

# ESG Review

Psigma Investment Management

SRI MPS Balanced

August 2020

# Contents

Key facts Page 3  
Portfolio information  
ESG policy and alignment  
Levels of ESG integration  
Sustainable Development Goals

## ESG factors

Environmental Page 4  
Social  
Governance

## Levels of ESG integration

Exclusions Page 5  
Sustainability focus  
Impact investing  
Top 10 holdings

Sustainable Development Goals Page 6  
Engagement with corporates and/or funds  
Resources  
Psigma’s ESG policy

Psigma Investment Management  
SRI MPS Balanced  
Danny Luggah, CFA

## Key facts

- Part of a range of four multi-asset portfolios with varying risk levels and a socially responsible investment (SRI) overlay.
- A focus on positive inclusions as opposed to negative exclusions. This strategy results in low exposures to traditional controversial areas whilst investing in positive contributors.
- Sustainability focus is gained from a diversified range of sources including Emerging Markets, Asset Back Securities and Alternatives.
- Believe in strong engagement with underlying fund managers and a good understanding of their processes.

## Portfolio information

Launch Date	31 July 2019	UN PRI signatory*	No
Portfolio Manager	Mike Myers & Inv Team	UK Stewardship Code signatory	No
Domicile	GBR	IA Sector	n/a
Assets	Active	Morningstar Category	n/a
Approach	Return Focused	Defaqto Diamond Rating Type	-
Type	MPS	Diamond Rating	-

\*UN Principles for Responsible Investment (PRI)

## ESG policy and alignment

The Psigma SRI MPS range consists of four portfolios with varying risk levels (Cautious, Balanced, Growth and Aggressive Growth). They are an extension of Psigma's existing multi-asset range, but with an added socially responsible investment (SRI) overlay.

Asset allocations will match the core MPS range, however, underlying fund investments may differ as this range has more of a focus on SRI/ESG funds.

For funds with an SRI-focus, the investment framework is based on four-pillars: ESG integration, sustainable investing,

impact investing and engagement. As this is a multi-asset range, the team have a focus on diversification and may include some funds for risk management purposes such as an exposure to gold and government bonds.

The range's philosophy is based on positive inclusion as opposed to negative exclusions. However, there is a formal exclusion policy that prohibits the range investing in funds that have more than 5% exposure to gambling, adult entertainment, tobacco and armaments. We found none of the underlying funds to be in violation of these restrictions.

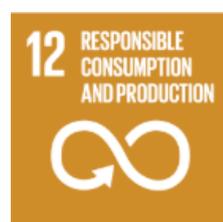
Number of exceptions: 0

## Levels of ESG integration

Exclusions	100%	Sustainability focus	54%	Impact investing	4%
------------	------	----------------------	-----	------------------	----

For full details, please refer to p5

## Sustainable Development Goals (SDG) focus



# ESG factors

## Environmental

Less than 1%	Between 1% and 10%	More than 10%
--------------	--------------------	---------------

Environmental Exposures	Product
Fossil Fuel	1.45%
GMO	<1%
Nuclear	<1%
Oil Sands Extraction	<1%
Palm Oil	<1%
Pesticides	<1%
Thermal Coal	<1%

Although the range does not have specific environmental exclusions, as can be seen in the table on the left, its focus on positive inclusion has resulted in minimal exposures to most of these areas.

Fossil fuel is the only exposure of significance. For the Balanced portfolio, we found two funds to have greater than 10% exposure to this area: the Ninety One Global Environment Fund and the Robeco Sustainable Emerging Stars Equities Fund. In both cases, the funds are heavily invested in the transition to a low carbon economy, especially in the Emerging Markets. Ninety One believe that it is better to be asset owners of the more carbon intensive utilities and actively engage with these companies to encourage investment in cleaner generation. Robeco have a set target of environmental footprint reduction compared to its benchmark.

## Social

Social Exposures	Product
Adult Entertainment	-
Alcohol	<1%
Animal Testing (Pharmaceutical)	9.16%
Animal Testing (Other)	-
Controversial Weapons	-
Fur and Specialty Leather	-
Gambling	<1%
Military Contracting	<1%
Small Arms	-
Tobacco	-

The portfolio has some exposure to animal testing, although this is a common feature among ESG funds given their often higher exposure to the healthcare industry and the legal requirement for pharmaceutical companies to test new drugs on animals.

The alcohol and military contracting exposure predominantly come from one fund: ASI UK Ethical Equity. It is something that the team are aware of and monitor to ensure the exposure is kept to a minimum.

There is also a very small exposure to gambling which comes from the Neuberger Berman Short Duration Emerging Market Debt Fund. The team have queried this with the fund manager who mentioned it is from the fund's exposure to hospitality, tourism and leisure in the Emerging Markets. Again, this exposure is very small and only accounts for approximately 0.06% of the overall SRI MPS Balanced.

