

## Responsible Investment Policy

### Introduction

This is the Responsible Investment ("RI") Policy of Lightman Investment Management Limited ("Lightman", "we", "us", "Firm"). This Policy provides an overview of the senior management's approach to considering the following:

- environmental, social, and governance (ESG) aspects in its investment process.
- stewardship, engagement, and voting aspects of its investment process.
- where possible, contribution towards a sustainable finance ecosystem.

This policy also provides the ESG reporting completed by the Firm.

### Responsible Investment Objective

- To generate positive ESG momentum along with capital growth, over the long term.
- To act as long-term responsible shareholders of the companies we invest in.
- To support the Paris Agreement's goal of achieving net zero global GHG emissions by 2050.

### Responsible Operations Objective

- To reduce and/or effectively offset GHG emissions from own operations.
- To promote governance, transparency, and diversity at the Firm in a proportionate manner.

For more information about the Firm's responsible operations objectives, please refer to Firm's own ESG policy. You can request a copy from the compliance officer at [compliance@lightmanfunds.com](mailto:compliance@lightmanfunds.com).

### Firm's Responsible Investment Philosophy

The Firm's senior management is committed towards key global objectives such as the Paris Agreement's net zero emissions by 2050, UN standards on diversity, inclusion etc. The Firm's senior management also recognise the responsibilities of financial sector in achieving these goals. The Firm has accordingly implemented a proportionate Responsible Investment Policy.

The Firm believes that poor ESG management can lead to increased risks and reduced returns, while well managed ESG issues can reduce risks and increase returns. It views consideration of ESG issues as a complement to (not a substitute for) traditional fundamental

analysis, i.e. both traditional and ESG analysis aim for lower risks and higher returns. Further, ESG issues are relevant throughout the investment process – from the initial analysis to ongoing ownership practices.

The Firm also believes that ESG integration does not necessarily mean just default exclusion of a broad range of companies, sectors, or countries. Neither does it believe that investors need to sacrifice portfolio returns to properly incorporate ESG. As stated earlier, ESG and traditional analysis aim for the same goals.

As an example, the Firm believes that companies that score well on ESG issues can often be more efficient with lower environmental costs – for example, a lower electricity or water bill. In addition, these companies are expected to have more empowered human capital, potentially resulting in higher productivity and a stronger reputation among clients, other stakeholders, and society. A strong governance framework secures the legal position of a (minority) shareholder in numerous ways. All the derived benefits from better ESG risk management can improve the investment case derived from traditional fundamental analysis.

The Firm believes in taking a pragmatic and flexible approach in integrating ESG factors into its investment process.

The Firm also believes that as shareholder, it should aim to work towards long term success of the company it invests in. This can be achieved through a combination of appropriate engagement and proper exercise of voting rights.

The Firm realises that there are practical difficulties in integrating ESG issues into investment decision making. Such issues include:

- difficulties in assigning a monetary value to ESG issues and in integrating into quantitative models.
- limited, unverified, and non-standardized ESG disclosure by companies; and
- the long-time horizon required for ESG issues to materially affect prices and performance compared to a typical investor's horizon of a few years.

## Firm's incorporation principles

### **Principle 1: ESG performance cannot be considered in isolation, and cannot be considered independent of financial sustainability**

The Firm believes that the ESG performance of a portfolio company cannot be considered independent of its financial performance. The Firm has implemented exclusionary screening to screen out certain companies. More details about the screens are in Appendix 1.

The Firm believes in incorporating ESG factors as one of the components of its portfolio company analysis, adjusting the standard financial metrics to reflect the impact of ESG factors.

Accordingly, if a portfolio company is generating recurring financial losses while creating positive ESG externalities, then it would not be a financially sustainable company, despite the positive ESG contributions. Likewise, if a portfolio company is generating financial profits while creating negative ESG externalities, then it would be appropriate to adjust the economic value of profits by incorporating ESG factors in the assessment of the fair value of the company.

