Psigma
Investment Management

Understanding Psigma's Socially Responsible Investment Process

Our Frequently Asked Questions

What is Psigma's approach to Socially Responsible Investing?

Psigma has developed a broad based approach to Socially Responsible Investing (SRI) – the Psigma SRI Framework - comprising four key investment pillars:

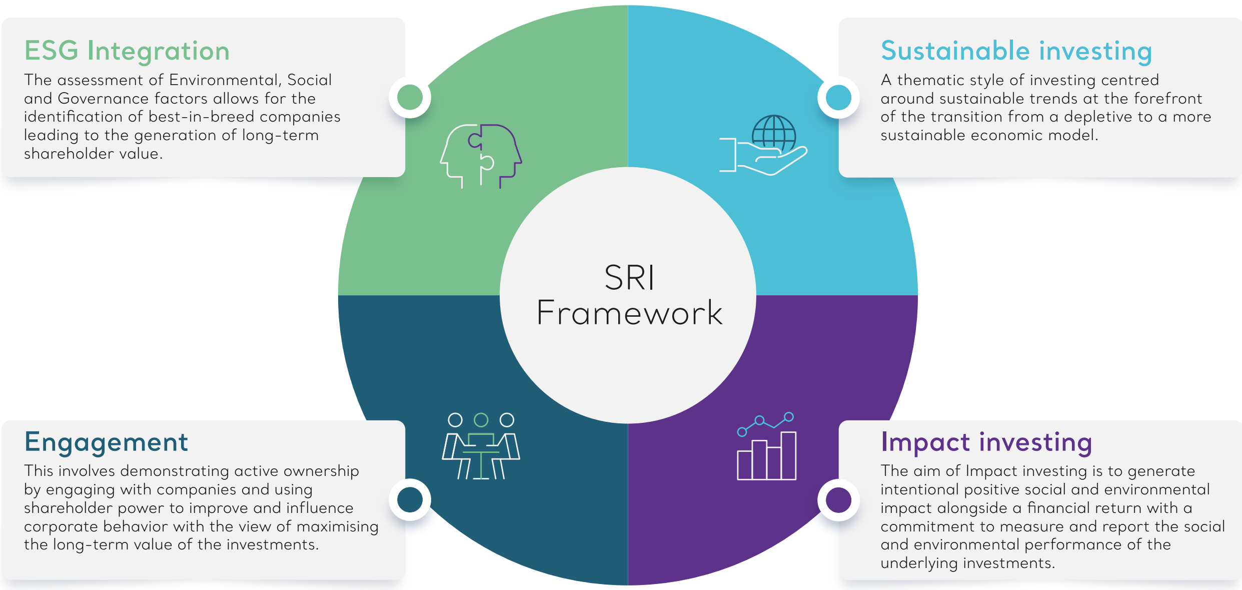
- Environmental Social and Governance (ESG) integration
- Sustainable investing
- Impact
- Engagement

The focus of this framework is on positive inclusion, as opposed to negative exclusion. This means that the underlying investments held within our strategies are those that we find attractive in terms of potential returns and where we see the potential for making a positive SRI contribution. By adopting this approach, we can naturally exclude unwanted exposure to undesirable sectors. Ethical investing on the other hand only focuses on negative screening and exclusion based on the ethical stance of a client or institution which can as a consequence limit potential investment returns.

What is the Psigma SRI framework?

The Psigma SRI framework involves incorporating a number of themes and techniques into portfolio construction in order to meet the return objective, while also remaining committed to promoting a positive social impact.

Our SRI framework encompasses the four pillars detailed in the graphic below:



We recognise the importance of minimising financial support for damaging companies and practices. Therefore, our investment approach is to adopt positive inclusion, rather than negative exclusion when constructing portfolios. We believe that this is more influential over the long term and is better placed to deliver the client outcomes we are targeting. This approach means that the underlying investments within our strategies must display the potential for a positive investment contribution, while also promoting a positive impact to society.

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Why choose Psigma to manage a Socially Responsible Investment Portfolio?