Source: Based on availability of Morningstar ESG data as at 31 May 2020

## Governance

The team's belief is that governance is highly correlated to share price performance. As such, they expect underlying fund managers to illustrate good/improving governance practices across their holdings

As part of the research process, the external fund management team are sent a proprietary due diligence questionnaire which includes details of their process, engagement with companies, voting records and SRI credentials. This is used to form a picture of how the fund is managed as well as its focus on governance. During our meeting with Psigma, an example provided was of the portfolio's holding in RWC Nissay Japan Focus Fund, one of the reasons this fund was chosen was because of the fund manager's commitment to improve the governance policies of its underlying holdings.

In terms of ongoing fund monitoring, the team use Morningstar to formally analyse the revenue exposure of its fund holdings on a monthly basis to ensure they are aligned with the policy. If a position is held that is not consistent with Psigma's SRI framework, the first step is to begin a dialogue with the fund manager to understand the rationale for holding the position. This rationale is then evaluated and if the position contravenes the SRI framework, the fund is removed.

The team have also established non-disclosure agreements (NDAs) for all of the funds in their SRI strategies to ensure they have access to the most up-to-date holdings list.

Due diligence questionnaires are also reviewed on an annual basis.

# Levels of ESG integration

Within this section, we look at how ESG has been integrated across the portfolio. Using the IA responsible investment framework, there are three fund-level components: exclusions, sustainability focus and impact investing.

## Exclusions 100%

There is a formal exclusion policy that prohibits the range investing in funds that have more than 5% exposure to gambling, adult entertainment, tobacco and armaments. The team also monitor exposures to other industry sectors, although there are no set maximum levels. For example, when there is revenue linked to fossil fuels, the underlying securities contributing to this exposure must have positive SRI attributes that warrants their inclusion.

Psigma also believe a more pragmatic approach is needed, such as in the case of Emerging Markets, due to the fact that in many cases their processes are not as well-established. Therefore, rather than a restrictive negative exclusion policy there is a focus on positive inclusion, which naturally limits unwanted exposures.

## Sustainability focus 54%

Sustainability focus funds invest in assets with specific sustainability goals and/or themes. According to information provided by Psigma, this makes up 54% of the SRI MPS Balanced.

A highlight of the Psigma range is that they target a sustainability focus from a variety of source. Examples include: the TwentyFour Asset Backed Income fund, which

integrates ESG and sustainability into asset backed securities; the Osmosis MoRE World Sustainable Market Neutral fund, which is a market neutral fund that chooses investments based on their resource efficiency; and the Robeco Sustainable EM Equities fund, which targets sustainable Emerging Market companies.

## Impact investing 4%

Impact funds invest with the intention of achieving a positive, measurable environmental or social impact. This makes up 4% of the SRI MPS Balanced.

Impact investing makes up one of the four pillars of the Psigma SRI framework. A key differentiator from the 'sustainable investing' pillar is that the team expect impact funds to measure and report the social or environmental performance of the underlying investments.

Examples held within the range include: the Ninety One Global Environment fund, which invests in companies that contribute to positive environmental change through sustainable decarbonisation; and the Impax Environmental Markets fund, which invests in companies involved in energy efficiency, water treatment and pollution control, and waste technology and resource management.

## Top 10 holdings

Name	Sector	Country	% of assets
TwentyFour Asset Backed Income	High Yield	Global	6.5
Royal London Sustainable Leaders	Equities	United Kingdom	5.5
Aberdeen Standard UK Ethical Fund	Equities	United Kingdom	5.5
Fidelity Global Inflation Linked	Index Linked Bonds	Global	5.0
Liontrust Sustainable Monthly Income Bond Fund	Investment Grade	Global	5.0
TwentyFour Focus Bond	Investment Grade	Global	5.0
BMO Responsible Income	Equities	United Kingdom	5.0
Neuberger Berman Short Duration EM Debt	Sovereign Debt	Emerging Markets	5.0
Osmosis MoRE World Sustainable Market Neutral	Alternatives	Global	4.0
Neuberger Berman US Equity Index Put Write	Alternatives	United States	4.0

Source: Psigma Investment Management, July 2020

## Sustainable Development Goal (SDG) focus



Source: Psigma Investment Management, July 2020

## Engagement with corporates and/or funds

Each potential fund is sent a due diligence questionnaire that covers their ESG/sustainability policy, investment process and personnel. This is reviewed annually to ensure any significant changes are captured.

Prior to investing in a fund, the investment selection team will meet with every fund management team and write-up an initial recommendation, which is circulated to Psigma's investment managers. Follow-up meetings may then be arranged with product specialists to ensure it is aligned with Psigma's SRI framework.

