HARGREAVES LANSDOWN

ESG INVESTMENT POLICY

1. INTRODUCTION

This policy sets the requirements to ensure that HL considers core ESG factors in our decision making enabling us to identify investment opportunities and mitigate potential risks to our clients. Not only will this deliver good client outcomes but helps us to build a resilient and sustainable future for all.

Our vision for ESG at HL is to **inspire confidence for a sustainable, resilient, and successful financial future**.

This means:

- Plc: As an employer we commit to embedding ESG considerations into all areas of the company, aligned to the HL strategy, and reinforced through each Board and Subsidiary.
- HLFM: As a fund manager we commit to using an ESG-integrated investment process to invest in sustainable and resilient businesses which generate sustainable revenues, profits, and dividends.
- HLAM: As a digital wealth manager we commit to providing an industry-leading client experience, enabling our clients to make investment decisions aligned to their ESG preferences and able to understand the ESG impact of their portfolios.

Integrating ESG into our investment process helps us to identify new opportunities and manage long-term investment risks.

Opportunities may include long-term value creation - by considering ESG factors in investment decisions investors can identify companies with sustainable business practices that may outperform over the long term. Companies that manage and mitigate their environmental and social impacts effectively also tend to be more sustainable, with sustainable revenues, profits, and where appropriate, dividends. This can be a source of competitive advantage. Sustainable companies are also well placed to attract conscientious customers, staff, and investors.

Integrating ESG factors also enables a more comprehensive and proactive approach to risk management. By considering ESG risks, investors gain a clearer understanding of potential vulnerabilities and can take appropriate measures to mitigate them. Through engagement with companies, investors can actively contribute to improving ESG practices and supporting responsible business behaviour. Additionally, by carefully assessing ESG factors, investors can identify and avoid companies that are more likely to face asset devaluation, transition risks, or the risk of stranded assets. This proactive risk management approach helps protect investment portfolios from potential financial losses associated with ESG-related risks.

We see ESG as an essential form of due diligence which allows investors to assess and understand the impacts their investments have on the environment and society, and how well the businesses into which they invest are governed. We take both financial and non-financial considerations into account.

ESG Financial Consideration
ESG financial considerations are those that are material to the sustainability of the investment. This involves assessing the financial risks and opportunities associated with ESG factors, such as climate change, supply chain management, labour practices, corporate governance, and stakeholder relations. By considering these factors, investors aim to better understand the financial performance, resilience, and long-term value creation potential of companies or investment opportunities.

Non-Financial Considerations
Non-financial matters may influence a firm's investment strategy or decision and are based on the ESG views of the firm's clients or relevant policyholders. These considerations may include ESG factors, as well as other non-financial aspects like ethical considerations, societal impact, reputation, brand value, employee well-being, customer satisfaction, and innovation potential. Non-financial considerations recognise that financial performance alone may not capture the full picture of a company's value and impact. Evaluating non-financial aspects helps investors assess the broader risks, opportunities, and sustainability of companies and investments.

Other Financial Considerations
Other Financial Considerations encompass financial factors that are not directly related to ESG but are still relevant in financial analysis and decision-making. These considerations can include traditional financial metrics, such as revenue growth, profitability, cash flow, debt levels, valuation ratios, market trends, and industry dynamics. Other financial considerations are covered within our fund prospectuses.

Systemic Themes
While material ESG factors vary from company to company, dependent on the industry they're in, where they're located and their competitive position, there are common themes that can be considered across all sectors:

Environmental Factors:

- **Climate Change:** The significance of climate-related risks and opportunities, including greenhouse gas emissions, energy efficiency, and robust net zero strategies.
- **Resource Efficiency:** The importance of responsible resource consumption, such as water stewardship, waste management, and sustainable sourcing of raw materials.
- **Biodiversity and Conservation:** The need to protect and preserve ecosystems, halt unsustainable deforestation, and mitigate the impact of business activities on natural habitats.

Social Factors:

- **Labour Practices:** The importance of fair employment practices, including diversity and inclusion, equal opportunity, labour rights, and worker safety.
- **Human Rights:** The respect for human rights across the value chain, ensuring that investments avoid complicity in human rights violations or unethical practices.

- **Community Relations:** The commitment to positively engage with local communities, fostering economic development, social well-being, and stakeholder collaboration.
- **Product Safety and Quality:** The focus on ensuring that investments promote products and services that are safe, reliable, and meet quality standards.

Governance Factors:

- Board Composition and Structure: The significance of strong governance practices, including board independence, diversity, expertise, and accountability.
- **Executive Remuneration:** The importance of fair and transparent executive compensation practices, aligning incentives with long-term sustainable performance.
- **Business Conduct:** The commitment to promoting ethical behaviour, integrity, and anti-corruption practices throughout the investment process.
- **Shareholder Rights and Engagement:** The importance of protecting and promoting shareholder rights and actively engaging with companies to improve governance practices.

