

# ***Protea Orcadia Equities EMU SRI Ex Fossil ESG and Exclusion Policy***

Last update: April 26

The ESG and Exclusion Policy described hereunder is specific for the fund and comes as a complement to Orcadia AM's global ESG and Exclusion policy. Policy elements which are covered in the global, and which are less strict than the ones covered here are not repeated.

## **1. Exclusion Policy**

### **WEAPONS AND WEAPON SYSTEMS**

Weapons and weapon systems such as nuclear warhead, cluster munition, anti-personal and landmines, depleted uranium, biological & chemical weapons as well as incendiary weapons are considered to be controversial weapons. Companies which have any tie in these weapons systems are automatically excluded from the investible universe as these kinds of weapons have an disproportionate and arbitrary impact on the civilian population

Companies that derive more than 5% or more of their revenues from the production of conventional weapons, including those for civilian use, and related are excluded.

### **TOBACCO**

The long-term negative effects of tobacco consumption not only on the user but also on his or her environment has been clearly proven in the past. As such we exclude all companies active in the production of tobacco-related products and companies that derive more than 5% of their aggregate revenues from the production, distribution, retail etc of tobacco-related products.

### **COAL, OIL & GAS**

We have decided to exclude all producers of fossil fuels classified under the GICS Sector "Energy". The reason is twofold: firstly, we believe that investors should reduce their "carbon footprint" and feel that excluding this sector is an excellent way to make significant progress on the issue. Secondly, we strongly believe that there are very strong reasons to exclude this sector from a financial point of view. The implementation of measures to limit global warming to 1.5 - 2 °C would leave a significant part of their assets stranded.

### **ELECTRICITY GENERATION**

Investment in electricity producing utilities is prohibited with the exception of companies that derive more than 50% of its revenues from or is utilizing more than 50% of its CapEx towards contributing

activities as defined by the EU taxonomy. Nuclear or fossil gaseous fuels can however – contrary to mentioned in the taxonomy regulation – not taken into account in calculating the threshold of 50%

As electricity produced by burning coal is significantly more polluting than electricity produced from other sources of fossil fuels, we excluded all companies that derive 5% or more revenue from thermal coal-based power generation. Moreover, the portfolio manager will verify, at least yearly, using either third-party research or internal research that no new coal plants have been taken into production unless the expansion would be mandatory in the context of energy provision security.

While during the production of electricity through nuclear power there are no CO<sub>2</sub> emissions, we see – at least for the time being – nuclear energy not as a viable solution to reach the Paris climate goals. Until science finds at least a partial solution for the nuclear waste produced during the production of electricity, nuclear energy will remain controversial. Radiation is a significant risk for the health of man, animals and plants alike. Moreover, a significant part of the waste will stay radioactive for centuries thus creating a risk for many generations after ours. As such electricity companies that derive 5% or more of their aggregate production from nuclear activities are excluded as well as companies where 5% or more of its installed capacity comes from nuclear sources.

#### **OTHER EXCLUSIONS**

Companies that conduct non mandatory (obliged by a government) research on living animals for non-medical reasons are automatically excluded from the investment universe.

Are also excluded from the investible universe those companies that derive 5% or more of their revenues from the production of alcohol-related products, gambling, adult entertainment and GMO's.

Orcadia AM doesn't want to finance in any way controversial regimes, which we define as countries with (1) high levels of corruption, (2) fundamental breaches in human rights or (3) a complete lack of political freedom. It is clear that countries subject to international sanctions as specified by the United Nations Security Council Sanctions list or under an "asset freeze" from the European Union are also excluded from financing. Those jurisdictions which are considered by the Financial Action Task Force as high risk and subject to a "Call for Action" are considered uninvestible also. As such the fund is not allowed to directly invest in equities whose primary listing in is these countries

All companies with evidence of thermal coal distribution or transport involvement are excluded. This includes transport of thermal coal by road, rail, shipping or air, and physical trading of thermal coal. Companies that transport (not the distribution) oil are excluded. It also includes companies which derive over 25% of its revenues of bespoke and dedicated products, equipment or services dedicated to enabling any production, processing, production and or the transport or distribution of thermal coal.

Companies that derive over 25% of its revenues of bespoke and dedicated products, equipment or services dedicated to enabling the prospection, exploration, extraction and transportation of oil and gas, be it unconventional or not.

