

## **Stewardship and ESG**

Active management providing long-term fund performance for our clients underpins what we do at Polar Capital. To achieve this, our investment teams benefit from a devolved structure, where each investment team has autonomy over its own investment strategy, and where there is no one-size-fits-all investment approach. As such, analysis and interpretation of environmental, social and governance (ESG) issues is specific to each investment team.

Consideration of ESG issues is not new. They have been part of the research and evaluation process used by Polar Capital's fund managers for many years and incorporated in their assessment of the risks and opportunities facing companies in which they may invest.

ESG factors can affect an investment team's view of a company's growth rate assumptions, competitive position and the discount rate used in financial models. We do not view ESG questions as non-financial. These issues have the potential to affect the long-term financial profile of companies in the same way as more obvious financial considerations such as sales, margins and asset turns.

As an example of the approach to ESG within Polar Capital, the Emerging Markets & Asia team, whose flagship emerging market equity strategy was launched in June 2018, incorporates an additional layer of ESG analysis as part of its investment process, with the aim of quantifying ESG impact versus the Fund's benchmark. While the Fund was launched at Polar Capital in 2018, the investment process has been honed over many years. In fact, lead manager Jorry Noeddekaer has invested with an ESG perspective for nearly 20 years. The team manages four funds which are classified as promoting environmental or social characteristics under SFDR.

## **Group Infrastructure**

The investment teams benefit from a strong ESG infrastructure at Polar Capital, which they can draw upon. In 2020, Alexander 'Zandy' Macdonald was appointed Head of Sustainability for the Group. Zandy leads and co-ordinates Polar Capital's sustainability initiatives at a corporate level and acts as a focal point for ESG activity in investment portfolios. His aim is also to further develop Polar Capital's funds' integration of ESG factors as well as enhancing their responsible investment and stewardship capabilities. He reports directly to the CEO and CIO on corporate and investment activities respectively.

Polar Capital has also established a Sustainability Committee, charged with identifying key regulatory, legal and industry initiatives in sustainability and ESG.

## **Risk Assessment**

Each investment team at Polar Capital has autonomy in the way it evaluates ESG issues. As such, they use the information and data sources available to them to assist with their assessment including, but not limited to, a company's financial reports, a company's ESG and other non-financial reports, third-party ratings and data providers.

This level of investment autonomy is central to Polar Capital's approach. Nevertheless, portfolio characteristics (performance, style, macro factor sensitivity, decision-making patterns and liquidity) are observed and monitored centrally by Polar Capital's CIO and risk team. ESG monitoring is an integral part of their oversight process. The risk team monitors each portfolio's ESG characteristics every month and circulates the results to the portfolio managers. Each strategy is then reviewed in detail every four months in a meeting with the lead fund managers. Analysis of each strategy's ESG profile is part of this process.

## **Third-Party Research**

Polar Capital's ESG monitoring uses company scores provided by third-party research. Each company is rated on a scale from AAA to CCC, relative to other companies in the same industry. Polar Capital's ESG oversight reports list the five weakest scores for every strategy in each of the environmental, social and governance categories. An overall asset-weighted score for each portfolio and its benchmark is then given. This analysis is the starting point for discussion in oversight meetings. Portfolio managers have access to the full specialist ESG research and, as is the case with conventional third-party investment research, they do not always agree with the third-party ratings, but they can assess what the consensus is saying. The appropriate course of action remains the portfolio manager's prerogative.

## **Stewardship and engagement**

Polar Capital's stewardship activities are a key aspect of the investment teams' wider investment process and these are specific to each investment within the Group. An active, bottom-up approach to engagement and voting is an essential way for Polar Capital's fund managers to enact active ownership and perform their duty as stewards of their investors' capital. While we are not activist investors, we

engage with companies where we feel it will have a positive impact on company performance and enhance shareholder value. Polar Capital's fund managers approach engagement in a measured way as long-term investors. Funds frequently meet company management, an integral part of the analytical process that drives investment decisions. This is typically the forum in which our fund managers raise strategic ESG issues such as capital allocation, board make-up, remuneration criteria and specific environmental and social questions. These discussions often help investee companies with required ESG disclosures and will involve executive management as well as, where necessary, key non-execs.

Polar Capital uses Institutional Shareholder Services (ISS) to assist with proxy voting. This highlights all situations where the proxy adviser recommends voting against management, identifies contentious issues and produces research as part of recommendations. Where ISS recommends voting against management, these issues are reviewed by the investment teams and the portfolio managers then decide how they wish to vote. Proxy voting records are summarised [here](#).

Further information on Polar Capital's approach to shareholder engagement can be found in our SRD II Shareholder Engagement Policy [here](#).

***Polar Capital reports stewardship activity in keeping with its obligations under the Financial Reporting Council's Stewardship Code as a Tier 2 signatory.***

### **Exclusions**

All Polar Capital funds adhere to formal exclusions on all companies that are linked to the production and/or marketing of controversial weapons (cluster munitions, antipersonnel mines, depleted uranium etc). Polar Capital also considers EU sanctions, the US OFAC list and UN-sanctioned entities.

### **Sustainable Finance Disclosure Regulation (SFDR)**

The EU's Sustainable Finance Disclosure Regulation came into force on 10 March 2021 and requires Polar Capital to provide information on its approach to sustainability at both investment manager level and at fund level.

#### ***Investment Manager Level Requirements***

Polar Capital is required to explain whether, and if so how, it considers the adverse impacts of its investment decisions on sustainability factors at investment manager level, across all the funds that it manages. At present, Polar Capital does not take into account the adverse impacts of its decisions on sustainability factors but has provided further information on its intent to do so in future [here](#). Information on how Polar Capital takes into account sustainability risks within its remuneration decisions can be found in Polar Capital's Remuneration Code [here](#).

#### ***Product Level Requirements***

For the funds subject to the SFDR, Polar Capital is required to provide information on how sustainability risks are considered in the investment decision-making process in pre-contractual disclosures.

This information is provided in the Risk Factors section of the relevant fund's prospectus supplements, which can be found in the Fund Literature section of each fund's page on the Polar Capital website.

Further, Polar Capital manages the below funds that, under the SFDR, are classified as promoting environmental or social characteristics (Article 8 funds):

- Polar Capital Funds plc – Global Insurance Fund
- Polar Capital Funds plc – Emerging Market Stars Fund
- Polar Capital Funds plc – Asian Stars Fund
- Polar Capital Funds plc – China Stars Fund

Polar Capital provides further information in respect of its Article 8 Funds within Annexes to each Fund's prospectus supplements and on the Polar Capital website.