



# ESG POLICY

iM Global Partner Asset Management

Version: 2021/1.0

February 22, 2021

Internal

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# 1 OBJECTIVE

- 1.1. This Policy is placed under the rules of the EU regulation 2019/2088 of the 27th November 2019 (also referred to as “Sustainable Finance Disclosure Regulation” or “SFDR”) and its RTS (Regulatory Technical Standards).
- 1.2. ESG and Sustainability topics are, in general, an important element of investment management services. The guiding principles when making decisions in relation to these topics should (i) favour proposals that in iMGP AM’s view tend to smaximise long term Client’s shareholder value, (ii) factor the ESG aspects depending on their materiality for the different sub-funds at least in terms of Risks (iii) has also with certain sub-managers put in place various investment strategies which promote environmental and social characteristics or have sustainable investment as objective.
- 1.3. iMGP AM defines, with the support of each sub-manager, how and when ESG criteria will be incorporated in the investment process and how this incorporation classified the managed sub-fund as Article 6, 8 or 9 according to SFDR regulation.

## 2 DETAILED RULES

### 2.1 GENERAL REMARKS

- (i) The responsibility to respect this Policy lies with the Funds pertains to the Management Company.
- (ii) The Management Company believes that taking into account ESG and sustainability aspects is a key aspect of security selection while taking into account that the materiality of specific actors highly varies among asset classes, sectors and individual companies.
- (iii) The Management Company believes in a diversity of approaches. We seek to identify the ESG and sustainability approach that is relevant for a particular asset class and consistent with the investment philosophy of a particular sub-Manager.
- (iv) The Management Company performs a specific review on the ESG topics, processes and controls during its annual Due Diligence review on the delegated sub-managers.
- (v) The Management Company delegates, under its supervision, the application of the ESG Policy to the designated sub-manager based on its own ESG Policy. This delegation is mentioned in the portfolio management agreement with the sub-manager. For Sub-managers managing sub-funds classified as Article 8 or Article 9, a detailed appendix is attached to this document.
- (vi) The Management Company will follow and monitor the taxonomy framework to be put in place in the context of SFDR.
- (vii) At the current state of art, there is no common series of factors and criteria to be used to evaluate how sustainable is an investment. Not having a common framework has led the Management Company to consider various approaches to identify and take into account sustainability risks, that may result in the application of different standards for each sub-fund. ESG factors are subject to the bias of the applicants, who adapt them in relation to different asset classes, portfolio constructions and investment objectives.
- (viii) Due to missing well-defined standards and to the existence of different approaches towards sustainable practices, ESG data is intrinsically based on a qualitative and discretionary assessment, who may cause the data to be inaccurate. Elements of subjectivity are part of the collection and interpretation of ESG data and this could contribute to making the comparison between ESG integrated strategies difficult. Investors should be aware of the fact that evaluation they may do on some types of ESG factors may be consistently different from the approach selected by a sub-manager.
- (ix) ESG criteria integration may also carry the risk of missing market opportunities when making decisions towards assets exclusion due to non-financial reasons.
- (x) Third-party providers of ESG data may apply different frameworks, who could lead to incomplete, inaccurate or unavailable data. This incertitude about data gathering may adversely affect portfolios relying on such data for the investment decision process.
- (xi) Sustainable finance framework and the consequent approaches are in an evolving stage, changes in investment decision-making processes that integrate ESG factors could occur over time, from incorporation of new data or technics or due to new regulatory developments.

## 2.2 APPLICABLE RULES

The Management Company has implemented, whatever the categorisation of each sub-fund

- an exclusion list based on exclusion on Controversial Weapons manufacturers and international sanctions lists.
- Proxy Voting policy in place, taking into account ESG criteria for the sub-funds for which it is relevant.
- **Concerning the Principal adverse impacts (PAI)** which are defined as the most significant negative impact of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, the Manco will follow the IMGP Group CSR (Corporate Social Responsibility) policy.

(i) The applicable rules to each manager depend on which article the Management Company and each sub-manager have agreed to comply with in a particular sub-fund. Some portfolios include criteria that exclude investments in issuers with negative social or environmental impact or do not follow good governance practices. These criteria are binding and apply systematically to the entire portfolio (all securities, all asset classes except for index-based instruments (futures), received collateral, cash and derivatives (used for hedging purposes) and at all times. In case of a list update, a divestment period should be determined according to liquidity conditions. The timeline is expected to be similar to the one defined for resolving a passive breach, and still by respecting the best interest of the shareholders. One should note that this period may be slightly extended due to the market activity incurred by the changes of ESG classification on the concerned securities.

