

Investment Insight

Our sustainable roadmap revisited: Better outcomes for a better future

Our core conviction is that quality and sustainability are drivers of long-term returns and that they are closely linked. Ultimately, only companies that run their operations sustainably will have a sustainable competitive advantage and generate sustainable shareholder returns. It is what we like to call triple sustainability or Sustainability³ and is a concept that has always been integral to our investment approach.

We first articulated our ESG Roadmap to Sustainable Investing in 2020, highlighting our effort to formalise our approach to sustainability into a dedicated framework. Progress over the past four years has been significant. We have fully integrated ESG into our investment analysis and our ESG Framework now covers 99% of the assets that we manage. We have significantly expanded the resources we allocate to ESG and broadened our collaboration with external investors to tackle systemic issues. We are proud that our work has received external validation, reflecting a depth of approach that goes beyond our size as a company.

But the sustainable investing landscape is fast moving. In 2023 alone, there were three pivotal regulatory milestones, the release of the UK Sustainable Disclosure Requirements (UK SDR), the publication of the recommendations of the Taskforce for Nature-related Financial Disclosure (TNFD), and the release of the International Sustainability Standard Board's (ISSB) inaugural disclosure framework. These developments aim to simplify sustainability regulations and disclosure requirements, whilst increasing transparency for market participants, including investors.

At the same time, collective action continues to gather pace. In the past year, three global climate change conferences brought together representatives to garner action: COP 28 (UN Climate Change Conference), COP 15 (UN Biodiversity Conference) and the inaugural UN Water Conference. These platforms act as catapults for governments, financial market participants and corporations to make pledges to address global challenges and drive sustainable development.

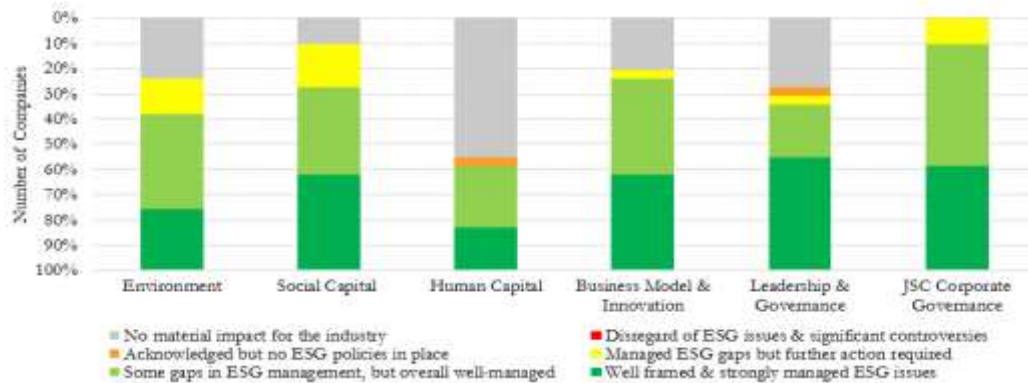
The evolution of our ESG framework

Our ESG Framework seeks to anchor our investment process in industry-leading sustainability standards whilst maintaining our commitment to in-house, independent research. It is important to point out that our process does not attempt to exclude specific industries or make value judgements. Instead, its principal aim is to identify material risks and opportunities that ESG issues may present and assess how well these are managed, or how they may affect a company's future revenues, costs or value.

We chose early on in our journey to adopt the Sustainability Accounting Standards Board's (SASB) materiality framework as a key cornerstone to our approach. SASB uses an objective, verifiable and comparable set of criteria to identify material issues for each industry, focusing on issues that have the potential to affect corporate value and are reflective of broader stakeholder consensus. These issues or 'dimensions' encompass five themes: environmental, social capital, human capital, business model and innovation, and leadership and governance.

