Valori Asset Management S.A.

ESG policy

History

ID	ID Policy	Version	Release Date	Description	Amended by	Reviewed by	Approved by the Board on
-	-	V1	30 April 2021	First version	Compliance Officer	Authorized Manager	30 April 2021
PMA	PMA_02	V2	24 June 2022	Updated Version	Compliance Officer	Authorized Manager	22 July 2022

1) Objective

The objective of the ESG Investment Policy is to provide a detailed description of the activities carried out towards the appropriate integration of Sustainability criteria into the investment process of the Funds managed by the Investment Manager Valori Asset Management S.A. (hereafter the "Company" or "VALAM"). VALAM's mission aims to allow our clients to achieve their financial objectives throughout better risk adjusted returns and best in class solutions. Our conviction is that corporates with sustainable business practices have a competitive advantage and prove to be more successful in the medium to long term. Sustainable investing is key in meeting that fiduciary duty and a key pillar of VALAM's investment philosophy. We also believe sustainability has the power to bring about positive economic, environmental, and social change. For all these reasons, we integrate sustainability in our investment processes.

2) Regulatory Framework

The Policy has been drawn up pursuant to the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR), which imposes transparency and sustainability related disclosure requirements to Financial Markets Participants (FMP).

3) Definitions

Definitions For the purpose of the Policy, and aligned with the Regulation, the following definitions apply:

- "ESG Investing" refers to the integration of Sustainability Factors into the investment decision-making process.

- "SFDR" means Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as may be amended from time to time.

- "Sustainability Risk" means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investments made by each Sub-Fund.

- "Sustainable Investment" means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee corporates follow good governance practices;

- “Sustainability Factors” mean Environmental, Social and Governance (ESG), hereafter also referred to as “ESG” or “ESG Factors”. Just to name a few examples, environmental factors consider how a corporate operates and commits to reduce risks linked to potential physical events related to climate change, CO2 emissions, air and water pollution and waste disposal; Social factors evaluate how, between others, a corporate addresses gender equality, human rights and working standards as well as the relationship with the communities where it operates; the Governance criteria relate from corporate governance practices to the remuneration policies adopted by the administration, to control procedures and to the voting procedures of the shareholders.

- “Taxonomy Regulation” means Regulation (EU) 2020/852 (Taxonomy) on the establishment of a framework to facilitate sustainable investment, as may be amended from time to time.

- “UCITS Directive” means Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast), as may be amended from time to time.

4) Scoring Models

4.1)ESG Score of Corporate Issuers (ESG Corporate Score):

The ESG profile of corporate issuers that include both equities and corporate bond securities, is based on all sustainability dimensions: E, S and G. For instance, the “E” dimension may focus on parameters such as carbon dioxide emissions, efficiency in the use of natural resources (such as water), attention to climate change, population growth, biodiversity, and food safety. The social pillar, on the other hand, may include respect for human rights, working conditions and attention to equality and inclusion in the treatment of people and control of the supply. The governance may include for instance diversity policies in the composition of the Board of Director, the presence of Independent directors and remuneration of management linked to sustainability targets, relations with shareholders and stakeholders, professional ethics, and Accounting Standards. Through external data providers we elaborate a final score to reach a synthetic evaluation of the instrument.

4.2)The ESG Score of Country Issuers (ESG Country Score)

The score attributed to country issuers follows the one applied to corporate issuers with specific ESG indicators considered relevant to the public nature of the subjects assessed. The data is collected from national and international entities such as the World Bank or the International Monetary Fund. The ESG score of country issuers is based on the principle that a country pursues a sustainable environmental strategy that promotes the transition to a low-carbon world, invests to improve the citizen’s social condition, ensures political and civil rights, promotes a good level of competitiveness.

4.3) The ESG score of UCIs/ETFs

An assessment is made on the existence of an ESG methodology used to factor ESG data into the investment vehicle. The type and source of the ESG data and the adoption of exclusion policies might be considered. For ETFs, we consider among others a synthetic evaluation publicly available on Morningstar.

5) Controversies Monitoring

VALAM adopts a controversy process that supplements ESG scores to consider any outstanding dispute. This is an integral part of the judgment attributed to corporates and issuers. If a controversy is found against an issuer it is assessed in terms of severity in a scale ranging from "low" to "severe". If the controversy is "severe" the corporate is put in the exclusion list and becomes non investable (see below). If the controversy risk is "high" (just below "severe") the corporate is put on a watchlist for a strict monitoring.

