



December 2022



## REGULATORY FRAMEWORK

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In accordance with Article 3 of Regulation (EU) No 2019/2088 of the European Parliament and of the Council of 27 November 2019 on the publication of sustainability information in the financial services sector and Article 29 of Energy Climate No 2019-1147 of 8 November 2019, Palatine Asset Management has established a policy on the integration of sustainability risks in its investment decision making processes. PALATINE AM pursues a responsible investment strategy throughout its management for more than 15 years and incorporates sustainability or environmental, social and governance risks into its investment decisions.

## DEFINITIONS

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### 1. Sustainability risks

A sustainability **risk** is an environmental, social or governance event or situation that, if it occurs, could have a material, real or potential negative impact on the value of the investment. This risk can originate from factors that are endogenous to the activity of the target issuer (i.e. its impact on ESG factors) or from negative external environmental factors (floods, droughts).

### ENVIRONMENTAL RISKS

Environmental risks relate to temporary or permanent atmospheric, marine or terrestrial changes caused by human activity that may have significant reversible or even irreversible consequences. They may include:

- Air **quality** and **air pollution**
- **climate change** :
  - **physical hazards** arising from direct damage caused by weather and climate phenomena, such as:
    - the impairment of investments held by portfolios managed and issued by entities affected by these climatic events;
    - an increase in the frequency and cost of claims to be paid by insurance companies to their customers;
    - climate change or biodiversity loss are included.
  - **transition risks** arising from adjustments made to transition from an environment to an environment: Exposure to developments induced by transition, including the environmental targets defined by the Taxonomy Regulation, especially when they are poorly anticipated or occur suddenly. These risks are linked, for example, to:
    - asset write down as a result of regulatory changes that would penalise or prohibit certain activities that are deemed to be overly greenhouse gas emitting;

- Loss due to the end of certain funded activities that are deemed to be too polluting or greenhouse gas emitting.
- **legal and reputational risks** related to the financial impacts of potential compensation requests from firms for damage caused by climate change, such as:
  - investments that finance the development of polluting or highly GHG emitting industries and activities;
  - professional insurance, third party liability operator, infrastructure build up.

#### Ø. water Resources and Quality

· Sustainable land management

The preservation of natural **resources**

· The management of **waste**

The preservation of **biodiversity** and all risks to all life sustaining dynamics and interactions (identifying impacts and ecosystem conservation measures)... In respect of biodiversity, Palatine AM is being finalised to select a data provider to integrate biodiversity considerations into company analyses.

The contribution to the Sustainable Development Goals (SDGs), when it can be calculated, is taken into account through an SDGs score.

Given the quality and quantity of information we have at our disposal on how to take account of the main negative impacts, and in anticipation of further clarification from the regulator, our approach is part of an improvement dynamic.

## SOCIAL RISKS

The Social Risk Analysis examines the company's **relationship with stakeholders** : employees, customers, suppliers, civil society, etc. It includes employee health and safety protection, anti discrimination, well being, respect for human rights in the supply chain, a philanthropic approach to the company, its relations with local communities, customer satisfaction, etc.

## GOVERNANCE RISK

Governance risk encompasses the **competence of the firm's senior management**, the structure or legitimacy of the Chief Executive Officer's **remuneration scheme** and the **existence of counter powers**. The evaluation of this last point involves the analysis of the composition of the board of directors, the adequacy of directors' profiles with the needs of the company, their independence, respect for minority shareholders, the ethics of business or the commitment of the company on issues of social responsibility (CSR). Ignoring these risks and consequently, their potential negative impacts would expose companies to reputational, legal and sustainability risks of their growth models.

### 2. Sustainability:

Sustainability implications represent the impact (and thus the negative consequences) that investment decisions could have on external sustainability factors: Environment, social, human resources management, respect for human rights and the fight against corruption.

### 3. Categorisation of UCIs:

- Regulation 6: Any financial product that does not take in sustainability risks or whose integration will not correspond to the requirements of a fund Article 8 or 9
- Article 8: Any financial product which promotes environmental and/or social characteristics and whose investments demonstrate good governance.
- Article 9: Any financial product which has an objective of sustainable environmental and/or social investment and whose investments do not cause significant harm to one of these objectives and applies good governance

practices.

## **SCOPE OF APPLICATION OF SUSTAINABILITY RISK MANAGEMENT**

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The sustainability risk management at Palatine AM differs depending on the degree to which ESG factors are considered.

1. ESG integration (Article 6) to UCIs that consider ESG factors at the heart of stock selection without impact in portfolio construction.
2. Mutual Funds that use ESG criteria in portfolio construction (Articles 8 and 9) through a 90% to 100% coverage rate for ESG ratings, an overall ESG rating greater than or equal to that of the benchmark. and exclusion of at least 20% of issuers with lower ESG ratings.

The AFG FIR fund transparency codes describe the strategies for integrating ESG criteria into UCIs.

By 31 December 2022 Palatine AM will have to provide ex ante information on the consideration of the main negative impacts on the durability factors according to the EU Regulation SFDR.

## **CONSIDERATION OF SUSTAINABILITY RISKS**

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PALATINE AM believes that a company that acts in a sustainable manner with good ESG practices, is more able to respond favourably to the set of sustainability risks that it could face. Our approach is based on:

### **A. ESG INTEGRATION INTO PALATINE ASSET MANAGEMENT'S INVESTMENT POLICY**

PALATINE AM addresses the consideration and limitation of the potential negative impact of the key sustainability risks of its investments through the integration of ESG considerations and sustainable objectives into the investment strategies of these funds. This is in line with Palatine AM's commitment to the PRI made at the end of 2019. The investment policies mentioned below increasingly integrate ESG criteria and are available on the Palatine AM website.

#### **1. POLICY FOR CONSIDERING THE RISKS OF DURABILITE OF PALATINE AM FOR THE FUNDS ARTICLE 6 -SFDR**

Since 2021, Palatine AM's management now includes sustainable development in its financial choices. A rigorous investment process is implemented to select a company that analyses, as well as analysing, the company's economic and financial fundamentals, the key ESG factors (Governance, Social, Environment and External Stakeholders) that characterize the company, in order to take into account all associated sustainability risks and limit their potential negative impact on the fund's return.

Otherwise, due to a duty of transparency, it is indicated that sustainability risks are not taken into account in the management of a financial product. This is the case at present with multi manager funds, funds of funds and some fixed income funds (for example Palatine absolutent).

#### **2. PALATINE AM ESG INTEGRATION POLICY FOR FUNDS ARTICLE 8**

Since 2006, the Palatine AM equity fund range has deployed a responsible investment strategy incorporating several ESG filters, financial and extra financial (Environmental, Social and Governance), in the stock selection. The integration of ESG criteria has a significant impact on the eligibility of portfolio securities.

Integrating the best companies on an ESG basis contributes to better management of all sustainability risks in order to limit their potential negative impact on the financial performance of the funds.

This investment strategy was deployed throughout 2022 across the fixed income spectrum, with the exception of

Palatine absolutement.

### 3. PALATINE AM ESG INTEGRATION POLICY FOR FUNDS ARTICLE 9

The investment strategy is now based on a management process with a social positive impact that is measured by the creation of sustainable jobs that exceed that of the benchmark index.

It concerns 3 PAM equity funds (Palatine France Sustainable Employment, Palatine Europe Sustainable Employment, Conservative Sustainable Employment).

These 3 funds have the SRI label of the French state.

Within the ESG analysis, to take into account the sustainability risks and the main negative impacts, indicators on climate issues (carbon footprint, physical and transition risks), feminisation of the board, human rights and governance are calculated.

#### B. EXCLUSION POLICY

Since 2018, Palatine AM has implemented a policy of excluding companies involved in the **production and/or marketing of controversial arms** (anti personnel mines and cluster munitions). To do this, the management teams at Palatine AM rely on an established and regularly updated list of stocks involved in anti personnel mines and cluster bombs. The companies on this list are not authorised for investment and any company already in a fund that joins the exclusion list will be removed from the investment universe and funds as soon as possible.

In early 2021, Palatine AM also adopted a coal strategy. Since then, it has been forbidden to invest in companies that develop new coal projects or whose **operations are highly exposed to coal**. This coal strategy has been deployed for the entire management, it excludes mining companies and electricity producers of which more than 20% of turnover is linked to thermal coal. Additionally, mining companies extracting more than 10 MT of thermal coal and electricity producers with more than 5GWh produced from thermal coal are also excluded.

In 2022, Palatine AM further expanded its policy of exclusion by deciding to exclude **tobacco producers** from several of its funds.

Finally, companies who **fail seriously and/or repeatedly to comply with one or more of the 10 principles of the UN Global Compact** on Human Rights, Labour Standards and Anti Corruption are excluded.

#### C. ENGAGEMENT POLICY

The commitment of the issuers in which the management company is invested is evidenced by:

##### 1. CONSTRUCTIVE DIALOGUE WITH COMPANY MANAGEMENT

As a responsible investor, this dialogue, whenever possible, makes it possible to bring more transparency to issues that we believe are most relevant and also to push companies towards a process of progress.

##### 2. COLLABORATIVE ENGAGEMENT

PALATINE AM is committed to a coalition of investors, WDI, to encourage companies to be more transparent on social indicators.

##### 3. EXERCISE OF VOTING RIGHTS

As a responsible investor we also have to exercise our voting rights at General Meetings. The management company has defined a voting policy, the principles of which are based on specific SRI criteria, in partnership with ISS. It is available on its website.

#### D. CONTROVERSY MONITORING PROCESS

Special attention is paid to the existence, repetition and degree of gravity of controversies.

A company is subject to major controversy when it is guilty of breaching major international environmental

conventions, respect for human rights (child labour, slave labour, etc.), business ethics (corruption),... The degree of controversy (whether it is about an isolated entity or the group as a whole, amount of or fines, etc.) and its impact (direct and indirect costs, etc.) on a stock's overall score (which may result in the value being placed under surveillance or partially or completely removed) depends on reputation risk and the extent to which it impacts stakeholders, as well as the company's attitude to the controversy and its degree of transparency in dealing with it.

## REMUNERATION POLICY

Palatine AM's compensation policy has been reviewed to incorporate sound and effective management of the sustainability risks associated with portfolio investment strategies. In particular, sustainability risks are taken into account when determining the variable compensation of investment team members as well as senior management. The level of requirement for these objectives varies according to the function performed and the degree of integration of extra financial criteria into the managed portfolios, in particular for the portfolio managers. This objective is assessed both collectively and individually during year end evaluations.

## SUSTAINABILITY RISK MANAGEMENT

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The management of sustainability risks is done through ESG analysis (ESG rating on 20, carbon footprint, etc.) considered as an indicator of risks associated with ESG criteria.

PALATINE AM uses Moody's, Ethifinance and S & P Global for its ESG ratings, as well as all publicly available data, brokers' ESG research, etc.

PALATINE AM will strengthen its analysis by applying the standards and indicators published in recent RTS and will expand its data sources to align with the SFDR regulations and its future developments.

The objective is:

- Not to invest in companies that are not covered by an ESG analysis from Palatine AM
- Avoid those that have a very poor ESG rating and where there is no serious desire to improve, in order to limit the potential negative impact of sustainability risks and to have a better quarterly ESG score than that of the portfolio's benchmark,
- Not invest in companies that do not have good governance practises

Each portfolio manager is responsible for selecting stocks and is accountable for selecting a below average ESG rating stock within the investment management committees.

All the topics relating to sustainable finance are included in the ESG/SRI agenda of the Palatine AM Management Committee once a quarter, the General Management being made more aware and fully involved in these issues related to sustainable development.

The Compliance, Internal Control and Risk department regularly monitors:

- Monitor database updates,
- Monitoring of labels,
- Monitoring of the SRI component of the voting policy,
- ESG risk reporting within the Risk Committee.