

# Baker Steel Capital Managers LLP



## Firm Environmental, Social and Governance Investment Policy

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1.0	June 2020	BSCM ESG Policy	Holly Andrews
1.01	December 2020	Updates	James Hayter
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# 1. Our Philosophy

Baker Steel Capital Managers LLP (“Baker Steel” or the “Firm”) believes that promoting environmental, social and governance (“ESG”) factors is important not only to support sustainable and ethical investment but because ESG considerations are key for creating and maintaining shareholder value through risk avoidance and instilling progressive standards of best practice. Baker Steel believes that companies that produce goods in an ethical and sustainable manner and maintain a higher standard of corporate governance and transparency will financially outperform over the medium- to long-term.

Baker Steel’s ESG policy draws from international best practice and builds upon the principles and processes outlined in the United Nations Principles for Responsible Investment (“PRI”), of which Baker Steel is a signatory. Baker Steel recognises the sustainability risk associated in investment decisions and pays due care to sustainability factors. ESG considerations are taken into account as part of investment due diligence in terms of enhanced risk management and, as such, are incorporated into Baker Steel’s investment decisions including being directly addressed with company management during meetings and on-site visits. Point 3 of this document outlines the processes that we have established in order to incorporate ESG issues holistically into our investment process. Baker Steel is an active investment manager and will use its engagement with senior management and the exercise of its voting rights to influence investee company direction towards better sustainability where deemed appropriate. We believe that social and environmental responsibility, along with good governance, are an integral element of running a successful mining company.

Baker Steel is committed to improving sustainability and reducing the environmental impact of its own operations. Along with compliance with all applicable legislation and regulations, the Firm incorporates recycling, energy saving and waste avoidance into its everyday business practices. Staff are encouraged to support charitable activities and to align themselves with the Firm’s sustainability policies, such as by taking public transport.

# 2. ESG Positions

The following points form the basis for both this Investment Policy and investment decisions across the Firm. They build upon the points of the UN’s Sustainable Development Goals (SDG), Principles for Responsible Investment (PRI) and industry best practice.

As signatories of the UN PRI, we note the organisation’s six Principles for Responsible Investment:

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the PRI within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the PRI.

- **Principle 6:** We will each report on our activities and progress towards implementing the PRI.

As signatories of the UN PRI, Baker Steel commits to reporting annually on our responsible investment activities.

## 2.1 Governance

Baker Steel places additional emphasis on governance factors as we regard management effectiveness to be the key to ensuring that meaningful ESG policies and operations are successfully implemented.

### 2.1.1 Business Ethics

Baker Steel will not tolerate bribery, money laundering or any other forms of corrupt activities by portfolio investee companies. Baker Steel also expects that portfolio investee companies actively discourage and act to eliminate such practices from their supply chain.

### 2.1.2 Anti-Bribery and Corruption

Baker Steel's approach to preventing bribery is formalised in its Anti-Bribery Policy.

Baker Steel expects investee companies to have explicitly defined what constitutes 'Conflicts of Interest' and 'Facilitation Payments', for an investee company's employees to be aware of these definitions and for them to be prohibited from engaging in such activities.

Baker Steel commits to working against corruption and will continue to operate robust internal control systems such as conducting appropriate due diligence on prospective investee companies.

### 2.1.3 Board Structure

Baker Steel will seek to invest in companies which maintain a majority of independent directors and who appoint experienced and diverse boards. Where this is not currently the case Baker Steel commits to encourage reform in line with these principles.

## 2.2 Environmental

Baker Steel recognises the unique and material impact of mining on the natural world and for this reason supports environmentally sustainable practices. ESG concerns are continuing to catalyse improvements in the environmental performance of mining companies and by supporting ESG investing, Baker Steel aims to accelerate that process.

### 2.2.1 Environmental Policy & Management Systems

Baker Steel expects all portfolio investee companies to have an adequate environmental policy, preferably ISO 14001 certified or similar standard. Baker Steel acknowledges there may be limitations on reporting standards for smaller companies or circumstances where ISO 14001 is not appropriate. Baker Steel recognises that 'adequate' will vary between commodity, stage of development, jurisdiction and market cap and will therefore evaluate as such on an individual basis.

