



## Responsible investment policy

### *1. Introduction and Beliefs*

CIAM is an investment management firm that uses equity-based investment strategies to generate returns from its global approach to corporate events. Focused on special situations and merger arbitrage we use responsible & active engagement as one of several tools to unlock shareholder value, where appropriate. Historically, CIAM has particularly been focused on identifying mainly listed European companies with specific corporate governance issues that had a detrimental effect on the value of their shares. In the last years, CIAM has also significantly raised its awareness on some environmental and social aspects as well.

CIAM recognizes that through its investment practices and decisions to invest, engage, communicate or disinvest it affects not only its investors but also other stakeholders, the environment and society at large.

Furthermore, CIAM recognizes that the integration of ESG principles into its investment decisions helps better-informed decision-making, both on the risks and opportunities sides and promotes investors interests.

The environmental, social and governance policy is developed to maintain high level motivation on CIAM's commitment to incorporate ESG information throughout its decision-making process and maintain its focus to extend and apply meaningful knowledge on these issues. We consider that firms mindful of the environmental, social and governance aspects are more resilient and better able to capitalize on arising opportunities. It is expected that material aspects of sustainability factors are researched, monitored and influenced where applicable.

The policy is applicable to all CIAM's funds.



## ***2. Policy Governance***

This policy is owned and overseen by CIAM's CIO, who supervises all investment, engagement and voting policies and CIAM's Head of ESG.

The ESG committee, comprised of the CEO-CIO and the Deputy CEO-Head of ESG, sets the ESG strategy, priorities and non-financial aspects to be integrated, implemented and monitored by the investment team, alongside with financial metrics.

## ***3. Responsibility***

CIAM has a long history of applying responsible stewardship in governance aspects, area in which it was one of the first European investor using active and responsible engagement as a tool and not hesitating to escalate when necessary. As an established leader in that field, CIAM took its responsibility further. Recognizing that climate change and the necessary transition to a low carbon economy both strongly affect financial assets, we became signatory to the CDP in 2020. We believe in fundamental ESG principles such as the UN Sustainable Development Goals (SDGs) and to further structure our approach to environmental and social issues, we have joined the Principles for Responsible Investment in 2020 also.

### *Integration of ESG factors in the investment process – key elements*

- **Purpose** – the inclusion of ESG criteria in our research and monitoring processes stems from our conviction that it is an integral part of our fiduciary duty. Enriching the breadth and depth of our analysis, we consider that sustainability, governance, environmental & social factors are necessary and valuable information that improve the robustness of our research and risk processes.
- **Data** – access to quality data for ESG aspects is as essential as it is for pure financial analysis. In its current state, ESG data is still under development and there is no standardized approach yet to the way rating firms and analysts review and synthesize their conclusions. It is therefore essential to both have access to several data providers and have the internal abilities to recoup, compare and extract relevant information. In order to have a more complete picture, adapted to different ESG factors, sectors and temporalities, we have subscribed to several data providers having different approaches. Thus, amongst others, we have selected a traditional data provider having an analytical approach and a systematic data provider, based on natural language processing.  
To further alleviate data concerns, we consider that depending on external data only is insufficient and have taken action to build up internal analysts' knowledge around ESG aspects.



- **Materiality** – while we believe that good management of ESG issues creates value and mitigates risks, individual factors’ relevance is sector-specific. Only specific material issues are expected to affect companies’ values and valuations - that is why we focus our research and engagement on those ones. To narrow our research, we utilize several sources such as the transparent and broadly accepted Sustainability Accounting Standard Board’s map (SASB) by sustainability factor and sector, the CDP and TCFD frameworks, and our own expectations arising from internal research.
- **Transparency & Scoring** – Sustainability aspects are employed at several stages of the investment research process. They are used in a quantitative way, both to exclude non-sustainable sectors and to filter out the investment universe of companies that exhibit a very poor ESG performance. CIAM’s research relies on proprietary ESG Scorings of companies, consisting of crossing 2 components: the ESG framework and the ESG sentiment. Further in-depth ESG research is implemented by the research team when evaluating and assessing investment opportunities. CIAM’s perspective is to appraise the risks arising from ESG aspects – for example GHG emissions, Carbon Footprint, GHG intensity, Water stress, Waste management, Employee safety, Gender pay gap, Supply chain management, Separation of Leadership, Board diversity, Board Independence, Board size, Executive compensation including ESG KPIs, etc. – but also to consider opportunities arising from promising companies positioning and attention to non-financial factors. A report around ESG factors is performed by the research team and presented to the investment committee.
- **Stewardship** – We believe that companies having more responsible approach to environmental, social and governance matters perform better. Our approach to proxy voting and engagement is rooted in our belief that as a lead or supporting investor we can have an impact and steer companies towards higher transparency, better governance and raise awareness of environmental and social issues. In doing so, CIAM’s goal is to create, reveal or unlock value for its investors and other stakeholders of the company. Throughout the investment period, we monitor company’s ESG performance and promote better practices by voting and engaging directly with the management. In cases where CIAM takes initiative, the team prefers to engage, wherever possible, through a constructive private dialogue with boards and management teams. However, when necessary, either to defend investors’ immediate interests or to create long term value, CIAM can take a more activist approach. Over the years, CIAM has used its knowledge and skills to create value by weighting on the governance, environmental & social aspects of organizations. Whenever possible and relevant, we use “vote-no” campaigns, shareholders proposals and say on pay/climate to influence other sustainability practices. When appropriate, CIAM does not hesitate to engage in a dialogue with other key stakeholders.

