Goldsmiths’ Company – Investment Committee

Environmental, Social and Corporate Governance (ESG) Policy

1. Introduction

1.1. The Worshipful Company of Goldsmiths, more commonly known as the Goldsmiths' Company, is one of the Great Twelve Livery Companies of the City of London. It received its first royal charter in 1327. Its purpose is to contribute to national life by supporting craftspeople, protecting consumers and working with charitable partners to help people improve their lives.

1.2. Over the course of its 700 year history, the Company and its associated Charity have accumulated substantial property and investment assets. This wealth now represents a considerable financial resource in meeting their commercial, educational and charitable goals. The Investment Committee of the Goldsmiths’ Company oversees the management of these investments on behalf of the Company’s Court of Assistants and the Directors of the Charity. Specifically, the Investment Committee is responsible for protecting and enhancing the value of the Company’s funds and those of the associated Charity, by making and monitoring investments in financial and property assets and ensuring that an adequate and steady flow of income is maintained to provide a reliable funding stream. N.B. The Charity is regulated by the Charity Commission and the Charities Act 2011. The Company is not regulated directly by any authority but its primary investment vehicle, is managed under the rules for NURS funds as set out by the FCA.

1.3. The Company, Charity and Investment Committee seek to maintain the highest possible standards in assessing, selecting and deploying their investment funds. This approach reflects the culture of the Company and Charity and prevailing best practices, and the Investment Committee has been meticulous in avoiding conflicts of interest or any short term expediency that might impact on the Company’s and Charity’s reputation or profile.

1.4. In today’s world, the Committee recognises that it needs to have an investment strategy that reflects the ‘Principles of Responsible Investing’ (PRI) in its investment approach. These principles, which the United Nations defined in 2006, relate to the environmental and social impact of an entity’s activity, and the manner in which a business is managed. Together, these factors are known as Environmental, Social and Corporate Governance (ESG).

2. Understanding ESG

2.1. ESG processes and procedures focus on non-financial performance indicators that address an entity’s approach towards responsible investment, sustainability, the impact on society and the environment, as well as other ethical and corporate governance considerations. The Investment Committee has observed that ESG risks are factors that have not been included within traditional financial analysis yet are increasingly influencing asset price performance and sector selection, impacting the sustainability of such returns. Furthermore, given the Company’s extensive property holdings and the

Charity's more limited portfolio, it is important that environmental and social issues are also properly considered in the overall stewardship of our property assets.

2.1.1. **Environmental Issues** – The depletion of natural resources and the threat of climate change have raised concerns about the environment and the potential financial impact on businesses. Sustainable options are increasingly being considered as part of investment choices. The issues are diverse but the main areas are:

- Factors contributing to climate change
- Efficient energy consumption
- Responsible disposal of hazardous waste
- Sustainability of resources
- The impact of climate change on businesses
- Pollution e.g. oil spills or radiation

2.1.2. **Social Issues** – Equity, diversity and inclusion (EDI) are also becoming more important considerations in relation to the way in which businesses operate and can generate competitive advantage; with these areas attracting increasing scrutiny from a range of stakeholders. The Court has recently confirmed that EDI should be central to Company policy and there is academic research that demonstrates clear commercial benefits for businesses which have inclusive and diverse work ethics and practices. Therefore, we should consider the impact a company has on its employees, local communities and society. The main areas of consideration are:

- Preservation of human rights, and avoidance of any complicity in human rights abuses
- Equality, diversity and inclusion amongst employees
- Non-discriminatory employment practices
- Ensuring there is no exploitation of child labour or indentured servitude (aka modern slavery)
- Health and safety
- Animal welfare
- Corporate donations
- Geopolitical risks

2.1.3. **Corporate Governance Issues** – Corporate governance covers the rights and responsibilities of the management of a company – its structures, corporate values and accountability processes. This relates to the following areas:

- Management structure – power balance between the CEO and Board, separation of Chairman from CEO, appropriate checks and balances for members of the management team
- Employee relations and workplace grievances
- Executive remuneration
- Corporate Codes of Conduct

3. Investment Committee ESG Philosophy

3.1. The Investment Committee is the long-term steward of the Company's and Charity's capital, and this means that it must always focus on the long-term prospects of the assets in which it invests and deploy these assets responsibly and/or if desired, in a way that effects positive change.

3.2. The Committee believes that the responsibility of making investments includes protecting against the impact of both financial and non-financial risks. Assessing and engaging on sustainability is becoming more important to investment processes and it is the Committee's view that ESG and industrial trends are intrinsically linked. Companies face competitive pressures from a wider range of sources, on a larger scale and at a faster pace than ever before. Investors no longer have a choice over whether to seek exposure to ESG risks and opportunities, all companies and portfolios will be impacted.

