



Response to ESG Questionnaire

Montanaro

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by [Montanaro](#) are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

By 2030, Montanaro will be carbon negative and will have removed from the environment all the carbon it has emitted since its founding in 1991. This month, we entered into a partnership with the Danish Carbon Removal Platform company Klimate. Together, we are building an innovative portfolio of carbon removal projects to achieve our targets. This will include projects such as direct air capture; deep storage bio-oil; ocean kelp; and restorative tree-planting. All will be independently verified to ensure their integrity.

Montanaro have also recently recertified as a B Corporation, receiving our highest ever score.

We are also signatories to the below important initiatives:

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| • UN Principles for Responsible Investment (PRI) | 2009 |
| • FRC Stewardship Code | 2010 |
| • Carbon Disclosure Project (CDP) | 2015 |
| • LGPS Code of Transparency | 2017 |
| • B Corporation | 2019 |
| • Farm Animal Investment Risk and Return (FAIRR) | 2019 |
| • Net Zero Asset Managers Initiative | 2020 |
| • Tobacco Free Portfolios Finance Pledge | 2022 |
| • Living Wage Accreditation | 2022 |

2. Please provide an overview of how ESG is integrated into your business.

ESG analysis is fully integrated into the investment process for all Montanaro Portfolios. Analysts at Montanaro are responsible for conducting fundamental research alongside ESG analysis. This helps us to build as complete a case as possible for the “Quality” of an investment.

Additionally, in 2019, Montanaro became a certified B Corporation and re-certified in 2023. “B Corps” meet verified standards of social and environmental performance, transparency, and accountability. Our certification demonstrates our commitment to the development of sustainable business. We believe our B Corporation certification enhances our credibility when discussing sustainability topics with investee companies and our clients: we can demonstrate that we “practice what we preach”. This also ensured that our sustainable focus became embedded within the legal framework of our company: our articles of association have been amended to ensure that we consider all stakeholders in the running of our business.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

On ethical grounds, we do not invest in companies that are involved in any of the controversial activities listed below (MAM’s “Banned List”).

We aim to invest in companies which have nil revenue exposure to these areas. The Sustainability Committee will review the eligibility of any company that derives a significant portion (c.10%) of its revenue from activities related to those on the “banned list”.

A related activity is one that supplies to (and therefore benefits from) businesses primarily involved in the production or provision of services on MAM’s Banned List. For example, a company that derives 10% or more of revenue from supplying to a tobacco manufacturer will be reviewed by the Sustainability Committee (regardless of the nature of the products being provided).

In addition, a retailer that derives 10% or more of revenues from the sale of products on MAM’s Banned List will also be reviewed by the Sustainability Committee.

Matters that will be considered by the Committee when deciding whether an exposure breaches our ethical restrictions are:

- Other services offered – are there aspects of the business that mitigate environmental and social challenges that could provide a net benefit?
- The trend – has there been a downward trend in revenues associated with problematic activities? Is this likely to reduce to zero?
- Engagement – do management understand the issues at hand and are they willing to engage with us on reducing the business exposure to controversial activities?

All of these factors will be used to form a nuanced understanding of the characteristics of the company and whether the involvement with any banned activities constitutes an unacceptable breach of our Ethical Policy.

MAM’s Banned List:

- **Fossil Fuels**
 - Exclusion of companies involved in the exploration and production of coal, oil and gas.
 - Ban encompasses both onshore and offshore extraction.
 - We also ban investment in fossil fuel refinement companies.
- **Tobacco**
 - Exclusion of companies involved in the production and distribution of tobacco products.
 - Ban encompasses traditional products (e.g. cigarettes) and vaping, heated tobacco products and e-cigarette products.

- **Alcohol**
 - Exclusion of companies involved in the production and distribution of alcohol products.
- **Gambling**
 - Exclusion of companies that own or operate gambling facilities of any kind (e.g. casinos, racetracks, lottery operations, online gambling, spread betting).
 - Companies that provide key products or services fundamental to gambling operations, including (but not restricted to) products manufactured exclusively for gambling or gambling technology (e.g. IT maintenance or software design).
- **Pornography**
 - Exclusion of companies that produce and distribute pornography.
 - Ban encompasses magazines, newspapers, videos, films, websites and related software, as well as companies involved in the staging of live sex shows or the ownership of sex shops.
 - Companies that provide key products or services fundamental to pornography operations, for example IT maintenance or software design.
- **High Interest Rate Lending**
 - Exclusion of any business whose activity is the provision of home-collected credit (“doorstep lending”), unsecured short-term loans (“payday loans”) or pawnbroker loans, directly or through owned-subidiaries.
 - Common indicators of exploitative lending are close to triple-digit Annual Percentage Rates; short loan term durations (less than 18 months); and no requirement for security.
- **Weapons**
 - Controversial/Indiscriminate weapons exclusions: of companies involved in the production or supply of indiscriminate weaponry (defined as nuclear weapons, anti-personnel mines, cluster munitions, chemical weapons or biological weapons), with no turnover threshold to be applied.
 - Any company involved in the production, processing, supply or storage of weapons-grade nuclear fissile materials, with no turnover threshold to be applied.
 - Any company involved in the provision of parts or services for anti-personnel mines, cluster munitions, chemical weapons or biological weapons, with no turnover threshold to be applied.
 - Conventional weapons exclusion: We ban investment in manufacturers of conventional weaponry and any company deriving more than 10% of its turnover from any strategic military sales including conventional military platforms, whole military systems or strategic military parts or services.
 - Non-military firearms exclusion: Any company deriving more than 10% of its turnover from the production or sale of non-military firearms or ammunition, excepting companies specialising exclusively in products specifically designed for hunting or sporting purposes.
 - Note: Under this policy Montanaro is permitted to invest in companies whose products are used to ensure the safety of military personnel (e.g. protective equipment such as helmets), although such companies must not have exposure to the areas banned above.
- **Animal Testing**
 - Exclusion of companies that conduct (either themselves or via outsourcing) animal testing for cosmetic products.
 - We allow animal testing for the purposes of regulated healthcare research.
 - Where animal testing is conducted it must be required by regulation and we expect companies to have a clear animal testing policy compliant with “The Three Rs”:
 - i. Replacement: methods which avoid or replace the use of animals in research;
 - ii. Reduction: use of methods that enable researchers to obtain comparable levels of information from fewer animals, or to obtain more information from the same number of animals;
 - iii. Refinement: use of methods that alleviate or minimise potential pain, suffering or distress, and enhance animal welfare for the animals used.

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

Improvements we made in the last 12 months:

- ESG & Stewardship is now a stand item at all MAM Board meetings.
- We created an internal Net Zero Carbon Steering Group to guide us towards our net zero targets at the company and portfolio level.
- We hired a further ESG & Impact specialist who will be joining next month

Important Notice

This document is aimed at Investment Professionals only and should not be relied upon by Private Investors. Our comments and opinion are intended as general information only and do not constitute advice or recommendation. Information is sourced directly from fund managers and websites. Therefore, this information is as current as is available at the time of production.

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