Our approach to SRI investing has been one of evolution not revolution. This means the Psigma SRI service is a natural extension of our existing multi-asset inflation plus proposition, and Psigma's investment principles and philosophy remain central within our decision-making process. This is an approach that we have adopted since the launch of our business, and we continue to believe that this is the best way to deliver real value to clients.

To this end we provide investment strategies across the full risk and return spectrum. All our multi-asset strategies share the same investment objective and asset allocation depending on the risk profile.

We seek to add value to our clients' returns through investment selection and investment blending within our overall asset allocation. Psigma's history of being able to innovate within certain asset classes and create segregated mandates from carefully selected fund managers is of utmost importance. Our forward thinking and pragmatic framework creates the potential to invest in some truly innovative and exciting ideas and be at the forefront of investing with a positive impact.

The strength of Psigma's approach can be seen through the awards and ratings we have achieved:

Defaqto

Only seven discretionary management firms, with propositions in both the DFM Bespoke and DFM MPS Direct categories, have seen both offerings achieve 5 Star Ratings for eight consecutive years (2013 to 2020 inclusive). Psigma is one of these DFMs.

Asset Risk Consultants (ARC)

Psigma has been awarded the 3D Award for five consecutive years, from 2015 to 2019. This is an independent endorsement of an investment manager's commitment to the principles of transparency, engagement and integrity.

What makes Psigma's Socially Responsible Investment proposition different?

There are two key areas of differentiation:

Positive inclusion not negative exclusion

Our SRI framework focuses on an investment outcome of positive inclusion, not negative exclusion. This increases the investment opportunity set for our clients and it means that our clients have the potential to invest in some truly innovative and exciting ideas. As we are experts in multi-asset investing and we have strong relationships with a range of managers, we invest in many different asset classes and we are not restricted to what has traditionally only been achieved with direct equities.

Our fund selection process looks to include investment themes that complement and promote our SRI framework, rather than selecting investments after screening out exposure that would be viewed as incompatible with the framework.

Identical process for both non-SRI and SRI strategies

Across the whole risk spectrum, the non-SRI and SRI strategies share the same investment objective and asset allocation depending on the risk profile. A key differential of our investment process is our ability to innovate and invest across less well-known asset classes. We also seek to create bespoke investment mandates to specifically target opportunities in global asset market. Thus, providing clients with extensive access to a broad range of asset classes and ideas, irrespective of market conditions.

How is my client's money invested?

At Psigma we believe that building an effective and efficient investment portfolio, designed to meet the needs of an individual client, starts with the end goal in mind. We are dedicated to providing real, risk-adjusted returns. Returns that seek to outpace inflation by varying degrees, not just designed to deliver outperformance of a particular index or of a competitor. This is an approach that we have adopted since the launch of our business and we continue to believe that this is the best methodology to deliver real value to clients. We undertake an iterative process in order to build the right portfolio. This involves gaining a clear understanding of a client's investment objectives, the type of return they are seeking and their attitude to risk.

These elements create the foundations for portfolio construction. From here, we consider the most appropriate asset allocation to achieve the optimal investment solution. We believe that asset allocation is the key to driving the majority of returns and managing risk, which is why, principally, we will include a number of different asset types in the portfolios. We are also able to provide a tailored portfolio in a single asset portfolio should this type of strategy be required. The bespoke nature of our business means just that; bespoke and tailored portfolios.

Would investing in an SRI strategy impact the risk-return profile of my client's portfolio?

No, to maintain consistency of approach and to target consistency in return, each of our SRI risk strategies shares the same inflation-plus target return objective and headline asset allocation as the equivalent non-SRI strategy. It is widely accepted by academics and professional investors that the most significant contributor to long term returns is asset allocation. It follows therefore that for each risk profile, consistent client outcomes can be achieved between the SRI and traditional approach.

Our asset allocation is dynamic and determined by a combination of top down strategic allocation and bottom up tactical asset allocation. Initial decisions made on our portfolios are made through strategic asset allocation, driven by our proprietary qualitative and quantitative risk analytical systems. This top down view is then complemented by bottom up investment selection. We apply tactical asset allocation decisions based on our interpretation of macroeconomic fundamentals and global investment themes.

