



Impact Report 2020

Environmental, Social & Governance

Introduction



Stenham is proud to provide a high standard of service and investment management to its clients, while constantly ensuring that ethical rules as applicable to a financial services firm are adhered to. As a financial institution, our ethical standards should be such that our clients trust that we deliver on our investment objectives while operating at the highest level of integrity.

We have also long held the belief that success comes not only from fulfilling our financial objectives, but in creating a business that invests in its people, culture, processes and surrounding communities. A business that can achieve all of the above should have greater longer-term success than one that seeks to deliver on financial metrics alone. With that in mind, we formalised our responsible investment approach in 2019 and, at the same time, acknowledged the need for an unwavering commitment to critically assess and evolve this on an ongoing basis every year.

What is Responsible Investment?

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (“ESG”) factors into investment decisions to better manage risk and generate sustainable, long-term returns. In a world that is faced with increasing challenges that are not solely financial, it has never been more important to consider the implications that other factors, such as climate change, will have on businesses and to be able to assess how firms are addressing such risks. We fully recognise that the integration of ESG factors can lead to superior long-term returns while at the same time having a lasting beneficial impact on the environment, on society and on our business through best-in-class governance.

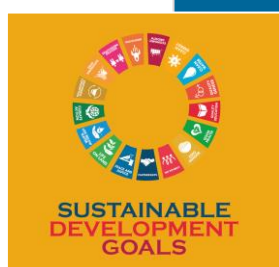


The Six Principles for Responsible Investment (“PRI”)

The PRI is a United Nations supported international network of investors working together to implement its six aspirational principles. Its goal is to understand the implications of sustainability for investors and support signatories to facilitate incorporating these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system.

In May 2019, Stenham became a signatory to the UNPRI (www.unpri.org) to further embed our core values with respect to ESG.

1	We will incorporate ESG issues into investment analysis and decision-making processes
2	We will be active owners and incorporate ESG issues into our ownership policies and practices
3	We will seek appropriate disclosure on ESG issues by the entities in which we invest
4	We will promote acceptance and implementation of the Principles within the investment industry
5	We will work together to enhance the effectiveness in implementing the Principles
6	We will each report on our activities and progress towards implementing the Principles



“ESG considerations are not only important as part of our investment approach but inherent in the day-to-day running of our business.”

Giulio Battaglia
Managing Director

Environmental



- We demonstrate environmental responsibility in the running of the business and participate in key initiatives to reduce our carbon footprint



Travel

We track our carbon footprint through our use of electricity and business travel and commit to offsetting this through a carbon offset programme via myclimate.org.

myclimate carbon offset projects are reducing these emissions in developing and emerging countries. The projects meet the highest standards (Gold Standard, Plan Vivo) and contribute to the UN's sustainable development goals (SDGs). myclimate projects not only reduce greenhouse gas emissions but also contribute to the social, ecological and economical development in the region.

Business Purchases


We make all applicable business purchases via EasyFundraising.com which donates a percentage of the purchase amount to **Earthwatch**, an environmental organisation that seeks to drive change through science and education.

Recycling

Old, functioning IT computer equipment that is due to be retired is refreshed and passed to local charities. Any non-functioning equipment is recycled in an environmentally-friendly way by specialists. We promote the use of recyclable materials in our workplace.


As much waste as possible is recycled in the Guernsey office, with separate bins for glass, paper and cardboard, plastic and food waste. All toner cartridges are returned to the supplier for recycling and two years ago we had a new more efficient, environmentally-friendly air conditioning unit installed.

All general waste collected from our London office is used as a fuel to produce heat and power. Separated recyclable materials are sent for reprocessing and are used in the manufacture of new products.



**Stenham's
Contribution to Climate Protection
2020**

Offsetting for 440.8 t CO₂
with a value of GBP 10,220





Saving Paper & Printing

We have moved to electronic documents and expect an almost 100% reduction in printing from years prior to remote working protocols being invoked. We have removed two large multi-function Ricoh printers in our London office (TEC 1.3 kWh Energy Star 3.0) and replaced with a single, small HP multi-function printer (TEC 0.646 kWh Energy Star 3.0).

Our Suppliers' ESG Ratings

REDBOX, our stationery supplier, is a certified B corporation with an overall score of 91.4.

We are proud to be involved in the **RED2GREEN** environmental initiative operated by **The Green Earth Appeal** in partnership with REDBOX. As a member, Stenham has planted trees to counterbalance carbon dioxide, stop desertification, provide food to underprivileged children and farming education in communities across the developing world.

IT & Energy

We have moved from on-premise servers to the **Microsoft Office 365** cloud-based system. 90% of all in-house servers will become cloud-based. We are reducing our direct energy usage for power and cooling of existing servers. This is ongoing and we anticipate completion in Q4 2021. The current monitors we purchase utilise Eco Power Off mode. 0 Watts of power is used in off mode compared to 0.3-0.5 Watts of a conventional monitor.

Details on energy efficiency measures, or any other carbon reduction measures implemented during the reporting period, include replacing lighting in our office building to efficient LED lighting, removing old toilets and replacing with modern ones with smaller cisterns and auto taps.

