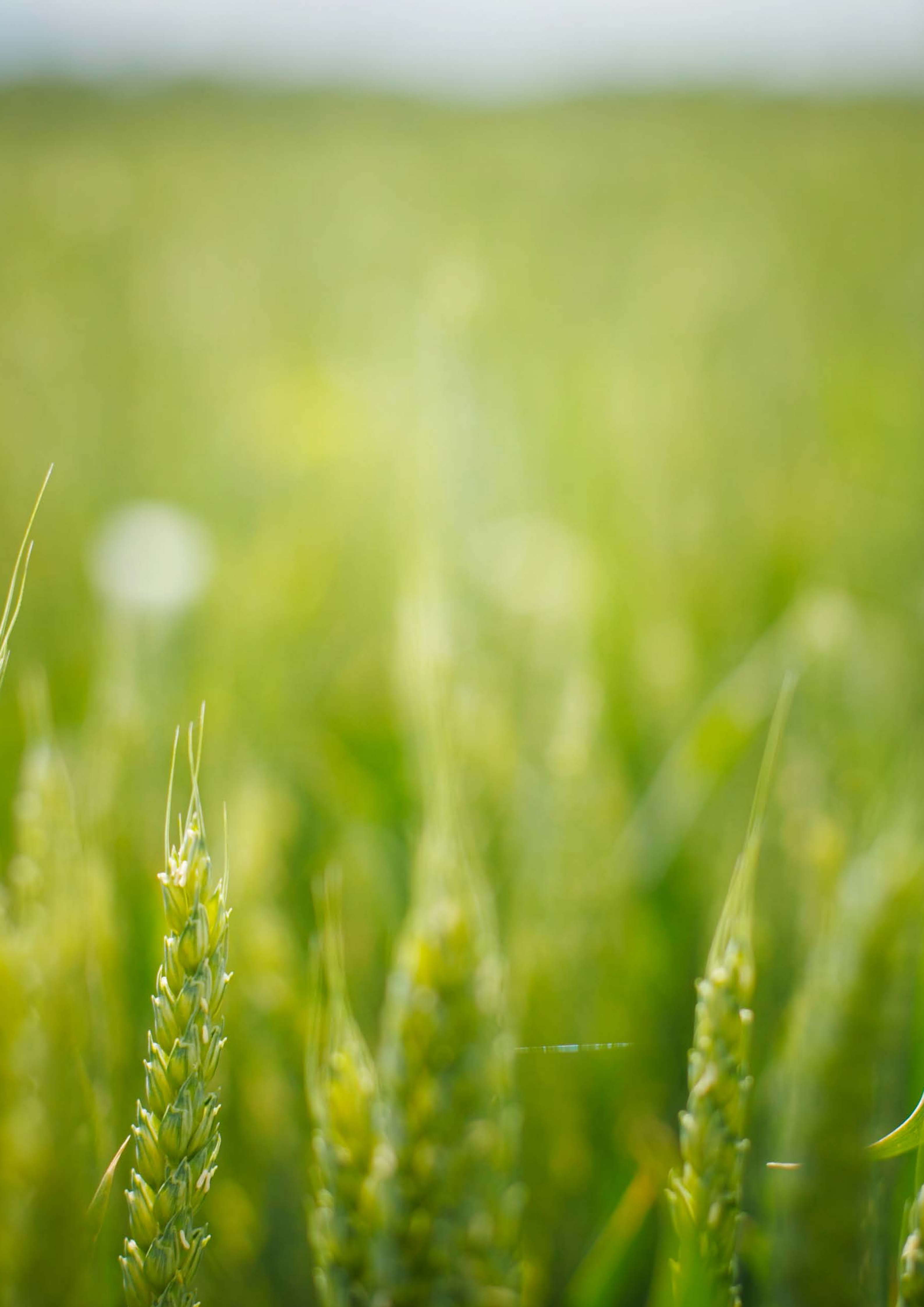
OUR APPROACH TO ESG INTEGRATION

A CLEARER VIEW OF INVESTMENT RISK AND OPPORTUNITY

RAYMOND JAMES



What is ESG?

ESG stands for Environmental, Social and Governance. These are three groups of factors that can influence how a company is impacted, how it's managed, and how it performs over time.

ESG factors were once described as non-financial. But today, as the world has changed, many of them can have a direct impact on a company's costs and profitability.

Different companies face different ESG risks and opportunities. That's why our focus is on materiality: looking for the issues that are most likely to affect a company's financial performance.