6) ESG Integration

As an active asset manager with a long-term investment view, our investment philosophy aims to create added value for our Sub-Fund. Our investment process is based on fundamental, quantitative and sustainability research. The integration of ESG factors leads to better-informed decisions and better risk-adjusted returns over the long term for investee countries, corporates, and UCI Funds/ETFs. The ESG factors are a key driver of positive structural changes and leading to more successful business practices. This means that we systematically integrate financially material ESG issues into our investment processes. VALAM promotes certain minimal environmental and social standards and therefore applies exclusion criteria with regards to products and business practices (as described below) that we believe are detrimental to society and incompatible with sustainable investment objectives. The funds evaluate the sustainability risk of issuers and limit investments in those that are not in line with the ESG Policy and present a high sustainability risk profile. VALAM integrates ESG factors into the investment decision-making process making use of third-party data, public available data, and internal analysis. (*i.e. Sustainability Risks are particularly relevant to the Sub-Fund: climate change, Greenhouse gas emission, resource efficiency and pollution for Environment, inequality, inclusiveness, social controversy level for Social, independence of the board of directors, bribery issues, complexity of the shareholding structure, controversial business activities, reputational and brand exposure for Governance.*)

VALAM adopts a double-layer exclusion process. The first screening is *the Global Exclusion process* and targets all the rated investment universe ranging from corporate to countries to UCI Funds/ETFs. For corporates, it is based on Normative Exclusions and Activity Based Exclusions. For countries entities, it leverages an internal screening and scoring ESG process that relies on public data provided by relevant entities such as the World Bank, the International Monetary Fund or Transparency International. For UCI Funds/ETFs we adopt a screening process based on market's best in class funds in ESG-terms for their own market segment. The second layer of screening is the VALAM's *Sub-Fund-specific Exclusion process* which consists of a further exclusion of the poorest 5% of the securities in terms of ESG score within each fund's investment universe.

6.1) Global Exclusion Process

6.1.1 Severe Controversies based on Normative considerations

Exclusions are applied to controversial products and severe breaches regarding human rights as defined in the "Universal Declaration of Human Rights," the "United Nations Guiding Principles for Business and Human Rights," and the "International Labour Organization Core Conventions". Children's rights are assessed as defined by the relevant International Labour Organisation (ILO) and United Nations International Children's Emergency Fund (UNICEF) recommendations. All VALAM's investing activities are in line with the United Nations Principles for Responsible Investing (PRI) with a signatory duty since 2016.

Hence VALAM incorporates these principles into its investment decision-making and ownership practices, and we commit to the following:

- Incorporating ESG issues into our investment analysis and decision making
- Being active owners and incorporating ESG issues into our policies and practices
- Seeking appropriate disclosure on ESG issues by the entities we invest in
- Promoting acceptance and implementation of the Principles within the investment industry
- Working together to enhance our effectiveness in implementing the Principles
- Reporting on our activities and progress towards implementing the Principles

6.1.2 Activity-based Exclusions

VALAM applies several activity-based exclusions as illustrated in Table 1. For each of the following activities, the exclusions are based on the set percentage threshold. We consider the revenues, distribution, significant ownership, and production percentages that a corporate realizes in a fiscal year. In the subsequent paragraphs, further details for each activity are provided.

Controversial Weapons Overall-Level of Involvement	Not involved
Predatory Lending Overall-Level of Involvement	10% and above is restricted.
Gambling Overall-Level of Involvement Overall-Level of Involvement	10% and above is restricted.
Arctic Oil & Gas Exploration Extraction Overall-Level of Involvement	10% and above is restricted.
Oil Sands Overall-Level of Involvement	10% and above is restricted.
Tobacco Products Overall-Level of Involvement	10% and above is restricted.
Shale Energy Overall-Level of Involvement	10% and above is restricted.
Adult Entertainment Production Overall-Level of Involvement	10% and above is restricted.

- Controversial weapons

Unconventional weapons are weapons prohibited by international law. They exploit substances other than normal explosives, trying to cause the greatest number of victims and the greatest possible damage. They are banned for their particularly harmful and inhumane result. For all strategies VALAM defines anti-personnel mines, cluster munitions, chemical and biological weapons (such as weapons with phosphorus, depleted uranium, and nuclear weapons) to be controversial weapons. VALAM does not invest in corporates with exposure in the sector.