(ii) The ESG rules consists of exclusion policies as well as of eligibility criteria and rules are specific to each sub-fund. The sub-funds generally integrate material ESG factors as part of an evaluation of a company's financial risks, the level of integration depends on the asset class and the sub-manager.

(iii) Sub-funds scategorised as article 6 categorisation according to SFDR regulation

The sub-manager may consider, during the fundamental research process environmental, social, and governance factors as part of an evaluation of a company's financial risks depending on the asset class and the investment philosophy. Such factors are however not limiting on the final decision of investment or portfolio construction.

(iv) Sub-funds scategorised as article 8 according to SFDR regulation

Some sub-funds combine exclusion and have a target on their ESG Quality score. Other sub-funds rely on a full ESG integration approach where each invested security will be subject to a thorough assessment based on a variety of ESG factors provided by external sources complemented by sub -Manager internal research. While the Sub-Manager may on a case-by-case basis retain instruments for the portfolio showing lower ESG characteristics, an important part of the portfolio shall be invested in financial instruments considered by the Sub-Manager as showing high ESG characteristics according to the ESG policy.

(v) Sub-fund scategorised as article 9 according to SFDR regulation

The sub-manager excludes from his investment universe companies which potentially conflict with the Sub-fund's aim to invest in companies which contribute to sustainability.

Based on the sub-manager's provider of information, the exclusion list will be enlarged to:

1. Companies that are assessed to be in breach of the United Nations Global Compact Principles (UNGC) on human rights, labour rights, environment and anti-corruption.
2. Companies which are significantly involved in the production of tobacco, alcohol, adult entertainment, genetically modified organisms, armament and weapons, oil sands or coal-fired power, or the provision of gambling services.
3. Companies which have a low rating or are subject to severe ESG controversies depending on data provided by external providers.
4. Companies with no exposure on United Nations Sustainable Development Goals (SDGs).

The Sub-fund invests in companies that contribute to various social and environmental objectives and seeks to achieve an exposure to sustainable goods and services as measured by estimated weighted average of percentage of revenue exposed to Sustainable Products and Services for the portfolio equal to at least 40 % with the aim to increase to 50% by 2026.

Other sustainability indicators such as carbon intensity, social impact solutions exposure, percentage of global compact signatories and diversity at the board level are also monitored at the portfolio level.

## 2.3 REPORTING

- (i) Each sub-manager managing a sub-fund classified in the prospectus as Article 8 and/or Article 9 will maintain all the relevant reporting required by SFDR.
- (ii) The Management Company will ensure that these reports are made available on-time.
- (iii) Board of Directors is informed during regular board meeting about ESG topics.

## 3 APPENDICES

### 3.1 DEFINITIONS

“**Board of Directors**”: means the board of directors of a iMGP AM entity.

“**Fund**”: means investment collective scheme administered by iMGP AM.

“**Management Company**”: means iM Global Partner Asset Management S.A. (“iMGP AM”).

“**Officers(s)**”: means the conducting officers of iMGP AM.

“**Compliance Committee**”: means the Compliance Committee of iMGP AM.

“**SFDR**”: means EU regulation 2019/2088 of the 27th November 2019, also referred to as “Sustainable Finance Disclosure Regulation” and its RTS (Regulatory Technical Standards).

“**PAI**”: means Principal Adverse Impact which is defined as the most significant negative impact of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

## 3.2 LIST AND CLASSIFICATION OF SUB-FUNDS

Oyster SICAV:

#	Asset class	Sub-Fund	Categorisation		
			Article 6	Article 8	Article 9
1	Equity	CONTINENTAL EUROPEAN INCOME	x		
2	Equity	EUROPE		x	
3	Equity	SUSTAINABLE EUROPE			x
4	Equity	EUROPE GROWTH AND INCOME		x	
5	Equity	US VALUE	x		
6	Equity	ITALIAN OPPORTUNITIES	x		
7	Equity	JAPAN OPPORTUNITIES	x		
8	Equity	US SMALL AND MID COMPANY GROWTH	x		
9	Bond	EUROPEAN CORPORATE BONDS	x		
10	Bond	EURO FIXED INCOME		x	
11	Bond	EUROPEAN SUBORDINATED BONDS	x		
12	Bond	GLOBAL CONVERTIBLES	x		
13	Bond	US HIGH YIELD	x		
14	Bond	US CORE PLUS	x		
15	Mixed	ABSOLUTE RETURN GBP		x	
16	Mixed	MULTI-ASSET ABSOLUTE RETURN EUR		x	
17	Mixed	GLOBAL DIVERSIFIED INCOME		x	
18	Mixed	STABLE RETURN	x		
19	Fund of Fund	BALANCED STRATEGY PORTFOLIO USD	x		
20	Fund of Fund	BM ALTERNATIVOS	x		
21	Fund of Fund	GROWTH STRATEGY PORTFOLIO USD	x		

