

## Arlington Capital ESG Policy

January 2021

### 1. Purpose and Rationale

- 1.1 The aim of this document is to set out the environmental, social and governance (“**ESG**”) policy (the “**Policy**”) of Arlington Capital Limited (“**Arlington**”). This policy has been adopted in accordance with the provisions of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (“**SFDR**”).
- 1.2 The Board of Directors of Arlington (the “**Board**”) is satisfied that this document is consistent with the risk-profiles, long-term business strategy, objectives, values, and interests of Arlington . The Board recognises that sustainability is key to generating value for all stakeholders.
- 1.3 The Board will periodically review this document to ensure that it remains up-to-date and consistent with Arlington ’s regulatory obligations under applicable law and risk appetite. The Board shall be responsible for initiating and facilitating an annual review of this document and its implementation, which review shall be carried out in light of legal and business developments as well as Arlington ’s experiences in its implementation.
- 1.4 All changes or material exceptions to this document are to be approved by the Board, whether in relation to the annual review or otherwise.

### 2. Regulatory Status of Arlington

- 2.1 Arlington is authorised and regulated by the Financial Conduct Authority.

### 3. Regulatory Obligations

- 3.1 Being regulated in the UK, Arlington does not formally come under the SFDR, but the Board has decided to implement the regulations as if it qualified as a Financial Market Participant. As a result Arlington has put in place policies and procedures setting out the approach adopted by Arlington on the integration of sustainability factors in the investment decision-making process and within its risk management framework. SFDR defines “sustainability factors” as “...*environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters*...” (the “**ESG Factors**”).

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- 3.2 Arlington is also required to publish on its website information about its policies on the integration of sustainability risks in its investment decision-making process. SFDR defines 'sustainability risk' 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 investment" (the "ESG Risk").
- 3.3 Arlington is also required to include in its remuneration policies information on how these policies are consistent with the integration of ESG Risks and to include a description of the following matters in its pre-contractual disclosures:
- a. the manner in which sustainability risks are integrated into their investment decisions; and
  - b. the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available.

## 4. ESG Investment Guidelines

### General Guidelines

- 4.1 Generally, Arlington does not assess ESG Factors that may have investment ramifications, and which may have a material impact on the investment's long-term financial performance. As a result, information on ESG Factors does not generally form part of Arlington's investment decision making process.
- 4.2 Arlington does not carry out an assessment, nor does it obtain information on ESG Factors in respect of the individual investments in which it invests as the assets managed by Arlington are limitedly exposed to ESG Risk.

### Guidelines with respect to the Hanson Sustainable Income Fund

- 4.3 However, with respect to the Hanson Sustainable Income Fund, which is a Sub-Fund of the Ledbury SICAV Plc, a UCITS 5 structure registered in Malta the Board is charged with the promotion of awareness and understanding of ESG considerations with the investment team and to integrate due consideration of ESG Factors and ESG Risks into their investment decision making process, engagement efforts and to share such knowledge with other employees of Arlington .
- 4.4 As a result, Arlington seeks to understand and identify material ESG Factors that have investment ramifications, and which can have a material impact on the investment's long-

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term financial performance. ESG Factors that are considered by Arlington include, but are not limited to:

- Environmental: climate change; air/water pollution; biodiversity; deforestation; energy efficiency; carbon intensity; depletion of finite resources; and product evolution (energy-efficient products/renewable energy).
- Social: human rights; unethical supply chains; severe labour controversies; brand and reputational issues; and illegal working conditions.
- Governance: transparency & integrity; inadequate management of conflicts of interests; corporate governance failures; lack of appropriate board oversight; shareholder rights; bribery and corruption.

4.5 Information on ESG Factors is integrated in Arlington 's investment decision making process for all asset classes that it deals in with the aim of enhancing the financial outcome for its clients in the form of improved risk adjusted returns.

4.6 Arlington carries out an assessment and obtains information of ESG Factors in respect of the individual investments in which it invests. This is done with a view to ensuring that ESG Risk is identified and appropriately managed.

4.7 Information on ESG Factors and related ESG Risks are incorporated into Arlington 's investment decision-making processes at the asset selection stage when undertaking due diligence on such asset class and, where possible, assessed in terms of the potential financial impact in the long term. When undertaking the ESG analysis, Arlington will seek to obtain information from a variety of sources, including, but not limited to:

- i. the target company itself;
- ii. third party specialist data providers;
- iii. third party publications;
- iv. brokers; and
- v. academics.

Arlington will ordinarily also rely on due diligence measures adopted by target companies to identify, mitigate, and report on ESG Risk

4.8 ESG Risks and/or opportunities vary by country, industry, markets, as well as by characteristics specific to a target company such as size and geographical footprint. These

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matters are taken into consideration when undertaking the assessment of the ESG Factors and ESG Risks associated with a target investment.

- 4.9 Inadequate management of ESG Risk can lead to inefficiencies, operational disruption, litigation, and reputational damage. These outcomes may impact the performance of the investment and ultimately the financial returns of Arlington 's clients.
- 4.10 The integration of information on ESG Factors and ESG Risks into investment decision making processes enhances Arlington 's understanding of sectors, assets and companies and their ability to deliver sustainable, long term shareholder value.

