Alliance Witan's approach to Environmental, Social and Governance (ESG) matters

This document describes how Alliance Witan PLC (the "Company" and "we/us/our") manage financial risks in respect of ESG issues, including our approach to voting and engagement. It will be reviewed annually and updated to take account of the changing regulatory environment and evolving financial markets.

Understanding the financial impact of ESG risks

The Company's overarching mission is to deliver attractive returns for shareholders through investing in global equities. A large part of achieving that in the long-term is strong risk management. How a business impacts the environment or society, or how it treats its workforce and other stakeholders, can all be indicators of potential future financial risk to investors and therefore, to ensure robust risk management, should be considered as part of the investment process where these matters are sufficiently material. Similarly, governance of potential portfolio companies should be assessed and those with perceived weaknesses require further due diligence before investing. Therefore, the Company's stock pickers look to understand material potential ESG risks and opportunities, when deciding which stocks to buy for the Company's portfolio. Our investment manager[1] evaluates and assesses the stock pickers before their appointment to the Company's portfolio, and throughout their appointment, to ensure they have a proper process in place for assessing and managing these risks.

Defining ESG

ENVIRONMENT: Environmental factors include climate change, use of natural resources and pollution.

SOCIAL: Social factors include the way companies treat their workforce, health and safety issues and a how businesses impact wider communities.

GOVERNANCE: Governance refers to the way a company is managed, such as board composition and oversight, pay structures, and shareholder rights. Good governance creates a foundation for a company's risk management including how environmental and social factors are integrated to a management team's thinking.

The Company does not have a sustainability label under the UK Sustainability Disclosure Requirements or a specific sustainable objective. ESG risks are considered alongside other financial drivers of business performance in terms of how they can impact share price and cash flow. If potential ESG risks for a company are understood by our stock pickers and they believe the company still looks like a good investment opportunity, then the stock pickers may choose to buy the shares subject to any legal and/or regulatory restrictions in place, such as sanctions.

Engagement vs Exclusions

We believe in good stewardship, in other words the responsible management and oversight of the assets we invest in on behalf of our shareholders. While we seek to invest in high quality, well managed companies, we recognise that no company is perfect. There will likely be moments in time where responsible long-term shareholders should engage with companies with the aim of protecting or improving long-term financial outcomes for investors.

If we believe changes are required, there are two potential ways to support this: engagement or exclusion. Engagement involves dialogue with companies and exercising shareholder voting rights, while exclusion means avoiding or divesting from companies or sectors.

Exclusions

The Company's current ESG related exclusions are controversial weapons[2], and companies which derive more than 25% of their revenue from thermal coal mining or sales, more than 50% of their revenue from thermal power generation or 25% of their revenue from oil sands extraction.

These exclusions are applied given financial considerations or, in the case of controversial weapons, given the existence of international treaties prohibiting use such as the Convention on Cluster Munitions and the Mine Ban Treaty.

Typically, we prefer engagement because we believe it has more potential for real-world impact than divestment and results in fewer general restrictions on where we can invest, but we do have a few portfolio exclusions.

Company engagement is undertaken by our stock pickers during routine meetings with companies. The Company also uses the services of a leading stewardship services provider (EOS) whose experience and expertise – particularly with respect to environmental or social topics – means they complement and reinforce the stock pickers' engagements with companies.

EOS adds a further dimension by engaging on policy, with industry standard-setters and with a wide range of companies across industries. Some investment risks, such as climate, require economic system-wide solutions – which is where we believe this broader-based approach to engagement plays an important role.

EOS at Federated Hermes (EOS)

EOS advised on over $2 trillion in assets globally (as at end 2024), helping investors like Alliance Witan PLC engage with companies on ESG issues and support long-term value creation. Its scale and expertise give EOS a greater voice with senior business leaders. By partnering with EOS, we can better demonstrate real world progress through engagement which supports our management of financially material ESG risks.

Voting

In our view, voting is central to good stewardship. It gives us a voice, alongside other investors, in major company decisions and in how well company management is performing.

