



# BLACKFINCH

INVESTMENTS

## AIM - Environmental, Social and Governance Policy Document

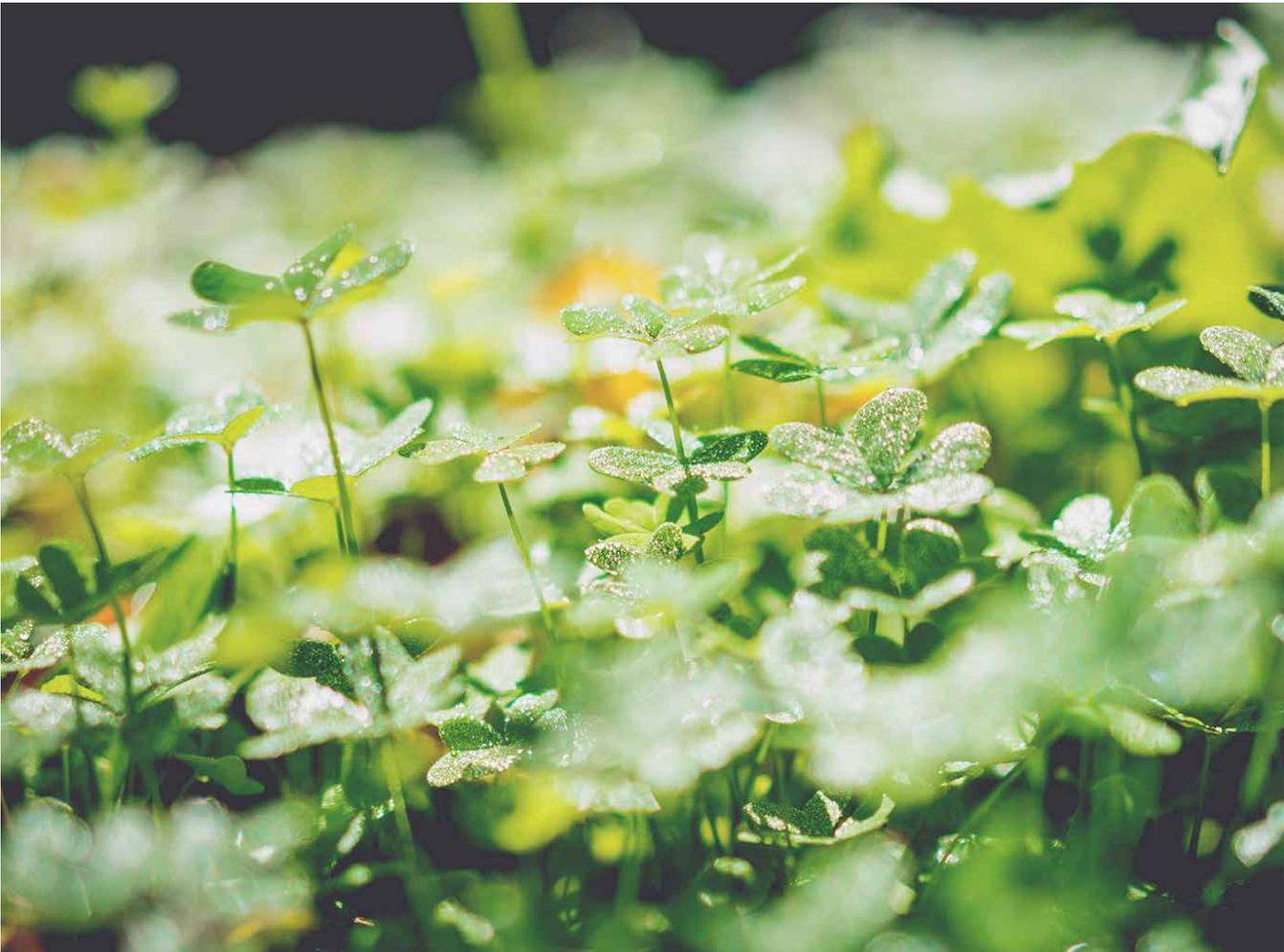
July 2020



Blackfinch mark of  
Environmental, Social,  
and Governance

# Contents

Introduction	3
What is ESG?	4
Our Principles in Assessing ESG	6
Investment Process - Chelverton	8
Investment Process - Blackfinch	9
Third-party ESG Scoring - Rating Platforms and Agencies	11
Portfolio Monitoring	12



# Introduction

As part of Blackfinch Group, the AIM team at Blackfinch Investments works in alignment with the Group-wide ESG policy. Blackfinch Group maintains a focus on ensuring that any impact on the environment is positive; that social responsibility is always considered; and that the Group, in all its dealings, makes governance a priority.

