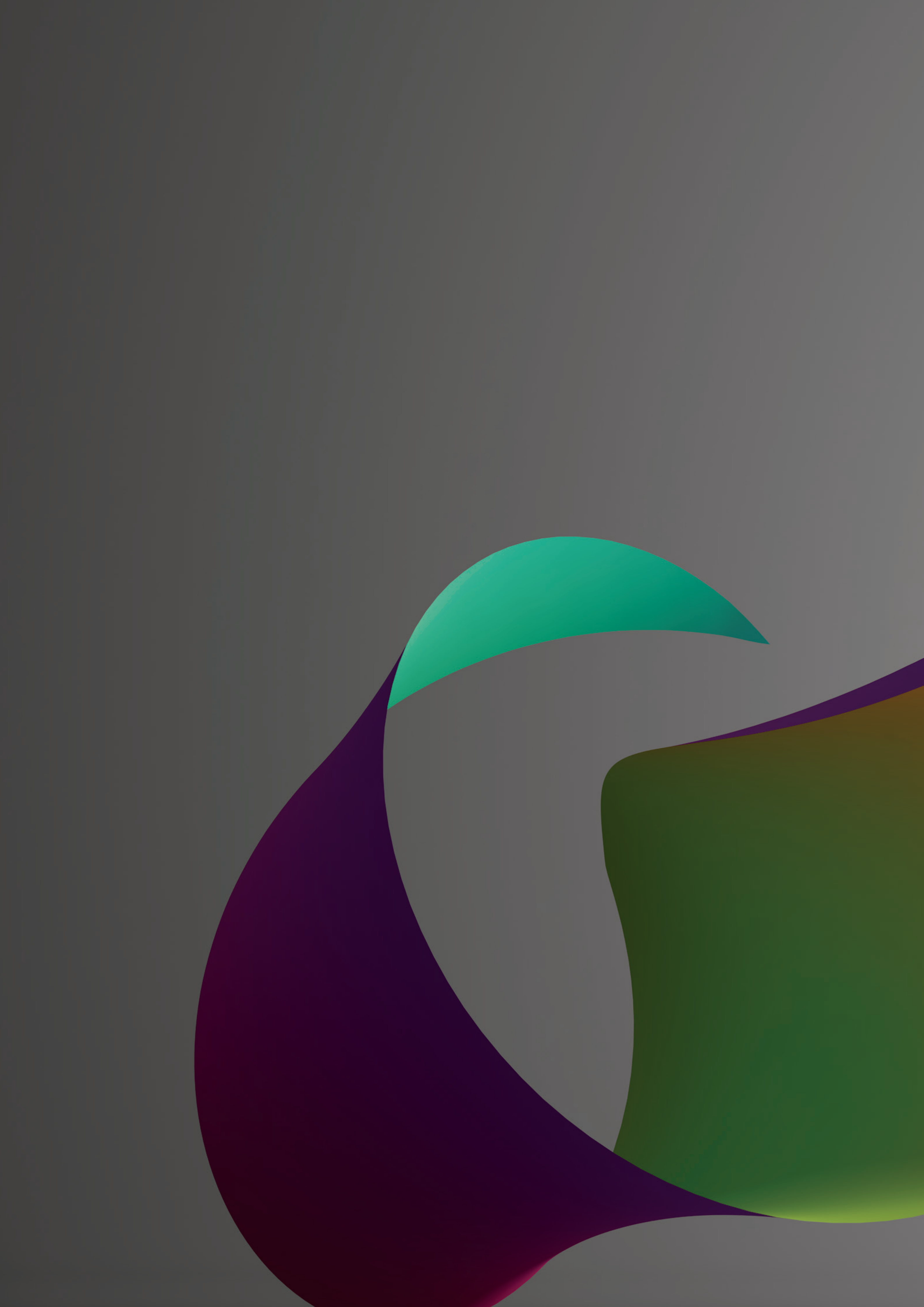
We take part in collaborative engagements when we think we can enhance the value or lower the risks of client assets and expect our third-party managers to engage collaboratively on our behalf when appropriate (p. 68). In 2023, biodiversity was one of the main engagement themes we focused on, this led us to join the IPDD Initiative, working with other investment houses to challenge regulators on deforestation (p. 68). Sarasin, who manage an equity portfolio for us, have been engaging vigorously to promote climate-conscious auditing (p. 71).

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

On p. 72, we outline our approach to escalation. Most of our escalations are with third-party fund managers, with Fidelity / Geode as an example (p. 73). Given our investment approach, we are almost entirely reliant on third-party fund managers to vote, engage with and scrutinise companies on our behalf. We provide examples of what we consider effective escalation on pp. 73-75.

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. 78, we detail how 7IM vote on investments held directly via 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 2023 voting record and the underlying motivations, including a case study of Berkshire Hathaway on p. 79.



The 7IM purpose and strategy

Our vision and purpose

At 7IM, we want to deliver an unrivalled experience for all of our clients – whether that's individuals, families or businesses.

For financial advisers and planners, this involves us standing alongside them to support them with whatever they need, so they can focus more on what really matters: nurturing their relationships with clients to deliver on their financial plans.

Our offering for advisers reflects that: an open architecture platform, multi-asset investment solutions to fit whatever their investment philosophy is and help with discretionary investment management.

For our private wealth clients, it all starts with understanding the client, their families, and their goals and then creating a bespoke financial plan designed to help them achieve financial freedom.

We use cutting-edge technology to help make things simple and clear, but what really sets us apart is our real, honest, human service. No automated helplines or chatbots. You'll always talk to a person.

Today, from our offices in London and Edinburgh, our team of approximately 400 talented people are entrusted to manage over £20 billion (as at December 2023) for a range of clients, including individuals and families, financial advisers, corporates, charities and trustees. In January 2024, Ontario Teachers' Penson Plan, a global investor with net assets of $247.5 billion (as at December 31, 2023), acquired a majority stake in 7IM.

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

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 & wealth management 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.

Our service is 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, capture 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.

And over the last few years, 7IM has been on a journey to transform its approach to diversity and inclusion within the company culture, and we have made huge steps forward in all areas. From networks and internal training to our recruitment process, we've been award winning in our approach.

Our Diversity, Inclusion & Belonging Committee aims to champion initiatives that will make 7IM a more inclusive employer and deal with practices that exacerbate inequality and disparity amongst the workforce. It's chaired by an Executive Committee (ExCo) member but driven by volunteers from within the firm from a range of backgrounds.

Our Diversity, Inclusion & Belonging strategy focuses on two key areas: representation – currently gender and ethnic – and an inclusive culture.

Our 2023 Gender Pay Gap report shows the pay gap has reduced in the last three years and women accounted for 42% of hires, up from 25% in two years, but there's more to do.

Our Gender Equality Network initiative aims to understand and address issues that may contribute to gender imbalance.”

Our Gender Equality Network initiative aims to understand and address issues that may contribute to gender imbalance within the company and ensure that we provide an environment where everyone can succeed. Its mission is to help attract, retain and develop talented women to/in 7IM, by:

- making ourselves an employer of choice for women and showcasing the amazing women we have in the business.
- ensuring we deliver a working environment where everyone can succeed.
- supporting the team in creating their own path to success and providing targeted training and well-matched mentoring partnerships.

To create a culture which fosters ‘belonging,’ rather than simply ‘including,’ alongside staples like flexible working, we hold company-wide training on ‘Diversity of Thought,’ share blogs from colleagues about their personal experiences across a range of issues and host a regular calendar of Diversity, Inclusion & Belonging events.

In 2023, to accommodate the evolving regulatory framework and advance our sustainability strategy, a Sustainability Framework was developed and rolled out across the Group. This framework ensures a cohesive and directed strategy across People, Corporate, and Investment-related sustainability efforts. This is detailed later in the report.

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 for appropriate solutions. When we work with professional advisers, they will complete this process on behalf of their clients and are responsible for making suitable choices.

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: 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.

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.

In 2023 we launched our pioneering Retirement Income Solution (RIS) on our platform. RIS is a bespoke solution for advisers, assessing the sustainability of the client's income (or the likelihood of it running out) before determining the best investment approach. RIS uses a 'bucketing' method, treating assets as a single portfolio aligned to a customer's risk profile and allocating funds to achieve the customer's sustainability level with ongoing reviews to keep plans on track.

RIS helps advisers identify and manage potential downsides of market falls so that plans can be constantly adapted and rebalanced, as well as in response to changing client needs. With RIS, our highly flexible SIPP and Just's Secure Lifetime Income product available on the 7IM platform, our retirement offering includes a range of options that meet the growing demand for more certainty over income from retirees.

RIS was the biggest change in 2023, but we are proud that we have listened to advisers and made smaller adaptions to improve the platform overall, some examples of which are:

- A request for regular client contributions to be split into multiple Discretionary Fund Manager (DFM) models has now been built into our functionality.
- Advisers wanted more flexibility around payroll dates, so we have built in the option for up to four per month.
- We were asked for help with new trading logic to support DFM models without cash. So, we've developed a way of processing buy and sell trades as part of a rebalance where a model doesn't have cash waiting in it.
- We have introduced automatic sale trades to pay for drawdown as advisers told us this took up considerable amounts of time.
- On request, we've enhanced our 7IMagine tool so that clients can include detailed information about underlying funds in their model portfolios.
- Advisers told us our home page needed improvements, so we've redesigned it so that it fits better on screens and is easier to navigate.

Stewardship and Responsible Investing

7IM has undergone ownership and senior leadership changes over the course of 2023, finalised in early 2024. Ontario Teachers' Pension Plan Board ("Ontario Teachers'" or "OTPP") announced in September 2023 that it would acquire a majority stake in 7IM, from Caledonia Investments plc ("Caledonia"). This acquisition was completed in January 2024.

The strong cultural alignment between the two entities under our updated ownership structure has reinforced our dedication to responsible business practices and facilitates positive outcomes for clients. A key focus for us is to strengthen the functions of committees to ensure the full integration of ESG considerations across the business and investments.

Revisions to sustainability governance within 7IM were developed in late 2023 and approved and implemented in early 2024. To be transparent and not misleading, the below highlights the updated structure of our revised Sustainability Committee (previously, "Culture and Sustainability Committee"), as of March 2024.

The Sustainability Committee was set up in 2020 and reports to the 7IM ExCo. The objective of the Committee remains the same. 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 Committee comprises of the Committee Chair and representatives from the following:

- Investment Management team;
- People and Culture;
- Charity Committee;
- Risk and Compliance;
- Operations;
- Finance;
- Private Client team;
- Intermediary team;
- Partners Wealth Management; and
- Platform.

The Sustainability Committee is now chaired by Russell Lancaster (Managing Director, Platform & Intermediary Partnerships, ExCo member), who joined the firm in December 2023.

The 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.

Through the second half of 2023, we developed 7IM's Sustainability Framework, which will fold all the work completed to date into a broader range of sustainability factors that feeds into 7IM's Top Down Risk Map. This is explained further on p. 33.

Investment stewardship and ESG at 7IM are managed by the ESG Investment Committee, also set up in 2020. It reports to the 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. A member of the Investment Committee also sits 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.

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 24 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.

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.

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 2023 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. Phase two of our SAA reduction project was implemented in 2022, with a focus on making our credit investments cleaner, switching over £200m of assets in traditional corporate bonds to bonds that are 70% less carbon intensive, while retaining a similar return profile. In 2023, phase 3 of decarbonisation focused on Japanese equity exposures. Following extensive research on carbon reductions and index methodology, as well as considering tracking error and cost, the new products implemented were over 40% less carbon-intensive. In December 2023, we switched over £200m of assets, with a further £50m in February 2024.

In addition, we enhanced our ESG integration within our investment process via fund manager due diligence and ESG convictions framework, explained in more detail on p. 58.

This allows better due diligence on the fund managers we invest with to review how they incorporate ESG into their investment process, their voting and engagement policies and diversity and inclusion. Our engagement project, detailed on p. 59, addressed net zero and climate commitments of passive managers. Another focal theme was biodiversity, which led us to join a collaborative investor initiative, Investor Policy Dialogue on Deforestation (IPDD), explained later in the report.

02

Sustainable choices

Back in 2021, we committed to reducing our Scope 1, 2 & 3 CO_2 emissions and pledged that our business would become carbon-neutral. Since then, we have partnered with World Land Trust (WLT) to offset our carbon footprint every year, by supporting the organisation's Carbon Balanced project in Guatemala. We will soon offset 2023's unavoidable emissions through the same programme. When selecting a carbon offset partner, we prioritised credibility. After comparing six options and extensive due diligence, we opted for the World Land Trust's Carbon Balanced program. The WLT was selected for their pedigree as well as their wide range of offsetting schemes and willingness to form a close partnership with 7IM. The World Land Trust works with hundreds of landowners, including local communities, to register and obtain land titles to protect threatened coastal forest for the benefit of the region's biodiversity. We are proud to continue our partnership with the World Land Trust.

During 2023, the UK Group exited an office in Edinburgh and moved from two offices to a new single office in London as part of the Group's property consolidation.
During this process, there was a period of overlap

with multiple leases, causing higher emissions in 2023. The resulting consolidation of office space in a more energy-efficient building during 2023 is expected to lead to a decrease in carbon intensity in future.

In line with the sustainability commitment made by the business in 2021, rail travel now represents 54% of the total distance travelled throughout 2023. The number of journeys by air increased to 11% in 2023 from less than 1% in 2022.

We disclose our Scope 1, 2 and 3 CO_2 emissions in our annual report and audited consolidated financial statements[1].

03

An inclusive team

Building on 7IM's commitment to fostering a diverse and equitable workforce, we are proud to report further strides in developing an environment that is welcoming, inclusive, and supportive of diverse representations and diversity of thought. The Diversity, Inclusion and Belonging Committee (previously, Diversity and Inclusion Committee), established in 2020, continues to lead with purpose, promoting initiatives that position 7IM as an example of inclusivity within the financial sector. This commitment was recognised within the industry and evidenced by our recent awards: 'Gender Contribution of the Year 2023' by Professional Adviser at the Women in Financial Advice Awards, 'Outstanding Diversity Network of the Year 2023', and 'Employer of the Year 2023' at the Women in Finance Awards. These awards reflect our commitment to creating a workplace that not only values diversity but thrives on it.

In 2021, the launch of our Gender Equality Network marked a significant step towards addressing the historical gender imbalance in the finance industry. Our goal has always been to attract and retain top female talent, enriching our business with diverse perspectives and expertise. Despite the industry's male-dominated landscape, women represent 37% of our workforce.

As part of our ongoing efforts to enhance diversity and inclusivity within our workforce, we have closely monitored and analysed our hiring trends, particularly with respect to gender diversity. The difference in hiring ratios between male and female applicants (1:29 for males vs. 1:25 for females) is indicative of our targeted efforts to promote gender diversity.

At 7IM, 76% of our colleagues have participated in providing equal opportunities monitoring information, a figure we are committed to increasing. This initiative is crucial for us to monitor progress effectively and adjust our diversity, inclusion and belonging strategies and efforts accordingly.

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 2023, 7IM raised more than £40,000 for charity through staff fundraising, matched funding, challenges and donations.

In addition to our "Give As You Earn" Scheme and Volunteer Day, we have also been running monthly volunteer walks that allow colleagues to volunteer their time once a month with our chosen charity.