Please see our corresponding Stewardship and Engagement Policy.

2. POLICY PRINCIPLES AND REQUIREMENTS

ESG factors must be incorporated on an ongoing basis into our investment practice. This should be guided by the six United Nations-backed Principles for Responsible Investment ("PRI"), which HLFM has committed to adopt:

- **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 Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

We seek to integrate ESG considerations into our research and overall investment decisions across all solutions and asset classes.
We recognise that different asset classes, portfolio strategies and investment universes require different approaches to ensure ESG analysis most effectively strengthens decision-making. The following requirements are applicable across all asset classes, regions, markets, and securities unless otherwise specified. We have detailed our approach to engagement across different asset classes in our Stewardship and Engagement Policy.

Fund Analysis and Decision-Making, HLAM and HLFM
When analysing funds and appointing managers for HLAM and HLFM solutions, we consider ESG criteria from two perspectives – the fund level and the fund group level.

Fund Level

- Analysts must determine if the third-party fund manager is both aware of the risks posed by ESG issues and managing these risks effectively in their portfolio. They will gather insight on how effectively fund managers integrate ESG, utilising HL's proprietary ESG dashboards, which will be factored into analysts' decision-making for fund selection for HLAM and HLFM solutions.
- Analysts must complete a checklist annually for each fund under coverage. This includes both ESG and non-ESG questions. This is not a quantitative hurdle for inclusion but is used as a reference point for discussion, both for funds we invest in and those we are considering for investment. ESG has an 100% weighting in this assessment, fund groups must satisfy the ESG Investment Policy requirements.
- We expect the managers of segregated mandates and / or funds held within the HL Multi-Manager range to use their votes and engage with the companies they invest in to highlight potential areas of ESG improvement to management, where it is in the interests of long-term investors.
- Appointed managers of segregated mandates held in HLFM solutions will not invest in companies that generate 20% or more of their revenues from oil sands or thermal coal extraction. We also exclude companies that generate more than 20% of their revenues from thermal coal power generation, unless our thermal coal exemption criteria are met.
- We recognise that in certain circumstances, companies that currently generate power from thermal coal could play an important part in the shift to net zero. We may therefore choose to waive our thermal coal exclusion for companies that meet the following criteria:
    - A clear plan to phase out thermal coal, and a commitment to be coal free by 2030 in developed markets, and 2040 in emerging markets.
    - The management team is appropriately incentivised to bring about the managed decline of thermal coal exposure.
- Appointed managers of segregated mandates held in HLFM solutions will not invest in companies that generate any revenues from the production, maintenance/service, sale/trade, or research and development of controversial weapons, or components/services of controversial weapons, considered tailor-made and essential for the lethal use of

the weapon. Controversial weapons include antipersonnel landmines, cluster munitions, biological and chemical weapons.

- Appointed managers of segregated mandates held in HLFM solutions will not invest in persistent violators of the United Nations Global Compact (UNGC) principles. Persistent violation occurs when a company is in breach of at least one of the UNGC principles for a continuous period of three years (36 months).
- If a company already held in the portfolio later violates one of the aforementioned exclusions, managers will be required to sell the investment within a reasonable period of time (usually 90 days), unless previously agreed with Hargreaves Lansdown' Executive Investment Committee.
- Where we invest in third-party funds, we have no direct control over the investments that the fund manager makes. However, we commit to engaging with active fund managers where they have exposure to the excluded areas through directly held assets. Our objective for this engagement is to understand the reasons they invest in these companies, how the heightened ESG risks are being managed, and any engagement that's taken place. ESG risk monitoring across all solutions is reported to accountable senior managers on a monthly basis and the relevant governance committees every six months.

Fund Group Level

- All groups managing funds or segregated mandates held in HLAM investment solutions or HLFM funds are expected to be a signatory of the PRI, or if not applicable, their country equivalent commitment to responsible investment. We will engage with groups that do not comply over a period of two years and ultimately divest from their funds if no solution is arrived at.
- We will request fund groups' PRI reports on an annual basis. This will feed into our proprietary analysis to determine if the fund group is taking sufficient steps to support and encourage ESG integration across the firm.
- When engaging with fund groups, we will ask for the accountable executive for ESG and also work with those that do not have top-level ownership to ensure there is robust governance at the firm.
- Any funds that are being considered for investment, or are a current holding, are evaluated on whether the group reports on the Task Force on Climate-Related Financial Disclosure (TCFD), or a similar climate-related disclosure framework relevant to the domicile of the group.
- We expect all fund groups to publicly pledge to net zero by 2050 or earlier (covering at least scope 1 and 2 emissions) and to be working towards creating a robust transition plan to support this pledge. Those that have not set a decarbonisation target will face divestment after a two-year engagement period should they not comply.