Using SASB, which has also emerged over the last year as a key building block of the International Sustainability Standards Board’s (ISSB) disclosure framework, gives our analysis consistency across different industries and geographies whilst enhancing the transparency and objectivity of our approach. We complement SASB’s five dimensions with our own proprietary corporate governance analysis that focuses on the principal-agent relationship, and how the rights of shareholders or bondholders as stakeholders are protected. The output of our analysis is a traffic light matrix for the six overarching themes, highlighting achievements and opportunities, in addition to risks and areas for improvement.

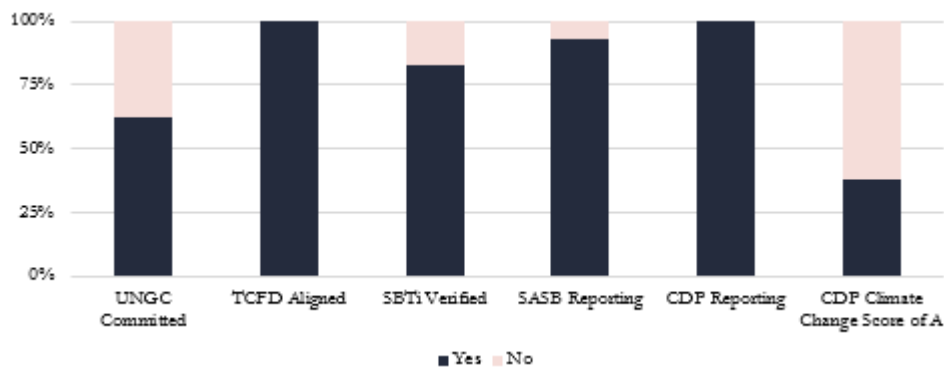
World Stars Companies ESG Performance Across our Six Dimensions



Source: J. Stern & Co.

In addition, we weigh several further factors to help us build a holistic view of our investee companies’ level of commitment to sustainability. We specifically look at whether they have formally aligned themselves with the recommendations of the Taskforce for Climate-Related Financial Disclosure (TCFD), whether they have set a net zero emissions target verified by the Science Based Target Initiative (SBTi) or whether they report in compliance with global sustainability standards, including the Carbon Disclosure Project (CDP), and how they are rated by the CDP for these disclosures.

World Stars Companies Committed, Aligned or Reporting

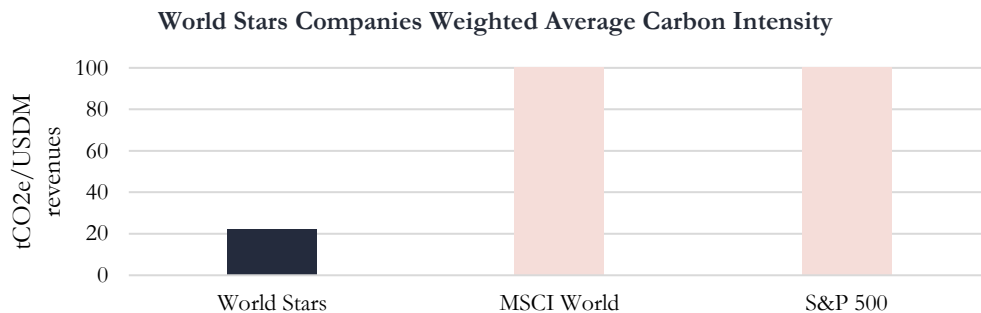


Source: J. Stern & Co.

We have continued to build on this framework as our own capabilities and expertise have deepened and as our access to dedicated ESG resources has expanded. We have placed increasing emphasis on ESG controversies, specifically looking at violations of the UN Global Compact principles or the OECD Guidelines for Multinational Enterprises. We have tightened our interpretation of companies' human rights policies. We have expanded our use of ESG data to make more objective comparisons between industry peers and better map the performance of our investee companies across time. There is more work to do. We want to align our firm with the recommendations of the TCFD and set a roadmap to net zero for our World Stars strategy.