[1] For the latest 7IM Annual Report and Audited Consolidated Financial Statements, see https://www.7im.co.uk/media/nuao3dii/annual-report-and-audited-consolidated-financial-statements.pdf

The 7IM purpose and strategy
Continued

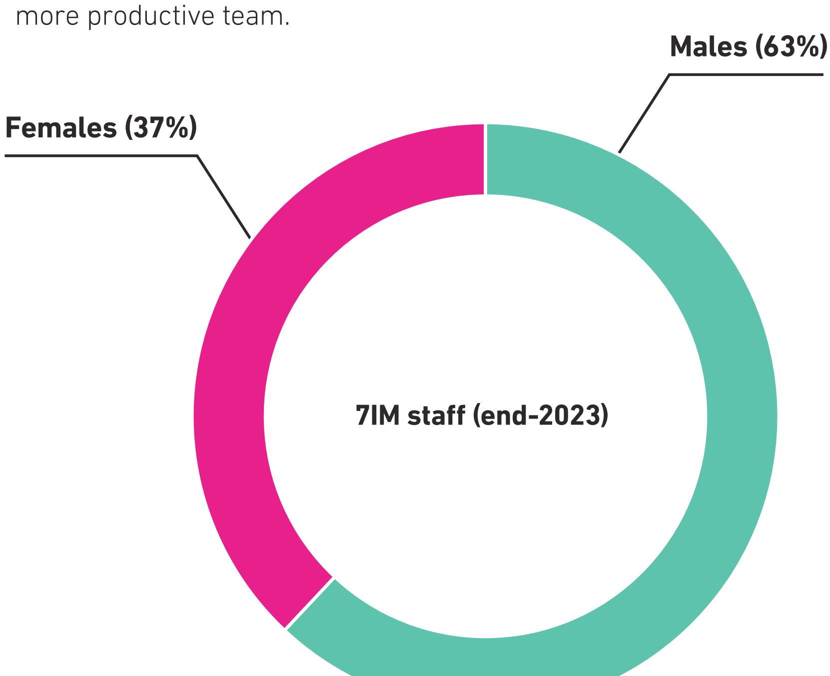
Our people

As of the end of 2023, our team has grown to 392 members, with a gender distribution of 37% women and 63% men.

Despite the challenges, our commitment to narrowing the gender pay gap remains persistent, maintaining an average difference in hourly pay of 12.6% as of 2022. Notably, in the past year, 99% of our female staff received bonuses, compared to 95% of male staff, reflecting our ongoing efforts to ensure fairness and equality in compensation.

Our Gender Equality Network (GEN), established in 2021, continues to play a pivotal role in promoting gender equality within the firm. The GEN's focus on balance and flexibility highlights the importance of supporting our colleagues in achieving a harmonious integration of work and personal life. This commitment is highlighted by the fact that in 2023, 100% of women returning from maternity leave chose to stay with us, and all applications for flexible working were approved, demonstrating our commitment to accommodating the diverse needs of our workforce.

We proudly uphold our hybrid working policies, recognising the significance of flexibility for achieving greater gender balance. This approach contrasts with trends elsewhere, where firms are increasingly requiring employees to return to the office full time. We believe our stance not only supports gender equality but also contributes to a happier, more productive team.



In terms of career progression, 41% of internal promotions in 2023 were awarded to women, reflecting our commitment to gender equality in professional development and leadership opportunities. In addition, we've enhanced our maternity benefits, extending organisational maternity pay from 16 weeks to 26 weeks. We firmly believe that every colleague should have the opportunity to build a thriving career whilst enjoying the decision to start or expand their family. By extending our maternity pay, we hope to provide new mothers with ample time to bond with their newborns, adjust to the demands of motherhood, and return to work when they are ready.

We recognise the vital role that fathers play in supporting their partners and children and enhanced paid paternity leave to 3 weeks, enabling fathers to actively support their partners during this transformative period.

We also introduced a Fertility Treatment policy to support our colleagues through their fertility journeys, offering additional time off and the flexibility needed during such a critical period. These measures reflect our continuous commitment to creating a supportive and empowering environment, ensuring that all colleagues have the opportunity to excel professionally while making personal life choices that are right for them.

The 7IM purpose and strategy
Continued

Training and development

In 2023, 7IM proudly launched our enhanced Training and Development Programme, a direct reflection of our commitment to nurturing the growth and potential of our colleagues. This included a range of training opportunities, both internal and external, tailored to support career advancement and skill enhancement.

This initiative, shaped by colleague feedback, was designed to open new opportunities for professional development and skill acquisition, reinforcing our position as a learning organisation committed to the growth of our colleagues.

7IM Academy Launch

This internal programme, featuring 16 sessions delivered both in-person and virtually by our own colleagues, aimed to provide targeted professional development opportunities. With attendance rates between 30-40%, the Academy focused on skill-based sessions, insights from our Executive Committee on their career journeys, and People & Culture-led training, catering to a broad spectrum of developmental needs.

External Training and Professional Qualifications

Our investment of £250,000 in training and development demonstrates our dedication to empowering our colleagues. From Career Management Development to You as A Manager, we have a range of external programmes that cater to different areas of expertise and interests.

Courses

In 2023, we funded 60 staff members to pursue industry-recognised qualifications across various domains, from the Chartered Institute for Securities and Investment to the Chartered Insurance Institute, among others. These programmes are integral to our strategy of investing in the continuous professional development of our team.

Speakers Gym

20 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.

Career Management Development

27 attendees came away with: a personal framework for career success, a toolkit of tools and techniques to develop their careers and an understanding of how they can contribute to 7IM's organisational priorities.

Diversity, inclusion and belonging

At 7IM, our dedication to cultivating an inclusive and supportive culture is fundamental to our organisational values. Since launching our Diversity, Inclusion and Belonging strategy in 2020 (previously, Diversity and Inclusion strategy), we have been committed in our efforts to empower every colleague to engage fully and realise their potential.

This commitment is reinforced by our ongoing endorsement of the Women in Finance Charter and the Race at Work Charter, illustrating our determination to foster a workplace environment where diversity is not only recognised but celebrated, ensuring that each individual feels valued.

Diversity and inclusion (D&I) plays a pivotal role in shaping the environment at 7IM. The D&I Working Group, led by an Executive Committee member and driven by colleagues from diverse backgrounds, advances our initiatives. This group is committed to making 7IM a model of inclusivity for other firms within Financial Services, actively addressing practices that contribute to workplace disparity. Our D&I strategy, openly shared with all colleagues, focuses on enhancing representation and fostering an inclusive culture.

Our Diversity, Inclusion and Belonging Calendar remains a successful way to promote awareness amongst colleagues and celebrate diversity throughout the year.

Through this calendar, we spotlight significant days that matter to our diverse team, supporting a broader understanding and appreciation of diversity through events like the “Flavors of the World.” Diversity events and communications not only improve our workplace culture but also encourage connections and understanding among colleagues by exploring global cuisines, music, and traditions.

2023 saw the official launch of the PRIDE network, aligning with LGBT History Month to champion inclusivity and provide a supportive space for LGBTQ+ colleagues. The network's impactful work includes policy development, such as our Transgender Equality Policy, and promoting allyship, ensuring a welcoming environment for all.

Our Faith networks have also been instrumental in enhancing understanding and support across religious practices. The Islamic Network, for example, has been key in educating our team about Ramadan and developing resources to aid managers in supporting observing colleagues.

The “Together in Fasting” event further promoted empathy and understanding within our team.

The relocation to our new office was an opportunity to inclusively design our workspace, leading to the creation of a Reflection/Prayer room. This dedicated space supports our colleagues from various faith backgrounds, enabling them to observe their religious practices during the workday.

Together, these initiatives and resources symbolise 7IM's commitment to a workplace where diversity is not just acknowledged but actively celebrated and supported, paving the way for a truly inclusive and empowering environment.

The 7IM purpose and strategy
Continued

Inclusive Policies

In our ongoing commitment to ensure we have an inclusive and supportive workplace, 7IM continuously evaluates and evolves our policies to ensure they meet the diverse needs of all colleagues. Over the years, we have implemented and refined a range of policies that reflect our efforts to creating a workplace environment where every colleague feels valued and supported.

Inclusive Health and Well-being Support

Our Menopause Policy provides colleagues with the reassurance that they can speak to their Line Manager should they be going through this transition, we also have guidance for line managers to effectively support staff experiencing menopause, emphasising empathy, understanding, and practical adjustments in the workplace.

Family-Centred Policies

We are proud to offer our Family Centred Policies, which include progressive measures such as paid leave for both parents in the event of stillbirth or miscarriage—setting us apart from many organisations by offering one week of paid time off to support families. Additionally, our Fertility Treatment Policy acknowledges and supports those undergoing fertility treatments, recognising the physical and emotional challenges involved.

Promoting Equality and Diversity

The implementation of our Transgender Equality Policy and our Equal Opportunities Policy further demonstrates our commitment to fostering an equitable environment. These policies ensure that all colleagues, regardless of gender identity or background, can succeed in a respectful and supportive workplace.

Flexible Working Arrangements

Our Hybrid Working Policy, supports our team in balancing personal and professional responsibilities. This policy is designed to accommodate the varying needs of our colleagues, who have other responsibilities outside of work.

Cultural Advancement

In 2023, following the successful cultural advancement sessions conducted at the close of the previous year, 7IM implemented our "People First" strategy, concentrating on enhancing colleague experiences, culture and our talent (attract, develop, retain). This approach is part of our broader commitment to ensuring that every team member feels valued, heard, and empowered to contribute their best.

Colleague Survey: This year, our ongoing colleague surveys revealed a strong engagement score of 4.0 out of 5, indicating a positive response to our workplace environment and culture. Particularly notable was our score of 4.1 in the area of Vision, highlighting the clarity and effective communication of our strategic goals and the roles each colleague plays in achieving them. Feedback emphasised the clear direction from leadership and the alignment of daily activities with our overarching strategy, reinforcing our commitment to not just growth, but ethical and compliant growth that benefits our clients, advisers, and colleagues alike.

The Purpose score stood at a commendable 4.0, reflecting our collaborative and supportive team dynamics and the successful integration of our STARS recognition program (see below) into our culture, allowing colleagues to acknowledge each other's contributions effectively.

Relaunch of STARS: The Seven Together Appreciation & Recognition Scheme (STARS) underwent a relaunch in 2023, enhancing our culture of appreciation and recognition. With the addition of "Team of the Quarter" and "ExCo Member of the Quarter" awards, we celebrated outstanding demonstrations of our company values, with 3,967 STARS awarded by colleagues throughout the year, averaging 330 monthly.

Colleague Forum: 2023 also marked the launch of the Colleague Forum, a platform designed to give every team member a voice on various critical topics. Facilitated by leaders across 7IM, the forum has sparked meaningful conversations on themes such as gender diversity, office relocation feedback, and fostering a vibrant, motivating culture. The insights gathered then contribute to refining our policies and practices.

Case Study: Culture & Sustainability Week at 7IM

In January 2023, 7IM embarked on a week dedicated to Culture & Sustainability.

The objectives of this week were:

- To embed 'sustainable' as a core value within 7IM, reflecting our dedication to responsible and sustainable business practices.
- To engage colleagues across departments in sustainability challenges, fostering a culture of environmental consciousness.
- To celebrate diversity and inclusivity through a Culture Fair, highlighting the work of various networks and committees.

The week was planned with daily themes/activities:

Monday: We announced the evolution of our value 'spirited' to 'sustainable', marking our commitment to sustainability. This strategic move was aimed at aligning our operations with sustainable practices beneficial to our stakeholders and the wider community.

Tuesday: Teams across 7IM took on sustainability challenges relevant to our daily operations, such as reducing paper cup usage, avoiding single-use plastics, and implementing Meat-Free Mondays and restricting purchases of clothing and cosmetics for one whole month. These challenges were inspired by our VPVPs adjustment to include 'Sustainable' as a core personality trait of 7IM.

Wednesday: The Culture Fair invite was sent out to the business, notifying them of an all-colleague event which provided a vibrant platform for our D&I Committee, GEN, Pride, and other networks to showcase their achievements and outline their plans for the coming year. The fair featured interactive stalls, food and drink, and fun challenges, offering colleagues a chance to learn and engage with the initiatives.

Thursday: Our Volunteer Leave policy was launched, supporting two critical pillars of our sustainability strategy: charities and colleague experience. This policy encourages colleagues to contribute to our community initiatives, further embedding our commitment to sustainability.

Friday: The week concluded with issuing our bi-annual newsletter, detailing the progress on our sustainability pillars, ensuring that the momentum and insights from the week's activities were captured and shared across the business.

The 7IM purpose and strategy
Continued

The 7IM charity programme

At 7IM, our commitment to positive impact reaches well beyond our day-to-day business, touching the lives in the communities where we live and work. Led by our Charity Committee, we've ingrained a culture of support and giving back throughout our organisation. This past year, we've not only continued this tradition but have also taken significant steps to deepen our involvement and enhance our contribution.

In 2023, we're proud to say we've outdone ourselves by raising over £40,000 for charity, surpassing last year's impressive efforts. Every penny raised by our colleagues was met with equal enthusiasm and matched by 7IM, ensuring that our collective efforts have double the impact.

The introduction of our Volunteer Leave Policy in 2023 marked a new chapter in our journey of support and service. This policy has become a basis of our team-building activities, offering our colleagues a chance to step out of the office and into the community. Whether it's working with Under One Sky in London or Rowan Alba in Edinburgh, these volunteer experiences have not only helped those in need but have also brought our colleagues closer together.

Our "Give As You Earn" scheme continues to make it simple and effective for our team members to support their favourite causes directly from their pay check cheque. This, along with our other initiatives, showcases our genuine approach to supporting our communities.

7IM's environmental footprint

As explained in our last report, 7IM also wants to review the big impact areas of utilities consumption and greenhouse gas emissions. In line with the EU energy efficiency directive, we will again report on the Energy Savings Opportunity Scheme (ESOS) auditing 2023. This will highlight the changes made since our previous report in 2019, noticing improvements in this area across the business.

During 2023, three out of five of 7IM's office leases were ending or a break exercise was an option. As part of the embrace of hybrid working, we closed two offices in London (7IM and PWM's London offices) in favour of a new single office space which reduced our overall building real estate footprint in London from 31,464 sqft to 24,989 sqft. We carried out the same exercise in Edinburgh, bringing two offices down to one.

This business decision reduced our overall real estate holdings by 10,502 sqft. This will have a positive impact on utilities and energy consumption, reducing our need for as much fossil fuels and also reduce the amount of waste produced.

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. Key changes this year have been the conversion of lighting in the Edinburgh office from fluorescent to LED across the office, working with cleaning companies that put environmental impact at the forefront of their choices when using chemicals and consumables, and stationery providers that use only electric vehicles for their London fleet.

More specifically we have put in these steps to improve the footprint of our operation.

1. All electricity used in our new London office comes from 100% renewable sources:
   a. This includes all our IT equipment and our local network servers.
2. All electricity used by our data centre partners comes from 100% renewable sources:
   a. This includes the servers used to host and power our platform
   b. They are also committed to reducing their carbon emissions by 50% against all scopes by 2030 and aim to achieve at least a 90% emissions reduction in line with the worldwide net zero commitment by 2050 under the SBTI Net-Zero Standard. Any remainder will be offset by supporting carbon removals.
3. We have reduced the power consumption of our own IT equipment (and any power used comes from 100% renewable sources anyway). This includes:
   a. Reducing the number of IT communications rooms from four to two
   b. Replacing the equipment in those communications rooms with newer, more efficient equipment
   c. More hybrid working means no staff workstations left on continuously (we have removed 250 workstations and 650 monitors)
4. We offset any remaining carbon emissions created by our business (this offsetting is included in our business accounts):
   a. This includes emissions from business travel (car, train and, where absolutely necessary, plane)
   b. We support the World Land Trust – specifically the World Land Trust's local partner FUNDAECO, which protects critically threatened tropical forests through its REDD+ Project for Caribbean Guatemala: The Conservation Coast. The project supports local landowners and communities in registering and obtaining land titles to protect threatened areas of coastal forest, for the benefit of the region's incredible biodiversity.

