

# **Redhedge Environmental, Social and Governance (ESG) and Sustainable Investing Policy Statement 2023**

## **Introduction**

Redhedge Asset Management LLP ("Redhedge") is committed to responsible, ethical investing. This Environmental, Social and Governance (ESG) and Sustainable Investing Policy Statement is intended to articulate how Redhedge incorporates material ESG factors, including sustainability risk assessment, into its investment decision-making process, and asset monitoring and review.

This Fund seeks to achieve medium to long-term (five to seven years) capital growth and absolute returns by adopting a multi-strategy approach to investing. The Fund's investment policy aims to maximise total return, comprised of income and capital appreciation while limiting risk and volatility. The fund primarily invests in European Credit Relative Value strategies.

## **Article 8 Status and Sustainability Approach**

The Redhedge Relative Value Corporate Bonds fund promotes environmental, social and good governance characteristics and is classified as an Article 8 fund in accordance with the Sustainable Finance Disclosure Regulation ("SFDR").

Redhedge's funds are compliant with the United Nations' Global Compact.

Redhedge's fund offerings do not have a sustainable investment objective, nor do they utilise a benchmark.

## **ESG and Investment Decision-Making**

Redhedge is a specialist relative value credit investment manager. In managing its investments, Redhedge seeks to promote general environmental, social and good governance characteristics.

Redhedge does this by assessing, determining, and subsequently investing in, issuers with products and activities that are environmentally and socially positive and have good governance practices and by distinguishing, and avoiding, investing in issuers which, in the nature or operation of their business activities, cause social or environmental harm or have poor governance practices.

Redhedge utilises a range of external and internal information sources and tools including a comprehensive internal ESG framework that integrates ESG characteristics, and comparative assessment, into the investment and valuation process. Investments are given separate environmental, social and governance scores to allow us to assess them from an ESG perspective and compare and determine appropriateness.

Issuers are prioritised that; have a high E, S, or G, or overall ESG, rating; are best-in-class (within sector) or; have demonstrated significant positive ESG momentum. In our valuation process, we place a valuation premium on bonds that have positive ESG characteristics (including, for example, those that are green, social, or sustainability linked or where the proceeds of the bonds are used for ESG-related activities); in this way, Redhedge is intrinsically encouraged to invest in bonds that are environmentally and/or socially positive and/or with good governance practices.

ESG consideration in investment decision-making may include derivatives (in accordance with investment objectives and strategy) as part of a particular fund's promotion of ESG characteristics. Derivative investments may include, for example, taking synthetic long positions in bonds issued by issuers with strong ESG ratings and synthetic short positions in bonds with poor ESG ratings.

## **Methodologies**

In managing its investments, the Fund seeks to promote general environmental, social and governance characteristics. This is done by assessing, determining, and subsequently investing in, issuers with products and activities that are environmentally and socially positive and have good governance practices and by distinguishing, and avoiding, investing in issuers which, in the nature or operation of their business activities, cause social or environmental harm or have poor governance practices.

The environmental and social characteristics taken into consideration when making investment decisions include the following:

Environment – Promotion of renewable Energy, and reduction in Greenhouse gas emissions and environmental pollution

Social – Protection of human rights and health and safety

Governance – Promotion of ethical business practices, and reduction in bribery and corruption.

The fund also seeks to invest in investments that exhibit ESG characteristics including, for example, bonds that are green, social, or sustainability linked or where the proceeds of the bonds are used for ESG-related activities. The fund also uses exclusionary screening in our avoidance and exclusion policy.

Sustainability indicators help guide the Fund's Investment Manager in the identification and prioritisation of sustainability risks, both in absolute terms for a single issuer, as well as in relation for the single issuer to the portfolio or a given watchlist, or the portfolio as a whole. They also facilitate, as part of our ESG scoring process, the prioritisation of investments with strong ESG characteristics, including green and sustainability bonds, and de-prioritisation of those with ESG characteristics assessed as weak.

Sustainability indicators utilised when evaluating "E", "S" and "G" investments are as follows:

- In "E", for greenhouse gases, indicators used are carbon emissions, carbon intensity and GHG controversies. For waste and water management, indicators include water and waste controversies, water usage and hazardous waste management. For biodiversity and climate risk, indicators used include controversies and climate related risks
- In "S", as well as the OECD guidelines, for human rights and labour management, indicators include human capital risk and human rights controversies. For health and safety as well as the OECD guidelines, indicators include chemical and product safety, health and safety risks and health and safety controversies.
- In "G", for business ethics, indicators include business ethics policy and business ethics controversies. For money laundering, indicators used include AML and KYC policy, audit frequency and money laundering controversies. For board diversity and discrimination, indicators used include board composition, gender diversity, diversity controversies, discrimination policy and discrimination controversies.