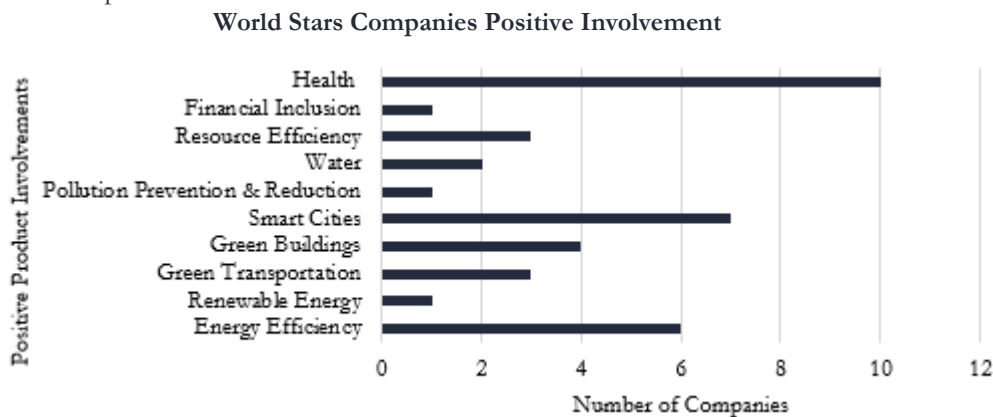
Our framework in practice: World Stars Global Equity

Looking in more detail on how this applies to our World Stars Global Equity strategy, our portfolio holdings perform well across the six themes we have outlined and regarding alignment with global sustainability norms. This reflects our focus on companies that either have best-in-class practices already in place or which have shown a commitment to improving their performance in terms of the management of sustainability issues over time.



Source: J. Stern & Co.

Our World Stars Global Equity strategy maintains a low carbon footprint in terms of Scope 1 and 2 emissions, at almost 80% lower than relevant market comparators. This reflects the asset-light, IP-rich nature of our holdings. On governance, our portfolio holdings exhibit robust board structures, with a high presence of independent directors and diverse membership.



Source: J. Stern & Co.

One key evolution of our approach is the increased emphasis on sustainability outcomes. We recognise that a company's social license to operate is contingent on the impact it has on the communities in which it operates. For this, we use the UN's 17 Sustainable Development Goals (UNSDGs) as a guiding framework. These aim to tackle key global challenges by 2030 to achieve a better and more sustainable future for all. Our focus is on assessing whether our portfolio holdings have stated commitments in this regard, but importantly commitments that are backed by detailed, appropriately funded strategic plans with time-limited targets. It is encouraging that in our World Stars Global Equity portfolio, 24 out of 29 of our holdings address some of the UNSDGs and 13 have set out detailed targets and/or KPIs. Similarly, there is deep alignment of our holdings with key sustainability outcomes, including health, financial inclusion and energy or resource efficiency.

World Stars Companies Alignment to the UNSDGs



Source: J. Stern & Co

External validation

External validation is key to any ESG Framework. We are signatories to the UN's Principles of Responsible Investment (UN PRI), which seeks to promote the incorporation of responsible investment factors into investment processes and stewardship initiatives. As part of our obligations as signatories to the UN PRI, we must file an annual transparency report outlining in detail key aspects of our ESG Framework and our implementation of it.

Our most recent assessment involved a 164-page report filing, covering four key areas: Policy Governance and Strategy, Listed Equity (Active Fundamental), Fixed Income (Corporate), and Confidence Building Measures. We are proud to have received four stars out of five across all four modules especially since our scores were above those of our peer median. We see this as a valuable validation of our process and a testimony to the depth of our ESG framework.

