

**JRCM's Responsible Investment Framework & Policy**  
**November 2021**

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# **JRCM's Responsible Investment Framework & Policy**

## **Preface**

JRCM's Responsible Investment Framework summarises the alignment between the RIT Group's Corporate Objective of "*delivering long-term capital growth, while preserving shareholders' capital...*" with a commitment to principles of responsible investment.<sup>1</sup>

JRCM's Responsible Investment Policy sets out in greater detail how we implement this Framework throughout our investment activities and in the day-to-day running of our Firm.

## **JRCM's Responsible Investment Framework**

### **1. Introduction**

As a global investment manager with a rich history and trusted brand, we are committed to the integration of environmental, social and governance (ESG) considerations across our investment analysis, our investment management, active ownership and internal operations. Such integration requires us to be forward looking and long term – two characteristics which have always been at the heart of our approach as a Group.

Protecting and enhancing shareholders' wealth reflects our investment values and our financial goals. Our Responsible Investment Framework sets out how ESG factors sit alongside traditional financial measures to provide a holistic view of the value, risk and return potential of an investment. Together with this, we have an equal commitment to ensuring that we apply principles of ESG to JRCM's internal operations including to our environmental and societal impact, as well as our overall corporate governance and culture.

### **2. Our Central Principles**

There are three reasons why the integration of ESG factors are an important part of JRCM's fundamental approach and they are expressed in our central Principles of Responsible Investment as shown overleaf:

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<sup>1</sup> Such alignment also takes account of RIT's published Investment Policy "*To invest in a widely diversified international portfolio across a range of asset classes both quoted and unquoted; to allocate part of the portfolio to exceptional managers in order to ensure access to the best external talent available.*"

## **OUR CENTRAL PRINCIPLES**



ESG factors will influence a company's performance. Therefore, those counterparties who take ESG factors seriously will more often than not produce meaningful long-term returns through the cycles.



Applying an ESG lens gives us a comprehensive understanding of both financial and non-financial risks, as well as return opportunities; this results in better decision making.



Continual engagement with our counterparties will help protect and enhance our shareholders' capital which is our core Corporate Objective.

### **3. Quality**

We are committed to high-quality investments. We focus on businesses and external managers with solid business models, strong management and culture, and a commitment to the long term. In short, we are looking for counterparties with strong credentials.

In this way, we believe our investment philosophy is strongly compatible with the core tenets of responsible investment. We substantiated this belief by becoming a signatory to the UN Principles for Responsible Investment (UN PRI) in February 2021.

### **4. Investment Process**

As long-term investors, we are committed to a deep understanding and application of the sustainable drivers of investment performance. To that end, ESG factors have naturally become for JRCM a vital part of our investment decision-making process and our responsibility to RIT as an active owner.

We continue to strengthen the integration of sustainable investment principles into our decision-making processes. When considering investments, we combine traditional investment analysis together with ESG factors which may meaningfully affect the viability of the investment, and hence the long-term sustainable returns for our shareholders. This process tends to give us a more complete view of an investment. We believe that carefully integrating the analysis of ESG factors in the investment process helps to deliver enhanced risk-adjusted returns over the long term. This integrated approach is evidenced in our investment analysis, investment management and active ownership.

Our investment approach is flexible, by design – we are not artificially restricted to any specific asset class, sector or category. But at the same time, we are highly selective in our approach. We only invest

in businesses and/or managers that we believe in, whose aims and approaches we understand and respect. Above all we invest only in companies which align with our Corporate Objective.

## **5. Governance**

We look for investment opportunities where the potential returns align with high standards of business conduct, risk management, independence of governance, and transparency. We have learned over decades of investing that where these standards are high, our investments will represent the quality and respectability we seek.

In our view, and in our experience, such high standards are fundamental to enabling sustainable outcomes and performance. Where boards and management are willing to be held accountable for conscientious strategy and execution, they are more likely to deliver long-term value to investors and to society at large.

## **6. Relationships**

Our investment approach depends on strong, deep and transparent relationships with our investee companies and our external managers. We do not dictate to our investees how to run their businesses, but rather we maintain continual and meaningful interaction. In this way, we develop and sustain full confidence in their values, their aims and strategies. This long-established, open and frank dialogue with our managers gives substance to our exclusive focus on quality investments. Our shareholders in turn trust us to maintain these relationships so that they can be confident in the security, sustainability and value of their investments.

## **7. Values and Culture**

Our values underpin the strategy, shape our culture, and help achieve our purpose. They are based on three mutually supporting pillars of respect, dignity and integrity and are expressed in the Group's interactions with employees, shareholders, investees, and all stakeholders alike.

