

Lexcor Master Fund – Responsible Investment

The Sustainable Finance Disclosure Regulation (“SFDR”) comes into force on the 10th of March 2021, investments underlying the Fund do not take into account the EU criteria for environmentally sustainable economic activities. The classification of the Funds as an Article 6 Fund means that the Fund does not promote environmental or social characteristics in a way that meets the specific criteria contained in Article 8 of SFDR or have sustainable investment as their objective in a way that meets the specific criteria contained in Article 9 of SFDR.

Whilst the Fund does not fully integrate environment, social and governance (“ESG”) investing approaches into its investment process, it does consider, on a bottom-up case by case basis, material ESG related risks that could alter the return profile of an investment. Closer attention is paid to potential governance risk factors.

On the long side of the portfolio the Fund aims to typically invest in companies that have a strong market position, that are well run with a long-term perspective of value creation, and subject to potentially value transformative catalysts. Many characteristics of a business determine its ‘quality’ and among them are how material ESG risk factors are addressed and proactively dealt with by management. When sourcing, vetting, and monitoring businesses the processes implemented by management to manage material ESG risk factors, and in particular corporate governance, are considered alongside many other business characteristics that define the Funds investment thesis. However, the Fund does not exclude businesses that are not considered to be ‘best in class’ ESG firms. This would typically be the case where the Fund will expect a positive impact on shareholder return from steps a business may be taking to improve how they manage their responsibility towards their various stakeholders, or where the Fund or other shareholders may be able to trigger a positive change in relation to these factors or business performance. On the short side, the Fund aims to identify businesses that face structural headwinds, risk of disruption, may be engaged in fraud, are over leveraged, etc., where the Fund does not believe that these risks are properly reflected in the share price. Evidence of being a bad actor from an ESG perspective, especially in relation to corporate governance, is one of the red flags that the Fund will look for and will add to the Fund’s conviction in the investment thesis.

Accordingly, the Fund does not deem Sustainability Risks to be relevant and does not integrate Sustainability Risks into its investment decisions due to the investment strategy of the Funds. Accordingly, the Investment Manager does not expect that Sustainability Risks will materially impact the expected risk or return characteristics of the Fund.