3.3. It is the responsibility of the Investment Committee to understand each investment's ability to create, sustain and protect value and the ESG and other risks to which it is exposed. Where such exposures have been engaged on the Committee's behalf by delegated managers, the Committee must understand the analysis that they have conducted in making such an investment and their own internal governance protocols. Where appropriate and practical the Committee will also seek to engage and to vote as a shareholder with the objective of reinforcing its views with underlying companies.

3.4. The Committee's ESG strategy will be refined and reviewed regularly.

4. Measuring ESG Impact

4.1. Currently there are still no globally accepted standards about how ESG impact and adherence should be measured, yet there is a growing recognition amongst investors of the link between a company's ESG polices and output and its financial performance.

4.1.1. **ESG scoring** metrics currently focus more on 'input' metrics, e.g. does a company have management and policy in place to decarbonise and/or to measure its carbon emissions. MSCI and Sustainalytics are early movers in monitoring such input metrics. (See Appendix).

4.1.2. **Impact Accounting** seeks to create financial accounts that reflect a company's financial, social, and environmental performance. Specifically, to create 'output' measures that can be translated into monetary amounts and then reported in financial reports. Harvard Business School is leading the Impact Weighted Accounting Initiative (IWAI).

4.1.3. **ESG and impact reporting**. Disclosure is currently inconsistent. The Task Force for Climate Related Financial Disclosure's (TCFD) common carbon foot printing and exposure metrics is an example of a reporting standard that has been commonly used by companies. The EU has introduced the first mandated ESG reporting, the EU Non-Financial Reporting Directive which mandates companies to report on polices in relation to environmental protection and human rights.

4.2. The investment industry's response to ESG priorities is also developing rapidly. The Institutional Investor Group on Climate Change (IIGCC) is one of the largest collections of pension funds and asset managers/owners committed to how they can align their investment portfolios with the Paris Agreement. (The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change, on climate change mitigation, adaptation, and finance, signed in 2016). IIGCC membership is growing but is neither compulsory nor universal, however, it might be a useful benchmark organisation when making judgements about our chosen managers and potentially one with whom we might wish to align our own interests in time.

4.3. The Committee believes that its approach needs to be simple, clear and have measurable targets with a 'dashboard' that makes it possible to understand and monitor the investment portfolio and property interests.

5. ESG Policy Implementation

5.1. At the outset, the Investment Committee will address the current distribution of assets and regularise its ESG approach, and this will evolve as our Company-wide ESG culture develops. This in turn may include a review of how the Investment Committee interacts with other stakeholders (the Wardens, Assay Office, Charity, Goldsmiths' Centre, sub committees etc.) and whether there is an appetite for direct impact investing alongside traditional grant making / funding. It is not envisaged that ESG impact investments will be made by the Investment Committee without full coordination across the Company and Charity.

5.2. The Company's and Charity's assets are currently distributed between financial investments and property interests.

5.2.1. **Company Assets**

- c 50% is held in financial assets (equities/fixed interest) with management currently delegated to two independent investment managers, Sarasin and Waverton
- c 40% is held in prime commercial buildings in the City, property holdings and property funds
- c 10% is held in selective direct holdings, funds, longer-term more illiquid investments and cash

5.2.2. **Charity Assets**

- c 80% is held in financial assets (equities/fixed interest) with management also currently delegated to Sarasin and Waverton
- c 10% is held in prime commercial property in the City and property funds
- c 10% is held in private equity funds and cash (the majority of which is cash/working capital)

5.3. The following sections set out the implementation policy for these three elements:

PART 1 – Financial Assets

6. Delegated Investment Portfolios

6.1. The Committee will review current managers annually and any subsequent appointments based on the following criteria:

6.1.1. Overall investment performance – the consistency and risk management of returns
- Compared against index benchmark criteria
- Compared against other comparable managers and ARC cohorts

6.1.2. ESG performance – how managers incorporate ESG analysis into their security selection process:
- An explanation of how portfolio positions meet each manager's ESG criteria in the selection process
- How any holdings with marginal ESG ratings (if any) are explained. E.g. 'direction of travel', pro-active corporate engagement etc.
- How the portfolio measures against the MSCI ESG index
- How the portfolio's carbon footprint measures against the MSCI index average

6.1.3. Engagement behaviour
- How managers engage with companies and boards, especially on ESG issues
- An understanding of each manager's voting policy

6.1.4. Operational behaviour – an assessment of each manager's internal ESG policies and how they manage their own business, including pay, diversity and culture etc.

