

**This Information Statement is accurate as at: 09 June 2023**

**Northern Trust High Dividend ESG World Equity Feeder Fund ("the Product")**

**LEI: 635400Y4TML22IXBXY92**

## **Sustainability-related Investment Disclosures**

### **SUMMARY**

The Northern Trust High Dividend ESG World Equity Feeder Fund (the "Product") will invest at least 85% of its assets in the Northern Trust High Dividend ESG World Equity Fund (the "Master Fund"). The Master Fund promotes environmental or social ("E/S") characteristics but does not have a sustainable investment objective. The Master Fund commits to having a minimum 10% in sustainable investments.

The Master Fund is an active strategy, that seeks to deliver long-term capital growth by investing in a diverse portfolio of high quality, dividend paying companies whilst controlling for market risk and aiming for an improvement in the environment, social and governance (ESG) characteristics of the portfolio.

The Product presently intends to invest 0% of its assets in investments that contribute to environmentally sustainable economic activities in accordance with the Taxonomy Regulation. The remaining allocation of the Product is expected to be used for cash and other ancillary purposes.

The Master Fund does not have a specific Index designated as a reference benchmark with E/S characteristics.

The Master Fund's characteristics are coded into our investment management system to enable pre and post trade monitoring. Certain targets and, thresholds, exclusions that are relevant to the Master Fund strategy are monitored by the investment team and independently monitored by the risk team and reported to the Master Fund's Product's board of directors.

The investment manager has agreements in place for the use of third party ESG data from a number of preferred providers. We may use one or more of these providers' ESG datasets to attain each of the E/S characteristics in the construction, reporting, research and analysis process of our products.

The primary limitation to the methodology or data source is the lack of corporate disclosure particularly in relation to companies outside of the EU. Additionally, sourcing adequate information on the principal adverse indicators ("PAI") has been challenging. Such limitations have led to the use of proxies, in place of a particular PAI(s), as part of our assessment of significant harm. We also see divergence in methodology between data providers which can lead to different outcomes.

The Product, through the Master Fund, uses the NT Custom ESG Screening Criteria and is based on research from our relevant data provider. The NT Custom ESG Screening methodology is rules-based and generates a list of exclusions which align with international norms, standards, treaties and codes. These exclusions are coded into our investment systems pre and post trade (where applicable) to enable independent oversight.

Hermes Equity Ownership Services ("Hermes EOS") has been appointed to carry out corporate engagement with carefully selected companies held within the Master Fund and to seek ways to improve their performance. Proposals for engagement, whether generated by Hermes EOS or the Master Fund, usually involve risks and concerns relating to strategic, operational, legal, social, environmental, ethical or governance principles, or a breach of the Hermes responsible ownership principles or its regional policies.

Engagements may relate to longer-term strategic, ESG issues, which may not have immediate stock-specific impacts, for example where the company's shares are fully valued, and the intent is to preserve that value. Hermes EOS will escalate its engagement according to the nature and severity of the concerns.

## **NO SUSTAINABLE INVESTMENT OBJECTIVE**

The Master Fund promotes environmental or social characteristics, but does not have as its objective a sustainable investment.

*How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?*

In order to deem an investment a sustainable investment, it must not only satisfy the positive contribution test, but also a 'do no significant harm' ("DNSH") test designed to ensure that no significant harm is caused to any environmental or social investment objective.

Our assessment of harm involves the use of a set of diverse environmental and social indicators for example, Greenhouse Gas emissions ("GHG"), carbon footprint, GHG intensity of investee companies etc. coupled with our own proprietary thresholds. These thresholds represent a value or metric at which we believe there is a risk of significant harm. In practice, this means that an investee company can only be deemed a sustainable investment under our definition if it a) meets our minimum positive contribution test; b) the indicators for harm are under the proprietary thresholds set at specific points in time and lastly c) that investee companies follow good governance practices and are aligned with minimum safeguards such as OECD guidelines for Multinational Enterprises.