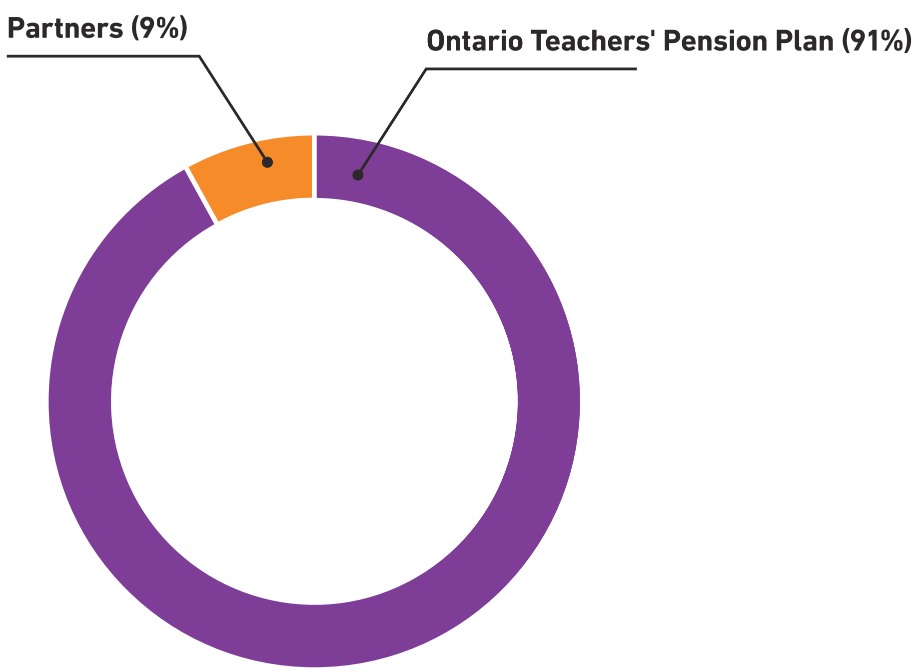
About 7IM

Corporate structure

Seven Investment Management LLP (7IM LLP) is a limited liability partnership within the 7IM group, the ultimate holding company as at end-December 2023 was Caledonia Investment PLC, owning 92%. However, for transparency and although outside of this reporting window, in January 2024, Ontario Teachers' Pension Plan Board became the new majority shareholder of the group, now owning 91%. The remaining 9% is owned by members of the 7IM Management Team.

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.

This report relates to Seven Investment Management LLP.



Corporate governance

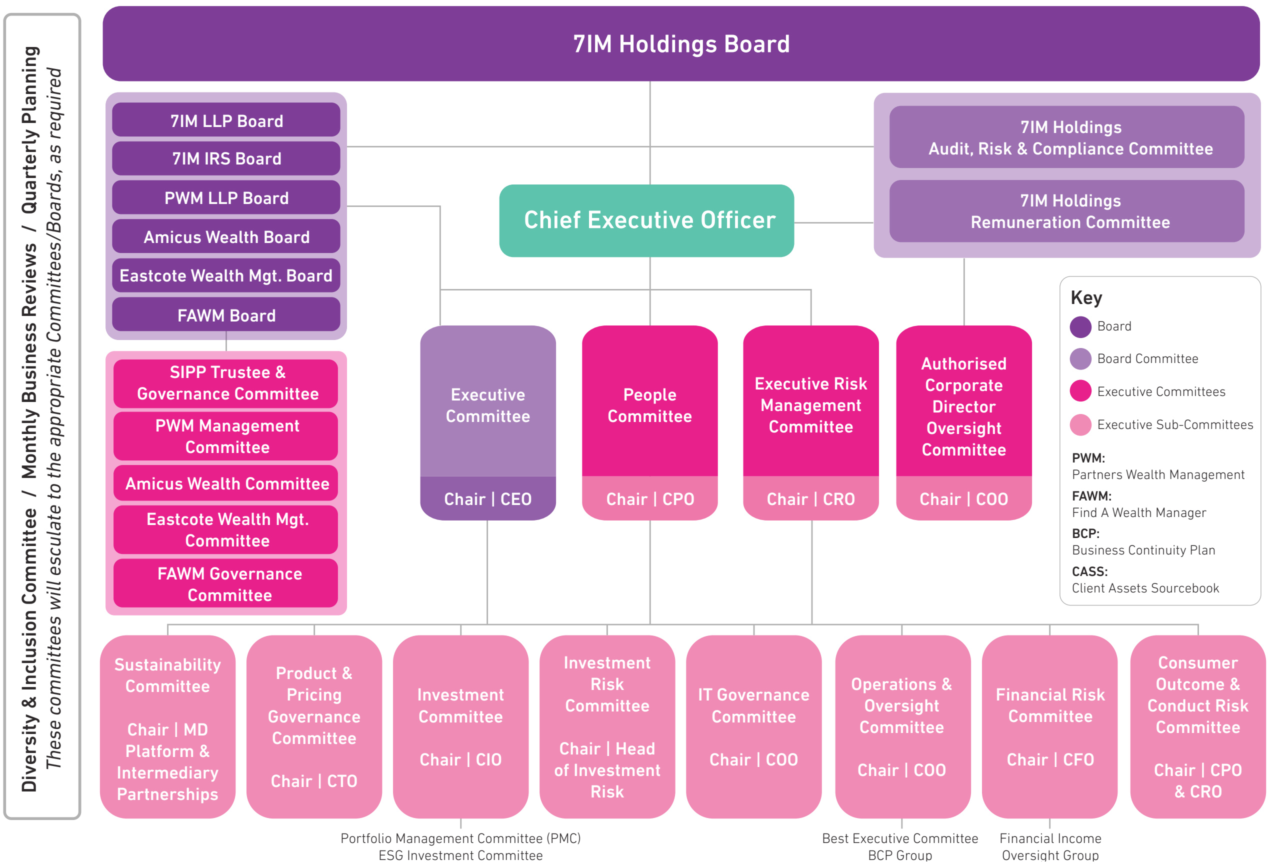
7IM has a comprehensive and agile corporate governance framework. Committees operate with clear areas of focus and Terms of Reference. All Executive Committees are chaired by Accountable Executives from the ExCo, and enable Executives to discharge their Executive and/or Senior Management Function obligations 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.

In December 2023, 7IM LLP became the Principal Firm for Amicus Wealth, who are now an Appointed Representative of 7IM LLP.

At the end of 2023, 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 Sustainability Committee is responsible for stewardship and related issues. The **Sustainability 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 the 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, explained in our 2022 Stewardship Report with further information later on in this report.

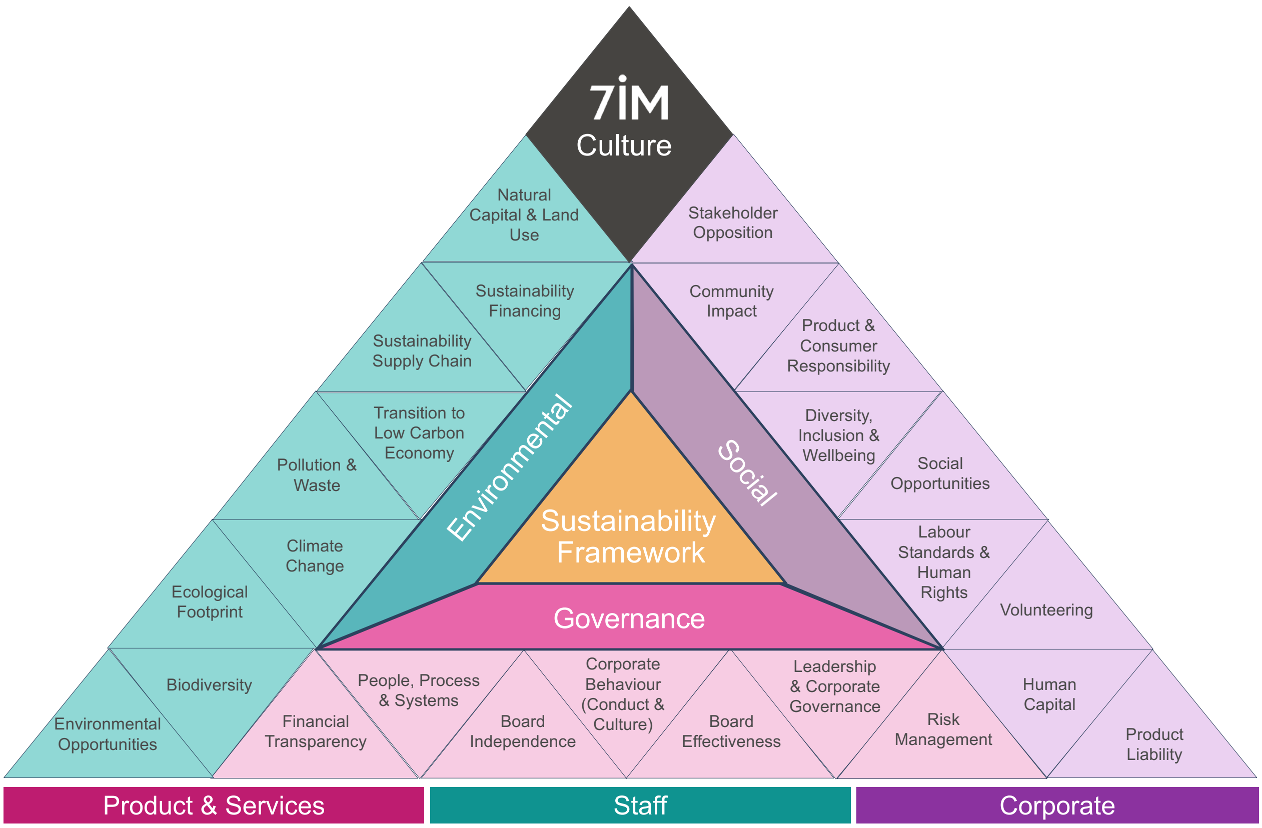
Sustainability Framework

As part of the CRO Roadmap, a new Sustainability Framework has been developed and introduced across the Group through 2023, to ensure there is a consistent and focused approach across People, Corporate and Investment-related Sustainability initiatives. The Sustainability Committee are responsible for the oversight and implementation of the Sustainability Framework and will continue to embed the framework throughout 2024.

The purpose of the framework is to cater for the evolving regulatory landscape. Underpinned by the Risk Management Framework, the Sustainability Framework will support in providing a consistent approach to the delivery of the Task Force on Climate-Related Financial Disclosures, Sustainability Disclosure Requirements, and Corporate Social Responsibility requirements, as the FCA (amongst other regulators) continues to define the future sustainability regulatory landscape.

The framework consists of the following components:

- **Sustainability Areas**
  This refers to the three key areas of Environmental, Social and Governance (ESG).
- **Sustainability Factors**
  This refers to the 25 key factors within the three key Sustainability Areas.
- **Sustainability Lens**
  This refers to the three Sustainability Lenses through which each Area or Factor can be assessed.



About 7IM
Continued

Sustainability Strategy

In both the way we invest money and the way we run our business; we know the importance of sustainability. We no longer think that the existing four pillars we have are sufficient for a world that is constantly evolving and placing greater focus on sustainability. Therefore, we are currently working on enhancing our Sustainability Strategy, outlined in the figure below:

Governance

Cleaner Investments	**Sustainable Choices**	**An Inclusive Team**	**Giving Back**

The Sustainability Pillars are underpinned by our Sustainability Focus Factors within the Sustainability Framework

Risk Management

The governance structure and risk management framework inform and oversees 7IM's Sustainability Strategy. The four sustainability pillars are refined to embed our previously mentioned Sustainability Framework. This is achieved by underpinning the sustainability pillars with the relevant action plans within the Sustainability Factors.

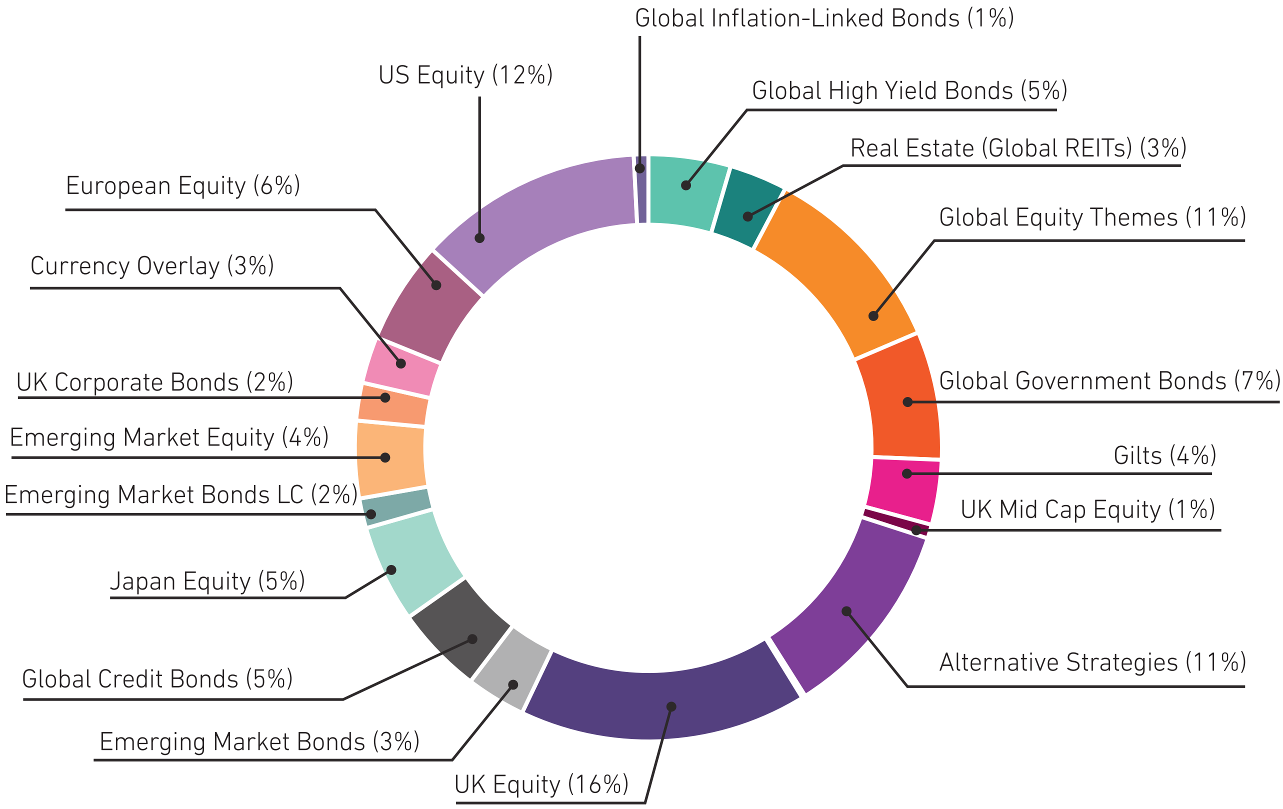
Assets under management

At the end of 2023, 7IM held £20.1bn of assets on behalf of its customers. Of this total, approximately £7.7bn was in discretionary funds and portfolios managed by 7IM. The remaining £12.4bn – referred to below as 'assets under administration' – was held on our platform and were not managed by 7IM.

Discretionary assets

7IM managed £7.7bn of discretionary assets in funds and portfolios at the end of 2023. These assets were approximately 98% 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.