SYZ Capital :

#	Asset class	Sub-Fund	Categorisation		
			Article 6	Article 8	Article 9
1	Fund of Fund	EQUITY HEDGE	x		
2	Fund of Fund	UNCORRELATED	x		



## 3.3 ESG POLICY OF BANQUE SYZ

### 3.3.1 Scope

- Oyster Multi Asset Absolute Return EUR
- Oyster Absolute Return GBP
- Oyster Global Diversified Income
- Oyster EURO Fixed Income

### 3.3.2 Background

Bank SYZ Ltd (Switzerland) has integrated Responsible Investing in its Wealth Management functions in July 2020. The management teams are not only convinced that integrating ESG risks in the investment process creates a long-term value and strongest performance for our clients. We recognise that finance has a huge role to play in the energy transition and can influence positive changes.

Bank SYZ Ltd (Switzerland) has decided to strengthen research by excluding companies and sectors not compatible with our views on sustainable development.

### 3.3.3 Exclusions scope

#### **CONTROVERSIAL BEHAVIOR:**

Any company in breach with the United Nations Global Compact principles and with a corruption score less than 20 as calculated by Transparency.org

Companies placed in « Watch List » are subject to the approval of the ESG Committee.

For non-rated companies, the sub-Manager assesses if the company has been delisted for failure to report or if the company faces controversies within the OECD & UNGC principles.

#### **CONTROVERSIAL WEAPONS:**

Cluster munitions, anti-personal mines, landmines, depleted uranium, biological/chemical weapons, nuclear weapons.

Exclusion applied to companies not complying the International treaties. Bank SYZ Ltd (Switzerland) refers to the Robeco Exclusion List.

#### **COAL AND THERMAL COAL:**

Companies that derive more than 25% of their revenues from thermal coal extraction unless a transition plan towards renewable is in place and no other breaches within Norms, Environment, Social or Governance is observed.

In addition, to strengthen research using as reference the Coal Exit List (Urgewald), companies figuring in this list will be subject to the ESG Committee's approval.

#### **RATINGS:**

securities with the following characteristics are excluded from the portfolio managers' universe:

CCC & B rated\*

With very severe controversies\*

Not compliant with the UN Global Compact principles\*

\*as defined by MSCI ESG Research LLC

### 3.3.4 Companies not rated by MSCI.

If a company is not rated by MSCI, we evaluate if its revenues and activity are compliant with:

- **Environmental impact:** water-stressed, de-forestation, natural reserves, biodiversity at the country and sector level. Paris Agreement aligned
- **Social:** child labour and hazardous working conditions at the country and sector level (ILO official list)
- **Health & safety:** policies and training, number of fatalities within the employees and suppliers, controversies
- **Commitment:** signatory of Human and Labour conventions.
- **Bribery & corruption:** not hold government debt or state-owned companies issued by countries having a corruption score <20 on the Transparency International list. Training and Code of Conduct.
- **Transparency:** we evaluate if the company has a Corporate Sustainable Report that addresses clear targets and measures, risk assessments, involvement of parties
- **Suppliers:** Policies, regular audits and business involvement in high-risk regions or sector

### 3.3.5 ESG & carbon Intensity objective

Oyster Absolute Return GBP, Oyster Multi-Asset Absolute Return EUR, Oyster Global Diversified Income portfolios seek to achieve an ESG Quality score as measured by the Sub-Manager methodology in the first tercile (ie at least equal to 6.67 on a range from 0 to 10).

The Oyster EURO Fixed Income portfolio seeks to achieve an ESG Quality score as measured by the Sub-Manager methodology at least equal to the ESG Quality score of its reference index, the Bloomberg Barclays EuroAgg Total Return index.

ESG Quality Score is calculated using MSCI data and methodology and is the fund compounded score adjusted by industry, momentum and overall rating distribution. Cash and derivatives are excluded from this MSCI analysis.

**Investment funds & ETFs** with strong ESG characteristics are allowed and subject to our internal rules of selection. Those funds are officially recommended by the Bank and subject to constant monitoring, regular due diligences.