Post investment, the team believe in maintaining close relationships with fund managers and aim to have a formal meeting with each one every 6-12 months and an informal meeting more regularly.

The team regularly review underlying fund holdings and if one is found to be inconsistent with Psigma's SRI framework, they will engage with the fund manager. The next step is to get a written answer and check for an appropriate response.

## Resources

Psigma have 33 investment professionals, including six members within the Investment team.

The Head of SRI is Mike Myers, who oversees the central SRI investment list. Two members within the team have also gained the CFA ESG Investing certificate.

The team use Morningstar to monitor the revenue exposures of the funds on their recommended list each month and have established non-disclosure agreements (NDAs) with all of the

funds in their SRI strategies to ensure they have access to the most up-to-date holdings list.

For specialist funds, such as the TwentyFour Asset Backed Income fund, Morningstar does not currently have the ability to assess Asset Backed Securities (ABS) from an ESG point-of-view. In this case, the team have gained an understanding of TwentyFour's internal tool, Observatory, which the fund manager uses to integrate ESG factors into ABS.

## Psigma's ESG policy

At present, there is no formal, firm-wide ESG policy. However, there is an SRI policy that governs all of Psigma's SRI services (as discussed within the Exclusions section on P5).

Furthermore, part of the firm's due diligence questionnaire, which is sent out to all underlying funds, queries whether they

consider ESG factors in their investment process. At the time of review, a large majority of funds within the non-SRI service integrate some form of ESG into their decision-making process.



## Defaqto Engage

Defaqto Engage is our end-to-end financial planning software solution enabling advisers to manage their financial planning process all in one place.

**Engage**  
**CORE**  
At the heart of your advice

Engage Core, the latest version of Defaqto Engage, combines risk profiling, three-way fund, platform and product research and suitability letters templates into one easy-to-use tool. Visit [defaqto.com/advisers/engage](https://defaqto.com/advisers/engage) to learn more.

The Service Ratings and satisfaction results by category are available within [Engage](#). Advisers can use the Service Rating and the individual category satisfaction scores (for example, new business servicing, existing business administration, online servicing) during the research process as one of a number of selection criteria. They can also be added to comparison tables.

Advisers should note that not all providers are rated; to qualify for a Service Rating, providers must receive a minimum number of responses from advisers. So, using any service results in the filtering process may exclude providers offering potentially suitable client solutions from the research output.

We really couldn't create the Service Ratings without advisers – they are different from our Star and Diamond Ratings, which are created by our experts and based on facts, not opinions.

© Defaqto Limited 2020. All rights reserved.

No part of this publication may be reprinted, reproduced or used in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system without the express written permission of Defaqto. This ESG Review is for the professional use of professional financial advisers only, and is solely made to and directed at such financial advisers. It is intended to be used by them only to inform them in the independent financial advice they give to their clients, and then only if those financial advisers are not acting as agents for their clients or, at least, will not be acting as agents for their clients in purchasing an interest in the investment or fund which is the subject of this ESG Review (Purchasing the Investment).

This ESG Review is not for the use of, and is not made to, or directed at, the clients of professional financial advisers or anyone who may be considering purchasing the investment. No such clients or such other persons should rely on this ESG Review, and Defaqto shall not be liable in any respect whatsoever to such clients or other persons if they do so. This ESG Review was prepared by, and remains the copyright of, Defaqto.

Defaqto makes no warranties or representations regarding the accuracy or completeness of the information or views contained in this ESG Review. The views contained herein simply represent the views of Defaqto at the date of publication and both those views and the information set out herein may change without reference or notification to any recipient of this ESG Review.

Defaqto does not offer investment advice or make recommendations regarding investments and nothing in this ESG Review constitutes, is intended to constitute, or should be taken as, a recommendation or advice that any investment activity be undertaken by any person. Readers of this ESG Review must make their own independent assessment of whether it is appropriate to purchase the investment. Defaqto is not acting as financial adviser or in any fiduciary capacity in relation to any transaction in any investment. Nothing in this ESG Review constitutes, is intended to constitute, or should be taken as, financial promotion, any incentive or any inducement to engage in any investment activity whatsoever, including to purchase the investment. It is not the purpose or intention of this ESG Review to persuade or incite anyone to engage in any such investment activities.

Please contact your Defaqto Account Manager or call us on 01844 295546

[defaqto.com/advisers](https://defaqto.com/advisers)

© Defaqto Limited 2020. All rights reserved.

No part of this publication may be reprinted, reproduced or used in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system without the express written permission of the publisher. The publisher has taken all reasonable measures to ensure the accuracy of the information and ratings in this document and cannot accept responsibility or liability for errors or omissions from any information given and for any consequences arising.