

Ethical MPS Screening Review 2024

evidencing underlying exposure based on
the screening criteria

Introduction

Our actively managed ethical model portfolios were launched in 2010. They have a stringent **negative** and **positive** screen, as highlighted in our product brochures and screening documents, as well as in the green and red boxes below.

This document aims to highlight to our investors how we are meeting those screens, and if not, what exposure there is that is contrary to our screens and why it has been tolerated in the portfolios.

Targeted Activity

- ✓ **Climate Change**
(Alternative Energy/ Green Building/ Energy Efficiency)
- ✓ **Natural Capital**
(Sustainable Water/ Sustainable Agriculture/ Pollution Prevention & Control)
- ✓ **Basic Needs**
(Nutrition/ Sanitation/ Major Disease Treatment/ Affordable Housing)
- ✓ **Empowerment**
(Education/ Connectivity/ SME Finance)

Excluded Activity

- ✗ **Adult Entertainment**
- ✗ **Alcohol Production**
- ✗ **Armaments**
- ✗ **Fossil Fuel Exploration & Production**
- ✗ **Gambling**
- ✗ **Nuclear Power Generation***
- ✗ **Major Environmental Concerns**
- ✗ **Tobacco Production**

It is important to note, our screening and analysis of underlying companies does go beyond the explicit negative screens highlighted. This additionally means we are seeking to avoid those companies who fall short on client expectations on issues such as **aggressive tax practices, intensive farming, labour & human rights issues**. These issues are at times, hard to quantify with reliable data, but our in-depth understanding of prevalent issues in these areas, means we are able to highlight those companies falling short on these expectations through the under the bonnet screen.

*Please see comment further on in this document regarding the amendment to Nuclear Energy Generation screen.

Portfolio Comparisons

Throughout this document we have provided comparison portfolios which reflects the allocation of a portfolio of 83% equities and 17% bonds (which aligns to our growth portfolio allocation).

The comparison portfolios use major non-screened conventional equity markets that many of our clients will be familiar with. This includes non-screened equities based on ETFs that track global equities, large-cap US equities, and large-cap UK equities, as well as a non-screened sterling corporate bond index for the bond allocation.

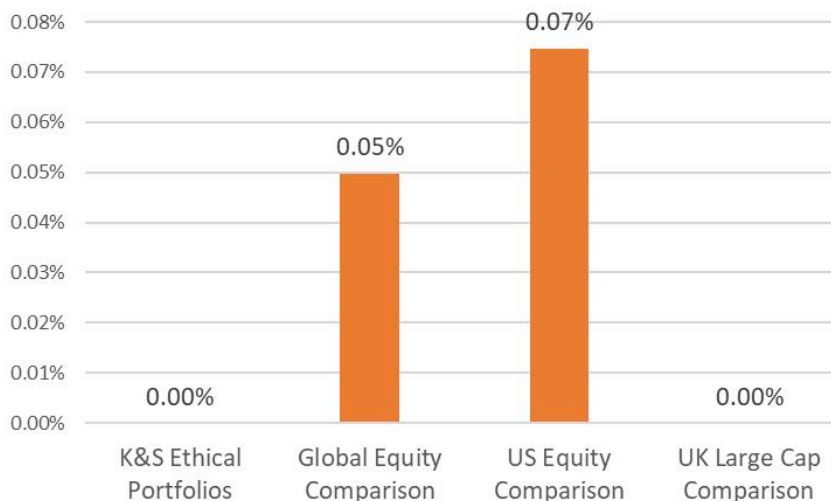
Within the positive section, we have only used a comparison portfolio that consists of a non-screened global equity index alongside the non-screened corporate bond index. This section also includes reference to our income portfolio which closed at the end of 2024.

NEGATIVE SCREEN

Adult Entertainment

Adult entertainment production is avoided in the portfolios as many workers in the adult entertainment industry are subject to exploitation and abuse. There is further concern around addiction and underage consumption which brings health and societal risks.

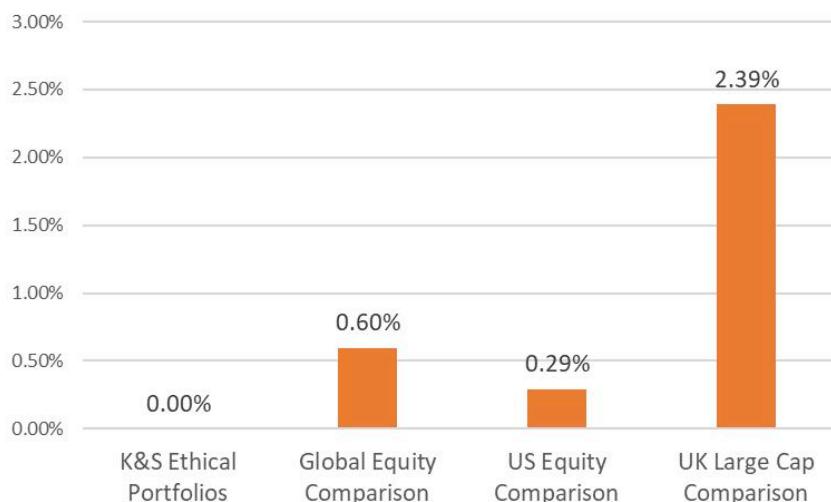
For this screen, we have used the MSCI metric 'Fund Adult Entertainment Involvement - Highly Restrictive (%)'. This flags the full weight of a company that derives more than 5% revenue from adult entertainment production, distribution or retail, that is held within the fund. Our under the bonnet process, where every underlying holding is analysed, will confirm whether there is any involvement in adult entertainment below 5% revenue.