### **Principle 2: ESG goals and momentum are more important than the current ESG score**

The Firm sees ESG performance in a similar manner to company earnings - in that the future outcome matters more than today's result. The ESG performance of a portfolio company should be reviewed with an assessment of how an ESG score is set to change over a medium-longer term time horizon. This future ESG outcome is considered more important than the current score.

The logic behind this philosophy is that investors allocate premium valuations to high scoring ESG companies. These valuation premiums, in isolation, can be a headwind to future returns. Investing in companies with improving ESG profiles can be viewed similarly to those companies with improving cashflow profiles, both can act as a catalyst to lift valuation.

In this way, our value approach focussing on improving operational performance can be applied to ESG scores.

Accordingly, the Firm does not reject portfolio companies simply based on historic and current ESG performance. The Firm considers the future ESG plans of portfolio companies and if it sees a strong action plan with potential to improve ESG performance, it will be open to investing in such companies.

### **Principle 3: ESG performance is not considered for sector weight allocations**

The Firm believes that ESG goals and performance cannot be considered at the sector allocation level as each sector operates differently. Comparing sector metrics like "GHG per \$revenue earned" would not be helpful, given these numbers would be very different for the steel sector for example vs the IT sector. Even the best performing steel company today will likely be inferior to the worst performing IT company, resulting in complete sectors being discounted from the portfolio construction process - an outcome we seek to avoid.

### **Principle 4: ESG performance is best measured against a company's own previous performance and industry peers**

Mandatory regulatory performance expectations notwithstanding, the Firm believes that an important comparator of ESG performance is a portfolio company's own previous ESG performance. Assuming the portfolio company meets any required regulatory ESG performance benchmarks, the Firm seeks to find those companies whose performance is improving over time.

The firm also considers companies in light of their industry peers, particularly with respect to environmental factors. Whilst we do not mandate investing in best in class industry operators, we aim to use class leading scores as a talking point and as a potential target for individual companies.

### **Principle 5: Compliance with voluntary and mandatory ESG principles**

The Firm is required to comply with requirements of several organisations and regulators, undertaken through a combination of mandatory and voluntary associations. Such associations include:

- Voluntary signatory to the UNPRI
- Voluntary supporter of the TCFD
- Mandatory compliance with SFDR and EU Taxonomy
- Mandatory compliance with SDR and Green Taxonomy

The Firm has ensured that its responsible investment policy is designed such that the Firm (and products managed by it) remains in compliance with these requirements.

### **ESG issues incorporation techniques**

As discussed through the principles the Firm follows, the Firm believes in incorporating ESG 's factors in key financial metrics of a portfolio company and the resulting impact on valuation of the portfolio company. The Firm does not consider it prudent to assess a portfolio company based on ESG factors alone because it does not believe that such approaches would be financially sustainable.

In summary, the Firm does not maintain a negative or a positive screen, it rather incorporates ESG factors to adjust valuations and thereby assessing financial attractiveness of a portfolio company.

This document discusses some of the available ESG integration techniques and whether the Firm relies on the technique or not.

1. **Exclusionary screening:** Such strategies involve avoiding securities belonging to specific sectors or countries based on traditional moral values (alcohol, tobacco, weapons, gambling etc.) or standards and norms (human rights or environmental protection etc.). In values-based exclusions, the focus is on the business of the company and entire sectors are excluded. In standards and norms-based exclusions, the focus is on behaviour of the company (vis-à-vis common practice or expected standards) and only specific companies failing such standards are excluded. Such screening methods will completely exclude sectors and/or securities irrespective of financial returns.

As example - A company deriving more than 5% of its global revenue through sale of alcoholic beverages is screened out. Or a company manufacturing more than 5% of its products in sweatshops in South East Asian countries, unpopular for human rights violations and safe working conditions, are screened out.

The Firm currently may use this technique to a limited extent to screen out certain companies. More details about the screens are available in the Appendix.

2. **Best in class selection/worst in class rejection:** Such strategies involve preferring companies with better or improving ESG performance relative to sector peers and rejecting companies with worse or deteriorating ESG performance relative to sector peers. Best in class selection (or worst in class rejection screen) screen could be implemented either at the current performance level or current momentum level relative to sector peers. This involves ranking companies in a sector by ESG scores and rate of change of ESG scores (or a combination thereof) and positively screening companies that clear a certain threshold or negatively screening companies that miss the threshold.

