



# **ESG Policy**

**(Version 2 as of September 2021)**

## Document history

Version	Date	Description	Author	Next Regular Review
1	01/03/2020	Initial version	DM/JK	March 2022
2	01/09/2021	Updated version 4.2 Exclusion policy	DM/JK	September 2022

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## 1 Definitions

Abbreviation	Definition
AIF	Alternative Investment Fund(s) or sub-fund(s) thereof managed by AOCorp
AIFM	Alternative Investment Fund Manager, as defined in the AIFM Law
AIFM Law	Luxembourg Law of 12 July 2013 on alternative investment fund managers, as amended
AIFM Regulation	Commission Delegated Regulation (EU) n°231/2013 of 19 December 2012 and/or all other applicable laws, regulations, circulars and other binding rules and guidelines.
AOC	Active Ownership Group
AOCorp	Active Ownership Corporation S.à r.l.
AOF or Fund	Active Ownership Fund SICAV-FIS SCS
Board of Managers or BoM	The Board of Managers of AOCorp
Company	Active Ownership Corporation S.à r.l., a limited liability company (société à responsabilité limitée) organised under the laws of the Grand Duchy of Luxembourg, having its registered office at 17, rue de Flaxweiler, L-6776 Grevenmacher, Luxembourg, and registered with the Luxembourg Register of Companies (Registre de Commerce et des Sociétés) under number B 237.258.
Conducting Officer or CO	A Conducting Officer of the AIFM
CSSF	The Luxembourg regulator of the financial sector (Commission de Surveillance du Secteur Financier)
CSSF 18/698	CSSF Circular 18/698 regarding the authorisation and organisation of investment fund managers
ESG	Environmental, Social, Governance
Manager	Member of the Board of Managers
Policy	Sustainability (ESG) Policy
PAI	Principal Adverse Impacts; Impacts of investment decisions that result in negative effects on sustainability factors

Abbreviation	Definition
RTS	Regulatory Technical Standard
SFDR	Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector
Sustainability factors	Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
Sustainability risk	Environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative
(UN)PRI	(United Nations) Principles of Responsible Investment

## 2 Introduction

Active Ownership Corporation S.à r.l. ("**AOCorp**") is an alternative investment fund manager ("**AIFM**") authorised by the *Commission de Surveillance du Secteur Financier* ("**CSSF**") in Luxembourg under Chapter 2 of the law of 12 July 2013 on alternative investment fund managers ("**AIFM Law**"), the Delegated Regulation 231/2013 and all other relevant and applicable Laws, Regulations and CSSF Circulars in their currently valid version.

AOCorp has its registered seat at 17, rue de Flaxweiler, L-6776 Grevenmacher and is governed by the Board of Managers ("**BoM**"). It is registered with the Luxembourg Register of Companies ("**R.C.S.**") under number B 237.258.

AOCorp obtained its AIFM license on 13 August 2019, and is registered with CSSF register number A00002485.

AOCorp inter alia is appointed as AIFM of Active Ownership Fund SCS, SICAV-FIS (R.C.S. register number: B 200.454, CSSF register number: O00008641) ("**AOF**") and Active Ownership Lux Feeder Fund SCS, an unregulated AIF (R.C.S. register number: B 242.471, CSSF register number: V4009) ("**LuxFeeder**").

Pursuant to the AIFM Regulation and the relevant European regulations, an AIFM must have a strong internal governance framework that ensures the sound and prudent management of its activities and inherent risks. This means in particular that the internal governance must ensure sound and prudent management of the AIFM's activities including their inherent risks. In order to achieve this objective an AIFM must set up an internal governance system that complies with the "three-lines-of-defense-model" concept.

In order to fulfil the above mentioned requirements AOCorp has established and implemented this ESG (Sustainability) Policy setting out the legal and regulatory requirements, as well as the related actions, which the AIFM complies with in order to meet its obligations in the area of Sustainability and SFDR requirements ("**Policy**").

The Policy will be reviewed on a regular basis, at least once a year or event driven.

## 3 Our ESG Approach

At AOC we believe that all stakeholders stand to gain from a responsible investment approach. Risks related to environmental, social and governance matters are likely to have an increasingly material effect on company and fund profitability as regulations and sentiment continue to shift towards a more sustainable investing landscape.

We believe that that we have a responsibility which extends beyond traditional financial and business analysis and performance to adequately assess risk and return. As an active and engaged investor with a long-term investment horizon we consider it our duty to ensure that our portfolio companies grow and improve sustainably for the benefit of all stakeholders. We also believe that we should act as responsible fiduciaries of our investors' capital and avoid any reputational risk for our clients. Lastly, at the core of our investment philosophy we believe that financial rewards should be aligned with long-term financial performance without compromising sustainability factors.

Improving corporate governance is at the core of our investment approach and has been part of our strategy since inception. Starting in 2019 we extended our approach to include environmental and social aspects. The degree of implementing long-term targets to achieve ESG goals in our portfolio companies may vary considerably across our portfolio companies depending on the business models and activities.

## 4 ESG Integration

### 4.1 Investment decision-making process

At AOC we are looking for fundamentally good, but undervalued businesses that we understand and where we can help to unlock value potential with our extensive industrial and financial expertise. Investment opportunities are analysed through an in-depth company due diligence process. This granular and meticulous work allows us to gain a deep understanding of the companies we invest in. Whilst considering a sound traditional fundamental financial analysis being a major part of our due diligence process, we also consider the incorporation of sustainability factors and the evaluation of related risks an increasingly important dimension.