#### **OTHER POINTS**

At this stage, no specific analysis is applied on single criteria such as biodiversity, water use or taxation. Given however that the minimum ESG-score for inclusion in the MSCI SRI Indices, which we use as inspiration to determine our investible universe, is AA we feel that it is (highly) unlikely that we would not meet minimum standards on these topics.

## IMPLEMENTATION OF THE EXCLUSION POLICY WITHIN THE FUNDS OF ORCADIA AM

Investment is not allowed in companies which do not pass the screening process described above. Investments already present in the fund that no longer pass the screening process must be sold within 3 months. This negative screening of the existing portfolio is done biannually.

In case there would be a new (very) significant controversy on a potential investment which is not excluded (yet) in the negative screening, the investment managers will refrain from investing in this asset awaiting the updated screening. In case a potential very significant controversy would emerge on a company or country already in the portfolio, the portfolio manager will describe the issue based on publicly available sources and present it to the Investment Committee of Orcadia AM. Given that the ESG-principles are at the core of our investment process and at Orcadia AM at large, all major ESG issues are discussed here and a final decision is taken by the Committee. If the Investment Committee, based on the case put forward by the investment managers, decides that the controversy is effectively to be considered as (very) significant all investments in the company must be sold within the 3 months following the decision.

## 2. ESG Evaluation approach

A first screening is made based on the membership of the MSCI SRI index of the eurozone. A company which is a member of the standard MSCI index but not a member of the MSCI SRI-index cannot be included within the portfolio as we want companies within the selection to be among the top performers in their sector based on the SRI criteria from MSCI.

As a crosscheck the inclusion candidate is also evaluated based on the ESG-score calculated by S&P Global<sup>1</sup> and Sustainalitics<sup>2</sup>. The combined score is compared with the respective sector. In order to be allowed for inclusion the combined global ESG-score should be better than the median of its sector and each of the combined subscores (E,S&G) should be at least in the 75<sup>th</sup> percentile to avoid that a company with an awful score on a sublevel can be included just because it scores very well on the other subscores.

If there is only data available from one of the providers, we can still include the investment, provided of course the screening is passed. If the 2 approaches would be severely contradictory, the portfolio manager makes a qualitative assessment of the ESG-profile of the company, taking special attention to the part where the outcomes would contradict, and presents the case to the Investment Committee of Orcadia AM. In the rare cases where neither Sustainalitics nor S&P Global data would be available the investment manager prepares a case based on publicly available information and discussions with company management and/or investor relations which will be presented to the investment committee which decides whether or not to include the name. Ideally this will be done by analyzing a similar company which scores well in either the Sustainalitics or S&P Global ranking showing for the relevant elements<sup>3</sup> how the company scores relatively versus peers based on a qualitative assessment by the portfolio manager.

Bi-annually, the portfolio managers check both the inclusion within the MSCI SRI index and the combined global ESG-score and subscores as calculated by Sustainalitics and S&P Global. If a company is no longer member of the MSCI SRI index, or if the combined global (sublevel) ESG-score as calculated

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<sup>1</sup> Obtained from Bloomberg data feed

<sup>2</sup> Obtained from Bloomberg data feed

<sup>3</sup> Relevant elements are inspired by the Bloomberg XLTP tool on ESG

by Sustainalitics and S&P Global falls below the median (75th percentile), the position must be sold within the next 3 months. Annually (or ad hoc if a significant change in the situation would warrant it) the companies for which no Sustainalitics or S&P Global score is available are evaluated by updating the relevant information by the portfolio manager. The portfolio manager assesses the position based on the updated information. If it would appear that, based on the assessment, the company has become more similar to the worst 50% of the sector the case is presented to the investment committee. If the committee decides against keeping the position within the portfolio, it must be sold within three months.

### 3. Engagement

Orcadia AM believes that the financial sector has a key role to play in promoting wider sustainability. Orcadia AM was created with the idea of enabling investors to invest sustainably without compromising performance, and, through our success, push other asset managers to become more sustainable. Shareholders can exert pressure on the conduct of the company through different channels: dialogue, protest voting, proposed resolution, alliance with other shareholders via platforms (such as Shareholders for Change and Climate Change 100 +), sell.

Orcadia AM considers that the promotion of sustainable development involves first and foremost investing only in assets from sustainable issuers (thanks to a combination of exclusions and a “Best-in-class” approach, more details can be found in our ESG approach). Orcadia AM considers that investing in unsustainable companies in order to exert pressure during the general assembly is not an effective nor desirable way to promote sustainability. Nevertheless this does not reduce the importance of engaging with the companies in which the asset manager invests and of behaving as an active shareholder during general meetings.

Orcadia AM believes that it is part of a large and growing community of asset managers who share a desire to promote sustainability and believes that speaking with one voice by this community at general meetings is a good thing as it is a more effective way to put pressure on a company than trying to do it alone.

Our engagement approach uses several degrees of intensity and covers a range of actions such as the exercise of voting rights or bilateral communications.

#### **VOTING RIGHTS**

In order to exercise its voting rights at general meetings, Orcadia AM has entered into a proxy voting contract with ISS, a world leader in the field. Thanks to the contract with ISS Orcadia AM votes at the general meetings of all companies in which our mutual funds are invested. ISS analyses all elements submitted to general meetings and, based on their criteria, which include ESG considerations, indicates, for each point, whether a vote for or against the point submitted to shareholders appears appropriate. As shareholders, the UCITS managed by Orcadia AM are of course free to vote as they wish, without being bound by the contract with ISS but, by default, Orcadia AM's votes will follow ISS's recommendation.

Regarding ESG significance, ISS's Sustainability Policy aims to promote support for recognized global governing bodies promoting sustainable business practices advocating environmental stewardship, fair labour practices, non-discrimination and the protection of human rights.

This policy will take as a reference framework initiatives linked to sustainable development recognized at an international level such as the Financial Initiative of the United Nations Environment Program (UNEP FI), the United Nations Principles for Responsible Investment (UNPRI), the United Nations Global Compact, the Global Reporting Initiative (GRI), the carbon principles, the conventions of the

International Labour Organization (ILO), the CERES roadmap for sustainable development, the global Sullivan principles, the MacBride principles and the environmental and social directives of the European Union.

Each of these initiatives promotes a fair, unified and productive reporting and compliance environment that promotes positive ESG actions by companies promoting practices that present new opportunities or that mitigate associated financial and reputational risks. In terms of corporate governance, executive compensation and corporate structure, the sustainability policy guidelines are based on ISS's commitment to creating and preserving economic value and promoting the principles good corporate governance. Information about what guides ISS's voting recommendations as well as how ISS voted on our behalf is available on our website.

### **BILATERAL COMMUNICATIONS**

While we have decided not to pursue an approach in which we invest in non-sustainable companies and put pressure on their management as an activist, we acknowledge that in certain sectors the durability risks are higher than in others, even for those companies which can be considered to be above average in their sector. We consider the (sub)sectors below as higher risk and as such subject to our approach on bilateral communication.

- Weapons
- Tobacco
- Aerospace and defense sector
- Coal, oil and gas
- Coal-based electricity production
- Manufacture and sale of textiles
- Fishing and agriculture
- Extraction of mineral resources
- Cement
- Maritime transport and aviation

It would however be naïve to think that without a significant investment, the targeted company would consider our propositions and demands or even react to our communication. At Orcadia AM we think that € 25 million, though (very) modest in comparison with market capitalizations of tens or even hundreds of billions of euros, is significant enough to be considered. As such if the investment of a compartment in a company (be it in bonds or equity), active in one of the sectors mentioned above, is higher than this amount, the company in question could be subject to the procedure described below.

In case a company would be subject to the bilateral communication, the sustainability team will evaluate if there are matters on which the sustainability profile of the company in question would be below par or if there are issues to be resolved. If this is the case, one of the members of the team will contact in written the investors relations team of the company in question.

In case the sustainability team is not satisfied with the reaction or does not receive a reaction in a reasonable time-frame, the team will report this to the investment committee. The committee will then decide on further measures to be taken. Examples of such potential measures are:

- Vote against management remuneration
- Vote against administrator remuneration
- Vote against renewal of mandates
- Temporarily (duration determined by the investment committee) exclude the company from the investment universe

The measures taken by the investment committee will depend on the importance and urgency of the points on which there was an engagement with the company. In case the investment committee would decide to exclude the company from the investment universe, all investments must be sold in a reasonable timeframe of no longer than three months.

Information about what is guiding the voting recommendations of ISS as well as how ISS voted on our behalf is available to our clients upon request.