CIAM has separately developed guidelines for engaging with investee companies and a proxy voting policy.



- **Exclusions** - Our core investment strategy leads us to holding periods ranging from a couple of months to several years. As a medium-term investor CIAM pays special attention to the avoidance of material risks posed to / by environmental aspects. We perceive them as particularly challenging for some specific sectors.

1/ Unless strong action is taken by the company to overhaul its core activities - we exclude investing in:

- Companies deriving more than 20% of their revenues from thermal coal extraction & coal-based power generation;
- Companies deriving more than 20% of their revenues from the exploration and production of unconventional oil & gas;
- Companies deriving more than 20% of their revenues from controversial weapon production activities (Anti-Personnel Landmines, Chemical and Biological Weapons, Cluster Bombs Production, Incendiary Weapons).

An exception may arise when we engage and work directly with the company to improve their environmental performance and focus on more sustainable activities. We encourage sustainable transition.

Furthermore, we exclude companies that do not align with our values. Our exclusions include:

- Companies involved in Gambling,
- Companies involved in the production of Adult Entertainment,
- Companies involved in the Tobacco production.

2/ Exclusion of Critical controversies that are Non-Communicative (as per the denomination at Vigeo-Eiris/Moodys) i.e not addressed by the management of the company.

3/ Exclusion of the worst ESG Scorings from the initial investment universe of the Fund. The ESG scoring is a proprietary scoring computed by doing the average of the 4 following factors:

- The E&S scoring (Environmental & Social);
- The G scoring (Governance);
- ESG sentiment scoring;
- Controversies scoring.

The Fund integrates ESG analysis of companies into its investment process, in order to monitor the ESG-related risks that companies face. This ESG scoring is applied to at least 90% of the companies held in all the funds of CIAM.



In order not to penalize companies that are not sufficiently covered by CIAM's main ESG data providers, particularly due to their low market capitalization, CIAM plans that an analysis and internal research can still be conducted. Indeed, companies that are not covered by CIAM's ESG providers can be included in the investment universe after a series of research and validation by the Investment and Risk Committee. For this, the investment team must conduct ESG due diligence and ensure that these companies are not part of the sectoral exclusions as provided by the Responsible Investment Policy. To avoid assigning an arbitrary score and disadvantaging a company with a rating based on sufficient data from our ESG providers, CIAM grants these companies a minimum score of 15/100.

#### *Factors reviewed by CIAM*

CIAM incorporates into its analysis and aims to whenever necessary actively engage with companies on identified transparency and ESG issues such as:

- **Transparency** - we review the reporting and question the transparency of companies we consider for investment. For instance, we examine whether they:
  - Issue a corporate responsibility report
  - Link management's remuneration to corporate responsibility factors, using clear, transparent and auditable KPIs.
  
- **Corporate behavior and leadership** – we review the way each company integrates ESG issues in their value creation process. For example, we question its ability to:
  - Absorb systemic shocks and regulatory changes;
  - Acknowledge and take into account the low-probability high-impact risks directly posed to the environment, to society, to its workforce etc.
  - Manage arising issues around product quality & safety;
  - Adapt the business model to reach and create new markets.
  
- **Environment** –CIAM integrates climate-related risks and opportunities in its investments. Where relevant we review and question companies' views, business plans and commitments. We focus on:
  - Board level oversight of climate change transition and impact;
  - Quantification and disclosure of carbon emissions (Scope 1, 2 & 3);
  - Clear evidence-based carbon reduction targets;
  - Alignment with the objectives of the Paris Agreement and phasing out of services provided to unsustainable sectors;
  - Ability to meet the evolving environmental regulation;
  - Alignment with the TCFD recommendations and reporting to CDP;
  - Etc.