Asset Class Split (%)

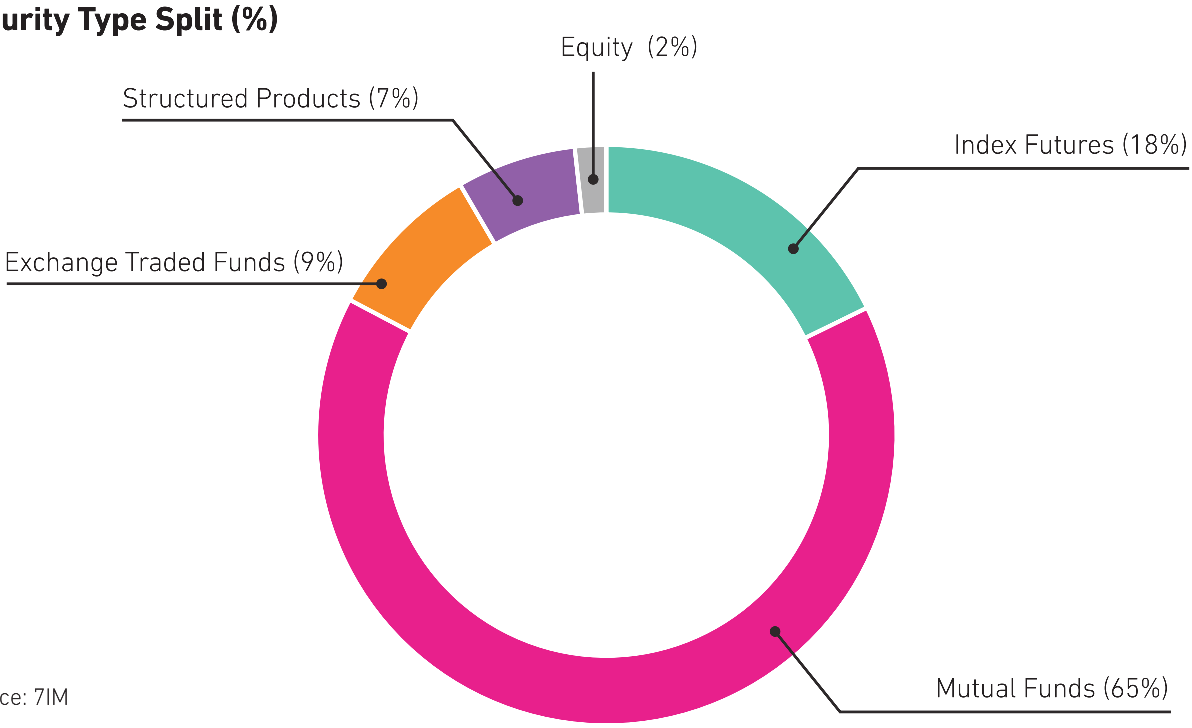


Source: 7IM, Cash not included (-1.4%)

About 7IM
Continued

Looking through to the underlying holdings of third parties and our directly held assets, the charts below show the breakdown of this £7.7bn, by asset class and by region, at the end of 2023:

Security Type Split (%)



Source: 7IM

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

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 £7.7bn, £2.6bn sits in our custody, where we have direct relationships with the underlying clients. About 57% of this £3.4bn was held via intermediaries, and 43% 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 2023, 7IM held about £12.4bn 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. Earlier in the report we outline how we have improved our platform to better serve clients.

About 7IM
Continued

Our range of products

We manage a number of different multi-asset fund and model portfolio ranges, each of which contains investment solutions across the whole, or some of, the risk profile spectrum: Cautious, Moderately Cautious, Balanced, Moderately Adventurous, Adventurous and Adventurous Plus.

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.

Our Asset Allocated Passive (AAP) fund range 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.

The 7IM Pathbuilder fund range is a diversified suite of funds with a keen focus on costs. They use streamlined versions of our Strategic Asset Allocations (SAAs) to help us to keep costs low.

We offer the 7IM Select funds, which 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).

We also offer funds designed to meet specific needs, such as 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.

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 a blend of passive and active investments.

The 7IM Passive Model Portfolios is 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.

7IM Responsible Choice is a diversified range of multi-asset model portfolios that invest in ESG and responsible products only. Based on adviser demand, we completed our Responsible Choice Model Portfolio range in September 2023, with the launch of the 7IM Responsible Choice Adventurous Plus Model Portfolio to cater for clients with a higher risk tolerance.

7IM offers a 'Partnership Model Portfolio Service', supporting specific adviser firms with the design and delivery of their centralised investment proposition through the creation and management of separate and distinct model portfolio ranges for each firm, co-branded and potentially tailored to their specific needs and requirements.

The 7IM Funds and Model Portfolios are available through the 7IM Discretionary Service and 7IM 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 make informed and effective remuneration decisions across departments.

To mitigate the focus on short-term financial goals, we utilise Balanced Scorecards with four key segments that encapsulate our long-term strategy. These segments—Financial, Strategic, Risk & Compliance, and Values & Behaviours—are used to evaluate staff performance quarterly, ensuring a balanced consideration of both immediate and future objectives.

This year, we integrated Risk & Compliance into our evaluation framework to reinforce our commitment to ethical standards, including Treating Customers Fairly, Consumer Duty, and adherence to our Conduct Risk Framework. This addition ensures staff actions are aligned with our core values and regulatory obligations, evidenced by a quarterly conduct score for each employee.

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 the 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.[2] It forms part of 7IM's corporate governance and documents the firm's approach to identifying, preventing and managing conflicts of interest. In addition, there is a register of identified COI and the controls in place to manage and monitor 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 mandatory training on the COI and Personal Account Dealing policies as part of the comprehensive 7IM induction training provided to all new joiners. Regular mandatory 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 2023, 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 monitor 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 conduct risk scores, which are included in 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.

[2] 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 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.

Second, 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.

Third, 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 undertook the necessary steps to mitigate the risks associated with any sanctions developments. 7IM continues to undertake proactive monitoring, including ensuring that all current and future third-party fund managers have appropriate processes and systems in place to adhere to economic sanctions.

7IM has procedures, systems, and internal controls that are 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 ensures indirect investment exposure complies with applicable sanctions through our annual fund due diligence questionnaire, via Door, where 7IM asks all fund houses to confirm adherence to sanctions and the processes in place to ensure compliance.

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.

The FCA's 'Consumer Duty' Policy Statement was published in July 2022, setting higher and clearer standards of consumer protection across financial services and requiring 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. Following the publication of the Duty, 7IM has completed an intensive project to meet the deadlines set to the financial services industry. Over the 12-month period following the Duty's publication, 7IM conducted a full review of all products and services 'manufactured' by the firm, against the requirements of the Duty, as well as obligations bestowed on us as a 'distributor' of products and services manufactured by third parties.

The fundamental principles of Consumer Duty have now been embedded in our product governance framework, with additional measures around the ongoing monitoring of consumer outcomes in our function as a manufacturer and distributor of financial products and services.

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 Risk & Compliance team. The last all-staff communication on the policy and its key features was issued in January 2022 by our Chief Risk Officer (and Money Laundering Reporting Officer). All new employees are subject to mandatory induction training and attestation to 7IM's regulatory policies, which includes personal account dealing. In the period covered by this report, we did not record any material PA Dealing issues.

Risk management process milestones in 2023

During 2023, 7IM continued to implement and embed its enhanced Risk Management Framework approved by the 7IM Group Board in 2022.

Mandatory policy attestation supported by Star Compliance and related mandatory online training for all employees provided by LRN Corporation are now fully embedded.

Resolution Teams responsible for the investigation of incidents are embedded within the business and PowerBI Dashboards have been developed to support their work and to also support teams to better understand root cause and themes relating to incidents to ensure that appropriate remediation actions are taken to prevent recurrence.

Consolidated incident data enables the Risk Function to identify themes and to focus resources in deep dive activity – leading to good consumer outcomes.

Key Indicator Dashboards using PowerBI are now in place to support business leaders with MI relating to key risks for which they are responsible and enable pro-active risk monitoring.

During 2023, 7IM's Conduct Risk Score (CRS) methodology was implemented and embedded with data being used to calculate individual, team, division and group conduct scores, which were used in performance review discussions. At the end of 2023 the drivers of the scores were reviewed and thresholds lowered to reflect the improving maturity of the Risk Framework across the Group.

The 7IM CRS methodology considers a number of drivers (dependent on the role of an individual), including incidents and failure to complete mandatory training, to determine a conduct score per person which can then be calculated at varying levels within the organisation and ultimately a score for the firm as a whole.

During 2023, we launched the Third-Party Supplier Framework and Policy and provided training to those in the business responsible for vendor relationships. To support this work, a third-party document management system was procured – LawVu. This will support a consolidated view of risk assessment and contractual documentation, which will be embedded during 2024.

The Risk Framework once again supported the timely completion of the Internal Capital and Risk Assessment (ICARA), which was delivered earlier than planned in June 2023. 7IM's acquisition by Ontario Teachers Pension Plan and 7IM's acquisition of Amicus Wealth resulted in a Material Trigger Event, which required a further iteration of the ICARA in November 2023, reflecting the flexibility and embeddedness of the Risk Management Framework.

Our Risk Management Framework recognises the risks and opportunities that exist with Artificial Intelligence (AI). During 2023, we published an AI Policy which focused on managing the threats and downside risks of the use of AI. We have also been developing the potential opportunities of AI within Risk Management components, with the introduction of 'Clever Nelly' a knowledge retention AI tool which supports colleagues by providing daily multiple-choice questions via MS Teams on specific topics, which becomes targeted to areas of development needs as questions progress.

We have also been working with Aveni to implement AI adviser efficiency and compliance monitoring solutions.

How we approach investment management

People don't retire for a quarter, a year, or even a decade; retirement is typically a lifelong decision. Regardless of short-term investment returns, it's the long term that truly matters. Our goal is to ensure our clients' portfolios endure for generations to come.

We safeguard our clients' assets in the short term through diversification, while simultaneously aiming for long-term growth via well-researched investments across various asset classes. Our portfolios strike a balance between structure and flexibility, allowing us to capitalise on market opportunities while maintaining confidence in their longevity and consistency.

We believe all investors should benefit from the same approach as institutional players. Leveraging techniques, tools, and knowledge used by large investment houses, we prioritise our clients' interests.

Our Investment Risk team employs tools akin to those used by major institutional investors worldwide. Additionally, we lead the way in integrating environmental, social, and governance (ESG) considerations into our investment strategy. Rather than relying on "star managers," we favour a structured, disciplined approach from our experienced investment professionals.

Our cornerstone: The Strategic Asset Allocation

At 7IM, the Strategic Asset Allocation (SAA) serves as the long-term investment anchor for all our portfolios. It consists of a long-term mix of asset classes, determined through our research to align with investors' needs over their lifetimes.

Our goal is to ensure that the risk profile of each portfolio harmonises with the investor type. Since our inception, we have constructed SAAs for our clients' investments, consistently achieving positive outcomes.

Each year, we refine the SAA by incorporating the latest academic insights and updating data inputs. Beyond the traditional focus on volatility and correlation, our approach extends to analysing the fundamental drivers specific to each asset class. By understanding these underlying investment factors, we enhance our ability to construct robust portfolios that deliver long-term diversification.

We discuss in detail on p. 47 how we target climate concerns in our SAA investment process.

Responsible investing and sustainability in the long run

The 7IM Investment Management team continues to focus 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. In 2023, to supplement this work, we also examined how firms, governments and investments function in the natural world.

It's difficult to overestimate how important biodiversity is to how businesses operate, and how people go about their daily lives. We also know that biodiversity is under threat. In 2023, we undertook a review of the investments we could use to access investments in this area.

A brief summary of biodiversity investments

01

Sustainable Investments: Investors can promote sustainable investments that support biodiversity conservation. This can involve investing in companies that have business models that support the environment, such as those engaged in sustainable agriculture, renewable energy, waste management, or eco-tourism. These investments can generate financial returns while also promoting conservation efforts.

02

Impact Investing: Impact investing involves financing projects and businesses, which have the intention of generating positive social and environmental impacts alongside financial returns. In the context of biodiversity, impact investing can include funding initiatives that conserve endangered species, protect and restore natural habitats, or support sustainable forestry and fisheries.

03

Conservation Finance: This involves investing towards conservation-focused initiatives. Examples include investing in land trusts, protected area management, or biodiversity offset projects. These investments often involve collaborations with conservation organisations, governments, and local communities to ensure long-term sustainability.

04

Ecosystem Services: Investing in ecosystem services is another avenue for supporting biodiversity. Ecosystem services are the benefits that ecosystems provide to humans, such as clean air, water and pollination. Financial services can invest in projects that preserve or enhance these services, such as reforestation programs, wetland restoration, or sustainable land management practices.

Responsible investing and sustainability in the long run
Continued

05

Green Bonds and ESG Funds: Financial institutions can issue green bonds, which are specifically designated for funding environmentally friendly projects. These bonds provide investors with an opportunity to support biodiversity conservation initiatives directly.

06

Collaboration and Partnerships: Financial institutions can collaborate with governments, environmental organisations and research institutions to drive change. By leveraging their expertise and financial resources, these partnerships can support initiatives that protect biodiversity.

Challenges

However, there are challenges when trying to invest in this way, especially when managing multi-asset fund of funds which are daily dealing, the main issues are the following:

01

Forecasting risk and returns: When building an investment case for a position in the portfolio it's important to be able to forecast the potential risks and returns based on certain assumptions. This is simpler for many of our SAA asset classes which have long historic time series and lend themselves to robust analysis. It is more challenging for non-SAA asset classes like RMBS or AT1s, which have shorter time series and where proxies are sometimes needed.

This difficulty is amplified in the biodiversity space. How does one build an investment case for Nature Based Solutions? How can one build return expectations for wetland restoration? These are questions that we find difficult to answer especially with an uncertain regulatory backdrop.

02

Liquidity: The pure play investments in this area are heavily correlated with the illiquidity of the investments. Looking past the listed equity investments that are available, the options include Investment Trusts, Private Equity or the newly launched Long-Term Asset Fund structure.

Unfortunately, the lack of mature, late-stage companies targeting this area means investment opportunities in the public equity space are limited. However, the space is on the verge of an incredible innovation cycle that should change this.

03

Data: Data availability is a challenge, unlike the coverage for carbon intensity, which has improved significantly following the adoption of the Taskforce on Climate-related Financial Disclosures (TCFD) and initiatives like the Carbon Disclosure Project. The figures for biodiversity are less readily available. This will improve with the adoption of the Taskforce on Nature-related Financial Disclosures (TNFD), but this will likely take many years. Also, unlike climate change, there is not one data point like carbon intensity that the industry can adopt. This is clear from the latest recommendations from the TNFD, which include global metrics and then sector-specific metrics.

In summary, Biodiversity is a theme that we will monitor in the coming years. However, the investment options are limited for now. In many cases, the investments most closely linked to biodiversity conservation are too illiquid for the types of investments we manage. However, in the same way, the TCFD's recommendations improved the landscape for climate investing, we expect the options to improve in the future.

Climate change: Decarbonising our SAA

In previous reports, we have described the journey that has been undertaken at 7IM to reduce the carbon intensity of the SAA. Through 2020, we began a research programme aimed at decarbonising our 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. As mentioned in our last report, the focus of our research in 2023 was on European and Japanese equities. Both regions have a wide array of products, including Funds, Exchange Traded Funds (ETFs) and Index Futures. We also did an initial review of the product range in UK Equity and Global High Yield; however, we didn't see sufficient progress to take these options any further.

After careful deliberation, we decided to use a Japanese equity index that followed the EU's Climate Transition Benchmark (CTB) methodology. The EU introduced these benchmarks to integrate climate risks, opportunities, and targets into the European regulatory framework and to mobilise investment towards sustainable growth.

The CTB methodology has a 30% reduction in carbon intensity but also attempts to tilt the index away from companies linked to various climate risk, such as technological, policy and legal risks. We thought these aspects were aligned with the goals of the decarbonisation project.

Headline Index changes

Although the majority of our progress to date has been driven by changes we have made to the portfolios, the dynamics of the broader market can have a large impact. The substantial increase in energy stocks in 2022 led to increases in the index level carbon intensity of many of the main indices. 2023 saw some of those dynamics reverse, which helped us get nearer to our target.