As such, during our company due diligence procedures and prior to taking an investment decision we analyse and assess sustainability risks and how they could affect the future value of an investment and the investment return, respectively. We analyse financial and other documentation provided by a company as well as third parties, e.g. our Brokers, and may also take into account ESG scores applied to a company by public data provider (e.g. Bloomberg), if available. Our due diligence procedures generally also include visits of potential portfolio companies, in many cases their competitors, suppliers and customers, as well as interviews with current and prior managers.

The following key sustainability factors and related risks, which may evolve over time, are analysed and evaluated for each potential portfolio company:

Key Environmental factors:	Energy
	Water
	Waste & Pollution
	Resource Management
Key Social factors:	Human Resources
	Health & Safety
	Clients
	Production
Key Governance factors:	Board & Management
	Ownership
	Remuneration
	Accounting

Where applicable, additional factors are considered on an individual basis depending on a company's business activities. The sustainability factors and related risks are accounted for mainly qualitatively. Their evaluation may not have equal relevance and may be apportioned a different weight and rating depending on the economic activity, size and geography of a

company. Some might even not be applicable. Where we usually do not invest in companies facing severe ESG controversies, also reflecting a potentially higher risk, we may consider companies with minor ESG issues and where we believe we can make a positive impact during our active engagement, esp. with regard to improving corporate governance.

The result of the sustainability risk analysis, outlining the identified material sustainability risks, if any, is recorded in a standardised matrix within the final company due diligence documentation that serves as basis for a final investment decision to be taken unanimously by the Investment Committee.

Summarizing, sustainability risks are integrated into the investment decision making and risk monitoring to the extent that they represent a potential or actual material risks and/or opportunities to maximizing the long-term risk-adjusted returns, and to the extent that they represent potential or actual material risks to the investments.

## **4.2 Exclusion policy**

Based on our ethical and moral beliefs we have a clearly defined exclusion policy at AOC which prevents us from investing in certain (potential) portfolio companies.

We shall not invest in companies

- which are linked to the production and/or supply and distribution of controversial weapons (i.e. cluster munitions, landmines, anti-personal mines, biochemical or nuclear weapons);
- which are systematically associated with terrorism;
- which are linked to the production and/or supply and distribution of drugs of any kind (incl. THC-based cannabis products);
- which offer classic gambling;
- which have been convicted having caused severe environmental damage (e.g. caused by toxic emissions and waste, water stress, operational waste, poor regard for biodiversity and land use, etc.)
- which are involved in thermal coal production or exploitation;
- that are or have been convicted, involved or accused of corruption, fraud and bribery, money laundering, tax, accounting or reporting irregularities, or significant regulatory violations involving any of the foregoing;
- that do not respect human rights and/or directly or through their supply chain, use child labour, forced labour or poor labour management relations;

A statement of compliance with the exclusion policy is part of the final company due diligence documentation.

## **4.3 Investment monitoring and engagement**

We constantly engage with our portfolio companies and consistently monitor our engagement results.



Sustainability factors and identified material sustainability risks are regularly evaluated and their assessment updated, if required. Adherence to our exclusion policy is constantly monitored.

In order to ensure a high quality ESG assessment of material sustainability risks we only apply such regular evaluation and monitoring to the core positions<sup>1</sup> in an AIFs portfolio, with such core positions representing in total at least 85% of the NAV of the respective AIF.

We will start to request relevant and, where available, standardised sustainability data (e.g. carbon footprint) from our core portfolio companies. These data are nevertheless currently considered difficult to be provided by the small- and mid-cap companies we invest in.

Our active investment approach and our board engagements enable us to engage sustainability topics with company boards and management in a direct way not available to passive or minority investors. In our view an exclusion criteria based sustainability approach only creates marginal incentives for low ESG-scoring companies to improve. As significant shareholders and often members of the board of our portfolio companies we always endeavour to integrate ESG topics into the work of the board and by extension, company management. To the extent appropriate, we attempt to implement ESG-related compensation targets for the management of our portfolio companies.

Further part of the proper management of our AIFs is the exercise of shareholders' rights. Inter alia by exercising voting rights, we can influence the development of our portfolio companies and positively steer their increase in value sustainably.

We also refer to our Engagement Policy that shall be considered an integral part of this Policy.

## **5 Consideration of Principal Adverse Impacts**

We currently do not consider the adverse impacts of our investment decisions on sustainability factors as there is no sufficient amount of data available from our (potential) portfolio companies to satisfactory quality and to allow us to adequately assess the potential adverse impact of our investment decisions on sustainability factors.

As outlined before we usually do not invest in companies facing severe ESG controversies, also reflecting a potentially higher risk. We may consider companies with minor ESG issues and where we believe we can make a positive impact during our active engagement.

We will start to request relevant and, where available, standardised sustainability data (e.g. carbon footprint) from our core portfolio companies. These data are nevertheless currently considered difficult to be provided by the small- and mid-cap companies we invest in.

Once relevant data is available we will re-evaluate the possibility to consider PAI and to report along the standardised criteria and format as outlined in the SFDR Level 2 documentation (RTS).

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<sup>1</sup> Core position being defined as a material position representing at least 3% of the NAV in line with materiality defined in the Risk Profile of the AIF.

## **6 Adherence to international policies**

We are signatories to the UNPRI and abide by these principles since 2018.

## **7 ESG Reporting**

We currently do not provide a dedicated ESG reporting with regard to sustainability activities and risk assessment to our investors.

Investors receive an encompassing Investor Letter on a quarterly basis, informing about the development of the portfolio of an AIF as a whole as well as the core portfolio companies. This Investor Letter may contain specific ESG information where applicable.