

How The London Company Approaches ESG



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Philosophical Alignment

The London Company manages focused equity portfolios utilizing a process foremost oriented toward downside protection. By protecting client assets in negative market environments, we believe we can generate meaningful excess return at significantly lower levels of volatility over full market cycles. Importantly, our view is long-term, and we invest through the lens of a business owner.

To accomplish our objectives we embed risk mitigation throughout the process, assessing all factors that could affect the long-term viability of a company. As such, we view ESG (Environmental, Social, and Governance) integration into the investment process as a critical risk management tool and an opportunity to identify companies that are taking a longer-term view and leading the way in a changing environment. We believe any enterprise that wants to exist for the long term has to address the ESG issues its business may face.

Our Evolving Integration of ESG Factors

Since our founding in 1994, we have closely monitored corporate governance and management actions to ensure management incentives are aligned with shareholders. We have sought management teams with strong track records of wise capital allocation decisions.

Beginning in 2017, we more formally began to integrate the 'E' and 'S' factors into the investment process, recognizing that companies will need to address all ESG issues actively to capitalize on opportunities and to avoid problems that could have an adverse impact on their financial well-being. Since ESG issues may impact a company's growth rate, profitability, or cost of capital, we evaluate these factors for potential new investments, as well as existing portfolio positions.

Our goal is not to be an activist investor, but we strive to be active owners with a thoughtful level of engagement. Responsible investing and ESG are part of the way we invest, and we encourage our portfolio companies, partners, and vendors to incorporate these practices into their businesses.

Along the way, The London Company became a United Nations Principles for Responsible Investing (UNPRI) signatory, publicly demonstrating our commitment to integrating ESG factors in our investment decision making and ownership. We believe the goals of the UNPRI are consistent with our long-term owner mindset.

Engagement

The London Company engages with companies on ESG in a number of ways, primarily through proxy voting and discussions with management.

- **Proxy Voting** – Our standard policy is to vote in line with the recommendations of our proxy service provider, ISS, itself a UNPRI signatory. The investment team, however, reviews each proxy and will vote consistent with our fiduciary obligation to our clients, if they differ from what ISS recommends.
- **Discussions with Management** – We address relevant ESG issues as they pertain to our fiduciary responsibility and encourage portfolio companies towards best practices. If one of our potential investments or portfolio companies ranks poorly per Sustainalytics (a leader in ESG risk analysis), we will discuss the issues in question with the company's management team. As part of our engagement, we encourage our portfolio companies to move towards the Principals of Responsible Investing Standards of Disclosure, where appropriate.
- **Interaction with Clients** – In addition to integrating ESG into our analysis, we also work with clients on an exclusionary basis, where clients provide a list of prohibited securities. We also can ensure we adhere to certain rules like limitations on exposure to tobacco or firearms using tools from Style Analytics.

ESG Data and Vendors

The investment team discusses ESG factors affecting any company and utilizes ESG data and research from vendors including Sustainalytics and Style Analytics.

Sustainalytics provides us company reports that give an overall ESG risk rating, an ESG controversies report, as well as details on each company's progress in areas like human capital, carbon footprint, diversity, data privacy, etc. Separately, Style Analytics incorporates many ESG factors from Sustainalytics and other sources into its database. Using Sustainalytics, we can plot our portfolios against index benchmarks to assess relative risk exposures at the ESG factor level. The tool can also provide a risk rating to the overall portfolio based on the underlying factor exposures as well as the management of those risks.

Using Style Analytics, we can review any of The London Company portfolios vs. an index on various ESG factors and drill down to the individual company level. We can also review each company's product involvement in various areas that may be concerns from an ESG standpoint.

Style Analytics also allows us to track product involvement at any company in our portfolios. If there are product exposures that we believe involve greater risk, we may avoid the company or place greater focus on those areas during our discussions with management. Some of these product exposures are often viewed more negatively by investors. We can use this data to assist with clients that prefer to limit exposure to one or more areas.

We can also screen for companies that are investing in sustainable projects like affordable housing, energy efficiency, renewable energy, pollution prevention, and other environmental and social causes. We review data on 12 thematic areas covering 35 product categories related to Sustainable Development Goals. The 12 areas are listed below.

Using the data from Sustainalytics and Style Analytics, we can identify companies whose products and services positively contribute to social and environmental challenges. This helps us understand the depth of each company's involvement.

Conclusion

ESG factors have become an important facet of the investment decision-making process for some individuals. The London Company believes strongly in holding to the same investment principles we have operated under since day one. ESG factors inform our investment process, but they do not dictate our decision making. We aim to be long-term investors in high quality businesses. Any enterprise that wants to exist for the long term has to address the environmental, social, and governance issues its business may face in order to capitalize on opportunities and to avoid problems that could have an adverse impact on their financial well-being. Our goal is not to be an activist investor, but rather active owners with a thoughtful level of engagement.

Sustainalytics Sustainable Product Research: Thematic Areas