Alcohol Production

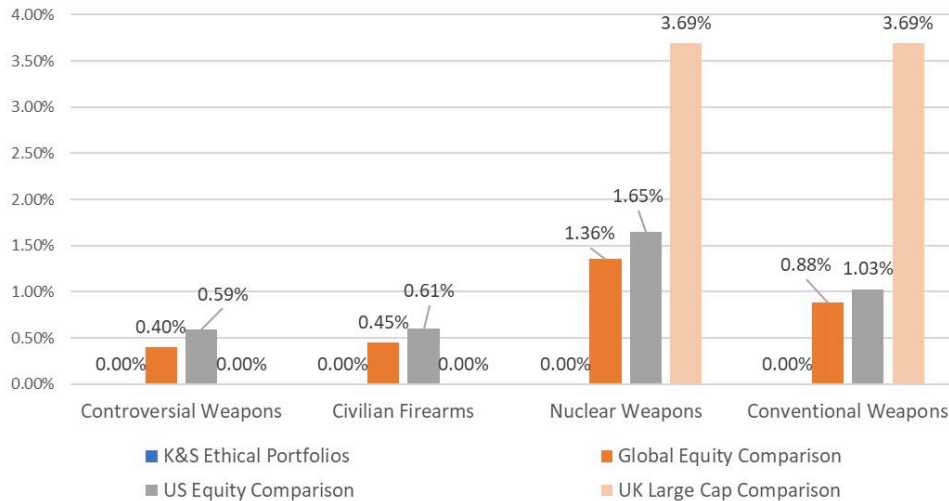
Alcohol production is excluded from the portfolios due to its health and societal impacts. Alcohol is an addictive substance, and regular and excessive alcohol consumption is linked to various health issues, violence, crime, public nuisances and other forms of anti-social behaviour. In addition, there are concerns around alcohol companies targeting vulnerable populations.

For this screen, we have used the MSCI metric 'Fund Alcohol Involvement - Least Restrictive (%)'. This metric flags a company's full weight if they derive more than 10 percent of their revenue from producing alcohol. Our under the bonnet screen further scrutinises holdings to ensure primary producers of alcohol are avoided. As per our screening document, we seek to avoid producers rather than retailers, so sales of alcohol through companies or sectors like supermarkets is permitted.



Armaments

We are able to obtain data which splits armaments into 4 key factors: Controversial Weapons, Civilian Firearms, Nuclear Weapons, and Conventional Weapons. These factors flag any revenue exposure, with the exception of conventional weapons which flags for companies with over 5% of their total revenue from manufacturing conventional weapon systems and components (our under the bonnet reviews any limits). At times, we will review companies who supply components for military applications and make a value judgement based on the material impact of those components.



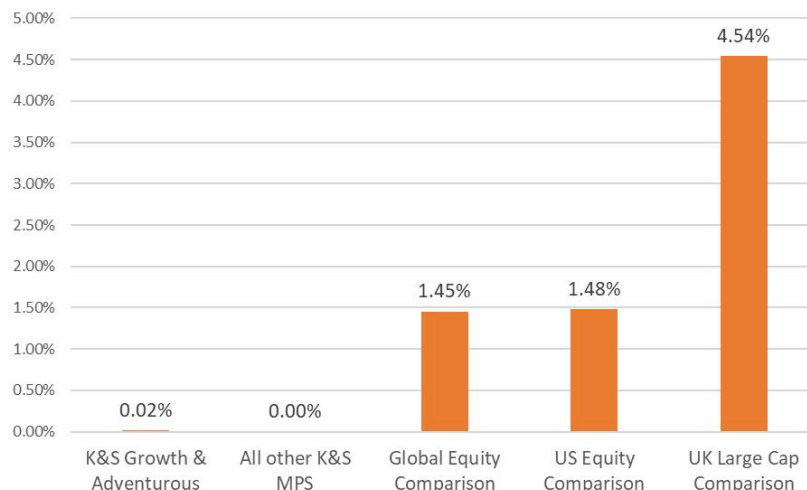
Fossil Fuel Exploration & Production

We aim to exclude fossil fuels from the portfolios due to their detrimental impact on the climate. During fossil fuel exploration & production, major levels of CO2 emissions are released, driving climate change. Oil, gas and coal account for over 75% of global greenhouse gas emissions and nearly 90% of all carbon dioxide emissions (Source UN).

There are a number of metrics we can use to flag exposure to fossil fuels. However, a large part of our analysis will apply a qualitative overlay to the quantitative data to ensure companies are removed from the portfolio that are materially exposed to the fossil fuel industry – whilst our explicit exclusion focuses on exploration and production, we also aim to screen out companies focused on activities such as generation of electricity from fossil fuels without credible transition plans that are already well underway. At times, there may be some limited exposure from those companies who have made material efforts to transition away from Fossil Fuels (extraction or generation) and who may still have some legacy positions (Danish company Orsted being a near term example).

In the below, we have used the MSCI metric 'Fund Revenue exposure to Oil & Gas Refining (%)'. This flags any company with revenues deriving from refining oil & gas. Exposure is at 0% with the exception of the growth and adventurous portfolios:

This exposure is flagged in an Emerging Market Climate bond fund, which has a greater transition focus, including exposure to labelled bonds. Our under the bonnet screen ensures this was not exploration and production. The fund has since been sold for financial reasons.



Gambling

Gambling is traditionally an area of concern for ethical investors due to the adverse social impact. We therefore negatively screen gambling from the Ethical MPS. Our initial screen uses the MSCI metric 'Fund Gambling Involvement (%)', which flags companies with any tie to gambling, whether that be through operation, support, licensing or ownership.

Orange SA

The upper exposure limit of 0.24% is in the K&S Ethical MPS Balanced portfolio and exclusively stems from Orange SA, the French Telecommunications company, found in various funds.