*How have the indicators for adverse impacts on sustainability factors been taken into account?*

The Product, through its investment in the Master Fund, considers adverse impacts through a range of criteria that form part of the investment strategy including the NT Custom ESG Screening Criteria. These criteria provide a strong ethical foundation in line with international norms and are regularly updated following our own research, as well as feedback from our clients. Added to this, we have secured access to a range of ESG data providers and datasets to help us to carry out this assessment and ongoing monitoring.

For sustainable investments specifically, and as described above, our assessment of harm involves the use of a set of diverse environmental and social indicators with proprietary thresholds.

Lastly, consideration of adverse impacts form part of our focused engagement and voting activities designed to help influence the business models of investee companies to transition to a more sustainable future.

*How are the sustainable investments aligned with the OECD guidelines for multinational enterprises and the UN Guiding Principles on Business and Human Rights? details:*

Through the Master Fund, the Product applies the NT Custom ESG Screening Criteria methodology to identify and exclude companies that do not adhere to international norms such as:

- OECD Guidelines for Multinational Enterprises;
- the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight Fundamental conventions identified in the Declaration of the International Labour Organisation ("ILO") on Fundamental Principles and Rights at Work; and
- the International Bill of Human Rights.

The implementation of these exclusions happens through the use of third party controversy data used as a proxy to assess the negative environmental, social and governance impact of a company's operations, Products and services.

In practice, this means that all investee companies are aligned with these minimum safeguards, not only the sustainable investments.

## **ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT**

*What environmental and/or social characteristics are promoted by this financial product?*

The Master Fund has the following E/S characteristics: (i) applies ESG exclusions; (ii) excludes companies which have faced controversies pertaining to ESG issues; (iii) targets a 20% improvement in ESG characteristics to favour companies that are more effective at managing ESG risks and opportunities and (iv) seeks to achieve a reduction in the carbon intensity and potential emissions associated with current fossil fuel reserves, relative to the Index.

As its investment strategy, the Master Fund seeks to deliver long-term capital growth by investing in securities of MSCI World Index which exhibit high quality, dividend paying companies and have favourable ESG characteristics, while excluding securities that do not meet specific ESG criteria to be in line with international norms.

Please refer to the Product and Master Fund Product supplement and annex for a complete list of sustainability indicators used to measure the attainment of the E/S environmental and/or social characteristics promoted by this Product.

## INVESTMENT STRATEGY

### *What investment strategy used to meet the environmental or social characteristics promoted by the product follow?*

The Master Fund is an active strategy, that seeks to deliver long-term capital growth by investing in a diverse portfolio of high quality, dividend-paying companies whilst controlling for market risk and aiming for an improvement in the ESG characteristics of the portfolio, while excluding securities that do not meet specific ESG criteria to be in line with international norms.

The investment process is to establish the securities eligible for investment by excluding from the list of securities within the MSCI World Index companies that do not meet certain ESG criteria as detailed in the Product annex.

An optimisation is applied that aims to achieve the characteristics set out in the supplement, including a 20% improvement in ESG characteristics of the Master Fund on an ongoing basis relative to the Index. This is achieved by integrating ESG characteristics to favor companies that are more effective at managing ESG risks and opportunities, including:

- Up to 20% increase in the portfolio weighted average MSCI ESG Intangible Value Assessment score of the portfolio; and;
- At least 20% upweighting of exposure to ESG Leaders i.e. those with MSCI ESG ratings of AAA and AA.

A reduction in the carbon intensity of the portfolio and reduced potential emissions associated with current fossil fuels reserves, relative to the Index, is also targeted.

### *What is the policy to assess good governance practices of the investee companies?*

An assessment of good governance of investee companies of the Master Fund is achieved through the use of our data provider's ESG Controversy screen, a proxy framework designed to address governance topics consistent with international norms represented by the UN Declaration of Human Rights, the ILO declaration on Fundamental Principles and Rights at Work, the OECD Guidelines and the UN Global Compact.