Next Steps

Our progress so far has led us to investigate our plans once the target is achieved. The first option is to set more ambitious targets, such as increasing our target to 50%. However, our research suggests that there is a far greater impact on tracking error as the target is increased past 30%. This decision must be taken carefully, as if/when the target becomes more aggressive, it will start to infringe on the return and diversification objectives of the SAA.

Responsible investing and sustainability in the long run
Continued

A second objective is to lean more heavily on engaging with our investments and helping and encouraging them to adopt Net Zero targets. We already assess active managers on their stewardship capabilities during the fund selection process and assess passive managers during the annual passive manager net zero review project. However, currently approximately 50% of our asset managers are yet to be part of the Net Zero Asset Managers initiative (NZAMI), and the majority of those who are signatories of NZAMI have minimal implementation on their underlying funds. By engaging with our managers, we could aim to indirectly influence the underlying companies to set climate commitments.

We will look into these options in more detail in 2024.

Case study: Climate change exposure in portfolios

Alongside the target to reduce the carbon intensity of the SAA, we also have shorter-term tactical positions where we think there is potential for returns. One of these is an investment in the metals and mining sector. This position was introduced to most of our core portfolios in early 2023.

The Intergovernmental Panel on Climate Change (IPCC) estimates that at least $1.6tr p.a. investments are required until 2050, if we are to meet the Paris targets. If this materialises, then many of the sectors connected to the energy transition could grow by 20% per year in USD terms for the next 20 years – leading to some pretty big growth numbers. And if China comes fully on board, then these could be conservative.

Even if official policies fail, clean energy and electrification could transform economies faster than previously thought. RethinkX is a think tank that focuses on technology and society and has studied clean energy trends in detail. They reckon that clean energy prices will plunge further between 2020 and 2030: by 43% for wind, 72% solar and 80% for batteries. The energy transition they describe could be driven largely by technology and would lead to gigantic demands for transition metals.

No matter how you look at it, large-scale clean energy and decarbonisation will require huge amounts of metal. According to the World Bank, the key cases are the four outlined below. Copper and nickel are required for various low-carbon technologies, while cobalt and lithium are needed mainly for batteries.

Climate change is the biggest risk currently facing humanity, and the main solution is to move energy generation from fossil fuels into clean energy. However, to do this the production of various metals that are used in the production of wind, solar and battery technology must increase substantially. We believe this supports an investment into the metals and mining sector.

Our ESG integration approach

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 explicit ESG characteristics, such as Metals and Mining, that we added in 2023, which is discussed above.

Similarly, when we select third-party funds or direct investments, we incorporate ESG considerations into the decision-making process. This is achieved by our fund diligence process via Door and 7IM's ESG convictions assessment, as explained later in this report.

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. In 2023, we did much to further evolve the metrics that we use, adding Climate Value-at-Risk and Implied Temperature Rise. This is discussed in the next section.

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 exercising our stewardship responsibilities through 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. We provide multiple examples of this later in the report.

As signatories of the UN PRI we are required to report on the PRI principles and this will form part of our assessment of progress and success in incorporating ESG into our investment process. We submitted our first public UN PRI report[3] in 2023 and achieved well above median and four stars across almost all modules.

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 described our enhancements made to the external manager research and monitoring process in 2023.

ESG risk metrics and reviews

Since our work in embedding the monitoring of carbon risk and ESG risk in our portfolio monitoring process started in 2020, we have made significant progress in embedding the monitoring of carbon risk and ESG risk into our portfolio monitoring process and the Investment Risk Committee, which have been outlined in our previous Stewardship Reports.

We understand the importance of forward-looking metrics to identify risks and opportunities in the transition to a low-carbon society. We, therefore, subscribed to MSCI's Implied Temperature Rise and Climate Value-at-Risk (CVaR) data at the tail end of 2022, with the intention to use this data to enhance climate risk management at 7IM further. CVaR is a quantitative model that forecasts the present value of future costs and benefits under different potential climate scenarios, presented as a percentage of current valuation.

[3] For the 2023 7IM UN PRI Transparency Report and the 2023 7IM UN PRI Assessment Report, see https://www.7im.co.uk/inside-7im/cleaner-investments/pri-and-stewardship-code

Responsible investing and sustainability in the long run

Continued

Implied Temperature Rise (ITR) expressed in degrees C, shows the global warming outcome (°C) by 2100 if the global economy was to exhibit the same level of ambition as the company or portfolio in question.

In 2023, the ESG Metrics Working Group, composed of people from the investment management and investment risk teams, worked on how to best integrate these metrics. We were able to apply the forward-looking metrics to all 7IM portfolios and embed them within the portfolio and investment risk monitoring process.

7IM seeks to promote transparency and integrity in business. We are currently preparing for the Taskforce on Climate-related Financial Disclosures (TCFD) reporting, with the deadline for publishing our first disclosures in June 2024.

We also conduct annual ESG data provider market research to review our current and other data providers. This allows us to assess whether there are better alternatives in terms of data and metrics coverage, system integration capabilities, and cost efficiencies. In 2023's review, we engaged with our current provider (MSCI) and several other providers. We were impressed by the improvement the general market has made in terms of data and metrics coverage. We decided to continue with MSCI due to various enhancements made to their products since the previous review, but we are hoping for more competition in the ESG data provider market.

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 2023, we invested in three new products in our ESG portfolios, detailed below.

BlueBay Impact Aligned Bond Fund

In the Autumn of 2023, we began to review the corporate bond holdings we held in our ESG mandates. We wanted to supplement our current holdings with a global fund that gave us access to ESG-labelled bonds. ESG-labelled bonds are a growing part of the fixed-income universe and a good source of impact for the portfolios, they include green bonds, social bonds and sustainability-linked bonds.

We had been following the BlueBay fund since its launch in 2021. We were impressed with the fund's rigorous impact framework and the breadth of themes it gives us access to. The Strategy is classified as Article 9 within the EU Sustainable Finance Disclosure Regulation (SFDR).

Importantly, we were keen to allocate to a fund that was globally diversified but also had performed well compared to the wider global corporate benchmark, which the fund had.

Sustainable UK Equity Managers

In May 2023, we started a project to review the UK investments we had in our Sustainable Portfolios. ESG mandates that we run have ethical exclusions that seek to minimise the exposure to alcohol, gambling and weapons, amongst other things, which limited our options.

In some aspects, the UK equity market is among the dirtiest and most concentrated of the developed market indices. It has large weightings to the world's largest energy, materials and defence companies, and has meaningful weightings to gambling and alcohol firms. That means that the typical sustainable UK investment manager has a mid-cap growth bias relative to the FTSE All-Share, a bias that we were trying to remove.

We settled on a basket of three investments. Firstly, a passive ETF which had limited tracking error to the FTSE All-Share but still was in line with our exclusion list. The second investment was an income manager which focused on companies with strong balance sheets and good cash flows; we thought this manager would give us a core equity exposure which wasn't too growthy.

Our third manager had a large cap focus and supplemented some of the sector deficiencies of the UK market with large global names such as Texas Instruments, Microsoft or Taiwan Semiconductor.

In the end, a blend of these three managers gave us a large cap core exposure which was in line with what we wanted to achieve and was as close to the FTSE All-Share as possible with the exclusions in place.

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 Investment Risk team started a project to see how we could use the system for our risk oversight.

Responsible investing and sustainability in the long run
Continued

Market functioning and market-wide risks

During 2023, 7IM participated in a number of collaborative engagements with regulators and the investment industry. Some key engagements are described below.

The Sustainability Disclosure Requirements and Net Zero

When the FCA's Policy Statement for the Sustainability Disclosure Requirements was released in late 2023, we were pleased to see that the FCA had listened to industry feedback. As mentioned in last year's report, we had asked the FCA to *"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"*. We were then very happy when the FCA announced a fourth label 'Mixed Goals' which has meant the task of achieving a label for our Sustainable Fund is now much easier.

Throughout 2023, we engaged with industry peers on their approach to SDR and the implications for us as predominantly a fund of fund manager. Now the rules are in place, we are working on achieving the Mixed Goals label and more detail will be included in subsequent reports.

As explained above on p. 47 we have an ambitious short-term target to decarbonise our Strategic Asset Allocation and have looked at plans for when we have achieved our goal. As part of this, we have attended several round tables held by Schroders to discuss ways other managers had approached Net Zero. The sessions were very informative and gave us an insight into how other investors were tackling Net Zero. We were also able to offer our experience of decarbonising our portfolios and the balancing act of managing climate risk but also achieving investment returns.

MSCI Consultation

We have close working relationships with many of the largest data providers in the market and are often approached for feedback on new products or industry developments. In 2023, MSCI approached us to discuss our use of derivatives and how we measure ESG or climate risk in portfolios that use derivatives. This is a topic that we have wrestled with for some time, and it was an interesting discussion with MSCI on how they are attempting to measure climate risk with the complications that derivatives bring. The questions we covered included how to deal with securities sold short, or how to adjust the climate risk when the delta of an underlying option changes and how to treat time decay of an option.

In terms of our usage, we mainly use index futures, where the payoff from the underlying index is more directly tied to the security's price. In these instances, we are comfortable proxying the climate risk of the index future with that of the underlying index.

The Partnership for Carbon Accounting Financials (PCAF) has been a leader in measuring carbon emissions but is yet to release guidance on the measurement of climate risk in portfolios where derivatives are used. We hope the discussions that we had with MSCI will push the industry to find a solution.

Stewardship and engagement at 7IM

How we prioritise our engagements

Our core investment services provide multi-asset class portfolios, usually via collective investment vehicles. Externally managed products total around 98% 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 management 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 PRI guidance. This prioritisation differs across asset classes but is consistent across geographies.

Active equities and real estate. We focus our equity engagements on active funds that we have material holdings in, and those that have scored a 'Low' ESG conviction score. 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.

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.

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.

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. 79, which was sold in 2023.

Enhancing engagement priorities in 2023

In 2023, we further enhanced our engagement policy[4] as part of the annual review by adding E, S, and G engagement themes. These are Climate Change, Biodiversity, Diversity & Inclusion, Human Rights and Labour Rights, Board Composition and Audit Independence, and Transparency. Our engagement themes promote consistency in how we interact with our investment managers and the companies we invest in.

Climate Change remained one of our main themes in 2023 as we pursued engagement on climate-related targets, exemplified by our Passive Managers Net Zero and Stewardship Engagement Project, detailed on p. 59. Another focal theme was Biodiversity, detailed earlier in the report, which led us to join a collaborative investor initiative Investor Policy Dialogue on Deforestation (IPDD), explained on p. 68.

ESG integration within fund selection is key to our investment process. We engage in extensive preparations prior to establishing a new partnership with a manager, typically involving numerous face-to-face meetings and thorough research into the sector or strategy space. In 2023, we refined our approach through the combination of using Door and 7IM's ESG Conviction Score, detailed on p. 58. We are seeking to understand a manager's awareness and incorporation of ESG considerations when constructing the investment philosophy and process, as well as firm-level sustainability considerations.

[4] For 2023 7IM Engagement Policy, see https://www.7im.co.uk/media/sqqphsf3/7im-engagement-policy.pdf

Stewardship and engagement at 7IM
Continued

Summary of case studies

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	Passive Managers Net Zero and Stewardship Engagement Project Liontrust Asset Management Sarasin monitoring BlackRock World Mining Fund and human rights	AT1s engagement Wisdom Tree and Assenagon
Engagement	7IM direct holding	Investment Trust	N/A
Engagement	Sarasin engagements on our behalf	Thermo Fisher Scientific Inc. LSEG	N/A
Engagement	External manager engagements on our behalf	AllianceBernstein and Roche Schroders GSV and International Business Machine Corp	BlueBay and RaboBank BNY Mellon and Unicaja Banco SA
Engagement	7IM collaborative engagement efforts	Investor Policy Dialogue on Deforestation (IPDD) Initiative Endorsements	
Engagement	External manager collaborative engagement on our behalf	McInroy & Wood and IIGCC Sarasin's continuous efforts on climate-conscious auditing UBS and the 30% Club	Barings and Emerging Markets Investors Alliance (EMIA) Robeco and Climate Action 100+
Escalation	7IM with external managers	Fidelity and Geode	N/A
Escalation	External manager escalation on our behalf	LGIM and Exxon Mobil Ninety One and Orsted	BlackRock and Hungary BlueBay and Constellium
Voting	7IM direct holdings	Berkshire Hathaway	
Voting	External manager votes on our behalf	Fidelity and Shell Baillie Gifford and Moderna	
Voting	Sarasin votes on our behalf	Cisco Systems and tax transparency Microsoft and AI risks DS Smith and auditors	

External manager stewardship and ESG monitoring

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.

Enhancing our external manager due diligence process

The evolution of fund due diligence on Door

As detailed in previous Stewardship Reports, we upgraded our due diligence process for fund selection in 2021 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.

In 2023, we worked closely with Door to digitise our ESG questionnaire. This has allowed a uniformed and efficient way of reporting and tracking the changes in ESG information provided over time. We have formalised three fund due diligence questionnaires on Door to send to different types of funds we invest in. Our Core questionnaire is applicable to all actively managed funds and includes essential ESG questions, our ESG-specific questionnaire dives deeper into ESG and is applicable to all actively managed funds used within ESG-oriented portfolios, and our Add-on questionnaire allows supplementary information applicable to actively managed funds above an investment threshold.

The events in the asset management industry in 2023 have put a spotlight on how important it is to understand non-financial corporate misconduct and firm culture. Ultimately, abusive culture and governance failures lead to investment and liquidity risks for the end-client. Following such events, we expanded our Core questionnaire, applicable to all actively managed funds, to include questions on pending/ongoing investigation and/or litigations, promotion of culture and values, code of conduct policies in place, diversity, equity and inclusion (DEI) activities and targets, reporting and investigation procedures in place for harassment and/or discrimination, and governance structure. We recognise that it is very difficult to capture all ESG risks, in particular, ambiguous and hard-to-measure areas such as firm culture. However, this questionnaire and our ESG integration process improvements, detailed below, aim to help us to minimise such risks.

Stewardship and engagement at 7IM
Continued

Strengthening ESG integration and monitoring in fund due diligence

Over the past year, we've made some adjustments to our procedure. Previously, we would distribute our ESG questionnaire to asset managers, aiming to distinguish between 'leaders' and 'laggards' in ESG practices within the industry. However, after several years of conducting this process, we discovered that the majority of responses were marketing-heavy. This approach proved inefficient as sector specialists and ESG analysts had to sift through extensive marketing materials to extract meaningful insights for our ESG questionnaire. As ESG becomes more mainstream, many managers have adopted sustainability investment commitments, policies and practices. Simultaneously, greenwashing concerns have risen, and it is becoming harder for investors to filter through the never-ending marketing materials to assess an asset manager's commitment (or lack of) to integrate ESG.

As a manager-of-managers, we aim to understand how deeply the manager believes in ESG risks and opportunities, to what extent they integrate ESG across the firm and to what extent they implement their ESG policy. We aim to understand whether their corporate sustainability commitments and policies are consistent with what they do. We aim to engage with our fund managers to improve on any ESG risks identified in this process. When it comes to manager selection, we view ESG assessment as a risk management tool.

Hence, at the end of 2023, we moved away from the annual ESG questionnaire system to a more efficient and systematic framework of ESG integration in fund selection. The framework is structured in two parts. First, managers are assessed on ESG pre-investment to see if they meet our minimum ESG standards, then the ESG investment analyst researches on six key areas (firm philosophy and commitments, accountability and oversight, ESG team, ESG integration and research, engagement, and voting – further expanded below) to establish ESG convictions from 'High' to 'Low'. This research is consistently recorded in the fund due diligence note. Second, the ESG analyst conducts a post-investment ESG review based on the responses to the ESG-specific questions on the Door due diligence questionnaires, as outlined previously. The aim is to ensure that the responses align with pre-investment ESG due diligence. The analyst will flag potential opportunities for engagement if any area is flagged as having room for improvement. We believe this method maintains consistency in evaluating managers' ESG practices and capacities.