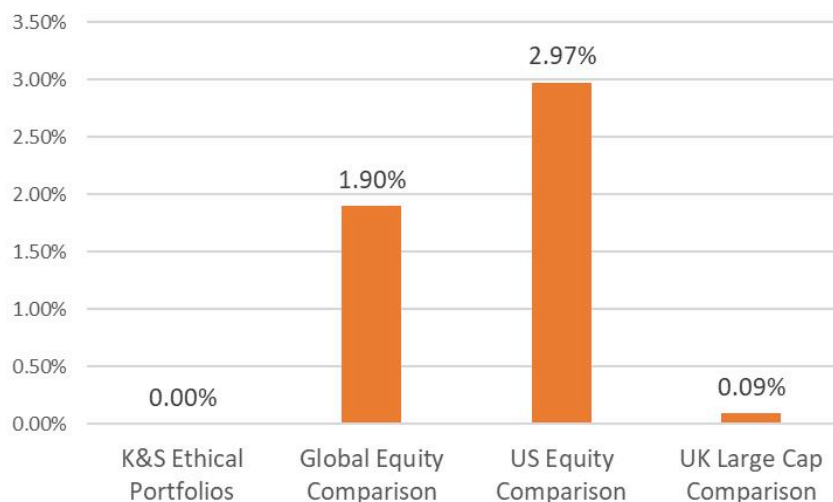
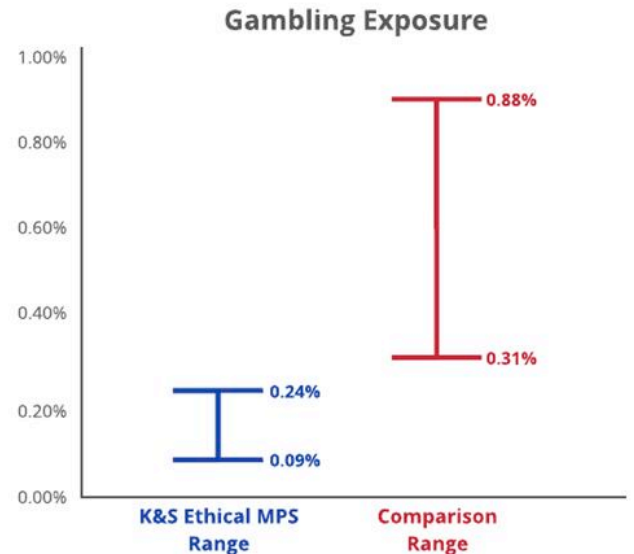
While MSCI flags Orange for maximum 0.5% revenue from gambling operations, they fail to provide the specific business involvement this stems from. Following our own due-diligence, and engagement with other fund managers, we believe MSCI flags Orange for gambling from involvement in the video gaming sector, an area we do not consider gambling in the traditional sense, hence we have taken our own stance to allow Orange in the portfolios.

Nuclear Power Generation - (Permitted since December 2024)

Nuclear power generation has been a controversial issue over the years, given concerns around mining of uranium, waste and the general cost. It has been a part of our negative exclusion since inception, therefore the below details the avoidance. However, since December 2024, we have permitted a small amount of exposure, with further details on the rationale overleaf.

To highlight exposure, we can use the MSCI metric 'Fund Nuclear Power Involvement - Highly Restrictive (%)', which flags the percentage of portfolio's market value exposed to companies involved in utilities with nuclear power generation, from operations and suppliers to the nuclear power industry if the revenue is => 5%. This data is then used during our under-the-bonnet screen, where we can assess whether the company is responsible for generation of Nuclear power.

When using the quantitative data from MSCI, the K&S Ethical MPS Balanced, for example, flags for 0.47% nuclear power generation, derived wholly from bond funds, where issuers such as Iberdrola and Enel are flagged. However, portfolios exposure in these issuers are exclusively through green bonds, where the proceeds are ringfenced to renewable energy sources. This means that **despite the MSCI flag, clients have had no direct underlying exposure to nuclear power generation - and we have therefore amended the data to zero following our qualitative review.**



Amendment to Nuclear Power Generation Screen - Dec 2024

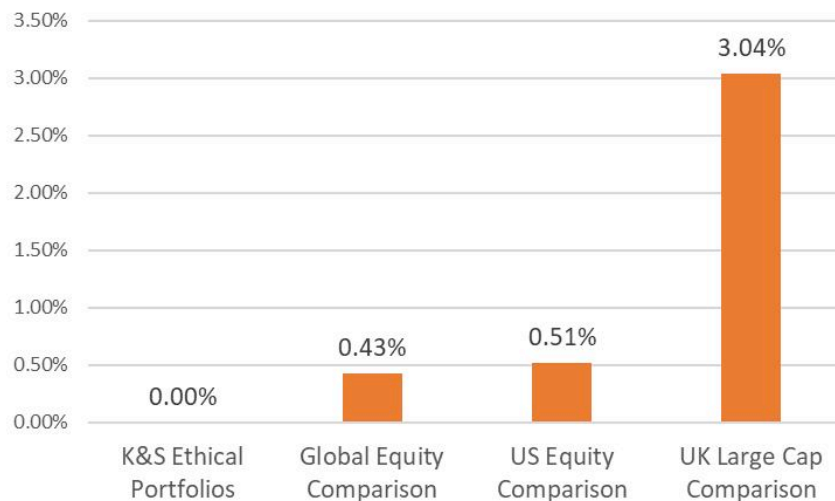
Whilst we have our own specific exclusions in place, we are beholden to the underlying fund house screens. With our genuine sustainability focus, we are aligned with many fund houses who operate in our investment universe, with nuclear energy being the only area that throws up issues during our analysis of new offerings, at times only due to a very small allocation that is contrary. Given the growth in sustainable funds, it has become apparent that due to our exclusion of nuclear, we are missing out on accessing funds that would enhance our portfolio range. We have therefore decided to amend our nuclear power generation screen from 0% exposure to a 3% overall portfolio weight limit. In reality it is likely to be much lower than 3%.

Major Environmental Concerns

Companies with major environmental concerns will be screened out through our under-the-bonnet screening process. This is reinforced using the MSCI metric 'Fund red flag environmental controversies (%)', which flags companies with direct involvement in one, or more, very severe ongoing environmental controversy related to Energy & Climate Change, Land Use & Biodiversity, Toxic Spills & Releases, Water Stress, or Operational Waste. As of the July 2024 rebalance, the King & Shaxson Ethical MPS have zero exposure to companies with major environmental concerns, whilst the global equity comparison had 0.01%, and the US and UK large cap comparison had 0.00% exposure.

Tobacco Production

Tobacco is avoided in the portfolios as the substance is addictive and causes death. The MSCI metric 'Fund Tobacco Involvement - Moderately Restrictive (%)' flags producers that derive more than 5% of revenue and tobacco retailers, suppliers, and distributors if the combined revenue is more than 15%. This metric compliments our under-the-bonnet screening method to exclude companies exposed to tobacco production.



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Specific Company Exclusions:

On top of the screens above, we currently have specific exclusions for a number of companies. Facebook (Meta), Apple, Amazon & Google (Alphabet), Alibaba & Tencent - we would seek to avoid these large tech companies due to concerns over social and governance practices. This includes aggressive tax practices, labour issues, supply chain concerns, gaming addiction and data abuse. Some of these companies form a highly significant part of global indices, so it is important the implication of their exclusion (alongside other sectors) is understood.

Within the Ethical MPS, there is an extremely small position in Apple (<0.10%). However, this is through a labelled green bond, where the proceeds are ringfenced. The investment committee debated the holding over a number of quarters, and it was eventually permitted given it was held in a labelled bond fund which provided portfolios with exposure to a range of companies targeting positive social or environmental outcomes with their bond issuance.

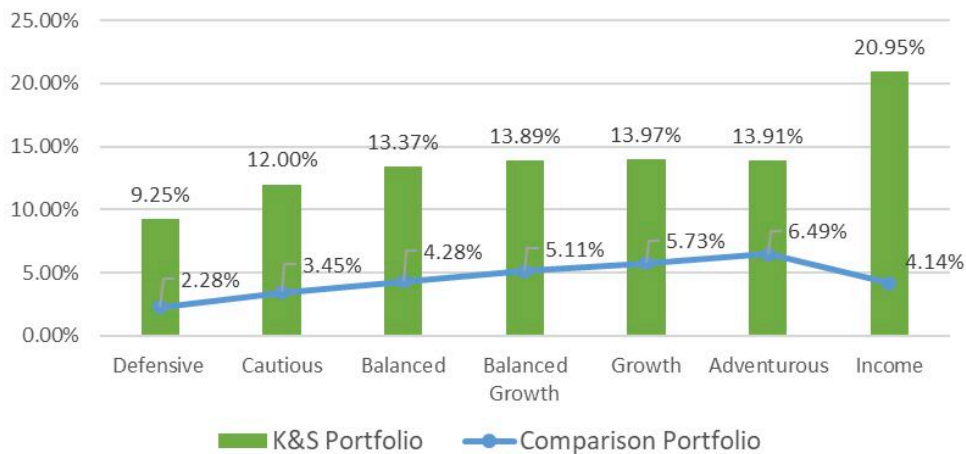
POSITIVE SCREEN

In order to provide a quantifiable value with regards to the positive outcomes of our portfolios, we can use the MSCI Sustainable Impact Metrics, comprising of six environmental impact categories, and seven social impact categories.

The environmental impact categories consist of alternative energy, energy efficiency, green building, sustainable water, sustainable agriculture and pollution prevention & control, whilst the social impact categories include nutrition, sanitation, affordable housing, major disease treatment, education, connectivity and SME financing.

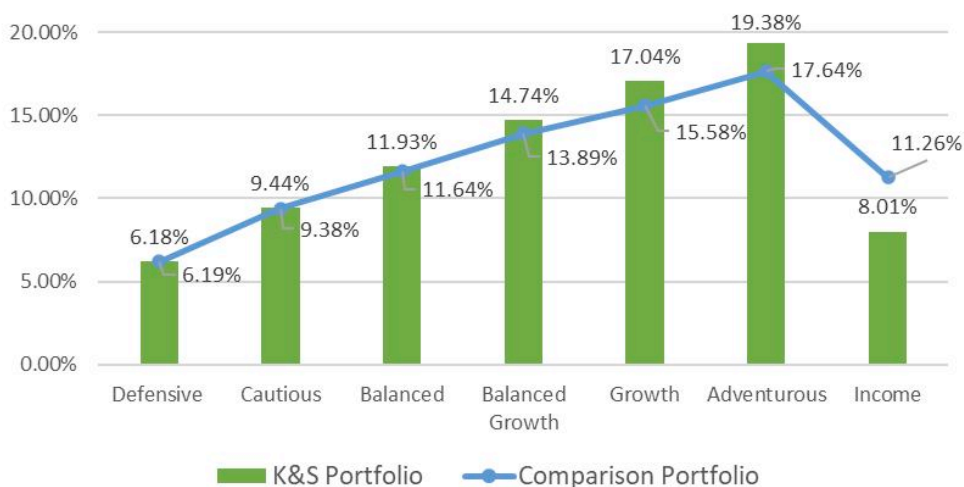
Alternative Energy

The alternative energy category measures companies' exposure to products and services that support the transmission, distribution and generation of renewable energy and alternative fuels. This includes sources such as solar, wind, tidal, geothermal, biofuel and small hydro, in addition to alternative energy storage and fuel cells.



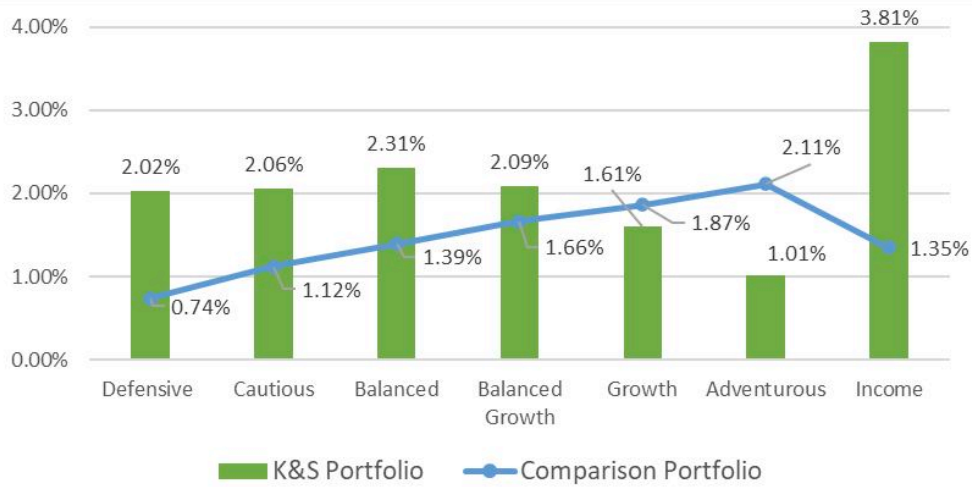
Energy Efficiency

The energy efficiency category measures companies' exposure to products and services that support the maximisation of productivity in labour, transportation, power and domestic applications with minimal energy consumption. This ranges from zero emission & hybrid vehicles, clean transport infrastructure, to superconductors, smart grids, battery storage and industrial automation. It also includes IT optimisation services & infrastructure, demand side management, insulation solutions and LED/CFL lighting solutions.



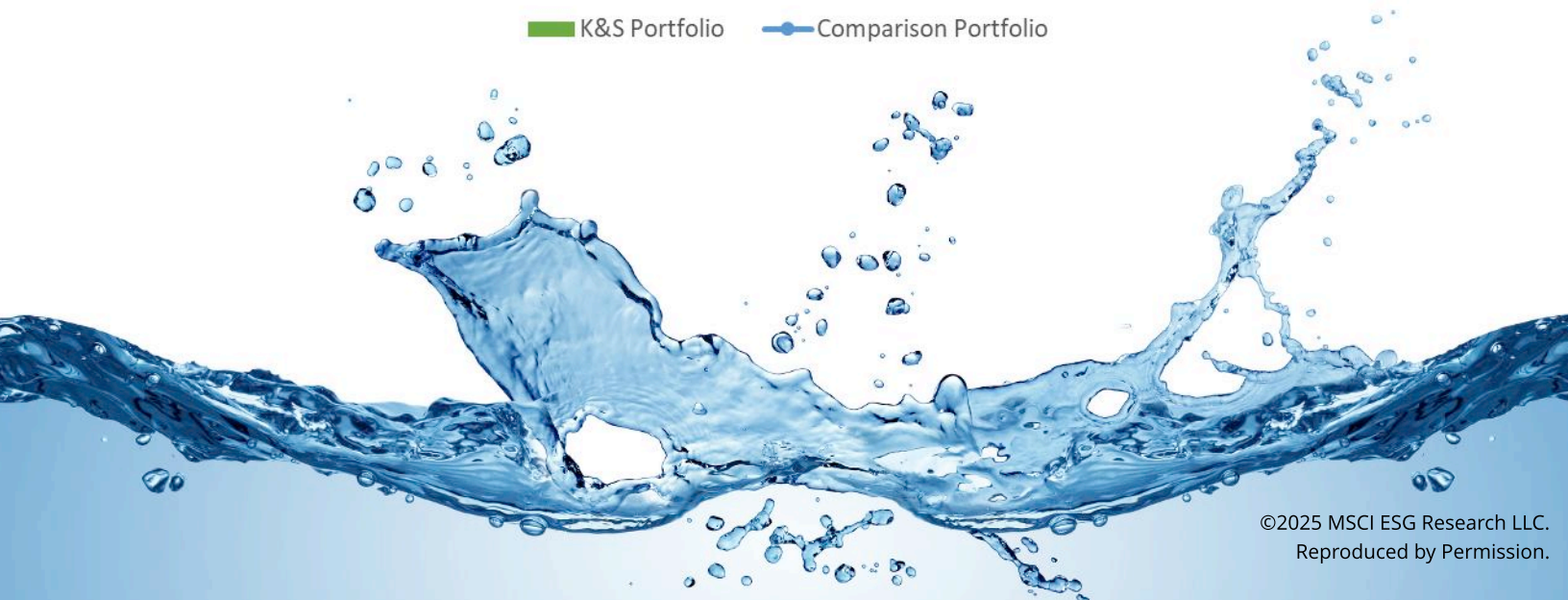
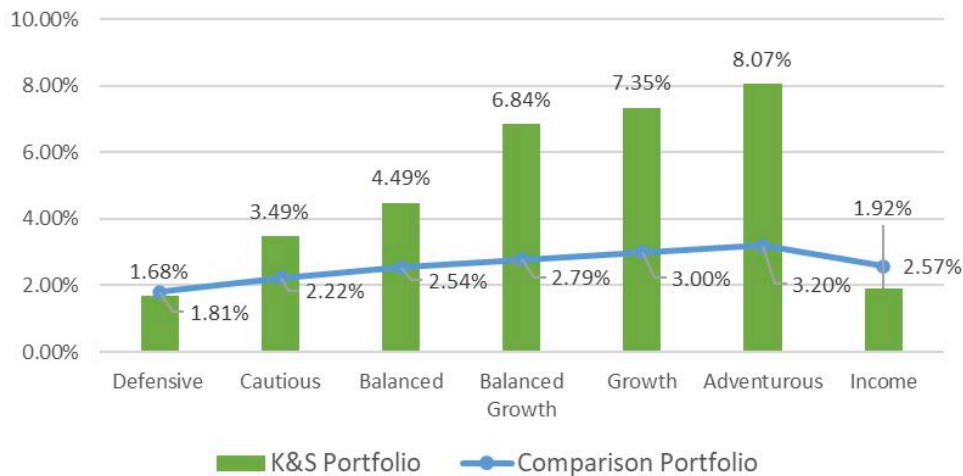
Green Building

The green building category refers to a companies' involvement in the design, construction, redevelopment, retrofitting, or acquisition of green-certified properties. This can include the ownership or construction of green or sustainable buildings, or the provision of consultancy services that aid in the green building certification of properties.



