

ESG Policy and Integration

The AIFM takes sustainability risk and environmental, social and governance (“ESG”) characteristics into account as part of its investment selection process. In that respect, the Funds under management promote environmental and/or social characteristics within the meaning of Article 8 of SFDR.

For the assessment, areas like the corporate strategy, corporate governance, social questions, respect of societal norms, transparency, product and service range, their environmental and sustainability characteristics, the environmental and social impacts of the company, of its activity and of its production, are taken into account.

They are studied, monitored, rated and included, by the research and investment team, through dedicated proprietary rating methodologies, into the investment process and the risk management process.

The ESG factors, indicators and criteria particularly monitored and applied are: GHG Emissions & Energy, non GHG Air Pollutants, Water, Waste, Environment & Biodiversity, Employee Engagement, Diversity, Safety, Supply Chain Management, ESG Accountability, Business Ethics, Product & Service Quality, Separation of Leadership, Board Elections, Board Independence, Board Size, Executive Compensation, Outside Board Affiliations, Board Skills, Shareholder Rights, Auditor Independence, Poison Pill, Controversies...

Description of the ESG Analysis, Scoring and Integration in the Investment Process

CIAM’s ESG analysis and integration in the investment process is made of three steps.

The first step excludes sectors or companies involved in activities deemed unsustainable or controversial.

The second step assesses the corporate purpose, the human capital management and the associated intangible values of companies.

The last steps of CIAM’s ESG analysis is to identify and analyse specific risk factors of companies related to ESG matters, materializing into ESG research reports.

The investment manager, in the continuation of its activist commitment, engages with corporates over specific Governance, Social and Environmental issues, and pushes them to improve in material domains of concern, in a specific form of activism, engagement with impact.

1- Negative / Exclusionary Screening

The investment manager applies an exclusionary screening, to exclude specific sectors from the investment universe based on specific criteria, requiring company specific research and analysis as exclusion criteria are based on the revenue derived from unwanted activities (e.g., coal extraction and power, unconventional oil and gas extraction, pornography, weapons, gambling, violation of societal norms, health threatening activities like alcohol and tobacco, etc.), as per the firm wide ESG Policy,

2- Strategic Sustainability Analysis

The focus is to identify and monitor the main intangible drivers that can drive sustainable performance of a company, to evaluate its corporate purpose, its human capital management and associated intangible value and the risks associated. The process is designed to enable the investment manager to engage in a continuing dialogue with companies around ESG issues to identify and quantify their risks and their potential for value creation.

CIAM's research team has identified the ESG disclosures relevant to each company in their sectors, facilitating the comparison between companies and anticipating on the likely evolution of such data. The research team uses a proprietary due-diligence questionnaire built for each specific sector to identify companies most exposed and best positioned against ESG operational risks and product impact.

All possible ESG topics for each sector are listed, to make each topic specific to each sector to enable focused analysis and conclusions.

Those ESG items are: Market and Intrinsic Value, Governance, Accountability, Culture, System, Evidence-Based Management, Quality System, Innovation System, Performance Management System, Organisational Agility, Adaptability and Flexibility, Stakeholders, Decision-Making Environment, Authenticity.

Companies that have positive ESG characteristics contain the right combination of systems, governance structures, cultures and human values to deliver consistent and improving returns for all stakeholders.

3- ESG Risk Analysis

CIAM has integrated companies' ESG analysis into its investment process, to monitor the ESG-related risks that companies are facing.

The approach to ESG risk is to cross-check 4 components to have the best possible understanding of the risks of each company relating to ESG subjects:

ESG Framework = Environmental & Social + Corporate Governance

ESG Momentum = ESG Sentiment + Controversies

ESG (scoring) framework

To analyse each company's ESG performance, the Investment Manager uses more than 30 metrics in the ESG framework, firstly focusing on ESG issues that have the most direct link to operations, industry by industry, customizing the metric selection across around 50 sub-sectors.

CIAM's E&S framework uses GHG Emissions & Energy, non GHG Air Pollutants, Water, Waste, Environment & Biodiversity, Employee Engagement, Diversity, Safety, Supply Chain Management, ESG Accountability, Business Ethics, Product & Service Quality, categorised into the following three major types: Policies: (disclosures qualitative binary), Targets, and Metrics (quantitative related to E&S performance).

Those large series of metrics are then computed into ESG Scores, with a methodology that creates a simple and transparent template related on the performance on each metric vs the sector.

Numeric metrics hold substantially more information, accountability and potential alpha, and are therefore significantly outweighed vs. policies.

For Numeric Metrics, each company's performance on each given metric is percentile ranked relative to its sector peers, based on quintile distribution.

The same is performed for Target Metrics and Policy Metrics.

To calculate the dynamic of the metrics of a company, the research team quantifies the dynamics of the metrics relative to the company's own history on numeric metrics, then comes to a final score by ranking the company's trajectory relative to peers (to determine if the company is moving at a faster or slower pace vs. the industry as a whole).