These values are powerfully expressed in our approach to our team. We strive to recruit and retain women and men of good character and a commitment to the dignity of the workplace. We encourage the development of an engaged, talented and respectful workforce committed to achieving the Corporate Objective in a responsible fashion. This approach is embedded within each individuals' goals and are reviewed twice a year.

## **JRCM's Responsible Investment Policy**

### **1. Purpose**

This Policy is intended to set out in greater detail, JRCM's approach to integrating the Responsible Investment Framework into our investment activities and our daily operations across the Firm. The Policy enables us to meet high standards of ESG consideration, thereby reducing risk exposure, enhancing returns and meeting the expectations of our shareholders.

Investing responsibly with consideration for ESG risk and opportunity is a strategic priority which flows from our long-standing corporate values. Our three Central Principles of Responsible Investment, as set out below, remain the heart of our purpose:

- ESG factors will influence a company's performance. Therefore, those counterparties who take ESG factors seriously will more often than not produce meaningful long-term returns through the cycles;
- Applying an ESG lens gives us a comprehensive understanding of both financial and non-financial risks, as well as return opportunities; this results in better decision making; and
- Continual engagement with our counterparties will help protect and enhance our shareholders' capital which is our core Corporate Objective.

Whilst our Responsible Investment Policy is a cornerstone of our Company, it also remains a work in progress and is subject to continual improvement, enhancement and refinement.

### **2. Scope**

This Policy sets out how we expect our principles of responsible investment to be incorporated into investment decision making and ongoing stewardship across key investment cylinders in our portfolio – single stocks, external managers and private investments. It also addresses, in practical terms, how such principles are applied to our internal operations.

All employees of the RIT Group are required to declare that they have read and understood the Policy and agree to its implementation in their everyday work.

*This Policy has been approved by the Board of our parent Company, RIT Capital Partners plc, and applies to all assets under management.*

### **3. Responsibilities**

JRCM's senior management and Investment Committee exercise oversight of, and are accountable for, responsible investment practices and integration of material risks and opportunities (both financial and non-financial) into investment decisions and investment stewardship practices. Such issues, which are considered on an ongoing basis, include social aspects, environmental questions and governance considerations.

JRCM employees play an important role in ensuring that our responsible investment ambitions are manifested in our investment processes and in our day-to-day operations. We ensure a shared understanding across the Firm by offering ESG training and learning opportunities to our employees. Furthermore, we underline the importance placed on this Policy by incorporating adherence to, and implementation of, the Policy as part of the annual performance appraisal.

### **4. Implementation**

JRCM is committed to high-quality investments. We focus on businesses and external managers with solid business models, strong management, a principled culture, and a commitment to the long term. As a result, we look for counterparties with impeccable credentials.

We believe that aligning ESG considerations alongside traditional financial measures provides us with a more comprehensive view of the value, risk and return of an investment. We have a deep understanding of the ways in which ESG issues can affect investment performance and therefore may drive returns or expose our portfolio to potential investment risk.

Process: Consideration of specific ESG-related issues varies according to the investment type. We have developed processes, specific to key cylinders of investment, in recognition of this variety which reflects our longstanding practices, as well as our underlying values. Across all the relevant asset classes, ESG considerations are a feature of operational due diligence, investment due diligence and active ownership.

JRCM believes that by virtue of its experience and a steadfast commitment to RIT's Corporate Objective, our Investment team are best placed to initially evaluate the potential impact that ESG issues may have on any given proposal, and which in turn might compromise or enhance long-term shareholder value. As such, responsibility for our engagement activities in the first instance rests with our investment professionals.

The team choose not to use standardised checklists which invariably become ‘tick box’ exercises and hence do not give sufficient colour or nuance to our ESG analysis. Rather we are committed to a ‘deep dive’ which gives us a comprehensive understanding of relevant ESG factors for that particular investment. Crucially, the depth of our relationships with many investee companies gives us leverage and enables us to press for practical improvements.

Our investment approach is flexible, by design – we are not artificially restricted to any specific asset class, sector or category. But at the same time, we are highly selective in our approach. We only invest in businesses and/or with managers that we believe in, whose aims and approaches we understand and respect. Above all we invest only in companies which align with our Corporate Objective.

**Active Ownership:** Having taken great care to understand the wide range of material factors that are likely to influence the performance and prospects of the investments, we keep these factors and subsequent performance under regular review post investment. Thus, applying close scrutiny to ensure our values and strategies are upheld on an ongoing basis. We continually seek to exercise high standards of stewardship across all our investment activities, and as such we draw on internationally accepted principles of best practice. These include the UN Principles of Responsible Investment (UN PRI). As a signatory of the UN PRI, we will report against its principle of ‘active ownership’. Accordingly, our monitoring, engagement and (where relevant) voting practices form a crucial part of our Responsible Investment Policy. As such, we will monitor ESG practices and performance by counterparties, and will raise any issues as part of our general engagement processes with them. See pages 15 and 16 for further details.