The AIM Investment Management team invests in the AIM market, on behalf of investors in the Adapt AIM Portfolios. An Inheritance Tax (IHT) solution, the portfolios offer a more efficient route to IHT relief. This can be achieved through investing in AIM-listed companies qualifying for Business Relief (BR), which can in turn bring IHT relief.

## Purpose of Policy

As stated in the Group policy, Blackfinch, including our team, operates with a strong awareness of our responsibilities to investors focused on IHT mitigation.

To quote the policy, these investors, "due to their advanced years, could be vulnerable. As clients, they have a focus on risk and governance. There is also a growing concern among them about the impact of their investments on the environment, and around whether they are contributing to the wellbeing of the economy. This intensified following the outbreak of the coronavirus pandemic in 2020.

In this context it is prudent that Blackfinch Group clearly sets out its ESG and sustainability processes and practices so that advisers can properly inform their clients."

# What is ESG?

## What is the official definition of ESG?

Over the last few years, ESG has started being used more to describe how well a business is managed than to explain how sustainable its product or service is. More recently, the mainstream press has been using 'ESG' as a catch-all term for investing with a 'responsible' or 'ethical' screen.

There are no official industry or regulatory standards for comparing these different approaches. However, with ESG now so important, some key definitions for certain factors have been accepted across the industry. We align to these.



# Environmental



Investing with consideration for the environment. This includes working to reduce pollution and climate change, and to source sustainable raw materials using clean energy sources. The focus is on how a firm approaches environmental concerns, the ecological impact of its products and its carbon footprint.

# Social



Investing with consideration for human rights, equality, diversity and data security. The focus is on how companies are incorporating these. It's also about looking to see if each is actively investing/working towards a healthier and higher quality of life for staff and stakeholders. We also consider whether companies expect the same set of standards and values from their suppliers.

# Governance



Investing with consideration for positive employment practices, business ethics and diversity. The focus is on how a company builds its management structure and works with all its different stakeholders. How does it approach investor and employee relations? Does the board work with transparency, honesty and integrity? Does this filter down to the rest of the company?

# Our Principles in Assessing ESG

In managing the Adapt AIM Portfolios, we consider the UN Global Compact Principles in the investment due diligence process. These ten principles cover human rights, labour, the environment, and anti-corruption approaches.

We look to avoid investments that contravene any of the principles. We expect firms that we select for investment to operate in ways that, at a minimum, meet fundamental responsibilities in these areas.

In assessing any potential investment or portfolio company, we consider:

1. The central purpose of the business:  
*this must be worthwhile at least in some small way*

An economic benefit is worthwhile. For example, a B2B company that saves other businesses' money would generally qualify (unless, for example, its customers were predominantly in a high-risk sector and therefore would require further analysis, e.g. gambling).

2. What the business does – and plans to do – in pursuit of that purpose
3. The way the business is conducted, especially for governance
4. The attitude of the board and its commitment to ESG

Our considerations in doing so extend across the following:

- Take a long-term, sustainable perspective
- Think especially of *risks*, not just clear outcomes
- Some businesses may have very significant risks, which will need strong mitigation and governance that can be guaranteed in the long-term. These are high-risk businesses.

- Consider impacts in their own right, but also compared to what they displace. For example, a business may incur some cost in terms of climate change. Such cost should be acknowledged, and eliminated or mitigated as far as reasonably possible. However, is the business displacing activity that will necessarily – or in practice be very likely to – incur a significantly higher climate cost?
- Any negative ESG issue with an investee company must be:
  - Necessary
  - Documented
  - Explicitly judged to be outweighed by other benefits
- Look for benefits and opportunities, not just impacts and risks



# Investment Process Chelverton

Our investment adviser Chelverton undertakes deal sourcing. Chelverton populates the investible universe in four ways, through:

- Existing knowledge of potential companies from their background as small and mid-cap investors
- A market screen using FactSet
- Introduction by sell-side brokers
- New market entrants by way of initial public offerings (IPOs)

Chelverton then conducts deal filtering by reviewing the investible universe for those companies it believes are appropriate for an AIM IHT portfolio. This is driven primarily by a search for companies that are highly cash generative, enabling them to either fund their own growth and/or pay a growing dividend.