A Z-Score criteria is implemented to remove extreme values beyond three standard deviations above or below the mean dynamics of industry peers, to cope with potentially erroneous values in dynamics due to data sources.

The framework for scoring Corporate Governance covers separation of leadership, Board elections, Board independence, Board size, Executive compensation, outside board affiliations, Board skills, shareholders rights, Auditors Independence, poison pills.

The Governance Framework scoring methodology attributes positive or negative scores to each of those governance metrics depending upon specific determined criteria.

Controversy Scores:

Controversies are public information from traceable and responsible sources that incriminate an issuer on ESG issues. Incriminations may relate to specific facts or events, conflicting interpretations, legal proceedings or unproven allegations.

To complement ESG data disclosures, CIAM uses ESG-related controversies. This is an additional module complementing the core E, S and G frameworks and as an additional flag for risk.

CIAM adjusts ESG weightings upon downgrades and alerts, guaranteeing transparency of information and systematic monitoring of feedback and comments from companies.

The investment team, by using feeds and databases and continuously mining a deep dataset of newsflow in order to fill in data gaps, track company performance and exposures real-time, and seek potential warning signals of emerging issues, continuously analyses controversies according to 3 parameters: severity, frequency and reactivity of the issuer. The investment team maintains a complete profile of "controversies" in real time and has set up an alert system, for each studied or invested company.

Access to databases allows the investment team to monitor companies' compliance with international standards and to cover issues related to human rights, labour rights, the environment, corruption and controversial weapons. A review of UN PRI compliance is also carried out and allegations reported in the Media and NGO campaigns are also monitored.

This allows the investment team to be more responsive to the occurrence of a potential event with negative impact.

ESG sentiment:

ESG Sentiment employs dynamic techniques similar to the ones used to calculate EPS momentum, using ESG-relevant data rather than changes in consensus forecasts.

The result is a matrix which shows relative trends and developments in the momentum of newsflow and events that are judged to be material against SASB categories.

The matrix of overall ESG Sentiment is analysed per source, i.e., Environmental, Social or Governance, and is also compared with fundamental analysis, earnings momentum and price performance, with other stocks, and within the same sector. It includes 3 Scores, Insight measuring a company's long-term ESG

track record, Pulse measuring near-term performance changes that highlight opportunities and controversies, enabling real-time monitoring of companies, and Momentum measuring the trend of a company's Insight Score.

ESG Sentiment emphasises persistence or change in direction or momentum of the relevant ESG measures and must be viewed in the context of current analyst ESG assessments. It is the 4th pillar in CIAM's ESG rating.

Overall Scoring across multiple elements of the ESG Framework

The Manager assesses ESG criteria and scores as a dashboard rather than a single score or rating, to integrate it as a multidimensional Risk Score in its selection, investment, sizing and risk processes.

4- ESG Research Reports

The first screening and monitoring of ESG topics for any company analysed comes from the components of CIAM's proprietary ESG Risk score above.

To dig further and get the most precise and global understanding possible of a company's ESG profile, and position it vs its peers, CIAM uses, on top of ESG data providers and controversies, companies' annual reports, sustainability and auditor's reports, reports on competing companies, CDP reports, Science base target reports, and any other public initiatives the company is participating to, sectorial working groups of the European Commission, dedicated sustainability media and social networks.

This analysis requires identifying the weak points for each risk factor identified in the SASB map, finding the best player by theme in each sector and identifying significant improvements in the company compared to a high market benchmark.

All these findings and engagement points are formalized in a detailed ESG research document. This analysis enables the Investment Manager to engage in a dialogue with the companies in order to confront this analysis with their positions and assess the impact on the business, and eventually, if deemed necessary, push the company towards what the Manager considers to be a sustainable and positive transformation (engagement for impact).

After the application of the exclusion criteria, selection methodology and ESG ratings, approximately 10% of the companies which would have been eligible for investment without the application of those criteria, methodologies and ratings are excluded.

At least 90% of the Compartment's investment in companies with Large Market Capitalisations (equities of companies with market capitalisations of over 10bn€ or equivalent) and at least 75% of the Compartment's investments in Mid and Small Market Capitalisations (equities of companies with market capitalisations of respectively between 5 and 10 bn€ or equivalent, and below 5 bn€ or equivalent) will be invested in compliance with CIAM's ESG criteria and methodology and CIAM's ESG rating (excepted Cash or Cash Equivalent). The extra-financial rating analysis or the coverage of the extra-financial indicators must represent more than 90% of the issuers or of the capitalization of the large capitalisation securities invested by the Compartment, and respectively 75% for the mid and small market capitalisation securities.

The Compartment's ESG rating is higher than the investment universe's ESG rating after eliminating a minimum of 10% of the lowest rated stocks.

Further information on the ESG characteristics applied is included in the Management Company ESG policy available upon request or online at the website www.ci-am.com.