- Tobacco Products

Tobacco is an unhealthy and socially disadvantageous product. VALAM deems investing in tobacco corporates an unsustainable investment therefore it does not invest in the cigarette sector, especially manufacturers and traders wholesale of cigarettes, tobacco, electronic cigarettes and associated smoking products. Exclusion is applied to corporates with an overall level of involvement in Tobacco above 10%.

- Arctic Oil & Gas Exploration Extraction

Arctic drilling poses higher risks of pollution compared to conventional oil and gas exploration and has potential irreversible impacts on the ecosystem. VALAM excludes with an overall level of involvement in Arctic drilling above 10%.

- Oil Sands

Oil sands are one of the most footprint intensive means of crude oil production. VALAM excludes corporates with an overall level of involvement in Oil Sands above 10%.

- Adult Entertainment

VALAM excludes corporates that generate 10% or more of their revenues from the production (e.g. online, TV), operation, and/or distribution (e.g. pay-per-view adult channels) of adult entertainment.

- Gambling

VALAM excludes corporates that generate 10% or more of their revenues from owning and/or operating gambling establishments (e.g. casinos, race tracks, online gambling), manufacturing specialized equipment used exclusively for gambling (e.g. slot machines, roulette wheels), and/or supporting products and services supplied to gambling operations.

- Predatory Lending

Predatory lending typically refers to lending practices that impose unfair, deceptive, or abusive loan terms on borrowers. In many cases, these loans carry high fees and interest rates, deprive the borrower of capital, or place a creditworthy borrower in a lower-rated (and more expensive) loan - all for the benefit of the lender. Predatory lenders often use aggressive selling tactics and take advantage of borrowers' lack of understanding of financial transactions. Through deceptive or fraudulent actions and a lack of transparency, they entice, induce, and help a borrower to take out a loan that they will not reasonably be able to repay. VALAM does not invest in corporates that use these practices.

- Shale Energy

Producing shale oil and gas has a more depletive impact on the environment than the production using conventional techniques. Environmental and social risks associated with shale oil production are water stress, land contamination, pollution, leakage of greenhouse gas emissions, earthquake induction. The exploration of shale gas requires many wells, leading to atmospheric pollution, methane movement, high level of noise and water chemical contamination.

6.1.3 Country Based Exclusions for Sovereign Debt

VALAM deems investing in government bonds of countries where serious violations of human rights or a collapse of the governance structure take place as unsustainable.

VALAM creates a ranking for countries using an internal ESG scoring model that relies on available data from the World Bank, the IMF and Transparency International among others. The data points considered for the ranking include, amongst others, GHG Emissions, Education, Corruption, Military Expenditure, Life Expectancy, Mortality Rates. The countries are preventively divided into per capita GDP buckets (low-, middle-, and high-income economies) to create a level playing field and avoid penalizing Emerging Economies that typically show the poorest scores. The exclusions target the poorest 3 deciles of the scores from the output of the model.

6.1.4 UCI Funds/ETFs exclusions

UCI Funds and ETFs are assessed in terms of sustainability and evaluated in comparison to their asset class or similar funds. If a fund or an ETF has an ESG label or falls under art.8 or art.9 it is always investable by VALAM's Sub-funds.

6.2)VALAM's Sub Fund-specific Exclusion Process

Each Sub-Fund administered by VALAM applies a further *specific screening process* on top of the *global exclusions process* that relies on third party data to exclude the poorest 5 percentiles of corporates of each fund's investment universe.

6.2.1 The investment Universe

The investment universe is to be considered as a reference basket of securities in which each Sub-Fund can invest in. The investment universe is updated twice a year for corporate issuers and once a year for countries to include in the analysis any change in the ESG-factors of the underlying corporates or countries.

Each Sub-fund administered by VALAM has its own investment universe. The investment universe of each Sub-fund is divided into two sub-universes: countries issuers universe and corporate issuers universe. This is implemented because of different ESG-methodologies for corporates and countries that might lead to different scores' scales. For instance, corporates with a normalized 0-100 scale might be outweighed by a non-normalized scale used for countries, or a rating based on letters might make a comparison impossible. Hence, this division guarantees a like-for-like comparison between the Sub-Fund and its Investment Universe and allows the investment manager for flexibility in terms of weights between corporates and countries in the Sub-Fund. We therefore compute the average ESG score for each portion. The corporate issuers of the Sub-Funds achieve a better ESG-score compared to the corporate issuers of the investment universe and the country issuers portion of the portfolio achieves a better ESG-score compared to the country issuers of the investment universe.