In addition, we improved the ESG monitoring procedure through an 'enhanced monitoring, mechanism. Asset managers who are scored as 'Low' Conviction during the onboarding process will be added to the 'ESG Conviction Watchlist'. We do not exclude 'Low' ESG conviction managers as we believe engagement is a more effective tool for change. We seek to work with them and identify areas of improvement in ESG integration and their active ownership capabilities. To help achieve real world impact, we will indirectly influence underlying companies on ESG, such as climate target setting and disclosures, through putting pressure on our managers. Once engagement opportunities are identified, the ESG investment specialist will track and monitor progress year on year. For managers who have made significant ESG improvements since inception, we can upgrade the conviction in the related categories as a measure of our successful engagement.

Engagements with external managers on ESG and stewardship

Case study: Passive Managers Net Zero and Stewardship Engagement Project

As a fund-of-funds house, we rely on our asset managers to be sound stewards of our client's capital. Passive investments are projected to grow as a proportion of our asset base. At 7IM, we consider voting and engagement the key 'levers' at a passive fund manager's disposal to achieve positive investor outcomes, given that divestment is not an option.

Our ESG survey results in 2022 found that many of the larger asset managers are signing up for initiatives targeting climate change, such as the Net Zero Asset Managers initiative (NZAMI), but few of them can clearly specify how they'll achieve this. Following Vanguard's withdrawal from NZAMI and Paul Rissman's letter, which criticised Vanguard for violating its fiduciary duty to mitigate the financial risks of climate change, we wanted to understand how the major passive managers we invest in are approaching their net zero commitments and assess their stewardship capabilities. Until 2022, the sentiment around ESG appeared invincible as we saw more and more asset managers join NZAMI and make sustainability related commitments and policies. However, the Russia/Ukraine conflict and the growing politicisation of ESG in the US has led to a subtle and gradual withdrawal of stance and commitments from the major asset managers.

In 2023, we have, therefore, commenced a deep-dive review of passive providers' stewardship approaches and resources, as well as the honesty and feasibility of their climate commitments.

The engagements addressed questions related to corporate targets and action plans, stewardship resources, and engagement and voting processes. The outcome of this qualitative assessment and engagement will be to identify leaders and laggards in the passive space and conduct an annual review to track progress. We classified the managers ranging from 'High' to 'Low' conviction. The passive managers involved are Vanguard, Amundi, LGIM, HSBC, DWS (Xtrackers), and BlackRock (iShares). These managers are responsible for approximately $21tr AUM altogether.

Overall, we found the approach to net zero and ESG integration varied relatively significantly across the managers we interviewed. We summarise insights in six core sections:

1. Firm: Several methods are used to establish net zero targets, such as reducing carbon intensity through carbon footprint or weighted average carbon intensity (WACI), aligning portfolios with temperature goals, or adopting client or investee company-based approaches. This increases comparison and progress monitoring difficulties for the industry. Anti-ESG sentiment in the US remains a major hinderance for managers with large US presence, and these players tend to emphasise the importance of corporate governance rather than tackling environmental and social issues of their holdings head-on.
2. Accountability and oversight: Overall, there is notable strength at the C-Suite- and management- levels among the managers, with most having some form of sustainability oversight committee and a senior leader responsible for ESG research and stewardship efforts. The differences tend to lie in the level of board oversight. Leading firms in this field have board oversight of sustainability strategy, with some even having a dedicated sustainability committee within the board.

Stewardship and engagement at 7IM
Continued

3. ESG team: Over the past five years, the industry has significantly increased its investment in ESG resources, primarily focusing on two main areas: ESG research and stewardship. Firms awarded with 'High' conviction status typically maintain a centralised team comprising full-time ESG experts. These teams are well-organised, with clearly defined roles and specialised individuals.
4. ESG integration and research: ESG research, data, and tools are advanced across the majority of the passive houses. The majority have developed their proprietary ESG rating frameworks, each to varying degrees of granularity and transparency. ESG integration, however, is less advanced given the limited role managers can play in passive strategies unless it is a dedicated ESG-marketed product. Many managers try to integrate by having the proprietary tool available to all the investment desks, allowing them to use the data at their discretion.
5. Engagement: Engagement processes across the managers are quite robust, most have structures and resources in place, allowing identification and monitoring of engagements. Variations of engagement priority lists are a common way for these managers to identify companies and address issues. The effectiveness of engagements are less developed. Leaders in this space will set quantitative and qualitative key performance indicators (KPIs) and regularly follow up with investees, with all engagement data stored in a centralised system and are prepared to escalate matters when necessary.
6. Voting: Voting serves as a crucial measure to determine if a manager's actions align with their stated intentions. Managers typically employ voting either as a means of escalation following unsuccessful engagement or, interestingly, as a precursor to initiating engagements. There is a significant disparity among managers regarding their support for ESG shareholder resolutions and their inclination to propose such resolutions. It is unsurprising that US managers tend to be more cautious and offer less support for these resolutions compared to their European counterparts.

This engagement has been mainly focused on gaining an understanding of the approaches and the differences. We will review this on an annual basis and aim to push to progress where appropriate.

Sarasin monitoring

A crucial allocation of the 7IM Sustainable Balance Fund's equity assets has been managed by Sarasin, a UK-based investment manager, since the inception of the fund. In 2023, we enhanced our review process for Sarasin by conducting a fresh and more stringent due diligence on the manager's investment and ESG capabilities. This involves conducting quarterly review meetings on Sarasin's investment process, portfolio activities and ESG integration. We demonstrate this with a few examples below.

We engaged with Sarasin in March 2023 following the US financial sector turmoil, notably the collapse of Silicon Valley Bank (SVB), which Sarasin held in their portfolio at the time. We challenged the rationale behind the initial SVB purchase. Sarasin viewed SVB as a contributor to increasing productivity and a disruptor, and wanted to gain access to a secular trend that causes growth and diversification. They were aware of the concentrated nature of the depositor base and that is why they managed the position size carefully, took profits when relevant, and the risk process stopped the holding from getting too big. When we questioned the ESG case of the investment, Sarasin explained that SVB fitted into the 'Digitalisation' theme of Sarasin's thematic framework. They challenged the long tenure of the board and the auditor, KPMG, which has been in place since 1994, and conducted governance due diligence as a result. We were satisfied with their response.

During our quarterly meetings, Amazon is a stock that we frequently scrutinised regarding human rights issues and wanted to gain an understanding of how Sarasin is exercising its stewardship on this. Amazon has been flagged on the Sustainalytics UNGC Watchlist for health and safety issues at its operations, as well as worker's rights interference allegations. We were pleased to see that Sarasin has been acting on this issue for a few years now. From co-signing a joint investor letter emphasising the workers' right to freedom of association and collective bargaining and voting in favour of resolutions relating to labour, to reflecting the treatment of labour directly in the valuation model by increasing the cost base.

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 five principles. These are based on The Investor Forum's guidance on good engagement.

Firstly, we are long-term investors, and our engagements are set on that basis. This recognises that change is a gradual process but should be pursued nonetheless. Our engagements focus on long-term value creation for the end client.

Secondly, our engagements are framed by a close understanding of the fund manager and their investment style. This may mean adapting our approach depending on whether a fund manager is active or passive, or focused on small or large cap stocks.

Thirdly, our engagements are based on setting clear objectives with a focus on effecting change. We want to be clear with the investment managers we invest with so that they understand our aims.

Fourth, we employ consistent, direct and honest messages and dialogue.

Fifth, involves reflection so that lessons are learned and we can improve future engagement activity. This will ensure that engagement activity remains focused, appropriately resourced, and ultimately successful.

As multi-asset multi-manager investors we engage with companies and managers on assets in different asset classes and geographies. We question our active managers about their holdings of stocks with poor ESG ratings and controversies 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.

Liontrust Asset Management governance concerns

In March 2023, following the abrupt resignation of two non-executive directors from the Board due to disagreements on the Chair's tenure on the Board, we asked Liontrust to provide more colour on the resignations. The UK Corporate Governance Code recommends that Chairs stay on the Board for no longer than nine years, starting when the Chair first joins the Board. The Chair has been on the Board since 2011, taking his tenure to 12 years. Unsatisfied with the initial explanations, we arranged a meeting with a member of senior management via video conferencing to acquire additional clarity.

Stewardship and engagement at 7IM
Continued

In the call, it was clarified that the departures were amicable and Liontrust treat the Chair as independent despite being on the Board for more than nine years. There were still four fully independent directors. The Board was fully supportive of the decision for the Chair to stay on and did not think he is compromised as Chair.

We also expressed concerns about whether the Chair was overcommitted, given his involvement on several other boards. It was confirmed that he has stepped down from a couple of investment trusts and the re-election vote passed with 91% majority in the 2022 AGM, highlighting shareholder support.

We also challenged on Liontrust's auditors, KPMG, upon noticing the Chair's prior employment with the firm. Liontrust clarified that they typically consider a three-year period to address potential conflicts of interest. It was confirmed that there was a sufficient number of years before the appointment of KPMG.

Overall, the conversations reassured us that they maintain a competent and highly experienced board and indicated that there are no significant developments underway. In early 2024, it was reported that Liontrust will be seeking a new Chairman.

AT1s case study

Following the Credit Suisse AT1 bond write-down, we engaged with our AT1 managers with the aim of understanding their position on the legal action filed by many asset managers against FINMA. We specifically sought insight into their prior engagements with Credit Suisse (CS), given the company's recent history of governance issues predating the AT1 crisis.

The responses across the managers were mixed, ranging from active involvement in the litigation to an inability to disclose information or a decision not to participate. Regarding engagement efforts, there were also differing levels of involvement. Notably, Invesco's engagement prior to the event was relatively comprehensive. Invesco had noted the poor governance and risk management throughout the bank since 2021, when Credit Suisse's prime brokerage unit lost $5bn as a result of the default of Archegos Capital Management. The bank had acknowledged several operational deficiencies, leading to personnel changes at both executive and board levels. The performance of the bank was closely monitored, and CS was trading at a wide spread compared to its peers, reflecting a large premium for these governance concerns. At the time of Invesco's engagement with CS, which was September 2022, they believed the spreads justified the ESG risks.

This engagement yielded helpful perspective on varying approaches to the litigation and enabled us to identify managers with weaker engagement capabilities, which we detail in the subsequent case study.

Wisdom Tree and Assenagon

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. Upon contacting Wisdom Tree as part of the previously discussed Credit Suisse (CS) AT1 bond event, we were informed that Assenagon Asset Management, the investment manager of the AT1 ETF, had not engaged with CS before, despite CS's history of governance issues, and was not planning to engage with CS following the AT1 write-down. We highlighted the significance of ESG engagement and advised Wisdom Tree to encourage Assenagon to engage with fixed income issuers.

In August 2023, we contacted Wisdom Tree about any developments in their engagement with Assenagon. Wisdom Tree assessed Assenagon's engagement as part of its due diligence process and discussed plans for enhancing engagement going forward. As a result, Assenagon has joined a pooled engagement platform of ISS ESG.

We also learnt that Wisdom Tree has enhanced their due diligence on external managers. Previously, Wisdom Tree heavily relied on external investment managers for engagement, but now they have established their own engagement and voting policies. They have formalised the due diligence process, which includes assessing engagement and voting criteria and comparing the Investment Manager's approach with industry best practices. As part of the increased focus on engagement, Wisdom Tree has incorporated a report on Principal Adverse Impact (PAIs) and engagement and voting as part of the quarterly reports to the board. WisdomTree also monitors PAIs and other ESG metrics independently from the Investment Managers and discusses any discrepancies or deteriorating metrics with the Investment Manager and board.

Stewardship and engagement at 7IM
Continued

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 17 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 engagement case studies

Thermo Fisher Scientific Inc.

Thermo Fisher is held in Sarasin's Sustainable Balance mandate. Sarasin initiated discussions with Thermo Fisher, the world's largest life science tools company, after sending a post-proxy letter to the Chair. This led to engagements on human rights policies, diversity within management, and executive compensation.

Sarasin questioned allegations that Thermo Fisher's DNA collection kits for forensic investigations might be utilised for mass biometric data collection and surveillance in Tibet, following previous allegations concerning Uyghurs in China's Xinjiang province. The company indicated that since 2019, there have been no sales to the entities listed and they have no evidence of their technology being used in Tibet. They plan to issue a statement regarding the outcome of their investigations. While this provides some reassurance, Sarasin stressed the need for stronger policies to prevent misuse.

They've enhanced board diversity this year following their AGM and now align with Sarasin's guidelines. While they have a diversity strategy for senior leadership, they refrain from setting public diversity targets due to potential litigation risks from recent Supreme Court rulings.

Furthermore, Sarasin raised concerns regarding remuneration, particularly on the vesting of performance shares during below-median performance and the absence of non-financial (strategic) KPIs in long-term incentives. The company plans to enhance their disclosures next year, especially regarding stock options, which Sarasin welcomes.

London Stock Exchange Group (LSEG)

Sarasin has been engaging with LSEG on net zero alignment for a few years. Building on the engagement detailed in our 2022 Stewardship Report, Sarasin engaged with LSEG to address high carbon entities that LSEG facilitates.

Despite LSEG aligning their business to a 1.5°C pathway, over 40% of the FTSE100 (the largest LSE-listed companies), market capitalisation are high-carbon entities. Sarasin raised concerns about how LSEG is acting to drive 1.5°C alignment in the higher-carbon entities that use its services. Sarasin recognised the difficulty of altering listing rules; however, conversations with the CEO and Head of Sustainability created a two-fold suggestion. The first being LSEG uses its role on the Transition Plan Task Force (TPT) to ensure any forthcoming listing rules are anchored to a 1.5°C-aligned pathway, and second, LSEG ensures issuers are informed about and implement FRC guidance on climate-related disclosures. Sarasin will continue to discuss and monitor progress in this matter.

Third-party managers engaging on our behalf

As a multi-asset fund of funds 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 our 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.

AllianceBernstein (AB) and Roche

AllianceBernstein International Healthcare Fund has been one of our core holdings for several years. AB has engaged with Roche, a company that specialises in the development and production of pharmaceutical and diagnostic products, on different ESG issues. In 2023, AB focused on Roche's operations, supply chain opportunities, exposure to environmental risks, and mitigation strategies.

Historically, Roche has had a decentralised approach to sustainability initiatives, but the appointment of a new CEO in 2023 established an executive-level function to oversee the groupwide strategy. AB targeted questions around circular economy initiatives, which Roche representatives had difficulties addressing. However, they did outline several specific initiatives, including extending drug shelf life and exploring alternative materials. AB advocated for a centralised sustainability report instead of publishing KPIs online.

AB engaged on to what degree sustainability factors drive supplier onboarding and exit decisions and Roche communicated that, while it is still in the early stages, Roche is piloting projects to generate materiality maps for contract development and manufacturing organisations (CDMOs) to evaluate suppliers' sustainability performance.

Stewardship and engagement at 7IM
Continued

AB also provided feedback regarding greenhouse gas (GHG) intensity metrics. Roche's metrics are measured by volume and number of employees, and AB suggested using revenue as revenue tracks growth more reliably than the number of employees.

AB acknowledged that Roche is mindful of its environmental impacts and anticipates more centralised reporting in the future, in particular the requirement to disclose according to the Task Force on Climate-related Financial Disclosures by 2025.