In order to identify the controversy, our chosen data provider assesses the negative environmental, social and governance impact of the investee companies operations, Products and services. It also identifies breaches of international norms through the use of controversy proxies which are assessed based on the scale and severity of the controversy.

Severity may vary depending on the nature of the controversy but generally includes metrics such as:

- the percent of shareholder votes or number of shareholders voicing an opinion,
- number and position of executives or directors involved,
- number and type of external parties voicing an opinion, or
- the portion of the company that is affected or implicated.

For other governance issues, scale is generally measured by:

- the length of time an activity was ongoing,
- the size of the market or government affected, or
- the scale on which either company executives or external parties such as government officials were involved.

## PROPORTION OF INVESTMENTS

### *What is the asset allocation planned for this financial product?*

The Product invests at least 85% of its assets in the Master Fund which is intended to be at least 90% invested in companies that meet our ESG criteria. Of this, a minimum of 10% will be invested in sustainable investments.

The Product presently intends to invest 0% of its assets in investments that contribute to environmentally sustainable economic activities in accordance with the Taxonomy Regulation. The remaining allocation of the Product is expected to be used for cash and other ancillary purposes.

## MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

### *How are the environmental or social characteristics and the sustainability indicators monitored throughout the lifecycle of the financial product and the related internal/external control mechanism?*

Where possible, the Master Fund's characteristics are coded into our investment management system to enable pre and

post trade monitoring. Any set targets, thresholds, exclusions that are relevant to the Master Fund strategy are monitored by the investment team and independently validated by the risk team and reported to the Master Fund's board of directors.

Other monitoring is undertaken in a variety of ways including:

- Reviews are performed to reconcile against our data providers to ensure screened and excluded securities are reflective of NT Custom ESG Screening Criteria.
- The proxy voting policy is reviewed on a periodic basis, including voting principles in relation to ESG topics. Changes to the policy are presented to the Proxy Voting committee.
- Product reviews are undertaken regularly to test that Products are operating in line with disclosures made.

## METHODOLOGIES

*What are the methodologies to measure how the social or environmental characteristics promoted by the financial product are met?*

The Master Fund aims to exclude companies based on various ESG Criteria. The Master Fund uses research and data from our third party data providers.

Please refer to the Product supplement and annex for the methodology used to measure the attainment of the E/S promoted by this Product found [here](#).

## DATA SOURCES AND PROCESSING

*What are the data sources used to attain each of the environmental or social characteristics? Describe the measures taken to ensure data quality, describe how data are processed and describe the proportion of data that are estimated.*

The investment manager's dedicated ESG integration team which is part of our Sustainable Investment and Stewardship team assists in identifying the most relevant and suitable data sources needed to attain the sustainability characteristics of the strategies. The selection of the data provider goes through an extensive due diligence process evaluating them on various parameters including, but not limited to, robustness of data providers research process, methodological approach, quality assurance, coverage.

The investment manager has agreements in place with multiple third party ESG data providers to ensure we have access to diverse views and utilising the best available options. We may use one or more of these providers' as deemed fit to attain each of the environmental or social characteristics in the portfolio construction, reporting, research and analysis process of our products.

Company reported data may not be available for all securities in the investible universe or may not be in a format that allows comparability or aggregation at the portfolio level. As such the investment manager and/or our ESG data provider(s) may use estimated or modelled data as a proxy. It is currently complex to report sufficiently accurate yet broad metrics on the proportion of data that is estimated. The share of modelled data will vary over time and across funds based on the investible universe. We continue to monitor developments in data availability and regularly review the datasets and tools available vis-à-vis new and emerging alternatives in terms of data coverage and quality.

## LIMITATIONS TO METHODOLOGIES AND DATA

The primary limitation to the methodology or data source is the lack of corporate disclosure particularly in relation to companies outside of the EU. We do not expect the corporate reporting landscape to change significantly until the anticipated introduction of Corporate Sustainability Reporting Directive ("CSRD") in 2025 and even then, we envisage continued challenges in markets outside of the EU.