6.2.2 Sub-Funds Investment Universe

Global Flexible Bond Fund - The investment universe of the Global Flexible Bond Fund is composed as follows:

- 60% global corporate issuers
- 40% country issuers

Subordinated Debt Fund – The investment universe of the Subordinated Debt Fund is composed as follows:

- 80% global corporate issuers
- 20% country issuers

Elite Dividend Fund – The investment universe of the Elite Dividend Fund is 100% composed with global corporate issuers with a market capitalization higher than € 20bn.

HEARTH Ethical Fund – The investment universe of the Hearth Ethical Fund is composed as follows:

- 75% corporate issuers with a market capitalization higher than €1bn and
- 25% country issuers

HEARTH Ethical Equity Fund - The investment universe of the HEARTH Ethical Equity Fund is 100% composed with global corporate issuers with a market capitalization higher than €1bn.

Dynamic Allocation Fund - The investment universe of the Dynamic Allocation Fund is composed as follows:

- 50% UCI Funds/ETFs
- 50% country issuers or supranational issuers.

6.3 Binding elements

- The funds' portfolios comply with VALAM Exclusion Policy based on exclusion criteria which VALAM believes are detrimental to society and incompatible with sustainable investment strategies. This means that the Sub Fund has 0% exposure to excluded securities. If in the post-investment phase a security falls in the Exclusions List, we allow for a grace period until the Sustainable Committee review and approves the next Exclusion List.
- The funds' investments achieve an average corporate and countries portfolio score higher than the corporate and countries investment universe score.
- The max percentage (target) of issuers or UCI Funds/ETF's included in the net assets of the portfolio that do not benefit from an ESG score should never exceed more than 20% of the net assets of the portfolios. Liquidity does not contribute to this 20% threshold.

7) Governance

To ensure the correct implementation of the adopted policies, VALAM defines established a dedicated governance body for managing this policy, as specified below:

- *Board of Directors*
  - ✓ Defines and approves the ESG Policy and its subsequent revisions;
  - ✓ Approves the exclusion and integration criteria to be applied to the managed assets on the basis of the ESG Committee's proposals;
  - ✓ Approving the level of integration of ESG criteria for each (sub) fund or portfolio and deciding the ESG framework of every fund / sub fund;
  - ✓ Approving external providers for ESG scoring.

In order that ESG policies be consistent throughout VALAM periodically checks the correct implementation of the Policy based on the controls carried out by Risk Management.

- *ESG Committee*
  - ✓ Aims to provide advisory support to the BoD regarding the definition, the review and the implementation of the ESG Policy.
  - ✓ Defining, reviewing and implementing the ESG Policy;
  - ✓ Proposes integration and exclusion criteria to be submitted to the Board of Directors for approval and may propose a scoring system to the board Regularly monitors the pursuit of environmental, social and governance characteristics and the achievement of sustainable objectives of any products pursuant to Article 8 of Regulation (EU) 2088/2019.

The tasks and composition of the ESG Committee are governed by the document VALAM - Operating Regulations (to which reference is made for more details).

The ESG committee will meet at least twice per year and/or when the majority of the members will deem it necessary

- *The Investment team* is responsible for the integration of the ESG policy for each Sub-Fund.
- *The Risk Manager* is responsible for the monitoring of the internal integration and exclusion limits approved by the Board of Directors and the information and reports prepared in accordance with the company policy and procedures on ESG.
- *The Compliance Officer* will check that the Company's Remuneration Policy is always in line with the SFDR art. 5.

8) Data Sources

The Company makes use of external sustainability resources like Sustainalytics, Bloomberg, the World Bank, the IMF and Transparency International along with public data available and other sources such as corporate disclosures, industry and sectorial reports and meetings with the management.

9) Scope of the policy

For the exclusions all corporates related investment instruments (e.g. equity, bonds) are in scope. Exclusions don't apply to derivatives securities.

On a case-by-case basis, VALAM has the discretion, driven by a prudential approach, to exclude additional corporates considered as involved in an exclusion category giving detailed assessment in the Sustainable Committee.

10) Adverse sustainability impacts

In accordance with Article 7(2) of the SFDR both the Investment Manager do not consider adverse impacts of investment decisions on sustainability factors according to Article 4(1) (b) and as such does not consider directly at its level adverse impacts of investment decisions on sustainability factors according to Article 4 of the SFDR. This considers the difficulty in the evaluation of those impacts due to lack of ESG data and contemplates on evolving regulatory environment. When we will consider the adverse impact of the investment decision on sustainability factors, this policy will be updated accordingly to SFDR requirements.