Electricity is 43% renewable.



Social

- We contribute to the local community and employees are encouraged to take part in volunteer programmes and charity fundraising
- We provide internships and work experience opportunities for those that might not otherwise have access to such an opportunity
- We provide our employees with a proper working environment that is fair, respectful and based on each and everyone's commitments to integrity towards all our stakeholders

Charitable and Community Engagement



Future Frontiers is an award-winning education charity that exists to ensure young people from disadvantaged backgrounds fulfil their potential at school and when transitioning to education, employment or training from ages 16 to 18. Stenham volunteers have engaged in a programme of 1:1 career advice and coaching to give students access to professional role models in their chosen industries.



Chief Investment Officer Kevin Arenson and his wife, Dana, are founding partners of **Sohn Tel Aviv**. The Foundation funds groundbreaking research, state of the art technology and programmes to target cures, treat and improve the care of children with cancer, Rett Syndrome and other childhood illnesses. The Sohn Conference is one of the most prestigious financial events held in Israel, where speakers reveal their best investment ideas. Proceeds from the conference are donated to fund medical research into finding cures for diseases. To date, Sohn Tel Aviv has raised nearly 5 Million Shekels to support charitable causes.



“I volunteer my time at a primary school in Leatherhead. This includes regularly going in to read with children or to assist in a classroom. I also serve as a governor at the school, which oversees its management. In the community, I look out for my elderly neighbours and do a bit of shopping for them if they need it.”

Ann-Marie Bevan
Client Services Manager

The **Smiling Children's Centre** is a charitable organisation caring for children in Ethiopia. One of our clients is a benefactor and we lend our support with an annual donation.

Catherine Griggs, Managing Director in Guernsey, is on the board of a local charity, **Health Connections**, whose aim is to connect the people of the Bailiwick of Guernsey to support activities that matter to them, and which improves their health and wellbeing. This is achieved by:



- maintaining a one-stop directory of community support and developing community projects that connect people to support
- offering one-to-one sign-posting support and advocacy at points of transition in peoples' lives and to those who are receiving medical treatment and care on and off island
- providing a community transport service, which enables people to easily access opportunities for social connection and services and activities that support their health and wellbeing (6,000+ passenger journeys in 2020)

Catherine's responsibilities include fundraising and overseeing the finances of the charity, as well as occasionally helping out in the pre-loved shop.

"For the past several years, I've been volunteering for **Harrow Mencap**, a charity with a vision to change attitudes so that people with a learning disability, physical disability or other disadvantage are seen as equal citizens with equal rights. Mencap provides opportunity, promotes change, fundraises, connects communities and helps to change lives. I am mostly involved in fundraising across the board (supermarket collections, etc.) and the connecting communities programme."

Charmaine Jordan
Compliance Consultant



Employee Wellbeing

Stenham is subscribed to **Health Assured**, an Employee Assistance Programme (EAP), which is designed to help employees deal with personal and professional problems that could be affecting home or work life, health and general well-being. Informative articles and self-help guides provide support on a range of health advisory issues as well as a 24-hour phone line to aid employees' physical and mental health.

Diversity and Inclusivity

We treat all employees and candidates on an equal and fair basis, without discrimination based on age, race, gender, colour, sexual orientation, ethnicity, physical ability, religion or political views. We encourage diversity and tolerance towards each other, both with regard to employees and external stakeholders

Stenham's workforce is diverse and multi-cultural. 41% of staff are female and we have three single parent employees. We have women in senior positions, and we strive to promote diversity and inclusion when recruiting.



Governance

- We operate at the highest level of integrity at both the investment and operational level
- Our boards are fair and diverse, and our fund boards have at least two independent directors at all times
- We continuously aim for best practice in all areas of our business

The purpose of corporate governance is to help build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies.

Integration at Investment Level

Fund of Hedge Funds

Our investment style is focused on capital preservation and our duty to clients is to deliver strong risk adjusted returns by avoiding extreme loss while finding managers that deliver sustainable alpha. In order to do that we must understand and quantify all measurable risks. As mentioned, we believe that ESG factors are an increasing component of such risks, however, we do face some challenges. We invest across a number of asset classes, with some strategies taking a very short-term time horizon. The data available on ESG factors varies by asset class and strategy with limited ability to assess ESG metrics in a systematic way. As this improves over time, so too will our ability to assess such factors.