As example - A company that is an industry laggard in terms of ESG and is not doing anything to improve its position is not selected as it lacks both current performance and expected momentum. On the other hand, a company that is maybe current industry laggard, but it has demonstrated above average momentum of score improvement is a possible selection as the company is moving towards desired goal.

The Firm considers this technique albeit not from a mechanical point of view. The Firm does consider where firms sit relative to their industry peer group, but the more important point of focus sits on the rate of improvement in ESG factors of a company vs its absolute ESG score today. This does allow the Firm to invest in stocks that may screen poorly in ESG today, provided there is a coherent strategy and visibility for a path to improvement.

3. **Fundamental strategy:** Such strategies involve adjusting forecasted financials (such as revenue, operating cost, asset book value, capital expenditure etc.) and/or relative valuation metrics (including PE, PB, PS ratios) and/or absolute valuation models (including the dividend discount model, the discounted cash flow model and adjusted present value model etc.) for the expected impact of ESG factors. Some of the factors we can consider are:
  - a. Evaluating income statement impacts of ESG factors such as environmental regulations, investor-demand, demand-supply impacts on input factors (raw materials, labour, capital etc.), demand-supply impacts on output factors (product, services etc.). Incorporating these impacts to estimates of the revenue and cost forecasts of the portfolio company. Revenue and cost forecasts can be adjusted by directly adjusting each revenue and cost number or by adjusting growth rates or margin rates for ESG risks and opportunities.

As an example - A carmaker may stop selling certain models of cars in a country due to environmental concerns, which is incorporated by adjusting forecasted revenue and revenue growth downwards. Or a certain manufacturing company may see material loss in production due to increased number of shop-floor accidents and associated health and safety concerns, which is incorporated by adjusting capacity utilisation downwards, costs upwards and operating margin downwards.

- b. Evaluating balance sheet impacts of ESG factors to estimates of assets and liabilities forecasts. These adjustments could mean reducing the value of assets as impairment losses or increasing the value of assets as unlocked potential value. Likewise, for liabilities.

As example - A mining company adjusting the value of its mining lease upwards to reflect new technology to extract previously inaccessible minerals in an ESG compliant manner.

- c. Evaluating cash flow impacts of ESG to estimates of CAPEX and, cash flows etc.

As example - Legislative changes could mean that an electricity producer will need to upgrade its coal power plants to meet new environmental regulations or technology improvement could mean that the same plant could meet environmental norms at a lower CAPEX.

- d. Evaluating the impact of ESG factors on relative valuation metrics such as adjusting upwards or downwards ratios such as PE, PB, PS ratios etc. Or absolute valuation models such as adjusting terminal value, discount rates etc.

As example - ESG factors could mean that the terminal value of an oil and gas company would be adjusted to zero (or even negative for clean-up costs). Or a new regulation promoting solar panels through government subsidy to consumers could increase demand and PE ratios for solar panel manufacturers.

- e. Incorporating ESG factors such as health and safety measures, labour standards, governance structures etc. to elements such as profit margins etc.

The Firm incorporates ESG factors into portfolio companies' financial metrics (income statement, balance sheet and relative valuation). Typical examples include EU ETS program compliance costs, carbon border tax compliance etc.

- 4. **Quantitative strategies:** Such strategies involve models that help incorporate ESG factors alongside other quantitative factors such as value, size, momentum, growth, volatility etc. Some of the factors that can be considered are:
  - a. GHG emissions profile of the portfolio company, including specific Scope 1 and Scope 2 GHG emissions per unit of output or per unit of revenue.

- b. ESG ratings and quantitative disclosures in annual CSR reports, Bloomberg's BESG function etc.

The Firm currently uses quantitative strategies to a limited extent, as a secondary measure to confirm its decisions from fundamental analysis.