## **5. ESG and our Core Cylinders – Single Stocks, External Managers and Private Investments**

### *5.1 Single Stocks*

**Introduction:** This asset class is an important feature of our portfolio. We have experienced in-house expertise, focused on stock selection, whose approach is characterised by discipline and conviction. This helps to make every position matter and ensures that this element of the book has contributed meaningfully to our overall performance.

**Selection:** Our universe of single stocks starts with a focus on quality companies and in our experience, these types of companies will almost always incorporate ESG factors into their day-to-day operations. When considering specific investment opportunities in single stocks, we first build a broad understanding of the material drivers of performance, integrating ESG factors as appropriate. Our



analysis will include extensive research into the company's business model, culture, governance, competitive positioning, financial performance, and long-term prospects. Above all, the approach will be shaped by a strong moral compass.

Our pre-investment assessment always begins with an analysis of the company's ESG and sustainability policies and disclosures, as well as their ESG-related reports, goals and targets. Such analysis will also be informed by our extensive network who possess considerable sector expertise. We evaluate this information in light of material considerations, taking into account ESG quantifiable metrics, as well as how they compare to their sector peers. An inadequate approach to managing material ESG risks, or a mismatch between the standards we expect and the business' ESG performance, may be a reason to decline an investment opportunity. At the same time, positive ESG factors which have the potential to enhance performance will be viewed favourably.

By integrating ESG factors into our long-standing due diligence process we seek to align the investment opportunity with our values. Our Investment team have extensive experience in the type of deep research required to exercise judgment in respect of ESG-related risks and opportunities. Our investment decisions therefore benefit from a rigorous, credible evidence base and enables consideration of each opportunity on its merits, including ESG factors.

**Active Ownership:** Following the due diligence process, potential single stock investments are brought to the JRCM Investment Committee for final consideration. Such consideration will include an analysis of ESG factors that are incorporated into the ultimate decision on whether to invest or not.

We are aware of the responsibilities of active ownership, therefore once we have made an investment in a listed stock, we will exercise our voting/proxy voting rights and maintain a close and ongoing review of all aspects of performance – including ESG related factors. As a result, in the event that the investment falls short of the standards we expect and gives rise to significant ESG issues, then we will take steps to sell the stock.

## *5.2 External Managers*

**Introduction:** Working with exceptional managers has always been a cornerstone of RIT's distinctive investment approach. Our external manager book is a unique blend of managers with enduring performance over several market cycles, together with early identification of tomorrow's talent. Each

manager is a specialist within their given field, providing us with a portfolio that is diversified by asset class, theme, geography and strategy.

These relationships are managed by a dedicated Funds team who possess strong due diligence skills which are applied before the initial investment decision and on an ongoing basis for all investments in the portfolio. Strong relationships with our external managers are deeply embedded in our overall investment approach and provide unique insights that help inform our wider investment activities.

Selection: The analytical process prior to investment is rigorous and follows the disciplines of investment and operational due diligence. Hence potential managers are identified only after extensive background analysis. This not only produces a comprehensive understanding of the drivers of returns, but ensures that potential managers are fully aligned with our Corporate Objective and values. Responsible investment is an important part of this process. We will always question our managers about their own ESG policies and approaches and how they consider sustainable ESG issues in their investment analysis. We refer to their historical portfolios to test their alignment with our expectations and we will take a particularly close look at the health of the firm's culture, with an emphasis on excellence, accountability and respect.

Therefore, alongside meticulous financial analysis, this process will also identify and select managers against the following considerations:

- Responsible investment policy;
- Corporate culture;
- Environmental factors associated with the investment approach or underlying holdings;
- Social issues associated with the investment approach or underlying holdings;
- Governance structure;
- Quantitative and qualitative assessment of risk and financial management;
- Investment team competencies;
- Stewardship policy and/or proxy voting policy;
- Exclusion lists; and
- Measures in place to mitigate exposure to companies or assets that have known negative impacts on society and/or the environment.

Underpinning these considerations rests a deep and rigorous engagement that we develop with managers from the earliest stage of the due diligence process. Such strong ties with a manager allow for greater and more comprehensive insights than a ‘tick box’ exercise. In this way we develop a profound understanding of the ESG attitudes of a third-party manager since sustainability questions are often entangled issues that cannot adequately be addressed by checklists. Ultimately, we believe that this approach decreases exposure to investments with greater sustainability risks.

