A responsible investment approach

We believe that your investments should be directed towards companies that operate under sound environmental and social policies with strong governance structures to help achieve sustainable returns over the long term.

You've probably heard the terms ethical, sustainable, responsible and impact investing, which are popular descriptions of investment approaches that consider environmental, social and governance (ESG) factors as well as financial returns. In the broadest sense, they all reflect a common ambition to use investment capital to respond to a wide range of social and environmental problems.

Investing sustainably involves considering not just how companies are managed but other issues too – from the impact they have on the environment to the roles they play in society. Investors are embracing this approach because there's mounting evidence to suggest these issues affect how companies perform over the long term. The coronavirus pandemic has also put many social and environmental issues into the spotlight.

One of the difficulties with sustainable investing is that there's no standard definition of what it means. However, ESG factors provide a useful set of standards to assess potential investments. Incorporating ESG factors into investment decisions requires a qualitative and active approach and in doing so, investment managers can manage risk more effectively and improve returns..

ESG analysis is integral to our decisions

Identifying sustainable investments involves considering all factors that can affect long-term financial performance, including environmental, social and governance (ESG) factors.

Environmental	Social	Governance
Climate change	Working conditions, including slavery and child labour	Executive pay
Greenhouse gas (GHG) emissions	Local communities, including indigenous communities	Bribery and corruption
Resource depletion, including water	Conflict	Political lobbying and donations
Waste and pollution	Health and safety	Board diversity and structure
Deforestation	Employee relations and diversity	Tax strategy

Source: United Nations Principles of Responsible Investment.

Making good financial sense

Investing in well-managed companies that have a positive impact on society and the environment makes good financial sense. For example, if a company suffers reputational damage because it's been involved in an oil spill, is discovered to be treating its workers poorly or accused of corruption, its share price will probably suffer.

Meanwhile, companies that use energy efficiently, invest in training their employees and pay their executives reasonable bonuses are likely to outperform their competitors and return more value to shareholders. Over the long term, they are also better prepared to meet future strategic challenges and take advantage of new business opportunities.

At Omnis we are advocates of ESG investing because we believe it should generate better outcomes. We're also committed to using our voice as shareholders to drive positive change through engagement. Our research process focuses on selecting investment managers that are the right fit for our funds, and we work alongside them to understand how they consider ESG factors as part of their investment process.

We discuss this at every review meeting we conduct and it is embedded into our investment process. It is therefore no surprise that 100% of the investment management firms we partner with are signatories of the United Nations Principles of Responsible Investment (UN PRI), the leading network for investors demonstrating their commitment to responsible ownership and long-term, sustainable returns. Below are three examples of how they approach these issues.

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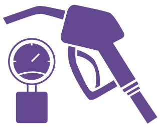
Engaging on climate change



Jupiter manages the Omnis Income & Growth Fund and is committed to engaging with the companies in which it invests. For instance, it believes energy companies such as BP don't need additional capital from financial markets and so reducing the pool of potential investors is unlikely to have a significant impact on company strategy. Shareholder engagement is therefore likely to be more effective in driving change at a company level, which would in turn have a positive impact on climate change.

One example of what is possible is the shareholder resolution at the recent AGM, which Jupiter co-filed. The resolution passed with near-unanimous shareholder support and requires BP to disclose how its business strategy — including each new material capital investment — is consistent with the goals of the Paris Agreement on climate change.

In February 2020, BP announced its new radical climate change strategy to achieve "net zero" emissions by 2050. As a result of Jupiter's engagement, BP's mix will shift further towards fuels with lower carbon intensity. This is a good outcome, both for BP shareholders and the environment, and is unlikely to have happened if the consensus was to divest from oil and gas entirely.

You may find it interesting to watch this video from BP's CEO Bernard Looney at BP Week 2020, where he outlines this new strategy.

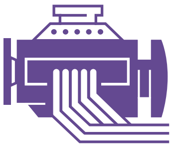
Improving ESG credentials

As manager of the Omnis Absolute Return Bond Fund, **Federated Hermes** invests in Suzano, the world's largest paper and pulp producer. Although the company still has room for improvement in ESG terms, it is moving in a positive direction following shareholder engagement.

After moving to a single share class, Suzano has taken steps to increase the number of independent directors on its board, from five at the end of 2019 to seven at the end of 2020. The sustainability committee now also reports directly to the board of directors, and the 2019 sustainability report follows Global Reporting Initiative (GRI) guidelines.

In addition, the firm has set a carbon-positive target that aims to capture and store more carbon than it emits by 2030. This goal also includes reducing specific emissions by 15%. All of Suzano's production is now certified according to the Forest Stewardship Council, or comparable standard, and the company should benefit from increased demand for plastic substitutions, particularly single-use plastics.

Embracing innovation



Fidelity International manages the Omnis Global Emerging Markets Equity Leaders Fund and invests in Weichai Power, China's largest heavy-duty truck engine maker. Although it's in a traditionally carbon-intensive industry, the firm has made solid progress in becoming more environmentally friendly.

Structurally, the Chinese vehicle emissions standards have been upgraded so that the requirements have gone from lagging those of Europe to outpacing them. At the same time, Weichai has widened its technological leadership, with its market share expanding from 27% in 2016 to an estimated 34% in 2020.

The company has created an engine that offers 50% fuel efficiency – higher than the industry average of 45% in China and 46% in Europe – which will save users 6–7% on fuel costs. Over the next five years, Weichai is planning to gradually replace all existing products with technology that is classed as 50% fuel efficient. Recently, the firm also announced that it would be investing in fuel-efficient technologies such as fuel cell and hydraulic CVT.

Overall, Weichai is one of the top players in the global truck engine industry and the company is on the right track to solidifying its leading position given its early start on research and development on fuel cell technology.

Creating a sustainable financial future

Omnis is committed to active investing and we aim to be responsible stewards of our clients' investments within a framework of good governance and transparency. Our investment managers have integrated ESG analysis into their processes and have the flexibility to adapt their approaches to various situations – whether they're engaging to drive change, recognising a company's ESG journey or finding companies that can adapt to moving ESG trends.