Additionally, like other industry participants, adequate information on the PAI indicators has been challenging. To overcome this issue, we leverage multiple data providers to enable us to have a more holistic view from different perspectives. At present, we observe gaps in disclosures of PAI indicators by corporates resulting in the use of certain proxies or estimations by the third-party providers and where we have found limitations, and resorted to a relevant proxy, we have clearly designated it as such.

In terms of methodology, we frequently see divergence in the way that data vendors deal with certain topics. For instance, for GHG emissions, some vendors blend corporate reporting with modelled data. It has been a common experience to note that 'reported' data can vary between providers due to conflicting policies, quality assurance and other case-by-case factors. This has been evidenced by the numerous reports from industry associations and trade bodies such as Irish Funds and the Investment Association on the quality and transparency of ESG data products.

## DUE DILIGENCE

*What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?*

Due diligence is carried out on the underlying assets throughout the life cycle of the Master Fund.

Starting from product development, ESG objectives and criteria are determined from the outset with due diligence carried out on the investment universe. As part of its due diligence the investment manager assesses to ensure compliance with these requirements. ESG metrics of third-party data providers will typically be used to conduct this due diligence, based on the product offering documentation. The selection of the data provider goes through an extensive due diligence process evaluating them on various parameters including, but not limited to, robustness of data providers research process, methodological approach, quality assurance etc.

During the life of the Product, ESG criteria is monitored through the review of ESG data published by the selected data providers to determine whether the Product and its investments remain in line with its ESG objective. Product level ESG exclusions and screens are coded into our Investment Management System to enable pre and post trade monitoring (where applicable) as well as on-going independent oversight so as to seek to avoid or reduce the risk of breaches. You can find out more about our sustainability risk policy [here](#).

## ENGAGEMENT POLICIES

*Describe the engagement policies implemented where engagement is part of the environmental or social investment strategy, including any management procedures applicable to sustainability-related controversies in investee companies*

The holdings of the Master Fund are subject to investment manager's engagement program. In addition to our direct engagements in EMEA, we appointed Hermes EOS to act as agent of the majority of our pooled funds in EMEA. Hermes EOS' engagements are focused on ensuring companies are responsibly-governed and well managed to deliver sustainable long-term value as well as improving the lives of employees, promoting diversity and supporting communities.

Proposals for engagement, whether generated by Hermes EOS or the Master Fund directly, usually involve risks and concerns relating to strategic, operational, legal, social, environmental, ethical or governance principles, or a breach of the Hermes responsible ownership principles or its regional policies.

Engagements may relate to longer-term strategic, ESG issues, which may not have immediate stock-specific impacts, for example where the company's shares are fully valued, and the intent is to preserve that value. Hermes EOS will escalate its engagement according to the nature and severity of the concerns.

Hermes EOS conducts engagements with companies that are constituents of the Funds to seek positive change for investors, the companies and the societies in which they operate. Hermes EOS adopt their three-year engagement plans to explain their short-and-medium-term priorities and the links to the United Nations' Sustainable Development Goals.

Hermes EOS shall undertake portfolio company-specific engagements where it is believed that:

- Engagement will lead to an increase in the value of a company's shares over the long term; or
- Engagement will prevent or limit a decrease in the value of a company's shares over the long term.

Our engagement policy is available [here](#) for our EMEA pooled funds.

## DESIGNATED REFERENCE BENCHMARK

*Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental or social characteristics that it promotes? If yes, how that index is aligned with the environmental or social characteristics promoted by the financial product, and where can one find information with regards to input data, methodologies used to select those data, the rebalancing methodologies and index calculations?*

No, the Master Fund does not have a specific Index designated as a reference benchmark with E/S characteristics.

## IMPORTANT INFORMATION

This Information Statement is issued for information purposes only and is not intended as legal or investment advice, an offer or a recommendation about managing or investing assets and should not be used as the basis for any investment decision.

The information contained herein is current as of June 2023 and is subject to change without notice.

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