Our main area of focus to date has been on governance factors, something which has been an inherent part of our investment process for many years. We have a dedicated Operational Due Diligence (“ODD”) division responsible for assessing every aspect of a business’s operations to ensure they meet the required standards. These include, but are not limited to:

Organisational Structure	Adequate segregation of duties, employees are qualified and experienced, boards are diverse and correctly structured and there is no unusual level of employee turnover
Conflicts of Interest	Conflicts are correctly identified and managed
Legal, Regulation & Compliance	Correct procedures, people and processes are in place to correctly implement and monitor legal or regulatory requirements
Risk Management	The manager is operating in accordance with its stated objectives and risk management policies
Internal Processes	Correct control measures and systems are in place
Third-Party Service Providers	No excessive counterparty risk and each service provider has the correct controls and procedures in place
Transparency	Adequate information to correctly assess risks present at both an operational and investment perspective
Pricing & Valuation	Independent verification of the assets and pricing of the portfolio

Stenham's standardised ODD report rates each of these areas independently, from 'A – Excellent' to 'E – Very Poor'. This analysis results in an Approved or Not Approved status. Any fund receiving an E in any one area of its operations is automatically rejected. Only approved funds can be put forward to the Investment Advisory Committee for review. A detailed ratings matrix outlines our expectations of findings in each area. It is important that the ODD division has power of veto over fund approvals and has exercised this veto on a number of occasions when an investment did not meet the necessary requirements.

While this process is focused on governance and does not explicitly set out environmental and social factors, we have established a similar process for collecting such information from underlying managers. Based on the strategies in which we invest, which means we are exposed to a range of different asset classes and thousands of instruments, it is difficult to ensure full ESG compliance. Therefore, at this stage we seek to understand our underlying managers' approach to ESG. We request that all existing and prospective managers respond to our request to complete the AIMA Responsible Investment DDQ. A ratings matrix similar to the above has been created based on our expectations of answers to each of the questions in the DDQ. Given the complexity of the underlying investments, we have not at this stage set out criteria for exclusion or not approving a manager, other than on governance factors as covered under ODD. However, the completion of the ratings matrix gives us a greater understanding of the approach each of our underlying managers take and where we have the opportunity to engage with those who could make improvements.

We would note however, that as part of our overall policy, any manager that had significant, discretionary exposure to investments believed to be environmentally or socially harmful would also be vetoed. ESG is now a standing agenda item at our monthly Investment Advisory Committee meeting where the matrix of each manager being approved is presented and discussed.

Stenham Equity Fund

Governance

Alongside our fundamental research process, we realise the importance of strong corporate governance in the businesses that we invest in. As such, we utilise a third-party provider to evaluate corporate governance and relevant proxy voting considerations. We seek to invest in businesses where management compensation and incentives are aligned with that of shareholders and increasing value per share over the long term and not the short term. Furthermore, we look to analyse the historical practices of a given business to identify if there have been instances where codes of conduct or regulatory breaches have occurred in order to establish whether this poses a risk for the future investment outlook. Lastly, we examine the risk management framework in place by management teams for potential business disruptions. Those businesses that screen poorly on this basis, or that do not disclose sufficient information around these issues and broader governance protocols, are negatively evaluated from our investment process. Given that we run a concentrated and high conviction investment portfolio of 15-20 positions, we seek out the best-in-class businesses across our investment criteria.

ESG Rankings

We have built a framework and process to account and analyse for ESG factors when investing in a prospective business. ESG factors are considered through our due diligence process of an investment both through a quantitative and qualitative lens. From a quantitative perspective, we consider the rankings produced by MSCI and Bloomberg which evaluate businesses across multiple metrics and rank them on both an absolute and relative basis. Moreover, we combine this with a qualitative evaluation of ESG factors in our analysis through company filings disclosures (annual reports, quarterly reports, etc.) such as executive compensation being tied to certain ESG milestones and progress or a corporate culture that promotes and rewards diversity; inclusion and social wellbeing for their employees. We are well aware that ESG factors have the potential to impact the future cost of capital for an investment, i.e., it is our best approximation that ESG can indeed have a greater impact (versus specific fundamental changes) on the future returns on any given business that we invest in.

In Conclusion

Reporting & UNPRI



The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders.

In our first year of voluntary reporting, we received an 'A' rating for our Fund of Hedge Fund business. While the Stenham Equity Fund received an 'E' rating, we had not anticipated reporting on this business stream at the time and our application of ESG principles to the Fund was limited. We have subsequently engaged with a third-party provider to evaluate corporate governance and relevant proxy voting considerations with the aim to improve our UNPRI rating.

Covid-19 Update

During the global Covid-19 pandemic, businesses across the world have been forced to operate remotely. The long-term potential environmental impact of increased use of technology and remote working is yet to be seen, but it is likely that there will be a reduction in business travel, commuting and carbon footprint for office environments. As a silver lining, there may be some unforeseen environmental and work/life benefits which take effect following the pandemic.

Stenham's IT team has been integral to our Covid-19 business response. From setting up telephone forwarding and video calling software, to ensuring that all members of staff had the required equipment to work effectively from home and everything in between. They have enabled us to transition seamlessly to remote working, ensuring that we can continue to provide a full service to our clients.

Outlook 2021 – 2022

Fund of Hedge Funds

We continue to explore areas in which we can advance our commitment to responsible investing in all areas of the business. In particular, we are in the process of developing a potential ESG-specific product, conducting research across the industry and engaging with existing clients and prospects to better understand their needs.

IT

We will continue to use local suppliers where possible and to recommend and purchase energy efficient equipment such as laptops, desktops, monitors, etc. With the likely return to the office in some form or another in 2021, we will continue to recommend and use electronic documentation where possible. In the event that a large print is required, local print shop suppliers will be used.

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