- **Human capital management factors** – we believe value creation and purpose are intertwined with the promotion of:
  - Diversity and equality in the workforce, at all levels and specifically at management level;
  - Decent labor conditions – minimum wages, types of contracts, employees’ health and safety;
  - Constructive and positive relationship with other stakeholders – employees, unions, customers, suppliers and the community at large.
  
- **Human rights** – we take into consideration the respect of human rights by companies. We do not hesitate to engage in a dialogue on this issue because we believe that it is a driver of progress and value. To this purpose, we encourage:
  - The inclusion of human rights within our sustainability policies;
  - Identification and prevention of human rights risks in the company's activities and value chain;
  - Transparency in the disclosure of data on the company's impact on human rights;
  - Implementation of due diligence processes;
  - Consideration of human rights by the highest level of management of the company;
  - Participation in collective engagement initiatives that promote human rights;
  - Participation to the UN Global Compact initiative;
  - Companies to provide remedies to affected people, where appropriate.
  
- **Social capital** – where relevant we review the company’s approach to:
  - Management of public harm risks around product security and its use of potentially harmful products;
  - Employee incentives practices on products that may not be in the best interest of customers.
  
- **Corporate governance** – we pay special attention to (among others):
  - Top management role separation (separation of role of Chairman & CEO);
  - Board independence, skills and diversity;
  - Executive compensation;
  - Existence of poison pills;
  - Related party transactions.

#### 4. *Carbon footprint*

CIAM has adopted TCFD’s guidelines for measuring and reporting its Scope 1, 2 and 3. As commonly understood, Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by the firm and Scope 2 emissions are indirect GHG emissions associated



with the purchase of electricity, steam, heat, or cooling. As a management company, CIAM's Scope 3 includes all the Scope 1, 2 and 3 of its portfolio companies as well as upstream and downstream emissions of CIAM (management company) not covered in its scope 2. Indeed, for all the companies in its portfolio, CIAM calculates their Scope 1, 2 and 3 in proportion to the capital that CIAM holds in each company.

## 5. Political engagement

In their interactions with public authorities, whether political figures, members of the government or regulatory authorities, CIAM and its representatives undertake to act with integrity and not to obtain any undue advantage. CIAM also commits not to make, directly or indirectly, any financial contribution to any public agent or political group.

CIAM, in cases it serves the general interest - of investors or of the overall society - can take a stand on political, legislative or regulatory issues. Indeed, CIAM is a creative force in the evolution of the legislative and regulatory framework, especially when it comes to requiring more transparency from companies regarding: dialogue, corporate governance, social and environmental issues, financial reporting, shareholders' and stakeholders' rights...

CIAM's political engagement can be reflected through: meetings with regulatory authorities, discussion with the Public Ministry, response to policy consultations, media campaigns, discussions with stakeholders ("representative associations») ...

CIAM believes in the need for shareholders to have an active role in corporate governance and supports any legislative or regulatory changes to this purpose.

CIAM is committed to disclose any political engagement.

## 6. Monitoring of implication of changing ESG trends and systematic sustainability risks

CIAM is fully aware that the ESG regulatory and reporting landscape is constantly evolving. Furthermore, no consensus seems to exist at the international scale on ESG standards and their reporting. However, CIAM complies with European reporting requirements and especially with French standards, even more demanding. In addition, CIAM is a signatory to the PRI, TCFD and CDP initiatives in order to remain up to date with the latest trends in ESG reporting. Finally, through various training sessions and with many providers, CIAM is constantly aligned with the latest ESG trends. This way, CIAM ensures, through its investment selection process of companies, to avoid and anticipate risks that could prevent sustainable developments. CIAM's due diligence on environmental, social, governance, human capital and human rights issues aims to identify issues that pose systematic sustainability risk.



## **7. Conflict of interest related to responsible investment**

CIAM's Responsible Investment policy includes exclusions that ensure our financial and non-financial interests are aligned. In addition, we are committed to not favor the short-term financial performance of an asset while undermining our overall responsible investment priorities. The analysis of a company's ESG criteria is a key factor in our investment choices, which is why conflicts of interest are handled at the very first stage. CIAM has decided to apply its responsible investment policy to all its funds, including merger arbitrage strategies. For that reason, short positions taken by CIAM are also covered by our ESG analysis, and in that case, research is carried out for both target and acquirer.

## **8. Communication to clients**

CIAM publishes all legal documents required on its website, to which the clients have access: that contractual and periodic information documents. The policies and reports published by CIAM are also publicly available. Breaches in our responsible investment policy are communicated to clients through the annual publication of our periodic information document, available on CIAM website.