PALATINE
ASSET MANAGEMENT

CONSIDERATION OF MAJOR ADVERSE DURABILITE IMPACTS IN PALATINE ASSET MANAGEMENT DECISIONS

Jan 2023

REGULATORY FRAMEWORK

In accordance with Article 4 of Regulation (EU) No 2019/2088 on Sustainable Finance Disclosure Regulation (SFDR), which entered into force on 10 March 2021, Palatine Asset Management has established a policy on the integration of the main negative sustainability impacts into its investment decision making processes. The objective of this document is to present the consideration of the main negative impacts on sustainability factors in investment decisions.

To date, the information and data required to assess key indicators of negative impacts will change.

SCOPE OF INTEGRATION OF MAJOR NEGATIVES

This policy applies to:

- Funds with a sustainable investment objective (Art 9).
- Funds promoting environmental or social characteristics (Article 8).

DESCRIPTION

1. Description of key sustainability detractors

The **Principal Adverse Impacts** were defined by the EU as ‘adverse, significant or potentially significant effects on sustainability factors that are caused, compounded by or directly related to investment decisions and advice provided by the legal entity.’

These sustainability factors relate, according to the SFDR, to ‘environmental, social and personnel issues, respect for human rights and the fight against corruption and acts of corruption’ (Article 2 of the Regulation).

The Regulations provide for the measurement of these negative impacts **impact indicators or CAAs**.

2. Identifying and prioritising negative impacts:

1. <u>Application of exclusion filters</u>

Our approach as a responsible investor starts with a screening of sector exclusions (thermal coal, tobacco, controversial weapons). PALATINE AM believes that not investing in companies that have a significant share of their revenues in these sectors reduces some of the negative impacts that are considered significant.

Moreover, Palatine AM excludes from its investment universe companies that are subject to severe and/or repeated controversies.

2. ESG Screening Application

PALATINE AM then 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 some of its funds.

Our internal methodology is based on databases from providers such as Moody's ESG, Ethifinance, Humpact or Trucost.

A minimum exclusion of 20% of companies with the worst environmental, social and governance policies is required to ensure that selected company policies reflect best ESG risk management practices.

Our ESG screen is constantly improving.

The analysis of issuers' ESG risks and opportunities focuses on crucial issues such as climate change, the exploitation of resources such as water or biodiversity, but also on the social management of companies through health and safety, mixity, training, human rights, relations with communities... as well as responsible governance practices.

PALATINE AM, having developed environmental expertise through Palatine Planète, wished to emphasise the need for quality social management in creating long term performance by emphasising sustainable employment (job creation, employment of young people, seniors, people with disabilities, etc.).

The impact indicators of our SRI funds are therefore in line with their investment objectives and are compared with the benchmark or the index of the universe of each portfolio.

Positive or negative contribution to the UN SDGs is also provided.

3. List of the 14 mandatory PAI and 1 social PAI and 1 optional environmental PAI followed by Palatine Asset Management:

	Metrics		Exclusionnary screening	Qualitative check	Quantitative check
GHG emissions	PAI 1 - GHG emissions	Scope 1	Exclusion of companies whose turnover is more than 20% linked to thermal coal or producing more than 5Gwh of coal-based electricity or extracting more than 10MT of thermal coal	Verification of commitments to reduce carbon emissions (reduction trajectories, SBTi commitment, CDP, etc.)	*Exclusion of the 10% biggest polluters in the universe*
		Scope 2			
		Scope 3			
		Total			
	PAI 2 - Carbon footprint				*Exclusion of the 10% biggest polluters in the universe*
	PAI 3 - Carbon intensity				*Exclusion of the 10% biggest polluters in the universe*
	PAI 4 - Fossil fuel exposition				*Exclusion of all companies whose turnover is more than 50% linked to fossil fuels*
	PAI 5 - Consumption and production of non renewable energy	Production			*Exclusion of companies where more than 50% of the electricity produced comes from non-renewable sources*
		Consumption			*Exclusion of companies without commitment to green electricity consumption*
	PAI 6 - Investment in high climate impact sectors				*Exclusion of 10% of the most polluting values from sectors with a high climate impact*
Biodiversity	PAI 7 - Investment in high biodiversity impact sectors		Check of biodiversity preservation policies		Exclusion of companies whose activity generates the 10% greatest environmental costs
Water	PAI 8 - Water polution in T/Mneur		Check of water management policies		Exclusion of companies whose activity generates the 3% greatest quantity of discharge into water
Waste	PAI 9 - Hazardous waste in T/Mn€		Check of waste management policies		*Exclusion of companies whose activity generates more than the universe average quantity of hazardous waste.*
Social safeguards	PAI 10 - Investment in companies violating internationnal standards		Check of the frequency and materiality of controversies		
	PAI 11 - Investment in companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises		Check of the internal control policy		*Verification of the signature of the United Nations Global Compact*
	PAI 12 - Average unadjusted gender pay gap of investee companies				*Exclusion of companies with the 10% largest differences*
	PAI 13 - women at board expressed as a percentage of all board members				*Exclusion of companies with the 10% lowest ratio*
	PAI 14 - Investment in controversial weapon		Controversial weapon exclusion		
Additional PAI from table 2 - Environmental	PAI II.2 - Emissions of air pollutants		Check of the materiality of the indicator for the sector		*Exclusion of companies with the 3% highest levels of air pollutants*
Additional PAI from table 3 - Social	PAI III.15 - Lack of anti-corruption and anti-bribery policies				*Verification of the existence of an anti-corruption policy*

Based on vendor data (Moody's, Ethifinance, Humpact, Trucost)

The integration of data from our suppliers (Moody's, Ethifinance, Humpact, Trucost) is progressive depending on the data available and their quality.

4. ESG rating monitoring

Added to this is the monitoring of the ESG rating of our portfolios, of which 100% of the stocks present must be rated on the ESG level, with a minimum of 90% passing the ESG screen for art 8 funds and 100% for art 9 funds.

The ESG rating of the portfolios must be higher than that of their benchmark.

5. Engagement policy:

PRI

From 2019, Palatine AM has committed to:

- Continue to integrate ESG issues into its analytical and investment processes.
- Integrate ESG issues into its ownership policies and procedures.
- Request, to the extent possible, the entities in which it invests to demonstrate transparency on ESG issues.
- Encourage the adoption and implementation of the Principles in the investment sector.
- Cooperate to improve the effective implementation of the Principles.
- Report on its activities and progress in the implementation of the Principles.

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

A 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.

Collaborative engagement

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

The 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. This policy is available on the company's website.