ENVIRONMENTAL

Environmental factors are all about how a company coexists with the natural world. Some examples include:

- Climate exposure
- Pollution, waste and emissions
- Raw material sourcing
- Biodiversity
- Water use and availability
- Energy use and efficiency

SOCIAL

Social factors bear upon how a company treats and affects people.
These may include employees, customers, suppliers and wider communities.
Some examples include:

- Human rights
- Workers' conditions and rights
- Corporate citizenship
- Community outreach
- Consumer protection

GOVERNANCE

Governance factors have to do with how a company is run, how decisions are made, and how it's kept accountable. Some examples include:

- Business ethics
- Equality and diversity
- Executive pay
- Board structure and independence
- Shareholder rights

Investment decisions are influenced by more than financial data alone.

Factors such as environmental risks, workforce management and corporate governance can all affect a company's long-term prospects. Considering these alongside traditional financial analysis can help investors gain a more complete picture of potential risks and opportunities.

What is ESG integration?

ESG integration means building environmental, social and governance factors into the investment research process.

Analysts and investment managers look at environmental, social and governance metrics to understand whether any of them could have a meaningful impact on a business. For example, they might notice that a company uses a large amount of water in its production process. On its own, that may not be a concern, but if the company operates in an area that is prone to drought, it becomes a much more important consideration. Analysts will then look more closely at things like water usage, availability and recycling practices to help them assess the risk and make informed investment decisions.

But ESG integration does not mean treating every ESG issue as equally important. The water-intensive business may need to manage water availability carefully, but a tech company may face more material risks around data security, governance, and regulation. The aim is to understand which issues matter most to each business, and whether those issues are being managed well.

Integration of ESG into the investment research process means we can spot companies that are managing their ESG risks well and capitalising on ESG opportunities. This helps us build a fuller understanding of the risks and opportunities associated with an investment.

ESG integration is not the same as sustainable investing

Importantly, a company can manage its ESG risks well without necessarily being a “sustainable” company.

We would refer to a "sustainable" company as one that exists specifically to drive positive outcomes for people or our planet. A company with a good "ESG score", so to speak, could be any type of business (even something like a timber mill), so long as it manages its ESG risks and opportunities well.

Equally, a company linked to a sustainable theme may not manage its own ESG risks effectively. ESG integration is first and foremost a research and risk-assessment process to help us better understand risk, resilience and business quality. It doesn't, on its own, apply a sustainability label to a company or portfolio.

ESG integration in practice

We believe that ESG integration enhances our bespoke investment approach, allowing us to accommodate both differing approaches and varying degrees of interest.

We don't consider ESG factors to be an investment objective in their own right, but determining the potential risks and returns of investments remains our principal focus.

MATERIALITY

Different companies face different issues. Our research starts by pinpointing the ESG factors most relevant to a company's business model, industry and operating environment. Then, followed by which are most likely to have the largest impact. We can dig deeper into these issues, whether positive or negative, rather than applying the same checklist to every company.

STRUCTURED ASSESSMENTS

For all new equity ideas under coverage, ESG integration forms part of the early due diligence process. Our primary analysts complete the materiality-based ESG assessment first, which goes on to be reviewed by a responsible investment specialist. This pairs our analysts' case-specific work with the reassurance of a strong, well-repeated process.

DATA AND JUDGEMENT

ESG data from providers like MSCI can help inform our views, but it doesn't replace our own investment judgement. Depending on the company, our analysis may benefit from information on emissions, carbon intensity, climate targets, labour standards, pay fairness, workforce data, and much more. We use this information alongside traditional financial analysis to better understand ESG risks and opportunities.

INVESTIGATION

Sometimes ESG-integrated analysis on a company reveals that the most important details are hidden or unknown.

Our process can highlight gaps in company disclosure or areas where analysts need more information. And these may become questions for future engagement with the company, as part of our stewardship efforts.

Personal preferences and assessing funds

Bespoke responsible investment preferences

Whatever is important to you, we want make sure it's reflected in the way your finances are managed.

If you have specific responsible investment preferences, your investment manager can discuss these with you. ESG integration can prompt broader responsible investing conversations, which often branch out to other pillars of our responsible investing approach at Raymond James, which includes negative screening, stewardship and sustainable investing.

How we assess funds and collectives

We've talked a lot about ESG analysis on individual companies, but you may be wondering how we assess funds belonging to investment managers outside Raymond James.

For external funds and collectives, our research analysts assess the fund manager’s own process, credentials and due diligence. This includes looking at how the manager considers ESG factors and how deeply those considerations are applied within their investment process.

When we present funds and collectives to you, our assessment should be clear.

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The value of your investments, and any income derived from them, can fall as well as rise and investors may not get back the original amount invested. Past performance is not a reliable guide to the future.