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Kintbury Capital LLP

Approach to ESG, RI and Sustainable Business Practices

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The Kintbury Executive Committee feel strongly that as a business we have a responsibility to consider and act upon the issues impacting the community, environment and ethical aspects of the world around us. These are felt by all businesses in many ways but for Kintbury are largely identified on two fronts:

- We feel a Corporate Responsibility regarding how we run our business, the resources we consume and our contribution to society; and
- the Investment Approach of how we consider, use and encourage activity in the areas of Environment, Social and Governance (generally known as ESG) within our investment process.

Firms with an environmentally sustainable and socially responsible way of operating significantly de-risk their business model, and therefore, build higher quality long-term businesses. These issues are integral to our business, both our own operations and those of our portfolio companies.

In developing our ESG[1] policy, we have given consideration to a range of codes and standards, including the United Nations supported Principles for Responsible Investment (PRI), the United Nations Global Compact and the requirements of our Anti-Bribery and Corruption Policy.

[1] See Appendix 1 for our definition of ESG

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Corporate Responsibility

Within the parameters of running an investment management business in London, Kintbury aims to take positive action to reduce its environmental footprint, contribute to society and act ethically at all times.

Environment

- We source our office power from a 100% renewable energy provider and are working with our landlord to try and have the communal office power source switched to a similar provider.
- Conducted an exercise to calculate the carbon footprint of the office along with the commutes of all staff and through the Carbon Footprint organisation offset this with a tree planting exercise in both the UK and the Amazon;
- Signed up to a cycle to work scheme to encourage staff to use less polluting methods of transport to and from the office; and
- Significantly reduced our use of plastics within the office and where there is use, ensure recycling wherever possible

Social

- Implemented an intern scheme through an organisation called **Making the Leap** who are a London-based charity that works with partners nationwide to improve social mobility; by raising the aspirations of, and increasing opportunities for, young people between the ages of 11 and 30. Their mission is to transform the futures of disadvantaged young people in the UK by providing training to develop their skills, behaviours and attitudes to choose and succeed in a career.
- Contributing to a number of charities both local and global

Governance

- Executive Committee including all the partners of the firm that considers all management issues and meet monthly
- Looking to be transparent in our operations and practices with our clients and investors and ensuring the best levels of oversight and governance for our investment products.

Investment Approach

It is important to note that Kintbury does not expressly run ESG or Responsible Investment products at the current time. In a period where many managers are "Green Washing" products we see it as an important part of our governance approach to be clear as to how we consider and use ESG.

Since we have started explicitly considering ESG within our investment process we have found that this has often been more a relabeling of issues which we would previously have identified and considered when analyzing if a company is a good long candidate or a good short candidate. While there are specific ESG elements which may not have been considered previously, many ESG considerations have always been part of our fundamental analysis.

ESG has a number of areas of consideration within investing including but not exclusively:

- ESG investment themes;
- Company specific ESG issues and ratings ad the market impact;
- Opportunities due to changes in a company's ESG practices;
- Weaknesses in ESG rating systems leading to investment opportunities; and
- Opportunities to create change in an investee organisation.

Kintbury manages a long short equity strategy and considers ESG as one of the factors in our investment process contributing to our overall view of a company or theme. This is in much the same way as we would consider other factors such as financial aspects like cashflow generation. We look at all of the above areas of consideration within our ESG factor analysis and as is naturally the case some are more prominent in some situations than in others.

Thematic investing

As a result of our fundamental, bottom-up analysis, several ESG themes have emerged in recent years. Examples include regulatory driven themes such as IMO2020 as well as socially driven themes such as renewable energy, renewable diesel, shift to Electric vehicles, hydrogen as an energy source, new technology for public transport, battery technology and fuel cells. Within these themes we are focused on the best in class companies (across all investment factors) as long ideas, potential transition companies and on the short side companies which are not be embracing the theme or may be at a competitive disadvantage as a result of the theme.

Impact

The core purpose of ESG investing is to drive positive change. This is executed either through:

- Shareholder Activism – actively approaching the investee company to make changes or looking to force change through voting at shareholder meetings.
- Cost of capital – through share price change looking to increase or reduce a business's cost of capital and therefore ability to operate. To be clear this is not market manipulation i.e. we don't look to change a share price but if a company is seen as a positive ESG candidate by many and the share price increases then their cost of capital will reduce and they may find it easier and more profitable to conduct business i.e. there is a positive reaction to positive ESG activities.