The carbon intensity is also monitored versus the assigned benchmark or reference index. For strategies that do not have an assigned benchmark or reference index, the ESG rating and the carbon intensity are monitored on an absolute basis.

The sub-manager has the ability to invest up to 20% within MSCI non-rated companies, subject to the approval of the ESG Committee. The companies are reviewed at least every 3 months. In the event a severe breach would be observed, the Portfolio Manager has one month to disinvest (equities) and up to three months (bonds)

## 3.4 ESG POLICY OF ZADIG AM

### 3.4.1 Scope

Oyster Sustainable Europe

Oyster Europe

Oyster Europe Growth & Income

### 3.4.2 Principles

Zadig's rational and cautious approach to investment pays tribute to its namesake from the protagonist of the novel with the same name written by the French Enlightenment philosopher Voltaire. Voltaire took great pride in judging people by the questions they ask rather than by their answers. As curious stock pickers, a major part of our job is asking questions, testing hypotheses and challenging the status quo. "What is the company's fundamental reason for being?" is the first and most important question we ask and the starting point of our due diligence process when assessing a potential investment. Through its day-to-day activities, a company must demonstrate that it creates value for all its stakeholders and not just its shareholders for us to consider an investment.

Corporate governance is a key focus of our investing process. Understanding voting rights, the poles of decision-making power, structure of the board and the safeguards to protect minority shareholders have been points on our due diligence checklist years before becoming popular in the ESG framework.

On top of this Zadig has started to integrate Environmental and Social factors in its research process, which can be described as including risks and opportunities linked to environmental and social matters in our valuations and our investment cases.

Zadig Socially Responsible Investing process specific to Sustainable Europe strategy through the Oyster Sustainable Europe fund goes a step further and is detailed throughout this document.

### 3.4.3 ESG Integration

Zadig makes a clear distinction between ESG integration and our Sustainability analysis, which is described in the next section.

Zadig defines ESG as a set of metrics that help understand a company's non-financial performance in three areas (Environment, Social and Governance) that are usually then compared and ranked within an industry or peer group. ESG factors are not here to help form an opinion on an industry's impact on the world but rather assess how a company manages and tries to improve its impact on all stakeholders, whether local communities, employees or shareholders given the industry in which the company is operating.

The criteria taken into account in ESG assessment are listed in the table below and relate to the classification of MSCI. They split into 10 themes and 37 key issues.

3 PILLARS	10 THEMES	37 ESG KEY ISSUES	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
		Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance	Corporate Governance*	Board*	Ownership*

While governance metrics (Voting rights, board independence, % of women in management positions, etc.) can easily be compared across industries, it is not the case of environment and social metrics. Comparing an asset heavy and labour-intensive car maker to a software company on social or environment topics is difficult and for that reason ESG rating providers, understandably so, compare and rank companies within their own industries.

For this reason, and because ESG agencies tend to disagree 50% of the time on the rating of a given company (according to research published by MIT in 2019<sup>1</sup>), Zadig does not use third party ESG ratings only but rather builds its own scores, based on what analysts think matters most for each company.

The score is built around 4 pillars as follows:

Environment: Raw score provided by MSCI

Social: Raw score provided by MSCI

Governance: Zadig Internal score

Controversies: Raw score provided by MSCI

Different weights are then applied for each sector. For example, industrial sectors have a higher weight for environment and for service companies we shall focus more on social issues. The table below describes how each sub-sector is assigned a different Environment and Social score. Governance is considered as a crucial component of any investment, whatever the sector and therefore apply a constant 40% weight.

<b>Weights</b>	<b>E</b>	<b>S</b>	<b>G</b>	<b>Controversies</b>
Aerospace & Defense	30%	20%	40%	10%
Air Freight & Logistics	35%	15%	40%	10%
Airlines	35%	15%	40%	10%
Automobiles	25%	25%	40%	10%
Beverages	25%	25%	40%	10%
Building Products	40%	10%	40%	10%
Communication Services	20%	30%	40%	10%
Commercial Services & Supplies	15%	35%	40%	10%
Construction & Engineering	30%	20%	40%	10%
Electrical Equipment	35%	15%	40%	10%
Energy	40%	10%	40%	10%
Financials	10%	40%	40%	10%
Food & Staples Retailing	25%	25%	40%	10%
Food Products	25%	25%	40%	10%
Health Care	10%	40%	40%	10%
Hotels, Restaurants & Leisure	20%	30%	40%	10%
Household Durables	25%	25%	40%	10%
Household Products	25%	25%	40%	10%
Industrial Conglomerates	30%	20%	40%	10%
Information Technology	10%	40%	40%	10%
Internet & Direct Marketing Re	10%	40%	40%	10%
Leisure Products	25%	25%	40%	10%
Machinery	30%	20%	40%	10%
Marine	35%	15%	40%	10%
Materials	35%	15%	40%	10%
Multiline Retail	20%	30%	40%	10%
Personal Products	25%	25%	40%	10%
Professional Services	10%	40%	40%	10%
Real Estate	35%	15%	40%	10%
Road & Rail	25%	25%	40%	10%
Specialty Retail	20%	30%	40%	10%
Textiles, Apparel & Luxury Goo	30%	20%	40%	10%
Tobacco	25%	25%	40%	10%
Trading Companies & Distributo	25%	25%	40%	10%
Transportation Infrastructure	30%	20%	40%	10%
Utilities	40%	10%	40%	10%

