INTRODUCTION

The EU’s Sustainable Finance Disclosure Regulation (‘SFDR’) requires Insight to make a “comply or explain” decision as to whether to consider the PAIs of its investment decisions on sustainability factors. Insight has decided to comply. Our PAI Statement summarises our investment due diligence policies in respect of the PAIs of Insight’s investment decisions on sustainability factors.

Insight approaches PAIs from the perspective of the harm that its investment decisions may have on external sustainability factors, and what steps may be taken to mitigate the harm.

Sustainability factors include but are not limited to environmental, social and employee matters, respect for human rights, and anti-corruption and anti-bribery matters.

As a founding signatory to the UN’s Principles for Responsible Investing (‘PRI’) in 2006, our investment philosophy puts responsible investment and stewardship principles at the heart of the investment decision-making process. We follow a responsible investment approach for all applicable mandates, regardless of whether they include specific environmental, social and governance (‘ESG’) exclusions, constraints or targets. This is because we believe that delivering superior investment solutions depends on the effective management of the risks and opportunities presented by both financial and non-financial factors.

The focus throughout our investment process is on understanding the materiality of risks across different time horizons and balancing those risks with return expectations alongside the investment preferences of our clients. We consider materiality in three distinct ways, which are influenced by our clients’ specific requirements:

- **Conventional materiality:** Assessing sustainability issues to determine their financial investment performance impact
- **Active materiality:** Assessing sustainability issues which may not currently impact investment performance but are likely to do so in the future
- **Double materiality:** Assessing both financial and sustainability issues together to determine investments that benefit financial and non-financial outcomes

PAIs are more likely to influence our investment decisions in respect of corporate issuers. We believe corporate entities that manage their adverse sustainability-related impacts will make for superior investments over the long term. Particularly for fixed income, bond characteristics, mandate type and investor preferences all influence what materiality focus is appropriate for a specific investment strategy.

Similarly, systemic risks like climate change are broad and expected to have a fundamental impact requiring conventional, active and double materiality assessments. This creates a high degree of overlap when Insight considers the relevant materiality matrix of ESG factors and their application to a specific portfolio.

IDENTIFICATION AND PRIORITISATION OF PAIs

Our approach to identifying and prioritising the PAIs of investment decisions on sustainability factors is underpinned by the belief that ESG issues can be important drivers of investment value. As a result, we consider PAIs of our corporate-related investment decisions on sustainability factors as an integrated part of our investment framework for all relevant mandates.

PAI identification and prioritisation starts with the information produced by our in-house, proprietary ESG ratings, known as Prime. These ratings draw on extensive datasets from multiple providers which are then screened, cleaned and, with input from the investment team, developed into a data architecture which is integrated into our research and portfolio management systems. This is then supplemented by any additional qualitative inputs from our analysts and portfolio managers as appropriate.

**Prime corporate ESG ratings**

To assist with corporate sustainability research assessments, we developed our proprietary risk-centric Prime corporate ESG ratings (Figure 1). This framework effectively integrates...
credit analysts’ view on material ESG issues, and supplemented with data from multiple third-party data providers, generates an ESG rating and momentum signal for corporate entities.

We believe the corporate sustainability risk methodology captures broad PAIs on sustainability factors. Each sustainability factor is independently weighted by relevance to the industry to provide a materiality-focused output.

Prime climate risk ratings
We use a standalone Prime climate risk rating for corporates, which is aligned with the Task Force on Climate-related Financial Disclosure (TCFD). The ratings (Figure 2) are designed to provide a comprehensive measure for how corporate issuers manage their climate change-related risks and opportunities, and how they are positioning themselves for the transition to a low-carbon economy. The ratings have been designed to reflect principal risks and opportunities related to climate change and specifically addresses areas such as emissions, targets, leadership and value chain.

CONSIDERATION OF PAIs BY ASSET CLASS
As an investor in many entities where sustainability information is not widely available, separate investment processes have been designed for individual asset classes. We believe a one-size-fits-all approach to sustainability is unhelpful and not in the interests of clients; a simplified focus towards a subset of metrics may not capture the sustainability factors Insight considers appropriate.

Corporate fixed income
Credit analysts seek to ascertain the financial materiality of sustainability risks. Using the Prime corporate data architecture, analysts will aim to identify and understand the key ESG risks faced by a bond issuer to determine if management is properly managing these risks, and to what extent they could be financially relevant.