Schroders and International Business Machines Corp

We have been holding the Schroders Global Sustainable Value Fund since 2022. Schroders is one of the leaders in the stewardship space and this is exemplified by their engagement with International Business Machines Corp (IBM), a multinational technology company, on AI ethics. The company has pioneered incorporating AI within its workforce strategy for some time and has had multiple successes, from reducing time-to-hire by 50% to increasing learning consumption by 25%. Schroders engaged with IBM to explore their approach to AI governance and how they adapt to technological advancements.

Following conversations with IBM, Schroders learnt about IBM's AI Ethics Board, which has been introduced to implement governance, review and decision-making processes for all AI practices at IBM. The board reports to the board of directors through the Chief Privacy Officer, ensuring the board's accountability for AI ethics. Schroders also examined human capital implications of increased AI usage and potential worker displacement, in which IBM pledged to train 2 million learners in AI by 2026 via collaborations with universities.

Given the rapid evolution of AI and regulatory landscapes, ongoing dialogue with IBM is essential. Schroders intends to continue monitoring IBM's approach and expand discussions to encompass other facets of AI, including considerations of its environmental impact.

BlueBay and Rabobank

BlueBay Asset Management, a fixed income specialist that manages an ESG financial capital bond fund held in 7IM funds, illustrated their engagement capabilities through their engagement with a bank on climate-related issues.

RaboBank is a Dutch cooperative bank with a prominent position in domestic retail banking in the food and agribusiness markets worldwide. They have championed sustainability since the early 2000s through their four strategic sustainability pillars, as well as calculating emissions since 2004 and having sustainability oversight at board level.

The engagement started in 2022, when BlueBay questioned how loan pricing adjusts with client progress on climate goals and encouraged disclosure improvements to enhance transparency around this for investors to understand the journey they are on. BlueBay also encouraged more specific sustainability KPIs to be ahead of the curve as part of RaboBank's decision to join the Net Zero Banking Alliance.

Since the conversations began, Rabobank has significantly increased their disclosure and depth of their ESG plans, including developing their "Road to Paris" plan. The bank has produced a carbon footprint for their entire portfolio to allow benchmarking in the annual results for the first time, with plans to bring target setting and implementation to a sector level. Rabobank has set preliminary targets for 12 key climate-emitting sectors and are developing plans to help clients transition to achieve these goals by focusing on products, clients, portfolios and a matrix of initiatives. BlueBay continues to engage in these areas and monitor progress.

BNY Mellon and Unicaja Banco SA

Unicaja Banco SA, a Spanish savings bank, is held within the BNY Mellon Efficient Global High Yield Beta Fund, which 7IM held in 2023. BNY Mellon engaged with the bank on human capital management and employee engagement as the bank scored poorly on MSCI and BNY Mellon's internal ESG rating. Recent merger-related redundancies and board member departures have caused organisational volatility. However, the appointment of a new CEO offers an opportunity to enhance its ESG strategy, particularly in human capital.

The manager engaged with Unicaja in conducting annual employee surveys, implementing programmes based on feedback and disclose results. The manager also highlighted the absence of diversity and inclusion (D&I) targets at the senior management level as a concern.

Unicaja expressed openness to BNY Mellon's feedback and intends to address the concerns. The bank recognised that it needed to improve its social policies; however, the focus has been on environmental initiatives. While the banks to send ESG materiality surveys to all employees, it lacks a mechanism to collect feedback on its culture, which is critical post-merger and following the number of redundancies. Unicaja also acknowledged the need for additional D&I targets beyond the existing 40% women on board. The manager awaits Unicaja's next report to assess the implementation of their recommendations.

7IM direct equity engagements

About 2% of 7IM assets under management are held in direct stocks and bonds, many of which are UK investment trusts. These are used 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.

In 2023 we noticed that the prices of all the investment trusts that we hold moved to a significant discount compared to their respective Net Asset Values (NAVs). We met with all our investment managers to see why this was the case.

One of the main reasons was that the huge increase in bond yields in 2023 had impacted the attractiveness of these assets as an investment. Many investment trusts are held in portfolios to achieve a consistent inflation-adjusted return. The increase in bond yields, especially inflation-linked bond yields in 2022 led many investors to divest from investment trusts.

A secondary reason for the increase in discounts has been the ongoing debate on how investment trusts disclose charges. Changes to regulations has meant that investment trusts must now disclose their ongoing costs much like open ended funds. The argument against this is that an investment trust is a listed company and therefore should disclose costs in line with other listed companies. We encouraged investment managers to feed back this point to the regulators.

We believe investment trusts are useful structure to get access to illiquid investments like wind, solar or battery technology. We believe cost disclosure is important and hope the Regulator finds an optimum way to proceed.

Stewardship and engagement at 7IM
Continued

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-funds structures, the opportunities we have to engage directly with companies are limited. Directly invested equities make up only 2% of our assets under management, with unitised products or closed-ended investments making up the rest.

Case study: Investor Policy Dialogue on Deforestation (IPDD) Initiative

In 2023, we researched on how 7IM can help and address nature-related, in particular, biodiversity-related issues within our portfolios. Following extensive research, previously detailed on p. 45, we concluded that, presently, there are not many investable products for us. The funds and ETF products are not 'pure-play' enough as they often focus on circular economy, promoting healthy eating or green travel. The niche investment areas such as real assets (timber products, carbon credits etc.) are too illiquid and, hence, not suitable for our investment appetite.

As a result, we looked to collaborative initiatives that we can actively participate in to make nature a stewardship priority. We joined the Investor Policy Dialogue on Deforestation (IPDD) Initiative as a working group member in July 2023. IPDD, formed in 2020 with over 70 global investors responsible for approximately $10tr of AUM collectively, seeks to engage with public agencies and industry associations in selected countries on the issue of deforestation with the aim to promote sustainable land use and forest management. The objective is to ensure the long-term financial sustainability of investments in the selected countries. As a member of the initiative, 7IM joins fortnightly IPDD meetings with other investor participants to discuss issues and policies around deforestation, as well as being involved in engagements with public authorities and sovereigns.

7IM initially joined IPDD's Brazil Working Group as Brazil has the largest primary rainforest with extensive carbon absorbing biomes yet it has also often been the country with the most primary forest loss. Over the course of the year, the Working Group's engagement includes various discussions with ministries and non-governmental organisations (NGOs), letters to key senators, educational sessions, and an event hosted at the New York Climate Action Week.

As we grew more acquainted with the initiative, we realised that we could be more impactful by joining IPDD's Consumer Countries Working Group, the newest workstream, focused on engagements in the EU, US, UK and China as 7IM is a UK-based investment firm with sizable investments in consumer countries. We joined the Group at the tail end of 2023. The Group prioritises engagements with related authorities and associations on various deforestation- and disclosure-related regulations on the demand side.

Looking ahead, we will continue our active participation within IPDD, with a focus on the Consumer Countries Working Group.

Endorsing initiatives

7IM aims to support environmental and social initiatives, when relevant and appropriate. As a member of the UN PRI, we have opportunities to be part of initiatives supported by the PRI.

In December 2023, 7IM endorsed 'SPRING', a new collaborative stewardship initiative on nature launched by the UNPRI. The initiative's objective is for investors to contribute to the goal of halting and reversing biodiversity loss by 2030 through targeting around 40 companies selected based on priority geographies, level of deforestation policy and level of influence, with the scope for additional companies for engagement. This is aligned with the goals and targets of the Kunming-Montreal Global Biodiversity Framework. As a fund-of-funds house, we have limited scope to engage with companies directly. As we are already active members of IPDD which targets conversations with governments, we wanted to support nature-related engagement with companies we hold indirectly via our funds.

We introduced a metals and mining position in our portfolios in early 2023, as explained on p. 48. We recognise that investment in this sector increases the explicit carbon emissions of the portfolio and counters the direction of 7IM's SAA carbon reduction target. However, we believe that much of the opportunity in this investment is based on a transition to a greener world. We believe we may be at the start of one of the commodity "supercycles" as commodity demand is expected to increase alongside restricted supply. Meanwhile, 7IM acknowledges the long history of human rights problems of this sector and the need to enhance business practices on human rights and reduce risks to investments. Therefore, 7IM endorsed 'ADVANCE', a PRI-led initiative seeking to advance on human rights and positive outcomes through engagement with metals and mining sector and renewables sector, targeting around 40 companies. As an endorser, we fully support the expectations of companies engaged which are to implement the UN Guiding Principles, align their political engagement with respect to human rights, and progress on most severe human rights issues within their operations and value chains.

For both initiatives, we have decided to be endorsers rather than participants. While we understand the greater impact of being a participant of engagements, the expectations of a participant do not align with a fund-of-funds house.

Stewardship and engagement at 7IM
Continued

Case Study: BlackRock World Mining Fund and human rights

As an endorser of 'ADVANCE', we noticed that BlackRock, the asset manager through which we invest our active metals and mining position, is not part of the initiative that is supported by over 350 investors globally. We engaged with BlackRock to understand why and how they are addressing human rights through stewardship.

BlackRock informed us that BlackRock Investment Stewardship (BIS) generally engages individual companies independently as they've built the asset management industry's largest stewardship team in order to facilitate regular, multi-year engagements with companies. While they cannot join as a signatory to 'ADVANCE', this group is focused on the same theme as one of BlackRock's five Engagement Priorities: Company Impacts on People. BlackRock engages with companies on their approach to workforce engagement, worker rights and protection, and health and safety. BlackRock emphasised the importance of assessing how companies manage key stakeholders in the areas/jurisdictions that they operate, ensuring the benefits are appropriately shared.

An example provided was the manager's engagement with ArcelorMittal, a steel production corporation, on safety processes concerns following a series of accidents. Poor safety processes fundamentally impact the investment case by impacting Arcelor's right to operate, and relationship with employees and communities. As a result, ArcelorMittal are conducting a third-party audit of all safety practices in the global portfolio.

We were generally satisfied with BlackRock's response and approach to engagement on human rights. We recognise that BlackRock needs to adhere to regulatory limits on collaborative engagement, particularly with respect to U.S. companies and companies with U.S.-listed securities. However, the examples provided by the manager did not directly address how they are engaging on human rights within the mining sector. We will continue our conversations with BlackRock to understand how the fund seeks to address these issues and push for more human rights advocacy and improvements in the sector.

Sarasin's continuous efforts on climate conscious auditing

Since 2019, Sarasin has advocated for the importance of net zero auditing. From regularly engaging with auditors on climate change risks to challenging the Big Four auditors via coordinated engagement letters from investors, both of which are described in 7IM's 2021 and 2022 *Stewardship Report*, Sarasin continued to push for changes in climate accounting in 2023.

To promote better accounting, Sarasin led on a number of collaborative initiatives in 2023. Sarasin led on a November publication by International Corporate Governance Network (ICGN) titled "Reflecting climate-related matters in financial statements". The manager continues to be part of the co-Chair of Institutional Investors Group on Climate Change (IIGCC) Paris-aligned accounting and audit workstream, building on awareness and educate the investment community on the importance of climate-conscious accounting and audit. Sarasin's active voice in this matter can also be demonstrated through their thematic webinar for a US-focused investor audience hosted by Ceres and a Net Zero Banking assessments webinar hosted by Sarasin.

The goal of this work is to capture the attention of standard setters, regulators and other key market actors such as auditors. The effectiveness of the outreach efforts became apparent when the European Securities Market Authority (ESMA) issued a report outlining revised guidance on the integration of climate considerations into financial statements. We are impressed by the work Sarasin has done on this front and will continue to support them on advocating for net zero auditing.

Fund managers engaging collaboratively on our behalf

McInroy & Wood and Institutional Investors Group on Climate Change (IIGCC)

In March 2023, McInroy & Wood, along with 92 other investors, joined the Net Zero Engagement Initiative, launched by the IIGCC to engage and support companies in their net zero transition plans sharing knowledge across the Group. The initiative has broadened its focus from the initial Group of 166 high-emitting companies to an additional 107 companies. This joint effort began with all investors within the Group signing a letter to open engagements. In September, the manager also co-signed a letter[5] to the Prime Minister Rishi Sunak as part of IIGCC. The letter voiced the importance of a stable environmental policy following the Prime Minister's net zero policy announcement as members of the IIGCC conveyed apprehensions that postponed targets and alterations declared in September could introduce uncertainty and possibly diminish investment.

UBS and the 30% Club

In 2023, UBS participated in the 30% Club to engage with Softbank Group on decarbonisation pathway, diversity, governance and overall corporate strategy. Softbank has committed to net zero emissions for Scope 1 and 2 emissions. However, there are no clearly defined net zero targets for its subsidiaries and investment portfolio. The firm also lacked on female representation at C-suite level as well as lacking a dedicated governance structure for AI. UBS highlighted the need to expand emissions targets, increase transparency on development of female staff, and the need for an AI governance framework. Overall, Softbank was receptive to the feedback and expectations. UBS and the 30% Club will continue to engage and monitor changes in 2024.

[5] IIGCC (2023), https://www.iigcc.org/insights/letter-to-the-uk-prime-minister-from-the-ceos-of-iigcc-pri-and-uksif

Stewardship and engagement at 7IM
Continued

Barings and Emerging Markets Investors Alliance (EMIA)

We hold emerging market debt via Barings across a number of our portfolios. Engagement within emerging markets tends to be more difficult due to greater uncertainties. Hence, it is reassuring to see managers like Barings joining industry initiatives to drive change. In 2023, as part of EMIA, Barings has been involved in working groups focused on Food and Consumer sectors.

EMIA typically meets monthly or bi-monthly to discuss a range of topics, including existing relevant engagements with companies. Barings have been engaging with one of the largest global protein companies based in Brazil on animal welfare issues. With EMIA's support, a questionnaire was created addressing the treatment and housing of pigs, which was distributed to all investors within the working group for input and approval.

Following a lack of response, Barings contacted the company on behalf of EMIA, which led to a due diligence visit to Brazil to further discuss topics around targets on deforestation/ tracing suppliers of cattle as well as to respond to EMIA's questionnaire.

Robeco and Climate Action 100+

We are invested in the Robeco Global Credit and Global SDG Credit Funds. Through engagements led by Robeco as part of Climate Action 100+, Robeco was able to set several objectives for the Italy-based multinational power producer, Enel. In December 2021, the company adopted Scope 3 emissions target and brought forwards its Net Zero target by 10 years. In 2022, Enel was scored as the first and only company to meet the full disclosure criteria under the Climate Action 100+ Net Zero Benchmark. After years of engagement, Enel developed a robust energy transition plan with a commitment to not use negative emissions technologies or offset on the path towards net zero. Finally at the end of 2023, Robeco successfully closed the multi-year engagement with Enel.

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 98% 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.

7IM escalation with external managers

Geode / Fidelity

We have been engaging with Fidelity on its passively managed product range, managed by a firm called Geode, since 2021 following our initial roll-out of our ESG questionnaire. We continue to build on conversations on stewardship in 2023, previously detailed in our 2021 and 2022 *Stewardship Reports*.

Geode, based in the US, predominantly manages passive and systematic low-cost investment strategies. After identifying the areas for weakness, which were notably stewardship resources and proxy voting and engagement efforts, we initially engaged with Geode, via Fidelity International. However, when we noticed the slowness of progress, we focused on our engagement with Fidelity, who are ultimately the manager and provider of the index products (sub-advised by Geode) that we invest in. Since this engagement started, Geode has increased their ESG Stewardship Team from two in 2021, to four in 2022, to six in 2023.

In 2022, we encouraged Fidelity International to reconsider the investment management arrangement with Geode, though this is unlikely, given the historical relationship between the two firms. In 2023, we pushed for further action and questioned progress. We encouraged Fidelity to explore various options that may enhance the voting and engagement on the sub-advised assets on behalf of European investors. Fidelity was able to take us through the options they were considering internally as well as the practicalities of each, such as the necessary infrastructure and logistics required. They were able to highlight the likelihood of each option and lay out expectations. Fidelity also emphasised that they themselves are already engaging on a lot of the holdings that Geode sub-advises.