For the assessment of controversies, Zadig looks at situations where company operations and/or products have a negative environmental, social and/or governance impact. Cases include alleged company violations of existing laws and/or regulations, company actions or events that violate commonly accepted international norms, including but not limited to norms represented by global conventions such as the UN Global Compact. The severity of the controversy depends on the nature as well as the scale of impact, as resumed in the table below by MSCI.

SCALE OF IMPACT	Nature of Impact			
	EGREGIOUS	SERIOUS	MEDIUM	MINIMAL
EXTREMELY WIDESPREAD	Very Severe	Very Severe	Severe	Moderate
EXTENSIVE	Very Severe	Severe	Moderate	Moderate
LIMITED	Severe	Moderate	Minor	Minor
LOW	Moderate	Moderate	Minor	Minor

ESG is considered as a crucial part of due diligence for any company, in particular to assess the risk of investments. However, the relative ranking exercise implies that companies involved in notoriously unsustainable business can attract best in class ESG scores.

Hence, Sustainability analysis goes a step further by focusing companies' exposures to sustainable themes.

### Sustainability analysis

Zadig approach is pragmatic, starting with the purpose of the company, using data to assess the exposure to sustainable goods and services (as% of sales or assets) today as well as in 5 years; then followed up by investigating any sustainability claims that the company is making while always keeping an eye on controversies. In detail it consists of an exclusion policy and a sustainable goods and services analysis.

#### 3.4.4 ESG Exclusions

Zadig's exclusion policy is based on General exclusions based on companies under international sanctions as well as Sectors exclusions and SDG/ESG exclusions:

- International sanctions exclusions

Scope: All sub-funds managed by Zadig

- Exclusion of all companies under international sanctions.  
Sector exclusions

Scope: OYSTER Sustainable Europe

## Zero Tolerance Issues

- **Tobacco** - exclusion of all companies deriving more than 5% or more revenue from the production, distribution, retail and supply of tobacco-related products.
- **Weapons and armament** - exclusion of companies that derive more than 5% of revenues from producing or selling products or services that form a significant part of weapons, weapon system or weapon platform.
- **Genetically Modified Organisms** - exclusion of companies deriving 5% or more revenue from activities like genetically modifying plants, such as seeds and crops, and other organisms intended for agricultural use or human consumption.
- **Adult entertainment** - exclusion of all companies deriving 5% or more revenue from the production of adult entertainment materials and all companies deriving 15% or more aggregate revenue from the production, distribution and retail of adult entertainment materials.
- **Gambling** - exclusion of companies deriving 5% or more revenue from ownership of operation of gambling-related business activities.
- **Alcohol** - exclusion of companies that derive more than 5% of their revenues from the manufacture of alcoholic beverages and companies that derive more than 15% of revenues from the wholesale or retail distribution of alcoholic beverages.
- **Thermal coal** - exclusion of companies that derive more than 5% of revenues (either reported or estimated) from coal-based power generation and/or thermal coal extraction.

## Low Tolerance Issues

- **Fossil fuels** - Exclusion of all companies deriving 30% or more revenue (either reported or estimated) from the fossil fuels-based power generation, production and sale of oil and/or natural gas.

A low tolerance policy is more appropriate when it comes to fossil fuels as many companies are taking tangible steps to transform their business models towards sustainability. As long-term investor, Zadig is willing to invest in businesses in transition like many utility companies that are scaling down CO2 intensive power generation to invest in renewable energy. Orsted, EDP or Enel are good examples of companies that have gone or are now going through such transitions.

