

# BLI General ESG Policy

February 2018

## BLI and ESG

BLI's equity investment strategy consists of investing in companies that respect the quality and valuation criteria of our Business-Like-Investing stock-selection methodology. In this truly active investment approach, we are not swayed by whether companies are included in indices or their weighting. Our ability to fully comprehend a company's business model and identify a tangible competitive advantage is the starting point for a comprehensive financial analysis.

BLI's Multi-management concept uses the extensive possibilities offered by open architecture and asset-allocation flexibility to build a range of portfolios offering different types of risk-return profiles. The key idea is to identify investment funds meeting our comprehensive quantitative and qualitative criteria, and give them sufficient time to develop their alpha, while implementing an active strategy to master the overall portfolio risk level.

The emergence of mainstream ESG (environmental, social and governance) research gives BLI the opportunity to consider extra-financial criteria to complement our fundamental financial research in order to deepen our understanding of targeted companies. Extra-financial research can pinpoint risk dimensions of potential investment candidates that would not be considered using traditional financial research. Given the vast array of definitions and evolving approaches to Responsible Investment (RI), we consider the integration of ESG factors as a learning process and a step in promoting best practice. We expect our strategy to evolve over time in order to reflect our thinking in terms of ESG.

This document will describe how BLI intends to gradually incorporate extra-financial research into its investment methodology.

## **Business-Like-Investing approach and UN PRI**

As equity fund managers, we apply a disciplined investment philosophy based on the principles of Business-Like Investing (BLI), which means that we consider our investments as stakes in a business with a long-term investment horizon. We are constantly on the lookout for quality companies with a tangible competitive advantage that generate high levels of profitability and free cash flow. Such companies have the potential to create long-term value for their shareholders.

The companies we consider investing in must have a sustainable competitive advantage and offer attractive prospects for growth. All stock selection, investment and sale decisions are based on a fundamental analysis of each company. We only invest in a company when its valuation is attractive and its share price provides a safety margin compared to the company's fair value.

Our fundamental investment methodology aims to produce portfolios offering below-average volatility and, over a complete business cycle, above-average performance. In order to further enhance the risk-return profile of our products, the integration of non-financial criteria into our investment process is a logical step, especially given the wide range of external ESG research now available. This prompted our decision to become a signatory to the United Nations Principles for Responsible Investment (UN PRI) in June 2017.

### **The 6 principles are as follows:**

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

We are convinced that by analysing all potential risk aspects, financial as well as extra-financial, we will be able to make better-informed investment decisions that will generate sustainable returns. In this respect, we consider ESG issues in our investment analysis as an additional and useful means to mitigate risks in our investment portfolios. It offers us another perspective and allows us to gain further insight into targeted companies.

## BLI's Approach to Responsible Investing

Responsible Investment is defined by the UN PRI as follows: *“Responsible Investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risks and generate sustainable, long-term returns.”*

The Principles agree that definitions of ESG factors are numerous and ever-shifting. A non-exhaustive list of such factors includes:

<b>E</b>	Climate change, greenhouse gas emissions, resource depletion, water and air quality, waste and pollution, deforestation.
<b>S</b>	Working conditions, slavery and child labour, health and safety, employee relations and satisfaction, local and indigenous communities, conflict.
<b>G</b>	Executive pay, bribery and corruption, political lobbying and donations, board diversity and structure, tax strategy.

Given the numerous approaches, from Responsible Investment and Socially Responsible Investment (SRI) to impact investing, green investing and ethical investing, it is important to define BLI's approach to Responsible Investment.

Since we consider ESG factor analysis as a way of limiting risk in our portfolios, we do not confine our focus to one specific domain (e.g. as green funds do) but consider a range of ESG dimensions in order to gain a solid overview of the risks involved and make better-informed investment decisions. Being involved in the UN PRI community allows BLI to play its part in promoting best practice in the global financial system.

In this light, the expansion of our research to include ESG factors is a natural progression of our investment methodology now that reliable data has become available. Our objective remains to achieve above-average risk-adjusted returns thanks to our bottom-up approach and thorough analysis of the targeted companies. The ESG framework is thus an additional tool that will help us achieve our investment objectives.

## Implementation strategy

Within the UN PRI framework, signatories need to comply with a set of minimum standards, and display steady measurable progress. BLI's approach is to implement the described ESG concept in a measured and progressive way.

**Equities:** after conducting in-depth research on Responsible Investment, the UN PRI and related industry trends, we have chosen an external service provider, MSCI ESG Research, to gain access to reliable and comprehensive data on ESG issues. This tool delivers detailed ESG and controversy reports for nearly all our holdings and will enable us to apply general and specific screens to our investment universe while conducting exclusionary and/or best-in-class screening.

A next step in the implementation process is the introduction of an ESG-compliant voting policy in 2018, which will be carried out in collaboration with a service provider offering proxy voting.

**Multi-management:** The core objective of BLI's fund selection process is to reach a thorough understanding of targeted third-party funds and all the factors that may have a direct influence on them, one of these factors being the Fund Management's positioning in terms of ESG. BLI's Multi-management team engages with the promoters of targeted funds that are not yet signatories of the UN PRI and invites them to become a member of the PRI community.

**ESG Committee:** BLI's ESG council, the "*Comité Investissement Socialement Responsable (CISR)*", acts as a discussion forum for ESG issues within BLI and as the governing body for BLI's UN PRI project. It is responsible for regular reviews of industry developments and for the sound implementation and cautious revision of the ensuing timeline and policy. The permanent committee members are representatives from all relevant BLI teams. In a bid to foster an open exchange on ESG issues, all BLI staff members are encouraged to attend the committee. RI measures are being integrated into our portfolios by the fund managers, with the assistance of the *CISR*. All decisions are made in collaboration with every impacted team at BLI.

The implementation of UN Principles of Responsible Investing is an ongoing and developing process. We embrace the possibility to be part of this movement and are convinced that it will further strengthen our long-standing investment methodology.