Insight INVESTMENT

JUNE 2021

A RESPONSIBLE APPROACH TO MULTI-ASSET INVESTMENT

AT INSIGHT, WE BELIEVE THAT STRONG GOVERNANCE PRACTICES AND THE MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS ARE IMPORTANT DRIVERS OF INVESTMENT VALUE. THIS SHOULD NOT BE A NICHE APPROACH, RELEVANT TO ONLY CERTAIN INVESTORS OR JUST AN ELEMENT OF OUR STRATEGY – WE BELIEVE THE RIGHT WAY TO INVEST FOR THE LONG TERM IS TO INVEST RESPONSIBLY.

IN MULTI-ASSET, WE SEEK TO EMBED A RESPONSIBLE APPROACH INTO EVERYTHING WE DO

Insight was a founding signatory to the United Nations Principles for Responsible Investment[1] (PRI) in 2006, and in 2020[2], Insight was awarded an A+ PRI rating for firm strategy and governance. The PRI has six aspirational principles for the incorporation of environmental, social and governance (ESG) issues into investment decisions. We outline these principles in Figure 1 to demonstrate how we seek to integrate responsible investment into the multi-asset investment process in a way that is attuned to our approach, and the instruments that we utilise.

Figure 1: Demonstrating our approach using the PRI

Principle 1 – We will incorporate ESG issues into investment analysis and decision-making processes
- Actively seek ESG screened instruments for market exposures which we believe can deliver superior returns
- Evaluate ESG issues when assessing direct investments
- Investments in Insight pooled funds have embedded ESG considerations

Principle 2 – We will be active owners and incorporate ESG issues into our ownership policies and practices
- Actively engage with all direct holdings, pursuing a responsible investment agenda
- Vote on all direct holdings

Principle 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest
- Proprietary ESG questionnaire developed for direct holdings (infrastructure investments)
- Identifies potential areas for engagement
- Feeds through to Insight's ESG ratings reflected in our transparency reporting

Principle 4 – We will promote acceptance and implementation of the Principles within the investment industry
- Actively support development of ESG screened index derivative instruments through early adoption, thereby encouraging broader take-up across the industry. Active engagement with providers on issues such as exclusion criteria
- Engagement with direct holdings pursuing a responsible investment agenda benefits all holders and encourages best practice

Principle 5 – We will work together to enhance our effectiveness in implementing the Principles
- Leverage Insight's full range of responsible investment analysis and resources
- Engage with other areas of the business such as design of responsible investment questionnaires within research processes and determining / overseeing Insight's voting policy

Principle 6 – We will each report on our activities and progress towards implementing the Principles
- Provide transparent reporting of portfolios using Insight's proprietary ESG ratings of underlying exposures, as well as climate change factors
- Reports on voting and engagement can be provided

[1] https://www.unpri.org/

[2] As at 31 December 2020.

IMPLEMENTING A RESPONSIBLE APPROACH ACROSS A BROAD OPPORTUNITY SET

Our multi-asset strategy seeks to generate long-term capital growth through dynamic asset allocation across a broad range of risk premia. We seek to build portfolios in the most efficient way possible, with responsible investment and stewardship integrated across all asset classes within our investment process. Our strategy utilises derivatives, market index-based securities, direct holdings including listed closed-end investment companies, and pooled funds to gain the desired exposure to each of the underlying asset classes. By incorporating a responsible approach into each of the asset classes in which we invest, it allows us to shift allocations within our framework without compromising our responsible investment goals.

1. Market-based instruments / derivatives

We extensively use index-based instruments in the strategy and have worked with both counterparties and exchanges to encourage the development of derivatives for ESG-screened indices such as the S&P 500 ESG Index, incorporating them into our strategy as they became available. In our view, ESG screened investments can deliver superior returns, as ESG factors are important drivers of investment value and can lead to improved risk exposures. Our strategy's market based ESG exposures typically allocate capital towards constituents with better ESG ratings and limit exposures to tobacco, controversial weapons, thermal coal and companies not in compliance with the UN Global Compact.

We also incorporate the ESG risks of derivative counterparties within our Counterparty Credit Committee meetings, engaging with them on areas of concern.

Engagement in action – an example:

We worked with our counterparties to be an early adopter of the S&P 500 ESG Index which excludes tobacco, controversial weapons, and companies not in compliance with the UN Global Compact (UNGC). In addition, companies with S&P ESG scores in the lowest 25% of companies globally, within their Global Industry Classification Standard (GICS) industry groups, are also excluded.

