EuroTrust

Investing Sustainably in Europe

***In our view, sustainable business practices and long-term investment returns are inextricably linked*. When analysing a business model, sustainability has always been a key part of EuroTrust's investment approach. More recently the Board has taken steps to become much more rigorous as to how we assess and monitor its implementation. Our policy now requires the vast majority of companies included in EuroTrust's portfolio to meet a minimum ESG 'threshold' which we describe below. Rare exceptions – no more than 10 per cent of the value of the portfolio – are permitted but they must meet two conditions: (i) they are forecast by us to meet the 'threshold' within three years and (ii) the case for exceptions is explained to the Board and will be disclosed in the Annual Report.**

What does sustainability mean to us?

For EuroTrust, a sustainable company is one whose management ***thinks, acts and allocates capital in a way that maximises the long-term growth in net worth in a way that benefits its wider stakeholders***. To be sustainable, a company requires management to consider the long-term implications of how the company impacts the environment, the societies affected by its business activities and other stakeholders. While this is a straightforward concept, implementing it requires both analysis and judgment, and there can be data challenges.

Integrating sustainability into our investment analysis

EuroTrust's investment approach is focused on finding high return businesses ('Compounders') or companies whose return profile should materially improve over time ('Improvers'). By focusing on return on capital and by having a long-term time horizon, naturally, our Fund Manager is keenly focused on whether a company is demonstrating sustainable business practices.

For each company that EuroTrust invests or considers investing in, the Fund Manager constructs a model and compiles an Investment Thesis which explains why he finds the company attractive. The Investment Thesis is focused on the same five areas for every company, irrespective of sector. Based on the model and the Investment Thesis for the company, the Fund Manager allocates a score for each of the five topics below. Weighting these scores according to the stated percentages produces a single 'Ranking Framework score' for each potential investment. This Ranking Framework score frames the debate over the 'competition for capital' within the portfolio.

A score for 'Sustainability considerations' accounts directly for half of the 'Quality and Sustainability' score and therefore has a meaningful impact on a company's Ranking Framework score. The Fund Manager uses Sustainalytics analysis to construct the score for 'Sustainability considerations'.

The Board and the Fund Manager have determined that companies classed as having a high or severe ESG risk rating by Sustainalytics will comprise a maximum of 10% of the portfolio by Net Asset Value. This imposes ***a minimum ESG threshold across the portfolio*** as a whole, with the effect that companies that might otherwise be considered for investment could be excluded for ESG reasons alone.

The Board and Fund Manager believe that, in addition to the inherent bias towards sustainability, this approach provides a simple, third-party verified methodology that helps us to ensure that consideration of sustainability remains at the very heart of the process.

Why hold *any* companies with a below average ESG score?

EuroTrust invests primarily in companies which already score well in ESG, but we do not want to exclude consideration of companies which may not score well in the short term, but appear credibly to be travelling in the right direction. Indeed, for some companies categorised by the Fund Manager as "Improvers", the reason for expecting an improvement in their return on capital is because of the expected improvement in their sustainability characteristics. For those companies with a high or severe Sustainalytics risk rating, the Board will require the Fund Manager to formally explain the rationale for the potential improvement of the Sustainalytics risk rating to a minimum of 'medium' within three years, which will be summarised in the Annual Report. Progress will be reviewed on a regular basis for all such companies in the portfolio; in the event that the expected progress does not materialise, the Board can require the position to be divested. We believe that this process minimises the risk of holding companies which fail to deliver on ESG promises and expectations.

This overall approach should embed a strong bias towards companies that score highly on ESG metrics but also enable the portfolio to benefit from an exposure to companies with an improving ESG profile which meet our other investment criteria.

The Board of Henderson EuroTrust plc
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