Ethical & Positive Impact Policy (EPIP)

Investing with values in mind has never been more relevant in today's world, as the integration of environmental, social and governance (ESG) factors in investment decisions becomes common practice. Ethical investors can also gain exposure to companies or projects that deliver tangible, measurable social or environmental benefits in areas where it matters most. This is known as impact investing.

We work with our clients to define and articulate an ethical and positive impact policy (EPIP) help them achieve measurable social and environmental outcomes while balancing the need for investment return.

At its core, the Ethical and Positive Impact Policy (EPIP) seeks to direct and increase the pool of capital contributing to sustainable economic activity while remaining faithful to the values and beliefs of the Catholic Church. This combined approach offers an opportunity to reframe the role of finance to ensure many of the issues of sustainable development and social justice continue to underpin economic growth in the world.

The EPIP is guided by current best practice in sustainable and socially responsible financial products and follows the guidance of the Sustainable Development Goals (SDGs) for identifying areas for positive impact. The Sustainable Development Goals are a collection of 17 interlinked global goals agreed as an international framework of reference that addresses the most pressing challenges of sustainable development. The SDGs were agreed in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030.

Ethical and Positive Impact Methodology

All portfolio metrics are produced using third-party information. For listed securities or funds that invest in listed securities, we use MSCI ESG research. For listed funds or other funds held, we use ESG information provided by the third-party fund managers. L&P does not apply a benchmark approach to its ESG and Impact Methodology due to the multi-asset nature of its portfolios and the manner in which the asset class content of portfolios can change over time.

The EPIP employs four approaches to maximise the positive impact generated by the investments in the portfolio. The following criteria apply to all asset classes.

Negative Screening

The purpose of negative screening is to limit or avoid completely investment in companies or activities that cause harm to society and the environment. In such cases, the policy implements specific thresholds on the revenues that companies can produce from an economic activity deemed harmful for society and the planet.

EPIP Objective:

To align the investment portfolio with the values and beliefs of the Catholic Church and the avoidance of certain economic activities that contravene such values. Business activities that are addressed by the policy are:

- Production of weapons
- Manufacture of anti-life products
- Tobacco
- Alcohol
- Pornography
- Gambling
- Embryonic stem cell research
- Fossil fuels extraction, generation, refining and holding fossil fuel reserves

Environmental, Social and Governance (ESG)

The integration of ESG factors seeks to address double materiality –sustainability risks that can impact a company's financial performance, and the impacts that a company's activities can have on environmental factors. Companies can achieve superior financial performance by mitigating ESG risks while acting on opportunities presented through active management of ESG issues.

EPIP Objective:

To include ESG factors alongside financial analysis to improve risk management and support investment performance. ESG factors considered in the EPIP include:

- Environmental risks
  - ✓ Climate change and fossil fuels exposure
  - ✓ Greenhouse gas emissions
  - ✓ Energy performance
  - ✓ Biodiversity
  - ✓ Water
  - ✓ Pollution and waste
- Social risks
  - ✓ Human rights
  - ✓ Child labour – supply chain and own operations
  - ✓ Forced labour – supply chain and own operations
  - ✓ Controversial weapons – land mines and cluster bombs
- Governance risks
  - ✓ Fraud and bribery
  - ✓ Composition of board of directors (diversity and independence)
  - ✓ Corporate culture

Positive Impact Investing

Impact investing focuses on companies, organisations, and funds with the specific commercial purpose of solving social or environmental problems while achieving an investment return.

EPIP Objective:

We have a goal of being among the foremost investment firms offering both positive impact and high return investment portfolios. To achieve this, we follow a three-pillar approach for maximising positive impact from investments whilst ensuring a line of defence against investment that fails to deliver true measurable impact on society and the environment:

- Intentionality – the investment intends to address an environmental and social challenge using the guidance of the UN Sustainable Development Goals
- Additionality – ensures that additional social or environmental value would have not been created without the investment
- Measurement – measuring and reporting on social and environmental impact of the strategy.

Some of the Key Performance Indicators (KPIs) monitored and reported are:

- Carbon Emissions tCO2e
- Carbon Intensity tCO2e
- Renewable Energy MWh pa
- tCO2e Sequestered pa
- tCO2e avoided
- Permanent/ temp jobs created
- Energy for homes pa

Responsible Ownership and Stewardship

Responsible ownership activity in the portfolio may take the form of face-to-face meetings with senior company management, voting shares at annual general meetings (AGMs) and extraordinary general meetings (EGMs), as well as shareholder resolutions and collaborative stewardship initiatives. Responsible ownership applies to all managers in the portfolio with some elements of the criteria (e.g., proxy voting) applying to equity managers only.

EPIP Objective:

To engage in active, constructive dialogue, whether it is with investee companies, or through proxy-voting, as a means to encourage more responsible business practices. Managers in the portfolio are expected to engage with companies on ESG concerns that may affect the long-term growth of a company, and to use shareholder power to positively influence corporate behaviour.

The portfolio managers' engagement activities shall be assessed based on the following criteria:

- The degree to which they align with internationally recognised impact investing measurement methodologies, the EU Taxonomy criteria for environmentally sustainable economic activities, and the Sustainable Finance Disclosure Regulation (SFDR)
- The degree to which their stewardship policy aligns with the EPIP
- The degree to which their stewardship policy prioritises ESG factors other than corporate governance
- Whether stewardship actions and results are fed into the investment process and decision
- Whether the managers make use of a variety of tools to advance their stewardship priorities
- Whether the managers deploy their escalation process to advance their stewardship priorities where initial efforts are unsuccessful
- Whether they participate in collaborative stewardship initiatives

In addition, we will seek to engage and collaborate with governments, industry, and peers in the advancement of sustainability goals.

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