Overall ESG and pillar E, S, G ratings are used in our proprietary Landmine Checklist system which is integrated into all credit notes. The Landmine Checklist is designed to highlight risks that could endanger the credit worthiness of an entity. Where a PAI is identified as having a high level of materiality, it should flag on this Checklist as a priority for investigation. In 2021, we added the Prime climate risk rating output alongside the Prime corporate ESG ratings. Where material issues are raised, we have an engagement programme with companies to actively discuss sustainability issues.

Sovereign fixed income
We have also developed the Prime sovereign ESG risk and impact ratings. The former focus on ESG factors that our sovereign team consider relevant, with the latter focusing on their contribution to the UN Sustainable Development Goals. There is a degree of overlap between the two measures and both have a role in identifying and managing PAIs in sovereign portfolios, depending on portfolio requirements.
Secured finance

In many cases there is little publicly available information to analyse potential negative impacts of secured finance investments. Our approach is to focus on ESG factors as part of the analysis undertaken on originators. The process is driven by a proprietary questionnaire which focuses on elements such as environmental targets and appropriate labour practices, where applicable. This means that we perform detailed due diligence on the originators both prior to making an investment, as well as on an ongoing basis. We can currently only identify the potential PAIs of originators and not the special purpose vehicles where portfolio risk may occur.

Liability-driven investment (LDI)

PAIs are less directly relevant to managing liability risks. We often use derivatives to obtain investment exposure without a substantial commitment of initial capital. Much of the underlying physical investment is in sovereign instruments so will focus on the sovereign process outlined above.

Where PAIs are more routinely considered will be through counterparty risk analysis, which is required to make bilateral over-the-counter agreements. PAIs, particularly related to corruption, have the potential to severely damage banks both reputationally and in terms of their liquidity and credit worthiness. To manage these risks, not only are positions collateralised daily, counterparties themselves are subject to a rigorous selection and monitoring process. As part of this process, credit analysts assess all underlying material risks, which include an analysis of ESG factors, in order to determine the worthiness of counterparties.

ADDRESSING PAIs IN PORTFOLIOS

We believe effective stewardship can support investment portfolios by reducing investment risk and mitigating financial uncertainty. Insight therefore engages as bondholders, counterparties, shareholders and financial participants. Where PAIs are identified, we seek to understand, influence and monitor the actions of the underlying entities to mitigate the PAIs on sustainability factors and potential risks or uncertainties.

Since engagement with some issuers can be difficult, we believe that it is important to engage where possible via collaborative initiatives to seek the best outcomes for our clients. For example, participating in climate-change related collaborative engagements as an active member of the Climate Action 100+ initiative, and collaborating on systemic sustainability-related issues focusing on fixed income.

Stewardship activity is tracked on internal systems and every engagement is captured within a template. Activities are categorised by theme and allocated a satisfactory score as follows:

- **Satisfied**: Issuer provided a reasonable response to questions and no further concerns identified
- **Monitor**: Issuer provided reasonable responses but ongoing monitoring will be required
- **Follow-up**: Issuer provided some reasonable responses to questions, but outstanding questions remain and additional engagement with the issuer is required
- **Escalated**: Non-satisfactory responses and immediate evaluation of issues required internally or with the company.

If after a period of dialogue, the PAIs identified during the research process are not being sufficiently managed, we may choose to divest from these entities. Decisions on selling or avoiding bonds are frequently discussed, including in quarterly ESG corporate and sovereign meetings that monitor sustainability-related decisions. There is also the potential for ad-hoc investment decisions to take more urgent action. For certain custom and sustainability mandates, a different application of PAI information may be required to align with the objectives of client mandates.

Multi-asset

Insight’s flagship multi-asset capability, the broad opportunities strategy, makes extensive use of index instruments and derivatives to gain market exposures. ESG risk factors are an important consideration when making investment decisions.

We assess the suitability of ESG indices, both for exchange traded funds (ETFs) and futures markets, subject to liquidity and cost considerations. Where the strategy invests in Insight-managed pooled funds to access certain fixed income exposures, ESG is a fundamental part of the research process. Where the team invest directly into securities, ESG is considered, and this is most obvious in the investment in infrastructure securities. Here, we pro-actively seek investment opportunities that contribute towards the UN Sustainable Development Goals, raise sustainability issues and actively encourage management to improve practices, and exercise stewardship responsibilities by actively voting on shareholdings.