6.2. Delegated managers will submit reports to the Director of Finance ahead of each regular Investment Committee meeting that will allow the Committee to assess all the criteria listed above on a simple 'traffic light' basis. The significance of each criteria carries a weighting which will lead to an overall performance rating and this will be reviewed at regular intervals, no less than annually. See matrix below.

Delegated Manager Review Matrix

Review Criteria	Grading	Grade Weight	Overall Grade
Investment Performance	Green Amber Red	x 3	
ESG Performance	Green Amber Red	x 2	
Engagement Behaviour	Green Amber Red	x 1	
Operational Behaviour	Green Amber Red	x 1	
Overall Assessment			

7. Direct Investment Holdings

7.1. All directly sourced and held investments will also be evaluated from both a traditional risk and return perspective as well as an ESG perspective. Although the Investment Committee does not anticipate making regular direct investments, a decision between any two investment opportunities with otherwise similar risk and return characteristics should be biased towards the one which has either higher perceived ESG credentials / score and / or higher impact.

7.2. For all directly held corporate or fund investments the Committee will review the following information:

7.2.1. When evaluating any specialist fund manager, their ESG policy will be reviewed in light of the asset class they invest in, the strategy they employ and the degree to which ESG factors are incorporated into the investment process.

7.2.2. The asset manager's own ESG policy for their own business will also be evaluated to see if it is fit for purpose.

7.2.3. Direct company investments (outside the managed portfolios) must be screened for 'red flags' which, if identified, would make them uninvestable. Red flags can include inappropriate products such as:

- Payday lending
- Pornography
- Gambling
- Sanctioned executives
- Child labour
- Environmental damage

N.B. This type of investing is no longer anticipated.

7.2.4. For any publicly listed company, we should, where practical, vote and document the rationale on all shareholder resolutions.

7.3. This information will be requested from relevant managers and companies and collated by the Director of Finance for review by the Investment Committee no less than annually.

Direct Investment Review Matrix

Review Criteria	Grading	Grade Weight	Overall Grade
Investment Return	Green Amber Red	x 3	
ESG Ranking	Green Amber Red	x 2	
Operational Behaviour	Green Amber Red	x 1	
Overall Assessment			

PART II – Property Assets

8. The Company's property wealth is based around a core of prime commercial buildings in the City, let on long head leases to various leading property companies. The balance is invested in individual properties / development projects and funds. In both cases the Company should ensure that it operates in a responsible and sustainable manner, having regard to where it has a direct and indirect impact on tenants, suppliers, customers, service providers, local communities, and the environment.

8.1. **Ground rent investments**

8.1.1. The Company owns a number of freehold interests that have been let on long leases to investor tenants. These investor tenants lease these buildings to occupational subtenants with the lease terms providing a large amount of autonomy to the investors in how they manage their holdings. The Company receives rental income that is part fixed and part linked to the income received by the investor tenants.

8.1.2. Opportunities for the Company to impose its requirements on the individual lessors / sub-lessors are limited to when relevant lease events occur and by the terms of the covenants in the leases. However, the Company will work with its investment tenants in a collaborative manner through the Company's Surveyor to ensure that a full understanding of the Company's ESG policy and thinking is understood by all relevant parties, including the policy ambitions set out in sub-para B below. Where possible it will use its influence to bring about positive change.

8.1.3. In granting new long leases the Company will seek to insert positive obligations on the investor tenant relating to achieving the Company's ESG objectives.

8.2. **Individual property investments**

8.2.1. The Company owns, and will own from time to time, directly managed property assets. In managing these assets, the following are identified as key areas of focus:

8.2.2. **Health, safety and wellbeing** – It is a management priority to minimise risks and ensure safety and promotion of wellbeing of staff, tenants and members of the public across the real estate portfolio. This will include encouraging head lessors to develop tenant and community engagement programmes to promote health and wellbeing initiatives where possible.

8.2.3. **Managing environmental impacts –** The Company seeks to minimise negative environmental impacts through proactive management of energy, waste, water, materials use and associated carbon emissions across its property investment portfolio. It aims to enhance assets by integrating ESG into investment decisions and day-to-day management of building operations. The Company will continue with its aims to prevent pollution incidents across its portfolio. It will use its influence under the terms of its leases with its investment tenants and occupational tenants to advance this agenda.