In order to support deal filtering and ongoing monitoring of investments, Chelverton has a dedicated role within its team. The person in the role is responsible for monitoring the corporate governance position and reviewing ESG statements and compliance of investee companies.

Every company Chelverton invests in is considered for ESG. Its research is focused on what the company is trying to do regarding ESG factors and how they measure themselves. Companies that aren't environmentally and socially responsible, with good governance practices, will not survive and prosper, and therefore make poor investments.

# Investment Process

## Blackfinch

Once Chelverton has made a stock recommendation to Blackfinch, the stock passes through further due diligence before being admitted to the corresponding model portfolio(s).

1. The AIM Investment team conducts an initial review of new stocks.

This involves several stages:

- a. Assessment of the company's financial statements, to identify any potential risks to BR qualification. There is a focus on the source of earnings and the balance sheet; in particular, any cash, investments, cash-like items or similar.
- b. Qualitative assessment of the overall company and the robustness of its business model, taking note of the company's strengths, weaknesses, opportunities and threats (SWOT); threats of new entrants or substitutes; bargaining power of customers and suppliers; competitive rivalry; barriers to entry and management track record.
- c. Assessment of the company's intrinsic value via a number of standard valuation methods. We use a combination of our own internal valuation models and independently developed third-party valuation models.
- d. Quantitative analysis of fundamental and technical factors, including various quality, value and momentum indicators (with the stronger focus being on fundamentals, such as quality and value indicators). We complete this analysis with the intention of both forming a view on the company's future prospects and identifying any underlying risks or issues.
- e. Consideration of ESG factors and the Ten Principles of the UN Global Compact that would have an impact on a portfolio mandate and its growth or income properties.
- f. Assessment of the suitability of the company for the corresponding portfolio model.

As part of due diligence for part 1. e. above we also:

1. Make a more detailed assessment of ESG in the business
  - Consider what the business does and plans to do, and the way it conducts itself
  - Along with benefits and opportunities, ensure that negative impacts and risks are noted. Include risks around legal and regulatory compliance, business continuity, and reputational damage.
  - Highlight any areas of concern – those that might not conform to the UN Global Compact Principles – for further investigation
2. Assess key suppliers for ESG, such as suppliers' codes of conduct and the potential for high-risk sectors
3. Investigate in detail any areas of material concern
4. Document the results and an overall evaluation. Summarise the findings in part 1. e. in a paper for our Investment Committee and ensure that relevant risks are listed in the SWOT table.
5. If the business is high risk, obtain evidence to support the inclusion of the stock in the Adapt AIM Portfolios

If the prospective stock shows risks, it will be rejected. This is in relation to consideration of ESG factors as outlined in the due diligence section in part 1. e.. It is also if we deem those risks to have an impact on the mandate of the Adapt AIM Portfolios.