Equities

Equities are typically more likely to have derivative exposure to issuers making the counterparty risk management process described above relevant for this asset class. Where single name and physical equities are held, we deploy the Prime corporate ESG ratings to identify and avoid companies with negative PAI profiles. In general, lower physical equity holdings reduces our ability to influence companies through voting, but where practical to do so, we will use our voting rights. We follow the Insight Voting Policy to ensure a consistent firm-wide process and transparency. The policy is available on our website.
While we support the aims of the draft RTS, it is recognised that firms will not currently be able to report against all of the applicable PAI indicators (Figure 3) for all companies or all client portfolios, meaning coverage levels will be inconsistent. Challenges include:

- Exposure to private companies and securitised instruments where there is no suitable data and/or the metrics available. We believe that this is unlikely to change in the near future.
- Methodological challenges for fixed income, such as distinguishing between bond issues and bond issuers, will mean that a fair and comparable appraisal of the PAI indicators set out in the draft RTS is not currently possible.

Insight will report against all of the applicable PAI indicators, where reliable information can be sourced, using our best efforts. For example, we will seek to address some data gaps through proprietary surveys with issuing entities.

We encourage issuers to improve their disclosure around PAI metrics and anticipate better coverage over time as sustainability standardisation and information transparency emerges.

We will commence reporting at a product level in 2022 and at an entity level in 2023.

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### Figure 3: EU’s Draft SFDR RTS (February 2021) PAI Indicators

<table>
<thead>
<tr>
<th>Theme</th>
<th>Indicator</th>
<th>Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse gas (GHG) emissions</td>
<td>1. GHG emissions</td>
<td>Scope 1 – GHG emissions, Scope 2 – GHG emissions, Scope 3 – GHG emissions (1/1/23) Total GHG emissions</td>
</tr>
<tr>
<td></td>
<td>2. Carbon footprint</td>
<td>Carbon footprint</td>
</tr>
<tr>
<td></td>
<td>3. GHG intensity of investee companies</td>
<td>GHG intensity of investee companies</td>
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<tr>
<td></td>
<td>4. Exposure to companies active in the fossil fuel sector</td>
<td>Share of investments in companies active in the fossil fuel sector</td>
</tr>
<tr>
<td></td>
<td>5. Share of non-renewable energy consumption and production</td>
<td>Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage</td>
</tr>
<tr>
<td></td>
<td>6. Energy consumption intensity per high impact climate sector</td>
<td>Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector</td>
</tr>
<tr>
<td>Biodiversity</td>
<td>7. Activities negatively affecting biodiversity-sensitive areas</td>
<td>Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas</td>
</tr>
<tr>
<td>Water</td>
<td>8. Emissions to water</td>
<td>Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average</td>
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<tr>
<td>Waste</td>
<td>9. Hazardous waste ratio</td>
<td>Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average</td>
</tr>
<tr>
<td>Social and employee matters</td>
<td>10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises</td>
<td>Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises</td>
</tr>
<tr>
<td></td>
<td>11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</td>
<td>Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievances/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises</td>
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<tr>
<td></td>
<td>12. Unadjusted gender pay gap</td>
<td>Average unadjusted gender pay gap of investee companies</td>
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<tr>
<td></td>
<td>13. Board gender diversity</td>
<td>Average ratio of female to male board members in investee companies</td>
</tr>
<tr>
<td></td>
<td>14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)</td>
<td>Share of investments in investee companies involved in the manufacture or selling of controversial weapons</td>
</tr>
<tr>
<td>Environmental</td>
<td>15. GHG intensity</td>
<td>GHG intensity of investee countries</td>
</tr>
<tr>
<td>Social</td>
<td>16. Investee countries subject to social violations</td>
<td>Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law</td>
</tr>
<tr>
<td>Fossil fuels</td>
<td>17. Exposure to fossil fuels through real estate assets</td>
<td>Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>18. Exposure to energy-inefficient real estate assets</td>
<td>Share of investments in energy inefficient real estate assets</td>
</tr>
</tbody>
</table>

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SHAREHOLDER ENGAGEMENT POLICY

We have implemented a Shareholder Engagement Policy which aligns to Article 3g of the Shareholder Rights Directive (‘SRD II’). The Policy sets out how we integrate shareholder engagement into our investment strategy. This includes how we:

1. Monitor investee companies on relevant matters (including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance)
2. Conduct dialogue with investee companies
3. Exercise voting rights and other rights attached to shares
4. Cooperate with other investors
5. Communicate with relevant stakeholders of the investee companies
6. Manage actual and potential conflicts of interests in relation to our engagement.

The policy is available on our website within our Stewardship Report.

RESPONSIBLE BUSINESS CODES AND INTERNATIONAL STANDARDS

We align to responsible business codes and internationally recognised standards for due diligence and reporting, including:

- TCFD
- Principles for Responsible Investment

We have taken steps to align investment processes to the objectives of the Paris Agreement and formally signed up to the Net Zero Asset Managers initiative in 2021.

More information on these codes and standards are available on our website.