What happens if a controversial position is discovered in one of the selected funds?

There are two ways in which the integrity of the investment portfolio is protected:

Due diligence
As part of our fund selection, due diligence transparency and availability of the underlying holdings within is paramount. Access to individual fund managers is vital when constructing fund of funds strategies and if a position is held within our strategy that is not consistent with our SRI framework, our first step is to begin a dialogue with the fund manager to understand the rationale for holding the position. The rationale is then evaluated and if the position contravenes of our SRI framework then the fund is removed.

Ongoing monitoring and robust investment framework

Our positive inclusion approach naturally limits our exposure to undesirable sectors. Due to there being limited conformity across the fund management industry with regards to definitions, revenue thresholds and exclusion policies, we believe that having a negative screen as a starting point is not a sound methodology to achieve client objectives. We are mindful and conscious of our exposure to 'sin' sectors and we monitor our underlying holdings systematically on a monthly basis.

Using Morningstar, we measure and assess our recommended fund list's revenue exposure to undesirable sectors. NDAs (Non-Disclosure Agreements) are established with the fund managers so that we are granted access to the most up-to-date holdings list and our own analysis is then overlaid within the Morningstar results. This helps us achieve a better understanding of how and from where revenues are generated, rather than filtering by sector classification

For all funds on our recommended fund list we undertake detailed due diligence in accordance with Psigma's core investment process. We monitor and review of each underlying holding at a granular level. On a monthly basis, the holdings are assessed by Mike Myers, Head of SRI, and the Investment Team from an SRI, investment theme and risk management perspective. As part of our comprehensive monitoring process, external third-party reports, through Morningstar, are also prepared on a monthly basis to measure our revenue exposure to sectors, alongside other metrics produced by Morningstar's sustainability data analysis software.

Psigma's SRI service and your clients

My client is interested in SRI, would it be possible to review their existing portfolio?

Yes, we would be delighted to have the opportunity to discuss your client's investment objectives and perform an analysis of their existing investments.

How can I set up an SRI portfolio?

Our SRI strategies are available directly with Psigma through our Discretionary Portfolio Service, we provide direct access to a dedicated Investment Manager, who handles the day-to-day investment decisions. Your client can also access the SRI service via our Managed Portfolio Service (MPS), through a range of four highly-diversified managed portfolios. This service provides a cost-effective way to access our investment expertise. Our MPS is available directly with Psigma or via a number of platforms.

How will my clients be kept informed?

Your client will have a dedicated Investment Manager who will work closely with you to build and manage the right portfolio based on your client's needs, goals and risk appetite. They will be on hand to discuss the portfolio with you should the need arise, and in the background managing your client's investments. So, whether it is a specific investment question or simply a change in personal circumstances, we are on hand to assist. Direct telephone and email contact is not limited to your Investment Manager, we have a strong cross team culture and all Investment Managers are supported by a team of Investment Associates and our Client Services team.

In addition to a comprehensive reporting package clients can access portfolios online by registering and logging into the Psigma Client Portal, which provides access 24 hours a day. The portal provides you with the ability to view up-to-date information on acquisitions and disposals, view contract notes for each trade and access quarterly valuations and tax packs, all of which can be exported into a PDF. There is also access to our latest news and views in the View from Psigma and our Investment Blog.

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www.psigma.com

Important information:

This document is prepared for professional advisers and is intended to provide information only. It is not intended to be construed as a solicitation for the sale of any particular investment nor as investment advice. The information contained within this document has been obtained from industry sources that we believe to be reliable and accurate at the time of writing.

Investment Risks:

- The value of investments and the income from them can fall as well as rise. An investor may not get back the amount of money that they invest. Past performance is not a guide to future performance.
- Foreign currency denominated investments are subject to fluctuations in exchange rates that could have a positive or adverse effect on the value of, and income from, the investment.
- We do not provide legal or tax advice. Please consult your other professional advisers on the possible tax, legal and other consequences of you holding any of the investments contained in this document.

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