## **Engagement, Avoidance and Exclusion policies**

Engagement; Redhedge do not have an engagement policy, however, we do have an avoidance policy for sustainability-related controversies in investee companies. Please see below;

Avoidance; Redhedge avoids, by seeking to minimise investment, in products, activities and sectors which are determined as significantly detrimental from an environmental, social or governance perspective, for example, if the issuer has a very low ESG rating or very severe controversies or ESG contraventions. We also strive to minimise our investment in companies that focus on production/distribution of tobacco.

Such avoidance includes, inter alia, any net long position in bonds issued by issuers flagged as non-compliant with the UN Global Compact ("UNGC"). Screening is conducted to reduce exposure to issuers with poor ESG scores and thus to minimise investment in issuers assessed as detrimental to good environmental, social or governance standards. This includes screening for controversies, environmental data including emissions, non-compliance with UNGC guidelines or new or altered business involvement or information. As well as informing and facilitating avoidance where for example, a severe controversy is identified, it also informs exclusion determination.

Exclusion; Redhedge has binding exclusion criteria (encompassing all asset portfolios and geographical areas), in accordance with which, we will exclude investment in (so will not have exposure to) companies that derive a material proportion of their revenue from areas determined to be inimical to the promotion of environmental, social and good governance characteristics. We seek to exclude investment in issuers where their revenue is materially derived from one or more of the following fields:

Controversial Weapons

Thermal Coal

Gambling

Pornography / Adult Entertainment

Depleted Uranium Ammunition

We maintain an exclusion list (that is updated no less than annually) of prohibited counterparties and this is monitored in conjunction with our avoidance criteria.

Should an issuer on the excluded list be deemed to be transitioning to a more sustainable and responsible business model and issue a bond accredited as a green bond then investment in that green bond may be permitted with the explicit authorisation of the CIO.

### **Sustainability Risk and Monitoring of ESG characteristics**

Sustainability risk is defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the relevant investment (an "ESG Event").

Redhedge have determined that sustainability risk is not likely to have a significant impact on the financial returns of our fund offerings which are typically market neutral.

Specific and overarching sustainability risks, and their probability and impact, are considered as part of our assessment and monitoring of both potential and actual investment and fund performance. Sustainability risks are monitored qualitatively and quantitatively through a review of ESG data. This includes data published by the issuer (where relevant) and/or selected external providers to determine the initial level of sustainability risk and whether that level of sustainability risk has subsequently changed, as well as an ongoing review of indicators, which help guide the identification and prioritisation of sustainability risks, both in absolute terms for a single issuer, as well as relative for the single issuer to the portfolio or a given watchlist, or the portfolio as a whole. The review includes but is not limited to inherent risks arising from climate change, from transition of the economy, or from lack of water access.

Our funds aim to prioritise investment in issuers with higher ESG ratings, potentially reducing exposure to sustainability risk.

Please always refer to the Risk Factors in the specific fund Prospectus for more information on the challenges of accurately assessing sustainability, or any other risk.

### **Taxonomy Disclosures**

The EU criteria for environmentally sustainable economic activities ("EU Taxonomy") sets out expectations for investments that are specified as aligned with Taxonomy Regulation. The investments of our funds are not specified as aligned with the EU Taxonomy requirements.

While there are investments in our funds that are considered to be sustainable investments, and, those that contribute to an environmental objective, it is not possible to confirm on a standardised basis:

- the extent to which the investments of the Fund are in economic activities that qualify as environmentally sustainable and are aligned with the Taxonomy Regulation;
- the proportion, as a percentage of the Fund's portfolios, of investments in environmentally

sustainable economic activities that are aligned with the Taxonomy Regulation; or,

- the proportion, as a percentage of the Fund's portfolios, of enabling and transitional activities (as described in the Taxonomy Regulation).

## **Remuneration**

The remuneration policy of Redhedge is consistent with its approach to the integration of sustainability risks. Redhedge has established policies and procedures in relation to remuneration which Redhedge consider to be proportionate and consistent with sound and effective risk management.

## **Sources of Data**

Redhedge utilises a range of internal and external data sources to inform its ESG analysis and decision-making. Specialist external sources include Bloomberg, MSCI and Sustainalytics.

## **Designated reference benchmark**

No specific index is designated as a reference benchmark.

## **Enquiries**

If you have any questions with regard to the management of ESG and sustainability at Redhedge, please contact us at [info@redhedge.com](mailto:info@redhedge.com) or [esg@redhedge.com](mailto:esg@redhedge.com)