Sustainable Water

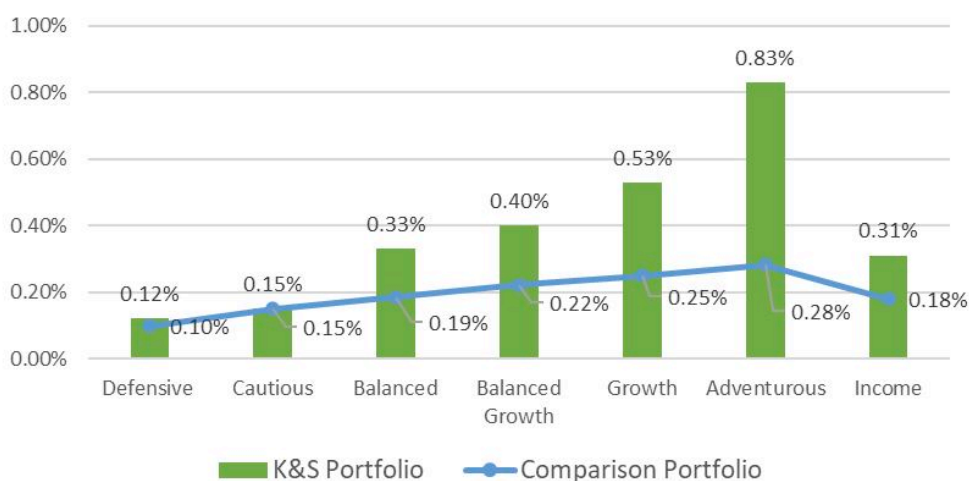
The sustainable water category measures companies' involvement in products, services, infrastructure projects or technologies that resolve water scarcity and water quality issues. This can include smart metering devices, rainwater harvesting, desalinization solutions, water infrastructure and distribution, waste water treatment, water recycling and services, and drought-resistant seeds.





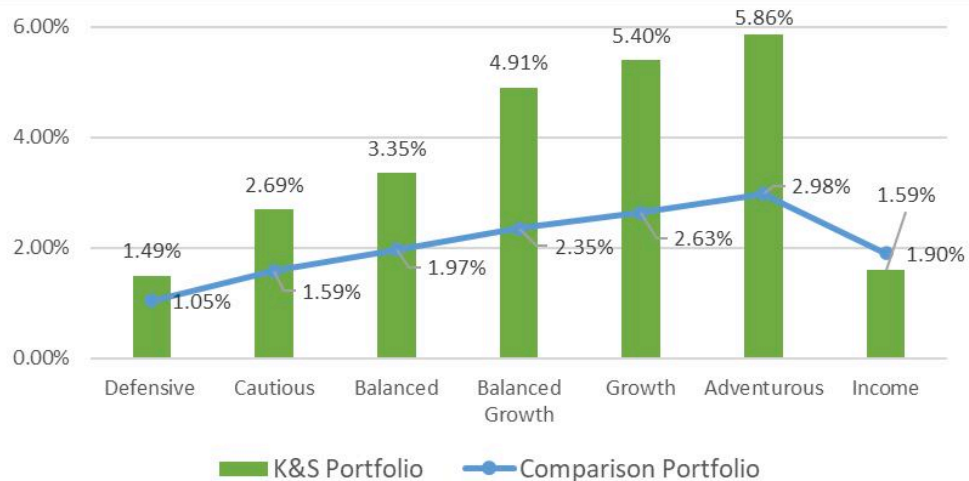
Sustainable Agriculture

The sustainable agriculture category measures companies' revenue involvement from forest and agricultural products that meet environmental and organic certification requirements to address significant biodiversity loss, pollution, land disturbance, and water overuse. This includes sustainably certified food products such as poultry, fruits, vegetables, and seafood, and sustainably certified timber products such as pulp.



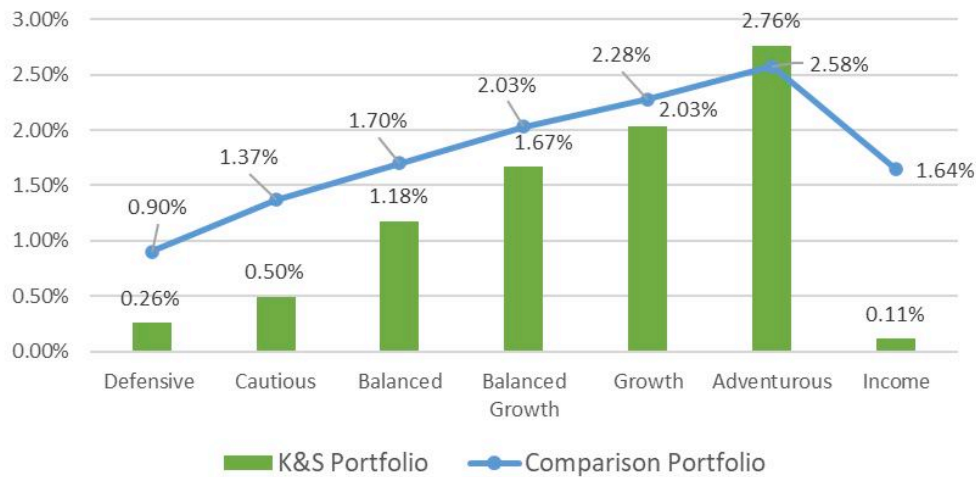
Pollution Prevention & control

The pollution prevention and control category measures companies' involvement in products, services, infrastructure projects or technologies that reduce the volume of waste materials through recycling, minimizing the introduction of toxic substances, and offering remediation of existing contaminants such as heavy metals or organic pollutants in various environmental media. It includes waste treatment, conventional pollution control (such as biofilters, carbon absorbers, catalytic reactors, fabric filters, ventilators, and dehumidifiers) and recycling solutions.