We noticed some progress in Fidelity's thinking and appreciated that Fidelity's Board was reviewing the options. Frustratingly, however, a clear plan hasn't been agreed yet. We have been following up with Fidelity in 2024.

Escalation by external managers on our behalf

Our expectations for asset managers

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.

LGIM and Exxon Mobil

LGIM, a core asset manager which we hold across several portfolios, escalated with Exxon Mobil, an American multinational oil and gas company, a number of times under LGIM's Climate Impact Pledge (CIP) engagement programme.

LGIM's conversations started in 2016 with a number of concerns identified, namely; lack of Scope 3 emissions disclosures (embedded in sold products); lack of integration or a comprehensive net zero commitment; lack of ambition in operational reductions targets and; lack of disclosure of climate lobbying activities. Due to a lack of improvement, LGIM escalated matters a number of times; voting against re-election of Chair in 2019 and placing the company in the CIP divestment list in 2021. In 2023, LGIM further escalated their engagement by co-filing a shareholder resolution at the 2023 AGM requesting the company to disclose the quantitative impact of the IEA Net Zero scenario on all asset retirement obligations (AROs).

Stewardship and engagement at 7IM
Continued

The proposal was centred around disclosure and seeking greater insight into the potential costs associated with the decommissioning of Exxon's assets in the event of an accelerated energy transition.

The proposal received 16% shareholder support, and therefore did not pass. However, since 2021, LGIM has seen improvements in Exxon Mobil's efforts. For example, disclosure of Scope 3 emissions, a 'net zero by 2050' commitment (for Scopes 1 and 2 emissions), the setting of interim operational emissions reduction targets, improved disclosure of lobbying activities and more recently, the commitment made by the company to join the leading global partnership on methane, OGMP 2.0. However, the company remains on the CIP divestment list and LGIM will continue their engagement for further advances.

BlackRock and Hungary's green bond framework

Sovereign engagement is vital for low-carbon transition and large players such as BlackRock can leverage their extensive network to interact with sovereign issuers on ESG topics. In 2023, the team behind the Sustainable Emerging Markets Blended Bond Fund we invest in escalated issues around the use of proceeds with the Hungarian Debt Management Office (DMO).

The dialogue started in October 2022 when BlackRock downgraded the sovereign Green, Social, and Sustainability (GSS) framework shading from 'medium green' to 'light green' due to concerns around the allocation of share of proceeds for clean transportation projects. A considerable part of the allocation was constituted by OPEX-type expenditures, such as the reimbursement of uncovered costs of railway passenger traffic, rather than towards further electrification of the railway network (considering only 41% of the Hungarian open-access railway network is electrified).

BlackRock advocated for the sovereign to allocate the funds towards capital expenditures (CAPEX) instead of operational expenditures (OPEX). They stressed the importance of prioritising investment in electrifying railway lines. BlackRock also recommended updating the sovereign's green bond framework to exclude expenses related to fossil-fuel powered infrastructure.

As a result, the Hungarian DMO updated the framework to exclude OPEX explicitly on railway infrastructure and align more closely with the country's decarbonisation objectives. This serves as a distinct illustration of how active engagement and escalation with issuers can result in concrete and evident impact.

BlueBay and Constellium's lack of carbon strategy

We hold the BlueBay Global High Yield ESG Bond Fund in our sustainable portfolios in 2023 and during that time, BlueBay flagged concerns around a lack of carbon reduction policy in alignment with the principles of the Paris Agreement to Constellium, one of the world's largest producers of aluminium products.

Despite being at the forefront of aluminium production and recycling and having good governance practices and sustainability disclosures, the issuer was negatively flagged during BlueBay's Principal Adverse Impacts (PAI) assessment as Constellium did not have a Paris Aligned carbon reduction strategy.

Through these conversations, BlueBay found out that Constellium is part of the Aluminium Stewardship Initiative (ASI) that has been working on a sectoral decarbonisation Science-Based Target framework. The issuer is currently in the process of aligning to this framework and disclosing in their 2023 Sustainability Report due to be published in 2024. BlueBay's views currently remain unchanged, rating the issuer at a 'Medium' Fundamental ESG risk rating. However, upon receiving their carbon reduction strategy in the forthcoming documentation, BlueBay anticipates viewing the issuer more favourably.

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 small proportion of overall assets under management – around 2% – 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.

House policies on voting

For listed equity assets held directly in our centrally managed propositions, 7IM decides how to vote following discussion within the investment team on proposals. 7IM has relatively few direct equity holdings, so most of the voting on listed equities is done by managers of third-party funds we invest with. 7IM engages with managers, asking them to disclose their approach to stewardship and Environmental, Social, and Governance (ESG) as a company and for their funds, and to explain their voting policies. While 7IM cannot vote on these third-party funds, we can seek to influence how a fund will vote.

For third-party funds with voting rights, the house policy on voting is to vote based on materiality. We review the votes on funds where we either hold more than 20% of the fund's assets or the fund is a top 20 holding in absolute terms across all centrally managed propositions, as at the end of the first quarter of the calendar year.

We review the votes for all investment trusts held across all centrally managed propositions.

In 2023, we further refined our voting policy through establishing a consistent view on pre-emption rights. As a matter of principle, we believe that the issuance of new shares should not significantly dilute existing shareholder capital. When a company issues new shares without pre-emptive rights, we follow the principles recommended by the Financial Reporting Council's Pre-Emption Group (PEG). We will vote in favour of pre-emption rights issuances of up to 10% of issued ordinary share capital in one year. We may vote for up to 10% more of issued ordinary share capital provided that the company confirms and justifies that it intends to use this only in connection with an acquisition or a specified capital investment. We limit non-pre-emptive issuances of investment trusts and funds to 20%.

There are occasions when this house rule is overridden, e.g. where investments are held for clients in a private open-ended investment company (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 Door questionnaire and fund due diligence framework 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.[6]

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.

[6] For 2023, see https://www.7im.co.uk/media/g0ypisfn/full-voting-records-2023.pdf

Governance and voting
Continued

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.

How we voted in 2023

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 above a certain minimum threshold, to assess whether the recommendations made by the management are, in our view, in the best interest 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.

7IM voting record in 2023	
Voted shares	1,361,678,020
Shareholder meetings	109
Proposals voted	2,561
With management	2,530
Against management	69
Not voted	0

During 2023 we voted on 2,561 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.

On the next pages, we outline our reasons for voting both for and against management on Berkshire Hathaway resolutions.

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

Direct voting case study: Berkshire Hathaway and ESG

As one of the few direct equity holdings, we have been voting on Berkshire Hathaway's ESG-related shareholder proposals since 2021, changing our view on Berkshire's ESG-related proposals in 2022. As detailed in our 2021 Stewardship Report, in 2021, we voted with management against two ESG-related shareholder proposals despite normally favouring standardised ESG disclosure requirements. At that time, we held the belief that Berkshire was not accountable for managing these risks given their small head office. However, after further consideration, we emphasised the potential risks associated with Berkshire's subsidiary companies failing to address these ESG issues. As detailed in our 2022 Stewardship Report, 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 2023, 7IM continued to believe that Berkshire Hathaway has a long way to go in climate risk reporting and addressing ESG issues. Our research also found that the data provided by Berkshire on diversity, equity and inclusion efforts is far from adequate for a holding company its size despite the decentralised nature of its business. Therefore, we persisted in urging Berkshire by supporting proposals aimed at managing and governing physical and transitional climate-related risks and opportunities, as well as enhancing reporting on the effectiveness of the corporation's diversity, equity, and inclusion initiatives.
In our evaluation, we found the shareholder proposals to be reasonable and not excessively restrictive on management.

We also continued to vote in favour of management and against a shareholder proposal to separate the Chairman and CEO roles at Berkshire as we did in last year's AGM. We remained confident in Warren Buffet's abilities to lead Berkshire, while Greg Abel prepares for succession as CEO.

The results were disappointing, yet unsurprising. Most shareholders voted against proposals to disclose more on and address climate-related risks and increase efforts to promote diversity. The lack of progress over the past few years, and a clear unwillingness from the Board to address these issues has placed Berkshire as a laggard. We sold our position in Berkshire in the latter half of 2023.

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 analyse manager's ESG and stewardship capabilities through our enhanced fund due diligence process, and ask our managers to respond to questionnaire(s) on Door. This is to establish ESG conviction ratings which includes conviction on how their engagement and voting policies are and how they are 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.

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.

Outside of the ESG convictions tool and Door questionnaire(s), there is regular monitoring of the holdings in the third-party funds where important votes are discussed.

We will work with fund managers where we have identified weaknesses, particularly those we think can upgrade their voting and engagement.

Third-party managers voting on our behalf

Fidelity and Shell

We hold Fidelity UK Select Fund across our active portfolios, which invests in Shell, a multinational oil and gas company. In the 2023 AGM, shareholders were presented with two climate-related resolutions. The shareholder resolution requested Shell to align its existing 2030 reduction target covering the greenhouse gas (GHG) emissions of the use of its energy products (Scope 3) with the goal of the Paris climate agreement. The management resolution requested approval of Shell's Energy Transition Progress Report, detailing the company's progress in implementing the transition strategy approved by shareholders at the 2021 AGM.

When considering the high-profile shareholder proposal, Fidelity assessed its requests in light of the company's current targets and those of its peers. While the company's medium-term targets cover operational and value-chain emissions, its 2030 targets for reducing Scope 3 emissions are intensity-based rather than absolute reductions. This means overall emissions, driven mainly by product usage, could rise in the coming decade. Additionally, comparison with peers' targets revealed more ambitious goals. Fidelity supported the shareholder proposal because the absence of absolute Scope 3 targets raises uncertainty about the current strategy's alignment with the Paris Agreement goals.

Regarding the management resolution, Fidelity evaluated the company's progress against existing targets. The company has made strides, reducing operational emissions by 30% and net carbon intensity by 3.8%, both on track to meet targets by 2030. Therefore, Fidelity supported the management resolution.

Fidelity has been engaging with Shell on climate-related disclosures and these votes are a means to express preference for absolute Scope 3 emission targets in the forthcoming climate strategy refresh expected in March 2024.

Despite the support, the shareholder resolution was voted down, while the management resolution was approved.

Fidelity will continue to monitor and engage with the company regarding its management of climate risks leading up to the climate strategy refresh in March 2024. This vote represents a significant aspect of shareholder consultation.

Baillie Gifford and Moderna

We introduced Ballie Gifford Healthcare Innovations Fund in early 2022 as a tactical position in our portfolios, aiming to capture the disruptive innovation within the healthcare industry. One of the holdings is Moderna, a pharmaceutical and biotechnology company based in the US, which has invested heavily in its technology platform and an entirely new class of medicine (mRNA) to treat a wide range of diseases.

In the 2023 AGM, shareholders were asked to vote on a resolution to commission a third-party report analysing the feasibility of transferring the intellectual property (IP) and know-how to facilitate the production of Moderna's Covid-19 vaccine to companies in low- and middle-income countries. This was a re-file of the same proposal which was on the agenda list in the 2022 AGM. Baillie Gifford engaged with the CEO, Chair and experts in the field in 2022 following the initial filing of the resolution, which resulted them to oppose the resolution. In 2023, Baillie Gifford opposed again as little has changed to warrant them changing their view. There is little to suggest that there is a supply issue in low- and middle-income countries. Should Moderna license more of its IP, the manager is confident it would have limited effect on addressing today's Covid vaccine inequalities and it also comes with substantial risks which, Baillie Gifford believes, the company has considered appropriately.

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.

In 2023 we updated the Prospectus to include more information on how we screen third-party managers, how we report on the sustainability, and how we monitor the underlying investments. We believe this aligned the Prospectus to a greater extent to the FCA's Guiding Principles.

Governance and voting
Continued

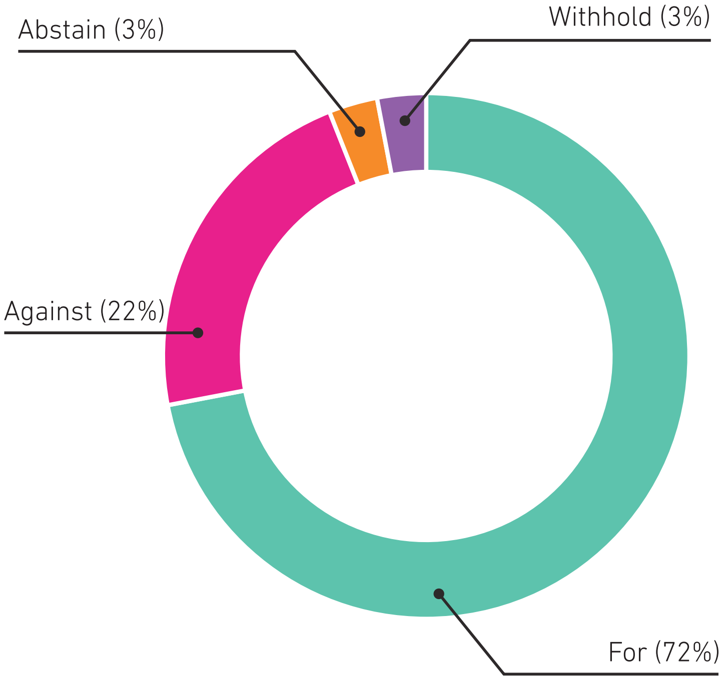
Sarasin voting on 7IM's behalf during 2023

Sarasin engages with the companies in the Sustainable Balance portfolio and vote on 7IM's behalf, reporting back to us at our quarterly 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 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. 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 re-election of the audit committee chair where the company fails to disclose their risk exposure, materiality of these risks and how they manage these risks to a 1.5°C pathway. 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-fifth of all the votes they cast on our behalf.

Sarasin voting on 7IM's behalf during 2023 Voting Statistics (%)



Sarasin voting case studies

Cisco Systems and tax transparency

Cisco Systems has repeatedly faced tax scrutiny by authorities globally, prompting Sarasin's support for a shareholder resolution urging the disclosure of country-specific tax information according to the GRI Standard. Cisco Systems does not currently disclose disaggregated profits or tax payments in non-US markets, hindering assessment of responsible tax practices and regulatory risk exposure. This transparency gap is critical for sustaining societal value as tax avoidance impacts government welfare funding. The resolution did not receive majority shareholder support.

Microsoft and AI risks

As AI becomes increasingly adopted, Sarasin is concerned with risks related to AI generation of misinformation. The importance of ethical AI is growing, requiring sufficient reporting and monitoring. Microsoft has previously taken measures to mitigate risks related to generative AI operations and has been at the forefront of publishing responsible AI principles and policies. However, given the rapid advancement of AI technology, Sarasin has voted for Microsoft to enhance its risk reporting. Being a leader in generative AI, Microsoft serves as an example for other participants in the market. The resolution did not receive majority shareholder support.

DS Smith and auditors

In December 2022, Sarasin sent a post-proxy letter to DS Smith's Chair following the 2022 voting season and their commitment to achieving net zero. Sarasin pointed out that while DS Smith's 2022 annual report showed improved disclosure of climate risks, there was no indication of how these risks influenced the financial statements. Therefore, Sarasin voted against the 2022 resolution to accept the financial statements and statutory reports. Despite the company's auditor identifying climate risks as a key audit matter, Sarasin still sought disclosure of opinion on the company's stress testing and scenario analysis for 1.5°C assumptions. Sarasin chose to abstain from voting on the auditor EY and the Chair of the Audit Committee, David Robbie. In 2023, Sarasin observed significant improvement in DS Smith's annual report and accounts. Sarasin also noted the auditor's description of steps taken to review management's accounting assumptions regarding the impact of climate factors. However, Sarasin abstained from approving the reports and accounts at the AGM, as well as the appointment of the auditor.

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.

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 to 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 business 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.

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.

Glossary of terms
Continued

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.

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