



Talaria Global Equity Fund (Managed Fund) ESG Report | Dec 2021



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Signatory of:



Environmental, Social & Governance (ESG) Matters

Overview

Aside from the ethical desirability of factoring ESG into our work, we recognise that it can materially affect the value of our holdings. We therefore integrate financial and non-financial ESG factors into our risk framework using the same principles of data availability, measurability, and materiality that are the foundations of our investment process.

Class actions against oil majors, tobacco manufacturers and health care companies are the high profile financial consequences of ESG failures. There are, however, a swathe of others that are less apparent but still important. ESG counts, for example, when it comes to the ability to raise debt or equity, the cost of that capital, compliance, regulatory and legal costs, and the valuation the market is prepared to place on an equity. Reputational and brand developments also have potentially significant implications for investments.

Recognising such risks, and with some important exceptions, we are active rather than exclusionary investors. We prefer to engage and have dialogue with companies where we believe that by improving their ESG practices they can both upgrade their impact on the world and their attractions as investments.

We pride ourselves in focusing on numbers rather than narrative, which means that some vital governance areas are already covered by our fundamental analysis.

Our Process

We incorporate ESG into our investment process, reviewing the fund to ensure we are up to speed on relevant developments for our holdings. Under each of the ESG headings we look at latest data and trends in order to identify any changes that we need to analyse and to which we might need to respond. In the following paragraphs we describe the process in relation to a new idea and this also provides the framework for maintenance thereafter.

When we are considering whether to add a stock to the portfolio, the analyst presents the investment team with the results of an examination through the lens of our ESG template. A non-negotiable part of the ESG review is whether there is enough data of sufficient quality to enable us to measure and assess materiality in the various categories upon which we focus.

The template is a long and admittedly somewhat dry document broken down into the three key areas of ESG. It helps us understand the current status and historic trends in what we consider key criteria under each heading. We think about these in absolute terms, compared to comps in the same industry and region, and compared to other industries and regions.

Some of the categories have binary results and are therefore easy to assess. For example, if the answer is no to questions concerning the existence of policies for child labour, human rights, employee protection/whistle blowers, data protection, and equal opportunity, then such a company is not for us.

Similarly, some questions are financial and therefore relatively easy to analyse. We pride ourselves in focusing on numbers rather than narrative, which means that some vital governance areas are already covered by our fundamental analysis. Examples are consideration of remuneration policy, the difference between cash flow and profits (accruals anomaly) and the quality of earnings releases.

However, particularly in matters environmental and social, our ESG process asks us to think about different, more complicated metrics which rely on various sources including primary documents such as statutory accounts and sustainability reports, as well as data and analysis from providers such as Bloomberg and ISS.

Exclusion and Divestment

Talaria is a Founding Signatory of the Tobacco-free Finance Pledge, an initiative founded by Tobacco Free Portfolios and developed in collaboration with the United Nations' Environment Programme Finance Initiative. The Pledge has a range of objectives the most important of which in this context is that we will not invest in Tobacco manufacturers and distributors or in any company that generates material revenues from Tobacco.

We similarly exclude from our fund companies that source more than 5% of revenues from Armaments, Gambling, or Pornography. In reality, we do not and would be unlikely to invest in any company with revenue generated from these sources even if it is below this threshold.

Companies that are conclusively found to be engaged in practices of needless animal cruelty or environmental degradation, or human rights abuses, are excluded as well as any companies that are legally required to be excluded (for example by domestic or international laws, bans, treaties or embargoes).

Dialogue and Engagement

Aside from the exclusionary cases described above, we prefer to operate through dialogue and engagement. Whilst respecting that there are almost as many approaches to ESG as there are funds taking ESG into account, our investment process has room, say, for the view that an oil major committed to transitioning from fossil fuels to renewables may have more of an impact than a green company becoming greener.

In the case of our holding in Mitsubishi Electric and their response to recent governance short-comings, we consider whether management recognise the problems, take them sufficiently seriously, and have a plan in place for remedial action and prevention.

In Mitsubishi Electric's case we believe that there is no need for us to engage with management at this stage. However, in 2021 there have been a number of instances where we have engaged with the Board of companies such as McKesson, Ambev, Asahi Group, Canadian Natural Resources, Secom and Loews to highlight improvements we would like to see in their ESG approach.

We endeavour always to exercise voting rights in our holdings on behalf of our investors. We believe that voting is more than a formality and that in voting we can influence corporate behaviour for the better.

UN PRI

Talaria is a signatory to the UN Principles for Responsible Investment (UN PRI) which seeks to improve understanding of environmental, social and governance factors and the incorporation of these factors into investment and ownership decisions. In accordance with our signatory responsibilities, we submit an annual report on our ESG related activities to the UN PRI and our Responsible Investment Transparency Report is made publicly available.

Signatory of:

