



Regulation

In accordance with Regulation (EU) No 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability publications, Palatine Asset Management is transparent on its sustainable investment approach.

Article 2 (17) of this regulation defines sustainable investment as an investment in an economic activity that contributes to an environmental or social objective without such investment causing significant harm to any other environmental or social aspect and no company in which the investments are made applies practices of bad governance. They must have good governance, in particular with regard to sound management structures, relations with the staff, the remuneration of the competent staff and compliance with tax obligations.

The environmental objective that can be measured, for example, by means of key indicators on resource efficiency related to the use of energy, renewable energy, raw materials, water and land, waste generation and greenhouse gas emissions, or on the effects on biodiversity and the circular economy.

In particular, the social objective is defined as an investment that contributes to the fight against inequality or promotes social cohesion, social integration and labour relations, or investment in human capital or economically or socially disadvantaged communities.

Palatine AM's Sustainable Investment Objective

PALATINE AM wants through its sustainable investments to contribute positively to at least one of the environmental or social objectives defined by European regulations. The objective pursued by each sustainable investment is specified for financial products managed by the management company. These commitments can be found in the fund prospectuses.

Verification method for Palatine AM DNSH

The DNSH is considered in 2 steps, a quantitative filter is first applied and then it is supplemented by a qualitative analysis. Quantitative screening is designed to exclude those companies with the largest negative impacts. The qualitative analysis must ensure that the companies invested have put in place sustainable practices within their business and that they do not significantly harm the environment or social.

1. Quantitative study

The exclusion of companies with the largest negative impacts is as follows.

· For the IPOs related to GHG emissions, Palatine AM takes them into account for all securities qualified as sustainable investment. We ensure that all companies meet at least one of the following requirements:

- The company validated its trajectories for reducing GHG emissions by SBTi
- The company has been rated by Carbon Disclosure Project with a minimum rating of A or B.
- The undertaking presents for each of the following ACPs a lesser impact than its pairs:
 - PAI 1 - GHG Emissions: Exclusion of 10% of the worst actors in our universe.
 - PAI 2 - Carbon footprint: Exclusion of the worst actors of our universe.
 - PAI 3 - Carbon intensity: Exclusion of 10% of the worst actors our universe.
 - PAI 4 - Fossil Energy Exposure: The company generates less than 50% of its revenues from controversial fossil energies.
 - PAI 5 - Production and consumption of renewable energy:
 - The company has less than 50% of non renewable power generation.
 - Company incorporates a minimum share of renewable energy in energy consumption
 - PAI 6 - Exposure to the most carbon intensive sectors: PALATINE AM excludes 10% of companies with the highest carbon intensity within the 3 most carbon intensive sectors of our universe.

· For all other ACPs, Palatine AM strives to consider each of their themes independently and systematically. The PAAs are verified using the following process:

PAI 7 - Biodiversity: Verifying the existence of a policy for the protection or/and restoration of biodiversity to ensure that the company minimises its potential negative impact on biodiversity. Where this is not the case, Palatine AM is trying to estimate the environmental cost of society's activities on biodiversity and excludes stocks from the 10% most destructive of biodiversity.

PAI 8 - Water: For companies with less than 20% of revenues contribute directly and significantly to the United Nations SDG 6, Palatine AM verifies the existence of a water management policy to ensure that the company minimises its water consumption and its releases of pollutants to water. If this is not the case, Palatine AM excludes from its sustainable investments companies that are not at least transparent on these metrics and the 3% of the largest polluters.

PAI 9 - Waste: For companies with less than 20% of revenues contribute directly and significantly to the United Nations SDG 12, Palatine AM verifies the existence of a waste management policy allowing the recycling of a significant portion of the waste produced and more particularly of hazardous waste. Where this is not the case, Palatine AM excludes from its sustainable investments companies that are not at least transparent on these metrics and companies with non recycled waste production above our universe average.

~ PAI 10 - Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises: Systematic exclusion of companies with more than 4 significant controversies related to these themes.

B PAI 11 - Absence of compliance processes and mechanisms to monitor compliance with the principles of the UN Global Compact and OECD Guidelines for Multinational Enterprises: Investment in companies that are signatories to the United Nations Global Compact or in companies with a minimum level of compliance with these principles. The minimum compliance level selected is 20/100.

PAI 12 - Lack of remuneration between men and women not corrected: Exclusion of 10% of the worst actors in our universe.

PAI 13 - Mixity within governance bodies: Exclusion of 10% of the worst actors in our universe.

B PAI 14 - Exposure to controversial weapons: Exclusion of values related to cluster munitions and anti personnel mines.

In addition to these 14 obligatory PAI of Table 1 of Annex 1 of Delegated Regulation 2022/1288 of the European Commission of 6 April 2022, Palatine AM considers an PAI of Table 2 of the same Annex. The selected environmental PAI is PAI II.2, linked to emissions of air pollutants. PALATINE AM excludes transparent companies on this indicator and the 3% of the largest polluters.

As regards the Social PAI, presented in Table 3 of Annex 1 to Regulation 2022/1288, Palatine AM has retained PAI III.15 concerning the policy for combating business corruption. Stocks with a rating below 20/100 are excluded.

2. Qualitative study

An internal analysis of the Palatine AM ESG team is performed for all companies invested in a sustainable investment. The purpose of this analysis is to ensure that the activities of the companies held in the portfolio do not seriously affect any of the themes analysed by the IPOs. For the environmental pillar, Palatine AM ensures that the company manages its GHG emissions, and its impact on biodiversity and has a policy of responsible management of the most material resources to its activity such as water, waste, energy, soil, raw materials... While having responsible social practices. The responsibility for these practises can be manifested through various actions such as combating inequality, a policy promoting social cohesion and social integration, or investments in human capital or economically or socially disadvantaged communities.

Audit of good governance practises

The policy used to assess companies' good governance practises is based on the following criteria:

1. Issuers in the portfolios must have good governance practices to ensure the sustainability and growth of the company:
 - The importance of the ability of managers to report on their management to different stakeholders,
 - Fair treatment of all shareholders (The barriers to active participation in general meetings are to be reduced and imbalances between capital structure and voting rights structure to be avoided).
 - Recommended Board Structure :
 - Executive Board and Supervisory Board,
 - a high proportion of independent directors and a separate Chairman of the Chief Executive Officer,
 - to set up a number of committees on the Board of Directors, including the Audit of

Accounts, Remuneration and Management Appointment

- to promote a high degree of transparency: Remuneration of corporate officers and executives, as well as the independence of the Board of Directors.

2. Controversy monitoring is performed via Moody's ESG Solutions:

- A controversy is defined as the questioning of a company by its stakeholders (employees, unions, NGOs, regulators, customers, shareholders, etc.). Controversies are a measure of the company's exposure to negative news (trials, strikes, NGO campaigns, etc.), taking into account the impact of these news on the company itself and its stakeholders, with a view to materiality.
- The global ESG score from Moody's ESG Solutions includes an event related to the company's exposure to ESG controversies, penalising it more or less depending on the themes affected:
 - Business ethics +/-13%
 - Governance +/-6%
 - Local communities: +/-7%
 - Environment +/-3%
 - Human Resources +/-6%
 - Human rights +/-16%

This monitoring of controversies is supplemented by that of Ethifinance for small and mid caps. Their monitoring is included in the ESG rating, with the malus being downgraded to 0/20 in the event of a critical controversy.