

RESPONSIBLE INVESTMENT POLICY

PHILOSOPHY

Record Currency Management (Record) has identified responsible investment as an essential prerequisite to successful, resilient and prudent investment management. Record is committed to becoming a sustainability leader and will align this objective with the interests of all stakeholders (in particular clients, investors, and employees) and the development and growth of the business. Record is committed to being a company with a culture which places sustainability, corporate responsibility and community engagement firmly at the centre of priorities. Consideration of Environmental, Social, and Governance (ESG) factors within investment strategy was a natural extension of its corporate philosophy, and continues to infuse its strategy development and perception of risk factors going forward.

OBJECTIVES

The financial industry, as well as society more broadly, will face pivotal challenges in the 21st century as the current forecasts of environmental ecosystem destruction manifest.

Recent events have demonstrated the very material and tangible importance of social factors, as well as governance, at both a company and sovereign level. As a company, our resilience has been predicated on flexible home-working provisions and extra support for our people, particularly including a focus on mental health and personal resilience training.

At a country level, never before has an awareness of public health, social welfare and government legislations surrounding lockdowns been more important in driving relative currency movements. Moreover, the pandemic has provided the world a dress rehearsal of how climate disasters can reverberate across the globe, even if they are localised in initial incidence. With currency value intrinsically linked to societal and structural macroeconomic factors, it has never been more evident that incorporation of ESG into our risk management and strategy development is fundamental to delivering long-term value to our clients.

With many of our institutional clients taking a long-term view to investment strategy and representing a wide base of stakeholders, Record believes it is best able to serve the interest of its clients through comprehensive responsible investment. Record is a signatory to the Principles for Responsible Investment (PRI) and uses its membership and the reporting requirements to maintain a focus on progress and demonstrate its commitment to responsible investment. The board fully supports, approves and champions this ESG policy, seeking to steer the business in a sustainable direction with a vision to engender a resilient and successful future for the company, clients, counterparties and wider stakeholders alike.

We aim to integrate ESG considerations as much as possible across our investment processes. Where discretionary decisions are made by our Investment Management Group, ESG data informs of additional risks that can be relevant to short-term volatility movements, as well as longer term trends. Record has also expanded ESG considerations to cover its assessment of counterparties, and embarked on an engagement strategy in order to reduce ESG counterparty risk to the benefit of our clients, as well as encourage the internalisation of counterparty externalities to the benefit of wider society, the environment and the economy. As our strategies develop, we aim to continue to innovate and creatively incorporate ESG data into our investment products and processes.

HOW DO WE DEFINE ESG AND WHY IS IT MATERIAL TO CURRENCY INVESTMENT?

Due to the macroeconomic nature of currency markets, we approach ESG factors from an economy-wide perspective with the view that sovereign-level ESG data materially impacts the macro indicators than inform traditional currency analysis, such as productivity, balance of payments, employment and fiscal policy. Therefore, relevant Environmental (E) factors might include national-level environmental measures such as CO2 emissions, renewable energy as a percentage of total energy supply, economic dependency on oil exports etc. Social (S) factors at a sovereign level might include measures such as the Gini coefficient to signal levels of inequality, demographics data, education levels, public healthcare expenditure, and public infrastructure provisions. Governance (G) is a crucial component for currency markets, and includes indicators that measure corruption, political stability and openness, regulation, rule of law and enforcement of contracts.

Record recognises the materiality of these sovereign ESG indicators in currency valuations. Environmental factors will measure resilience of economies to future climate-related disruption to markets, impacting prices of commodities and requiring capital investment for the transition. There is also additional physical climate risk for countries with direct

exposure to drought, flooding or natural disasters that will have a fundamental impact on core economic indicators, and thereby currency. This risk is assessed in depth and will be publicly reported in accordance with the recommendations of the Task-force for Climate-related Financial Disclosure (TCFD). Social factors have a direct impact on populations, affecting quality of human capital and productivity amongst other macro indicators. Governance is important for volatility considerations, with political instability, civil unrest and institutional failure representing key political risks that can trigger capital flight as investors move to less risky assets. Further, central bank independence, reinforcement of property rights and contracts, and effective government are long-term governance factors that can contribute to an investor-friendly environment, incentivising inflows as well as being conducive to stable long-term economic growth. ESG factors are therefore material considerations that must be taken into account in currency investment.

OUR STRATEGIES

Our ESG materiality in currency research has reinforced this fundamental belief in the materiality of ESG data, developing and quantitatively testing insights on the relationship between productivity and exchange rates, and applying this to a database of country-specific ESG data. The result is a range of currency-relevant ESG factors related to the United Nations Sustainable Development Goals (UN SDGs). These factors (for example education, child mortality, improved water sources and enforcement of legal contracts) are used to construct an ESG metric which can be applied to both standalone currency portfolios and in addition to the implicit currency exposures embedded in international asset portfolios.

In 2020, we broadened our application of ESG to incorporate our counterparties, embarking on an Engagement Strategy to ensure consistency across our trading practices and strategies. Corporate-level ESG criteria and ratings from third-party providers are standardised and aggregated in order to rank our counterparty banks based on their ESG score. This score is used to complement our credit assessment of banks in the counterparty selection process. Quarterly reports are delivered to summarise the data and bring to light any controversies over that quarter. The banks are encouraged to engage via regular calls to discuss and collaborate on solutions to any identified areas of ESG weaknesses and update us on progress. We aim to work collaboratively whilst leveraging our position as high-volume clients, on behalf of our own clients who wish to be represented in these discussions, to reduce counterparty risk and encourage the internalisation of external costs incurred by society as a result of banking activity.

Record acknowledges the diversity of approaches, determined by varying preferences and priorities as well as underlying constraints, taken by its clients to incorporate ESG into their investments. Therefore Record is keen to collaborate with external parties including clients who might wish to apply the methodology to reflect their own specific ESG views. Record's research is ongoing, responding to improvements in available data as well as developing and improving on its own strategies, building and innovating new approaches to maintain its place at the forefront of research in a fast-developing space.

GOVERNANCE

Responsibility for sustained and measured progress within ESG integration lies with the Sustainability Office. The Office is comprised of the Senior Sustainability Office (SSO), ESG Committee and the Sustainability Officer. The SSO is in regular and direct communication with the board, and comprised with key senior leadership members to coordinate and conduct integration of sustainability across the business. ESG Committee serves to involve members across the company who wish to contribute, discuss and recommend policy or ideas to the SSO. The Sustainability Officer chairs the ESG Committee and directly relays resolutions and feedback from the ESG Committee to the SSO, which can in turn enact or escalate to the Board. Full detailed description of the responsibilities and composition of the Sustainability Office can be found in the Sustainability Office governance document.