## UN SDG and ESG exclusions

- **Human Rights** - exclusion of companies that clearly infringe international agreements and which are complicit in human right abuses, either deliberately or through neglect and will not invest in companies that violate human rights of their employees, their suppliers or the local communities they operate in.
- **UN SDG exposure** - our objective is to invest only in companies that currently address at least one United Nations Sustainable Development Goals (SDG) with at least 10% of their revenues. We therefore also exclude from our investable universe companies that don't fit these criteria.
- **ESG filter** - exclusion of companies with very severe controversies and/or that are rated CCC or B by MSCI, representing on average the worst 20% of companies in an industry.



## Summary as of 31/12/2020

	# of stocks	% of stocks excluded
Aerospace & defence	12	100%
Beverages	8	73%
Oil services	5	100%
Oil & Gas	15	100%
Utilities	5	15%
Tobacco	3	100%
Controversies and ESG exclusion	16	2%
<b>Total ESG and Sector exclusion</b>	<b>86</b>	<b>11.5%</b>
Companies with no SDG exposure	135	18.0%
<b>Total companies excluded</b>	<b>221</b>	<b>29%</b>

In total, investable universe is reduced by around one third compared to Zadig's initial universe and is made of more than 500 investable companies, a pool large and diversified enough to build a concentrated portfolio. These numbers might evolve over time as Zadig aims at reviewing exclusion list quarterly.

### 3.4.5 Sustainable Goods and Services Taxonomy and the UN SDGs

Scope: Oyster Sustainable Europe

The second pillar of our Sustainability analysis is also quantitative and consists in the assessment of a company's exposure to Sustainable Development Goals. It is performed in two steps.

First, we look at the present situation, i.e. what share of a company's current revenues address sustainable themes, and rely on data provided by Vigeo Eiris (part of Moody's Corporation) - a trusted 3rd party data provider that was chosen by the World Bank for its first UN SDG Bond in 2017. Vigeo Eiris's methodology (included in the appendix) and data transparency won versus other providers tested (including Sustainalytics, Refinitiv, MSCI, Arabesque and RepRisk).

As illustrated by the examples below, data can be fully traced back to publicly available data issued by the company via annual and sustainability reports and does not rely on surveys or binary Y/N outcomes. Vigeo Eiris constantly engages with corporates to correct and enrich their data while allowing us to verify ourselves the credibility of the source. They are also taking part in the discussion shaping the future of the taxonomy at European level.

According to data from Vigeo Eiris the market scapitalisation weighted exposure to sustainable goods and services of MSCI Europe is around 24% today.

## Sustainable Goods and Services and the UN SDGs



Each sustainable goods and services theme in Vigeo’s methodology translates into one of the 17 UN SDGs meaning that each investment addresses at least one SDG.

	Access to Information	Capacity Building	Energy & Climate Change	Food & Nutrition	Health	Infrastructure	Responsible Finance	Water & Sanitation	Protection of Ecosystems
1. No Poverty	X	X				X	X		
2. Zero Hunger				X					
3. Good Health & Well-being				X	X			X	
4. Quality Education		X							
5. Gender Equality	X	X							
6. Clean Water & Sanitation								X	
7. Affordable & Clean Energy			X			X			
8. Decent Work & Economic Growth		X				X	X		
9. Industry, Innovation, & Infrastructure		X	X			X			
10. Reduce Inequalities		X					X		
11. Sustainable Cities & Communities			X			X		X	X
12. Sustainable Consumption & Production			X					X	X
13. Climate Action			X						
14. Life Below Water								X	X
15. Life On Land				X					X
16. Peace, Justice, & Strong Institutions	X								
17. Partnerships for the Goals		X				X			

Not all SDGs can be credibly addressed by listed companies. Below is a summary of Zadig view on which SDGs are the most likely to be address by European listed companies:

	<b>SDG</b>	<b>Significant for companies?</b>
1	No Poverty	No
2	Zero Hunger	Somewhat significant
3	Good Health and Well-being	Very significant
4	Quality education	Somewhat significant
5	Gender equality	Very significant
6	Clean water and sanitation	Very significant
7	Affordable and clean energy	Very significant
8	Decent work and economic growth	Very significant
9	Industry, innovation and infrastructure	Very significant
10	Reduced inequalities	No
11	Sustainable cities and communities	Somewhat significant
12	Responsible consumption and production	Very significant
13	Climate action	Somewhat significant
14	Life below water	No
15	Life on land	No
16	Peace and justice strong institutions	No
17	Partnerships for the goals	No

The external data is integrated into Zadig’s proprietary data tools to give us quick snapshots of companies’ exposure as well as the ability to do screenings, look at exposure by sector, market cap, country, etc

Second, our proprietary research is used to compute an estimate of 5 year forward SDG exposure. How a company is evolving is as important as the starting point and portfolio managers are convinced the best investment opportunities will come from companies that will manage to successfully adapt and evolve towards more sustainable businesses.