## **Outsourcing, Delegation and Appointment of Investment Advisors**

- 4.11 In the event that Arlington outsources or delegates to other third-party managers (the “**Delegates**”) the performance of any of its functions, Arlington shall ensure that the Delegates have in place an ESG policy or as a minimum adopt Arlington 's ESG Policy.
- 4.12 Furthermore, the Delegates shall adhere to the same level of ESG disclosures as Arlington and shall be contractually bound to provide the necessary disclosures to Arlington to abide to its obligations under SFDR.

## **Principal Adverse Impacts**

- 4.13 With respect to the Hanson Sustainable Income Fund, Arlington undertakes an assessment of the principal adverse impacts (“**PAIs**”) of its investment decisions on ESG Factors. PAIs are those impacts arising from investment decisions that have a negative effect on ESG Factors.
- 4.14 To date, Arlington does not undertake an assessment of the PAIs of its investment decisions with respect to the other funds that it manages.
- 4.15 Arlington shall disclose on its website a statement on the due diligence process in respect identified PAI arising from Arlington 's investment decisions.

## **5. ESG Investment Procedures**

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5.1 Arlington adopts various approaches in the inclusion of information on ESG Factors in its investment decision making process, where applicable, with a view to managing the related ESG Risks. These include:

- ESG Screening;
- ESG Integration;
- ESG Themed Investing.

## **ESG Screening: Negative Screening**

5.2 Arlington recognises that certain industries and countries with weak environmental or governance structures present additional business risks for prospective investee companies. As part of the diligence process it will be aware of where and how such risks exist. If such activities change Arlington's risk perception of an industry or company, it may preclude an investment.

5.3 Where ESG risk is considered high, Arlington will conduct additional due diligence to understand the drivers, and consider (i) whether these deficiencies represent a material risk to the investment case and (ii) whether the management team have a credible strategy to improve in key areas.

5.4 Certain clients may have concerns about specific activities or industries and may instruct Arlington to exclude such activities or industries. In the circumstances, Arlington will actively engage with its clients to better understand and define these criteria such that it is able to maintain such exclusions on an on-going basis.

The scope of the above restrictions is reviewed on a regular basis and the ESG Policy updated accordingly.

## **ESG Screening: Positive Screening**

5.5 Arlington also screens target companies/ products that promote and provide solutions that are consistent with ESG Factors and aims at including such products in the portfolios managed by Arlington. Arlington will also positively recommend such products on an on-going basis, where applicable.

## **ESG Integration**

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- 5.6 With respect to the Hanson Sustainable Income Fund, Arlington integrates information on ESG Factors in its investment strategy, whereby ESG Risks are considered in the broader investment process and analyses across the asset classes and ultimately in the investment decisions/ investment recommendations undertaken by Arlington. Arlington has developed its own ESG scoring system to assist in the management of the Hanson Sustainable Income Fund which all holdings are subject to. Further details on the scoring system are available on request.
- 5.7 When assessing a target company, Arlington takes into account the extent to which the target company:
- i. embeds responsible business conduct not its policies;
  - ii. identifies and assesses adverse impacts in operations, supply chains and business relationships;
  - iii. prevents or mitigates adverse impacts on ESG Factors;
  - iv. tracks and implements enhancements to its processes; and
  - v. communicates how adverse impacts are assessed

In this respect, Arlington assesses the extent to which the target companies follows the principles set out in the OECD Due Diligence Guidance for Responsible Business Conduct. The objective of the OECD Due Diligence Guidance for Responsible Business Conduct is to “...provide practical support to enterprises on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations and associated provisions. Implementing these recommendations helps enterprises avoid and address adverse impacts related to workers, human rights, the environment, bribery, consumers and corporate governance that may be associated with their operations, supply chains and other business relationships....” .

- 5.8 Arlington adopts a pragmatic approach whereby information on ESG factors is integrated into established investment assessment processes. Arlington does not have a separate ESG focused processes except in the management of the Hanson Sustainable Income Fund. With investments spanning over various asset classes, jurisdictions, sectors, and markets, Arlington takes into account legal and cultural differences in different markets. Thus, the ESG analysis is sensitive to the individual situation pertaining to each target company in terms of the local norms, laws, regulation, and expectations of the market in which it operates.
- 5.9 Arlington does not automatically exclude investments in products/ target companies purely on ESG grounds if Arlington, feels that such ESG Risks do not necessarily pose a financial

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risk in the long term, except in the management of the Hanson Sustainable Income Fund where this forms part of the core analysis. The purpose of integrating information on ESG Factors and related ESG Risks in the investment decision making process does not automatically exclude certain products/ target companies as the investment decision making process takes into consideration other factors and risk.

## **ESG Labelled/Themed Investing**

5.10 Apart from the Hanson Sustainable Income Fund, Arlington does not promote any products which are specifically labelled as ESG products. Whilst an ESG integration strategy continues to be applied, it may not necessarily be the primary emphasis of such products.

## **6. Review of this policy.**

6.1 This document shall be reviewed by the Board annually. Any changes to this document shall be approved by the Board.