**Active Ownership:** Following the due diligence process, an investment in an external manager is brought to the JRCM Investment Committee for final consideration. Such consideration will include an analysis of ESG factors that are incorporated into the ultimate decision on whether to invest or not.

Thereafter, the ongoing relationship with our external managers and our repeated evaluation of their approach is crucially important to maintaining ownership of that investment over time. It provides the basis for our responsible investment implementation on a continual basis. This strong focus on maintaining a solid, transparent relationship with managers, allows for a continuous dialogue and enables us to challenge our managers’ judgments on ESG issues and risks. We seek full portfolio transparency, which also enables us to flag concerns related to any assets. Such constant evaluation of our managers’ underlying holdings allows us to identify and raise concerns in a timely and specific manner, without recourse to rigid exclusions or checklists.

As a further part of our continuous relationship with managers, we will carefully review the data they provide on a regular basis; once again this includes any underlying investments where there may be concerns. Such data not only includes financial information, but also the managers’ stewardship activities, ESG-related events and other emerging risks.

We have quarterly calls to discuss these issues in depth, agree follow-up actions and information requests, and keep our risk assessment of the managers under review. Our processes allow us to escalate any concerns related to the managers’ investment decisions more broadly, or ESG matters in particular, to the JRCM Investment Committee. As a result, in the event that the investment falls short of the standards we expect and gives rise to significant ESG concerns, then we will take steps to redeem our investment in the manager.

### 5.3 *Private Investments*

Introduction: Private investments have been a key part of our portfolio construction since inception and a strong source of outperformance. The combination of our experienced internal team, permanent capital structure, strong track record and unique network continues to generate a deal flow of exceptional quality.

We invest both in private equity funds and make private investments directly in companies which have a clear business model, a strong position in the value chain, good margins, and favourable long-term cash generation. We balance a fair valuation with the trade-offs between growth and cash flow. We leverage our network to participate in consortia on larger ticket deals, allowing access to opportunities otherwise outside of our capital structure. We also invest in smaller size, earlier stage, higher risk and higher reward tech companies which often are leaders in paradigm shifting ESG principles.

Selection: The strength of our network has given us access over the years to an exceptional pipeline of private investments. Hence the initial sourcing often flows from a trusted and long-standing partner. Thereafter, our due diligence will always integrate key ESG risks within the traditional financial analysis associated with the asset class.

All deals (direct and funds) are analysed extensively at regular team meetings led by our CEO and the analysis at these meetings always incorporate an ESG lens. We have a tailored approach to assessing ESG factors in potential direct investments, rather than a standardised checklist. This will include quantitative measures as well as close scrutiny of the management team – particularly to ensure that, in reputational terms, any investment is aligned with our Corporate Objective and the standards that our shareholders expect of us.

If a transaction meets our investment criteria, an investment paper is submitted to the Investment Committee for their approval. Environmental, social and governance issues are separately and carefully addressed in a section specifically devoted to sustainability issues that builds the base for formal Investment Committee review. In addition, an extensive legal and compliance check is completed prior to formal investment sign-off.

Active Ownership: The nature of our active ownership depends on both the type of private investment (direct/funds) as well as the size of that investment.

Private Investment Funds: In most cases, we are a relatively small LP in a private fund. Nonetheless we will maintain a dialogue with the fund manager which provides the basis for our responsible investment implementation on a continual basis. We receive full portfolio transparency, which also enables us to flag concerns related to any asset. We will carefully review the data they provide on a regular basis; once again this includes any underlying investments where there may be concerns. Such data sheds light not only on financial performance but also ESG-related events and other emerging risks.

Direct Investments: The majority of our direct deals are co-investments where RIT is not the lead partner. We therefore place an exceptionally high bar on such investments with a meticulous assessment of risk. A premium is placed on the reputation and integrity of the lead investor, and we dedicate considerable resource in achieving a shared view on selection and stewardship so as to align with our Corporate Objective and uphold our values.

In cases where we have a larger investment, we may have a seat on the board which gives us the opportunity to shape ESG considerations and broader risk management. This opportunity to help determine the development of the companies in our portfolio is a key part of our commitment as responsible investors and allows us to drive the portfolio companies' adherence to ESG values. Therefore, we will work closely with our companies on the development of their ESG policies and compliance with such policies.

In all cases, and during all phases of the investment cycle ranging from initial screening to the end of the investment life, we integrate ESG considerations into a stringent and rigorous due diligence process. Our processes allow us to escalate any concerns related to investment decisions more broadly, or ESG matters in particular, to the JRCM Investment Committee. As a result, in the event that a private investment falls short of the standards we expect and gives rise to significant ESG issues, then we will take steps to dispose of our investment.