- 5. **Smart beta strategies or factor investing strategy:** Such strategies involve the use of ESG scores as a parameter in asset pricing and asset allocation models. One of the common methods of using this strategy is to add a separate ESG risk factor, just like the Fama-French model that introduces separate factors for size, value etc.

Although the Firm incorporates Fama and French's empirical observations into its investment process, it does not use smart beta models techniques for ESG integration.

- 6. **Economic analysis:** Such strategies involve evaluating macro and micro economic impacts of ESG factors such as environmental regulations, border taxes etc. on the country and sector of the portfolio company. Examples include adjusting forecasted growth rates to company financials, carbon border taxes on the competition landscape, EU ETS compliance costs etc.

The Firm does integrate macro and micro economic impacts of ESG factors into its investment process.

- 7. **Value driver adjustments:** Such strategies involve identification and integration of particular ESG factors that are material to a particular sector. Any decision to invest is dependent on such factors. Examples include consideration of renewable energy plans for an electrical utility company, progress towards self-driving and electric vehicles for automobile manufacturing companies, plans towards use of hydrogen-based reduction processes for steelmaking companies etc.

The Firm does use this method for evaluating the performance of companies within each sector. The Firm however has a list of sector specific ESG factors that it considers in the evaluating the risk-return profile of companies.

- 8. **Active ownership through engagement and stewardship:** Such strategies involve use of investor powers such as dialogues, voting rights, and other means of investor activisms to influence companies' ESG approaches and performance. These strategies are more relevant for the monitoring of currently held portfolio companies or for influencing otherwise attractive companies that have been screened out for ESG performance.

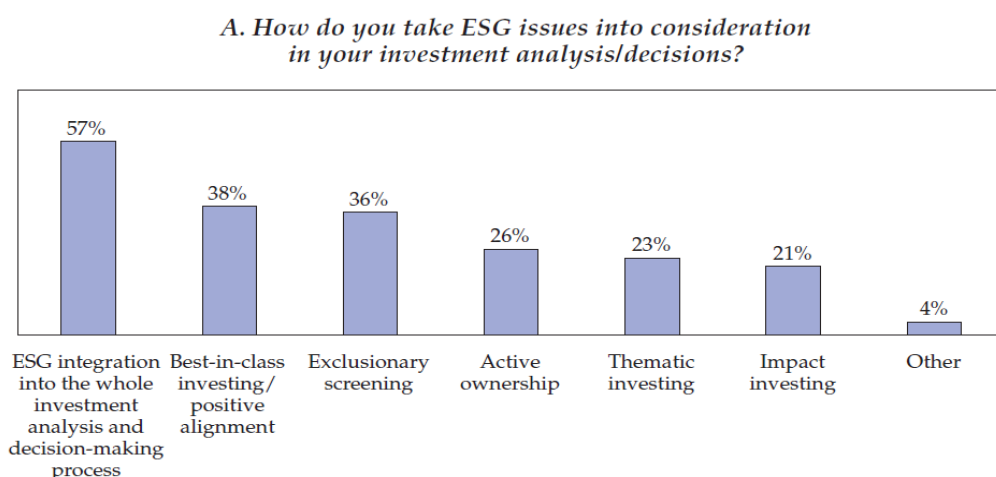
As example - A company's executive pay can be affected through voting rights in the company, resulting in better principal-agency alignment. Or repeated requests from shareholders can result in a company changing an ESG approach.

The Firm relies proportionately on active ownership. The investment team regularly engages with the investor relations team to share expectations and gather information, and the Firm pursues any such requests proportionately. The Firm relies on ESG specific recommendations made by Glass Lewis. We do not review each and every voting ballot and rely on our general voting policy.

9. **Scenario analysis:** The Firm can rely on scenario analysis by constructing various varied scenarios and estimating the valuations for these scenarios, to assess the impact of ESG factors.

The Firm currently does not rely on scenario analysis as a tool to implement ESG objectives.

