

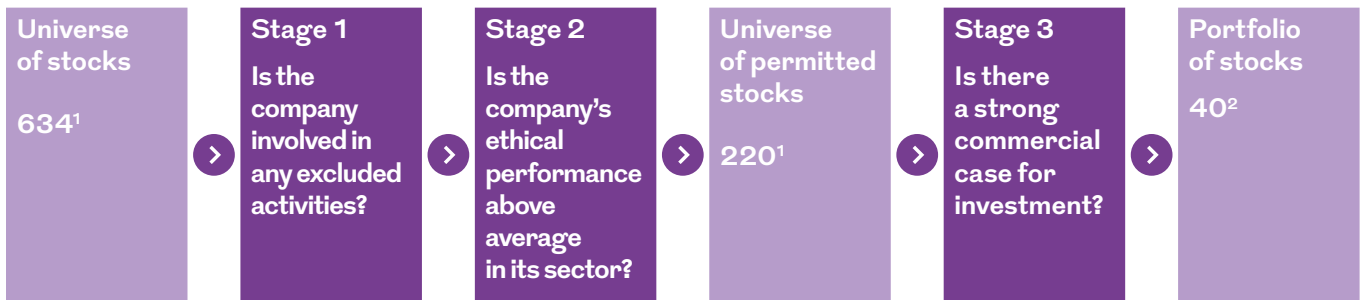


## UK ETHICAL PENSION FUND

Conventional wisdom suggests that investors have to choose between following an ethical investment strategy and maximising investment growth. We disagree.

### OUR INVESTMENT PROCESS

We use a three stage process to make sure that every stock in the fund meets our tough ethical criteria and has a strong commercial investment case. This means that the fund can stay true to its ethical credentials and still have the potential to continue to deliver competitive returns for our customers.



1. Universe of stocks and investable universe as at 31.10.16

2. Portfolio of stocks as at 31.10.16

### STAGE 1 – IS THE COMPANY INVOLVED IN EXCLUDED ACTIVITIES?

The first stage screens out all companies which are involved in excluded activities such as weapons manufacture and animal testing. Full details of which activities are excluded are provided on page 2.

### STAGE 2 – IS THE COMPANY'S ETHICAL PERFORMANCE ABOVE AVERAGE IN ITS SECTOR?

The companies that pass the first stage of the process are then screened against a broad range of ethical criteria. These are designed to measure each company's positive ethical contributions as well as any negative ethical impact. For example a company would receive a positive score for having a policy of improving their environmental impact but would be scored negatively if they had been convicted of a pollution offence. Full details of these screening criteria are provided on page 3.

Each company's positive and negative scores are combined to give an overall score so the company's ethical performance can be compared to other companies operating in the same sector. Companies

with a score which is lower than the average for their sector are excluded from the fund. This means that the fund manager can choose to hold the best of breed companies in any industry which is not specifically excluded in stage 1.

Both of these ethical screening processes are conducted for us by EIRIS, a leading global provider of independent research into the environmental, social, governance and ethical performance of companies. The companies that pass both stages make up the investable universe of stocks for the fund manager to pick from.

### STAGE 3 - STOCK SELECTION

Mike Fox is Head of Sustainable Investments at RLAM.

The Fund aims to achieve a combination of capital growth and income. The Fund is managed using a bottom-up stock selection process combined with a top-down overlay, with stocks selected from eligible companies within the FTSE All-Share Index. Ethical screening is provided by independent research company EIRiS. The Fund is quite concentrated, with typically 40-60 holdings.

## OUR ETHICAL CRITERIA

### Stage 1

The fund operates a series of strict exclusions, which prohibit investment in any companies operating in these areas:

- **Weapons:** Exclude companies involved in military production and sale of whole weapons systems or whole nuclear weapons systems.
- **Nuclear:** Exclude companies which own or operate nuclear power stations.
- **Tobacco:** Exclude companies which derive >33% of turnover from tobacco products.
- **Fur:** Exclude companies which sell fur products.
- **Animal testing:** Exclude companies that test cosmetics, household products, pesticides, veterinary and other products on animals (but this does not apply to testing medical products on animals). Exclude companies that test any of the ingredients of the above products on animals. Exclude companies which provide animal testing services. A company will also be excluded if the company does not disclose their policy in regards to animal testing.

### Stage 2

Each company which passes stage 1 is scored against the following criteria with weightings for each criterion depending on its impact:

#### **Positive Impacts**

- Policy and commitment to improving their environmental impact.
- Environmental management and reporting systems.
- Develops or uses renewable energy.
- Percentage of women on the board.
- Equal opportunity and diversity employer; evidence of systems and practices in support of this.
- Clear evidence of health and safety systems.
- Level of development of the Company's sustainable timber sourcing standards.
- Own or operate forests which are FSC certified.
- Manufacture, wholesale or retail FSC certified products.
- Extent of policies, systems and reporting on global supply chain standards.
- Clear evidence of policy and management systems in regards to human rights issues.

#### **Negative Impacts**

- Manufacture or supply ozone depleting substances.
- Proportion of turnover from fossil fuel industries.
- Energy intensive manufacturing or processing which contributes >33% of turnover.
- Convicted of a pollution offense in past 3 years (Europe only).
- Cautioned or convicted in past 3 years of water pollution offence (UK only).
- Allegations of involvement in the extraction, processing, use or retail of illegally logged timber in the last 3 years.
- Clearing tropical forests for mining or other purposes or operating in regions which will involve such clearing.
- Convictions in regards to health and safety more than once in past 3 years.
- Genetically engineer crops or animals.
- Intensive pig or poultry farming or own or operate a fish farm or abattoir or poultry slaughterhouse.



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