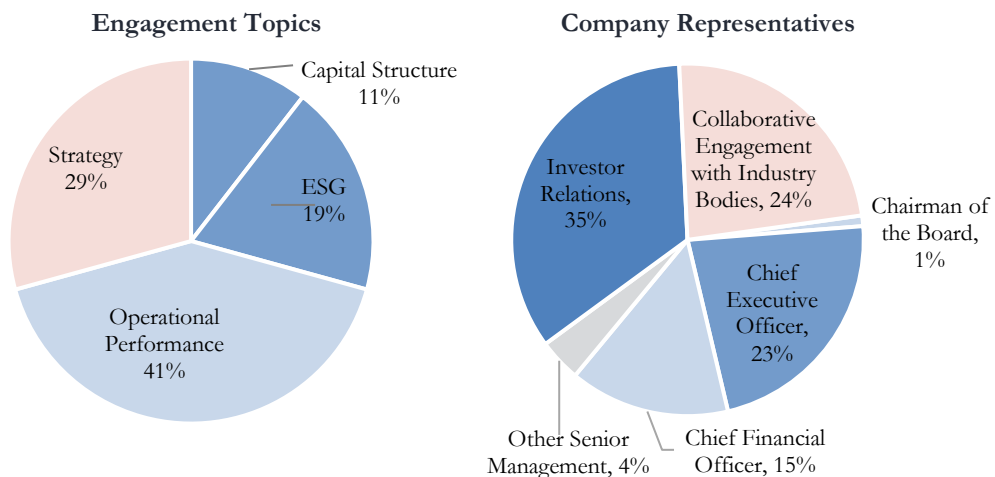
We are also signatories to the UK 2020 Stewardship Code, which sets out 12 principles that seek to enhance the quality of engagement between investors and companies. We are proud to be one of a select list of around 300 signatories reflecting our commitment to active stewardship and engagement.

Active engagement

An important aspect of our ESG approach is to engage with our investee companies when it is appropriate to do so. We either actively engage with the companies we are invested in first-hand, or through collaborative engagement bodies. We encourage change when we believe our companies should take more aggressive action to address challenges that may affect corporate value or promote better sustainability outcomes.

In 2023, we engaged with our investee companies directly or through collaborative investor engagement bodies on over 100 occasions to discuss topics varying from capital structure, strategy, operational performance, and ESG matters. Around one in five (19%) engagements included ESG discussions, while 42% involved direct dialogue with C-level representatives or senior management.

Engagement can take time to deliver the required results but we have made progress with several of our holdings. For example, in recent years we have been in active dialogue with *Sika's* Chair of the Board, CEO, CFO and Head of Sustainability. We have pushed the company on issues ranging from the diversity of its board and senior management to the ambition of its environmental targets. Significant progress has been made in key areas including the articulation of a pathway to net zero, reflecting the role that Sika has in decarbonising the construction industry. The company has also increased the diversity of its board as well as that of its senior executive management team, but progress is not always linear. Some of our holdings have improved environmental disclosures but have yet to set an SBTi verified net zero target, including *Amphenol*, the sensor and connector manufacturer, and *Alcon*, the optical lens and surgical tools provider. We continue to engage with both at various levels of management to push in that direction.



Source: J. Stern & Co

In the past two years, we have also significantly expanded our collaborative engagement efforts. We are most effective when we act in conjunction with our peers to drive change. We support ShareAction's Healthy Markets initiative, which seeks to uphold standards of healthy nutrition among food and beverage manufacturers. As a result of our engagement with *Nestle*, it is now the first major manufacturer to provide transparent reporting of the nutritional profile of its global portfolio. The rating is based on the Health Star Rating system,

a well-respected profiling system used by many countries. Nestle has also set the goal of increasing the sales of its most nutritious products by 50% by 2030 and placed voluntary restrictions on its marketing activities to children.

We are a member of the Business Coalition for a Global Plastics Treaty, which seeks to tackle the plastic pollution crisis in a globally coordinated way. Plastic is a key issue for the consumer goods companies we invest in, but also a business opportunity for some of our industrial holdings that provide advanced plastics recycling solutions.

