



Stewardship and ESG

In November 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.

Zandy also chairs Polar's Sustainability Committee charged with identifying key regulatory and legal initiatives in sustainability and ESG. He is also responsible for co-ordinating this activity across the business.

Active management and performance for our investors underpins what we do at Polar Capital. To achieve this, our investment teams benefit from a devolved structure, where each investment strategy has investment autonomy, 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 team.

This level of investment autonomy is central to Polar Capital's approach. Nevertheless, portfolio characteristics (performance, style, macro factor sensitivity, decision-making patterns, liquidity) are observed and monitored centrally by Polar Capital's CIO and risk team. ESG monitoring is an integral part of the 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.

Polar Capital's Emerging Market Stars 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.

Risk assessment

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 as a factor in their assessment of the risks and opportunities facing companies in which they may invest.

Environmental, social and governance factors can affect the manager'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.

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, then an overall asset-weighted score for each portfolio and its benchmark. This analysis is the starting point for discussion in oversight meetings. As is the case with conventional third-party investment research, PMs do not always agree with the third-party ratings, but they can assess what the consensus is saying. Finally, the risk team sends each fund manager the full ESG research on any portfolio holding rated CCC. The appropriate course of action remains the fund manager's prerogative.

Signatory of:



Polar Capital has been a signatory of the UNPRI since 2018.

Stewardship and engagement

Polar Capital's stewardship activities are a key aspect of the wider investment process which is undertaken differently by the diverse range of strategies within the company. 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 fund management teams and the PMs then decide how they wish to vote.

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.