



UNDERSTANDING THE PMX ETHICAL EMPHASIS PORTFOLIOS

The guide below provides an explanation of the conceptual framework for, and construction of, the PMX Ethical Emphasis Portfolios with the aim of helping advisers to understand which clients they could be suitable for.

1. AIM OF THE PMX ETHICAL EMPHASIS PORTFOLIOS

To construct portfolios that behave in a similar risk-controlled manner to the PMX Core Active Portfolios (and so correspond to Financial Personality Assessment results), but utilise funds which put environmental, social and governance (ESG) concerns front and centre in their investment processes to try to drive positive social change.

2. KEY FEATURES

- Focus on achieving a positive social and environmental impact without sacrificing clients' financial objectives
- Through its constituent funds, seek to invest in securities which strongly benefit society
- Through its constituent funds, seek to improve the behaviour of the companies invested in
- Choose funds that explicitly seek to avoid investing in companies whose business models are misaligned with sustainability principles
- Option to achieve cheaper portfolios by tilting towards passive ethically-screened funds, although with the downside of slightly less focus on positive screening and company engagement, and slightly less strict negative screening

Note: As individual investors have different concepts about what exactly is positive or negative from a societal point of view, it isn't possible to design portfolios that will suit every single socially conscious investor or exclude every stock that could be considered problematic. The PMX Ethical Emphasis Portfolios have been designed to focus on investing in companies widely considered to have positive social attributes and to screen out those widely considered troubling with the expectation that this will be appropriate for the majority of socially conscious investors.

3. WHAT IS ETHICAL/SOCIALLY RESPONSIBLE INVESTING?

Socially responsible investing (SRI) goes by many different names including ethical investing, ESG (Environmental, Social, Governance) investing, green investing, sustainable investing or socially conscious investing. Historically, such investing was interpreted and applied narrowly by specifically

excluding certain 'problem' stocks such as tobacco companies and armament manufacturers (so called 'negative screening' techniques). Over time SRI investing has evolved towards so called 'positive investing' – investing in companies with positive social, environmental and governance attributes and actively engaging with companies to improve their policies and practices.

With regards to the PMX Ethical Emphasis Portfolios, whilst we believe negative screening is useful and should be incorporated within the investment process, we try to focus on using funds that embrace positive screening and engagement. This is easier to achieve with active funds, than with passive funds (see section 6 below).

4. CONSTRUCTION METHODOLOGY

The construction of the PMX Ethical Emphasis Portfolios starts with the PMX Core Active Portfolios as a basis, to which a "use only managers that focus on socially responsible investing" constraint is added.

With regards to asset allocation, ethical funds are not available in all the Core Active asset classes so the following compromises are made:

- High Yield is left out and, in its place, a greater allocation is made to Global Corporate Bonds
- Rather than the six regions for Core Active, equities are only broken down into three regions for Ethical Emphasis: Global Developed Equities, UK Equities and Emerging Market Equities. These asset classes are blended together to mimic the equity asset allocation of Core Active as closely as possible.

With regards to fund selection to implement the asset allocation, funds must meet PortfolioMetrix's existing criteria for selection (coherent philosophy and process, experienced people, a track record of strong performance) but must also demonstrate that a focus for socially responsible investing is successfully embedded in their philosophy and process.

5. OVERVIEW OF FUND SRI CHARACTERISTICS

The following funds appear in the Ethical Emphasis Portfolios:

✓	Has explicit positive screen
●	No explicit screen, but positive factors attract greater portfolio weight
✗	No explicit positive screen.
N/A	Not Applicable

Funds used in No-Tilt and Passive Tilt Portfolios

ASSET CLASS	FUND	POSITIVE SCREENING			COMPANY ENGAGEMENT	NEGATIVE SCREENS*
		ENVIRONMENTAL	SOCIAL	GOVERNANCE		EXCLUSIONS
Cash & Stable Income Assets	Royal London Enhanced Cash Plus	✗	✗	✗	N/A	Tobacco, Armaments
Cash & Stable Income Assets	Royal London Short Duration Gilts	N/A	N/A	N/A	N/A	N/A (Government Debt Fund)
Global Government Bonds	PIMCO Global Bond ESG Fund	●	●	●	✓	Tobacco, Armaments, Pornography, Coal
Global Corporate Bonds	Rathbone Ethical Bond	✓	✓	✓	✓	Tobacco, Armaments, Animal Testing**, Pornography, Gambling, Alcohol
Global Corporate Bonds	Muzinich BondYield ESG	●	●	●	✓	Tobacco, Armaments, Pornography, Gambling, Alcohol
Emerging Market Bonds	First State Emerging Markets Bond	●	●	●	N/A	N/A (Government Debt Fund)
Global Developed Equities	Stewart Investors Worldwide Sustainability	✓	✓	✓	✓	N/A (By-product of positive screens is controversy avoidance)
Global Developed Equities	F&C Responsible Global Equity	✓	✓	✓	✓	Tobacco, Armaments, Pornography, Gambling, Alcohol, Fossil Fuels
Global Developed Equities	Janus Henderson Global Sustainable Equity	✓	✓	✓	✓	Tobacco, Armaments, Animal Testing**, Pornography, Gambling, Alcohol, Fossil Fuels
Global Developed Equities	WHEB Sustainability	✓	✓	✓	✓	N/A (By-product of positive screens is controversy avoidance)
UK Equities	Premier Ethical	✓	✓	✓	✓	Tobacco, Armaments, Pornography
UK Equities	Royal London Sustainable Leaders Trust	✓	✓	✓	✓	Tobacco, Armaments, Animal Testing**, Pornography, Gambling, Alcohol
UK Equities	Janus Henderson UK Responsible Income	✓	✓	✓	✓	Tobacco, Armaments, Animal Testing**, Pornography, Gambling, Alcohol
UK Equities	Liontrust Sustainable Future UK Growth	✓	✓	✓	✓	Tobacco, Armaments, Animal Testing**, Pornography, Gambling, Greenhouse Gases, Fossil Fuels
Emerging Market Equities	Candriam SRI Equity Emerging Markets	●	●	●	✓	Tobacco, Armaments, Pornography, Gambling, Alcohol
Emerging Market Equities	BMO Responsible Global EM Equity	✓	✓	✓	✓	Tobacco, Armaments, Pornography, Gambling, Alcohol
Emerging Market Equities	Somerset Global Emerging Markets Screened	✓	✓	✓	✓	Tobacco, Gambling
Global Property	Sarasin Sustainable Global Real Estate Equity	●	●	●	✓	N/A (Property Fund)