We have continued to foster development of ESG criteria in the underlying index. In 2020, we participated in a consultation which contributed to the exclusion of companies that derive more than 5% revenue from thermal coal from the index.

2. Pooled funds

For certain components of the strategy, such as elements of fixed income, we gain exposures using Insight-managed pooled vehicles. The pooled vehicles will have distinct investment objectives which may not have a specific ESG objective but ESG considerations are a key component in Insight's corporate and sovereign debt research processes, with our portfolio managers utilising our proprietary ESG ratings – Insight Prime[3].

PRIME®
Powered by Insight Investment

Prime corporate ESG ratings are based on separate environmental, social and governance ratings, which in turn rest on 33 separate scores for a wide range of key ESG issues. The ratings are generated using inputs from numerous ESG data providers, adjusted for quality and relevance by Insight's credit and data experts, who also weight them according to their significance for different sectors. Prime corporate ESG ratings were created to generate ESG ratings that we believe more accurately and reliably reflect the risks that corporates face.

Prime sovereign ESG risk ratings facilitate in-depth analysis of ESG factors for sovereign debt, focusing on ESG factors that have relevance to debt repayment, to aid investment decision-making. The extent to which a portfolio meets a specific ESG target or classification is dependent on individual portfolio objectives.

Our key tool, the 'landmine checklist', aims to highlight key risks for all our credit analysts and portfolio managers, to include climate risk as a discrete risk alongside ESG and other credit-material factors (see Figure 2). Risks that are deemed key will vary by issuer and portfolio.

[3] https://www.insightinvestment.com/investing-responsibly/insight-prime/

Figure 2: Insight's landmine checklist of material default risks for credit issuers

Liquidity	Assuming no access to capital markets in the next 24 months, what is the impact on the issuer's liquidity?
Regulatory risk	To what extent is the issuer's industry subject to regulation and changes in regulation?
Environmental, social, governance (ESG)	Is the issuer properly managing environmental, social and governance risks?
Climate risk	What is the issuer's exposure to transitional or physical climate risk?
Leveraged buyout (LBO) risk	Is the business likely to be subject to an approach from or a bid by private equity?
Event risk	Does the management have an appetite for debt financed M&A? Is the company's share price underperforming?

Each factor scored 1 (good) to 5 (bad)

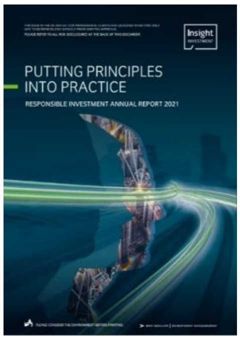
3. Direct holdings

As part of our real asset exposure, the strategy accesses cash-generative investments via listed closed-end investment companies. In partnership with Insight's Responsible Investment Team, we have introduced proprietary ESG scores for all infrastructure holdings, assisted by our proprietary questionnaire for companies we invest in, designed to fill in any information gaps on ESG related issues. We then maintain regular engagement with investee management and company boards regarding governance, and broader social and environmental related issues. For transparency, our voting record and engagement activity is summarised in Insight's Annual Responsible Investment Report.

With most major economies shifting towards a cleaner, more secure and sustainable energy mix, the number of investment opportunities is increasing, and we believe that these projects are attractive both from an investment and environmental perspective. Investments in energy related infrastructure including mature renewable energy technologies such as wind, solar, hydropower and anaerobic digestion form a core element of our infrastructure holdings.

REGULAR COMMUNICATION KEEPS OUR CLIENTS INFORMED

We are committed to providing transparency on how we take ESG factors into account, with regular communication to keep our clients updated on our activity and the outcomes achieved.



- Monthly: As part of our regular client reporting we provide an update on our ESG related activity on a monthly basis
- Semi-annual: We provide a semi-annual report to publish the ESG scores resulting from the strategy's direct and indirect exposures, including information on the strategy's carbon intensity scores
- Annual: Insight publishes its annual responsible investment report which provides a comprehensive overview of Insight's ESG related activity as a firm, and includes a dedicated section for the multi-asset strategy

IMPORTANT INFORMATION

RISK DISCLOSURES

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.

ASSOCIATED INVESTMENT RISKS

Multi-asset

- Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.
- Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.
- The investment manager may invest in instruments which can be difficult to sell when markets are stressed.
- Property assets are inherently less liquid and more difficult to sell than other assets. The valuation of physical property is a matter of the valuer's judgement rather than fact.
- While efforts will be made to eliminate potential inequalities between shareholders in a pooled fund through the performance fee calculation methodology, there may be occasions where a shareholder may pay a performance fee for which they have not received a commensurate benefit.

FIND OUT MORE

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