Name	Subsector	Vigeo % Sustainable	Zadig % Sustainable 5y Fwd
ORPEA	Health Care Providers & Ser	100%	100%
SUEZ	Multi-Utilities	100%	100%
BILLERUDKORSNAE	Containers & Packaging	75%	80%
SIGNIFY NV	Electrical Equipment	30%	70%
STORA ENSO OYJ-I	Paper & Forest Products	20%	60%
AIR LIQUIDE SA	Chemicals	30%	50%
SPIE SA	Commercial Services & Supl	10%	50%
VALEO SA	Auto Components	10%	30%

Zadig’s 5 year forward SDG exposure estimate is based on its own, bottom up, financial forecasts for the different business lines of each company and might evolve over time if actual developments defer from internal assumptions.

Zadig also uses sell-side research to complement its own research in identifying companies’ exposure to sustainable trends.

Companies meetings and engagement with management

The third pillar of the process is qualitative in nature and scapitalises on Zadig’s 800+ annual company meetings to test the sustainability claims of companies by asking challenging questions.

On top of discussing business trends there are two objectives to these meetings:

- Avoid greenwashing traps and differentiate the corporates with little substance but a strong communication team vs. those that do more than they say on the sustainability agenda.

- Take a longer-term view on the sustainable business's exposure of companies. This is the opportunity to challenge and fine tune the internal assumptions to arrive at a proprietary 5y forward sustainability exposure estimate.

### 3.4.6 Valuation and portfolio construction

Valuation is at the heart of Zadig's investment process and every investment has a target price derived from a proprietary valuation model. ESG factors are taken into consideration when calculating a company's cost of capital and hence influence our fair value targets. For example, for two otherwise identical companies in the same industry we would use a higher cost of capital for the company with the lower share of sustainable revenues and/or the higher share of "dirty" revenues. Here again the example of utility companies is helpful: in internal view Engie today deserves a lower multiple (or higher cost of capital) than Iberdrola or Enel as it has fallen behind in the transition to clean generation, which takes time and usually involves significant costs and write downs.

Similarly, a company with weaker governance standards is considered higher risk for minority investors and would therefore be valued with a higher cost of capital than its peers. Zadig keeps track of all our target prices and meeting interactions via an internal database which is also a source of idea generation over time.

### 3.4.7 Data suppliers

- **Vigeo Eiris** - Their Sustainable Goods & Services (SGS) research assesses the extent of corporate involvement in products and services that contribute to the achievement of the Sustainable Development Goals (SDGs). It addresses the lack of data on SDG performance and makes it easy for investors to understand.