In 2023, we further expanded our collaborative engagement activity joining Ceres Valuing Water Finance Initiative – an investor-led effort targeting high-water footprint companies including eight that are held in our portfolios.



Source: ShareAction, Business for Plastic Treaty, Ceres

Proxy voting

Where required we will also use our voting voice to raise concerns and drive change. In 2023, we voted on a total of 758 resolutions at the AGMs of 40 companies. We voted against director recommendation in 38 instances, pushing for better corporate governance practices and a breadth of environmental and social resolutions.

We have pushed for change in a wide variety of issues over the years including calling for greater diversity at the board and senior management level and stronger governance practices through the separation of the Chair and CEO roles or the elimination of dual share class structures. We have also called for the incorporation of ESG targets in executive compensation.

We are advocates for more transparent disclosures of lobbying activities and better reporting on human rights issues, whether child protection practices or working conditions. Proxy voting acts as an important signalling mechanism. The process holds boards to account and acts as a mechanism over time in ensuring better outcomes for both shareholders and society at large.

Where next for ESG?

ESG continues to evolve as it becomes engrained in investment processes. Last year, the EU Commission initiated a consultation of market participants on its Sustainable Finance Disclosure Regulation (SFDR) framework. The consultation focused on gathering views on the application of the regulation and its ability to play its part in directing capital towards desired outcomes. We contributed to the consultation, and we will await its conclusions. We fully support sustainability disclosures that are transparent and support individual investors in making the right investment decisions for them. As market participants, we believe that any new regulations that emerge balance the desire for better social outcomes with the ability to deliver those in a cost-effective, consistent way.

J. STERN & CO.

The Value of Long-Term Investing

We anticipate that over the next few years, a broader set of issues will rise in the investor agenda. For example, the TNFD framework supports investors integrating biodiversity into decision-making and we believe nature as a form of capital will become an increasing area of focus. We also believe that net zero targets will come under increasing scrutiny, as a significant number of interim targets have been set for 2030. The next few years will make it clear whether companies are on track to meet their net-zero emission reduction targets. We will continue building on our framework to encompass these and other expanding considerations.

The past four years have been instrumental in our application of a holistic approach to sustainable investing and ESG implementation. Our sustainability roadmap is firmly in place but it will evolve as we strive to build on our approach ensuring that our clients' wealth and society's resources prosper for the next generations.

*Katerina Kosmopoulou CFA
Rian Cook
February 2024*

J. Stern & Co. provides this document for information only. The information provided should not be relied upon as a recommendation to purchase any security or other financial instrument, nor should it be considered as a form of investment advice or solicitation to conduct investment business. Our services are only provided to clients, in certain jurisdictions and under a signed mandate. The views expressed from the date of publication are those of J. Stern & Co. and/or the actual author(s) and are subject to change without notice. Information within this document has been obtained from sources believed to be reliable at the date of publication, but no warranty of accuracy is given. The value of any investment can fall as well as rise; past performance is not a reliable indicator of future results; and returns may increase or decrease as a result of currency fluctuation.

J. Stern & Co. includes J. Stern & Co. LLP, Star Fund Managers LLP, J. Stern & Co (Switzerland) AG and/or J. Stern & Co. Limited. J. Stern & Co. LLP and Star Fund Managers LLP are both authorised and regulated by the Financial Conduct Authority, and where relevant, J. Stern & Co. LLP has approved it for distribution J. Stern & Co (Switzerland) AG is a member of Polyreg and is operating in accordance with Art. 74 para. 2 of the Swiss Federal Act on Financial Institutions. J. Stern & Co (Switzerland) AG is affiliated with the Ombudsman "Ombudsstelle für Finanzdienstleister", Bleicherweg 10, CH 8002 Zurich and J. Stern & Co. Limited is authorized and regulated by the Malta Financial Services Authority.

More information on J. Stern & Co. can be found at www.jsternco.com/legal, including our privacy notice, other regulatory disclosures and registered office information.

© J. Stern & Co.