The CFA Institute<sup>1</sup> has done a survey of investors about the integration techniques they use, and the results are as follows:




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<sup>1</sup> Environmental, Social, and Governance Issues in Investing (Oct 2015) - by the CFA Institute



## The Firm's ESG framework

The Firm's ESG integration framework is made of four broad stages:

### **Stage 1: Quantitative screening**

- Stage 1.1: To comply with the investment policy of investing in value stocks (with low PE, low PB, low incremental CAPEX etc.) with certain minimum liquidity requirements (with minimum ADV), the Firm initially implements a quantitative screen to reduce the stock universe to only those stocks that meet the core investment policy criteria. Likewise for the ESG screening.

### **Stage 2: Fundamental analysis (qualitative and quantitative)**

- Stage 2.1: For the stock universe remaining after stage 1, the Firm then conducts a detailed fundamental analysis using traditional factors such as revenues, costs, cash flows through standard valuation models (DCF, comparable etc.). Fair value of the company is calculated using standard models.
- Stage 2.2: In parallel, the Firm also considers what it perceives to be material ESG factors relevant to that company, sector, or country. These factors can be different for different sectors. For example - environmental factors will be more material for utilities, materials and mining companies while labour standards in the supply chain will be more relevant for a consumer discretionary company.
- Stage 2.3: For these factors, the Firm gathers relevant ESG information from multiple sources such as company annual reports, investor relations interactions, Bloomberg ESG database etc.
- Stage 2.4: The Firm then uses the ESG information (list of material factors and corresponding values) in one or more of the following ways.
  - The firm interacts with the company to assess and make forecasts of future financial returns. In this process, material ESG factors are also considered and discussed.
  - The Firm adjusts fundamental analysis forecasts based on the positive/negative effects of the material ESG factors. The adjusted forecasts are then used to compute company valuation.
- Stage 2.5: The Firm complements its fundamental analysis with additional purely technical/quantitative analysis. The Firm's quantitative analyst, based on historical and more recent data on factors such as price, sales volume, momentum indicators etc. will generate an output of the market for the stock being bullish, bearish etc.

### **Stage 3: Investment decision**

- Based on the analysis in stages 1 and 2, the Firm will generate an investment decision to buy (or increase weight), hold (or maintain weight), or sell (or decrease weight) the portfolio company. If the Firm does not have a convincing case to take a decision, then the Firm might put stocks on watchlists (both for potential buy and sell) and continue its research analysis on the stock.

### **Stage 4: Portfolio monitoring**

- The Firm monitors the portfolio's ESG performance using the data and decisions in previous stages.
- ESG performance data is considered on an ongoing basis and as the ESG view of a company changes, the Firm updates its own investment analysis for the company.
- Monitoring is done at the individual stock level by the portfolio manager.
- Stock level monitoring is done through publications and data for the company.
- The Firm also engages with companies mostly through communication with investor relations teams, shareholder meeting votes, and as and when possible through other engagement tools to influence the company's direction and/or pace of ESG travel.

## Proprietary model

This section discusses on a high-level the key aspects of the proprietary ESG model used by the Firm.

### **List of material ESG factors**

There are more than 200 ESG factors that an investor can consider in its ESG assessment. The Firm has created a list of some of the most pertinent ones and considers these factors only.

### **Environmental**

One or more of the following environmental factors may be considered in assessment.

- Climate change and carbon footprint
- Air and water pollution (SOX, NOX, particulates, etc.)
- Energy efficiency and storage
- Waste management and recycling
- Water scarcity and footprint
- Renewable energy usage

## Social

One or more of the following social factors may be considered in assessment.

- Customer satisfaction
- Data protection and privacy
- Employee engagement
- Community relations
- Human rights
- Labour standards
- Health and well being

## Governance

One or more of the following governance factors may be considered in assessment.

- Board composition
- Audit committee structure
- Bribery and corruption
- Executive compensation
- Whistle-blower schemes

## Overall

These provide some of the most basic ESG discipline expectations of a portfolio company.

- Has an ESG Policy?
- Has staff available to consider ESG issues?
- Is signed up to international ESG compliance and reporting initiatives?
- Has published an ESG report?

## Sustainability outcomes

The Firm recognises the importance of a sustainable economy and the role of the finance sector in achieving this. The Firm is aiming to currently commit to playing its part in helping achieve the Paris Agreement goal of net zero GHG emissions by 2050. The Firm is continually reviewing the other sustainable development goals of the EU and of the UK government and aims to add further goals to its investment objectives.

In helping achieve the global GHG emission reduction targets, the Firm considers and monitors specific GHG performance (tCO<sub>2</sub>e/output and revenue/profits) of its portfolio companies. These also directly interact with the financial performance of the portfolio companies because the Firm invests in European equities that are subject to EU-ETS regime and are accordingly rewarded/penalised based on their GHG emission performance.

## Risk Management

The Firm currently focusses extensively on risks from climate change. It is working towards incorporating other ESG specific risk factors into its risk management.

The Firm combines its ESG risk management with its traditional risk management, by incorporating the impact of ESG factors in traditional metrics such as revenue, earning, margins, ratios etc.

The Firm recognises that climate change is a key risk to the value of its portfolio and if it does not manage that risk, it will impact the returns of its portfolio and in turn the financial viability of its own operations. Climate change risks include risks from:

- Transition to a low carbon economy - To control the effects of climate change, it is important that necessary steps are taken to contain release of GHG emissions. Required steps are being taken, guided by both legislative changes and consumer behaviour. As governments around the world are implementing new regulations to reduce GHG emissions, heavy emitters will have to pay a very high price to not change. Most likely, they will need to shut down operations, unless they significantly change their operating model. Any such change will be costly in the short term. Likewise, environmentally friendly operations will be less impacted by such changes. Even outside of regulatory changes, consumer preferences are changing towards products and services that are more environmentally friendly. The Firm considers the impacts of these changes in its investment process.
- Physical risks of climate change - Climate change will result in raised sea levels, extreme weather events like droughts and floods, water scarcity etc. All of these will impact most companies in one way or another. As example, coastal assets such as power plants or manufacturing units could be below sea level due to raised sea levels, or droughts could make agricultural lands worthless, or floods could make supply-chain difficult. The Firm currently does not consider physical risks of climate change extensively.

The Firm is aiming to utilise TCFD guidance for managing climate change related risks. Once completed, the framework will look as follows. The most important element of the process is the identification of potential risks. Investment managers use the below risk matrix to identify potential risks and incorporate their impacts in the valuation of portfolio companies.

Currently, there are no standard procedures on how each of the below risk needs to be considered, and the Firm largely relies on case-by-case assessment conducted by the investment team. Likewise for regular monitoring, the Firm currently relies on a case-by-case monitoring of portfolio performance against the identified risk parameters. The Firm is working towards formalising the process as it gains better understanding of the ESG integration process.