## Our approach

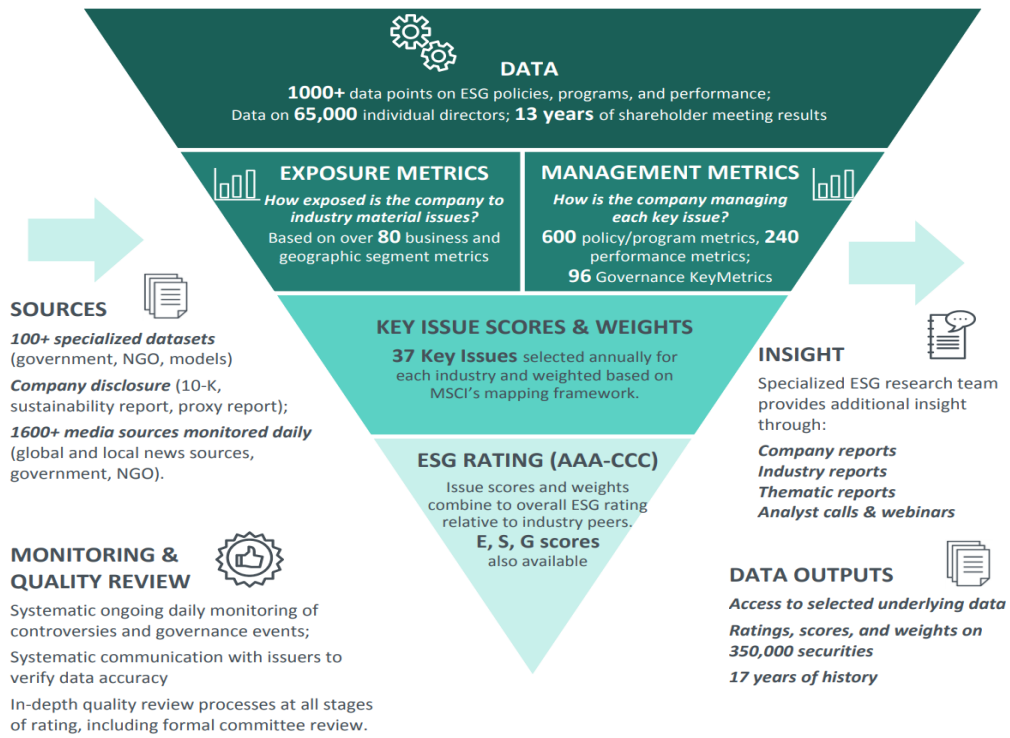


How do we assess corporate involvement in sustainable products?

1. Identification	Identification of sustainable products/services in a company's activities, according to the product inventory
2. Quantification	Quantification of the level of involvement for each product/service
3. Summary	Summary of a company's total involvement in sustainable products/services
4. Categorisation	Categorisation of impact according to 9 themes: Access to Information, Capacity Building, Energy & Climate Change, Food & Nutrition, Health, Infrastructure, Responsible Finance, Water & Sanitation, Protection of Ecosystems
5. Classification	Classification of involvement into four scales: None, Minor (1-19%), Significant (20-49%), Major (50% +)

**MSCI** - is used not for the ESG Scoring overall but for the E and S data individually and for monitoring the controversies in our universe. It is also used for reporting to investors with production of regular Sustainability, Climate and ESG reports. Only raw data from MSCI is used to assess each company on ESG and Sustainability however, Zadig likes to use MSCI reporting tool to show that the final portfolio is also performing well on ESG and Sustainability metrics when using MSCI reporting capabilities.

Figure 1: ESG Rating Framework and Process Overview



**Number of Board Meetings:**

Non-executives meet in absence of Executives: Yes

Name	M/F	Age	Tenure (Years)	Boards	Independent of Mgmt	Independent of Other Interests	Management Link/ Designation Reason	Nationality
Coles, Joanna	F	54	1		Yes	Yes		
Lafley, Alan G.	M	70	< 1		Yes	Yes		
Lasky, Mitchell <b>I</b>	M	54	4		Yes	Yes		
Lynton, Michael <b>COB</b>	M	55	3		Yes	Yes		
Meresman, Stanley <b>S</b>	M	69	1	1	Yes	Yes		
Miller, Scott <b>S</b>	M	64	< 1	1	Yes	Yes		
Murphy, Robert <b>I</b>	M	28	4		No	Yes	Executive	
Spiegel, Evan <b>CEO I</b>	M	26	4		No	Yes	Executive	
Young, Christopher	M	45	< 1	1	Yes	Yes		
	F	# > 70	# > 15 yrs	# > 3				
Total (of 9)	1	0	0	0	7	9		
Percentage	11.1%	0%	0%	0%	77.8%	100%		

**S** - Financial Expert (2) **I** - Industry Expert (3) **CEO** - Chief Executive Officer **COB** - Chairman of the Board

**Bloomberg** - is used for raw data that is meaningful and measurable (CO2 emissions, employee fatalities, % of women in management positions, etc.)

**ISS Ethix** - provides a web-based voting and research platform to access vote recommendations and research reports. It contains relevant information for the assessment of governance of companies.

### 3.4.8 Vision of the future

It is Zadig belief that sustainability can be quantified consistently across sectors and geographies. The impact a company has on its clients, employees, suppliers and the environment are measurable especially in today's data driven society. While the corporates are not there yet in terms disclosure and capabilities, Zadig has started collecting data when available to build a more robust picture of our investment universe. Zadig also aims to actively engage with the companies we meet to push for more disclosure.

### 3.4.9 Risks

The main risk associated with Zadig strategy comes from the relatively low transparency of some companies on sustainability topics and widely spread greenwashing communication strategies, which could make due diligence more difficult.

As we have done at Zadig for the past 15 years, we will keep on improving our process. Looking for new sources of data, meeting with industry participants and trying out new third-party providers will help us avoid the green traps. Regularly checking controversies on the companies, we are invested in also helps us mitigate risks as we are usually able to engage rapidly with IR teams to understand the situation and act on it.