Similarly, Baker Steel expects all portfolio investee companies to have adequate environmental management systems (spanning mineral waste, effluents, cyanide, water, water risk, greenhouse gas ("GHG") reduction/risk, biodiversity and closure & rehabilitation, as is appropriate to each operation). Once again, these systems will preferably be ISO 14001 certified or similar standard and will be evaluated as 'adequate' on an individual basis.

In the case of specific environmental issues occurring including, but not limited to, pollution impacts and liabilities, water pressure, biodiversity impacts and tailings management, Baker Steel will directly engage with the management of portfolio companies if this issue is deemed to be material or fall short of industry standards.

#### 2.2.2 CO<sub>2</sub> and Greenhouse Gas Production

Baker Steel expects portfolio investee companies to report both their direct and indirect greenhouse gas emissions as appropriate to their stage of development.

Baker Steel expects portfolio investee companies to be working towards reducing emissions of greenhouse and toxic gases, not least on a unit of production basis.

Baker Steel expects investee companies to be working towards improving energy efficiency.

Baker Steel internally incorporates recycling, energy saving and waste avoidance into its business practices.

#### 2.2.3 Water Management

Baker Steel expects all portfolio investee companies to have an 'adequate' water management policy. Baker Steel recognises that water is a resource investee companies share with surrounding communities. Using water efficiently and protecting water quality helps investee companies maintain positive relationships with stakeholders and ensures operational stability. Baker Steel recognises that 'adequate' will vary between commodity, stage of development, jurisdiction and market cap and will therefore evaluate as such on an individual basis.

#### 2.2.4 Tailings Management

Minimising the risk of tailings dam failures is one of the greatest challenges of the mining sector. It is also the area where mistakes can have the greatest consequences for the local communities as we have seen all too often in recent years.

Baker Steel is engaged with and supports the efforts of the Global Tailings Review industry group. Baker Steel have attended meetings and offered advice to the working group, companies and NGO on shaping the reporting framework. Baker Steel also maintains an active dialogue with the Church of England. We seek to be an industry leader and advocate for change in this area. We believe that enhanced Governance procedures are an important first step in the acceptance of industry wide standards but that these standards must fully account for the wide range of different dams and risk profiles.

### 2.3 Social

Baker Steel commits to being a responsible investor and unequivocally supports the argument that mining companies should contribute to the development of communities where they operate.

### 2.3.1 Worker Safety

Baker Steel expects all portfolio investee companies to maintain effective health & safety management systems, preferably ISO 45001 certified or similar standard. Similarly, Baker Steel expects LTIFR figures<sup>1</sup> to be communicated and to be within industry norms.

### 2.3.2 UN Global Compact Signatory

Baker Steel will seek to invest in companies who are signatories of the UN Global Compact. Signatories of the UN Global Compact commit their organisations to meet fundamental responsibilities in four areas: human rights, labour, environment, and anti-corruption.

### 2.3.3 Stakeholder Relations

Baker Steel recognises as fundamental the human and labour rights of investee company stakeholders, and expects all companies which we conduct business with to fully comply and support the UN's Universal Declaration of Human Rights. Baker Steel encourages its investee companies to comply with the Declaration of Human Rights which benefits local communities who are stakeholders.

Baker Steel encourages portfolio companies to include local communities within their decision-making process as well as to make efforts to be accessible to and foster positive relations with such communities.

Baker Steel also expects portfolio companies to interact with local and national governments on a transparent basis.

## 3. ESG Strategy

Baker Steel recognises the sustainability risk associated with investment decisions and pays due care to sustainability factors. Sustainability risks are considered as part of investment due diligence in terms of enhanced risk management and, as such, are incorporated into Baker Steel's investment decisions. Baker Steel's ESG strategy demonstrates how considerations of sustainability risks are integrated into various stages of the investment process.

A multi-component exclusion strategy shortlists the investible universe. The ESG performance of shortlisted companies within the investible universe is assessed and scored to implement a best-in-class strategy. The ESG scores generated for the companies will be incorporated into the stock selection process within an ESG integration strategy. Sustainability risk has significant weighting within the Fund's risk management analysis.