# Independent Data Provider

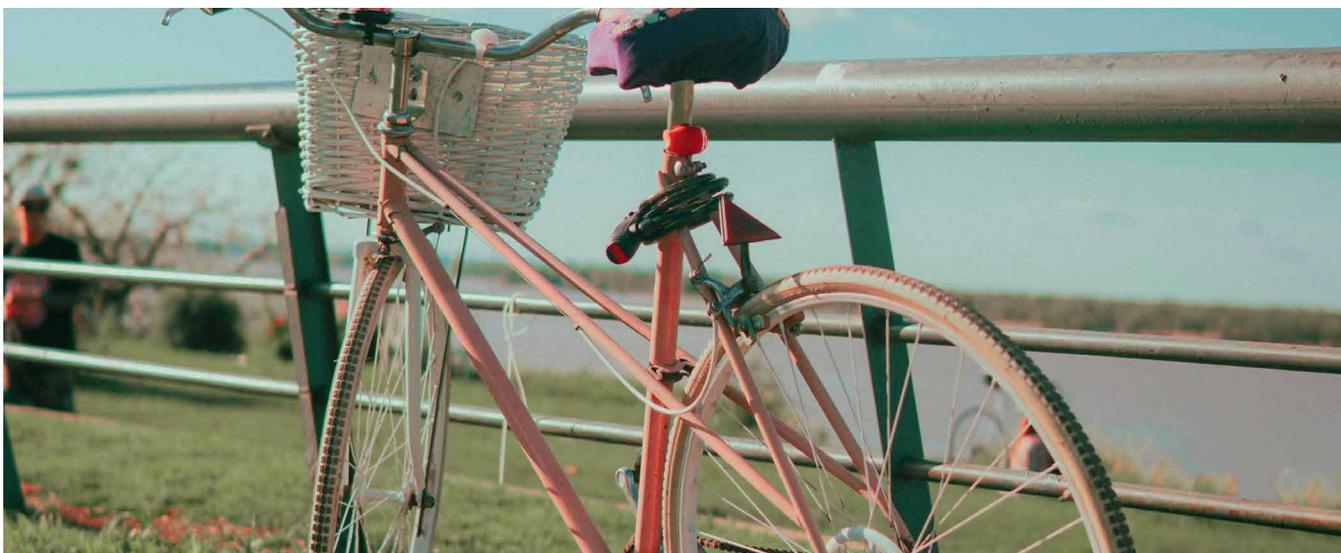
To enhance our process we also use RepRisk, a leader in ESG data science, which provides us with external ESG data and research. We use this to assess ESG factors from independent sources, including showing a ten year history of our holdings and any potential violations of the UN Global Compact Principles.

Any external rating service acts to support the due diligence performed throughout the investment process by Blackfinch and Chelverton. However, we will not rely on this as the primary factor in making an investment decision.

## Review by Investment Committee

Finally, we submit the prospective stock to our Investment Committee for approval. This is along with all findings arising from working within the due diligence framework above.

The committee includes senior management at Blackfinch. It is responsible for the final decisions on all underlying investment opportunities that are considered for the Adapt AIM Portfolios. Once these are made, this enables us to complete the construction of a client's investment portfolio.



# Portfolio Monitoring

Once invested, we work together with Chelverton, monitoring all investee companies daily for company news, industry developments and changes in BR status. We continually analyse ESG factors as part of ongoing monitoring. We give consideration to any changes or developments in risks relating to ESG. The following would prompt an immediate review which could lead to the disposal of an investment:

- A negative trading statement from the company
- Changes to company policy that would increase risk relating to ESG factors
- An acquisition of a business that would be considered high risk
- Any change in management commentary that reflects a lack of concern over ESG matters
- Any sectoral change such as a government regulatory move which would negatively impact a company

Chelverton will also typically meet the management teams of the investee companies at least once, but ordinarily twice a year, or on an ad hoc basis. This may be to discuss profit warnings or company results. ESG factors can be discussed and Chelverton shares any relevant findings with us.



### **Deal sourcing conducted by Chelverton**

Existing knowledge of potential companies from their background as small- and mid-cap investors; a market screen using FactSet; introduction by sell-side brokers; new market entrants by way of IPO.

### **Deal filtering conducted by Chelverton**

This is driven primarily by a search for companies that are highly cash generative, enabling them to either fund their own growth and/or pay a growing dividend.

### **Investment considered by Chelverton for ESG**

Supported by a dedicated role, with the person responsible for monitoring corporate governance and reviewing ESG statements and compliance.

### **Quantitative and qualitative assessment by Blackfinch**

Consideration of ESG factors and the Ten Principles of the UN Global Compact that would have an impact on the portfolio mandate and its growth or income properties.

**Third-party ESG scoring** Each prospective stock is analysed by an independent source to identify investments that score particularly well on ESG factors.

### **Review by Blackfinch's Investment Committee**

The AIM Investment Management team submits its findings to the Investment Committee for approval.

**Investment added to the model portfolio(s), with ongoing monitoring commencing**



Important Information: Capital at Risk. Blackfinch Investments Limited is authorised and regulated by the Financial Conduct Authority. Registered address: 1350-1360 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH. Registered Company in England & Wales under No. 11639647.