Equity Analysis and Decision-Making, HLFM

- Our Select fund management team will analyse and assess the material ESG exposures for the companies they invest in. We will be supportive of management actions that economically improve sustainability metrics and we will take opportunities to engage to this effect. Our engagements will be outlined in our Engagement Report.
- We expect to see companies defining their approach to net zero. This may include both interim and long-term net zero target setting, or a commitment to measure and understand corporate emissions in greater detail with a view to setting achievable net zero targets within a reasonable timeframe.
- HL Select funds will not invest in companies that generate 20% or more of their revenues from oil sands or thermal coal extraction. We also exclude companies that generate more than 20% of their revenues from thermal coal power generation, unless our thermal coal exemption criteria are met.

- We recognise that in certain circumstances, companies that currently generate power from thermal coal could play an important part in the shift to net zero. We may therefore choose to waive our thermal coal exclusion for companies that meet the following criteria:
  - A clear plan to phase out thermal coal, and a commitment to be coal free by 2030 in developed markets, and 2040 in emerging markets.
  - The management team is appropriately incentivised to bring about the managed decline of thermal coal exposure.
- HL Select funds will not invest in companies that generate any revenues from the production, maintenance/service, sale/trade, or research and development of controversial weapons, or components/services of controversial weapons, considered tailor-made and essential for the lethal use of the weapon. Controversial weapons include antipersonnel landmines, cluster munitions, biological and chemical weapons. HL Select funds will not invest in companies that are persistent violators of the UNGC principles. Persistent violation occurs when a company is in breach of at least one of the UNGC principles for a continuous period of three years (36 months).
- If a company already held in the portfolio later violates one of the aforementioned exclusions, managers will be required to sell the investment within a reasonable period of time (usually 90 days), unless previously agreed with Hargreaves Lansdown's Executive Investment Committee.

HL Workplace Default Investment Arrangements

We encourage clients to invest for the long-term. Our HLFM-manufactured workplace default fund uses an asset allocation model with a 10-year investment horizon, and the fund is designed to be held for at least that time period for the typical client in the accumulation stage. However, we acknowledge the duration of investment can vary for workplace members as follows:

- Workplace pension saver with a long-term horizon e.g., 30 years to retirement.
- Workplace pension saver within the lifestyle glide path of 10 years to retirement.
- Drawdown and investment pathways investors with 0 to 5 years to retirement.

We see ESG integration as an extra layer of due diligence that is applicable regardless of investment horizon. We acknowledge the capacity for ESG integration is reduced as the investment horizon shortens, as the asset mix pivots from equities towards bonds.

We consider member expectations on ESG issues in the design of the Workplace Default Investment Arrangement. We aim to balance these needs with the investment aims of the strategy to ensure the best outcome for investors.

The HL Workplace Default Investment Arrangement is constructed of a fund manufactured by Hargreaves Lansdown Fund Managers (HLFM), and third party manufactured fund. For funds manufactured by HLFM, we can dictate how the fund should be invested, whereas we do not have this control over funds manufactured by third parties. As such, there are two different approaches to ESG integration within the Workplace Default Investment Arrangement:

Manufactured

- All funds within the strategy may use ESG Tilting to further enhance their ESG credentials. This will be carried out on a best-efforts basis, and where tilting is conducive to the wider aims of the Fund.
- All fund groups must be a signatory of the PRI or if not applicable, their country equivalent commitment to responsible investment.
- All fund groups must publicly pledge to be net zero by 2050 or earlier (covering at least scope 1 and 2 emissions) and to be working towards creating a robust transition plan to support this pledge. Failure to adhere within a two year period will lead to the replacement of the manager with one with a suitable transition plan in place
- We communicate the voting summary statistics on an ongoing basis through the ESG Hub for Workplace members.

Third-Party

- All fund groups must be a signatory of the PRI or if not applicable, their country equivalent commitment to responsible investment.
- All fund groups must publicly pledge to be net zero by 2050 or earlier (covering at least scope 1 and 2 emissions) and to be working towards creating a robust transition plan to support this pledge. Failure to adhere within a two year period will lead to the replacement of the manager with one with a suitable transition plan in place.
- Where we invest in third-party funds, we have no direct control over the investments that the fund manager makes. However, we will engage with passive fund managers in our Workplace Default Arrangements when the aggregated ownership of excluded companies exceeds 0.1% across all the index funds and ETFs we support from a specific fund house.
- Our objective for this engagement is to understand the reasons they invest in these companies (in the case of active funds), how the heightened ESG risks are being managed, and any engagement that's taken place. We will report this back to investors through our engagement report.