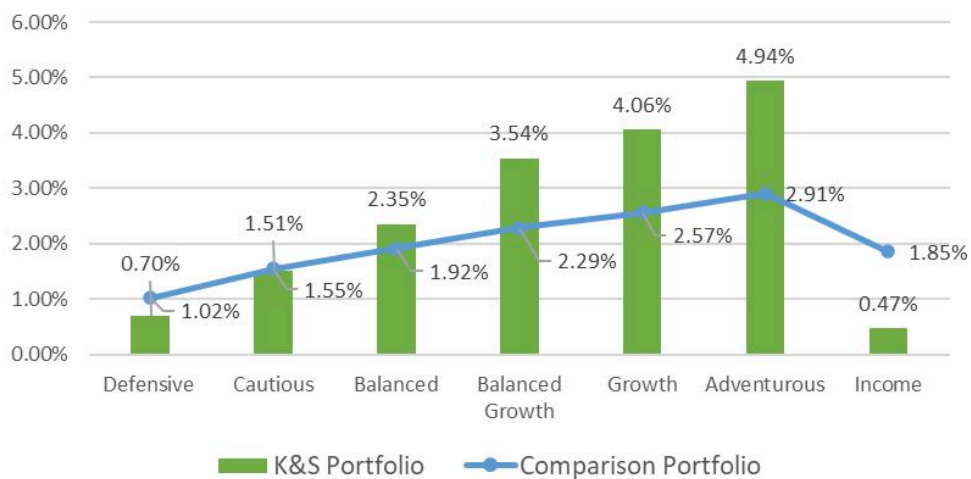
Nutrition

The nutrition category measures a companies' revenue from basic food products. The classifying nutritious products that classify under 'basic products' are defined by Choices International, a science-based multi-stakeholder organization focused on nutrition. According to Choices International, basic products refer to those that contribute to the daily intake of essential nutrients needed to fulfil daily requirements. For example, fruits and vegetables, beans and legumes, sources of carbohydrates, meat, fish, poultry, eggs and meat substitutes, dairy products, oils, fats and fat-containing spreads, nuts and water. Non-basic food products are excluded, such as flavoured water, alternative meats, or premium non-basic products, which typically retail at higher prices.



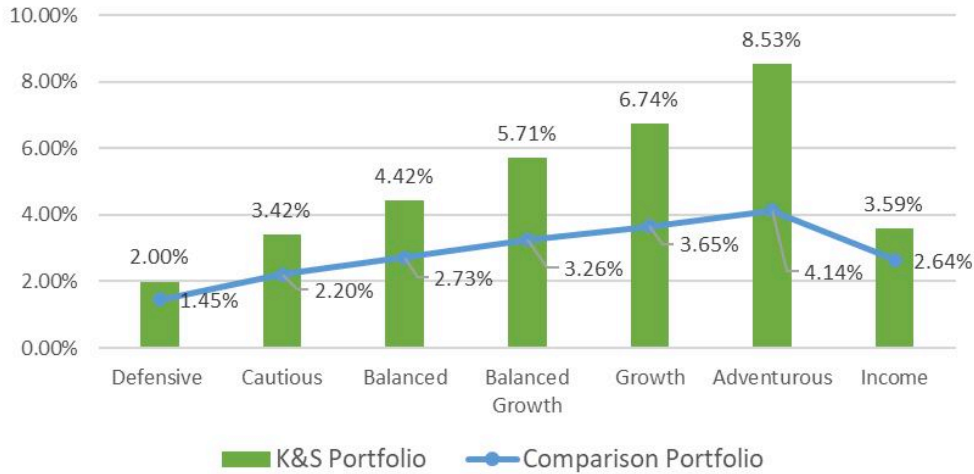
Sanitation

The sanitation category measures companies' involvement in the manufacture and sale of basic sanitation products. Inadequate sanitation is a major cause of disease world-wide and improving sanitation is known to have a significant beneficial impact on health both in households and across communities. Eligible products include those that provide basic hygiene and sanitation, such as soaps and shampoos, toothpaste and toothbrushes, toilet paper, surface cleaners, toilets & washbasins, and laundry detergent. Beauty or cosmetic products and luxurious products are excluded as they extend beyond basic needs for society, whilst premium and luxury products are excluded, such as exfoliating soaps, as they typically retail at higher prices.



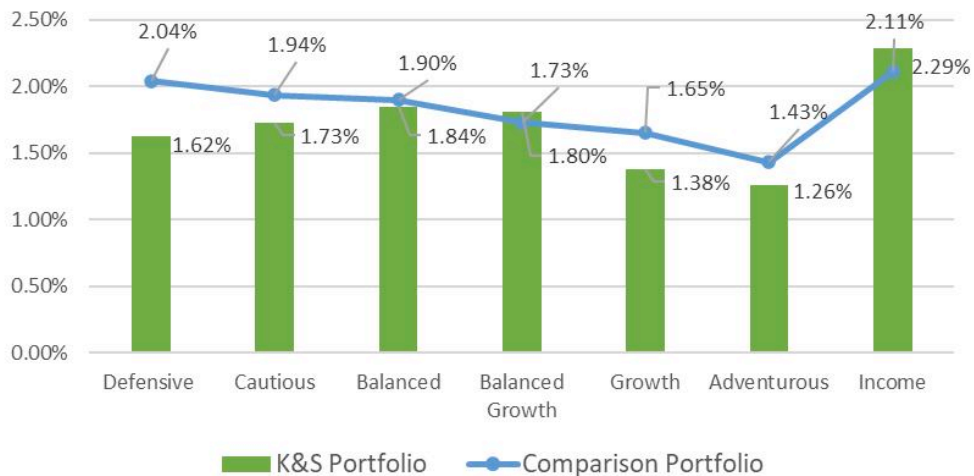
Major Disease Treatment

The major disease treatment category measures companies' revenue exposure from products used to treat the world's major diseases as defined by the World Health Organisation (WHO), such as strokes, diabetes, HIV, tuberculosis, and malaria. The category also includes neglected tropical diseases (which affect impoverished communities and have a disproportionate impact on women and children in tropical areas), and orphan diseases.