### 3.1 Non-financial Investment Objectives

Baker Steel believes that ESG and sustainability factors are an integral component of non-financial risk. ESG screening of investment opportunities integrates non-financial objectives into the investment process.

Baker Steel believes that by preferentially allocating capital to companies which meet best practice guidelines in areas of environmental management, community engagement and corporate governance it

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<sup>1</sup> LTIFR refers to Lost Time Injury Frequency Rate, which is the number of injuries that prevent a worker from performing their duties or missing work occurring in a workplace per 1 million hours worked.

can help raise standards across the mining industry. By raising standards across the board, the industry becomes more sustainable, improves its reputation amongst the general public and can better serve the communities and host countries in which it operates.

Baker Steel believes that the mining industry can be a powerful force for good for those communities and host countries when best practice guidelines are followed.

### 3.2 Exclusion Strategy

Sustainability risks are firstly identified and eliminated within the initial multiple exclusion factor screening. This screening process shortlists the investible universe by excluding any companies which engage in activities specified in the Exclusion Policy (Section 4.1.1).

These factors have been prioritised as unacceptable meaning any company which does not satisfy all of the exclusion factors collectively will fail this initial screening process and will be excluded from the investible universe. These exclusionary factors are regularly monitored across the investible universe.

## 4. ESG Implementation within the Investment Process

Baker Steel hereby adopts and undertakes to comply with this ESG Investment Policy. With respect to certain funds which have an explicit ESG objective, we may replace or supplement this Policy as appropriate to reflect those additional objectives. We also undertake, as best as we can, to ensure that all future operations of Baker Steel comply with this Policy and to annually review this Policy in order to ensure it remains up-to-date and in line with industry best practice.

Priya Mukherjee is the Firm's Compliance Officer and has suitable authority and seniority so as to be able to challenge management as necessary. A compliance manual is maintained by the Firm, in line with FCA guidelines. The Firm has strict personal account dealing arrangements which include prior approval of all relevant share dealings. Compliance processes are internally reviewed and on a quarterly basis the processes are formally reviewed by external compliance consultants, Bovill.

Bovill have been appointed to provide ongoing regulatory assistance and general FCA compliance advice which includes undertaking compliance reviews and update visits, annual training and monthly written summaries of FCA regulatory developments. Breaches or concerns are immediately reported to the Compliance Officer for review and remedial action as necessary.

All staff receive regular compliance training and are encouraged to refer to the Firm's compliance manual and Compliance Officer for guidance. All personnel are required to complete an annual self-certification declaration confirming adherence to the Firm's compliance manual and FCA and other regulatory codes of practice and guidelines, including the Firm's Anti Bribery Policy.

The framework for ensuring that all Baker Steel entities comply with the ESG Investment Policy is as follows:

### 4.1 Stock Analysis and Selection

#### 4.1.1 Exclusion Factors

Baker Steel will not invest in companies utilising child or forced labour.

Baker Steel will not make new investments in companies which operate in certain ‘blacklisted’ jurisdictions, or in the event that existing investee companies have interests in countries which subsequent to initial investment are deemed to be ‘blacklisted’, will seek to exit those investments expeditiously, where possible, without prejudice to clients’ interests. These are regions where either sovereign risk or security concerns preclude responsible investment being effectively implemented as well as countries where the operating environment is unlikely to facilitate conducting business in accordance with either the ESG principles outlined in Section 2, or the UN PRI. This ‘blacklist’ shall be continually monitored and will be updated by Baker Steel’s investment team as and when global events dictate.

Baker Steel shall aim not to invest in companies whose primary business is producing fossil fuels (with the exception of metallurgical coal which is critical to steel manufacturing) or uranium enrichment.

Where possible, Baker Steel’s funds mandated to invest in listed stocks, shall only invest in listed companies ensuring an appropriate standard of transparency on governance. Furthermore, Baker Steel managed funds aim to invest only in listed companies which maintain a majority of independent directors so as to ensure a higher standard of corporate governance.

Baker Steel shall aim to invest preferentially in companies which are actively working towards the UN SDG.