Type	Characteristics	Approaches	Possible Metrics
Policy and Legal	<ul style="list-style-type: none"> <li>• Differences in local, regional, and global requirements and incentives</li> <li>• Novel and uncertain effects of policy and legal actions across jurisdictions</li> <li>• Complex relationships connecting different regulatory developments across different actors and departments</li> </ul>	<ul style="list-style-type: none"> <li>• Tracking of regulatory developments</li> <li>• Assessment of impact of regulation, including implications across operations, supply chains, and jurisdictions</li> <li>• Cross-functional, multidisciplinary collaboration to identify risks and implications</li> <li>• Scenario analysis focused on policy environment, sequence, timing, and relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Financial impact of carbon pricing and emission trading</li> <li>• Asset write-off, asset impairment, and retirement cost</li> <li>• Number of nodes of influence connecting key policy developments</li> <li>• Number of relevant policy measures and development timelines</li> <li>• Number of lawsuits brought forward</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• Uncertain role of different solutions and technologies over time, for different uses, and in different contexts</li> <li>• Novel technologies, capabilities, and applications</li> <li>• Complex relationships among market conditions, economics, and policy environment</li> </ul>	<ul style="list-style-type: none"> <li>• Technology assessment and forecasting</li> <li>• Maturity and readiness of technology</li> <li>• Cost-benefit analysis associated with key technologies</li> <li>• Analysis of organizational skills, knowledge, and capabilities associated with key technologies</li> <li>• Mapping of dependencies and enabling conditions (e.g., investment, policy)</li> <li>• Scenario analysis focused on technological development, use, deployment, and impact</li> </ul>	<ul style="list-style-type: none"> <li>• Cost of supply, rate of return, return on investment, and payback periods for different technologies</li> <li>• Product development effectiveness and cost</li> <li>• Time to market and research and development success rate</li> <li>• Capabilities across peers</li> <li>• Number of and effectiveness of collaborative research relationships</li> <li>• Number of patents</li> </ul>
Market	<ul style="list-style-type: none"> <li>• Novel dynamics and signals from supply-demand relationships affecting raw materials, products, and services</li> <li>• Nonlinear relationships affecting demand and costs</li> <li>• Complex relationships among policy, consumers, and societal context</li> </ul>	<ul style="list-style-type: none"> <li>• Analysis of trends in supply and demand for products and services</li> <li>• Comparison of company's position and strategy to competition</li> <li>• Engagement with customers and suppliers</li> <li>• Identification of merger and acquisition targets</li> </ul>	<ul style="list-style-type: none"> <li>• Market size</li> <li>• Growth potential</li> <li>• Commodity, product, and service pricing</li> <li>• Market coverage and share index</li> <li>• Opportunity and threat index</li> <li>• Product portfolio index</li> <li>• Revenue mix and sources</li> </ul>
Reputation	<ul style="list-style-type: none"> <li>• Magnitude of severity and scope of impact can rapidly change, often enabled by the internet and social media</li> <li>• Novel nature of responses and reactions as societal awareness and understanding shifts</li> <li>• Interconnected issues driving impacts and actions</li> </ul>	<ul style="list-style-type: none"> <li>• Use of social media, customer feedback, and market research to track customer sentiment and changing preferences</li> <li>• Evaluation of employee engagement and satisfaction</li> <li>• Identification of relationships between events and news and business and financial impacts</li> </ul>	<ul style="list-style-type: none"> <li>• Share price change</li> <li>• Competitors' market positions</li> <li>• Employee satisfaction level</li> <li>• Customer loyalty and retention level (e.g., net promoter score)</li> <li>• Changes in customer satisfaction</li> <li>• Media and social media sentiment</li> <li>• Number of new customers</li> <li>• Independent rankings and ratings</li> </ul>

The Firm is currently building further on its ESG risk assessment methodology using the TCFD guidelines and the EU Taxonomy's recommended methodology for various sectors of interest. More details about the methodology are available from [compliance@lightmanfunds.com](mailto:compliance@lightmanfunds.com)

Key risks identified for portfolio companies are recorded in the investment thesis and are reviewed on a regular basis. Key ESG risk and performance results are also discussed at regular investment committee meetings and at the Management Committee meetings.

In its regular monitoring, the Firm may consider how the investee company manages its ESG risk through internal programs such as new CAPEX to a low carbon operation, improved senior management commitment, improved accountability and transparency of ESG profile etc.

## Stewardship & Engagement

The Firm has a separate engagement policy that is published on its website as [www.lightmanfunds.com](http://www.lightmanfunds.com). In summary:

- Engagement - the Firm's investment team regularly engages with investor relations of the portfolio company. During such conversations, the team discusses about both traditional and ESG matters relevant to the Firm.
- Voting - The Firm uses Broadridge Proxyedge as its proxy voting provider. Further, the Firm receives recommendations with ESG aspects from Glass Lewis, that is uses in its proxy voting decisions. Generally, the Firm accepts recommendations made by Glass Lewis. The Firm occasionally reviews recommendations made by Glass Lewis and overrides them where it seems appropriate. The Firm aims to vote for 100% of the ballot received.
- Physical attendance to meetings: The Firm does not believe in attending meetings physically, especially due to resource constraints and size considerations.

## Governance process

The Management Committee of the Firm is responsible for ensuring ESG elements are considered in its own operations and in management of client portfolios. The Committee has approved this ESG policy and delegated the implementation of policy elements to the investment team made up of Rob Burnett and Luis Barreiro. They are supported by Sumit Mittal, who is responsible for compliance and reporting.