- Develop a sustainability action plan for all directly managed assets

- Procure 100% renewable electricity for landlord-controlled areas
- Develop a pathway for achieving net zero carbon in operation
- Maintain zero waste to landfill
- Improve measurement of water consumption and waste management
- Achieve reductions in like-for-like energy intensity for any managed offices

8.2.4. **Sustainable building design** – The Company will apply sustainable design principles into development and refurbishment strategies to foster innovation, enhance the natural environment and create places that are efficient, healthy, comfortable, productive and resilient. It will use its influence under the terms of its leases with its investment tenants and occupational tenants to advance its sustainable building design principles and will:

- Commit to and promote a set of chosen standards for sustainable design for new construction, fit out and refurbishment
- Engage investment tenants and occupiers to support the delivery of their sustainability programmes for fit out, alterations, refurbishment and redevelopment

8.2.5. **ESG disclosure and transparency** – The Company is committed to open and transparent disclosure of its operational performance and the wider impact of such performance on the environment, the communities and the markets in which it operates and will:

- Align the Company’s sustainability objectives for its investable assets with the UN Sustainable Development Goals
- Work towards alignment with the TCFD (Task Force on Climate-Related Financial Disclosures) recommendations
- Adopt GRESB principles in the measurement and monitoring of its ESG performance

8.3. Investment in private and listed property funds

8.3.1. From time to time the investment committee will make investments in property funds outside the mandates of its investment managers. In exercising its judgement in making these investments and whether to continue to hold them, it will follow the ESG principles defined above under Part 1 Financial Assets – Section B.

8.4. Benchmarking Property ESG Performance

8.4.1. The GRESB Real Estate Assessment tool is an investor-driven global ESG benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in property. It is a useful tool for the Investment Committee to use in objectively benchmarking the activity and performance of the Company’s property holdings and investments. Given the Company does not manage any of its property assets directly, it does not currently have access to the raw data regarding water, waste and energy consumption required for GRESB. As such, submitting GRESB data is not currently possible. The first task is therefore to engage with tenants via the Company Surveyor, with a view to collecting data for 2022 carrying out internal analysis using GRESB principles .

8.4.2. Until GRESB principles benchmarking can be achieved, the Investment Committee will conduct a full review of ESG progress and sustainability across its property interests on an annual basis with input from the Company Surveyor. The Company's Surveyor will also provide the Finance Director with the input for the review matrix shown below which will be reviewed by the Investment Committee at its regular meetings.

Property Review Matrix

Review Criteria	Detail	Grade	Overall Grade
Building Management	Health & Safety Amenity Management	Green Amber Red	
Managing Impact	Energy Waste / Emissions Water Materials	Green Amber Red	
Building Design	New build sustainability Fit out / refurbishment Access and Amenities	Green Amber Red	
Reporting Transparency	Sustainability Reporting Climate Related Reporting	Green Amber Red	
Overall Assessment			

N.B. All the above will also apply to property owned by the Charity

9. Conclusion

9.1. The main objective of the Investment Committee is to maximise investment returns for the Company and Charity and thereby to preserve financial flexibility and capacity for the Court and Wardens and for the Directors of the Charity. At the same time, The Committee recognises the growing integration of the Principles of Responsible Investment and that responsible ownership and business success go hand in hand. Accordingly, this strategy aims to ensure that the Committee understands and incorporates ESG analysis in its investment thinking and engage collaboratively with its delegated managers and advisers to ensure there is consistency in approach and implementation.

9.2. This is an important step for the Investment Committee, and the retrospective reviews and analysis of existing portfolio interests will take time during which time this approach will evolve. A key part of this evolution will be an engagement with the Company's and Charity's other committees and stakeholders to integrate ESG thinking throughout the operation of the Company and Charity, which in turn may impact the ESG implementation policy and direction of the Investment Committee.

9.3. The Committee believes that the implementation of this strategy, and its evolution in the light of future developments, will ensure that the Committee's decisions will reflect and advance the commitments of the Goldsmiths' Company and Goldsmiths' Company Charity to ESG principles and to contributing to national life.

Appendix

1. Glossary of Terms

Best-in-Class / Positive Screening - Selecting issuers that perform better on ESG dimensions than their peers within a particular industry, sector or region.

Carbon footprint - A measure of a group, individual or a company's total greenhouse gas emissions.

Carbon Pricing - The cost of emitting CO2 into the atmosphere, either in the form of a fee per tonne of CO2 emitted, or an incentive that's offered for emitting less. Putting an economic cost on emissions is widely considered the most efficient way to encourage polluters to reduce what they release into the atmosphere.

Clean technology - A range of products, services and processes that reduce the use of natural resources, cut or eliminate emissions and waste. It was considered a niche area of investment two decades ago but has become a focus for most major companies.

Engagement - The use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies) is guided by comprehensive ESG guidelines. Engagement is an integral part of active ownership.

Environmental factors - This is the "E" of the term "ESG" (environmental, social and governance) and concerns issues related to resource use, pollution, climate change, energy use, waste management and other physical environmental challenges and opportunities.