* On a complete exclusion basis or in some instances (where the activity is not the main source of company revenue) revenues from the activity are below a small minimum level

** No animal testing on consumer products or cosmetics, but may include companies where animal testing is required by law – e.g. pharmaceutical company medicine testing

Funds only used in Passive Tilt Portfolios

ASSET CLASS	FUND	POSITIVE SCREENING			COMPANY ENGAGEMENT	NEGATIVE SCREENS*
		ENVIRONMENTAL	SOCIAL	GOVERNANCE		EXCLUSIONS
Global Government Bonds	Vanguard UK Government Bond Index	N/A	N/A	N/A	N/A	N/A (Government Debt Fund)
Global Developed Equities	Vanguard SRI Global Stock	✗	✗	✗	✗	Armaments, Fails UN Global Compact (Environmental, Social, Governance)
Global Developed Equities	Dimensional Global Sustainability Core Equity	●	●	✗	✗	Tobacco, Armaments

* On a complete exclusion basis or in some instances (where the activity is not the main source of company revenue) revenues from the activity are below a small minimum level

Note: Vanguard SRI Global Stock Fund does not screen out tobacco companies. Tobacco companies can be avoided by not tilting towards passive (no-tilt portfolios do not include Vanguard SRI Global).

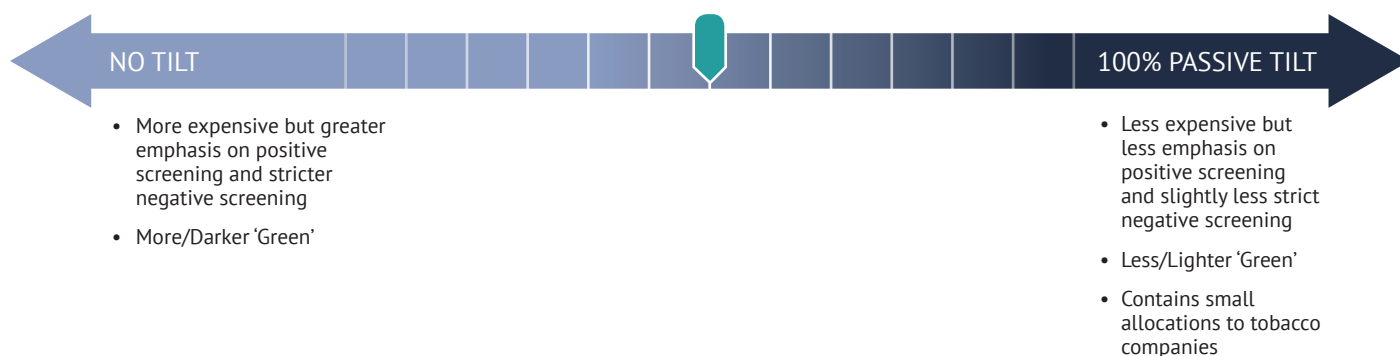
6. PASSIVE TILT

Positive screening, the activity of really getting to grips with the social and environmental effects of a business, is a bottom up active research function and so more difficult for a passive fund to undertake. Successful engagement is also arguably easier for an active fund to undertake. Thus, active SRI funds have the potential to be 'darker green' than passive funds which are often limited to negative screening.

This is true for the PMX Ethical Emphasis Portfolios, where tilting towards passive includes the Vanguard SRI Global Stock Fund and Dimensional Global Sustainability Core Fund, which are cheaper, but 'lighter green', alternatives to the active SRI global equity fund picks used in untilted Ethical Emphasis Portfolios.

Changing passive tilt thus has the following effect in the portfolios:

Passive Tilt Slider



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