Finally, Baker Steel expects that all investee companies have a robust ESG policy in place. It is also expected that the company’s ESG policy has been approved and formally adopted via a resolution of the Board. However, in cases where undertaking a full assessment of companies’ procedures may be difficult, such as for an early-stage private company which cannot initially meet the same ESG reporting standards as a large listed company, Baker Steel works with the companies in question to help them to strengthen their processes.

#### 4.1.2 Investee Company Engagement

A qualitative assessment of a company’s ESG practices is undertaken as an integral part of stock analysis and selection. Generally, both meetings with a company’s management as well as site visits will be undertaken with prospective companies. Such engagements facilitate the possibility to directly address ESG and Corporate Social Responsibility (“CSR”) factors with company management and offer greater insight into prospective investee companies.

#### 4.1.3 Conduct Due Diligence on Prospective Investee Companies

In addition to direct management meetings and on-site visits, Baker Steel conducts adequate operational and legal due diligence on all entities. This includes assessment of adherence to the UN PRI as well as compliance with relevant anti-corruption legislation, in line with the Firm’s Anti-Bribery Policy, as well as a review of the prospective investee company’s internal governance procedures and ESG management.

#### 4.2 Investment Stage

Once a prospective investee company has passed through all stages of the outlined stock selection process, and where Baker Steel has remaining concerns, it asks the Board of each portfolio company to agree to commit to seek to adhere to the ESG Principles set out in Section 2 of this Policy, as a condition of Baker Steel’s investment:

#### 4.2.1 Commit to Adhere to ESG Principles

Since Baker Steel is a signatory to UN PRI, an investee company of Baker Steel is thereby subject to its principles. We recognize that investee companies' ESG performance has a material impact on Baker Steel's compliance with the UN PRI. As such we expect portfolio companies to aim to incorporate ESG principles similar to those of Baker Steel, as set out in Section 2 of this Policy, into their day-to-day business and operations. We expect portfolio companies to communicate ESG principles to employees of their own company directly and, via appropriate means, to key external stakeholders.

#### 4.3 On-going Monitoring

Baker Steel is an active investment manager, in line with Principle 2 of the PRI, and undertakes site visits to portfolio companies during which verification of compliance with the ESG principles are typically undertaken. Baker Steel will utilise voting rights, when deemed necessary, to align a portfolio company's operations more directly with our ESG principles, which are outlined in Section 2 of this Policy.

In accordance with Principle 3 of the PRI, Baker Steel engages each of our portfolio companies on ESG issues and encourage adherence to best practice.

##### 4.3.1 Engagement Policy

Baker Steel has a Shareholder Engagement Policy in place that complies with the requirements of the Shareholders Rights Directive II ("SRD2") and COBS 2.2B. This Policy sets out how Baker Steel engages with investee companies with a view to enhancing shareholder value, as well as furthering sustainability and ESG objectives, and covers methods and nature of engagement, exercise of voting rights, management of conflicts of interest, cooperation with other shareholders and public disclosure.

##### 4.3.2 Realignment to Principles

If the management of Baker Steel deem a portfolio company is not sufficiently meeting the standards outlined throughout this Policy then Baker Steel requires the portfolio company to take action to address such deficiencies and for the investee company's management to maintain direct contact with Baker Steel whilst doing so.

##### 4.3.3 Divestment Policy

Baker Steel will engage directly with the management of an investee company where its monitoring of the investee company leads Baker Steel to question whether the company is being run in the best interests of its shareholders or in accordance with the ESG Principles set out in this Policy. In such circumstances, Baker Steel may request a meeting with the management team of an investee company, preferably with a non-executive director in attendance to outline specific concerns and seek further information on certain matters in private rather than raising these issues publicly at the AGM or any EGM. Where necessary, this may be followed up with a letter to the board of directors of the investee company outlining the key concerns and justifications. In the event that the response from the investee company is inadequate, the Company may consider divestment.

## 5. Reporting

### 5.1 Company ESG Performance

Baker Steel shall continuously monitor its fund management operations to ensure that they remain consistent with this Policy. Publicly available reports will be available annually on the UN PRI website from 1<sup>st</sup> April 2021 onwards.