ESG integration - The systematic and explicit inclusion of ESG factors into traditional financial analysis.

Ethical investing - An investment strategy in which you invest in line with your ethical principles and exclude companies that you deem to be unethical.

Exclusions / Negative Screening - The exclusion from a fund or portfolio of certain activities or practices based on specific ESG criteria. Excluded activities could be for example tobacco production or nuclear energy, while excluded practices generally refer to violation of international norms such as human rights or labour rights violations. The exclusion of practices is also referred to as Norm-based screening.

Governance factors - This is the "G" in "ESG" and is about assessing how well a company is run.

Green bond - A bond in which proceeds are used to fund new and existing projects with environmental benefits such as renewable energy and energy efficiency projects.

Greenwashing - Falsely communicating the environmental benefits of a product, service or organisation in order to make a company seem more environmentally-friendly than it really is.

Human rights - Basic rights that belong to all human beings. They include the right to life, liberty, freedom from slavery and torture, and freedom of opinion and expression.

Impact investments - Impact investments are investments made into companies, organisations, and funds with the intention to generate an intentional and identifiable social and environmental impact alongside a financial return. Examples of impact investments are:

- Green or Social bonds
- Community investing
- Renewable Energy infrastructure

Modern slavery - Although no standard definition exists, modern slavery can broadly be thought of as the exploitation of people who are coerced into an activity by someone who “controls” them, often with violence. It can take many forms including forced or bonded labour, early or forced marriage or human and organ trafficking.

Principles of Responsible Investment (PRI) - These are the world’s leading proponent of responsible investment. The PRI is truly independent and acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. PRI is supported by the United Nations.

Proxy voting - A proxy vote is a ballot cast by one person or firm on behalf of a shareholder of a corporation who may not be able or have the desire to attend a shareholder meeting, or who otherwise desires not to vote on an issue. Shareholders vote on issues such as electing directors to the board, mergers & acquisitions, board remuneration and capital measures. Shareholder can approve but also vote against management proposals. Exercising voting rights via proxy voting is an integral part of active stewardship.

Renewable energy - Energy collected from resources that are naturally replenished such as sunlight, wind, water and geothermal heat.

Screening - An investment approach used to filter companies based on pre-defined criteria before investment. As an investor, you can use a negative screen (in which you deliberately exclude certain companies because of their involvement in undesirable activities or sectors) or a positive screen (in which you select companies based on their sustainability practices). In the jargon, this can also be a “best-in-class investment” – where you only invest in companies that lead their peer groups in terms of sustainability practices and performance.

Social factors - This is the “S” in “ESG” and covers Issues related to how a company interacts with the communities it operates in, its suppliers, employees and customers. These include, for example, labour standards, health and safety, supply chain management and nutrition and obesity.

Sustainable and Responsible Investing (SRI) - SRI funds seek to build a portfolio with an above average ESG quality; in practice most often use a combination of a positive and a negative screening.

Stewardship/Active Ownership - Stewardship, also referred to as Active Ownership, is defined as taking an active role as a shareowner to promote the long-term success of companies in such a way that society and the ultimate providers of capital also prosper. This can be done through engagement and proxy voting. Stewardship therefore benefits companies, investors and the economy as a whole.

Thematic investing - Investing in companies that can be classified under a particular investment theme such as renewable energy, waste and water management, education or healthcare innovation.

Transition risk - The financial risks that could result from significant policy, legal, technology and market changes as we transition to a lower-carbon global economy and climate resilient future.

UN Sustainable Development Goals (SDG) - A collection of 17 goals reflecting the biggest challenges facing global societies, environments and economies today.

Values-based investing - Investing that prioritises an investor's ethical objectives, rather than simply maximising financial returns.

Voting rights - Equity investors typically have the right to vote at annual and extraordinary general meetings (AGMs and EGMs) on issues such as an individual director's appointment, remuneration or mergers and acquisitions (depending on a country's legal framework).

2. MSCI's 35 Key ESG Issues

3 Pillars	10 Themes	35 ESG Issues	
Environment	**Climate Change**	Carbon Emissions Product Carbon Footprint	Financing Environmental Climate Change Vulnerability
	Natural Capital	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	**Human Capital**	Labour Management Health & Safety	Human Capital Development Supply Chain Labour Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing Community Relations	
	Social Opportunities	Access to Communications Access to Finance	Access to Healthcare Opportunities in Nutrition & Health
Governance	**Corporate Governance**	Ownership & Control Board	Pay Accounting
	Corporate Behaviour	Business Ethics Tax Transparency	

Source MSCI