ESG performance of the portfolio is reported and discussed at quarterly management committee meetings attended by CEO, COO, Sales director, and Investment Analyst.

## Monitoring process

Regular monitoring of portfolio's ESG performance is conducted by the Firm's compliance officer with data inputs from investment team members.

## Reporting and Disclosure

The Firm currently only discloses its ESG data through its UNPRI reporting. The Firm is considering signing up to other reporting bodies.

## Appendix 1

Screening: The Firm has implemented the following screens for the portfolios it manages:

Portfolio Name	Screen	Effective Date
WS Lightman European Funds	Exclude companies that engage materially in: <ul style="list-style-type: none"><li>– Controversial weapons</li><li>– Cluster weapons</li><li>– Biological weapons</li><li>– Chemical weapons</li></ul>	01/04/2022 - Present

## Appendix 2: UNPRI Compliance

**The Firm is a signatory to the UNPRI since 2019.** As a signatory to UNPRI, the Firm needs to comply with UNPRI principles for ESG integration.

**Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.

The Firm has incorporated ESG issues into its investment analysis and decision making process, using the various techniques described in this policy document.

**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

The Firm engages with company's investor relations teams and votes on AGMs and EGMs and makes decisions corporate action offers. The Firm has been proportionate in implementing this principle.

**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

The Firm ensures that it focusses on companies that consider ESG issues in their operations. The Firm generally does not invest in a company that has no ESG plan.

**Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.

By being a signatory and by disclosing its own ESG performance, the Firm is promoting ESG principles. Further, the Firm also makes this policy available to any of its investors upon request.



**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

The Firm actively engages with its clients and underlying investors to understand their ESG requirements and endeavours to prudently implement them along with the other objectives of financial returns.

**Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The Firm being a signatory to UNPRI has an obligation to annually report its own ESG activities, the report being further available to a wide group of peers.

## Disclosures:

This document is owned by Lightman Investment Management Limited ("Lightman", "we", "us"). Lightman Investment Management Limited (FRN: 827120) is authorised and regulated by the Financial Conduct Authority ("FCA") as a UK MiFID portfolio manager eligible to deal with professional clients and eligible counterparties in the UK. Lightman is registered with Companies House in England and Wales under the registration number 11647387, having its registered office at c/o Buzzacott LLP, 130 Wood Street, London, United Kingdom, EC2V 6DL.

### Target audience:

This document is intended for 'Eligible Counterparties' and 'Professional' clients only, as described under the UK Financial Services and Markets Act 2000 ("FSMA") (and any amendments to it). It is not intended for 'Retail' clients and Lightman does not have permission to provide investment services to retail clients. Generally, marketing documents are only intended for 'Eligible Counterparties' and 'Professional' clients in the UK, unless they are being used for purposes other than marketing, such as regulations and compliance etc. The Firm may produce marketing or communication documents for selected investor types in non UK jurisdictions. Such documents would clearly state the target audience and target jurisdiction.

### Collective Investment Scheme(s):

The collective investment scheme(s) - WS Lightman Investment Funds (PRN: 838695) ("UK OEIC", "UK umbrella"), and WS Lightman European Fund (PRN: 838696) ("UK sub-fund", "UK product") referenced in this document are regulated collective scheme(s), authorised and regulated by the FCA. In accordance with Section 238 of FSMA, such schemes can be marketed to the UK general public. Lightman, however, does not intend to receive subscription or redemption orders from retail clients and accordingly such retail clients should either contact their investment adviser or the Management Company Waystone Management (UK) Limited ("Waystone UK") in relation to any fund documents.

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Luxembourg sub-fund is also approved for marketing to qualified investors in Switzerland, within the meaning of Art. 10 para. 3 and 3ter CISA. In Switzerland, the representative is Acolin Fund Services AG, Leutschenbachstrasse 50, 8050 Zurich, Switzerland, whilst the paying agent is NPB Neue Privat Bank AG, Limmatquai 1 / am Bellevue, 8024 Zurich, Switzerland.

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