Affordable Housing

The affordable housing category measures companies' revenue involvement from developing eligible units as well as rental income from owning and operating affordably priced real estate. Eligible units include units sold or leased below market value, or those disclosed by the company as low-income or affordable units. Examples include senior living properties that offer independent living facilities and student housing facilities offered below market value.

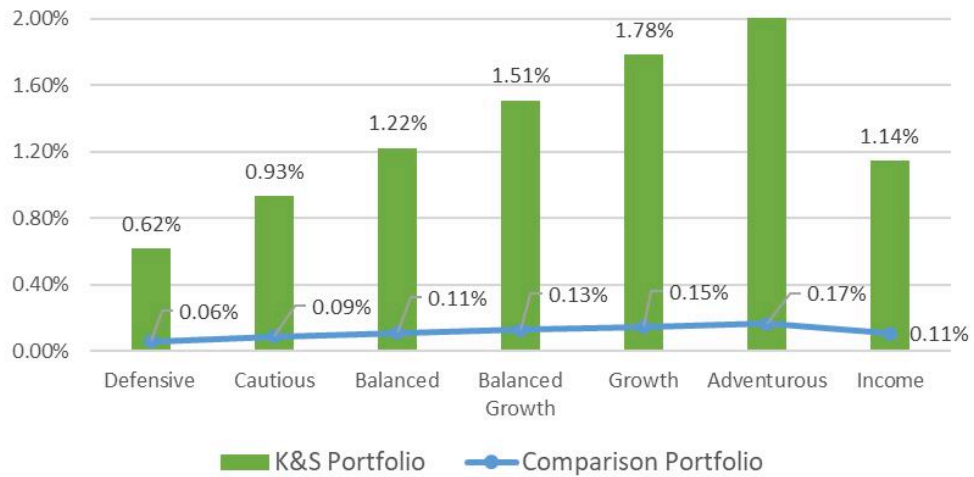


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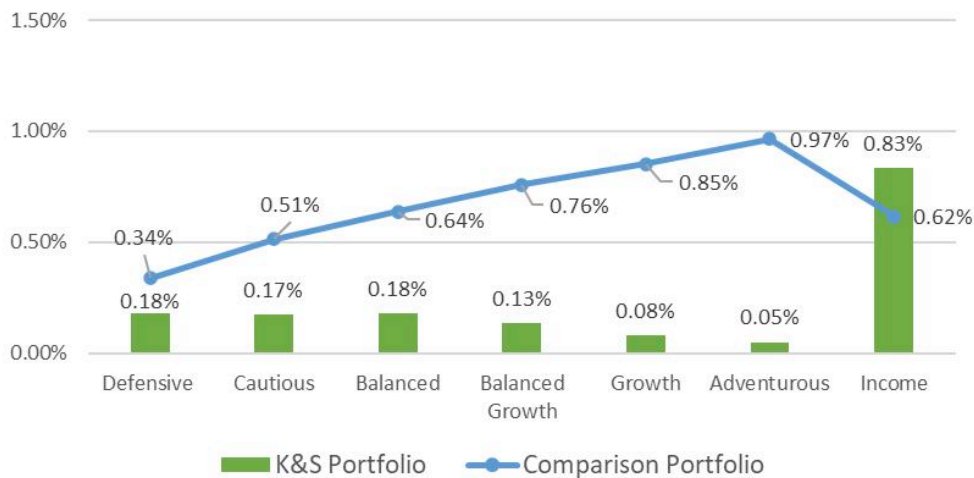
Education

Education is a category deriving positive impact by empowering populations to increase education literacy, and workforce skillsets. The category focuses on companies' content with a direct link to increasing knowledge and skills. This includes educational books, schools and institutions, professional courses and trainings that provide a certification, and providers of tutorial services or study materials.



Connectivity - Digital Divide.

The connectivity category aims to measure companies' involvement with products and services that bridge the digital divide and support underserved communities through better connectivity to information and communication. Eligible services must be provided in Least Developed Countries (LDCs) to justify the greatest additional positive impact to society (defined by the United Nations). The category includes products & services that aid the development of telecommunications infrastructure, internet service providers, telecommunication equipment and repair services. It also excludes consumer equipment such as mobile devices and home wireless routers.

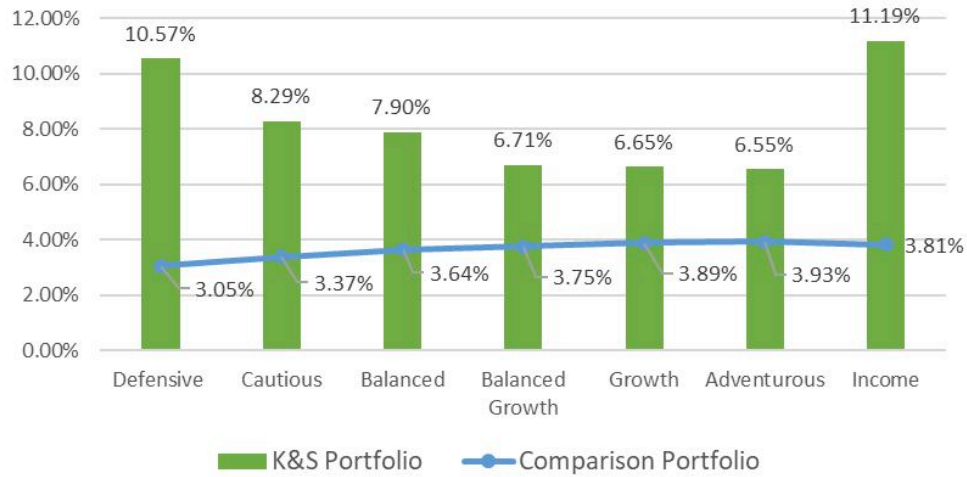


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SME Finance

The SME Finance category measures companies' interest earned from banks and non-banking financing companies on loans to micro, small, and medium-sized enterprises ("SMEs") as a percentage of total outstanding loans. This can include companies exposed to direct lending to micro and SMEs in the short and long term, credit guarantees and factoring services for SMEs.



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