### 5.2 Engagement

Baker Steel has committed to adhere to the requirements of the Shareholders Rights Directive II (“SRD2”) and COBS 2.2B, as outlined in our separate Shareholder Engagement Policy. SRD2 requires that the Engagement Policy is publicly disclosed, and that the Firm reports publicly on an annual basis on how the Engagement Policy has been implemented. Both of these disclosures will be made publicly on the Baker Steel website, and the annual disclosure will include details of the Firm’s voting record. The first annual disclosure is expected to be made by 31<sup>st</sup> December 2021.

## 6. Policy Review

Baker Steel commits to reviewing and amending as required this Policy annually from the date of adoption in order to keep it aligned with the evolution and progress regarding ESG standards and management compliance within the mining industry.

## 7. Contact

Documentation required by Baker Steel in accordance with this Policy as well as any comments or queries regarding this policy should be provided to Baker Steel via the following email address: [ESG@bakersteelcap.com](mailto:ESG@bakersteelcap.com).

Trevor Steel  
Chief Investment Officer  
Baker Steel Capital Managers LLP  
34 Dover Street  
London  
W1S 4NG  
United Kingdom

## 8. Commencement Date of the Policy

This policy will commence and is effective from the adoption date of the signature of the following member of management:

Trevor Steel

Managing Partner and Chief Investment Officer

Signature:

Date:

## 9. Definitions

**Child Labour** – Work or service extracted from a minor deemed in violation of the Articles of the International Labour Organization Minimum Age Convention, 1973 (No°138).

**Corporate Social Responsibility (“CSR”)** - Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns into their business operations and interactions with their stakeholders.

**Forced Labour** – Work or service extracted from a person under threat or penalty, which includes penal sanctions and loss of rights and privileges, where the person has not offered him/herself voluntarily (Forced Labour Convention n°29, 2001a)

**LTIFR** - stands for Lost Time Injury Frequency Rate, which is calculated as the number of injuries that prevent a worker from performing their duties or missing work occurring in a workplace per 1 million hours worked.

**‘Primarily’ fossil fuel producer or uranium enrichment** – Greater than 50% of income, by revenue, is derived from fossil fuels (excluding metallurgical coal required for steel making) or uranium enrichment.

**‘Substantial’ ESG Policy** – A company monitors or has undertaken to monitor improvement in key areas of ESG performance. The company shall also have in place plans to improve its performance in those areas and to report on the progress made.

**Sustainability factors** – Any external factor, outcome or impact of the investment process (including the activities of investee companies) including environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters

**Sustainability risk** – Any risk relating to an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

## 10. Appendix

The following demonstrates examples where Baker Steel has followed this policy and engaged with investee companies about either our negative screens or over ESG principles.

Operating in a blacklisted jurisdiction	Blacklisted countries: North Korea, Iran, South Sudan
Utilising child or forced labour	o/s
Primary revenue source fossil fuel/ Uranium enrichment derived	o/s
Lack of a substantial ESG Policy	o/s
Engaging with investees on ESG issues:	<p>Listed Company Example A</p> <ul style="list-style-type: none"> <li>- Directly asked about the number of independent directors maintained on the board and about independence of the chairperson.</li> <li>- Questioned a published code of ethics and whistleblowing policy.</li> <li>- Description of their internal ESG procedures provided: includes a quarterly declaration at senior level, reports on any incidents known to have occurred followed by an internal audit.</li> <li>- Outlined their response, in both the short and medium-term, to a fatal incident at one of its mines and the new procedures which have since been put into place.</li> <li>- Description of the literacy and HIV testing programmes they provide for workers.</li> </ul> <p>Listed Company Example B</p> <ul style="list-style-type: none"> <li>- Safety became an issue recently, so they are implementing a company wide cultural change programme emphasising H&amp;S and communication between workers and management. This has produced a 76% drop in LTIs over the last year.</li> <li>- Key shift is creating a separate department for safety by removing it from within the operations umbrella.</li> <li>- Improved ESG over the last few years improving environmental monitoring and reporting. Incentivised this by developing an environmental scoring system which feeds into staff bonuses (for both small and large scale issues).</li> <li>- Have already implemented several community initiatives across health, education, agriculture and IT.</li> </ul>