In most cases responsibility for voting is ultimately delegated to the stock pickers given their detailed knowledge of companies they invest in. We expect them to exercise their right to vote, where possible, in all company resolutions.

To strengthen the process, our investment manager provides on-going oversight of the stock pickers' voting activity and EOS provides voting guidance.

Climate-related financial risks

For investors, there are significant financial risks and opportunities linked to climate change. Therefore, this is an area of particular focus for us.

Actions from industry and policymakers to control climate change are impacting the shape of different industries; this creates 'transition risk' for investors. While the shift to reduce emissions has so far been slow in some sectors, others have already seen dramatic change such as car manufacturing and electricity generation, where new technologies have rapidly achieved maturity and scale. The stock pickers look to understand and navigate these industry changes, adapting our portfolio to distinguish between companies whose profits may suffer from the transition and those that may benefit.

If global emissions do not fall at sufficient pace, then investors face an increase in another type of climate-related financial risk. 'Physical risks' are the impacts on businesses and the economy from tangible changes that come with higher global temperatures. Examples are damage and financial losses from sea level rise, water shortages, severe heat, floods and storms. These may be longer-term risks but could happen sooner than many realise – for example should 'tipping points' occur such as acceleration in the collapse of the Antarctic ice sheets or loss of the Amazon rainforest.

Taking action to manage financial climate risks

Several levers are used to manage ESG risks, including climate risks, as described above. The Company has adopted a 2050 net zero portfolio goal[3] to help manage financial risk and to signal support for the ambitions of the Paris Agreement, an international treaty on climate change with a key objective to limit global warming to well below 2°C. The Company's net zero goal sets the context for how the portfolio is managed and where engagement is emphasised.

We recognise that achievement of net zero is very much dependent on governments and regulators playing their part in achieving significant progress over a multi-year timeframe. Success is not defined by our actions alone and real-world progress towards net zero will not be simple – it requires a careful balance across emissions reduction, energy affordability and energy resilience. Still, the scientific evidence continues to highlight the potential damaging impact of climate change, so we believe it's important to encourage companies and policymakers to support global efforts to control temperature rises to protect long term returns for investors.

We no longer have a shorter-term 2030 portfolio emissions goal[4]. Real world emission reduction progress has been mixed to date, and the Company wishes to give the stock pickers flexibility to invest in higher emitting sectors that still have an important role to play in the transition (e.g. energy, materials, utilities). The Company also believes that engagement with high emitters is typically more effective than divestment in supporting the ambitions of the Paris Agreement.

Our investment manager uses a multi-faceted approach to measuring climate risk in the portfolio including: forward-looking analysis (such as transition risk and physical risk analysis); traditional backward-looking metrics (such as carbon footprint); and tracking engagement activities. They expect a positive long-term average trend for many of the metrics tracked, but year-on-year, portfolio characteristics will vary based on the attractiveness of available investment opportunities at a point in time and the climate transition progress of different countries and industries. It is also important to note that portfolio emissions are often dominated by a very small number of holdings, so the purchase or sale of those can make dramatic differences in a short space of time.

Transition risk facing investors

The financial impacts of changes to industries in the transition to a lower-carbon economy, for example from new policies and technology.

Physical risk facing investors

The financial impacts of physical changes to the natural environment which come with higher global temperatures

Reporting

The Company reports on the portfolio's carbon footprint each year in its annual report. In addition, Responsible Investor reports are posted to the Company's website each quarter. Our investment manager publishes its UK Taskforce on Climate-related Financial Disclosures (TCFD) report each year, in relation to the Company. The TCFD report focuses on the impact of climate-related risks, while the Responsible Investment reports track voting and engagement activities more broadly.

Notes

[1] Towers Watson Investment Management is the appointed Alternative Investment Fund Manager of Alliance Witan PLC.

[2] In accordance with the ESG Data Provider's methodology (currently MSCI) Global ex Controversial Weapons Indexes). Controversial weapons are a subset category within overall defence.

[3] Our portfolio goal relates to Scope 1 and Scope 2 emissions per £ invested in the investment portfolio.

[4] The portfolio level goal of halving portfolio emissions by 2030 was removed in June 2025 for the reasons noted above.