Kintbury generally invest through derivative structures, as this is the most efficient approach for our investors. This investment style limits our ability to actively proxy vote and so any shareholder activism we conduct is more focused discussions between our analysts and management of a company as to the direction we would like to see a business move in. We therefore feel our biggest impact is in investing in and promoting positive ESG companies with hopefully an associated share price impact and shorting negative ESG companies with the corresponding targeted reduction in share price. Where we don't have the ability to directly proxy vote we encourage the provider of the derivative who may have a hedging position to actively proxy vote that position for positive ESG conclusions although we clearly have no control over this.

ESG Data

There is a considerable amount of ESG data available to investors and as a firm we utilize a number of sources although predominantly MSCI ESG ratings (which we have integrated in to our risk and attribution system) and Bloomberg ESG data.

One of the key issues however is the lack of consistency and application of data for ESG analysis. This has been identified by many organisations in the early stages of analysis for the EU taxonomy rules, where they are finding the data simply does not yet exist.

Kintbury therefore promotes the publication by investee companies of Task Force on Climate-related Financial Disclosures ("TCFD") data within their reports and will actively encourage firms in our long portfolio to do so.

Kintbury also feels that there is significant opportunity created through this imperfect data. Our analysis can conflict with the general view of a rating agency and create both long and short investment opportunities. This could be the case for example where we may identify a significant change story within an organisation who in the medium term could become a positive ESG firm but because the rating agencies generally look backwards rather than forwards, may have a very poor ESG rating. Conversely, we may identify poor governance and associated fraud risk within a firm but because of the their methodology this may be hard for a rating agency to identify or express and so on normal measures that firm could have a good ESG score.

Short portfolio

ESG investing is generally considered a long portfolio concern. The interaction between a short portfolio and ESG considerations is difficult due to:

- The inherent conflict between the responsibility to our investors to invest in short positions we think will reduce in price and the ESG goal of improving a company; and
- The lack of ability to influence and encourage a firm without an actual holding in the company.

Kintbury therefore, as noted above, sees the impact on cost of capital as the main positive element of the short portfolio in changing a company's approach while meeting our responsibilities to investors.

Methodology

As noted above we consider ESG as only one (albeit important) factor within our investment process. We invest primarily on financial metrics but ESG trends provide strong investment opportunities based on expected growth. We therefore include ESG in our analysis as we think it will directly impact a company's cost of capital as well as having a flow of funds impact given the increase in focus on ESG factors. It may be the case that we feel there is a significant investment opportunity based on other factors in a company that has a poor ESG rating. In this situation, we would proceed with the investment but where possible encourage the firm to make positive ESG change.

Appendix 1 – Definition of ESG

ESG stands for Environmental, Social and Governance. There is growing evidence that suggests that ESG factors, when integrated into investment analysis and decision making, may offer investors potential long-term performance advantages. ESG has become shorthand for investment methodologies that embrace ESG or sustainability factors as a means of helping to identify companies with superior business models.

ESG factors offer portfolio managers added insight into the quality of a company's management, culture, risk profile and other characteristics. By taking advantage of the increased level of scrutiny associated with ESG analysis, Kintbury seek to identify companies that we believe:

- Are leaders in their industries
- Are better managed and are more forward-thinking
- Are better at anticipating and mitigating risk
- Meet positive standards of corporate responsibility
- Are focused on the long term

As the chart below suggests, a company's ESG activities have the potential to positively impact its financial performance over the long term or conversely in companies that do not demonstrate these qualities prove detrimental to their long term, performance.

Area of focus	Activity	Potential impact on financial performance
Environment	Resource management and pollution prevention Reduced emissions and climate impact Environmental reporting/disclosure	Avoid or minimize environmental liabilities Lower costs/increase profitability through energy and other efficiencies Reduce regulatory, litigation and reputational risk Indicator of well-governed company
Social	Diversity Health and safety Labor-Management relations Human rights Product Integrity Safety Product quality Emerging technology issues Community Impact Community relations Responsible lending Corporate philanthropy	Improved productivity and morale Reduce turnover and absenteeism Openness to new ideas and innovation Reduce potential for litigation and reputational risk Product Integrity Create brand loyalty Increase sales based on products safety and excellence Reduce potential for litigation Reduce reputational risk Community Impact Improve brand loyalty Protect license to operate
Corporate Governance	Executive compensation Board accountability Shareholder rights Reporting and disclosure	Align interests of shareowners and management Avoid negative financial surprises or “blow-ups” Reduce reputational risk

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