## **6. Internal Operations**

ESG factors are applied not only to our investment portfolio, but internally as well. These comprise an approach to our internal operations which takes account of our own environmental impact, an assessment of our societal obligations, and our overall corporate governance and culture.

In practical terms this has included the following:

#### Environmental/Sustainability

- A 'zero-to-landfill' waste and recycling policy;
- Procurement of 100% of the electricity at our office being from renewable sources;
- Removal of bottled water;
- Low emission LED lighting in all our buildings;
- Cycle to work scheme;
- Investment in energy efficient heating and cooling systems helping to contribute to a 20% decrease in CO<sub>2</sub> emissions in the past year;
- Offsetting our total carbon emissions through an accredited scheme with Carbon Footprint; and
- Initiating an electronic communications strategy to encourage shareholders to receive shareholder communications via RIT's website and Company email rather than by printed documents through the post. This has significantly reduced the environmental impact of our printing and mailing activities.

#### Social

##### *Employee engagement/wellbeing*

- Promoting work/life balance through granting flexible working requests;
- Support working parents through operating enhanced maternity and adoption policies;
- Sabbatical policy available to eligible staff;
- Wellbeing initiatives via a number of Company programmes; and
- Open and honest communication across the Firm.

##### *Employee training and development*

- Training policy in place to support all employees;
- Training needs formally identified and reviewed via bi-annual performance reviews; and
- Encourage work experience and internships.

##### *Employee policies/code of conduct*

- Ethics;
- Equal opportunities;
- Anti-harassment;

- Grievance/disciplinary procedures in place; and
- Continual assessment at all points of the employees' life cycle – recruitment, end of probation period, performance reviews, exit interviews.

#### *Community/charitable initiatives*

- Facilitate employees taking advantage of 'Give As You Earn' for personal charitable donations;
- Various employee events throughout the year to raise money for designated charities; and
- Participant in the '10,000 Black Interns' programme, in which we provide internships to black students as a way of attracting a more diverse range of talent to the financial services industry.

#### *Diversity, inclusion and social mobility*

- We celebrate diversity and are committed to creating an inclusive culture where all of our employees can feel proud to work for us, regardless of their gender, age, ethnicity, disability, sexual orientation or background;
- Recruitment initiatives to attract potential candidates from a variety of backgrounds;
- Flexible working policy; and
- Enhanced maternity leave as well as adoption and shared parental leave.

#### Governance

- Nominations Committee which keeps under review the key elements of the Corporate Governance Code in relation to Committees, Directors' independence, Board composition, diversity, succession and Directors' length of service;
- Dedicated Conflicts Committee which oversees an established conflicts policy;
- Active shareholder engagement with ongoing shareholder 'roadshows';
- An inbox for shareholders to communicate directly with the Group; and
- Employee codes of conduct as well as policies on diversity and inclusion, data protection, whistleblowing, anti-corruption and bribery.

#### **7. Suppliers**

The Group has relationships with a number of suppliers and service providers which play an important role in enabling us to operate our business efficiently. The Group's overarching policy with respect to these relationships is that they should be managed so that they are both sustainable and mutually beneficial over the medium term and deliver value for money for our shareholders.

We place a high value on these relationships (which include external managers, professional advisers, our custodian/depositary, bankers, trading counterparties and brokers) and are committed to developing and maintaining sustainable and transparent working relationships over the long term.

## **8. Reporting and Review**

We are committed to supporting our shareholders and other key stakeholders by being transparent about our responsible investment activities and will disclose such activity accordingly in our published material and on our website.

JRCM believes that this Policy is strongly compatible with external standards, and our overall commitment to responsible investment is strengthened by the UN Principles for Responsible Investment (UN PRI), to which JRCM became a signatory in February 2021. As such, we are committed to embedding the consideration of environmental, social and governance factors by upholding the following six principles as set out by the UN PRI:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes;
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices;
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest;
- Principle 4: We will promote acceptance and implementation of the principles within the investment industry;
- Principle 5: We will work together to enhance our effectiveness in implementing the principles; and
- Principle 6: We will each report on our activities and progress towards implementing the principles.

In line with our commitment to the UN PRI, we will report at least annually against these six PRI principles, and this will be made publicly available through the PRI reporting portal.

The Policy is disseminated to all employees of the RIT Group who are required to adhere to its requirements. The JRCM Executive Committee is further charged with ensuring that the Policy is kept



under periodic review and updated to reflect any changes to business priorities or responsible investment approach.